NEW ISSUE
BOOK-ENTRY ONLY
BANK QUALIFIED

RATINGS:
S&P: "AAA/A-1+"
See "RATINGS" herein.

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject to compliance by the Authority and the Corporation with certain covenants, under present law, interest on the Bonds (i) is excludable from gross income of the owners thereof for federal income tax purposes, (ii) is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations, and (iii) is not taken into account in computing adjusted current earnings, which is used as an adjustment in determining the federal alternative minimum tax for certain corporations It is the opinion of Bond Counsel that the Bonds are "qualified tax-exempt obligations" under section 265(b)(3) of the Code. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

COMPUTER HISTORY MUSEUM

$7,000,000
ABAG Finance Authority for Nonprofit Corporations
Variable Rate Demand Refunding Revenue Bonds
(Computer History Museum), Series 2010

Dated: Date of Delivery **CUSIP†: 00037C QT0** **Due: October 1, 2032**

The Bonds described herein are issued by ABAG Finance Authority for Nonprofit Corporations (the "Authority") pursuant to Articles 1 through 4 (commencing with section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code, and an Indenture of Trust, dated as of December 1, 2010 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). It is anticipated that the Bonds will be issued and delivered on the date set forth below in fully registered form and, if and when issued, will be registered in the name of Cede & Co., as the registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Bonds will be made in book-entry-only form. Purchasers of beneficial interests (the "Beneficial Owners") will not receive certificates representing their interests in the Bonds. So long as Cede & Co., as nominee for DTC, is the registered owner of the Bonds, all references herein to Registered Owner shall mean Cede & Co., and not the Beneficial Owners of the Bonds. Payments of principal, redemption price, interest and, with respect to tendered Bonds, purchase price of the Bonds, will be made directly to DTC by the Trustee or Wells Fargo Bank, National Association, as tender agent (the "Tender Agent"), as applicable, so long as Cede & Co., as nominee for DTC, is the Registered Owner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants as more fully described herein. See APPENDIX B—BOOK-ENTRY-ONLY SYSTEM.

The Bonds are special, limited obligations of the Authority payable (except to the extent payable from certain amounts held by the Trustee under the Indenture including the proceeds of the Bonds) solely from and secured by loan repayments from Computer History Museum, a California nonprofit corporation (the "Corporation"), under a Loan Agreement, dated as of December 1, 2010, by and between the Authority and the Corporation. In addition, the Bonds are further secured by an irrevocable direct-pay letter of credit (the "Letter of Credit") issued by

FIRST REPUBLIC BANK

(the "Bank") as described herein and by amounts received by the Trustee from draws on an irrevocable, transferable confirming Letter of Credit (the "Confirming Letter of Credit") issued by the

FEDERAL HOME LOAN BANK OF SAN FRANCISCO

(the "Confirming Credit Provider"). The Letter of Credit will be initially issued in an amount equal to the aggregate principal amount of the Bonds plus 35 days' interest thereon calculated at the rate of 10% per annum. The Letter of Credit, unless extended, will initially expire on December 22, 2020, and will permit the Trustee to draw thereunder amounts sufficient to pay (a) the principal of the Bonds when due at maturity, upon earlier redemption or upon acceleration, (b) regularly scheduled interest on the Bonds or payment of interest on a date established for the redemption or acceleration of the Bonds, and (c) the purchase price of Bonds tendered or subject to mandatory tender and not remarketed. The Confirming Letter of Credit will be initially issued in an amount equal to the aggregate principal amount of the Bonds plus 35 days' interest thereon calculated at the rate of 10% per annum. The Confirming Letter of Credit, unless extended, will initially expire on December 22, 2020. The Confirming Letter of Credit will permit the Trustee to draw thereunder an amount sufficient to pay the principal or purchase price of, and accrued interest on, the Bonds as the same become due in the event the Bank wrongfully dishonors a conforming draw under, or repudiates, the Letter of Credit.

From and including the date of initial authentication and delivery thereof, the Bonds will bear interest at a rate which is determined on a weekly basis (the "Weekly Interest Rate") by Zions First National Bank, as remarketing agent. The Bonds are subject to optional and mandatory redemption and optional and mandatory tender for purchase prior to maturity. See "DESCRIPTION OF THE BONDS" herein.

Interest on the Bonds bearing interest at the Weekly Interest Rate shall be computed on the basis of a 365- or 366-day year, as appropriate, for the actual number of days elapsed, and is payable on the first Business Day of each month, commencing January 3, 2011. Principal of the Bonds is payable at the principal corporate trust office of the Trustee, as paying agent, or at such other office as the Trustee may designate. See "DESCRIPTION OF THE BONDS-General" herein.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL THEREOF AND INTEREST AND ANY REDEMPTION PREMIUM THEREON DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OR PURCHASE PRICE OF, OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

This cover page contains certain information for general reference only. It is not intended to be a summary of all factors relating to an investment in the Bonds. Investors should review the entire Official Statement before making any investment decisions. The Bonds are being offered solely on the basis of the Letter of Credit and the Confirming Letter of Credit and the financial strength of the Bank and the Confirming Credit Provider, and not the operations, financial strength or condition of the Corporation or any other security. This Official Statement does not describe the financial condition of the Corporation. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein or in the hereinafter mentioned Indenture.

The Bonds are offered when, as and if issued by the Authority and accepted by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and the approval of legality by Quint & Thimmig LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for First Republic Bank by Kutak Rock LLP, Los Angeles, California, for Federal Home Loan Bank of San Francisco by in-house counsel, for the Authority by its special counsel, Chapman and Cutler LLP, San Francisco, California, and for the Corporation by Elisabeth Eisner, Esq., San Diego, California. It is expected that delivery of the Bonds will be made to through the facilities of DTC on or about December 22, 2010.

Zions First National Bank

The date of this Official Statement is December 17, 2010

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No broker, dealer, salesman or other person has been authorized by the Authority or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the Bonds made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority or by the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of any Bonds by any person in any jurisdiction in which such offer, solicitation or sale is not authorized, or in which the person making such offer, solicitation or sale is not qualified to do so or to any person to whom it is unlawful to make such offer, solicitation or sale. The information set forth under the captions "THE AUTHORITY" and "NO LITIGATION—The Authority" has been furnished by the Authority. All other information set forth herein has been obtained from the Corporation, the Bank, the Confirming Credit Provider and other sources (other than the Authority) that are believed to be reliable. The adequacy, accuracy or completeness of such information is not guaranteed by, and is not to be construed as a representation of, the Authority or the Underwriter. The information and expressions of opinion contained herein are subject to change without notice after the date hereof and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Bank, the Confirming Credit Provider or the Corporation since the date hereof.

The Bank and the Confirming Credit Provider do not assume, nor will they assume, any responsibility as to the completeness or accuracy of any of the information contained in this Official Statement, all of which has been furnished by others, with the exception of the information which appears under the captions "THE BANK" and the "THE CONFIRMING CREDIT PROVIDER" which were provided by the Bank and the Confirming Credit Provider, respectively. Without limiting the foregoing, neither the Bank nor the Confirming Credit Provider makes any representation as to the suitability of the Bonds for any investor, the feasibility or performance of the Project, or compliance with any securities, tax or other laws or regulations. The Bank's and the Confirming Credit Provider's roles with respect to the Bonds is limited to providing the Letter of Credit and the Confirming Letter of Credit, respectively, described herein to the Trustee.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction but the Underwriter does not guarantee the accuracy or the completeness of such information.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), IN RELIANCE UPON THE EXEMPTION CONTAINED IN SECTION 3(a)(2) OF THE SECURITIES ACT. THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED (THE "TRUST INDENTURE ACT"), IN RELIANCE UPON AN EXEMPTION CONTAINED IN THE TRUST INDENTURE ACT.

$7,000,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Variable Rate Demand Refunding Revenue Bonds
(Computer History Museum), Series 2010

SPECIAL SERVICES

Bond Counsel
Quint & Thimmig LLP
San Francisco, California

Remarketing Agent
Zions First National Bank
Salt Lake City, Utah

Letter of Credit Bank
First Republic Bank
San Francisco, California

Confirming Credit Provider
Federal Home Loan Bank of San Francisco
San Francisco, California

Tender Agent
Wells Fargo Bank, National Association
Los Angeles, California

Trustee
Wells Fargo Bank, National Association
Los Angeles, California

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OFFICIAL STATEMENT

$7,000,000
ABAG Finance Authority For Nonprofit Corporations
Variable Rate Demand Refunding Revenue Bonds
(Computer History Museum), Series 2010

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page and the appendices hereto, is to provide information in connection with the issuance and sale of ABAG Finance Authority For Nonprofit Corporations Variable Rate Demand Refunding Revenue Bonds (Computer History Museum), Series 2010, in the aggregate principal amount of $7,000,000 (the "Bonds"). The Bonds will be issued pursuant to Articles 1 through 4 (commencing with section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Act"), an Indenture of Trust, dated as of December 1, 2010 (the "Indenture"), between ABAG Finance Authority For Nonprofit Corporations (the "Authority") and Wells Fargo Bank, National Association, as trustee (the "Trustee"), and a resolution of the Authority adopted on December 1, 2010.

Pursuant to a loan agreement (the "Loan Agreement"), dated as of December 1, 2010, between the Authority and Computer History Museum, a California nonprofit corporation (the "Corporation"), the Authority will loan the proceeds received from the sale of the Bonds to the Corporation to (i) refinance a portion of the cost of acquiring, constructing, rehabilitating, improving, equipping and general development of the Corporation's facilities located at 1401 North Shoreline Boulevard, Mountain View, California 94043, and to refund the ABAG Finance Authority for Nonprofit Corporations Variable Rate Demand Revenue Bonds (Computer History Museum), Series 2002 currently outstanding in the principal amount of $7,000,000 (the "2002 Bonds"), and (ii) pay certain costs of issuance and credit enhancement costs in connection with the Bonds, as described herein under "THE CORPORATION AND THE PROJECT." The Bonds will be secured by an irrevocable direct-pay letter of credit (the "Letter of Credit") issued by First Republic Bank (the "Bank"). Under the Letter of Credit, the Trustee will be permitted to draw an amount not exceeding the stated amount indicated in the Letter of Credit (the "Stated Amount") for the payments of principal of, purchase price of and interest on, the Bonds (other than Bonds owned by or for the account of the Corporation or the Bank ("Bank Bonds")), whether at maturity, prior redemption, upon acceleration, purchase, on an Interest Payment Date (as defined below) or otherwise. The Stated Amount of the Letter of Credit on any date will be based upon the aggregate principal amount of the Outstanding Bonds on or prior to such date and interest on such Bonds for 35 days calculated at a rate of 10% per annum based on a 365-day year, the maximum interest rate payable on the Bonds. In consideration for issuing the Letter of Credit, the Corporation will enter into a Letter of Credit Reimbursement Agreement, dated as of December 1, 2010 (the "Reimbursement Agreement"), with the Bank. For a further description of the Letter of Credit and the terms of the Reimbursement Agreement, see "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT."

The Bonds are further secured by an irrevocable, transferable confirming Letter of Credit (the "Confirming Letter of Credit") issued by the Federal Home Loan Bank of San Francisco. Under the Confirming Letter of Credit, the Trustee will be permitted to draw an amount not exceeding the stated amount indicated in the Confirming Letter of Credit to pay all of the principal of, purchase price of and interest on, the Bonds (other than Bank Bonds), whether at

maturity, prior redemption, upon acceleration, purchase, on an Interest Payment Date or otherwise, in the event the Bank wrongfully dishonors a properly presented and conforming draw on the Letter of Credit or if the Bank repudiates the Letter of Credit. Of such stated amount, the amount available to be drawn under the Confirming Letter of Credit on any date will be based upon the aggregate principal amount of the outstanding Bonds on or prior to such date and interest on such Bonds for 35 days calculated at a rate of 10% per annum, the maximum interest rate payable on the Bonds. See "THE CONFIRMING LETTER OF CREDIT."

The Bonds are being offered solely on the basis of the Letter of Credit and the Confirming Letter of Credit and the financial strength of the Bank and the Confirming Credit Provider and are not being offered on the basis of the operations, financial strength or condition of the Corporation or any other security. This Official Statement does not describe the financial condition of the Corporation.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL THEREOF AND INTEREST AND ANY REDEMPTION PREMIUM THEREON DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OR PURCHASE PRICE OF, OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

Certain Information Related to this Official Statement

Brief descriptions of the Authority, the Corporation, the Project, the Bonds, the Bank, the Confirming Credit Provider, the Letter of Credit, the Confirming Letter of Credit, the Confirming Letter of Credit, the Reimbursement Agreement, the Loan Agreement and the Indenture follow. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Letter of Credit, the Reimbursement Agreement, the Loan Agreement and the Indenture are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture and the information with respect thereto included within the aforesaid documents, all of which are available for inspection at the office of the Trustee.

Any capitalized terms used in this Official Statement and not otherwise defined shall have the meanings ascribed to such terms as set forth in the Indenture.

During the period of the offering, copies of the forms of the Loan Agreement and the Indenture may be obtained from the Trustee at 707 Wilshire Boulevard, 17th Floor, Los Angeles, CA 90017, Attention: Corporate Trust Department, upon payment of reasonable copying and delivery expenses.

THE CORPORATION AND THE PROJECT

The Corporation

The Corporation, a California non-profit corporation, is the world's leading institution preserving the history of computing and exploring its global impact. The Corporation began in 1995 as a subsidiary of The Computer Museum in Boston, Massachusetts (the "Boston Museum"). The Boston Museum had started in the late 1970s as the Digital Equipment Corporation's museum, and became an independent public museum in the early 1980s. The West Coast subsidiary was established in 1995 to uphold the original history mission of the museum at a time when there was pressure to have the Boston facility become more of a hands-on science center for children.

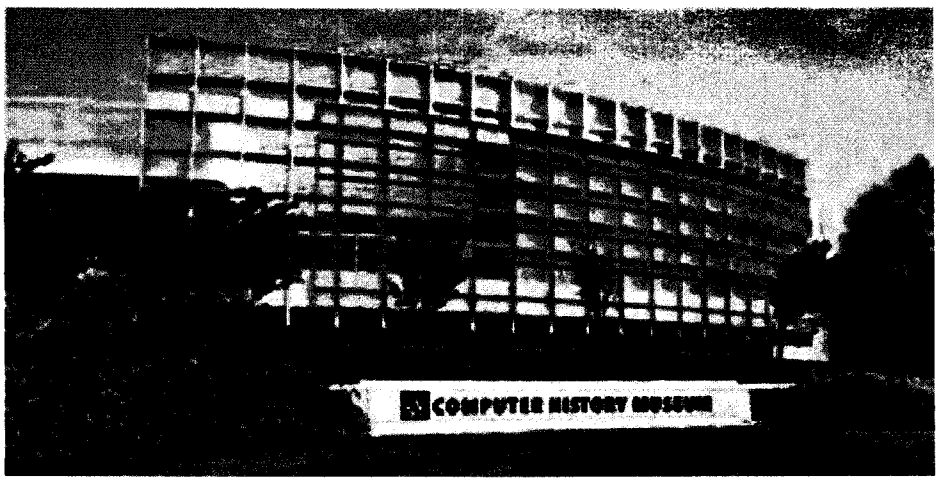
The Corporation was established as a 501(c)(3) non-profit public benefit corporation in California in January 1999, initially with a board identical to that of the Boston Museum. In November 1999, the Boston Museum was dissolved, with ownership of the entire historical collection plus some cash assets given to the Corporation. Other assets unrelated to the history mission were given to the Museum of Science in Boston.

The mission of the Corporation is to preserve and present for posterity the artifacts and stories of the information age. The Corporation has a 35-member board of trustees, with most governance handled by an eight-member Executive Committee. The Chairman of the Board is Dr. Leonard J. Shustek, who founded the original subsidiary on the West Coast. Dr. Shustek also chairs the Executive Committee. The President & Chief Executive Officer is John C. Hollar.

The Corporation holds the largest and most significant collection of computer-related objects and materials in the world—nearly 80,000 items, including hardware, software, media, documentation and ephemera. It features state-of-the-art exhibits on computing and computer history. It hosts more than 20 major events annually on a wide range of historically significant topics. It annually honors some of the world's leading computer scientists, entrepreneurs, engineers and design teams with its prestigious Fellow Awards. Its education programs reach thousands of Northern California students in person and hundreds of thousands more on the Internet each year.

The Corporation is a multi-platform content institution. Its award-winning website at computerhistory.org draws more than 2,000,000 unique visitors a year. Its exclusive YouTube channel (youtube.org/computerhistory) features full-length replays of many of the Corporation's live programs on demand. The Corporation hosts one of the world's largest collections of moving and still images in the computer history realm, much of which is being digitized for web and other distribution. The Corporation is also a strategic partner in filmmaking projects related to computer history.

The Corporation's physical collection spans more than 25,000 square feet of public displays and features a rich variety of information, exhibits, research and a vast library of multimedia content. Objects from 54 countries are represented in our collection. A 300,000 cubic foot museum-grade warehouse is maintained in nearby Milpitas for off-site storage. The Corporation's main campus is located in the heart of Silicon Valley in a modern 120,000 square foot building that encompasses exhibit space, a large public auditorium, and office space for the Corporation staff and volunteers. The Corporation is located within half a mile of the Google main campus, is across the street from Microsoft's Silicon Valley research and development campus, and within 5 miles of the global headquarters of Intel, National Semiconductor, Applied Materials, nVidia, Yahoo, Oracle, Facebook, Twitter and many other leaders in the computing and internet industries.



Almost 100,000 physical visitors come to its Mountain View, California campus annually and more than 2 million unique visitors a year go to its website (www.computerhistory.org) and to its rich and educational YouTube channel (www.youtube.com/computerhistory).

The Corporation is a well-respected participant in the world museum community and has long-standing arrangements with peer institutions such as the Smithsonian Institution, the London Science Museum, the Deutsches Museum, the IEEE and the Chemical Heritage Foundation. However, unlike these other international museums and organizations, CHM is a collecting and exhibition institution focused solely on the history of computing and its impact on mankind.

The Corporation's program of public exhibitions, educational exhibits, historic interpretation and digital content includes:

A physical collection that comprises more than 35,000 artifacts, 5,000 linear feet of documentation related to the history of computing, 3,000 moving images, 10,000 software titles, and 20,000 photographs, most of which is available free to the public on the Internet through its online Catalog Search capability:

http://www.computerhistory.org/collections/search/

Restorations and simulations that make computers and applications come alive, including fully working models of the IBM 1620, the PDP-1 and two restorations of the IBM 1401. An IBM RAMAC disk drive is also being restored to working condition.

More than 400 videotaped and transcribed oral histories that capture the stories of the pioneers and participants in their own words.

Content creation, including an annual in-house magazine ("CORE"), computer-oriented publications such as books and calendars focusing on a particular aspect of history, online exhibits, and digital playback of all Corporation events on our branded YouTube channel.

Historical research, both independently and jointly conducted with universities and corporations and by scholars-in-residence. The output of this research includes contributions to scholarly journals such as the IEEE Annals of the History of Computing.

Hosted events, seminars and lectures which are open to the public. Key among those is the annual Fellows Award ceremony in which particularly influential IT pioneers are recognized publicly for their accomplishments.

Recent interpretive exhibits in the physical museum include:

- The Babbage Difference Engine No. 2: A stunning physical exhibit of Charles Babbage's vintage Difference Engine No. 2, one of the earliest designs for an automatic computing engine, and one of only two such machines ever built.

- The Silicon Engine: a multi-screen theater airing a continuous showing of a documentary on the invention of the transistor, its role as a building block of the integrated circuit, the rapid growth of semiconductors and the profound effect these technological breakthroughs have had on modern life. The exhibit also features two personal viewing stations where audiences can select and view multiple excerpts of pioneers discussing their work and its impact.

- Innovation in the Valley: An exhibit about the innovators of Silicon Valley who revolutionized computing, including stories from such legendary companies as Adobe, Apple, Cisco, HP, Intel, Palm and Sun Microsystems.

- Mastering the Game: An exploration of computing history's five-decade-long quest to build a computer that could challenge, and eventually defeat, the best human chess players.

On February 1, 2010, the Corporation began construction of a major, new permanent exhibition on the history of computing worldwide highlighting important contributions from many different countries. The exhibition will cover more than 25,000 square feet and tell the history of computing from the abacus to Web 3.0. It will include more than 100 pieces of media, more than 1,000 artifacts from the Corporation's unique collection and a rich variety of stories that make clear to visitors of all technical levels the profound impact of computing on society. The exhibition, "REVOLUTION: THE FIRST 2000 YEARS OF COMPUTING," is scheduled to open in January 2011.

See APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE CORPORATION FOR ITS FISCAL YEAR ENDED JUNE 30, 2010.

The Project

The proceeds of the Bonds loaned to the Corporation will be applied to refund the 2002 Bonds, the proceeds of which were loaned to the Corporation to finance a portion of the cost of acquiring, constructing, rehabilitating, improving, equipping and general development of the Corporation's educational facilities located at 1401 North Shoreline Boulevard, Mountain View, California 94043 (the "Project").

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

Sources	
Principal Amount of Bonds	$7,000,000.00
Plus: Corporation's Equity Contribution	176,361.95
TOTAL SOURCES	$7,176,361.95
Uses	
Refunding of the 2002 Bonds (1)	$7,001,006.84
Costs of Issuance Fund (2)	175,355.11
TOTAL USES	$7,176,361.95

(1) Includes accrued interest.
(2) Includes Underwriter's fee, Letter of Credit fees, legal fees, printing costs, rating agency fees and other miscellaneous expenses.

THE AUTHORITY

The Authority is a joint powers agency duly organized and existing under the laws of the State of California. The Authority was formed pursuant to the terms of a Joint Powers Agreement, dated as of April 1, 1990, as amended as of September 18, 1990 and June 9, 1992, and the Act in order to assist nonprofit corporations and other entities to obtain financing for projects located within the several jurisdictions of Authority members with purposes serving the public interest.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL THEREOF AND INTEREST AND ANY REDEMPTION PREMIUM THEREON DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OR PURCHASE PRICE OF, OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

DESCRIPTION OF THE BONDS

General

The Bonds will be issued in the aggregate principal amount, will be dated, and will mature as described on the cover of this Official Statement, subject to redemption and optional and mandatory tender for purchase prior to maturity as hereinafter described.

The Bonds initially will be issued in fully registered form and will be registered in the name of Cede & Co., as the Registered Owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will represent to the Authority that it will maintain a book-entry system for recording ownership interests of its participants (the "DTC Participants") and that the ownership interest of a purchaser of a beneficial interest in the Bonds (a "Beneficial Owner") will be recorded through book entries on the records of the DTC Participants. Beneficial Owners will not receive any certificates representing their interest in the Bonds, except as described herein. For more information concerning the book-entry system, see "APPENDIX E—BOOK-ENTRY-ONLY SYSTEM."

The Bonds will be issued as fully registered Bonds, without coupons, (a) prior to the Fixed Rate Date, in the denomination of $100,000 or any multiple of $5,000 in excess thereof, and (b) after the Fixed Rate Date, $5,000 or any integral multiples thereof. The principal of and premium, if any, on the Bonds will be payable upon surrender at the Principal Office of the Trustee, as paying agent and registrar for the Bonds (in such capacities, the "Paying Agent" and the "Registrar") or at such other office as the Trustee may designate.

Prior to the date on which the Bonds begin to bear interest at the Fixed Interest Rate (the "Fixed Rate Date"), interest on the Bonds shall be computed on the basis of a 365 or 366 day year, as appropriate, for the actual number of days elapsed, and shall be payable on the first Business Day of each month, commencing January 3, 2011 (or, if any such day is not a Business Day, the next succeeding Business Day), and, after the Fixed Rate Date, on each April 1 and October 1 (each an "Interest Payment Date"). "Business Day" means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State or the State of New York or in any state in which the principal office of the Bank, the Tender Agent or the Trustee or the office of the Bank designated for presentations under the Letter of Credit is located are closed or a day on which the New York Stock Exchange is closed. The Bonds shall bear interest from and including the applicable Interest Payment Date next preceding the date of registration thereof (unless such Bond is registered after a record date and on or before the next succeeding applicable Interest Payment Date, in which event it shall bear interest from and including such Interest Payment Date, or unless such Bond is registered prior to January 2, 2011 in which event it shall bear interest from and including the date of delivery). The monthly period during which interest accrues on the Bonds prior to the Fixed Rate Date, and thereafter the semiannual period during which interest accrues on the Bonds, is sometimes referred to as an "Interest Period." With respect to any Interest Payment Date on or prior to the Fixed Rate Date, the record date for the payment of interest on the Bonds is the Business Day preceding the applicable Interest Payment Date and with respect to any Interest Payment Date after the Fixed Rate Date, the record dates are the fifteenth day of the calendar month preceding each Interest Payment Date, whether or not such day is a Business Day (each a "Record Date"). Interest on Bonds will be payable by check or draft mailed on the applicable Interest Payment Date to the registered owners thereof (the "Registered Owners") as of the close of business on the Record Date preceding the applicable Interest Payment Date, unless such interest is not punctually paid, in which event it shall be paid to the Registered Owners as of the close of business on the record date fixed by the Trustee for the payment of such interest. A Registered Owner of $1,000,000 or more in aggregate principal amount of Bonds may submit to the Paying Agent a written request 15 days prior to the applicable Record Date that interest on such Bonds be payable by wire transfer to an account within the continental United States of immediately available funds to the Registered Owner of such Bonds. Bonds may be transferred or exchanged for Bonds of any other authorized denomination at the principal corporate trust office of the Trustee in Los Angeles, California. The Registrar may make a charge for every such exchange or any transfer of Bonds sufficient to reimburse the Authority and the Registrar.

The principal of the Bonds is payable on October 1, 2032, upon presentation and surrender of the Bonds at the principal corporate trust office of the Trustee in Los Angeles, California.

Interest on the Bonds

Determination of the Weekly Interest Rate. Prior to the Fixed Rate Date, the interest rate borne by the Bonds will be determined for each weekly period, from and including Thursday in the week of determination thereof to and including the following Wednesday, by Zions First National Bank (the "Remarketing Agent"). The Weekly Interest Rate with respect to the Bonds shall be the rate determined by the Remarketing Agent (on the basis of the examination of Tax-exempt obligations comparable to the Bonds known to the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell the Bonds on the date such rate becomes effective at a price equal to the principal amount thereof, plus accrued interest, if any, but in no event exceeding 10% per annum or the maximum rate allowed by law, whichever is lower. The Weekly Interest Rate shall be determined by the Remarketing Agent as of the close of business on Wednesday in each calendar week, except that (a) with respect to any Wednesday that is not a Business Day, the interest rate shall be determined on the next preceding Business Day, and provided, further, that the rate on the Bonds shall initially be determined by Zions First National Bank, as underwriter for the Bonds, on the Business Day preceding the date of delivery and the initial interest rate on the Bonds shall be effective from the Date of Delivery through the following Wednesday; (b) if for any reason a Weekly Interest Rate is not established as aforesaid by the Remarketing Agent in any week, the Weekly Interest Rate for the first such week shall remain the last Weekly Interest Rate announced by the Remarketing Agent and the Weekly Interest Rate thereafter shall be the "Alternate Weekly Rate" (as defined below); and (c) if the Weekly Interest Rate determined by the Remarketing Agent in accordance with clause (a) above is held by a court to be invalid or unenforceable, then the Weekly Interest Rate shall be the Alternate Weekly Rate. The "Alternate Weekly Rate" with respect to the Bonds shall be the tax-exempt seven-day variable rate index most recently published by the Securities Industry and Financial Markets Association ("SIFMA") (as of the date of this Official Statement, its Municipal Swap Index). In no event, however, will the interest rate borne by the Bonds exceed 10% per annum or the maximum rate of interest which may be charged or collected pursuant to applicable provisions of federal or state law, whichever is lower.

Conversion to the Fixed Interest Rate. Subject to the terms and conditions of the Indenture, the Corporation may elect to have the interest rate on the Bonds converted from the Weekly Interest Rate to a Fixed Interest Rate for the remaining term of the Bonds (the "Fixed Interest Rate") effective on any Interest Payment Date prior to the maturity of the Bonds. In the event the Corporation elects to convert the interest rate on the Bonds, all of the Outstanding Bonds under the Indenture will be converted pursuant to the provisions of the Indenture. The interest rate borne by the Bonds from and after the Fixed Rate Date shall be, except as otherwise provided in the Indenture, the rate determined by the Remarketing Agent, on or prior to, but not more than 15 days prior to, the Business Day preceding the Fixed Rate Date, to be the interest rate which, when borne by the Bonds, would equal the minimum interest rate necessary to enable the Remarketing Agent to remarket the Bonds on the Fixed Rate Date at 100% of the principal amount thereof. In no event will the interest rate borne by the Bonds on or after the Fixed Rate Date exceed 10% per annum or the maximum rate allowed by law, whichever is lower. Under certain circumstances the Fixed Interest Rate for the Bonds shall be determined by the Remarketing Agent by reference to the "Alternate Fixed Rate" determined by the Remarketing Agent all as defined in and set forth in the Indenture.

The Trustee, at least 30 days prior to the Fixed Rate Date, shall cause an irrevocable notice to be mailed to all Registered Owners stating, among other things, (a) the proposed Fixed Rate Date, (b) requiring that the Registered Owners of all of the Outstanding Bonds tender such Bonds for purchase by the Tender Agent on the Fixed Rate Date, and (c) stating that all Outstanding Bonds not purchased on or before the Fixed Rate Date will be deemed purchased on the Fixed Rate Date at a price equal to the principal amount thereof, plus unpaid interest, if any, accrued to such date. See "Purchase of Bonds—Mandatory Purchase on Fixed Rate Date and Letter of Credit Substitution Date" below.

Purchase of Bonds

Purchase of Bonds Upon Demand of Registered Owner. The Bonds will be purchased at the option of the Registered Owners thereof under certain circumstances described below. Prior to the Fixed Rate Date, any Bonds shall be purchased by Wells Fargo Bank, National Association, as tender agent (the "Tender Agent"), on demand of the Registered Owner thereof on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest to, but not including, the date of purchase (unless such date is an Interest Payment Date, in which case the purchase price will be the principal amount of such Bonds) upon:

(a) delivery to the Tender Agent of an irrevocable written notice with respect to Bonds to be purchased by 2:00 p.m., California time (if not received by 2:00 p.m., California time, it shall be deemed received on the next succeeding Business Day), which states (i) the name and address of the Registered Owner, (ii) the number or numbers of the Bond or Bonds to be purchased, (iii) the aggregate principal amount of the Bond or Bonds to be purchased, and (iv) the date on which the Bonds are to be purchased, which date shall be a Business Day not prior to the seventh calendar day next succeeding the date of delivery of such notice to the Tender Agent (the "Purchase Date"); and

(b) delivery of the Bond or Bonds to the Tender Agent at or prior to 10:00 a.m., California time, on the Purchase Date specified in the aforesaid notice of the Bond or Bonds to be tendered; provided, however, that any Bond for which a notice of the exercise of the purchase option has been given as provided in paragraph (a) above and which is not so delivered shall be deemed delivered on the Purchase Date and shall be purchased in accordance with the Indenture.

Mandatory Purchase on Fixed Rate Date and Letter of Credit Substitution Date. Upon conversion of the interest rate on the Bonds to the Fixed Interest Rate and on each date (the "Letter of Credit Substitution Date") the Corporation exercises its option to substitute an alternate letter of credit (the "Alternate Letter of Credit") for the then existing Letter of Credit as provided in the Loan Agreement, the Bonds are subject to mandatory tender for purchase by the Tender Agent at the principal amount thereof plus accrued interest, if any. See "THE LOAN AGREEMENT-Availability and Substitution of Letter of Credit." The Fixed Rate Date and the Letter of Credit Substitution Date are also referred to herein as the "Mandatory Tender Date." All Registered Owners of the Bonds are required to tender their Bonds for purchase by the Tender Agent on the Mandatory Tender Date. Any Bonds which on the Mandatory Tender Date have not been tendered for purchase ("Non-Tendered Bonds") shall be deemed purchased by the Tender Agent on the Mandatory Tender Date at a price of the principal amount thereof plus unpaid interest accrued, if any, to such date. Replacement Bonds for Non-Tendered Bonds may be remarketed and delivered to new owners as instructed by the Corporation or the Remarketing Agent. The Tender Agent shall hold in trust for the owners of the Non-Tendered Bonds the purchase price thereof, and, after the Mandatory Tender Date, such owners will no longer be entitled to any of the benefits of the Indenture except for the payment of such purchase price.

Mandatory Purchase of Bonds at the Direction of the Bank. The Bonds are subject to mandatory tender for purchase for the account of the Bank in lieu of mandatory redemption as provided below under the caption "Redemption of Bonds—Mandatory Redemption for Reimbursement Agreement Default; Failure to Reinstate the Interest Component of the Letter of Credit" following the receipt by the Trustee of written notice from the Bank stating that an event of default has taken place under the Reimbursement Agreement and directing the Trustee to purchase the Bonds. The Bonds shall be purchased on a Business Day which is at least three and no more than five calendar days after receipt of such notice (the "Mandatory Purchase Date"), at which time the Trustee shall draw under the Letter of Credit in an amount equal to 100% of the principal amount of the Bonds and accrued and unpaid interest thereon to the Mandatory Purchase Date. On the Mandatory Purchase Date, the Tender Agent shall pay the purchase price for the Bonds. Any Bondholder is required to tender its Bonds to the Tender Agent for purchase at or prior to 10:00 a.m., California time on the Mandatory Purchase Date specified in the aforesaid notice; provided, however, that any Bond which is required to be purchased on the Mandatory Purchase Date and which is not so delivered shall be deemed delivered on the Mandatory Purchase Date and shall be purchased in accordance with the Indenture.

Redemption of Bonds

Mandatory Sinking Fund Redemption. The Bonds are not subject to mandatory sinking fund redemption.

Optional Redemption Prior to the Fixed Rate Date. On or prior to the Fixed Rate Date, the Bonds are subject to redemption, on any Business Day, in whole or in part to the extent of prepayments of amounts due under the Loan Agreement made at the option of the Corporation with the written approval of the Bank, at the redemption price of 100% of the principal amount of the Bonds redeemed, plus interest accrued thereon, if any, to the redemption date.

Extraordinary Optional Redemption. The Bonds are subject to optional redemption in a whole or in part, on any date, at a redemption price equal to the principal amount thereof, plus interest accrued thereon to the redemption date, to the extent of prepayments of amounts due under the Loan Agreement made, following the occurrence of certain extraordinary events, including damage to or the destruction of the Project or the taking thereof under the power of eminent domain or if the Loan Agreement should become void, unenforceable, impossible to perform or unlawful.

Mandatory Redemption on Determination of Taxability. The Bonds are subject to redemption, in whole at any time within 60 days after the occurrence of a Determination of Taxability as described in the Indenture, at a redemption price equal to 100% of the principal amount thereof plus interest accrued thereon to the redemption date. No redemption of Bonds shall be made pursuant to any other provisions of this section following a Determination of Taxability.

Termination of Letter of Credit. The Bonds are subject to mandatory redemption in whole at a redemption price equal to 100% of the principal amount thereof, plus interest accrued thereon to the redemption date, on a redemption date selected by the Trustee not less than 15 days prior to the scheduled expiration date of the Letter of Credit if no Alternate Letter of Credit has been delivered to the Trustee in accordance with the Loan Agreement or if no Alternate Credit Facility (as defined in the Indenture) has been delivered to the Trustee in accordance with the Loan Agreement in connection with the conversion of the interest rate on the Bonds to the Fixed Interest Rate.

Mandatory Redemption for Reimbursement Agreement Default; Failure to Reinstate the Interest Component of the Letter of Credit. The Bonds are subject to redemption, in whole, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued thereon to the redemption date, within five days (and before the fifth calendar day if the fifth calendar day is not a Business Day) from the date the Trustee receives written notice from the Bank that an event of default has taken place under the Reimbursement Agreement and directing the Trustee to redeem such Bonds or that the Bank will not reinstate the interest component of the Letter of Credit.

Termination of Confirming Letter of Credit. The Bonds are subject to mandatory redemption in whole at a redemption price equal to 100% of the principal amount thereof, plus interest accrued thereon to the redemption date, on a redemption date selected by the Trustee not less than 15 days prior to the scheduled expiration date of the Letter of Credit if no Alternate Letter of Credit has been delivered to the Trustee in accordance with the Loan Agreement.

Selection of Bonds to be Redeemed

In the case of the redemption of less than all of the Outstanding Bonds, the Bonds to be redeemed shall be selected by the Trustee from all Bonds, in such manner as the Trustee in its sole discretion may determine to be fair and appropriate, as required by the Indenture and shall be credited against the principal of the Bonds; provided, however, that Bank Bonds shall be redeemed first and provided that the Bonds Outstanding after giving effect to any redemption shall be in authorized denominations.

Notice and Effect of Redemption

Notice of redemption of Bonds shall be mailed, (a) prior to the Fixed Rate Date, not less than 15 days before such redemption date, (except in the case of redemptions pursuant to a failure to replace the Letter of Credit upon expiration, in which case not less than five days before such redemption date, and except in the case of redemptions pursuant to a default under the Reimbursement Agreement, in which case notice shall be given as soon before the redemption date as practicable) and (b) after the Fixed Rate Date, not less than 30 days before such redemption date (except in the case of redemptions pursuant to a failure to replace the Letter of Credit upon expiration, in which case not less than five days before such redemption date and except in the case of redemptions pursuant to a default under the Reimbursement Agreement in which case notice shall be given as soon before the redemption date as practicable), to the respective Registered Owners designated for redemption at their addresses on the registration books maintained by the Registrar and to the Authority. Each notice of redemption shall state the redemption date, the place or places of redemption, if less than all of the Bonds are to be redeemed, the distinctive number of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the principal thereof or of said specified portion of the principal thereof in the case of a Bond to be redeemed in part only, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Receipt of such notice shall not be a condition precedent to such redemption and failure to mail any such notice to a Registered Owner shall not affect the validity of the proceedings for the redemption of Bonds of any other Registered Owner.

Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price of the Bonds, together with interest accrued to the date fixed for redemption, being held by the Trustee, the Bonds (or portions thereof) so called for redemption shall become due and payable on the redemption date designated in such notice, interest on the Bonds (or portions thereof) so called for redemption shall cease to accrue, said Bonds (or

portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Registered Owners shall have no rights in respect thereof except to receive payment of said principal and interest from the funds set aside therefor.

Remarketing of Bonds; Remarketing Agent

Zions First National Bank (in such capacity, together with any successor appointed pursuant to the Indenture, the "Remarketing Agent") has been appointed the initial Remarketing Agent pursuant to the Indenture and has entered into a separate Remarketing Agreement with the Corporation, dated as of December 1, 2010 (the "Remarketing Agreement"). The Remarketing Agent will use its best efforts to remarket the Bonds (or portions thereof) at a price of par plus accrued interest, if any, on each date that such Bonds (or portions thereof) are required to be purchased pursuant to the Indenture, and, if such Bonds are not remarketed on such date (such Bonds being hereinafter referred to as "Unremarketed Bonds"), the Remarketing Agent will continue to use its best efforts to place such Unremarketed Bonds at a price of par plus accrued interest, if any.

The Remarketing Agent may at any time resign and be discharged of its duties and obligations under the Indenture and the Remarketing Agreement by giving no less than thirty (30) days' written notice to the Corporation, the Trustee, the Bank, and the Authority. The Remarketing Agent may be removed by the Corporation by an instrument filed with the Remarketing Agent, the Authority, the Trustee, the Bank and signed by the Corporation, but such removal will not become effective until the appointment of a successor remarketing agent as provided in the Indenture.

The Remarketing Agent is Paid by the Corporation

The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing the Bonds that are optionally tendered by the owners thereof, all as further described in this Official Statement. The Remarketing Agent is appointed by the Corporation and is paid by the Corporation for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of the Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account

The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account. The Remarketing Agent, in its sole discretion, routinely acquires tendered Bonds for its own inventory in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. If the Remarketing Agent purchases Bonds for its own account, it may offer those Bonds at a discount to par to some investors. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may reduce the supply of Bonds that may be tendered in a remarketing.

Bonds May be Offered at Different Prices on any Date

The Remarketing Agent is required to determine on the applicable Computation Date the applicable rate of interest that, if borne by the Bonds, would, in its judgment, having due regard for the prevailing financial market conditions for revenue bonds or other securities, be the interest rate necessary, but would not exceed the interest rate necessary, to enable the Remarketing Agent to remarket the Bonds at a price of par (plus accrued interest, if any) on the date the rate becomes effective (the "Effective Date"). The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). The Remarketing Agreement requires that the Remarketing Agent use its best efforts to sell tendered bonds at par, plus accrued interest. There may or may not be Bonds tendered and remarketed on a Rate Determination Date or an Effective Date, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price.

The Ability to Sell the Bonds other than through Tender Process May Be Limited

While the Remarketing Agent may buy and sell the Bonds, it is not obligated to do so and may cease doing so at any time without notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

SECURITY FOR THE BONDS

The Bonds are special, limited obligations of the Authority and the principal of and premium, if any, and interest on the Bonds will be payable solely from, and will be secured by a pledge of, the loan payments required to be paid by the Corporation pursuant to the Loan Agreement, except to the extent payable from certain amounts held by the Trustee under the Indenture, including the proceeds of the Bonds and moneys drawn under the Letter of Credit. All rights of the Authority under the Loan Agreement will be pledged and assigned to the Trustee, pursuant to the Indenture, except Reserved Rights. In addition, the payment of the principal and purchase price of and interest on the Bonds is supported by the Letter of Credit issued by the Bank and the Confirming Letter of Credit issued by the Confirming Credit Provider for the benefit of the Registered Owners. See "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT" and "THE CONFIRMING LETTER OF CREDIT."

Neither the faith and credit nor the taxing power of the State or any political subdivision or agency of the State is pledged to the payment of the principal of, premium, if any, purchase price of, or interest on, the Bonds nor is the State or any political subdivision thereof in any manner obligated to make any appropriation for the payment thereof. The Bonds and the Indenture under which they will be issued will state that the principal of such Bonds, the premium, if any, and the interest thereon shall not be deemed to constitute a debt or liability of the State or any political subdivision or agency of the State except to the extent they are limited obligations of the Authority. The Bonds are special, limited obligations of the Authority, and the Authority shall under no circumstances be obligated to pay the Bonds except from the revenues and other funds pledged therefor under the Indenture. The Authority has no taxing power.

THE BANK

The following information concerning the Bank has been provided by representatives of the Bank and has not been independently confirmed or verified by the Underwriter, the Authority, the Corporation or the Confirming Credit Provider. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.

Founded in 1985, the Bank and its affiliated companies provide private banking, private business banking and private wealth management. The Bank specializes in exceptional, relationship-based service offered through 57 preferred banking or wealth management offices in San Francisco, Palo Alto, Los Angeles, Santa Barbara, Newport Beach, San Diego, Portland, Seattle, Boston, Greenwich and New York City. The Bank offers a complete line of banking products for individuals and businesses, including deposit services, as well as residential, commercial and personal loans. The Bank offers wealth management services through First Republic Wealth Advisors and First Republic Investment Management. Brokerage services are provided through First Republic Securities Company LLC and trust services are provided through First Republic Trust Company.

As of September 30, 2010, the Bank had approximately total assets of $21.954 billion, total deposits of $18.965 billion and stockholder's equity of $1.934 billion.

The Bank has a long-term deposit ratings of A3 by Moody's and A- from Fitch Ratings.

The Bank submits quarterly to the Federal Deposit Insurance Corporation (the "FDIC"), on behalf of the Board of Governors of the Federal Reserve System, a report regarding its financial condition and results of operations (the "Call Report") entitled "Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only." The Call Report consists of a Balance Sheet, Income Statement, Changes in Equity Capital and other supporting schedules as of the end of the period to which such Call Report relates. The Call Report is prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. Because of the special supervisory, regulatory and economic policy needs served by the Call Report, such regulatory instructions do not in all cases follow generally accepted accounting principles or the opinions and statements of the Accounting Principles Board of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board. While the Call Report is a supervisory and regulatory document, not a primarily accounting document, and does not provide a complete range of financial disclosure about the Bank, the Call Report, nevertheless, provides important information concerning the financial condition of the Bank. The publicly available portions of the Call Report with respect to the Bank are on file with, and publicly available at, the FDIC, 250 E. Street, S.W., Washington, D.C. 20219. The Call Report may be obtained by calling the FDIC at (800) 945-2186. The FDIC also maintains a website (http://www.fdic.gov) that contains reports and certain other information regarding depositary institutions, such as the Bank, which file reports with the FDIC.

The selected financial information of the Bank, set forth above, should be read in connection with, and is qualified in its entirety by, the Call Reports filed by the Bank.

THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT

The following is a summary of certain provisions of the Letter of Credit and the Reimbursement Agreement. This summary is not to be considered a full statement of the terms of either the Letter of

Credit or the Reimbursement Agreement and accordingly, is qualified by reference thereto and is subject to the full text thereof. Unless otherwise defined, capitalized terms used herein shall have the same meanings given such terms in the Reimbursement Agreement.

Letter of Credit

On the date of issuance of the Bonds, the Bank will issue in favor of the Trustee the Letter of Credit in the original principal amount of the Bonds plus an amount equal to 35 days of interest on all Outstanding Bonds calculated at the rate of 10% per annum, on the basis of a 365-day year (as such amount may from time to time be reduced and reinstated as provided in the Letter of Credit). The Letter of Credit will permit the Trustee to draw up to an amount equal to the then outstanding principal amount and up to 35 days of interest on the Bonds at a maximum rate of 10% per annum to pay the unpaid principal thereof and accrued interest on the Bonds.

The Letter of Credit shall expire on the date that is the earliest of (a) December 22, 2020; (b) the date on which the Bank receives notice from the Trustee that all of the Bonds have been paid or provision for the payment of the Bonds has been made; (c) the date the Bank receives notice from the Trustee that the interest rate mode with respect to the Bonds has been converted from a Weekly Interest Rate to the Fixed Interest Rate under the Indenture; (d) the date the Bank receives notice from the Trustee that an Alternate Letter of Credit has been substituted for the Letter of Credit with respect to the Bonds; or (e) the first to occur of (i) the date which is seven (7) calendar days after the Trustee has received a notice from the Bank that an Event of Default has ocurred and is continuing under the Reimbursement Agreement or (ii) the date, following receipt of such notice of an Event of Default under the Reimbursement Agreement upon which the Trustee has drawn upon the Letter of Credit the amount required thereby and as permitted under the Letter of Credit and the proceeds of the drawing have been distributed to the Trustee.

While in effect, the Letter of Credit entitles the Trustee to draw on the Letter of Credit, on such dates and at such times as are specified in the Letter of Credit. Notwithstanding the foregoing, in no event shall the Trustee draw under the Letter of Credit to pay the principal of and interest on Bank Bonds.

Each drawing honored by the Bank under the Letter of Credit will immediately reduce the Stated Amount by the amount of such drawing, subject to reinstatement on the terms set forth in the Letter of Credit. All drawings under the Letter of Credit will be paid with the Bank's own funds.

Reimbursement Agreement

The Bank has entered into the Reimbursement Agreement with the Corporation providing for, among other things, the Corporation's reimbursement to the Bank of all amounts drawn upon under the Letter of Credit. Capitalized terms used in this section and not otherwise defined shall have the meanings given such terms as set forth in the Reimbursement Agreement.

Each of the following events shall, at the option of the Bank, constitute an "Event of Default" under the Reimbursement Agreement:

(a) Any event of default or termination event (however denominated) with respect to the Bond Documents (other than the Reimbursement Agreement) has occurred and is continuing after lapse of any applicable notice and cure periods provided for in such document;

(b) The Corporation shall fail to pay any amount payable by the Corporation under the Reimbursement Agreement or under the Loan Agreement, as and when the same becomes due and payable, or fail to timely cause any redemption of the Bonds or to pay the Purchase Price of the Bonds, as and when the same becomes due and payable, as required by the Reimbursement Agreement or the Loan Agreement;

(c) The Corporation shall fail to perform certain nonmonetary terms, covenants, conditions or provisions of the Reimbursement Agreement;

(d) Failure of the Corporation to observe or perform any of the other covenants, conditions or provisions of the Reimbursement Agreement or any other Bond Documents (other than as specified in subparagraphs (a), (b) or (c) above) and to remedy such default within thirty (30) days after the Bank gives the Corporation notice of such failure; except that, if such failure or breach can be remedied but not within such thirty (30) day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such thirty (30) day period, such failure or breach shall not become an Event of Default for so long as the Corporation shall diligently proceed to remedy the same in accordance with and subject to any limitations of time or other requirements established by the Bank;

(e) Any representation or warranty made or deemed to be made by or on behalf of the Corporation in the Reimbursement Agreement or in any other Bond Document or in any certificate, financial or other statement furnished by or on behalf of the Corporation to the Bank pursuant hereto or thereto shall prove to have been inaccurate, misleading or incomplete in any material respect when made or deemed to have been made;

(f) The Corporation shall default (after any applicable grace and/or cure period, if any, allowed with respect to such default)in the performance of any of its obligations under any Contract (other than the Reimbursement Agreement) with the Bank or the Bank's Affiliates;

(g) Default by the Corporation in the payment when due of any amount due in respect of any Material Indebtedness or under any Contract under or pursuant to which such Material Indebtedness is incurred or issued, and continuance of such default beyond the period of grace, if any, allowed with respect thereto; or the occurrence of any act or omission by the Borrower under any such Contract which results in such Indebtedness becoming, or being capable of becoming (after any applicable grace and/or cure period, if any, allowed with respect thereto), immediately due and payable (or, with respect to any Hedge Agreement, which results in such Hedge Agreement being terminated early or being subject to early termination);

(h) (i) An Event of Insolvency shall occur with respect to the Corporation, or (ii) the Corporation shall suspend or discontinue its business operations for more than ten (10) days;

(i) The Reimbursement Agreement or any of the other Bond Documents or any material provision of the Reimbursement Agreement or any of the other Bond Documents shall at any time for any reason cease to be the legal, valid and binding obligation of the Corporation or shall cease to be in full force and effect, or shall be declared to be unenforceable, invalid or void, or the validity or enforceability thereof shall be contested by the Corporation, or the Corporation shall renounce the same or deny that it has any further liability thereunder;

(j) Any court of competent jurisdiction or other Governmental Authority with jurisdiction to rule on the validity of any provision of the Reimbursement Agreement or any of the other Bond Documents shall find or rule that the Reimbursement Agreement or any of the other Bond Documents are not valid or not binding on the Corporation.

(k) (i) Any Lien created by any of the Bond Documents in favor of the Trustee or the Bank at any time and for any reason (except as expressly permitted to be released by the terms of such governing document) shall not constitute a valid and perfected Lien or shall fail to have the priority required by such Bond Document, or, except as permitted under the Bond Documents, the Corporation shall so assert in writing, or (ii) any rescission of or amendment to or any other action under or in connection with any legislation, law or regulation which would impair or adversely affect the rights or security of the Trustee or the Bank or of any other Holder or Beneficial Owner under the Indenture;

(l) The entry or filing of one or more judgments or orders or of any similar decrees or decisions for the payment of money (each, a "Judgment") which, individually or in the aggregate, equals or exceeds $350,000 against the Borrower, and (i) such Judgment shall be undischarged, unstayed or unbonded for a period of 30 consecutive days, or (ii) any action shall be taken by a judgment creditor to attach, execute or levy upon all or any portion of the Collateral, the Facilities, the Gross Revenues or the Trust Estate to enforce any such Judgment;

(m) Any levy, seizure or attachment of the Collateral, the Facilities, the Gross Revenues or any other material Property of the Corporation, which the Corporation fails to satisfy or cause the removal or return of within sixty (60) days of the date of such levy, seizure or attachment;

(n) Dissolution, termination of existence, insolvency or business failure of the Corporation;

(o) Any accreditation, license, permit, certificate, consent, approval or authorization granted by any federal authority or by any state or local commission or authority (including, without limitation, a state regulatory agency), whether presently existing or hereafter granted or obtained by the Corporation that is, in the reasonable judgment of the Bank, material to the operations of the Corporation shall expire without renewal or shall be suspended or revoked; or the Corporation shall become subject to any injunction or other order prohibiting it from operating under any such material license, permit, certificate, consent, approval or authorization; or the Corporation shall fail to apply for any license, permit, certificate, consent, approval or authorization that is, in the reasonable judgment of the Bank, material to the operation of the Corporation within thirty (30) days of the later of (i) the date required to be obtained, or (ii) the date written notice thereof is delivered to the Corporation;

(p) The adoption of any resolution by the Corporation to authorize any action or event that would constitute an Event of Default hereunder or under any instrument, document or agreement made or entered into in connection herewith, including without limitation the Bond Documents;

(q) Any event which in the reasonable judgment of the Bank could reasonably be expected to result in a Material Adverse Effect; or

(r) The occurrence of an event described in Reimbursement Agreement entitled "Compliance with ERISA" that, when taken together with all other events that have occurred with respect to the ERISA Group, could reasonably be expected to result in liability to the Corporation in an aggregate amount in excess of $100,000.

(s) The breach by the Corporation of any material covenant of the Remarketing Agreement or (i) the breach by the Remarketing Agent of any material covenant of the Remarketing Agreement or the suspension or termination by the Remarketing Agent of its obligations under the Remarketing Agreement and the failure of the Corporation within fifteen

(15) days thereafter to either cause such breach to be cured or to replace such Remarketing Agent with a successor acceptable to the Bank.

(a) If an Event of Default occurs and is continuing, the Bank may, in its sole discretion:

(i) notify the Trustee and the Corporation that an Event of Default has occurred and is continuing,

(ii) (A) notify the Trustee that an Event of Default has occurred and is continuing and that the Letter of Credit shall terminate and (B) in such notice further direct the Trustee to (1) draw upon the Letter of Credit in accordance with its terms and purchase all Outstanding Bonds for the account of the Corporation, whereupon such Bonds shall be Bank Bonds, and may direct the Trustee to declare the principal of all Outstanding Bonds and the accrued interest thereon to be due and payable immediately upon the completion of such purchase, or (2) declare the principal of all Outstanding Bonds and the accrued interest thereon to be immediately due and payable,

(iii) at any time subsequent to any notice under subpart (ii), and the Bank has not already directed such action in such notice under subpart (ii), the Bank may direct the Trustee to declare the principal of all Outstanding Bonds and the accrued interest thereon to be immediately due and payable,

(iv) by notice to the Corporation, declare the entire unpaid principal and interest amount of any advances outstanding as a result of any Purchase Drawing (including any Purchase Drawing following such notice to the Trustee) together with accrued interest thereon, and all other amounts owing under the Reimbursement Agreement, to be, whereupon the same shall become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Corporation thereof; provided that if any Event of Default specified in Section 6.01(i) hereof shall occur, without any notice to the Corporation or any other Person or any other act by the Bank, the entire unpaid principal and interest amount of any advances outstanding as a result of any Drawing (including any Drawing thereafter occurring), together with accrued interest thereon, and all other amounts owing under the Reimbursement Agreement, shall be immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Corporation thereof,

(v) (A) cure any Default, Event of Default or event of nonperformance under the Reimbursement Agreement or under any of the Bond Documents (in which event the Corporation shall reimburse the Bank therefor pursuant to Section 2.12 hereof), (B) exercise its banker's lien, or right of set off, (C) exercise any right it or the Trustee may have under the Security Agreement, including without limitation any right it may have to direct or cause the Trustee to foreclose, marshal, dispose of or otherwise realize on the Collateral pursuant to and in compliance with the Security Agreement or to otherwise direct or control the enforcement of remedies and proceedings taken under the Security Agreement, and foreclose, marshal, dispose of and otherwise realize on any other collateral of the Corporation pledged hereunder or under the Bond Documents, on such terms and in such manner as the Bank may determine, or (D) exercise any other rights or remedies available under any Bond Document, any other agreement or at law or in equity including to (x) apply to any court of competent jurisdiction for, and obtain appointment of, a receiver for the Corporation, and (y) either personally or by attorney or agent and without bringing any action or proceeding, or by such a receiver, take whatever action at law or in equity may appear necessary or desirable to collect the amounts due and payable under the Bond Documents or to enforce performance or

observance of any of the Obligations of the Corporation under the Bond Documents, whether for specific performance of any agreement or covenant of the Corporation or in aid of the execution of any power granted to the Purchaser in the Bond Documents or as otherwise available at law or in equity;

(vi) Upon receipt by the Trustee of a notice from the Bank pursuant to subparts (ii)(B) or (iii) of above and to the extent it has not already done so, the Trustee shall immediately draw under the Letter of Credit in accordance with its terms and to the extent permitted by the Letter of Credit, to purchase the Outstanding Bonds for the account of the Corporation, whereupon such Bonds shall be Bank Bonds, or shall draw to pay principal of and interest on the Outstanding Bonds, as may be directed by the Bank under the Letter of Credit. The Letter of Credit shall then terminate immediately upon distribution of the proceeds of such drawing to the Trustee. Upon receipt by the Trustee of a notice from the Bank pursuant to subparts (ii) or (iii) of above directing the acceleration of the principal of all Outstanding Bonds, the Trustee shall immediately declare the entire principal amount of the unpaid Bonds and the interest accrued thereon immediately due and payable pursuant to the Indenture and shall apply all payments from the Corporation and products and proceeds of the amounts recovered from or paid by the Borrower upon or following an Event of Default as provided in the Indenture.

(b) If the Event of Default is the failure by the Corporation to reimburse the Bank on a timely basis for an Interest Drawing, as provided in the Letter of Credit the Bank may deliver to the Trustee notice that the Letter of Credit will not be reinstated. The rights and remedies of the Bank specified herein are for the sole and exclusive benefit, use and protection of the Bank, and the Bank is entitled, but shall have no duty or obligation to the Corporation, the Trustee, the Bondholders or any other Person, (i) to exercise or to refrain from exercising any right or remedy reserved to the Bank hereunder, or (ii) to cause the Trustee or any other party to exercise or to refrain from exercising any right or remedy available to it under any of the Bond Documents.

(c) From and after the occurrence of an Event of Default, all amounts owing to the Bank under the Reimbursement Agreement shall bear interest at the Default Rate.

THE CONFIRMING CREDIT PROVIDER

The following information concerning the Confirming Credit Provider has been provided by the Confirming Credit Provider and has not been independently confirmed or verified by the Underwriter, the Authority, the Corporation or the Bank. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information given below or incorporated herein by reference is correct as of any time subsequent to its date.

The Confirming Credit Provider helps meet the borrowing needs of communities by providing wholesale credit products and services to member financial institutions. The Confirming Credit Provider is privately owned by its members, which include commercial banks, savings institutions, credit unions, thrift and loan companies, and insurance companies headquartered in Arizona, California, and Nevada. The Confirming Credit Provider is part of a network of 12 regional Federal Home Loan Banks chartered by Congress in 1932 to provide low-cost credit to residential housing lenders.

Excerpts from the Confirming Credit Provider's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and its Quarterly Report on Form 10-Q for the quarterly

period ended September 30, 2010, filed with the Securities and Exchange Commission appear in appear in APPENDIX C—FINANCIAL REPORTS OF THE CONFIRMING CREDIT PROVIDER. The Confirming Credit Provider has represented that such financial statements were prepared using generally accepted accounting principles and, except for the financial statements at and for the nine months ending September 30, 2010, were audited using generally accepted auditing standards.

THE CONFIRMING LETTER OF CREDIT

The following is a summary of certain provisions of the Confirming Letter of Credit. This summary is not to be considered a full statement of the terms of the Confirming Letter of Credit and accordingly is qualified by reference thereto and is subject to the full text thereof. Unless otherwise defined, capitalized terms used herein shall have the same meanings given such terms in the Confirming Letter of Credit.

Concurrently with the issuance of the Letter of Credit, the Confirming Credit Provider will issue the Confirming Letter of Credit. The Confirming Letter of Credit will be an irrevocable, transferable confirming letter of credit which provides that the Trustee shall draw moneys under the Confirming Letter of Credit for the benefit of the Registered Owners of the Bonds only if the Bank has wrongfully dishonored a properly presented and conforming draw on the Letter of Credit or if the Bank repudiates the Letter of Credit.

The Confirming Letter of Credit shall expire at 4:00 p.m., California time, on the earliest to occur of the following dates: (a) December 22, 2020; (b) the date any demand for payment is honored by the Confirming Credit Provider under the Confirming Letter of Credit; or (c) the date on which the Confirming Letter of Credit is surrendered by the Trustee to the Confirming Credit Provider for cancellation.

BONDHOLDERS' RISKS

The following is a discussion of certain risks that could affect payments to be made with respect to the Bonds. Such discussion is not, and is not intended to be, exhaustive and should be read in conjunction with all other parts of this Official Statement and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Bonds should analyze carefully the information contained in this Official Statement, including the Appendices hereto.

Security of the Bonds

The Bonds are special, limited obligations of the Authority payable exclusively out of the loan payments payable under the Loan Agreement and draws on the Letter of Credit (and, in certain circumstances, Bond proceeds and income from the temporary investment thereof) (the "Revenues"). The Bonds are secured by a pledge by the Authority of the Revenues to the Trustee in favor of the Registered Owners of the Bonds in accordance with the Indenture. The Bonds are being offered solely on the basis of the Letter of Credit and the Confirming Letter of Credit and the financial strength of the Bank and the Confirming Credit Provider, and not the operations, financial strength or condition of the Corporation or any other security. This Official Statement does not describe the financial condition of the Corporation.

The rating assigned to the Bonds is based primarily on the credit-worthiness of the Confirming Credit Provider. Prospective purchasers of the Bonds that wish to make a full evaluation of the financial status of the Confirming Credit Provider are advised to obtain financial statements of the Confirming Credit Provider.

Expiration of the Letter of Credit and Confirming Letter of Credit

The initial Letter of Credit expires on December 22, 2020 (the "Stated Expiration Date") and the Confirming Letter of Credit expires on December 22, 2020, subject to extension or earlier termination in certain circumstances as described therein. If the Letter of Credit and/or the Confirming Letter of Credit are not extended or an Alternate Letter of Credit is not obtained by the Corporation, the Bonds will be subject to mandatory redemption. There can be no assurance that the Corporation will be able to obtain an extension of the Letter of Credit and/or the Confirming Letter of Credit or an Alternate Letter of Credit. The Bank is under no obligation to extend the Letter of Credit beyond the scheduled expiration thereof and the Confirming Credit Provider is under no obligation to extend the Confirming Letter of Credit beyond the stated expiration thereof. See "DESCRIPTION OF THE BONDS—Redemption of Bonds—Termination of Letter of Credit and the Confirming Letter of Credit" and "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT—Letter of Credit" and "THE CONFIRMING LETTER OF CREDIT" herein. The Stated Expiration Date for the Letter of Credit and the Confirming Letter of Credit should not adversely affect any Registered Owners during any Interest Period that does not extend beyond the Stated Expiration Date.

Bank's Obligations Unsecured

The ability of the Bank to honor draws upon the Letter of Credit is based solely upon the Bank's general credit and is not collateralized or otherwise guaranteed by the United States of America or any agency or instrumentality thereof. No provision has been made for replacement of or substitution for the Letter of Credit in the event of any deterioration in the financial condition of the Bank. None of the Authority, the Corporation or the Bank assumes any liability to any purchaser of the Bonds as result of any deterioration of the financial condition of the Bank. Upon any insolvency of the Bank, any claim by the Trustee against the Bank would be subject to bank receivership proceedings.

Confirming Credit Provider's Obligation Unsecured

The ability of the Confirming Credit Provider to honor draws upon the Confirming Letter of Credit is based solely upon the Confirming Credit Provider's general credit and is not collateralized or otherwise guaranteed by the United States of America or any agency or instrumentality thereof. No provision has been made for replacement of or substitution for the Confirming Letter of Credit in the event of any deterioration in the financial condition of the Confirming Credit Provider. None of the Authority, the Corporation or the Confirming Credit Provider assumes any liability to any purchaser of the Bonds as result of any deterioration of the financial condition of the Confirming Credit Provider. Upon any insolvency of the Confirming Credit Provider, any claim by the Trustee against the Confirming Credit Provider would be subject to receivership proceedings.

Default by the Corporation under the Reimbursement Agreement

No representation or assurance can be made that any revenues will generated by the Corporation in amounts sufficient to make the payments required under the Reimbursement Agreement. If the Corporation is unable to make the payments required under the Reimbursement Agreement, the Bank will have the right, among other things, to direct the Trustee to redeem the Bonds or give notice of the mandatory tender of the Bonds. See "DESCRIPTION OF THE BONDS—Redemption of Bonds—Mandatory Redemption for Reimbursement Agreement Default; Failure to Reinstate the Interest Component of the Letter of Credit," "DESCRIPTION OF THE BONDS—Purchase of Bonds—Mandatory Purchase of Bonds

at the Direction of the Bank" and "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT" herein.

Limitation on Enforcement of Remedies

Enforcement of the remedies under the Indenture, the Loan Agreement, the Letter of Credit and the Confirming Letter of Credit may be limited or restricted by laws relating to bankruptcy and insolvency, and rights of creditors under application of general principles of equity, and may be substantially delayed in the event of litigation or statutory remedy procedures. All legal opinions delivered in connection with the Bonds relating to the enforceability of the Indenture, the Loan Agreement, the Letter of Credit, the Confirming Letter of Credit will contain an enforceability exception relating to the limitations which may be imposed by bankruptcy and insolvency laws, and the rights of creditors under general principles of equity.

Suitability of Investment

An investment in the Bonds involves a certain degree of risk. Prospective investors should carefully examine this Official Statement, including the Appendices hereto, and their ability to bear the economic risk of such an investment, and then determine whether or not the Bonds are an appropriate investment for them.

General Factors Affecting the Bank and the Confirming Credit Provider

The Bank and the Confirming Credit Provider are subject to regulation and supervision by various regulatory bodies. New regulations could impose restrictions upon the Bank and/or the Confirming Credit Provider which would restrict its ability to respond to competitive pressures. Various legislative or regulatory changes could dramatically impact the banking industry as a whole and the Bank and/or the Confirming Credit Provider specifically. The banking industry is highly competitive in many of the markets in which the Bank and/or the Confirming Credit Provider operate. Such competition directly impacts the financial performance of the Bank and/or the Confirming Credit Provider. Any significant increase in such competition could adversely impact the Bank and/or the Confirming Credit Provider.

Prospective purchasers of the Bonds should evaluate the financial strength of the Bank and the Confirming Credit Provider based upon the information contained in and referred to under the caption "THE BANK" and "THE CONFIRMING CREDIT PROVIDER" and other information available upon request from the Bank and the Confirming Credit Provider and should not rely upon any governmental supervision by any regulatory entity.

General Factors Affecting the Corporation

No representation or assurance can be made that operating revenues will be realized by the Corporation in amounts sufficient to make the payments required under the Reimbursement Agreement or to make other payments in amounts sufficient to pay the principal of and interest on the Bonds in the event the Bank wrongfully dishonors a properly presented and conforming draw under the Letter of Credit or repudiates the Letter of Credit or the Confirming Credit Provider fails to make payment under the Confirming Letter of Credit. Future revenues and expenses are subject to, among other things, the capabilities of the Corporation and future economic and other conditions that are unpredictable.

Tax Covenants

The Loan Agreement, the Tax Certificate and the No Arbitrage Certificate set forth certain requirements and constraints in order to preserve the exclusion of interest on the Bonds from gross income for federal income tax purposes, including, but not limited to, limitations on the use of the proceeds of the Bonds and limitations on the use and operation of the Project financed with the proceeds of the Bonds. Failure of the Corporation to comply with these requirements and constraints could result in a default under the Loan Agreement and the Tax Certificate and an acceleration or redemption of the Bonds under the Indenture. Failure to accelerate or redeem the Bonds could result in a loss of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Tax Exempt Status of the Corporation

The tax-exempt status of the Bonds presently depends upon the Corporation's maintenance of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities.

Currently, the primary penalty available to the Internal Revenue Service ("IRS") under the Code is the revocation of tax-exempt status. Loss of tax-exempt status by the Corporation could potentially result in a loss of tax exemption of the Bonds and of other tax-exempt debt of the Corporation, if any, and defaults in covenants regarding the Bonds and other related tax-exempt debt, if any, would be likely triggered. Loss of tax-exempt status could also result in substantial tax liabilities on income of the Corporation. For these reasons, loss of tax-exempt status of Corporation could have material adverse consequences on the financial condition of the Corporation.

Less onerous sanctions have been enacted which focus enforcement on private persons who transact business with an exempt organization rather than the exempt organization but these sanctions do not replace the other remedies available to the IRS as mentioned above.

Unrelated Business Income

In recent years, the IRS and state, county and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt entities with respect to their exempt activities and the generation of unrelated business taxable income ("UBTI"). The Corporation does not currently participate in activities which generate UBTI. If the Corporation participates in UBTI generating activities in the future it covenants that it will comply with federal and state guidelines for the proper reporting of such income.

THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement. This summary is not to be considered a full statement of the terms of the Loan Agreement and accordingly is qualified by reference thereto and is subject to the full text thereof. Unless otherwise defined, capitalized terms used herein shall have the same meanings given such terms in the Indenture.

Loan Repayments

On or before each payment date for the Bonds (each a "Bond Payment Date") until the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for such payment shall have been made as provided in the Indenture, the Corporation agrees to

pay to the Trustee as a repayment on the loan made to the Corporation from Bond proceeds, a sum equal to the amount payable on such Bond Payment Date as principal of (whether at maturity, or upon redemption or acceleration) and premium, if any, and interest on the Bonds as provided in the Indenture (the "Loan Repayments").

In addition, the Corporation agrees to cause to be paid from the Letter of Credit, on the date on which any Bonds are to be purchased, as described under the heading "DESCRIPTION OF THE BONDS—Purchase of Bonds," an amount which, together with proceeds available from the remarketing of such Bonds will equal the purchase price of such Bonds.

If the Corporation fails to make any of these payments and any additional payments required pursuant to the Loan Agreement, the payment in default will be considered an obligation of the Corporation until it is paid, to the extent permitted by law, with interest thereon at the rate of 10% per annum.

All of the payments by the Corporation under the Loan Agreement, with certain limited exceptions, are assigned by the Authority to the Trustee. The Corporation agrees in the Loan Agreement that its obligation to make payments to the Trustee is absolute and unconditional.

Maintenance and Operation of Project; Insurance and Condemnation

The Corporation will maintain the Project in a safe condition and in good repair and operating condition.

During the term of the Loan Agreement, the Corporation shall keep the Project insured for such amounts and for such occurrences as are customary for similar facilities within the State of California or as may be required by the Bank. Subject to the terms of the Loan Agreement, insurance and condemnation proceeds may be used by the Corporation to repair, restore or relocate the Project or to prepay amounts due under the Loan Agreement.

Selected Covenants of the Corporation

The Corporation covenants in the Loan Agreement that it will not take any action, or fail to take any action, which would result in the interest on the Bonds being included in gross income for federal income tax purposes.

The Corporation covenants in the Loan Agreement that it will maintain its existence and will not dissolve, sell or dispose of all, or substantially all, of its assets, or consolidate with or merge into another entity, provided, however, that such Corporation may merge, consolidate, sell or transfer its assets, or dissolve if (a) the successor or surviving entity (i) assumes in writing all the obligations of the Corporation under the Loan Agreement, the Tax Certificate and the Remarketing Agreement, (ii) is not, after such transaction, otherwise in default under any provisions of the Loan Agreement, the Tax Certificate and the Remarketing Agreement, (iii) is an organization described in Section 501(c)(3) of the Code or is a political subdivision under the Code, and (iv) is qualified to transact business in the State, (b) the Trustee and the Authority shall have received an opinion of Bond Counsel to the effect that the consolidation or merger will not cause the interest on the Bonds to be included in gross income for federal income tax purposes, (c) the Trustee and the Authority shall have received an opinion of counsel to such surviving or successor entity acceptable to the Authority that such merger, consolidation, sale or other transfer will not cause the Corporation to lose its exemption pursuant to the determination letter received by the Corporation from the Internal Revenue Service and Section 501(a) of the Code, (d) the surviving or successor entity shall deliver to the Trustee and the Authority a statement to the effect that it intends to continue to operate the Project in a manner which will allow it to continue to meet all of the Corporation's obligations under the Loan

Agreement and (e) the written consent of the Bank has been received by the Trustee together with an acknowledgment that the Letter of Credit and the Confirming Letter of Credit will remain in effect.

Availability and Substitution of Letter of Credit

The Corporation will at all times throughout the term of the Loan Agreement (but subject to the terms of the Loan Agreement allowing the Corporation to substitute an Alternate Credit Facility) maintain or cause to be maintained the Letter of Credit and the Confirming Letter of Credit with respect to the Bonds. The Letter of Credit shall be an obligation of the Bank to pay to the Trustee, against presentation of a certificate required by the Bank, up to (a) an amount equal to the aggregate principal amount of the Bonds then outstanding as necessary to pay the principal of such Bonds whether at maturity, redemption, acceleration or otherwise or upon the purchase of such Bonds upon the optional tender of the Bonds pursuant to the Indenture and on the Mandatory Tender Date and (b) an amount equal to 45 days (or such other number of days as may be required to obtain a rating on the Bonds if the Bonds are then rated) of interest on the Bonds at an interest rate of 10% per annum on the basis of a 365-or-366-day year, as applicable, for the number of days actually elapsed prior to the Fixed Rate Date, or an amount equal to 210 days (or such other number of days as may be required to obtain a rating on the Bonds if the Bonds are then rated) of interest on the Bonds at the actual interest rate or rates on the Bonds on the basis of a 360-day year of twelve 30-day months after the Fixed Rate Date to pay interest on the Bonds when due. The Confirming Letter of Credit shall be an obligation of the Confirming Credit Provider to pay the Trustee, against presentation of sight drafts and certificates required by the Confirming Credit Provider, the principal of and interest on the Bonds (but not exceeding the Stated Amount of the Confirming Letter of Credit) due to the Registered Owners under the Indenture in the event that the Bank has failed to honor a properly presented drawing under the Letter of Credit or repudiated the Letter of Credit.

On any Business Day, the Corporation may, at its option, but with the written approval of the Authority, which written approval shall not be unreasonably withheld, provide or cause to be provided to the Trustee an Alternate Letter of Credit and the Corporation shall, in any event, cause to be delivered to the Trustee an extension of the Expiration Date of the Letter of Credit, the Confirming Letter of Credit or an Alternate Letter of Credit at least (a) 23 days before the Expiration Date of the then existing Letter of Credit or the Confirming Letter of Credit while the Bonds bear interest at the Weekly Interest Rate, or (b) 45 days before the Expiration Date of the then existing Letter of Credit or the Confirming Letter of Credit while the Bonds bear interest at the Fixed Interest Rate. At least 30 days prior to the Letter of Credit Substitution Date, the Corporation will provide the Authority, the Trustee, the Bank, the Tender Agent and the Remarketing Agent with a written notice of its intention to provide an Alternate Letter of Credit pursuant to the provisions of the Loan Agreement. Such notice will include the proposed Letter of Credit Substitution Date, which will be an Interest Payment Date, and identify the provider of the Alternate Letter of Credit. An Alternate Letter of Credit shall be an irrevocable letter of credit or other irrevocable credit facility delivered to the Trustee on or prior to 8:00 a.m. (California time) on the Letter of Credit Substitution Date, issued by a commercial bank or other financial institution, the terms of which shall in all material respects be the same as the Letter of Credit or the Confirming Letter of Credit, as applicable. On or prior to the date of the delivery of an Alternate Letter of Credit to the Trustee, the Corporation shall cause to be furnished to the Authority and the Trustee (i) an opinion of Bond Counsel stating that the delivery of such Alternate Letter of Credit to the Trustee is authorized pursuant to the Loan Agreement, complies with the terms thereof and will not cause the interest on the Bonds not to be Tax-exempt (as defined in the "Indenture"), (ii) such opinions regarding the validity of the Alternate Letter of Credit as the Authority, the Trustee and any rating agency then rating the Bonds may reasonably require, and (iii) written evidence from Fitch Ratings ("Fitch"), if the Bonds are then rated by Fitch, Moody's Investors Service, Inc. ("Moody's"), if the Bonds are

then rated by Moody's, and Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc. ("S&P), if the Bonds are then rated by S&P, to the effect that such rating agency has reviewed the proposed Alternate Letter of Credit and that the substitution of the proposed Alternate Letter of Credit will not, by itself, result in a reduction of its long term rating of the Bonds below "A-" if the Bonds are rated by Fitch, below "A-" if the Bonds are rated by S&P or below "A3" if the Bonds are rated by Moody's (or such lower ratings as may be permitted by the Authority's policies or guidelines then in effect).

Prepayments

The Corporation has the option to prepay its Loan, with the prior written consent of the Bank, which consent will not be unreasonably withheld: (a) in whole, and cause all of the Outstanding Bonds to be redeemed in the event of certain damage or destruction of the Project by fire or other casualty or title to all or substantially all of the Project shall have been taken by power of eminent domain; (b) in whole or in part, out of the net proceeds of any insurance or condemnation awards as provided in the Loan Agreement; and (c) at the times and in the amounts set forth in the Indenture in connection with certain optional redemptions of the Bonds (see "DESCRIPTION OF THE BONDS—Redemption of Bonds—Optional Redemption Prior to the Fixed Rate Date"). Additionally, the Corporation must prepay its Loan (i) if the Loan Agreement should become void, unenforceable, impossible to perform or unlawful, (ii) if interest on the Bonds, or any of them, is determined not to be Tax-exempt to the Registered Owners thereof; provided however such determination shall only require prepayment of the portion of the Loan with respect to the Bonds, and (iii) at the times and in the amounts set forth in the Indenture in connection with certain mandatory redemptions of the Bonds (see "DESCRIPTION OF THE BONDS—Redemption of Bonds"). In the case of a prepayment of the entire amount due under the Loan Agreement, the amount to be paid will be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to pay the redemption price of all Bonds Outstanding on the redemption date specified in the notice of redemption, plus interest accrued to the redemption date of the Bonds, plus all reasonable and necessary fees and expenses of the Authority, the Trustee and any paying agent allowable pursuant to the Loan Agreement and the Indenture accrued and to accrue through final payment of the Bonds and all other liabilities of the Corporation accrued under the Loan Agreement. In the case of partial prepayment, the amount payable will be a sum sufficient, together with other funds deposited with the Trustee and available for such purpose, to pay the redemption price plus all interest accrued and to accrue and to pay expenses of redemption of such Bonds.

Events of Default

The following constitute "events of default" under the Loan Agreement:

(a) the failure of the Corporation to pay any Loan Repayment when and as the same shall become due and payable;

(b) the failure of the Corporation to pay any amounts payable under the Loan Agreement, other than Loan Repayments, when and as the same shall become due, which failure continues for a period of 30 days after written notice delivered to the Corporation and the Bank, which notice shall specify such failure and request that it be remedied, given by the Authority or the Trustee;

(c) the failure of the Corporation to observe and perform any covenant, condition or agreement on its part required to be observed or performed by the Loan Agreement other than as described in (a) or (b) above, which failure continues for a period of 30 days after written notice delivered to the Corporation and the Bank, which notice

shall specify such failure and request that it be remedied, given to the Corporation by the Authority or the Trustee, unless the Authority and the Trustee shall agree in writing to an extension of such time; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Authority and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within such period and diligently pursued until the default is corrected; or

(d) the existence of an Event of Default under the Indenture.

The Corporation shall not be deemed in default pursuant to (c) above if by reason of force majeure the Corporation is unable to carry out such obligations.

Remedies

Whenever any such event of default shall have occurred and shall be continuing, the Loan Agreement provides that:

(a) the Trustee, by written notice to the Corporation, the Confirming Credit Provider and the Bank, shall declare the unpaid balance of the loan payable under the Loan Agreement to be due and payable immediately, provided that concurrently with or prior to such notice the unpaid principal amount of the Bonds shall have been declared to be due and payable under the Indenture. Upon any such declaration such amount shall become and shall be immediately due and payable in the amount set forth in the Indenture;

(b) the Trustee shall have access to and may inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Corporation;

(c) the Trustee may take whatever action at law or in equity as may be necessary or desirable to collect the payments and other amounts then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Corporation under the Loan Agreement;

(d) the Authority may take whatever action at law or in equity as may be necessary or desirable to collect the payments and other amounts then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Corporation with respect to Reserved Rights; or

(e) the Trustee shall immediately draw upon the Letter of Credit or the Confirming Letter of Credit, if permitted by their terms and required by the terms of the Indenture, and apply the amount so drawn in accordance with the Indenture and may exercise any remedy available to it thereunder.

Amendment

Except as otherwise provided in the Loan Agreement or the Indenture, the Loan Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee and the Bank.

THE INDENTURE

The following is a summary of certain provisions of the Indenture. This summary is not to be considered a full statement of the terms of the Indenture and accordingly is qualified by reference thereto and is subject to the full text thereof. Unless otherwise defined, capitalized terms used herein shall have the same meanings given such terms in the Indenture.

Security

Pursuant to the Indenture, the Bonds are secured by a lien on all Revenues and other amounts (including proceeds of the sale of the Bonds) held in the funds or accounts established pursuant to the Indenture (other than moneys set aside in the Rebate Fund and as otherwise provided in the Indenture). All such moneys are irrevocably pledged to the punctual payment of the principal and purchase price of, premium, if any, and the interest on the Bonds.

"Revenues" means all amounts received by the Authority or the Trustee for the account of the Authority pursuant or with respect to the Loan Agreement, the Letter of Credit or the Confirming Letter of Credit, including, without limiting the generality of the foregoing, loan repayments (including both timely and delinquent payments and any late charges, and paid from whatever source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture, but not including any moneys paid for deposit into the Rebate Fund.

Covenants of the Authority

The Authority has agreed among other things, to punctually pay, or cause to be paid, but only from Revenues and other assets pledged for such payment pursuant to the Indenture, the principal, premium, if any, and interest to become due on the Bonds; not to extend the maturity of the Bonds or the time of payment of interest; not to allow the creation of any liens or other encumbrances (other than those created under the Indenture) on the Revenues and other assets pledged or assigned under the Indenture. In addition, the Authority has agreed to certain tax covenants.

Costs of Issuance Fund

Under the Indenture, the Trustee will deposit a portion of the proceeds of the Bonds into the Costs of Issuance Fund to pay the costs of issuing the Bonds. Upon the earlier of June 22, 2011 or the receipt by the Trustee of a certificate or letter signed by an Authorized Representative of the Corporation stating that all Costs of Issuance have been paid or adequately provided for, any money remaining in the Costs of Issuance Fund shall be transferred to the Revenue Fund.

Revenue Fund

Under the Indenture, the Trustee is required to deposit all Revenues upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee shall establish, maintain and hold in trust, except that all moneys received by the Trustee and required to be deposited in the Redemption Account shall be promptly deposited in said account, which the Trustee shall establish, maintain and hold in trust. All Revenues deposited with the Trustee are to be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Loan Repayments received by the Trustee from the Corporation pursuant to the Loan Agreement shall be deposited by the Trustee into the Revenue Fund. On or before each Interest

Payment Date, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue Fund), in the following amounts, in the following order of priority, and the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit will be satisfied before any transfer is made to any account subsequent in priority, and provided, that all moneys representing drawings under the Letter of Credit for payments of scheduled principal and interest on the Bonds shall be transferred into the Letter of Credit Account:

First, to the Interest Account, the amount paid by the Corporation and designated as or attributable to interest on the Bonds so that the aggregate of such amounts will, on the next Interest Payment Date, equal the amount of interest due on the Bonds on such Interest Payment Date;

Second, to the Principal Account, the amount paid by the Corporation and designated as or attributable to principal of the Bonds so that the aggregate of such amounts will, on the next succeeding principal payment date equal the amount of principal due (whether at maturity or by acceleration) on such principal payment date; and

Third, to the Redemption Account, the aggregate amount of principal and premium, if any, next coming due by redemption permitted (as directed in writing by the Corporation) or required under the Indenture, or any portion thereof paid by the Corporation.

To the extent the Trustee receives moneys from the Bank pursuant to a draw under the Letter of Credit to make the above payments, the moneys deposited in the Interest, Principal and Redemption Accounts shall be used by the Trustee to reimburse the Bank for such draws.

Priorities of Application of Moneys

Funds for the payment of the principal or redemption price of and interest on the Bonds will be derived from the following sources in the order of priority indicated in each of the accounts in the Revenue Fund. Amounts in the respective accounts in the Revenue Fund will be used to pay the principal or redemption price of and interest on the Bonds held by Registered Owners other than the Bank or the Corporation prior to the payment of the principal and interest on the Bonds held by the Bank or the Corporation. If principal or redemption price (or any portion thereof) of and interest on the Bonds is paid with moneys described in subparagraph (a) below, any other moneys on deposit in the respective accounts in the Revenue Fund will be applied to immediately reimburse the Bank by wire transfer in the amount of such drawings:

(a) moneys paid into the Letter of Credit Account of the Revenue Fund representing the proceeds of drawings by the Trustee under the Letter of Credit;

(b) moneys paid into the Confirming Letter of Credit Account of the Revenue Fund representing the proceeds of drawings by the Trustee under the Confirming Letter of Credit;

(c) moneys paid into the Interest Account, if any, representing accrued interest received at the initial sale of the Bonds and proceeds from the investment thereof which shall be applied to the payment of interest on the Bonds;

(d) moneys paid into the Revenue Fund pursuant to the Indenture and proceeds from the investment thereof, which constitute Available Moneys (as defined in the Indenture);

(e) any other moneys (not derived from drawings under the Letter of Credit or the Confirming Letter of Credit) paid into the Revenue Fund and proceeds from the investment thereof, which constitute Available Moneys; and

(f) any other moneys paid into the Revenue Fund and proceeds from the investment thereof, which are not Available Moneys.

The Trustee will create within the Revenue Fund separate accounts called the "Letter of Credit Account," and the "Confirming Letter of Credit Account," into which all moneys drawn under the Letter of Credit and the Confirming Letter of Credit, respectively, to make payments of principal of, premium, if any, and interest on the Bonds shall be deposited and disbursed. None of the Corporation, any member, affiliate or guarantor of the Corporation (a "Related Party"), the Trustee or the Authority will have any legal, equitable or beneficial right, title or interest in the Letter of Credit Account or the Confirming Letter of Credit Account.

Rebate Fund

The Trustee will also establish and maintain a separate fund designated the "Rebate Fund." Upon receipt of instructions required to be delivered to the Trustee under the Tax Certificate, dated December 22, 2010 (the "Tax Certificate"), between the Authority and the Corporation, the Trustee shall remit part or all of the balance in the Rebate Fund to the federal government of the United States of America. None of the Authority, the Registered Owners, the Bank or the Trustee has any rights in or claims to such moneys.

Purchase Fund

There is established under the Indenture with the Tender Agent, in a trust capacity, a fund to be designated as the "Purchase Fund" to be used to purchase Bonds tendered for purchase. All moneys drawn by the Trustee under the Letter of Credit for such purpose and all moneys received from the sale of Bonds upon remarketing (which moneys are to be immediately available on the Purchase Date) shall be deposited into the Purchase Fund.

The Indenture also establishes within the Purchase Fund two separate accounts called the "Liquidity Account," into which all moneys drawn under the Letter of Credit are to be deposited and disbursed and a "Remarketing Account," into which all moneys representing proceeds of remarketing shall be deposited. None of the Corporation, any Related Party, the Trustee or the Authority will have any legal, equitable or beneficial right, title or interest in the moneys held in the Purchase Fund, or in the Remarketing Account or the Liquidity Account therein. On each day on which Bonds have been tendered for purchase or are deemed to have been tendered for purchase pursuant to the Indenture, after paying or making provision for the payment of the purchase price of such Bonds as provided in the Indenture, the Tender Agent will promptly remit to the Bank any moneys in the Liquidity Account not used to purchase Bonds, but not exceeding the amount drawn on the Letter of Credit for such purchase.

Funds for the purchase of Bonds at the principal amount thereof plus unpaid interest accrued to the purchase date, if any, will be paid out of the Purchase Fund in the following order of priority:

(a) from the Remarketing Account, proceeds from the remarketing of Bonds;

(b) from the Liquidity Account, moneys representing proceeds of a drawing by the Trustee under the Letter of Credit.

In the event that Bonds are not purchased with money from the sources described above, the Trustee will pay the principal amount of Bonds tendered with moneys on deposit in the Revenue Fund and cancel such Bonds.

Supplemental Indentures

The Authority and the Trustee may enter into a supplemental indenture or indentures, without the consent of any of the Registered Owners, but with the written consent of the Corporation and the Bank, amending or modifying the rights and obligations of the Authority, the Trustee and the Registered Owners, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds, or to surrender any right or power reserved to or conferred upon the Authority by the Indenture;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture as the Authority may deem necessary or desirable which do not adversely affect the rights of the Registered Owners;

(c) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(d) to make such provisions for the purpose of conforming to the terms and provisions of any Alternate Letter of Credit or Alternate Credit Facility or to obtain a rating on the Bonds which do not adversely affect the rights of the Registered Owners under the Indenture; and

(e) to modify, amend or supplement the Indenture in any other respect which does not adversely affect the rights of the Registered Owners under the Indenture.

Except as described above, the Authority and the Trustee must obtain the consent of the Registered Owners of a majority in aggregate principal amount of all Bonds then Outstanding, the Corporation and the Bank in order to enter into a Supplemental Indenture. No such Supplemental Indenture may (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Registered Owner of each Bond so affected, (b) reduce the aforesaid percentage of Bonds the consent of the Registered Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Registered Owners of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Registered Owners of all the Bonds then Outstanding, or (c) adversely affect the interests of the Tender Agent without its prior written consent.

Events of Default

Each of the following events shall constitute an "Event of Default" under the Indenture:

(a) default in the due and punctual payment of the principal of, or premium (if any) on, any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Bond, when and as such interest installment shall become due and payable;

(c) failure to pay the purchase price of any Bond tendered in accordance with the provisions of the Indenture;

(d) failure by the Authority to perform or observe any other of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, and the continuation of such failure for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority, the Bank and the Corporation by the Trustee, or to the Authority, the Bank, the Corporation and the Trustee by the Registered Owners of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding;

(e) failure by the Authority or the Corporation to comply with their respective obligations set forth in the Tax Certificate;

(f) the occurrence and continuation of certain events of default under the Loan Agreement; or

(g) the wrongful dishonor by the Bank of a properly presented and conforming draw on the Letter of Credit or the repudiation of the Letter of Credit

No default specified in (d) above shall constitute an Event of Default unless the Authority and the Corporation shall have failed to correct such default within the applicable period; provided, however, that if the default shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Authority or the Corporation within the applicable period and diligently pursued. With regard to any alleged default concerning which notice is given to the Corporation, the Authority has granted the Corporation full authority for the account of the Authority to perform any covenant or obligation the non-performance of which is alleged in said notice to constitute a default in the name and stead of the Authority with full power to do any and all things and acts to the same extent that the Authority could do and perform any such things and acts and with power of substitution.

Remedies

During the continuance of an Event of Default, unless the principal of all the Bonds has already become due and payable, the Trustee may, and upon the written request of the Registered Owners of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding, or upon the occurrence of an Event of Default described in (a), (b), (c), (e), (f) or (g) above, the Trustee shall, by notice in writing to the Authority, the Tender Agent, the Remarketing Agent, the Corporation and the Bank, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable,

anything in the Indenture or in the Bonds contained to the contrary notwithstanding; provided, however that upon an Event of Default described in (e) above, the Trustee shall take the aforementioned action with respect to the Bonds only. Upon any such declaration the Trustee shall immediately draw upon any then existing Letter of Credit or Confirming Letter of Credit in accordance with the terms thereof and apply the amount so drawn to pay the principal of and interest on the Bonds (other than Bank Bonds) so declared to be due and payable. Interest on the Bonds shall cease to accrue upon the declaration of acceleration. The Trustee shall notify the Registered Owners of the date of acceleration and the cessation of accrual of interest on the Bonds in the same manner as for a notice of redemption.

If, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, and before the Letter of Credit or the Confirming Letter of Credit have been drawn upon in accordance with their terms and honored, there shall have been deposited with the Trustee a sum sufficient to pay all the principal of the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal as provided in the Loan Agreement, and the reasonable expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Registered Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority and to the Trustee, may, on behalf of the Registered Owners, rescind and annul such declaration and its consequences and waive such default. No such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power as a consequence thereof.

Trustee to Represent Registered Owners

The Trustee is irrevocably appointed as trustee and the true and lawful attorney-in-fact of the Registered Owners for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Registered Owners under the provisions of the Bonds, the Indenture, the Loan Agreement, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Registered Owners, the Trustee in its discretion may, and upon the written request of the Registered Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor (except any actions required to be taken by the Indenture to apply Revenues and other funds following an Event of Default, in which event no indemnification shall be required), shall, proceed to protect or enforce its rights or the rights of such Registered Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Registered Owners under the Indenture, the Loan Agreement, the Act or any other law. Upon instituting such proceedings, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings.

Registered Owners' Direction of Proceedings

The Registered Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right to direct the method of conducting all remedial proceedings

taken by the Trustee under the Indenture. Such direction shall not be otherwise than in accordance with law and the provisions of the Indenture. The Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Registered Owners not parties to such direction or for which it has not been provided adequate indemnity to its satisfaction.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Authority and the Corporation have covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to compliance by the Authority and the Corporation with the above referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Bond Counsel, interest on the Bonds (i) is excludable from the gross income of the owners thereof for federal income tax purposes, (ii) is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, and (iii) is not taken into account in computing "adjusted current earnings" as described below. In the opinion of Bond Counsel, the Bonds, are "qualified tax exempt obligations" under the small issuer exception provided under section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), which affords banks and certain other financial institutions more favorable treatment of their deduction for interest expense than would otherwise be allowed under section 265(b)(2) of the Code.

Bond Counsel expects to deliver an opinion at the time of delivery of the Bonds in substantially the form set forth in APPENDIX A—FORM OF OPINION OF BOND COUNSEL.

In rendering its opinion, Bond Counsel will rely upon certifications of the Authority and the Corporation with respect to certain material facts within the Authority's and the Corporation's knowledge and will rely on an opinion of the Elisabeth Eisner, Esq., counsel to the Corporation, that the Corporation is a 501(c)(3) organization and certain other matters. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Code includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT for a corporation, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporations' taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would generally include certain tax exempt interest, but not interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax exempt obligations. Prospective

purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") of the Bonds is the price at which a substantial amount of the Bonds is first sold to the public. The Issue Price of a maturity of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the cover page hereof.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the Authority and the Corporation comply with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity or, in the case of an OID Bond, its Issue Price plus accreted original issue discount reduced by payments of interest included in the computation of original issue discount and previously paid (the "Revised Issue Price"), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price even if the purchase price exceeds par. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax exempt bond. The amortized bond premium is treated as a reduction in the tax exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the Service, interest on such tax exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service may treat the Authority as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the Registered Owners of the Bonds upon an event of default under the Indenture or the Loan Agreement are in many respects dependant upon judicial actions which are often subject to discretion and delay, and such remedies may not be readily available or may be limited. In particular, under the United States Bankruptcy Code, a bankruptcy case may be filed by or against the Corporation. In general, the filing of such petition operates as a stay against enforcement of the terms of the agreements to which the bankrupt entity is a party, and in the bankruptcy process, executory contracts such as the Loan Agreement or the Indenture may be subject to assumption or rejection by the bankrupt party. In the event of any such rejection, the non-rejecting party or its assigns may become an unsecured claimant of the rejecting party. The various legal opinions to be delivered concurrently with the Bonds (including Bond Counsel's approving opinion) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principals of equity applied in the exercise of judicial discretion.

RATINGS

Standard & Poor's Ratings Services ("S&P") has assigned the ratings of "AAA/A-1+" to the Bonds (a long-term rating of "AAA" and a short-term rating of "A-1+"). The long-term rating reflects S&P's assessment of the likelihood of repayment of the Bonds to maturity based primarily on the credit of the Letter of Credit Bank. The short-term rating reflects the likelihood of repayment based on the availability of the Letter of Credit during the "put" period. Such ratings reflect only the view of S&P at the time such ratings are given, and the Authority, the Corporation and the Underwriter make no representation as to the appropriateness of such ratings or that such ratings will not be changed, suspended or withdrawn.

S&P relies on the Underwriter, the Bank and its counsel, Bond Counsel and other experts for the accuracy and completeness of the information submitted in connection with the ratings. The ratings are not "market" ratings nor a recommendation to buy, hold or sell the Bonds, and such ratings may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information. Any downward revision, suspension or withdrawal of such ratings could have an adverse effect on the market price and marketability of the Bonds. An explanation of the significance of such ratings may be obtained only from S&P at the following address: 55 Water Street, New York, NY 10041.

UNDERWRITING

The Authority has agreed to sell, and the Underwriter has agreed to purchase, the Bonds at a price equal to the aggregate principal amount thereof. The Underwriter will be paid a fee in the amount of $20,000.00. The Underwriter's obligation is subject to certain conditions precedent, and the Underwriter does not have the right to purchase less than all the Bonds. The Underwriter intends to offer the Bonds to the public initially at the offering price set forth on the cover page hereof and may subsequently change such offering price and other selling terms from time to time without prior notice. The Bonds may be offered by the Underwriter and sold to certain dealers (including dealers depositing such Bonds into investment trusts, accounts or funds) and others at prices lower than the public offering price set forth on the cover page hereof.

CONTINUING DISCLOSURE

The Corporation has covenanted for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Corporation, if any, by not later than nine months following the end of the Corporation's fiscal year commencing with the report for the fiscal year ending June 30, 2011 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of such events will be filed by the Corporation with the Municipal Securities Rulemaking Board (the "MSRB") via its Electronic Municipal Market Access ("EMMA") system. The specific nature of the information to be contained in the Annual Report or the notices of such events is set forth in APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Corporation has had no prior continuing disclosure obligation.

Independently, the Bank and the Confirming Credit Provider are subject to the information requirements of the Securities Exchange Act of 1934 and, in accordance therewith, file reports and other information with the Securities and Exchange Commission. Such reports and other information are available from the Bank and the Confirming Credit Provider from the

sources identified under the captions "THE BANK" and 'THE CONFIRMING CREDIT PROVIDER."

The Authority has no continuing disclosure obligations in relation to the Bonds.

NO LITIGATION

The Authority

There is no litigation now pending (with service of process against the Authority having been completed) against the Authority or, to the knowledge of its officers, threatened against the Authority which seeks to restrain or enjoin the issuance, sale, execution, or delivery of the Bonds, or which contests the validity of the Bonds, any proceeding of the Authority taken concerning the issuance or sale thereof, the security provided for the payment of the Bonds, or the existence or powers of the Authority relating to the issuance of the Bonds.

The Corporation

There is no litigation now pending against the Corporation or, to the knowledge of its officers, threatened against the Corporation which seeks to restrain or enjoin the issuance, sale, execution, or delivery of the Bonds, or which contests the validity of the Bonds, any proceeding of the Corporation taken concerning the issuance or sale thereof or the security provided for the payment of the Bonds. There is no litigation or proceeding pending or, to the knowledge of the Corporation, threatened against the Corporation which could adversely affect the validity of the Loan Agreement or the Reimbursement Agreement, or the ability of the Corporation to comply with the terms of its obligations under the Loan Agreement or the Reimbursement Agreement.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel. Copies of such opinion will be available at the time of the delivery of the Bonds. Certain legal matters will be passed upon for First Republic Bank by Kutak Rock LLP, Los Angeles, California, for Federal Home Loan Bank of San Francisco by in-house counsel, for the Authority by its special counsel, Chapman and Cutler LLP, San Francisco, California and for the Corporation by Elisabeth Eisner, Esq., San Diego, California.

This Official Statement is not to be construed as a contract or agreement between the Authority or the Corporation and the Owners of any of the Bonds.

ABAG FINANCE AUTHORITY FOR
NONPROFIT CORPORATIONS

By /s/ Clarke J. Howatt
Clarke J. Howatt
Secretary

APPROVED:

COMPUTER HISTORY MUSEUM

By /s/ John C. Hollar
John C. Hollar
President and Chief Executive Officer

This Official Statement is not to be construed as a contract or agreement between the Authority or the Corporation and the Owners of any of the Bonds.

ABAG FINANCE AUTHORITY FOR
NONPROFIT CORPORATIONS

By /s/ Clarke J. Howatt
Clarke J. Howatt
Secretary

APPROVED:

COMPUTER HISTORY MUSEUM

By /s/ John C. Hollar
John C. Hollar
President and Chief Executive Officer

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APPENDIX A

FORM OF OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

ABAG Finance Authority for Nonprofit Corporations
101 Eighth Street
Oakland, CA 94607-4756

OPINION: $7,000,000 ABAG Finance Authority for Nonprofit Corporations Variable Rate Demand Refunding Revenue Bonds (Computer History Museum), Series 2010

Members of the Authority:

We have acted as bond counsel in connection with the issuance by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") of its $7,000,000 ABAG Finance Authority for Nonprofit Corporations Variable Rate Demand Refunding Revenue Bonds (Computer History Museum), Series 2010 (the "Bonds"), pursuant to Articles 1 through 4 (commencing with section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law"), an Indenture of Trust, dated as of December 1, 2010, by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Indenture"), and a resolution adopted by the Authority on December 1, 2010. The Bonds have been issued by the Authority to provide funds to refinance the acquisition, renovation and equipping of a 119,000 square foot, two-story building located on an approximately 7.5 acre parcel of land at 1401 Shoreline Boulevard in Mountain View, California, to be owned and operated by the Computer History Museum, a California nonprofit public benefit corporation (the "Corporation"), to be loaned to the Corporation, pursuant to a Loan Agreement, dated as of December 1, 2010, by and between the Authority and the Corporation (the "Loan Agreement"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Indenture, of the Authority and the Corporation contained in the Loan Agreement and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing we are of the opinion, under existing law, as follows:

1. The Authority is duly created and validly existing as a joint exercise of powers authority with the power to enter into the Indenture and the Loan Agreement, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Indenture and the Loan Agreement have been duly approved by the Authority and constitute valid and binding special obligations of the Authority enforceable against the Authority in accordance with their respective terms.

3. Pursuant to the Law, the Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds, on a parity with other bonds (if any) issued or to be issued under the Indenture, subject to no prior lien granted under the Law.

4. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Indenture.

5. Subject to the Authority's and the Corporation's compliance with certain covenants, interest on the Bonds (i) is excludable from gross income of the owners thereof for federal income tax purposes except after a failed remarketing as described below, (ii) is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code") and (iii) is not taken into account in computing adjusted current earnings, which is used as an adjustment in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such Authority and the Corporation covenants could cause the interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. In rendering our opinion on tax exemption, we have relied on the opinion of Elisabeth Eisner, Esq., counsel to the Corporation that the Corporation is a 501(c)(3) organization and certain other matters. We express no opinion concerning the exclusion of interest from gross income on any Bond while the Bond is held by the liquidity provider after a failed remarketing of the Bonds or with respect to any Bond that is remarketed after it has been held by the liquidity provider for 90 or more consecutive days.

6. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CORPORATION FOR ITS FISCAL YEAR ENDED JUNE 30, 2010

The Corporation's auditor was not requested to consent to the inclusion of its report in this Appendix B and it has not undertaken to update financial statements included in this Appendix B. No opinion is expressed by the Corporation's auditor with respect to any event subsequent to its report.

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COMPUTER HISTORY MUSEUM

JUNE 30, 2010

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

Computer History Museum

Independent Auditors' Report and Financial Statements

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Statement of Financial Position	2
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HOOD & STRONG LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

THE BOARD OF TRUSTEES
COMPUTER HISTORY MUSEUM
Mountain View, California

We have audited the accompanying statement of financial position of **COMPUTER HISTORY MUSEUM (the Museum)** as of June 30, 2010 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Museum's 2009 financial statements and, in our report dated December 18, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Computer History Museum as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

October 26, 2010

Consultants and

Business Advisors

100 First Street

14th Floor

San Francisco

CA 94105

415.781.0793

fax 415.421.2976

San Francisco

San Jose

Redwood Shores

CELEBRATING 12345 67890 YEARS AND STILL COUNTING

Computer History Museum

Statement of Financial Position
(In Thousands)

June 30, 2010 (with comparative totals for 2009)	2010	2009
Assets		
Current Assets:		
Cash and cash equivalents	$ 6,515	$ 7,704
Unconditional promises to give, receivable within one year	1,839	5,129
Other current assets	226	162
Total current assets	8,580	12,995
Investments	25,365	23,394
Unconditional Promises to Give, receivable in more than one year, net	110	137
Property and Equipment, net	35,636	28,724
Other Assets, net	453	473
	$ 70,144	$ 65,723
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	$ 2,330	$ 445
Bonds Payable	7,000	7,000
Total liabilities	9,330	7,445
Net Assets:		
Unrestricted:		
Board designated - Quasi endowment	12,600	16,244
Board designated - Building fund	25,140	25,828
Board designated - Maintenance reserve	475	472
Endowment - Below contributed value	(1,255)	(2,222)
Undesignated	2,174	1,868
Total unrestricted	39,134	42,190
Temporarily restricted	7,677	2,285
Permanently restricted	14,003	13,803
Total net assets	60,814	58,278
	$ 70,144	$ 65,723

The accompanying notes are an integral part of this statement.

Computer History Museum

Statement of Activities
(In Thousands)

Year Ended June 30, 2010 (with comparative totals for the year ended June 30, 2009)

	2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2009 Total
Revenue:					
Contributions and pledges	$ 1,298	$ 4,660	$ 200	$ 6,158	$ 2,288
Venue rental	692			692	825
Interest and dividends	376	17		393	606
Net gain (loss) on investments	1,955			1,955	(7,302)
Special events	83	293		376	268
Donated services	65			65	38
Donated equipment and supplies	57	419		476	43
Miscellaneous income	47			47	58
Program income	16	264		280	182
	4,589	5,653	200	10,442	(2,994)
Donor restriction and Board designation revised (Note 9)	(4,000)	4,000			
Loss on uncollectible pledge		(601)			
Net assets released from restrictions	3,660	(3,660)			
Total revenue	4,249	5,392	200	9,841	(2,994)
Expenses:					
Program services	5,396			5,396	4,679
Management and general	847			847	1,165
Fundraising	912			912	971
Special events	150			150	181
Total expenses	7,305			7,305	6,996
Change in Net Assets Before Collection Activity	(3,056)	5,392	200	2,536	(9,990)
Collection Activity - acquisition of collection items				-	(204)
Change in Net Assets	(3,056)	5,392	200	2,536	(10,194)
Net Assets, beginning of year	42,190	2,285	13,803	58,278	68,472
Net Assets, end of year	$ 39,134	$ 7,677	$ 14,003	$ 60,814	$ 58,278

The accompanying notes are an integral part of this statement.

Computer History Museum

Statement of Cash Flows
(In Thousands)

Years Ended June 30, 2010 (with comparative totals for 2009)	2010	2009
Cash Flows from Operating Activities:		
Change in net assets	$ 2,536	$ (10,194)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	787	942
Amortization of video rights		7
Amortization of debt issuance costs	20	20
Video rights transferred to collections		203
Unrealized (gain) loss on investments	(1,917)	7,302
Donated securities	(402)	(30)
Contibutions received for long term investment	(4,358)	
Changes in operating assets and liabilities:		
Unconditional promises to give, other than building fund	3,317	(196)
Other current assets	(62)	(42)
Accounts payable and accrued expenses	120	(211)
Net cash provided (used) by operating activities	41	(2,199)
Cash Flows from Investing Activities:		
Proceeds from the sale of investments	9,267	3,743
Purchases of investments	(8,921)	(1,740)
Purchases of property and construction in progress costs	(5,934)	(556)
Net cash (used) provided by investing activities	(5,588)	1,447
Cash Flows from Financing Activities:		
Contributions for building and exhibit and endowment	4,358	164
Net cash provided by financing activities	4,358	164
Decrease in Cash and Cash Equivalents	(1,189)	(588)
Cash and Cash Equivalents, beginning of year	7,704	8,292
Cash and Cash Equivalents, end of year	$ 6,515	$ 7,704
Supplemental Disclosures of Non Cash Investing Activities:		
Accrued construction costs	$ 1,765	
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 14	$ 100

The accompanying notes are an integral part of this statement.

Note 1 - Description of Organization:

The Computer History Museum (the Museum) is a non-profit public benefit organization incorporated as a California corporation in 1999. The mission of the Museum is to preserve and present for posterity the artifacts and stories of the information age. Dedicated to exploring the social impact of computing, the Museum is home to the world's largest collection of computing-related items, spanning from pre-computing objects, to semiconductors, hardware, software, computer graphics systems, games, networking, robots, the Internet, and beyond. Its growing collection also includes photos, films, videos, manuals, documents, publications, and marketing materials. In October 2002, the museum purchased a 119,000 square foot facility in Mountain View, California to house the Museum's collections, exhibits, administrative offices, and all other operations. In March 2007, the Museum purchased a 25,168 square foot warehouse to house its growing collection.

The Museum is now executing on the creation of its upcoming 25,000 square foot signature exhibition, scheduled to launch in January 2011. This new exhibition will tell the story of the technology, people, companies and impact of one of mankind's greatest inventions: the computer. The design process has been many years in the making and has involved the work of hundreds of experts, volunteers, writers, researchers, historians and the Museum's exhibition and curatorial staff. The exhibition will showcase the Museum's rich, historic collection, and include engaging multimedia displays and an unprecedented online experience.

In its current construction phase, the Museum continues to bring computing history to life through its self guided and docent-led tours of The Silicon Engine, Charles Babbage's Difference Engine No. 2, Mastering the Game: A History of Computer Chess, and Innovation in the Valley. The Museum produces a popular speaker series, seminars, oral histories, workshops and Web-based educational resources for students and the general public.

The Museum's collection includes over 35,000 artifacts, 5,000 films and videotapes, 5,000 linear feet of documentation related to the history of computing, 3,000 moving images, 10,000 software titles and 20,000 photographs. The Museum has catalogued 72,000 items and made them available to the general public through its website.

The Museum currently generates its revenues primarily from charitable contributions and earnings on investments.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The Museum prepares its financial statements on the accrual basis of accounting.

b. Description of Net Assets

Unrestricted Net Assets - the portion of net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations. These net assets are intended for use by management and the Board of Trustees for general operations. Unrestricted net assets include any net assets designated by the Board for certain purposes. The Board has designated a fund to serve as a quasi-endowment, with earnings used for general operations. The Board has also designated a fund for building and exhibit costs. The contributions to these funds have been received through various campaigns for which the Board has determined their ultimate use. The Board has also designated part of the operating reserve as a maintenance reserve to be used for long-term repair and replacement of building infrastructure.

Temporarily Restricted Net Assets - the portion of net assets which use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Museum.

Permanently Restricted Net Assets - the portion of net assets which use is permanently limited by donor-imposed stipulations that neither expire by passage of time nor can be removed by actions of the Museum.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of short-term, highly liquid investments with original maturity dates of three months or less, and excludes any cash held in the investment portfolio.

d. Promises to Give

Unconditional promises to give are agreements to contribute cash, stock or other assets to the Museum for which no conditions are needed to be satisfied before payment is made. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their estimated future cash flows. The present values are calculated using risk-free interest rates applicable at the date of the pledge. Amortization of the discounts are recorded as contribution and pledge revenue on the Statement of Activities.

The Museum uses the allowance method to estimate potential uncollectible receivables. When a multi-year pledge is initially recorded, the effect of any uncollectible estimate is reflected in the estimated future cash flow stream.

Conditional promises to give are recorded as contributions and pledges revenue and receivables when the conditions are substantially met.

e. Investments

Marketable equity and debt securities are stated at fair value, determined by quoted market prices.

Fair value of alternative investments are based on net asset values as reported by fund managers. The realization of the Museum's investments in certain of these funds is dependent on the fund's distributions. Due to the inherent uncertainty of the valuation of these non-marketable investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed.

f. Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. Depreciation is computed using the straight-line method over estimated useful lives ranging from three to thirty years.

g. Fair Value of Financial Instruments

The Museum believes that the carrying value of its financial instruments, which are not required to be measured at fair value, approximates their fair value.

The Museum follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*. ASC 820 applies to all financial assets and liabilities that are measured and reported on a fair value basis and requires such assets and liabilities to be classified and disclosed in one of the following three categories to enable readers of the financial statements to assess the inputs used to develop those measurements:

Level 1 Quoted market prices unadjusted in active markets for identical assets or liabilities and the Museum has the ability to access at the measurement date.

Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data.

The financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Museum uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers nonperformance risk in its assessment of fair value.

h. Other Assets

Other assets are comprised of debt issuance costs.

The cost of issuing the bonds have been capitalized and are being amortized over the life of the bonds, which is 30 years.

i. Collections

The Museum's collections are made up of artifacts of historical significance held for educational, research, scientific, and curatorial purposes. The items are in the process of being cataloged A comprehensive list of most of the artifacts in the collection is on the Museum's website at http://www.computerhistory.org/collections/search/. The collections are subject to a policy that requires proceeds from the sale of any collection item to be used to acquire other items for the collections. The accessioned items in the collection undergo a rigorous review process with approval by the Board of Trustees prior to deaccessioning. The process is in compliance with appropriate Museum standards and codes.

To date, the collections have been acquired primarily through donations and are not recognized as assets on the Statement of Financial Position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors.

j. Revenue Recognition

Contributions are recorded at their fair value and are recognized as revenue when the donor makes an unconditional promise to give to the Museum. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. All pledges are classified as temporarily restricted net assets and are reclassified to unrestricted net assets in the year the pledge amount is received.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Museum reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated securities are recorded at the fair value of the gift at the date of the donation. Subsequent gains or losses are recognized in the Statement of Activities.

The Museum records contribution revenue for certain donated services, at the fair value of those services, only if the services create or enhance non-financial assets or require specialized skills that would need to be purchased if not donated. The value of other volunteer services has not been recognized in the financial statements because such volunteer services do not meet the criteria stated above.

Donated equipment is recognized as contribution revenue at its estimated fair value at the date of the gift.

Venue rental income, special events revenue and program revenue are recognized when the events or programs occur.

k. Income Taxes

The Museum received a determination letter from the Internal Revenue Service stating that the Museum is being treated as a tax-exempt organization, and is not classified as a private foundation. The Museum is exempt from taxes on unrelated income, under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

Management evaluated the Museum's tax positions and concluded that the Museum had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Should the Museum incur interest and penalties relating to tax uncertainties, such amounts would be classified as a component of interest expense and operating expense, respectively. With few exceptions, the Museum is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for the years before 2005.

l. Allocation of Expenses

Indirect costs have been allocated by management among programs and supporting services based on estimates of time, space, and other factors.

m. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

n. Comparative Financial Statements

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2009, from which the information was derived.

o. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications have no effect on net assets or changes in net assets.

p. Recent Accounting Pronouncement

In January 2010, FASB issued additional disclosure requirements for fair value measurements. Under this guidance, the fair value hierarchy disclosures are to be further disaggregated by classes (subsets of the line items in the financial statements) and additional disclosures made about transfers between levels 1 and 2. These disclosures are effective for fiscal year 2011. Additional disclosures about level 3 measurements will be required for 2012. The impact of this guidance will be additional disclosures in the financial statements.

q. Subsequent Events

The Museum has reviewed the results of operations for the period of time from its fiscal year ended June 30, 2010 through the date the financial statements were issued and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, as the nature of which would require disclosure.

Note 3 - Promises to Give:

Unconditional promises to give at June 30, 2010 and 2009 are expected to be collected as follows:

	2010	2009
Receivable within one year	$ 1,839	$ 5,129
Receivable within one to five years	128	166
Less: Discount to net present value	(18)	(29)
Receivable within two to five years - net	110	137
	$ 1,949	$ 5,266

Many of the Museum's donors have the intention to satisfy their unconditional promises to give with stock gifts. Because of fluctuations in stock prices several donors have delayed making scheduled payments until a more favorable price could be obtained. The above payment schedule is based on the donor's current payment plans as represented to the Museum.

Unconditional promises to give are currently designated or restricted as follows:

	2010	2009
Future facility and exhibit costs	$ 1,914	$ 1,124
Permanent endowment		3,800
Annual operating funds	27	334
Quasi endowment	8	8
	$ 1,949	$ 5,266

During the year ended June 30, 2002, the Museum received a promise to give from a foundation. The total promise was for $5,500,000, of which $5,000,000 was contingent upon certain milestones relating to the future facility. If such milestones are not met, the donor has the right to terminate future payments under the promise. As of June 30, 2010, $4,000,000 has been recognized as revenue by the Museum upon completion of certain conditions since 2002. $1,000,000 of the revenue is recorded as a receivable as of year end. The remaining $1,000,000 has not been recorded in the financial statements. As milestones are attained, the applicable portion of the promise will be recognized as revenue and a receivable.

Various provisions are included in the conditional promise including a provision stating that if the Museum is in material default of covenants within the promise, the Museum would need to repay any amounts received under the promise that have not been spent. Also, if the Museum closes or moves out of Santa Clara or San Mateo, California counties, within 10 years of the original promise, all amounts received by the Museum under the promise must be repaid in cash. Management believes the likelihood of such a closure, move or default is not likely and has not recorded a liability for amounts received.

Note 4 - Investments:

Investments are comprised of the following at June 30, 2010:

Equity funds	$	12,306
International government bonds		4,235
Cash and money market funds		2,256
Alternative Investments		6,568
	$	25,365

Note 5 - Fair Value Measurements:

The following table presents the balances of assets measured at fair value at June 30, 2010:

	Level 1	Level 2	Level 3	Total
Equity Funds:				
International index funds	$ 3,604			$ 3,604
Emerging markets fund	3,370			3,370
Other domestic index funds	2,211			2,211
Mineral and energy industry funds	894			894
Exchange traded gold fund	1,326			1,326
Other international funds	901			901
International government bonds		$ 4,235		4,235
Cash and money market funds	2,256			2,256
Alternative investments		1,080	$ 5,488	6,568
	$ 14,562	$ 5,315	$ 5,488	$ 25,365

The Museum uses the Net Asset Value (NAV) to determine the fair value of underlying investments which do not have a readily determinable fair value. The following table lists these investments by major category:

Strategies	# of Funds	Valuation	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Alternative Investments:					
Hedge Funds – Equity long/short, event driven, deep value (a)	4	$ 4,971		Quarterly/ Annually	30-90 Days
Hedge Funds – Fund of funds (b)	1	1,021		Annually	90 Days
Private equity - Venture capital (c)	3	576	$ 20	None	N/A
Total		$ 6,568	$ 20		

(a) This strategy invests primarily in international and domestic equities in various markets. Two of the funds have a one year lock-up period, which expires in November 2010.

(b) A fund of funds that invests in diversified group of hedge fund managers. This fund is subject to a one year lock up period which expires in October 2010.

(c) Private equity funds invest in various companies, both domestic and international. These investments can never be redeemed. Rather distributions are received from the fund when the underlying assets are liquidated. It is estimated that the underlying assets may have a life span of 10 to 15 years. The terms of the partnerships expire in April 2011 and July 2011 unless extended by agreement.

The changes in the alternative investments (level 3) for the year ending June 30, 2010 are as follows:

Balance at June 30, 2009	$	3,234
Purchases		3,000
Distributions, net		(38)
Realized and unrealized gain/loss		147
Transfer to Level 2		(855)
Balance at June 30, 2010	$	5,488

Note 6 - Property and Equipment:

At June 30, 2010 and 2009, property, equipment and accumulated depreciation are as follows:

		2010		2009
Land	$	12,663	$	12,663
Building and improvements		19,546		19,551
Computer equipment		146		146
Furniture and other office equipment		466		485
Software		159		159
Exhibits		322		836
		33,302		33,840
Less accumulated depreciation		(6,310)		(6,055)
		26,992		27,785
Construction in progress		8,644		939
	$	35,636	$	28,724

As discussed in Note 7, the deed of trust on the building is pledged as collateral for the letter of credit. Depreciation expense of $ 787 and $942 was recorded for the years ending June 30, 2010 and 2009, respectively.

The Museum engaged two general contractors during the current year for the Revolution exhibit project (see Note 1). One is for construction services related to the space where the Revolution exhibit will be located, while the other is for the design and construction services related to the Revolution exhibit itself. Work orders for the first contractor have been signed totaling $4.8 million with no change orders as of June 30, 2010. The signed contract for the second contractor, totals $6.4 million. The total projects costs are estimated to be $18 million.

Note 7 - Other Assets:

Other assets at June 30, 2010 and 2009 are as follows:

	2010	2009
Debt issuance costs	$ 593	$ 593
Less accumulated amortization	(140)	(120)
	$ 453	$ 473

Amortization expense of $20 was recorded for both of the years ending June 30, 2010 and 2009.

Note 8 - Bonds Payable:

In October 2002, the Museum issued $25,000,000 in Series 2002 Variable Rate Demand Revenue Bonds (the Bonds) through the Association of Bay Area Governments Finance Authority for Nonprofit Corporations (ABAG) to finance the cost of purchasing the Museum's land and building in Mountain View, California and some renovation costs of the facility. The Bonds bear interest at variable rates. Currently, the interest rate is based on a weekly rate. There are provisions to allow the rate to be changed to a term or fixed rate. The interest rate at June 30, 2010 was 0.29% and during the year then ended the rate ranged from a high of 0.30% and a low of 0.10%.

Payment of the principal and interest on the bonds is supported by an irrevocable, direct-pay letter of credit issued by the Bank of New York which expired October 8, 2010 and has been extended to December 8, 2010. The Museum, under the letter of credit agreement, has executed a deed of trust with assignments of rents and fixture filing dated as of October 2002.

Covenants under the agreements include, among other things, to provide audited financial statements to Bank of New York within 120 days after the end of its fiscal year, maintain a liquidity balance of at least 50% of the principal amount of the Bonds and maintain a coverage requirement of at least 1.2 times the annual debt service on the Bonds for the fiscal year. The Museum was in compliance with all covenants contained in the bond agreements as of June 30, 2010.

The $25,000 bond principal has been reduced, by early payments of $18,000, to $7,000. Due to these early payments, principal payments are not required until 2028.

Interest expense for the year ended June 30, 2010 and 2009 was $14 and $93, respectively.

Note 9 - Temporarily Restricted Net Assets:

Temporarily restricted net assets, which include unconditional promises to give, are restricted for the following purposes at June 30:

	2010	2009
Facility and exhibit costs	$ 7,466	$ 1,757
Quasi endowment purposes	8	8
Future year's operating costs	203	520
	$ 7,677	$ 2,285

Net assets restricted by donors were released during the years ending June 30, 2010 and 2009 by satisfying the purpose of the restriction or by the passage of time as follows:

	2010	2009
Facility and exhibit costs	$ 2,619	$ 647
Quasi endowment purposes	-	113
Expiration of time restrictions:		
Special events	536	30
Programs	170	385
Pledges	335	343
	$ 3,660	$ 1,518

During 2010, a donor released their restriction on $4,000 of prior year contributions from a permanent restriction (endowment) to a temporary restriction to be used for the Revolution exhibit. As a condition of the release, the Board transferred $4,000 of quasi-endowed funds to permanent endowment (see Note 11).

Note 10 - Permanently Restricted Net Assets:

Permanently restricted net assets are comprised of funds specified by the donor for endowment purposes. Earnings from such funds are available for unrestricted purposes. Also included in permanently restricted net assets are unconditional promises to give in the amount of $0 and $3,800 for the year ended June 30, 2010 and 2009, respectively.

Note 11 Endowment:

The Museum's endowment consists of four individual funds established to support the operations of the Museum. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Museum has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) for donor-restricted endowment funds as requiring the preservation of the fair value of the original gift as of the gift date unless there are explicit donor stipulations to the contrary.

As a result of this interpretation, the Museum classifies as permanently restricted net assets

(a) the original value of gifts donated to the permanent endowment,

(b) the original value of subsequent gifts to the permanent endowment, and

(c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the Museum and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the organization

(7) The investment policies of the Museum.

Endowment net asset composition by type of fund as of June 30, 2010 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor Restricted	$ (1,255)		$ 14,003	$ 12,748
Board Designated	12,600	$ 8		12,608
Total Funds	$ 11,345	$ 8	$ 14,003	$ 25,356

Changes in endowment net assets for the year ended June 30, 2010 are as follow:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2009	$ 14,022	$ 8	$ 13,803	$ 27,833
Investment return:				
Interest and dividends	216	152		368
Net gain on investments	1,1,40	815		1,955
Total investment return	1,356	967		2,323
Contributions			200	200
Transfer of board designated to permanent endowment to satisfy donor agreement	(4,000)		4,000	-
Donor restriction revised			(4,000)	(4,000)
Appropriation of endowment assets for expenditure	(1,000)			(1,000)
Change in endowments below contributed value	967	(967)		-
Endowment net assets as of June 30, 2010	$ 11,345	$ 8	$ 14,003	$ 25,356

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Museum to retain as a fund of perpetual duration. In accordance with U.S. GAAP, there were $1,255 of deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2010. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for operations that was deemed prudent by the Board of Trustees.

Return Objectives and Risk Parameters

The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to Museum Operations that is partly supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the amount appropriated for Operations by the rate of inflation while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targets a diversified asset allocation that places a greater emphasis on equity-based to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Museum has a policy of appropriating for distribution each year an amount calculated by using a specified formula. Over the long term this formula is expected to provide an average of a 4% draw to support Museum operations while keeping the increase/(decrease) year over year minimal to help provide the predictable level of funding needed. The effect of this draw calculation is to slowly increase the support to Operations when the Endowment is growing and slowly reduce the support if the Endowment value falls. In establishing this policy, the Museum considered the long-term expected return on its endowment. Accordingly, over the long term, the Museum expects the current spending policy to allow its endowment to grow at least the rate of inflation. This is consistent with the Museum's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 12 - Employee Benefit Plan:

The Museum maintains a 403(b) plan for eligible employees. All employees are eligible to participate. The Museum may make contributions at the discretion of the Board of Trustees. The Museum paid $30 in employer contributions for the fiscal year ending June 30, 2010.

Note 13 - Concentrations of Risk:

The Museum has defined its financial instruments which are potentially subject to credit and market risk as cash, receivables and investments. At June 30, 2010 and 2009, the Museum had balances in financial institutions in excess of federally insured limits. Receivables are due from various individuals, including Board members, and have been recorded based on their estimated future cash flows. Investments are held at various financial institutions.

As is typical in many not-for-profit organizations, Board members are a significant source of contributions and pledges to the Museum. Approximately 50% of total unconditional promises to give at June 30, 2010 relate to Board member pledges. The balance is comprised of pledges from 5 non-Board donors. Total unconditional promises to give at June 30, 2009 were comprised of approximately 78% related to Board members, with the balance attributable to 5 non-Board donors.

Approximately 25% of contributions and pledges revenue for the year ended June 30, 2010 was attributable to 32 Board members.

Approximately 33% of contributions and pledges revenue for the year ended June 30, 2009 was attributable to 28 Board members.

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APPENDIX C

FINANCIAL REPORTS OF THE CONFIRMING CREDIT PROVIDER

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Federal Home Loan Bank of San Francisco
Statements of Condition

(In millions-except par value)	December 31, 2009	December 31, 2008
Assets		
Cash and due from banks	$ 8,280	$ 19,632
Federal funds sold	8,164	9,431
Trading securities[a]	31	35
Available-for-sale securities[b]	1,931	—
Held-to-maturity securities (fair values were $35,682 and $44,270, respectively)[c]	36,880	51,205
Advances (includes $21,616 and $38,573 at fair value under the fair value option, respectively)	133,559	235,664
Mortgage loans held for portfolio, net of allowance for credit losses on mortgage loans of $2 and $1, respectively	3,037	3,712
Accrued interest receivable	355	865
Premises and equipment, net	21	20
Derivative assets	452	467
Receivable from REFCORP	—	51
Other assets	152	162
Total Assets	$192,862	$321,244
Liabilities and Capital		
Liabilities:		
Deposits:		
Interest-bearing:		
Demand and overnight	$ 192	$ 491
Term	29	103
Other	1	8
Non-interest-bearing – Other	2	2
Total deposits	224	604
Consolidated obligations, net:		
Bonds (includes $37,022 and $30,286 at fair value under the fair value option, respectively)	162,053	213,114
Discount notes	18,246	91,819
Total consolidated obligations, net	180,299	304,933
Mandatorily redeemable capital stock	4,843	3,747
Accrued interest payable	754	1,451
Affordable Housing Program	186	180
Payable to REFCORP	25	—
Derivative liabilities	205	437
Other liabilities	96	107
Total Liabilities	186,632	311,459
Commitments and Contingencies (Note 18)		
Capital:		
Capital stock – Class B – Putable ($100 par value) issued and outstanding:		
86 shares and 96 shares, respectively	8,575	9,616
Restricted retained earnings	1,239	176
Accumulated other comprehensive loss	(3,584)	(7)
Total Capital	6,230	9,785
Total Liabilities and Capital	$192,862	$321,244

(a) At December 31, 2009, and at December 31, 2008, none of these securities were pledged as collateral that may be repledged.
(b) At December 31, 2009, none of these securities were pledged as collateral that may be repledged.
(c) Includes $40 at December 31, 2009, and $307 at December 31, 2008, pledged as collateral that may be repledged.

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

Federal Home Loan Bank of San Francisco
Statements of Income

(In millions)	For the years ended December 31, 2009	2008	2007
Interest Income:			
Advances	$ 2,800	$ 8,182	$10,719
Securities purchased under agreements to resell	—	—	13
Federal funds sold	23	318	660
Trading securities	1	2	4
Held-to-maturity securities	1,480	2,315	2,160
Mortgage loans held for portfolio	157	200	215
Total Interest Income	4,461	11,017	13,771
Interest Expense:			
Consolidated obligations:			
Bonds	2,199	7,282	10,772
Discount notes	472	2,266	2,038
Deposits	1	24	22
Other borrowings	—	—	1
Mandatorily redeemable capital stock	7	14	7
Total Interest Expense	2,679	9,586	12,840
Net Interest Income	1,782	1,431	931
Provision for credit losses on mortgage loans	1	—	—
Net Interest Income After Mortgage Loan Loss Provision	1,781	1,431	931
Other (Loss)/Income:			
Services to members	1	1	1
Net gain/(loss) on trading securities	1	(1)	—
Total other-than-temporary impairment loss on held-to-maturity securities	(4,121)	(590)	—
Portion of impairment loss recognized in other comprehensive income	3,513	—	—
Net other-than-temporary impairment loss on held-to-maturity securities	(608)	(590)	—
Net (loss)/gain on advances and consolidated obligation bonds held at fair value	(471)	890	—
Net gain/(loss) on derivatives and hedging activities	122	(1,008)	52
Other	7	18	2
Total Other (Loss)/Income	(948)	(690)	55
Other Expense:			
Compensation and benefits	60	53	48
Other operating expense	51	42	36
Federal Housing Finance Agency/Federal Housing Finance Board	11	10	8
Office of Finance	6	7	6
Other	4	—	—
Total Other Expense	132	112	98
Income Before Assessments	701	629	888
REFCORP	128	115	163
Affordable Housing Program	58	53	73
Total Assessments	186	168	236
Net Income	$ 515	$ 461	$ 652

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

Federal Home Loan Bank of San Francisco
Statements of Capital Accounts

(In millions)	Capital Stock Class B-Putable Shares	Capital Stock Class B-Putable Par Value	Retained Earnings Restricted	Retained Earnings Unrestricted	Retained Earnings Total	Accumulated Other Comprehensive Income/(Loss)	Total Capital
Balance, December 31, 2006	106	$10,616	$ 143	$ —	$ 143	$ (5)	$10,754
Issuance of capital stock	53	5,342					5,342
Repurchase of capital stock	(30)	(2,975)					(2,975)
Capital stock reclassified to mandatorily redeemable capital stock	(1)	(148)					(148)
Comprehensive income:							
Net income				652	652		652
Other comprehensive income:							
Pension and postretirement benefits						2	2
Total comprehensive income							654
Transfers to restricted retained earnings			84	(84)	—		—
Dividends on capital stock (5.20%)							
Stock issued	6	568	—	(568)	(568)		—
Balance, December 31, 2007	134	$13,403	$ 227	$ —	$ 227	$ (3)	$13,627
Adjustments to opening balance[a]				16	16		16
Issuance of capital stock	17	1,720					1,720
Repurchase of capital stock	(21)	(2,134)					(2,134)
Capital stock reclassified to mandatorily redeemable capital stock	(39)	(3,901)					(3,901)
Comprehensive income:							
Net income				461	461		461
Other comprehensive income:							
Net amounts recognized as earnings						1	1
Additional minimum liability on benefit plans						(5)	(5)
Total comprehensive income							457
Transfers from restricted retained earnings			(51)	51	—		—
Dividends on capital stock (3.93%)							
Stock issued	5	528	—	(528)	(528)		—
Balance, December 31, 2008	96	$ 9,616	$ 176	$ —	$ 176	$ (7)	$ 9,785
Adjustments to opening balance[b]				570	570	(570)	—
Issuance of capital stock	1	71					71
Capital stock reclassified to mandatorily redeemable capital stock, net	(11)	(1,112)					(1,112)
Comprehensive income/(loss):							
Net income				515	515		515
Other comprehensive income/(loss):							
Additional minimum liability on benefit plans						(1)	(1)
Net change in available-for-sale valuation						(1)	(1)
Other-than-temporary impairment loss related to all other factors						(4,034)	(4,034)
Reclassified to income for previously impaired securities						521	521
Accretion of impairment loss						508	508
Total other-than-temporary impairment loss related to all other factors						(3,005)	(3,005)
Total comprehensive income/(loss)							(2,492)
Transfers to restricted retained earnings			1,063	(1,063)	—		—
Dividends on capital stock (0.28%)							
Cash dividends paid			—	(22)	(22)		(22)
Balance, December 31, 2009	86	$ 8,575	$1,239	$ —	$1,239	$(3,584)	$ 6,230

(a) Adjustments to the opening balance consist of the effects of adopting the fair value option for financial assets and financial liabilities, and changing the measurement date of the Bank's pension and postretirement plans from September 30 to December 31, in accordance with the accounting for employers' defined benefit pension and other postretirement plans. For more information, see Note 2 to the Financial Statements in the Bank's 2008 Form 10-K.

(b) Adjustments to the opening balance consist of the effects of adopting guidance related to the recognition and presentation of other-than-temporary impairments. For more information, see Note 2 to the Financial Statements.

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

Federal Home Loan Bank of San Francisco
Statements of Cash Flows

(In millions)	For the years ended December 31, 2009	2008	2007
Cash Flows from Operating Activities:			
Net Income	$ 515	$ 461	$ 652
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	(321)	(279)	521
Provision for credit losses on mortgage loans	1	—	—
Non-cash interest on mandatorily redeemable capital stock	—	14	7
Change in net fair value adjustment on trading securities	(1)	1	—
Change in net fair value adjustment on advances and consolidated obligation bonds held at fair value	471	(890)	—
Change in net fair value adjustment on derivatives and hedging activities	(599)	753	(429)
Net other-than-temporary impairment loss on held-to-maturity securities	608	590	—
Other adjustments	—	(13)	—
Net change in:			
Accrued interest receivable	583	565	(512)
Other assets	10	(48)	(18)
Accrued interest payable	(699)	(954)	154
Other liabilities	70	(76)	55
Total adjustments	123	(337)	(222)
Net cash provided by operating activities	638	124	430
Cash Flows from Investing Activities:			
Net change in:			
Securities purchased under agreements to resell	—	—	200
Federal funds sold	1,267	2,249	3,763
Deposits for mortgage loan program with other Federal Home Loan Banks	—	—	1
Premises and equipment	(9)	(10)	(8)
Trading securities:			
Proceeds from maturities	6	22	19
Available-for-sale securities:			
Purchases	(1,931)	—	—
Held-to-maturity securities:			
Net decrease/(increase) in short-term	3,744	6,988	(6,300)
Proceeds from maturities of long-term	7,659	5,827	5,430
Purchases of long-term	(717)	(12,105)	(12,277)
Advances:			
Principal collected	963,054	1,486,351	1,910,806
Made to members	(862,499)	(1,468,936)	(1,977,387)
Mortgage loans held for portfolio:			
Principal collected	666	427	498
Net cash provided by/(used in) investing activities	111,240	20,813	(75,255)

Federal Home Loan Bank of San Francisco
Statements of Cash Flows (continued)

(In millions)	For the years ended December 31, 2009	2008	2007
Cash Flows from Financing Activities:			
Net change in:			
Deposits	(980)	1,840	218
Borrowings from other Federal Home Loan Banks	—	(955)	955
Other borrowings	—	(100)	100
Net payments on derivative contracts with financing elements	109	(131)	—
Net proceeds from consolidated obligations:			
Bonds issued	87,201	114,692	110,375
Discount notes issued	143,823	755,490	303,381
Bonds transferred from other Federal Home Loan Banks	—	164	732
Payments for consolidated obligations:			
Bonds matured or retired	(136,330)	(129,707)	(87,636)
Discount notes matured or retired	(217,086)	(741,792)	(255,637)
Proceeds from issuance of capital stock	71	1,720	5,342
Payments for repurchase/redemption of mandatorily redeemable capital stock	(16)	(397)	(32)
Payments for repurchase of capital stock	—	(2,134)	(2,975)
Cash dividends paid	(22)	—	—
Net cash (used in)/provided by financing activities	(123,230)	(1,310)	74,823
Net (decrease)/increase in cash and cash equivalents	(11,352)	19,627	(2)
Cash and cash equivalents at beginning of year	19,632	5	7
Cash and cash equivalents at end of year	$ 8,280	$ 19,632	$ 5
Supplemental Disclosures:			
Interest paid during the year	$ 4,048	$ 11,857	$ 12,730
Affordable Housing Program payments during the year	52	48	45
REFCORP payments during the year	52	224	144
Transfers of mortgage loans to real estate owned	4	2	2
Non-cash dividends on capital stock	—	528	568

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

(Dollars in millions except per share amounts)

Background Information

The Federal Home Loan Bank of San Francisco (Bank), a federally chartered corporation exempt from ordinary federal, state, and local taxation except real property taxes, is one of 12 District Federal Home Loan Banks (FHLBanks). The FHLBanks serve the public by enhancing the availability of credit for residential mortgages and targeted community development by providing a readily available, competitively priced source of funds to their member institutions. Each FHLBank is operated as a separate entity with its own management, employees, and board of directors. The Bank does not have any special purpose entities or any other type of off-balance sheet conduits. The Bank has a cooperative ownership structure. Current members own most of the outstanding capital stock of the Bank. Former members and certain nonmembers own the remaining capital stock, which generally supports business transactions still reflected on the Bank's Statements of Condition. All shareholders may receive dividends on their capital stock, to the extent declared by the Bank's Board of Directors. Regulated financial depositories and insurance companies engaged in residential housing finance and community financial institutions, with principal places of business located in Arizona, California and Nevada, are eligible to apply for membership. Under the Federal Home Loan Bank Act of 1932, as amended (FHLBank Act), community financial institutions are defined as depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) with average total assets over the preceding three-year period of $1,000 or less, as adjusted for inflation annually by the Federal Housing Finance Agency (Finance Agency). Effective January 1, 2010, the cap is $1,029. All members are required to purchase stock in the Bank. State and local housing authorities that meet certain statutory criteria may also borrow from the Bank; while eligible to borrow, these housing authorities are not members of the Bank, and, as such, are not required to hold capital stock.

The Bank conducts business with members in the normal course of business. See Note 19 to the Financial Statements for more information.

The Federal Housing Finance Board (Finance Board), an independent federal agency in the executive branch of the United States government, supervised and regulated the FHLBanks and the FHLBanks Office of Finance through July 29, 2008. With the passage of the Housing Act, the Finance Agency was established and became the new independent federal regulator of the FHLBanks, Fannie Mae, and Freddie Mac, effective July 30, 2008. The Finance Board was merged into the Finance Agency as of October 27, 2008. The Office of Finance is a joint office of the FHLBanks established by the Finance Board to facilitate the issuance and servicing of the debt instruments (consolidated obligations) of the FHLBanks and to prepare the combined quarterly and annual financial reports of the FHLBanks. With respect to the FHLBanks, the Finance Agency's principal purpose is to ensure that the FHLBanks operate in a financially safe and sound manner and maintain adequate capital and internal controls. In addition, the Finance Agency ensures that the operations and activities of each FHLBank foster liquid, efficient, competitive, and resilient national housing finance markets; each FHLBank complies with the title and the rules, regulations, guidelines, and orders issued under the Housing Act and the authorizing statutes; each FHLBank carries out its statutory mission only through activities that are authorized under and consistent with the Housing Act and the authorizing statutes; and the activities of each FHLBank and the manner in which each FHLBank is operated are consistent with the public interest. The Finance Agency also establishes policies and regulations governing the operations of the FHLBanks.

The primary source of funds for the FHLBanks is the proceeds from the sale to the public of the FHLBanks' consolidated obligations through the Office of Finance using authorized securities dealers. As provided by the FHLBank Act, or regulations governing the operations of the FHLBanks, all the FHLBanks have joint and several liability for all FHLBank consolidated obligations. Other funds are provided by deposits, other borrowings, and the issuance of capital stock to members. The Bank primarily uses these funds to provide advances to members. References throughout these notes to regulations of the Finance Agency also include the regulations of the Finance Board where they remain applicable.

Note 1 – Summary of Significant Accounting Policies

Use of Estimates. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make a number of judgments, estimates, and assumptions that affect the amounts of reported assets and liabilities, the disclosure of contingent assets and liabilities, if applicable, and the reported amounts of income, expenses, gains, and losses during the reporting period. The most significant of these estimates include the fair value of derivatives, investments classified as other-than-temporarily impaired, certain advances, certain investment securities, and certain consolidated obligations that are reported at fair value in the Statements of Condition. Changes in judgments, estimates, and assumptions could potentially affect the Bank's financial position and results of operations significantly. Although management believes these judgments, estimates, and assumptions to be reasonable, actual results may differ.

Federal Funds Sold. These investments provide short-term liquidity and are carried at cost.

Investment Securities. The Bank classifies investments as trading, available-for-sale, or held-to-maturity at the date of acquisition. Purchases and sales of securities are recorded on a trade date basis.

The Bank classifies certain investments as trading. These securities are designated by management as trading for the purpose of meeting contingency short-term liquidity needs or other purposes. The Bank carries these investments at fair value and records changes in the fair value of these investments in other income. However, the Bank does not participate in speculative trading practices and holds these investments indefinitely as management periodically evaluates the Bank's liquidity needs.

The Bank classifies certain securities as available-for-sale and carries these securities at their fair value. Unrealized gains and losses on these securities are recognized in other comprehensive income.

Held-to-maturity securities are carried at cost, adjusted for the amortization of premiums and the accretion of discounts, if applicable, using the level-yield method. The Bank classifies these investments as held-to-maturity securities because the Bank has the positive intent and ability to hold these securities until maturity.

Certain changes in circumstances may cause the Bank to change its intent to hold a certain security to maturity without calling into question its intent to hold other debt securities to maturity in the future. Thus, the sale or transfer of a held-to-maturity security because of certain changes in circumstances, such as evidence of significant deterioration in the issuer's creditworthiness or changes in regulatory requirements, is not considered to be inconsistent with its original classification. Other events that are isolated, nonrecurring, and unusual for the Bank that could not have been reasonably anticipated may cause the Bank to sell or transfer a held-to-maturity security without necessarily calling into question its intent to hold other debt securities to maturity. In addition, sales of debt securities that meet either of the following two conditions may be considered as maturities for purposes of the classification of securities: (i) the sale occurs near enough to its maturity date (or call date if exercise of the call is probable) that interest rate risk is substantially eliminated as a pricing factor and changes in market interest rates would not have a significant effect on the security's fair value, or (ii) the sale occurs after the Bank has already collected a substantial portion (at least 85%) of the principal outstanding at acquisition because of prepayments on the debt security or scheduled payments on a debt security payable in equal installments (both principal and interest) over its term.

The Bank computes the amortization and accretion of premiums and discounts on investments using the level-yield method on a retrospective basis over the estimated life of the securities. This method requires a retrospective adjustment of the effective yield each time the Bank changes the estimated life as if the new estimate had been known since the original acquisition date of the securities. The Bank uses nationally recognized, market-based, third-party prepayment models to project estimated lives.

On a quarterly basis, the Bank evaluates its individual available-for-sale and held-to-maturity investment securities in an unrealized loss position for other-than-temporary impairment (OTTI). For impaired debt securities, an entity is required to assess whether (i) it has the intent to sell the debt security, or (ii) it is more likely than not that it will be required to sell the debt security before its anticipated recovery of the remaining amortized cost basis of the security. If either of these conditions is met, an OTTI on the security must be recognized.

With respect to any debt security, a credit loss is defined as the amount by which the amortized cost basis exceeds the present value of the cash flows expected to be collected. If a credit loss exists but the entity does not intend to sell the debt security and it is not more likely than not that the entity will be required to sell the debt security before the anticipated recovery of its remaining amortized cost basis (that is, the amortized cost basis less any current-period credit loss), the guidance changes the presentation and amount of the OTTI recognized in the statements of income. The impairment is separated into (i) the amount of the total OTTI related to credit loss, and (ii) the amount of the total OTTI related to all other factors. The amount of the total OTTI related to credit loss is recognized in earnings. The amount of the total OTTI related to all other factors is recognized in other comprehensive income and is accreted prospectively, based on the amount and timing of future estimated cash flows, over the remaining life of the debt security as an increase in the carrying value of the security, with no effect on earnings unless the security is subsequently sold or there are additional decreases in the cash flows expected to be collected. The total OTTI is presented in the statements of income with an offset for the amount of the total OTTI that is recognized in other comprehensive income. This new presentation provides additional information about the amounts that the entity does not expect to collect related to a debt security.

For certain other-than-temporarily impaired securities that were previously impaired and subsequently incur additional OTTI related to credit loss, the additional credit-related OTTI, up to the amount in accumulated other comprehensive income (AOCI), will be reclassified out of non-credit-related OTTI in AOCI and charged to earnings.

For securities previously identified as other-than-temporarily impaired, the Bank updates its estimate of future estimated cash flows on a regular basis. If there is no additional impairment on the security, the yield of the security is adjusted on a prospective basis when there is a significant increase in the expected cash flows. This accretion is included in net interest income in the Statements of Income.

Advances. The Bank reports advances (loans to members) net of premiums and discounts and presents advances under the Affordable Housing Program (AHP) net of discounts. The Bank amortizes the premiums and accretes the discounts on advances to interest income using the level-yield method. Interest on advances is credited to income as earned. For advances carried at fair value, the Bank recognizes contractual interest in interest income.

Following the requirements of the FHLBank Act, the Bank obtains sufficient collateral for advances to protect the Bank from credit losses. Under the FHLBank Act, collateral eligible to secure advances includes certain investment securities, residential mortgage loans, cash or deposits with the Bank, and other eligible real estate-related assets. As more fully discussed in Note 7, the Bank may also accept secured small business, small farm, and small agribusiness loans, and securities representing a whole interest in such secured loans, as collateral from members that are community financial institutions. The Bank has never experienced any credit losses on advances. The Bank evaluates the creditworthiness of its members and nonmember borrowers on an ongoing basis and classifies as impaired any advance with respect to which management believes it is probable that all principal and interest due will not be collected according to its contractual terms. Impaired advances are valued using the present value of expected future cash flows discounted at the advance's effective interest rate, the advance's observable market price or, if collateral dependent, the fair value of the advance's underlying collateral. When an advance is classified as impaired, the accrual of interest is discontinued and unpaid accrued interest is reversed. Advances do not return to accrual status until they are brought current with respect to both principal and interest and until management believes future principal payments are no longer in doubt. No advances were classified as impaired during the periods presented. Based on the collateral pledged as security for advances, the Bank's credit analyses of members' financial condition, and the Bank's credit extension and collateral policies, no allowance for losses on advances is deemed necessary by management.

Prepayment Fees. When a member prepays certain advances prior to original maturity, the Bank may charge the member a prepayment fee. For certain advances with partial prepayment symmetry, the Bank may charge the member a prepayment fee or pay the member a prepayment credit, depending on certain circumstances, such as movements in interest rates, when the advance is prepaid.

For prepaid advances that are hedged and meet the hedge accounting requirements, the Bank terminates the hedging relationship upon prepayment and records the associated fair value gains and losses, adjusted for the prepayment fees, in interest income. If the Bank funds a new advance to a member concurrent with or within a short period of time after the prepayment of a hedged advance to that member, the Bank determines whether the new advance represents a modification of the original hedged advance or whether the prepayment represents an extinguishment of the original hedged advance. If the new advance represents a modification of the original hedged advance, the fair value gains or losses on the advance and the prepayment fees are included in the carrying amount of the modified advance, and gains or losses and prepayment fees are amortized in interest income over the life of the modified advance using the level-yield method. If the modified advance is also hedged and the hedge meets the hedge accounting requirements, the modified advance is marked to fair value after the modification, and subsequent fair value changes are recorded in other income. If the prepayment represents an extinguishment of the original hedged advance, the prepayment fee and any fair value gain or loss are immediately recognized in interest income.

For prepaid advances that are not hedged or that are hedged but do not meet the hedge accounting requirements, the Bank records prepayment fees in interest income unless the Bank determines that the new advance represents a modification of the original advance. If the new advance represents a modification of the original advance, the prepayment fee on the original advance is deferred, recorded in the basis of the modified advance, and amortized over the life of the modified advance using the level-yield method. This amortization is recorded in interest income.

Mortgage Loans Held in Portfolio. Under the Mortgage Partnership Finance® (MPF®) Program, the Bank purchased conventional conforming fixed rate residential mortgage loans from its participating members. ("Mortgage Partnership Finance" and "MPF" are registered trademarks of the Federal Home Loan Bank of Chicago.) Participating members originated or purchased the mortgage loans, credit-enhanced them and sold them to the Bank, and generally retained the servicing of the loans. The Bank manages the interest rate

risk, prepayment risk, and liquidity risk of each loan in its portfolio. The Bank and the participating institution (either the original participating member that sold the loans to the Bank or a successor to that member) share in the credit risk of the loans, with the Bank assuming the first loss obligation limited by the First Loss Account (FLA), and the participating institution assuming credit losses in excess of the FLA, up to the amount of the credit enhancement obligation specified in the master agreement. The amount of the credit enhancement was originally calculated so that any Bank credit losses (excluding special hazard losses) in excess of the FLA were limited to those that would be expected from an equivalent investment with a long-term credit rating of AA.

For taking on the credit enhancement obligation, the Bank pays the participating institution a credit enhancement fee, which is calculated on the remaining unpaid principal balance of the mortgage loans. Depending on the specific MPF product, all or a portion of the credit enhancement fee is paid monthly beginning with the month after each delivery of loans. The MPF Plus product also provides for a performance credit enhancement fee, which accrues monthly, beginning with the month after each delivery of loans, and is paid to the participating institution beginning 12 months later. The performance credit enhancement fee will be reduced by an amount equivalent to loan losses up to the amount of the FLA established for each Master Commitment. The participating institutions obtained supplemental mortgage insurance (SMI) to cover their credit enhancement obligations under this product. If the SMI provider's claims-paying ability rating falls below a specified level, the participating institution has six months to either replace the SMI policy or assume the credit enhancement obligation and fully collateralize the obligation; otherwise the Bank may choose not to pay the participating institution its performance-based credit enhancement fee.

The Bank classifies mortgage loans as held for investment and, accordingly, reports them at their principal amount outstanding net of unamortized premiums, discounts, and unrealized gains and losses from loans initially classified as mortgage loan commitments. The Bank defers and amortizes these amounts as interest income using the level-yield method on a retrospective basis over the estimated life of the related mortgage loan. Actual prepayment experience and estimates of future principal prepayments are used in calculating the estimated life of the mortgage loans. The Bank aggregates the mortgage loans by similar characteristics (type, maturity, note rate, and acquisition date) in determining prepayment estimates. A retrospective adjustment is required each time the Bank changes the estimated amounts as if the new estimate had been known since the original acquisition date of the assets. The Bank uses nationally recognized, market-based, third-party prepayment models to project estimated lives.

The Bank records credit enhancement fees as a reduction to interest income and recorded delivery commitment extension fees and pair-off fees in other income. Delivery commitment extension fees were charged to a participating institution for extending the scheduled delivery period of the loans. Pair-off fees were assessed when the principal amount of the loans funded under a delivery commitment was less than a specified percentage of the contractual amount.

The Bank places a mortgage loan on nonaccrual status when the collection of the contractual principal or interest from the participating institution is reported 90 days or more past due. When a mortgage loan is placed on nonaccrual status, accrued but uncollected interest is reversed against interest income. The Bank records cash payments received on nonaccrual loans first as interest income and then as a reduction of principal as specified in the contractual agreement, unless the collection of the remaining principal amount due is considered doubtful.

Allowance for Credit Losses on Mortgage Loans. The Bank bases the allowance for credit losses on mortgage loans on management's estimate of probable credit losses in the Bank's mortgage loan portfolio as of the date of the Statements of Condition. The Bank performs periodic reviews of its portfolio to identify the probable losses in the portfolio and to determine the likelihood of collection of the portfolio. The overall allowance is determined by an analysis that includes delinquency statistics, past performance, current performance, loan portfolio characteristics, collateral valuations, industry data, collectability of credit enhancements from members or from mortgage insurers, and prevailing economic conditions, taking into account the credit enhancement.

Other Fees. Letter of credit fees are recorded as other income over the term of the letter of credit.

Derivatives. All derivatives are recognized on the Statements of Condition at their fair value. The Bank has elected to report derivative assets and derivative liabilities net of cash collateral and accrued interest from counterparties.

Each derivative is designated as one of the following:

(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);

(3) a non-qualifying hedge of an asset or liability for asset-liability management purposes (an economic hedge); or

(4) a non-qualifying hedge of another derivative that is offered as a product to members or used to offset other derivatives with nonmember counterparties (an intermediation hedge).

Changes in the fair value of a derivative that qualifies as a fair value hedge and is designated as a fair value hedge, along with changes in the fair value of the hedged asset or liability (hedged item) that are attributable to the hedged risk (including changes that reflect losses or gains on firm commitments), are recorded in other income as "Net gain/ (loss) on derivatives and hedging activities."

Changes in the fair value of a derivative that qualifies as a cash flow hedge and is designated as a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, a component of capital, until earnings are affected by the variability of the cash flows of the hedged transaction (until the periodic recognition of interest on a variable rate asset or liability is recorded in earnings).

For both fair value and cash flow hedges, any hedge ineffectiveness (which represents the amount by which the change in the fair value of the derivative differs from the change in the fair value of the hedged item or the variability in the cash flows of the forecasted transaction) is recorded in other income as "Net gain/(loss) on derivatives and hedging activities."

Changes in the fair value of a derivative designated as an economic hedge or an intermediation hedge are recorded in current period earnings with no fair value adjustment to an asset or liability. An economic hedge is defined as a derivative hedging specific or non-specific underlying assets, liabilities, or firm commitments that does not qualify or was not designated for hedge accounting, but is an acceptable hedging strategy under the Bank's risk management program. These economic hedging strategies also comply with Finance Agency regulatory requirements prohibiting speculative hedge transactions. An economic hedge by definition introduces the potential for earnings variability caused by the changes in fair value of the derivatives that are recorded in the Bank's income but that are not offset by corresponding changes in the value of the economically hedged assets, liabilities, or firm commitments. The derivatives used in intermediary activities do not qualify for hedge accounting treatment 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 Bank. Changes in the fair value of these non-qualifying hedges are recorded in other income as "Net gain/(loss) on derivatives and hedging activities." In addition, the interest income and interest expense associated with these non-qualifying hedges are recorded in other income as "Net gain/(loss) on derivatives and hedging activities." Cash flows associated with these stand-alone derivatives are reflected as cash flows from operating activities in the Statements of Cash Flows unless the derivative meets the criteria to be designated as a financing derivative.

The differences between accruals of interest receivables and payables on derivatives designated as fair value or cash flow hedges are recognized as adjustments to the interest income or interest expense of the designated underlying investment securities, advances, consolidated obligations, or other financial instruments. The differences between accruals of interest receivables and payables on intermediated derivatives for members and other economic hedges are recognized as other income as "Net gain/(loss) on derivatives and hedging activities."

The Bank may be the primary obligor on consolidated obligations and may make advances in which derivative instruments are embedded. Upon execution of these transactions, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the advance or debt (the host contract) and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (i) the embedded derivative has economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (ii) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and designated as a stand-alone derivative instrument equivalent to an economic hedge. However, if the entire contract (the host contract and the embedded derivative) is to be measured at fair value, with changes in fair value reported in current period earnings (such as an investment security classified as trading, as well as hybrid financial instruments), or if the Bank cannot reliably identify and measure the embedded derivative for purposes of separating the derivative from its host contract, the entire contract is carried on the balance sheet at fair value and no portion of the contract is designated as a hedging instrument.

If hedging relationships meet certain criteria, including but not limited to formal documentation of the hedging relationship and an expectation to be hedge effective, they are eligible for hedge accounting, and the offsetting changes in fair value of the hedged items may be recorded in earnings. The application of hedge accounting generally requires the Bank to evaluate the effectiveness of the

hedging relationships at inception and on an ongoing basis and to calculate the changes in fair value of the derivatives and the related hedged items independently. This is known as the "long-haul" method of hedge accounting. Transactions that meet more stringent criteria qualify for the "short-cut" method of hedge accounting, in which an assumption can be made that the change in the fair value of a hedged item exactly offsets the change in the value of the related derivative.

Derivatives are typically executed at the same time as the hedged advances or consolidated obligations, and the Bank designates the hedged item in a qualifying hedge relationship as of the trade date. In many hedging relationships, the Bank may designate the hedging relationship upon its commitment to disburse an advance or trade a consolidated obligation in which settlement occurs within the shortest period of time possible for the type of instrument based on market settlement conventions. The Bank defines market settlement conventions for advances to be 5 business days or less and for consolidated obligations to be 30 calendar days or less, using a next business day convention. The Bank records the changes in the fair value of the derivatives and the hedged item beginning on the trade date. When the hedging relationship is designated on the trade date and the fair value of the derivative is zero on that date, the Bank meets a condition that allows the use of the short-cut method, provided that all the other criteria are also met. The Bank then records the changes in the fair value of the derivative and the hedged item beginning on the trade date.

When hedge accounting is discontinued because the Bank determines that a derivative no longer qualifies as an effective fair value hedge, the Bank continues to carry the derivative on the balance sheet at its fair value, ceases to adjust the hedged asset or liability for subsequent changes in fair value, and begins amortizing the cumulative basis adjustment on the hedged item into earnings using the level-yield method over the remaining contractual life or on a retrospective basis over the estimated life of the hedged item.

When hedge accounting is discontinued because the Bank determines that a derivative no longer qualifies as an effective cash flow hedge of an existing hedged item, the Bank continues to carry the derivative on the balance sheet at its fair value and begins amortizing the derivative's unrealized gain or loss recorded in AOCI to earnings when earnings are affected by the original forecasted transaction.

When the Bank discontinues cash flow hedge accounting because it is probable that the original forecasted transaction will not occur, the net gains and losses that were accumulated in other comprehensive income are recognized immediately in earnings. However, under limited circumstances, when the Bank discontinues cash flow hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period or within the following two months but it is probable the transaction will still occur in the future, the net gain or loss on the derivative remains in AOCI and is recognized as earnings when the forecasted transaction affects earnings.

When hedge accounting is discontinued because a hedged item no longer meets the definition of a firm commitment, the Bank continues to carry the derivative on the balance sheet at its fair value, removing from the balance sheet any asset or liability that was recorded to recognize the firm commitment and recording it as a gain or loss in current period earnings.

Mandatorily Redeemable Capital Stock. The Bank reclassifies the stock subject to redemption from capital to a liability after a member provides the Bank with a written notice of redemption; gives notice of intention to withdraw from membership; or attains nonmember status by merger or acquisition, charter termination, or other involuntary termination from membership; or after a receiver or other liquidating agent for a member transfers the member's Bank capital stock to a nonmember entity, resulting in the member's shares then meeting the definition of a mandatorily redeemable financial instrument. Shares meeting this definition are reclassified to a liability at fair value. Dividends declared on shares classified as a liability are accrued at the expected dividend rate and reflected as interest expense in the Statements of Income. The repayment of these mandatorily redeemable financial instruments (by repurchase or redemption of the shares) is reflected as a financing cash outflow in the Statements of Cash Flows once settled. See Note 13 to the Financial Statements for more information.

If a member cancels its written notice of redemption or notice of withdrawal or if the Bank allows the transfer of mandatorily redeemable capital stock to a member, the Bank reclassifies mandatorily redeemable capital stock from a liability to capital. After the reclassification, dividends on the capital stock are no longer classified as interest expense.

Premises and Equipment. The Bank records premises and equipment at cost less accumulated depreciation and amortization. The Bank's accumulated depreciation and amortization related to premises and equipment totaled $34 and $26 at December 31, 2009 and 2008, respectively. Depreciation is computed on the straight-line method over the estimated useful lives of assets ranging from 3 to 15 years, and leasehold improvements are amortized on 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; ordinary maintenance and repairs

are expensed as incurred. Depreciation and amortization expense was $8 for 2009, $5 for 2008, and $5 for 2007. The Bank includes gains and losses on disposal of premises and equipment in other income. The net realized gain on disposal of premises and equipment, primarily related to the 1999 sale of the Bank's building, was $1, $1, and $1, in 2009, 2008, and 2007, respectively.

Concessions on Consolidated Obligations. Concessions are paid to dealers in connection with the issuance of consolidated obligations for which the Bank is the primary obligor. The amount of the concession is allocated to the Bank by the Office of Finance based on the percentage of the debt issued for which the Bank is the primary obligor. Concessions paid on consolidated obligations designated under the fair value option are expensed as incurred. Concessions paid on consolidated obligations not designated under the fair value option are deferred and amortized to expense using the level-yield method over the remaining contractual life or on a retrospective basis over the estimated life of the consolidated obligations. Unamortized concessions were $39 and $55 at December 31, 2009 and 2008, respectively, and are included in "Other assets." Amortization of concessions is included in consolidated obligation interest expense and totaled $47, $54, and $29, in 2009, 2008, and 2007, respectively.

Discounts and Premiums on Consolidated Obligations. The discounts on consolidated obligation discount notes for which the Bank is the primary obligor are amortized to expense using the level-yield method over the term to maturity. The discounts and premiums on consolidated obligation bonds for which the Bank is the primary obligor are amortized to expense using the level-yield method over the remaining contractual life or on a retrospective basis over the estimated life of the consolidated obligation bonds.

Finance Agency/Finance Board Expenses. The FHLBanks funded the costs of operating the Finance Board and have funded a portion of the costs of operating the Finance Agency since its creation on July 30, 2008. The Finance Board allocated its operating and capital expenditures to the FHLBanks based on each FHLBank's percentage of total combined regulatory capital stock plus retained earnings through July 29, 2008. The Finance Agency's expenses and working capital fund are allocated among the FHLBanks based on the pro rata share of the annual assessments based on the ratio between each FHLBank's minimum required regulatory capital and the aggregate minimum required regulatory capital of every FHLBank. Each FHLBank must pay an amount equal to one-half of its annual assessment twice each year.

Office of Finance Expenses. Each FHLBank is assessed a proportionate share of the cost of operating the Office of Finance, which facilitates the issuance and servicing of consolidated obligations. The Office of Finance allocates its operating and capital expenditures based equally on each FHLBank's percentage of capital stock, percentage of consolidated obligations issued, and percentage of consolidated obligations outstanding.

Affordable Housing Program. As more fully discussed in Note 11, the FHLBank Act requires each FHLBank to establish and fund an Affordable Housing Program (AHP). The Bank charges the required funding for the AHP to earnings and establishes a liability. The AHP funds provide subsidies in the form of direct grants and below-market interest rate advances to members to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. AHP advances are made at interest rates below the customary interest rate for non-subsidized advances. When the Bank makes an AHP advance, the net present value of the difference in the cash flows attributable to the difference between the interest rate of the AHP advance and the Bank's related cost of funds for comparable maturity funding is charged against the AHP liability, recorded as a discount on the AHP advance, and amortized using the level-yield method over the remaining contractual life or on a retrospective basis over the estimated life of the AHP advance.

Resolution Funding Corporation Assessments. Although the FHLBanks are exempt from ordinary federal, state, and local taxation except real property taxes, they are required to make quarterly payments to the Resolution Funding Corporation (REFCORP) toward the interest on bonds issued by REFCORP. REFCORP was established by Congress in 1989 under 12 U.S.C. Section 1441b as a means of funding the Resolution Trust Corporation (RTC), a federal instrumentality established to provide funding for the resolution and disposition of insolvent savings institutions. Officers, employees, and agents of the Office of Finance are authorized to act for and on the behalf of REFCORP to carry out the functions of REFCORP. See Note 12 to the Financial Statements for more information.

Estimated Fair Values. Many of the Bank's financial instruments lack an available liquid trading market as characterized by frequent exchange transactions between a willing buyer and willing seller. Therefore, the Bank uses financial models employing significant assumptions and present value calculations for the purpose of determining estimated fair values. Thus, the fair values may not represent the actual values of the financial instruments that could have been realized as of yearend or that will be realized in the future.

Fair values for certain financial instruments are based on quoted prices, market rates, or replacement rates for similar financial instruments as of the last business day of the year. The estimated fair values of the Bank's financial instruments and related assumptions are detailed in Note 17.

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

Reclassifications. During 2008, on a retrospective basis, the Bank reclassified its investments in certain held-to-maturity negotiable certificates of deposit from "interest-bearing deposits" to "held-to-maturity securities" in its Statements of Condition, Statements of Income, and Statements of Cash Flows. These financial instruments have been reclassified as held-to-maturity securities based on their short-term nature and the Bank's history of holding them until maturity. This reclassification had no effect on the total assets, net interest income, or net income of the Bank. The effect of the reclassifications on the Bank's prior period financial statements is presented below:

	Before Reclassification	Reclassification	After Reclassification
Statements of Income			
Year ended December 31, 2007:			
Interest income: Interest-bearing deposits	$ 569	$ (569)	$ —
Interest income: Held-to-maturity securities	1,591	569	2,160
Statements of Cash Flows			
Year ended December 31, 2007:			
Investing Activities: Net change in interest-bearing deposits	(5,267)	5,267	—
Investing Activities: Held-to-maturity securities: Net increase in short-term	(1,033)	(5,267)	(6,300)

Note 2 – Recently Issued and Adopted Accounting Guidance

Embedded Credit Derivative Features. On March 5, 2010, the Financial Accounting Standards Board (FASB) issued amendments clarifying what constitutes the scope exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another. The embedded credit derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another is not subject to potential bifurcation and separate accounting as a derivative. The amendments clarify that the circumstances listed below (among others) are not subject to the scope exception. This means that certain embedded credit derivative features, including those in some collateralized debt obligations and synthetic collateralized debt obligations, will need to be assessed to determine whether bifurcation and separate accounting as a derivative are required.

- An embedded derivative feature relating to another type of risk (including another type of credit risk) is present in the securitized financial instruments.
- The holder of an interest in a tranche is exposed to the possibility (however remote) of being required to make potential future payments (not merely receive reduced cash inflows) because the possibility of those future payments is not created by subordination.
- The holder owns an interest in a single-tranche securitization vehicle; therefore, the subordination of one tranche to another is not relevant.

The amendments are effective for the Bank as of July 1, 2010. Upon adoption, entities are permitted to irrevocably elect the fair value option for any investment in a beneficial interest in a securitized financial asset. If the fair value option is elected at adoption, whether the investment had been recorded at amortized cost or at fair value with changes recorded in other comprehensive income, the cumulative unrealized gains and losses at that date are included in the cumulative-effect adjustment to beginning retained earnings for the period of adoption. If the fair value option is not elected and the embedded credit derivative feature is required to be bifurcated and accounted for separately, the initial effect of adoption is also recorded as a cumulative-effect adjustment to the beginning retained earnings for the period of adoption. The Bank is currently assessing the potential effect of the amendments on its financial condition, results of operations, or cash flows.

Fair Value Measurements and Disclosures – Improving Disclosures about Fair Value Measurements. On January 21, 2010, the FASB issued amended guidance for fair value measurement disclosures. The update requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. Furthermore, this update requires a reporting entity to present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs; clarifies existing fair value disclosures about the

level of disaggregation and about inputs and valuation techniques used to measure fair value; and amends guidance on employers' disclosures about postretirement benefit plan assets to require that disclosures be provided by classes of assets instead of by major categories of assets. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2009 (January 1, 2010 for the Bank), except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 (January 1, 2011 for the Bank), and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. Early adoption is permitted. The Bank's adoption of this amended guidance may result in increased annual and interim financial statement disclosures but will not impact the Bank's financial condition, results of operations, or cash flows.

Fair Value Measurements and Disclosures – Measuring Liabilities at Fair Value. On August 28, 2009, the FASB issued an amendment to existing fair value measurement guidance with respect to measuring liabilities in a hypothetical transaction (assuming the transfer of a liability to a third party), as currently required by U.S. GAAP. This guidance reaffirmed that fair value measurement of a liability assumes the transfer of a liability to a market participant as of the measurement date; that is, the liability is presumed to continue and is not settled with the counterparty. In addition, this guidance emphasized that a fair value measurement of a liability includes nonperformance risk and that such risk does not change after transfer of the liability. In a manner consistent with this underlying premise (that is, a transfer notion), this guidance required that an entity should first determine whether a quoted price of an identical liability traded in an active market exists (that is, a Level 1 fair value measurement). This guidance clarified that the quoted price for the identical liability, when traded as an asset in an active market, is also a Level 1 measurement for that liability when no adjustment to the quoted price is required. In the absence of a quoted price in an active market for the identical liability, an entity must use one or more of the following valuation techniques to estimate fair value:

- A valuation technique that uses:
  - The quoted price of an identical liability when traded as an asset.
  - The quoted price of a similar liability or of a similar liability when traded as an asset.
- Another valuation technique that is consistent with the accounting principles for fair value measurements and disclosures, including one of the following:
  - An income approach, such as a present value technique.
  - A market approach, such as a technique based on the amount at the measurement date that an entity would pay to transfer an identical liability or would receive to enter into an identical liability.

In addition, this guidance clarified that when estimating the fair value of a liability, a reporting entity should not include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The guidance was effective for the first reporting period (including interim periods) beginning after issuance. Entities could also elect to adopt this guidance early if financial statements have not been issued. The Bank adopted this guidance as of October 1, 2009, and the adoption did not have a material impact on the Bank's financial condition, results of operations, or cash flows.

Accounting Standards Codification. On June 29, 2009, the FASB issued the FASB Accounting Standards Codification (Codification) as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by non-government entities in the preparation of financial statements in conformity with U.S. GAAP. The Codification was not intended to change current U.S. GAAP; rather, its intent was to organize the authoritative accounting literature by topic in one place. The Codification modified the U.S. GAAP hierarchy to include only two levels of GAAP, authoritative and non-authoritative. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws were also sources of authoritative U.S. GAAP for SEC registrants. Following the establishment of the Codification, the FASB will issue new accounting guidance in the form of Accounting Standards Updates (ASU). The ASU will only serve to update the Codification, provide background information about the guidance, and provide the basis for conclusions regarding the changes to the Codification. The Codification was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Bank adopted the Codification for the interim period ended September 30, 2009. Because the Codification was not intended to change or alter previous U.S. GAAP, its adoption did not have any impact on the Bank's financial condition, results of operations, or cash flows.

Accounting for Consolidation of Variable Interest Entities. On June 12, 2009, the FASB issued guidance for amending certain requirements of consolidation of variable interest entities (VIEs). This guidance was to improve financial reporting by enterprises involved with VIEs and to provide more relevant and reliable information to users of financial statements. This guidance amended the

manner in which entities evaluate whether consolidation is required for VIEs. An entity must first perform a qualitative analysis in determining whether it must consolidate a VIE, and if the qualitative analysis is not determinative, the entity must perform a quantitative analysis. This guidance also required that an entity continually evaluate VIEs for consolidation, rather than making such an assessment based upon the occurrence of triggering events. In addition, the guidance required enhanced disclosures about how an entity's involvement with a VIE affects its financial statements and its exposure to risks. This guidance was effective as of the beginning of each reporting entity's first annual reporting period beginning after November 15, 2009 (January 1, 2010, for the Bank), for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application was prohibited. The Bank evaluated its investments in VIEs held as of January 1, 2010, and determined that consolidation accounting is not required under the new accounting guidance. Therefore, the adoption of this guidance did not have a material impact on the Bank's financial condition, results of operations, or cash flows.

Accounting for Transfers of Financial Assets. On June 12, 2009, the FASB issued guidance intended to improve the relevance, representational faithfulness, and comparability of the information a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. Key provisions of the guidance included (i) the removal of the concept of qualifying special purpose entities; (ii) the introduction of the concept of a participating interest, in circumstances in which a portion of a financial asset has been transferred; and (iii) the requirement that to qualify for sale accounting, the transferor must evaluate whether it maintains effective control over transferred financial assets either directly or indirectly. The guidance also required enhanced disclosures about transfers of financial assets and a transferor's continuing involvement. This guidance was effective as of the beginning of each reporting entity's first annual reporting period beginning after November 15, 2009 (January 1, 2010, for the Bank), for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application was prohibited. The Bank adopted this guidance as of January 1, 2010, and the adoption did not have a material impact on the Bank's financial condition, results of operations, or cash flows.

Subsequent Events. On May 28, 2009, the FASB issued guidance establishing general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. This guidance set forth: (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date, including disclosure of the date through which an entity has evaluated subsequent events and whether that represents the date the financial statements were issued or were available to be issued. This guidance did not apply to subsequent events or transactions that are within the scope of other applicable U.S. GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. This guidance was effective for interim and annual financial periods ending after June 15, 2009. The Bank adopted this guidance for the period ended June 30, 2009. Its adoption resulted in increased financial statement disclosures and did not have any impact on the Bank's financial condition, results of operations, or cash flows.

In addition, the subsequent events guidance was further amended on February 24, 2010, to clarify (i) which entities are required to evaluate subsequent events through the date the financial statements are issued, and (ii) the scope of the disclosure requirements related to subsequent events. The amended guidance requires SEC filers, as defined, to evaluate subsequent events through the date the financial statements are issued; however, it exempts SEC filers from disclosing the date through which subsequent events have been evaluated. All entities other than SEC filers continue to be required to evaluate subsequent events through the date the financial statements are available to be issued and to disclose the date through which subsequent events have been evaluated. In addition, the amended guidance defines the term "revised financial statements" as financial statements revised as a result of (i) correction of an error or (ii) retrospective application of U.S. GAAP. Upon revising its financial statements, an entity is required to update its evaluation of subsequent events through the date the revised financial statements are issued or are available to be issued. The amended guidance also requires non-SEC filers to disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued if the financial statements have been revised. This new guidance was effective upon issuance. The Bank adopted this new guidance for the period ended December 31, 2009.

Recognition and Presentation of Other-Than-Temporary Impairments. On April 9, 2009, the FASB issued guidance amending the recognition and reporting requirements of the OTTI guidance in U.S. GAAP for debt securities classified as available-for-sale and held-to-maturity to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This OTTI guidance clarified the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired and changed the presentation and

calculation of the OTTI on debt securities recognized in earnings in the financial statements. This OTTI guidance did not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This OTTI guidance expanded and increased the frequency of existing OTTI disclosures for debt and equity securities and required new disclosures to help users of financial statements understand the significant inputs used in determining a credit loss as well as a roll forward of that amount each period.

This OTTI guidance was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. This OTTI guidance was to be applied to existing and new investments held by an entity as of the beginning of the interim period in which it was adopted. For debt securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity did not intend to sell the security and it was not more likely than not that the entity would be required to sell the security before recovery of its amortized cost basis, the entity was required to recognize the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to AOCI. If an entity elected to adopt this OTTI guidance early, it also had to concurrently adopt recently issued guidance regarding the determination of fair value when there has been a significant decrease in the volume and level of activity for an asset or liability or when price quotations are associated with transactions that are not orderly (discussed below). This OTTI guidance did not require disclosures for earlier periods presented for comparative purposes at initial adoption, and in periods after initial adoption, comparative disclosures were required only for periods ending after initial adoption. The Bank adopted this OTTI guidance as of January 1, 2009, and recognized the effects as a change in accounting principle. The Bank recognized the cumulative effect of initially applying this OTTI guidance, totaling $570, as an increase in the retained earnings balance at January 1, 2009, with a corresponding change in AOCI. This adjustment did not affect either the Bank's AHP or REFCORP expense or accruals, because these assessments are calculated based on net income. Had the Bank elected not to adopt this OTTI guidance early, the Bank would have recognized the entire first quarter 2009 OTTI amount in other income in the first quarter of 2009. The adoption of this OTTI guidance also increased financial statement disclosures.

Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. On April 9, 2009, the FASB issued additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased and also including guidance on identifying circumstances that indicate a transaction is not orderly. This guidance emphasized that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement under U.S. GAAP remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current conditions. In addition, the guidance required enhanced disclosures regarding fair value measurements.

This guidance was effective for interim and annual reporting periods ending after June 15, 2009, and was required to be applied prospectively. Early adoption was permitted for periods ending after March 15, 2009. If an entity elected to adopt this guidance early, it also had to concurrently adopt the new OTTI guidance discussed above. This guidance did not require disclosures for earlier periods presented for comparative purposes at initial adoption, and in periods after initial adoption, comparative disclosures were required only for periods ending after initial adoption. The Bank adopted this guidance as of January 1, 2009, and the adoption did not have a material impact on the Bank's financial condition, results of operations, or cash flows.

Interim Disclosures About Fair Value of Financial Instruments. On April 9, 2009, the FASB issued guidance amending the disclosure requirements for the fair value of financial instruments, including disclosures of the methods and significant assumptions used to estimate the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. In addition, the guidance required disclosure in interim and annual financial statements of any changes in the methods and significant assumptions used to estimate the fair value of financial instruments. This guidance was effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity could adopt this guidance early only if it also concurrently adopted the new guidance discussed in the preceding paragraphs on OTTI and fair value. This guidance did not require disclosures for earlier periods presented for comparative purposes at initial adoption, and in periods after initial adoption, comparative disclosures were required only for periods ending after initial adoption. The Bank adopted this guidance as of January 1, 2009. Its adoption resulted in increased financial statement disclosures and did not have any impact on the Bank's financial condition, results of operations, or cash flows.

Employers' Disclosures About Postretirement Benefit Plan Assets. On December 30, 2008, the FASB issued guidance requiring additional disclosures about plan assets of a defined benefit pension or other postretirement plan. This guidance required more detailed disclosures about employers' plan assets, including employers' investment strategies, major categories of plan assets, concentration of

risk within plan assets, and valuation techniques used to measure the fair value of plan assets. This guidance was effective for fiscal years ending after December 15, 2009. In periods after initial adoption, this guidance required comparative disclosures only for periods ending subsequent to initial adoption and did not require earlier periods to be disclosed for comparative purposes at initial adoption. The Bank adopted this guidance for the period ended December 31, 2009. Its adoption resulted in increased financial statement disclosures and did not have any impact on the Bank's financial condition, results of operations, or cash flows.

Enhanced Disclosures about Derivative Instruments and Hedging Activities. On March 19, 2008, the FASB issued guidance requiring enhanced disclosures about an entity's derivative instruments and hedging activities including: (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for under U.S. GAAP; and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This guidance was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with earlier application encouraged. The Bank adopted this guidance on January 1, 2009. Its adoption resulted in increased financial statement disclosures and did not have any impact on the Bank's financial condition, results of operations, or cash flows.

Determining Fair Value for Non-Financial Assets and Liabilities. On February 12, 2008, the FASB issued guidance delaying the effective date of fair value measurement guidance for non-financial assets and non-financial liabilities except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Bank adopted the fair value measurement guidance for these items as of January 1, 2009, and its adoption did not have a material impact on the Bank's financial condition, results of operations, or cash flows.

Note 3 – Cash and Due from Banks

Compensating Balances. The Bank maintains average collected cash balances with commercial banks in consideration for certain services. There are no legal restrictions under these agreements on the withdrawal of these funds. The average collected cash balances were approximately $2 for 2009 and $7 for 2008.

In addition, the Bank maintained average required balances with the Federal Reserve Bank of San Francisco of approximately $1 for 2009 and $1 for 2008. These represent average balances required to be maintained over each 14-day reporting cycle; however, the Bank may use earnings credits on these balances to pay for services received from the Federal Reserve Bank of San Francisco.

Note 4 – Trading Securities

Trading securities as of December 31, 2009 and 2008, were as follows:

	2009	2008
MBS:		
Other U.S. obligations:		
Ginnie Mae	$23	$25
Government-sponsored enterprises (GSEs):		
Fannie Mae	8	10
Total	$31	$35

The net unrealized gain/(loss) on trading securities was $1 for 2009, $(1) for 2008, and immaterial for 2007. These amounts represent the changes in the fair value of the securities during the reported periods. The weighted average interest rates on trading securities were 4.28% for 2009 and 5.01% for 2008.

Note 5 – Available-for-Sale Securities

Available-for-sale securities as of December 31, 2009, were as follows:

	Amortized Cost[1]	OTTI Related to All Other Factors Recognized in AOCI[1]	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value	Weighted Average Interest Rate
TLGP[2]	$1,932	$—	$—	$(1)	$1,931	0.41%

(1) Amortized cost includes unpaid principal balance and unamortized premiums and discounts.
(2) Temporary Liquidity Guarantee Program (TLGP) securities represent corporate debentures of the issuing party that are guaranteed by the FDIC and backed by the full faith and credit of the U.S. government.

The Bank did not have any available-for-sale securities as of December 31, 2008.

The following table summarizes the available-for-sale securities with unrealized losses as of December 31, 2009. The unrealized losses are aggregated by major security type and the length of time that individual securities have been in a continuous unrealized loss position.

December 31, 2009

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
TLGP[1]	$1,281	$1	$—	$—	$1,281	$1

(1) TLGP securities represent corporate debentures of the issuing party that are guaranteed by the FDIC and backed by the full faith and credit of the U.S. government.

Redemption Terms. The amortized cost and estimated fair value of certain securities by contractual maturity (based on contractual final principal payment) as of December 31, 2009, are shown below. Expected maturities of certain securities will differ from contractual maturities because borrowers generally have the right to prepay the underlying obligations without prepayment fees.

December 31, 2009

Year of Contractual Maturity	Amortized Cost[1]	Estimated Fair Value	Weighted Average Interest Rate
Available-for-sale securities other than MBS:			
Due after one year through five years	$1,932	$1,931	0.41%

(1) Amortized cost includes unpaid principal balance and unamortized premiums and discounts.

At December 31, 2009, the amortized cost of the Bank's TLGP securities, which are classified as available-for-sale, included net premiums of $8.

Interest Rate Payment Terms. Interest rate payment terms for available-for-sale securities at December 31, 2009, are detailed in the following table:

	2009
Amortized cost of available-for-sale securities other than MBS:	
Adjustable rate	$1,932

Other-Than-Temporary Impairment. On a quarterly basis, the Bank evaluates its individual available-for-sale investment securities in an unrealized loss position for OTTI. As part of this evaluation, the Bank considers whether it intends to sell each debt security and whether it is more likely than not that it will be required to sell the security before its anticipated recovery of the amortized cost basis. If either of these conditions is met, the Bank recognizes an OTTI charge to earnings equal to the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. For securities in an unrealized loss position that meet neither of these conditions, the Bank considers whether it expects to recover the entire amortized cost basis of the security by comparing its best estimate of the present value of the cash flows expected to be collected from the security with the amortized cost basis of the security. If the Bank's best estimate of the present value of the cash flows expected to be collected is less than the amortized cost basis, the difference is considered the credit loss.

For all the securities in its available-for-sale portfolio, the Bank does not intend to sell any security and it is not more likely than not that the Bank will be required to sell any security before its anticipated recovery of the remaining amortized cost basis.

The Bank has determined that, as of December 31, 2009, all of the gross unrealized losses on its available-for-sale investment securities are temporary because it determined that the strength of the guarantees and the direct support from the U.S. government was sufficient to protect the Bank from losses.

Note 6 – Held-to-Maturity Securities

The Bank classifies the following securities as held-to-maturity because the Bank has the positive intent and ability to hold these securities to maturity:

December 31, 2009

	Amortized Cost[1]	OTTI Related to All Other Factors Recognized in AOCI[1]	Carrying Value[1]	Gross Unrecognized Holding Gains[2]	Gross Unrecognized Holding Losses[2]	Estimated Fair Value
Interest-bearing deposits	$ 6,510	$ —	$ 6,510	$ —	$ —	$ 6,510
Commercial paper	1,100	—	1,100	—	—	1,100
Housing finance agency bonds	769	—	769	—	(138)	631
TLGP[3]	304	—	304	—	(1)	303
Subtotal	8,683	—	8,683	—	(139)	8,544
MBS:						
Other U.S. obligations:						
Ginnie Mae	16	—	16	—	—	16
GSEs:						
Freddie Mac	3,423	—	3,423	150	(1)	3,572
Fannie Mae	8,467	—	8,467	256	(13)	8,710
Other:						
PLRMBS	19,866	(3,575)	16,291	494	(1,945)	14,840
Total MBS	31,772	(3,575)	28,197	900	(1,959)	27,138
Total	$40,455	$(3,575)	$36,880	$900	$(2,098)	$35,682

December 31, 2008

	Amortized Cost[1]	Gross Unrealized Gains[2]	Gross Unrealized Losses[2]	Estimated Fair Value
Interest-bearing deposits	$11,200	$ —	$ —	$11,200
Commercial paper	150	—	—	150
Housing finance agency bonds	802	4	—	806
Subtotal	12,152	4	—	12,156
MBS:				
Other U.S. obligations:				
Ginnie Mae	19	—	(1)	18
GSEs:				
Freddie Mac	4,408	57	(8)	4,457
Fannie Mae	10,083	99	(22)	10,160
Other:				
PLRMBS	24,543	—	(7,064)	17,479
Total MBS	39,053	156	(7,095)	32,114
Total	$51,205	$160	$(7,095)	$44,270

(1) Amortized cost includes unpaid principal balance, unamortized premiums and discounts, and previous other-than-temporary impairments recognized in earnings (less any cumulative-effect adjustments recognized). The carrying value of held-to-maturity securities represents amortized cost after adjustment for impairment related to all other factors recognized in other comprehensive income/(loss). At December 31, 2008, amortized cost was equivalent to carrying value.

(2) Gross unrecognized holding gains/(losses) represent the difference between estimated fair value and carrying value, while gross unrealized gains/(losses) represent the difference between estimated fair value and amortized cost.

(3) TLGP securities represent corporate debentures of the issuing party that are guaranteed by the FDIC and backed by the full faith and credit of the U.S. government.

As of December 31, 2009, all of the interest-bearing deposits had a credit rating of at least A, all of the commercial paper had a credit rating of A, and all of the housing finance agency bonds had a credit rating of at least AA. The TLGP securities are guaranteed by the FDIC and backed by the full faith and credit of the U.S. government. In addition, as of December 31, 2009, 49% of the private-label residential MBS (PLRMBS) were rated above investment grade (14% had a credit rating of AAA based on the amortized cost), and the remaining 51% were rated below investment grade. Credit ratings of BB and lower are below investment grade. The credit ratings used by the Bank are based on the lowest of Moody's Investors Service (Moody's), Standard & Poor's Rating Services (Standard & Poor's), or comparable Fitch ratings.

The following tables summarize the held-to-maturity securities with unrealized losses as of December 31, 2009 and 2008. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position.

December 31, 2009

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Interest-bearing deposits	$6,510	$ —	$ —	$ —	$ 6,510	$ —
Housing finance agency bonds	30	7	600	131	630	138
TLGP[1]	303	1	—	—	303	1
Subtotal	6,843	8	600	131	7,443	139
MBS:						
Other U.S. obligations:						
Ginnie Mae	—	—	13	—	13	—
GSEs:						
Freddie Mac	—	—	40	1	40	1
Fannie Mae	1,037	10	172	3	1,209	13
Other:						
PLRMBS[2]	—	—	14,840	5,520	14,840	5,520
Total MBS	1,037	10	15,065	5,524	16,102	5,534
Total	$7,880	$ 18	$15,665	$5,655	$23,545	$5,673

December 31, 2008

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
MBS:						
Other U.S. obligations:						
Ginnie Mae	$ 10	$ —	$ 8	$ 1	$ 18	$ 1
GSEs:						
Freddie Mac	707	6	44	2	751	8
Fannie Mae	2,230	20	117	2	2,347	22
Other:						
PLRMBS	3,708	1,145	12,847	5,919	16,555	7,064
Total	$6,655	$1,171	$13,016	$5,924	$19,671	$7,095

(1) TLGP securities represent corporate debentures of the issuing party that are guaranteed by the FDIC and backed by the full faith and credit of the U.S. government.

(2) Includes securities with gross unrecognized holding losses of $1,945 and securities with OTTI charges of $3,575 that have been recorded in other comprehensive income/(loss).

As indicated in the tables above, as of December 31, 2009, the Bank's investments classified as held-to-maturity had gross unrealized losses totaling $5,673, primarily relating to PLRMBS. The gross unrealized losses associated with the PLRMBS were primarily due to illiquidity in the MBS market, uncertainty about the future condition of the housing and mortgage markets and the economy, and continued deterioration in the credit performance of the loan collateral underlying these securities, which caused these assets to be valued at significant discounts to their acquisition cost.

Redemption Terms. The amortized cost, carrying value, and estimated fair value of certain securities by contractual maturity (based on contractual final principal payment) and MBS as of December 31, 2009 and 2008, are shown below. Expected maturities of certain securities and MBS will differ from contractual maturities because borrowers generally have the right to prepay the underlying obligations without prepayment fees.

December 31, 2009

Year of Contractual Maturity	Amortized Cost[1]	Carrying Value[1]	Estimated Fair Value	Weighted Average Interest Rate
Held-to-maturity securities other than MBS:				
Due in one year or less	$ 7,610	$ 7,610	$ 7,610	0.15%
Due after one year through five years	316	316	314	1.75
Due after five years through ten years	27	27	23	0.40
Due after ten years	730	730	597	0.53
Subtotal	8,683	8,683	8,544	0.24
MBS:				
Other U.S. obligations:				
Ginnie Mae	16	16	16	1.26
GSEs:				
Freddie Mac	3,423	3,423	3,572	4.83
Fannie Mae	8,467	8,467	8,710	4.15
Other:				
PLRMBS	19,866	16,291	14,840	3.73
Total MBS	31,772	28,197	27,138	3.95
Total	$40,455	$36,880	$35,682	3.17%

December 31, 2008

Year of Contractual Maturity	Amortized Cost[1]	Estimated Fair Value	Weighted Average Interest Rate
Held-to-maturity securities other than MBS:			
Due in one year or less	$11,350	$11,350	0.53%
Due after one year through five years	17	17	3.34
Due after five years through ten years	28	28	3.31
Due after ten years	757	761	3.40
Subtotal	12,152	12,156	0.72
MBS:			
Other U.S. obligations:			
Ginnie Mae	19	18	2.07
GSEs:			
Freddie Mac	4,408	4,457	4.95
Fannie Mae	10,083	10,160	4.38
Other:			
PLRMBS	24,543	17,479	4.11
Total MBS	39,053	32,114	4.27
Total	$51,205	$44,270	3.44%

(1) Amortized cost includes unpaid principal balance, unamortized premiums and discounts, and previous other-than-temporary impairments recognized in earnings (less any cumulative-effect adjustments recognized). The carrying value of held-to-maturity securities represents amortized cost after adjustment for impairment related to all other factors recognized in other comprehensive income/(loss). At December 31, 2008, amortized cost was equivalent to carrying value.

At December 31, 2009, the carrying value of the Bank's MBS classified as held-to-maturity included net discounts of $16, OTTI related to credit loss of $652 (including interest accretion adjustments of $24), and OTTI related to all other factors of $3,575. At December 31, 2008, the carrying value of the Bank's MBS classified as held-to-maturity included net discounts of $7, OTTI related to credit loss of $20, and OTTI related to all other factors of $570.

Interest Rate Payment Terms. Interest rate payment terms for held-to-maturity securities at December 31, 2009 and 2008, are detailed in the following table:

	2009	2008
Amortized cost of held-to-maturity securities other than MBS:		
Fixed rate	$ 7,914	$11,350
Adjustable rate	769	802
Subtotal	8,683	12,152
Amortized cost of held-to-maturity MBS:		
Passthrough securities:		
Fixed rate	3,326	4,120
Adjustable rate	87	100
Collateralized mortgage obligations:		
Fixed rate	16,619	24,604
Adjustable rate	11,740	10,229
Subtotal	31,772	39,053
Total	$40,455	$51,205

Certain MBS classified as fixed rate passthrough securities and fixed rate collateralized mortgage obligations have an initial fixed interest rate that subsequently converts to an adjustable interest rate on a specified date.

The Bank does not own MBS that are backed by mortgage loans purchased by another FHLBank from either (i) members of the Bank or (ii) members of other FHLBanks.

Other-Than-Temporary Impairment. On a quarterly basis, the Bank evaluates its individual held-to-maturity investment securities in an unrealized loss position for OTTI. As part of this evaluation, the Bank considers whether it intends to sell each debt security and whether it is more likely than not that it will be required to sell the security before its anticipated recovery of the amortized cost basis. If either of these conditions is met, the Bank recognizes an OTTI charge to earnings equal to the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. For securities in an unrealized loss position that meet neither of these conditions, the Bank considers whether it expects to recover the entire amortized cost basis of the security by comparing its best estimate of the present value of the cash flows expected to be collected from the security with the amortized cost basis of the security. If the Bank's best estimate of the present value of the cash flows expected to be collected is less than the amortized cost basis, the difference is considered the credit loss.

For all the securities in its held-to-maturity portfolio, the Bank does not intend to sell any security and it is not more likely than not that the Bank will be required to sell any security before its anticipated recovery of the remaining amortized cost basis.

The Bank has determined that, as of December 31, 2009, the immaterial gross unrealized losses on its short-term unsecured Federal funds sold and interest-bearing deposits are temporary because the gross unrealized losses were caused by movements in interest rates and not by the deterioration of the issuers' creditworthiness; the short-term unsecured Federal funds sold and interest-bearing deposits were all with issuers that had credit ratings of at least A at December 31, 2009; and all of the securities had maturity dates within 45 days of December 31, 2009. As a result, the Bank expects to recover the entire amortized cost basis of these securities.

As of December 31, 2009, the Bank's investments in housing finance agency bonds, which were issued by the California Housing Finance Agency (CalHFA), had gross unrealized losses totaling $138. These gross unrealized losses were mainly due to an illiquid market, causing these investments to be valued at a discount to their acquisition cost. In addition, the Bank independently modeled cash flows for the underlying collateral, using reasonable assumptions for default rates and loss severity, and concluded that the available credit support within the CalHFA structure more than offset the projected underlying collateral losses. The Bank has

determined that, as of December 31, 2009, all of the gross unrealized losses on these bonds are temporary because the strength of the underlying collateral and credit enhancements was sufficient to protect the Bank from losses based on current expectations and because CalHFA had a credit rating of AA– at December 31, 2009 (based on the lowest of Moody's, Standard & Poor's, or comparable Fitch ratings). As a result, the Bank expects to recover the entire amortized cost basis of these securities.

The Bank also invests in corporate debentures issued under the TLGP, which are guaranteed by the FDIC and backed by the full faith and credit of the U.S. government. The Bank expects to recover the entire amortized cost basis of these securities because it determined that the strength of the guarantees and the direct support from the U.S. government is sufficient to protect the Bank from losses based on current expectations. As a result, the Bank has determined that, as of December 31, 2009, all of the gross unrealized losses on its TLGP investments are temporary.

For its agency residential MBS, the Bank expects to recover the entire amortized cost basis of these securities because it determined that the strength of the issuers' guarantees through direct obligations or support from the U.S. government is sufficient to protect the Bank from losses based on current expectations. As a result, the Bank has determined that, as of December 31, 2009, all of the gross unrealized losses on its agency residential MBS are temporary.

In the second quarter of 2009, the 12 FHLBanks formed the OTTI Governance Committee (OTTI Committee), which consists of one representative from each FHLBank. The OTTI Committee is responsible for reviewing and approving the key modeling assumptions, inputs, and methodologies to be used by the FHLBanks to generate the cash flow projections used in analyzing credit losses and determining OTTI for PLRMBS.

Beginning in the second quarter 2009 and continuing throughout 2009, to support consistency among the FHLBanks, each FHLBank completed its OTTI analysis primarily using key modeling assumptions provided by the OTTI Committee for the majority of its PLRMBS and certain home equity loan investments, including home equity asset-backed securities. Certain private-label MBS backed by multifamily and commercial real estate loans, home equity lines of credit, and manufactured housing loans were outside the scope of the FHLBanks' OTTI Committee and were analyzed for OTTI by each individual FHLBank owning securities backed by such collateral.

Beginning with the third quarter of 2009, the process was changed by the OTTI Committee to expect each FHLBank to select 100% of its PLRMBS for purposes of OTTI cash flow analysis using the FHLBanks' common platform and agreed-upon assumptions instead of only screening for at-risk securities. For certain PLRMBS for which underlying collateral data is not available, alternative procedures as determined by each FHLBank are expected to be used to assess these securities for OTTI.

The Bank does not have any home equity loan investments or any private-label MBS backed by multifamily or commercial real estate loans, home equity lines of credit, or manufactured housing loans.

The Bank's evaluation includes estimating projected cash flows that the Bank is likely to collect based on an assessment of all available information about the applicable security on an individual basis, the structure of the security, and certain assumptions as proposed by the FHLBanks' OTTI Committee and approved by the Bank, such as the remaining payment terms for the security, prepayment speeds, default rates, loss severity on the collateral supporting the security based on underlying loan-level borrower and loan characteristics, expected housing price changes, and interest rate assumptions, to determine whether the Bank will recover the entire amortized cost basis of the security. In performing a detailed cash flow analysis, the Bank identifies the best estimate of the cash flows expected to be collected. If this estimate results in a present value of expected cash flows (discounted at the security's effective yield) that is less than the amortized cost basis of the security, an OTTI is considered to have occurred.

To assess whether it expects to recover the entire amortized cost basis of its PLRMBS, the Bank performed a cash flow analysis for all of its PLRMBS as of December 31, 2009. In performing the cash flow analysis for each security, the Bank uses two third-party models. The first model considers borrower characteristics and the particular attributes of the loans underlying the Bank's securities, in conjunction with assumptions about future changes in home prices, interest rates, and other assumptions, to project prepayments, default rates, and loss severities. A significant input to the first model is the forecast of future housing price changes for the relevant states and core-based statistical areas (CBSAs) based on an assessment of the relevant housing markets. CBSA refers collectively to metropolitan and micropolitan statistical areas as defined by the United States Office of Management and Budget. As currently defined, a CBSA must contain at least one urban area of 10,000 or more people. The Bank's housing price forecast as of December 31, 2009, assumed CBSA-level current-to-trough housing price declines ranging from 0% to 15% over the next 9 to 15 months (average price decline during this time period equaled 5.4%). Thereafter, home prices are projected to increase 0% in the first six months, 0.5% in the next six months, 3% in the second year, and 4% in each subsequent year. The month-by-month projections of future loan

performance derived from the first model, which reflect projected prepayments, default rates, and loss severities, are then input into a second model that allocates the projected loan level cash flows and losses to the various security classes in each securitization structure in accordance with the structure's prescribed cash flow and loss allocation rules. When the credit enhancement for the senior securities in a securitization is derived from the presence of subordinated securities, losses are generally allocated first to the subordinated securities until their principal balance is reduced to zero. The projected cash flows are based on a number of assumptions and expectations, and the results of these models can vary significantly with changes in assumptions and expectations. The scenario of cash flows determined based on the model approach described above reflects a best-estimate scenario and includes a base case current-to-trough housing price forecast and a base case housing price recovery path.

At each quarter end, the Bank compares the present value of the cash flows expected to be collected on its PLRMBS to the amortized cost basis of the securities to determine whether a credit loss exists. For the Bank's variable rate and hybrid PLRMBS, the Bank uses a forward interest rate curve to project the future estimated cash flows. The Bank then uses the effective interest rate for the security prior to impairment for determining the present value of the future estimated cash flows. For securities previously identified as other-than-temporarily impaired, the Bank updates its estimate of future estimated cash flows on a quarterly basis.

For the quarter ended December 31, 2009, the Bank changed its estimation technique used to determine the present value of estimated cash flows expected to be collected for its variable rate and hybrid PLRMBS. Specifically, the Bank employed a technique that allows it to update the effective interest rate used in its present value calculation, which isolates the subsequent movements in the underlying interest rate indices from its measurement of credit loss. Prior to this change, the Bank had determined the effective interest rate on each security prior to its first impairment, and continued to use this effective interest rate for calculating the present value of cash flows expected to be collected, even though the underlying interest rate indices changed over time.

The Bank recorded an OTTI related to credit loss of $608 for the year ended December 31, 2009, which incorporates the use of the revised present value estimation technique for its variable rate and hybrid PLRMBS. If the Bank had continued to use its previous estimation technique, the OTTI related to credit loss would have been $674 for the year ended December 31, 2009. The OTTI related to credit loss would not have been materially different from those previously reported had the Bank used the revised present value estimation technique.

For securities determined to be other-than-temporarily impaired as of December 31, 2009 (that is, securities for which the Bank determined that it was more likely than not that the entire amortized cost basis would not be recovered), the following table presents a summary of the significant inputs used in measuring the amount of credit loss recognized in earnings during the year ended December 31, 2009.

Credit enhancement is defined as the percentage of subordinated tranches and over-collateralization, if any, in a security structure that will generally absorb losses before the Bank will experience a loss on the security. The calculated averages represent the dollar-weighted averages of all the PLRMBS investments in each category shown. The classification (prime and Alt-A) is based on the model used to run the estimated cash flows for the CUSIP, which may not necessarily be the same as the classification at the time of origination.

	Significant Inputs						Current Credit Enhancement	
	Prepayment Rates		Default Rates		Loss Severities			
Year of Securitization	Weighted Average %	Range %	Weighted Average %	Range %	Weighted Average %	Range %	Weighted Average %	Range %
Prime								
2005	8.1	8.1	17.7	17.7	31.7	31.7	18.6	18.6
2006	6.5	6.2 – 7.2	21.5	19.6 – 25.3	45.1	43.7 – 48.2	8.9	8.7 – 8.9
Total Prime	7.0	6.2 – 8.1	20.4	17.7 – 25.3	41.3	31.7 – 48.2	11.6	8.7 – 18.6
Alt-A								
2004 and earlier	14.7	10.5 – 18.2	34.5	3.4 – 52.6	37.8	11.2 – 49.9	21.1	14.4 – 30.7
2005	12.1	6.0 – 23.4	41.1	16.4 – 78.0	42.3	31.3 – 57.8	19.7	7.2 – 35.7
2006	10.6	2.8 – 18.6	51.1	23.6 – 89.2	43.9	29.2 – 59.2	24.3	11.1 – 44.5
2007	9.7	4.8 – 19.7	60.9	17.5 – 88.3	43.6	23.3 – 58.4	30.4	9.8 – 46.8
2008	14.1	10.5 – 17.4	42.9	35.7 – 49.2	38.9	35.6 – 41.7	31.2	31.1 – 31.3
Total Alt-A	10.7	2.8 – 23.4	52.6	3.4 – 89.2	43.2	11.2 – 59.2	26.0	7.2 – 46.8
Total	10.7	2.8 – 23.4	52.5	3.4 – 89.2	43.2	11.2 – 59.2	26.0	7.2 – 46.8

Based on the analysis described above, the Bank recorded OTTI related to credit loss of $608 that was recognized in "Other Loss" during the year ended December 31, 2009, and recognized OTTI related to all other factors of $3,513 in "Other comprehensive income/(loss)" during the year ended December 31, 2009. For each security, the estimated impairment related to all other factors for each security is accreted prospectively, based on the amount and timing of future estimated cash flows, over the remaining life of the security as an increase in the carrying value of the security (with no effect on earnings unless the security is subsequently sold or there are additional decreases in the cash flows expected to be collected). For the year ended December 31, 2009, the Bank accreted $508 from AOCI to increase the carrying value of the respective PLRMBS. The Bank does not intend to sell these securities and it is not more likely than not that the Bank will be required to sell these securities before its anticipated recovery of the remaining amortized cost basis. At December 31, 2009, the estimated weighted average life of these securities was approximately four years.

For certain other-than-temporarily impaired securities that had previously been impaired and subsequently incurred additional OTTI related to credit loss, the additional credit-related OTTI, up to the amount in AOCI, was reclassified out of non-credit-related OTTI in AOCI and charged to earnings. This amount was $521 for the year ended December 31, 2009.

The following table presents the OTTI related to credit loss, which is recognized in earnings, and the OTTI related to all other factors, which is recognized in "Other comprehensive income/(loss)" for the year ended December 31, 2009.

	OTTI Related to Credit Loss	OTTI Related to All Other Factors	Total OTTI
Balance, beginning of the year[1]	$ 20	$ 570	$ 590
Charges on securities for which OTTI was not previously recognized	400	3,572	3,972
Additional charges on securities for which OTTI was previously recognized[2]	208	(59)	149
Accretion of impairment related to all other factors	—	(508)	(508)
Balance, end of the year	$628	$3,575	$4,203

(1) The Bank adopted the OTTI guidance as of January 1, 2009, and recognized the cumulative effect of initially applying the OTTI guidance, totaling $570, as an increase in the retained earnings balance at January 1, 2009, with a corresponding change in AOCI.

(2) For the year ended December 31, 2009, "securities for which OTTI was previously recognized" represents all securities that were also other-than-temporarily impaired prior to January 1, 2009.

To determine the estimated fair value of PLRMBS at December 31, 2008, March 31, 2009, and June 30, 2009, the Bank used a weighting of its internal price (based on valuation models using market-based inputs obtained from broker-dealer data and price indications) and the price from an external pricing service to determine the estimated fair value that the Bank believed market participants would use to purchase the PLRMBS. In evaluating the resulting estimated fair value of PLRMBS, the Bank compared the estimated implied yields to a range of broker indications of yields for similar transactions or to a range of yields that brokers reported market participants would use in purchasing PLRMBS.

Beginning with the quarter ended September 30, 2009, the Bank changed the methodology used to estimate the fair value of PLRMBS in an effort to achieve consistency among all the FHLBanks in applying a fair value methodology. In this regard, the FHLBanks formed the MBS Pricing Governance Committee with the responsibility for developing a fair value methodology that all FHLBanks could adopt. Under the methodology approved by the MBS Pricing Governance Committee and adopted by the Bank, the Bank requests prices for all MBS from four specific third-party vendors. Depending on the number of prices received for each security, the Bank selects a median or average price as determined by the methodology. The methodology also incorporates variance thresholds to assist in identifying median or average prices that may require further review. In certain limited instances (for example, when prices are outside of variance thresholds or the third-party services do not provide a price), the Bank will obtain a price from securities dealers or internally model a price that is deemed appropriate after consideration of the relevant facts and circumstances that a market participant would consider. Prices for PLRMBS held in common with other FHLBanks are reviewed with those FHLBanks for consistency. In adopting this common methodology, the Bank remains responsible for the selection and application of its fair value methodology and the reasonableness of assumptions and inputs used.

This change in fair value methodology did not have a significant impact on the Bank's estimated fair values of its PLRMBS at September 30, 2009, and December 31, 2009.

The following table presents the Bank's other-than-temporarily impaired PLRMBS that incurred an OTTI charge during the year ended and for the life of the security as of December 31, 2009, by loan collateral type:

December 31, 2009	Unpaid Principal Balance	Amortized Cost	Carrying Value	Estimated Fair Value
Other-than-temporarily impaired PLRMBS backed by loans classified at origination as:				
Prime	$ 1,392	$ 1,333	$ 927	$ 998
Alt-A, option ARM	2,084	1,873	964	1,001
Alt-A, other	7,410	7,031	4,771	5,150
Total	$10,886	$10,237	$6,662	$7,149

The following table presents the Bank's OTTI related to credit loss and OTTI related to all other factors on its other-than-temporarily impaired PLRMBS during the year ended December 31, 2009:

	OTTI Related to Credit Loss	OTTI Related to All Other Factors	Total OTTI
Other-than-temporarily impaired PLRMBS backed by loans classified at origination as:			
Prime	$ 56	$ 396	$ 452
Alt-A, option ARM	208	967	1,175
Alt-A, other	344	2,150	2,494
Total	$608	$3,513	$4,121

The following table presents the other-than-temporarily impaired PLRMBS for the year ended December 31, 2009, by loan collateral type and the length of time that the individual securities were in a continuous loss position prior to the current period write-down:

	Gross Unrealized Losses Related to Credit			Gross Unrealized Losses Related to All Other Factors		
	Less than 12 months	12 months or more	Total	Less than 12 months	12 months or more	Total
Other-than-temporarily impaired PLRMBS backed by loans classified at origination as:						
Prime	$—	$ 56	$ 56	$—	$ 396	$ 396
Alt-A, option ARM	—	208	208	—	967	967
Alt-A, other	—	344	344	—	2,150	2,150
Total	$—	$608	$608	$—	$3,513	$3,513

For the Bank's PLRMBS that were not other-than-temporarily impaired as of December 31 2009, the Bank does not intend to sell these securities, it is not more likely than not that the Bank will be required to sell these securities before its anticipated recovery of the remaining amortized cost basis, and the Bank expects to recover the entire amortized cost basis of these securities. As a result, the Bank has determined that, as of December 31, 2009, the gross unrealized losses on these remaining PLRMBS are temporary. Thirty-seven percent of the PLRMBS that were not other-than-temporarily impaired were rated investment grade (9% were rated AAA based on the amortized cost), with the remainder rated below investment grade. These securities were included in the securities that the Bank reviewed and analyzed for OTTI as discussed above, and the analyses performed indicated that these securities were not other-than-temporarily impaired. The credit ratings used by the Bank are based on the lowest of Moody's, Standard & Poor's, or comparable Fitch ratings.

At December 31, 2009, PLRMBS representing 44% of the amortized cost of the Bank's MBS portfolio were labeled Alt-A by the issuer. Alt-A securities are generally collateralized by mortgage loans that are considered less risky than subprime loans, but more risky than prime loans. These loans are generally made to borrowers who have sufficient credit ratings to qualify for a conforming mortgage loan, but the loans may not meet standard guidelines for documentation requirements, property type, or loan-to-value ratios. In addition, the property securing the loan may be non-owner-occupied.

Note 7 – Advances

Redemption Terms. The Bank had advances outstanding, excluding overdrawn demand deposit accounts, at interest rates ranging from 0.01% to 8.57% at December 31, 2009, and 0.05% to 8.57% at December 31, 2008, as summarized below.

	2009		2008	
Redemption Terms	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
Within 1 year	$ 76,854	1.54%	$139,842	2.42%
After 1 year through 2 years	30,686	1.69	41,671	3.24
After 2 years through 3 years	7,313	2.85	25,853	2.70
After 3 years through 4 years	9,211	1.77	6,158	3.78
After 4 years through 5 years	1,183	4.12	11,599	2.70
After 5 years	7,066	2.12	7,804	2.80
Total par amount	132,313	1.72%	232,927	2.66%
Valuation adjustments for hedging activities	524		1,353	
Valuation adjustments under fair value option	616		1,299	
Net unamortized premiums	106		85	
Total	$133,559		$235,664	

Many of the Bank's advances are prepayable at the member's option. However, when advances are prepaid, the member is generally charged a prepayment fee designed to make the Bank financially indifferent to the prepayment. In addition, for certain advances with partial prepayment symmetry, the Bank may charge the member a prepayment fee or pay the member a prepayment credit, depending on certain circumstances, such as movements in interest rates, when the advance is prepaid. The Bank had advances with partial prepayment symmetry outstanding totaling $17,516 at December 31, 2009, and $32,369 at December 31, 2008. Some advances may be repaid on pertinent call dates without prepayment fees (callable advances). The Bank had callable advances outstanding totaling $19 at December 31, 2009, and $315 at December 31, 2008.

The following table summarizes advances at December 31, 2009 and 2008, by the earlier of the year of contractual maturity or next call date for callable advances:

Earlier of Contractual Maturity or Next Call Date	2009	2008
Within 1 year	$ 76,864	$140,147
After 1 year through 2 years	30,686	41,678
After 2 years through 3 years	7,318	25,851
After 3 years through 4 years	9,201	5,858
After 4 years through 5 years	1,183	11,589
After 5 years	7,061	7,804
Total par amount	$132,313	$232,927

The Bank's advances at December 31, 2009 and 2008, included $3,413 and $4,597, respectively, of putable advances. At the Bank's discretion, the Bank may terminate these advances on predetermined exercise dates. The Bank would typically exercise such termination rights when interest rates increase.

The following table summarizes advances to members at December 31, 2009 and 2008, by the earlier of the year of contractual maturity or next put date for putable advances:

Earlier of Contractual Maturity or Next Put Date	2009	2008
Within 1 year	$ 79,552	$143,424
After 1 year through 2 years	30,693	41,200
After 2 years through 3 years	6,385	25,755
After 3 years through 4 years	8,933	5,099
After 4 years through 5 years	942	11,189
After 5 years	5,808	6,260
Total par amount	$132,313	$232,927

Security Terms. The Bank lends to member financial institutions that have a principal place of business in Arizona, California, or Nevada. The Bank is required by the FHLBank Act to obtain sufficient collateral for advances to protect against losses and to accept as collateral for advances only certain U.S. government or government agency securities, residential mortgage loans or MBS, other eligible real estate-related assets, and cash or deposits in the Bank. The capital stock of the Bank owned by each borrowing member is pledged as additional collateral for the member's indebtedness to the Bank. The Bank may also accept small business, small farm, and small agribusiness loans that are fully secured by collateral (such as real estate, equipment and vehicles, accounts receivable, and inventory) or securities representing a whole interest in such loans as eligible collateral from members that qualify as community financial institutions. The Housing Act added secured loans for community development activities as collateral that the Bank may accept from community financial institutions. The Housing Act defines community financial institutions as FDIC-insured depository institutions with average total assets over the preceding three-year period of $1,000 or less. The Finance Agency adjusts the average total asset cap for inflation annually. Effective January 1, 2010, the cap was $1,029. In addition, the Bank has advances outstanding to former members and member successors, which are also subject to these security terms.

The Bank requires each borrowing member to execute a written Advances and Security Agreement, which describes the Bank's credit and collateral terms. At December 31, 2009 and 2008, the Bank had a perfected security interest in collateral pledged by each borrowing member, or by the member's affiliate on behalf of the member, with an estimated value in excess of outstanding advances for that member. Based on the financial condition of the borrowing member, the Bank may either (i) allow the member or its affiliate to retain physical possession of loan collateral assigned to the Bank, provided that the member and its affiliate agree to hold the collateral for the benefit of the Bank, or (ii) require the member or its affiliate to deliver physical possession of loan collateral to the Bank or its safekeeping agent. All securities collateral is required to be delivered to the Bank's safekeeping agent. All loan collateral pledged by the member is subject to a UCC-1 financing statement.

Section 10(e) of the FHLBank Act affords any security interest granted to the Bank by a member or any affiliate of the member priority over claims or rights of any other party, except claims or rights that (i) would be entitled to priority under otherwise applicable law and (ii) are held by bona fide purchasers for value or secured parties with perfected security interests.

Credit and Concentration Risk. The Bank's potential credit risk from advances is concentrated in three institutions whose advances outstanding represented 10% or more of the Bank's total par amount of advances outstanding. The following table presents the concentration in advances to these three institutions as of December 31, 2009 and 2008. The table also presents the interest income from these advances excluding the impact of interest rate exchange agreements associated with these advances for the years ended December 31, 2009, 2008, and 2007.

Concentration of Advances and Interest Income from Advances

Name of Borrower	2009 Advances Outstanding[1]	2009 Percentage of Total Advances Outstanding	2008 Advances Outstanding[1]	2008 Percentage of Total Advances Outstanding
Citibank, N.A.	$ 46,544	35%	$ 80,026	34%
JPMorgan Chase Bank, National Association[2]	20,622	16	57,528	25
Wells Fargo Bank, N.A.[3]	14,695	11	24,015	10
Subtotal	81,861	62	161,569	69
Others	50,452	38	71,358	31
Total par amount	$132,313	100%	$232,927	100%

Name of Borrower	2009 Interest Income from Advances[4]	2009 Percentage of Total Interest Income from Advances	2008 Interest Income from Advances[4]	2008 Percentage of Total Interest Income from Advances	2007 Interest Income from Advances[4]	2007 Percentage of Total Interest Income from Advances
Citibank, N.A.	$ 446	12%	$2,733	32%	$ 4,625	44%
JPMorgan Chase Bank, National Association[2]	1,255	33	1,898	22	1,537	15
Wells Fargo Bank, N.A.[3]	244	6	948	11	1,097	10
Subtotal	1,945	51	5,579	65	7,259	69
Others	1,854	49	3,014	35	3,227	31
Total	$3,799	100%	$8,593	100%	$10,486	100%

(1) Borrower advance amounts and total advance amounts are at par value and total advance amounts will not agree to carrying value amounts shown in the Statements of Condition. The differences between the par and carrying value amounts primarily relate to unrealized gains or losses associated with hedged advances resulting from valuation adjustments related to hedging activities and the fair value option.

(2) On September 25, 2008, the Office of Thrift Supervision (OTS) closed Washington Mutual Bank and appointed the FDIC as receiver for Washington Mutual Bank. On the same day, JPMorgan Chase Bank, National Association, a nonmember, assumed Washington Mutual Bank's outstanding Bank advances and acquired the associated Bank capital stock. JPMorgan Chase Bank, National Association, remains obligated for all of Washington Mutual Bank's outstanding advances and continues to hold most of the Bank capital stock it acquired from the FDIC as receiver for Washington Mutual Bank.

(3) On December 31, 2008, Wells Fargo & Company, a nonmember, acquired Wachovia Corporation, the parent company of Wachovia Mortgage, FSB. Wachovia Mortgage, FSB, operated as a separate entity and continued to be a member of the Bank until its merger into Wells Fargo Bank, N.A., a subsidiary of Wells Fargo & Company, on November 1, 2009. Effective November 1, 2009, Wells Fargo Financial National Bank, an affiliate of Wells Fargo & Company, became a member of the Bank, and the Bank allowed the transfer of excess capital stock totaling $5 from Wachovia Mortgage, FSB, to Wells Fargo Financial National Bank to enable Wells Fargo Financial National Bank to satisfy its initial membership stock requirement. As a result of the merger, Wells Fargo Bank, N.A., assumed all outstanding Bank advances and the remaining Bank capital stock of Wachovia Mortgage, FSB. The Bank reclassified the capital stock transferred to Wells Fargo Bank, N.A., totaling $1,567, to mandatorily redeemable capital stock (a liability).

(4) Interest income amounts exclude the interest effect of interest rate exchange agreements with derivatives counterparties; as a result, the total interest income amounts will not agree to the Statements of Income. The amount of interest income from advances can vary depending on the amount outstanding, terms to maturity, interest rates, and repricing characteristics.

The Bank held a security interest in collateral from each of its three largest advances borrowers sufficient to support their respective advances outstanding, and the Bank does not expect to incur any credit losses on these advances. As of December 31, 2009 and 2008, the Bank's three largest advances borrowers (Citibank, N.A.; JPMorgan Chase Bank, National Association; and Wells Fargo Bank, N.A., or its predecessor, Wachovia Mortgage, FSB) each owned more than 10% of the Bank's outstanding capital stock, including mandatorily redeemable capital stock.

During 2009, 25 member institutions were placed into receivership or liquidation. Four of these institutions had no advances outstanding at the time they were placed into receivership or liquidation. The advances outstanding to the other 21 institutions were either repaid prior to December 31, 2009, or assumed by other institutions, and no losses were incurred by the Bank. The Bank capital stock held by 16 of the 25 institutions totaling $162 was classified as mandatorily redeemable capital stock (a liability). The capital stock of the other nine institutions was transferred to other member institutions.

The Bank has policies and procedures in place to manage the credit risk of advances. Based on the collateral pledged as security for advances, the Bank's credit analyses of members' financial condition, and the Bank's credit extension and collateral policies, the Bank

expects to collect all amounts due according to the contractual terms of the advances. Therefore, no allowance for losses on advances is deemed necessary by management. The Bank has never experienced any credit losses on advances.

From January 1, 2010, to March 15, 2010, three member institutions were placed into receivership. The advances outstanding to two institutions were paid off prior to March 15, 2010, and the Bank capital stock held by these two institutions totaling $14 was classified as mandatorily redeemable capital stock (a liability). The outstanding advances and capital stock of the third institution were assumed by another member institution. Because the estimated fair value of the collateral exceeds the carrying amount of the advances outstanding, and the Bank expects to collect all amounts due according to the contractual terms of the advances, no allowance for loan losses on the advances outstanding to this member institution was deemed necessary by management.

Interest Rate Payment Terms. Interest rate payment terms for advances at December 31, 2009 and 2008, are detailed below:

	2009	2008
Par amount of advances:		
Fixed rate	$ 68,411	$115,681
Adjustable rate	63,902	117,246
Total par amount	$132,313	$232,927

Prepayment Fees, Net. The Bank charged borrowers prepayment fees or paid borrowers prepayment credits when the principal on certain advances was paid prior to original maturity. The Bank records prepayment fees net of any associated fair value adjustments related to prepaid advances that were hedged. The net amount of prepayment fees is reflected as interest income in the Statements of Income for the years ended December 31, 2009, 2008, and 2007, as follows:

	2009	2008	2007
Prepayment fees received	$ 133	$ 16	$ 4
Fair value adjustments	(99)	(20)	(3)
Net	$ 34	$ (4)	$ 1
Advance principal prepaid	$17,633	$12,232	$1,733

Note 8 – Mortgage Loans Held for Portfolio

Under the Mortgage Partnership Finance® (MPF®) Program, the Bank purchased conventional conforming fixed rate residential mortgage loans directly from its participating members from May 2002 through October 2006. The mortgage loans are held-for-portfolio loans. Participating members originated or purchased the mortgage loans, credit-enhanced them and sold them to the Bank, and generally retained the servicing of the loans.

On October 6, 2006, the Bank announced that it would no longer offer new commitments to purchase mortgage loans from its members, but that it would retain its existing portfolio of mortgage loans. The Bank's commitment to purchase mortgage loans under the last outstanding Master Commitment expired on February 14, 2007.

The following table presents information as of December 31, 2009 and 2008, on mortgage loans, all of which are on one- to four-unit residential properties and single-unit second homes:

	2009	2008
Fixed rate medium-term mortgage loans	$ 927	$1,172
Fixed rate long-term mortgage loans	2,130	2,551
Subtotal	3,057	3,723
Net unamortized discounts	(18)	(10)
Mortgage loans held for portfolio	3,039	3,713
Less: Allowance for credit losses	(2)	(1)
Total mortgage loans held for portfolio, net	$3,037	$3,712

Medium-term loans have original contractual terms of 15 years or less, and long-term loans have contractual terms of more than 15 years.

For taking on the credit enhancement obligation, the Bank pays the participating member or any successor a credit enhancement fee, which is calculated on the remaining unpaid principal balance of the mortgage loans. The Bank records credit enhancement fees as a reduction to interest income. The Bank reduced net interest income for credit enhancement fees totaling $3 in 2009, $4 in 2008, and $4 in 2007.

Concentration Risk. The Bank had the following concentration in MPF loans with institutions whose outstanding total of mortgage loans sold to the Bank represented 10% or more of the Bank's total outstanding mortgage loans at December 31, 2009 and 2008.

Concentration of Mortgage Loans

December 31, 2009

Name of Institution	Mortgage Loan Balances Outstanding	Percentage of Total Mortgage Loan Balances Outstanding	Number of Mortgage Loans Outstanding	Percentage of Total Number of Mortgage Loans Outstanding
JPMorgan Chase Bank, National A sociation[1]	$2,391	78%	18,613	73%
OneWest Bank, FSB[2]	409	13	4,893	19
Subtotal	2,800	91	23,506	92
Others	257	9	2,109	8
Total	$3,057	100%	25,615	100%

December 31, 2008

Name of Institution	Mortgage Loan Balances Outstanding	Percentage of Total Mortgage Loan Balances Outstanding	Number of Mortgage Loans Outstanding	Percentage of Total Number of Mortgage Loans Outstanding
JPMorgan Chase Bank, National Association[1]	$2,879	77%	21,435	72%
IndyMac Federal Bank, FSB[2]	509	14	5,532	19
Subtotal	3,388	91	26,967	91
Others	335	9	2,601	9
Total	$3,723	100%	29,568	100%

(1) On September 25, 2008, the OTS closed Washington Mutual Bank and appointed the FDIC as receiver for Washington Mutual Bank. On the same day, JPMorgan Chase Bank, National Association, a nonmember, assumed Washington Mutual Bank's obligations with respect to mortgage loans the Bank had purchased from Washington Mutual Bank. JPMorgan Chase Bank, National Association, continues to fulfill its servicing obligations under its participating financial institution agreement with the Bank and to provide supplemental mortgage insurance for its master commitments when required.

(2) On July 11, 2008, the OTS closed IndyMac Bank, F.S.B., and appointed the FDIC as receiver for IndyMac Bank, F.S.B. In connection with the receivership, the OTS chartered IndyMac Federal Bank, FSB, and appointed the FDIC as conservator. IndyMac Federal Bank, FSB, assumed the obligations of IndyMac Bank, F.S.B., with respect to mortgage loans the Bank had purchased from IndyMac Bank, F.S.B. On March 19, 2009, OneWest Bank, FSB, became a member of the Bank, assumed the obligations of IndyMac Federal Bank, FSB, with respect to mortgage loans the Bank had purchased from IndyMac Bank, F.S.B., and agreed to fulfill its obligations to provide credit enhancement to the Bank and to service the mortgage loans as required.

Credit Risk. A mortgage loan is considered to be impaired when it is reported 90 days or more past due (nonaccrual) or when it is probable, based on current information and events, that the Bank will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage loan agreement.

The following table presents information on delinquent mortgage loans as of December 31, 2009 and 2008.

	2009		2008	
Days Past Due	Number of Loans	Mortgage Loan Balance	Number of Loans	Mortgage Loan Balance
Between 30 and 59 days	243	$29	235	$29
Between 60 and 89 days	81	10	44	5
90 days or more	177	22	84	9
Total	501	$61	363	$43

At December 31, 2009, the Bank had 501 loans that were 30 days or more delinquent totaling $61, of which 177 loans totaling $22 were classified as nonaccrual or impaired. For 103 of these loans, totaling $11, the loan was in foreclosure or the borrower of the loan was in bankruptcy. At December 31, 2008, the Bank had 363 loans that were 30 days or more delinquent totaling $43, of which 84 loans totaling $9 were classified as nonaccrual or impaired. For 51 of these loans, totaling $5, the loan was in foreclosure or the borrower of the loan was in bankruptcy.

The Bank's average recorded investment in impaired loans totaled $15 in 2009, $7 in 2008, and $4 in 2007. The Bank did not recognize any interest income for impaired loans in 2009, 2008, and 2007.

The allowance for credit losses on the mortgage loan portfolio was as follows:

	2009	2008	2007
Balance, beginning of the year	$ 1.0	$0.9	$0.7
Chargeoffs – transferred to real estate owned	(0.3)	—	—
Recoveries	—	—	—
Provision for credit losses	1.3	0.1	0.2
Balance, end of the year	$ 2.0	$1.0	$0.9

The Bank calculates its estimated allowance for credit losses on mortgage loans acquired under its two MPF products, Original MPF and MPF Plus, as described below.

Allowance for Credit Losses on Original MPF Loans – The Bank evaluates the allowance for credit losses on Original MPF mortgage loans based on two components. The first component applies to each individual loan that is specifically identified as impaired. A loan is considered impaired when it is reported 90 days or more past due (nonaccrual) or when it is probable, based on current information and events, that the Bank will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage loan agreement. Once the Bank identifies the impaired loans, the Bank evaluates the exposure on these loans in excess of the first three layers of loss protection (the liquidation value of the real property securing the loan, any primary mortgage insurance, and available credit enhancements) and records a provision for credit losses on the Original MPF loans. The Bank had established an allowance for credit losses for this component of the allowance for credit losses on Original MPF loans totaling $0.3 as of December 31, 2009. As of December 31, 2008, the Bank determined that an allowance for credit losses was not required for this component of the allowance for credit losses on Original MPF loans because the expected recovery from the liquidation value of the real property, primary mortgage insurance, and available credit enhancements associated with these loans was in excess of the estimated loss exposure.

The second component applies to loans that are not specifically identified as impaired and is based on the Bank's estimate of probable credit losses on those loans as of the financial statement date. The Bank evaluates the credit loss exposure based on the First Loss Account exposure on a loan pool basis and also considers various observable data, such as delinquency statistics, past performance, current performance, loan portfolio characteristics, collateral valuations, industry data, collectability of credit enhancements from members or their successors or from mortgage insurers, and prevailing economic conditions, taking into account the credit

enhancement provided by the member or its successor under the terms of each Master Commitment. The Bank had established an allowance for credit losses for this component of the allowance for credit losses on Original MPF loans totaling $1.0 as of December 31, 2009, and $1.0 as of December 31, 2008.

Allowance for Credit Losses on MPF Plus Loans – The Bank evaluates the allowance for credit losses on MPF Plus loans based on two components. The first component applies to each individual loan that is specifically identified as impaired. The Bank evaluates the exposure on these loans in excess of the first and second layers of loss protection (the liquidation value of the real property securing the loan and any primary mortgage insurance) to determine whether the Bank's potential credit loss exposure is in excess of the accrued performance-based credit enhancement fee and any supplemental mortgage insurance. If the analysis indicates the Bank has exposure, the Bank records an allowance for credit losses on MPF Plus loans. The Bank had established an allowance for credit losses for this component of the allowance for credit losses on MPF Plus loans totaling $0.7 as of December 31, 2009. As of December 31, 2008, the Bank determined that an allowance for credit losses was not required for this component of the allowance for credit losses on MPF Plus loans because the expected recovery from the liquidation value of the real property, primary mortgage insurance, available performance-based credit enhancements, and supplemental mortgage insurance associated with these loans was in excess of the estimated loss exposure.

The second component in the evaluation of the allowance for credit losses on MPF Plus mortgage loans applies to loans that are not specifically identified as impaired, and is based on the Bank's estimate of probable credit losses on those loans as of the financial statement date. The Bank evaluates the credit loss exposure and considers various observable data, such as delinquency statistics, past performance, current performance, loan portfolio characteristics, collateral valuations, industry data, collectability of credit enhancements from members or their successors or from mortgage insurers, and prevailing economic conditions, taking into account the credit enhancement provided by the member or its successor under the terms of each Master Commitment. As of December 31, 2009 and 2008, the Bank determined that an allowance for credit losses was not required for this component of the allowance for credit losses on MPF Plus loans.

At December 31, 2009, the Bank's other assets included $3 of real estate owned resulting from foreclosure of 26 mortgage loans held by the Bank. At December 31, 2008, the Bank's other assets included $1 of real estate owned resulting from foreclosure of 7 mortgage loans held by the Bank.

Note 9 – Deposits

The Bank maintains demand deposit accounts that are directly related to the extension of credit to members and offers short-term deposit programs to members and qualifying nonmembers. In addition, a member that services mortgage loans may deposit in the Bank funds collected in connection with the mortgage loans, pending disbursement of these funds to the owners of the mortgage loans. The Bank classifies these types of deposits as "Non-interest-bearing – Other" on the Statements of Condition.

Interest Rate Payment Terms. Deposits classified as demand, overnight, and other, pay interest based on a daily interest rate. Term deposits pay interest based on a fixed rate determined at the issuance of the deposit. Interest rate payment terms for deposits at December 31, 2009 and 2008, are detailed in the following table:

	2009		2008	
	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
Interest-bearing deposits:				
Fixed rate	$ 29	0.01%	$103	0.27%
Adjustable rate	193	0.01	499	0.01
Total interest-bearing deposits	222	0.01	602	0.06
Non-interest-bearing deposits	2	—	2	—
Total	$224	0.01%	$604	0.06%

The aggregate amount of time deposits with a denomination of $0.1 or more was $28 at December 31, 2009, and $103 at December 31, 2008. These time deposits were scheduled to mature within 3 months.

Note 10 – Consolidated Obligations

Consolidated obligations, consisting of consolidated obligation bonds and discount notes, are jointly issued by the FHLBanks through the Office of Finance, which serves as the FHLBanks' agent. As provided by the FHLBank Act or by regulations governing the operations of the FHLBanks, all FHLBanks have joint and several liability for all FHLBank consolidated obligations. For discussion of the joint and several liability regulation, see Note 18 to the Financial Statements. In connection with each debt issuance, each FHLBank specifies the type, term, and amount of debt it requests to have issued on its behalf. The Office of Finance tracks the amount of debt issued on behalf of each FHLBank. In addition, the Bank separately tracks and records as a liability its specific portion of the consolidated obligations issued and is the primary obligor for that portion of the consolidated obligations issued. The Finance Agency, the successor agency to the Finance Board, and the U.S. Secretary of the Treasury have oversight over the issuance of FHLBank debt through the Office of Finance.

Consolidated obligation bonds are issued primarily to raise intermediate- and long-term funds for the FHLBanks. Usually the maturity of consolidated obligation bonds ranges from 1 to 15 years, but the maturity is not subject to any statutory or regulatory limits. Consolidated obligation discount notes are primarily used to raise short-term funds. These notes are issued at less than their face amount and redeemed at par when they mature. On September 9, 2008, each of the FHLBanks, including the Bank, entered into a lending agreement with the U.S. Treasury in connection with the U.S. Treasury's Government-Sponsored Enterprise Credit Facility (GSE Credit Facility). The GSE Credit Facility was designed to serve as a contingent source of liquidity for each of the FHLBanks. Any borrowings by one or more of the FHLBanks under the GSE Credit Facility would have been considered consolidated obligations with the same joint and several liability as all other consolidated obligations. For more information, see Note 18 to the Financial Statements.

The par amount of the outstanding consolidated obligations of all 12 FHLBanks, including consolidated obligations issued by other FHLBanks, was approximately $930,617 at December 31, 2009, and $1,251,542 at December 31, 2008. Regulations require the FHLBanks to maintain, for the benefit of investors in consolidated obligations, in the aggregate, unpledged qualifying assets in an amount equal to the consolidated obligations outstanding. Qualifying assets are defined as cash; secured advances; assets with an assessment or credit rating at least equivalent to the current assessment or credit rating of the consolidated obligations; obligations, participations, mortgages, or other securities of or issued by the United States or an agency of the United States; and such securities as fiduciary and trust funds may invest in under the laws of the state in which the FHLBank is located. Any assets subject to a lien or pledge for the benefit of holders of any issue of consolidated obligations are treated as if they were free from lien or pledge for the purposes of compliance with these regulations. At December 31, 2009, the Bank had qualifying assets totaling $192,196 to support the Bank's participation in consolidated obligations outstanding of $180,299.

General Terms. Consolidated obligations are generally issued with either fixed rate payment terms or adjustable rate payment terms, which use a variety of indices for interest rate resets, including the London Interbank Offered Rate (LIBOR), Federal funds, U.S. Treasury Bill, Constant Maturity Treasury (CMT), Prime Rate, and others. In addition, to meet the specific needs of certain investors, fixed rate and adjustable rate consolidated obligation bonds may contain certain embedded features, which may result in call options and complex coupon payment terms. In general, when such consolidated obligation bonds are issued for which the Bank is the primary obligor, the Bank simultaneously enters into interest rate exchange agreements containing offsetting features to, in effect, convert the terms of the bond to the terms of a simple adjustable rate bond (tied to an index, such as those listed above).

Consolidated obligations, in addition to having fixed rate or simple adjustable rate coupon payment terms, may also include:

- Callable bonds, which the Bank may redeem in whole or in part at its discretion on predetermined call dates according to the terms of the bond offerings; and
- Index amortizing notes, which repay principal according to predetermined amortization schedules that are linked to the level of a certain index. As of December 31, 2009 and 2008, the Bank's index amortizing notes had fixed rate coupon payment terms. Usually, as market interest rates rise/(fall), the maturity of the index amortizing notes extends/(contracts).

With respect to interest payments, consolidated obligation bonds may also include:

- Step-up callable bonds, which pay interest at increasing fixed rates for specified intervals over the life of the bond and can generally be called at the Bank's option on the step-up dates;
- Step-down callable bonds, which pay interest at decreasing fixed rates for specified intervals over the life of the bond and can generally be called at the Bank's option on the step-down dates;

- Conversion bonds, which have coupon rates that convert from fixed to adjustable or from adjustable to fixed on predetermined dates according to the terms of the bond offerings;
- Inverse floating bonds, which have coupons that increase as an index declines and decrease as an index rises; and
- Range bonds, which pay interest based on the number of days a specified index is within or outside of a specified range. The computation of the variable interest rate differs for each bond issue, but the bond generally pays zero interest or a minimal rate if the specified index is outside the specified range.

Redemption Terms. The following is a summary of the Bank's participation in consolidated obligation bonds at December 31, 2009 and 2008:

	2009		2008	
Contractual Maturity	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
Within 1 year	$ 75,865	1.29%	$116,069	2.29%
After 1 year through 2 years	42,745	2.40	37,803	2.88
After 2 years through 3 years	11,589	2.12	21,270	4.37
After 3 years through 4 years	12,855	3.86	3,862	4.67
After 4 years through 5 years	5,308	3.11	14,195	4.24
After 5 years	11,561	4.38	15,840	5.14
Index amortizing notes	6	4.61	8	4.61
Total par amount	159,929	2.14%	209,047	3.00%
Net unamortized premiums/(discounts)	251		154	
Valuation adjustments for hedging activities	1,926		3,863	
Fair value option valuation adjustments	(53)		50	
Total	$162,053		$213,114	

The Bank's participation in consolidated obligation bonds outstanding includes callable bonds of $32,185 at December 31, 2009, and $24,429 at December 31, 2008. Contemporaneous with the issuance of a callable bond for which the Bank is the primary obligor, the Bank routinely enters into an interest rate swap (in which the Bank pays a variable rate and receives a fixed rate) with a call feature that mirrors the call option embedded in the bond (a sold callable swap). The Bank had notional amounts of interest rate exchange agreements hedging callable bonds of $25,530 at December 31, 2009, and $8,484 at December 31, 2008. The combined sold callable swap and callable bond enable the Bank to meet its funding needs at costs not otherwise directly attainable solely through the issuance of non-callable debt, while effectively converting the Bank's net payment to an adjustable rate.

The Bank's participation in consolidated obligation bonds was as follows:

	2009	2008
Par amount of consolidated obligation bonds:		
Non-callable	$127,744	$184,618
Callable	32,185	24,429
Total par amount	$159,929	$209,047

The following is a summary of the Bank's participation in consolidated obligation bonds outstanding at December 31, 2009 and 2008, by the earlier of the year of contractual maturity or next call date:

Earlier of Contractual Maturity or Next Call Date	2009	2008
Within 1 year	$103,215	$131,783
After 1 year through 2 years	36,750	43,003
After 2 years through 3 years	5,494	19,795
After 3 years through 4 years	9,480	819
After 4 years through 5 years	593	8,755
After 5 years	4,391	4,884
Index amortizing notes	6	8
Total par amount	$159,929	$209,047

Consolidated obligation discount notes are consolidated obligations issued to raise short-term funds; discount notes have original maturities up to one year. These notes are issued at less than their face amount and redeemed at par value when they mature. The Bank's participation in consolidated obligation discount notes, all of which are due within one year, was as follows:

	2009		2008	
	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
Par amount	$18,257	0.35%	$92,155	1.49%
Unamortized discounts	(11)		(336)	
Total	$18,246		$91,819	

Interest Rate Payment Terms. Interest rate payment terms for consolidated obligations at December 31, 2009 and 2008, are detailed in the following table:

	2009	2008
Par amount of consolidated obligations:		
Bonds:		
Fixed rate	$ 98,619	$112,952
Adjustable rate	49,244	95,570
Step-up	10,433	196
Step-down	350	18
Fixed rate that converts to adjustable rate	915	—
Adjustable rate that converts to fixed rate	250	100
Range bonds	112	203
Index amortizing notes	6	8
Total bonds, par	159,929	209,047
Discount notes, par	18,257	92,155
Total consolidated obligations, par	$178,186	$301,202

In general, the FHLBank System's debt issuance capability increased significantly in 2009 compared to 2008 because of the Federal Reserve's direct purchase of U.S. agency debt, a substantial increase in large domestic investor demand, and some additional interest by foreign investors. Short-term debt issuance, as represented by discount note funding costs, returned to near pre-2007 levels. In addition, investor demand for short-lockout callable debt enabled FHLBanks to return to using these swapped instruments as a reliable source of funding. Although the overall ability and cost to issue debt improved in 2009, the improvements took place when total debt issuance volume subsided because of a significant decline in advances outstanding.

Note 11 – Affordable Housing Program

The FHLBank Act requires each FHLBank to establish an Affordable Housing Program (AHP). Each FHLBank provides subsidies in the form of direct grants and below-market interest rate advances to members, which use the funds to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. Annually, the FHLBanks must set aside for their AHPs, in the aggregate, the greater of $100 or 10% of the current year's net earnings (income before interest expense related to mandatorily redeemable capital stock and the assessment for AHP, but after the assessment for REFCORP). The exclusion of interest expense related to mandatorily redeemable capital stock is based on an advisory bulletin issued by the Finance Board. REFCORP has been designated as the calculation agent for REFCORP and AHP assessments, which are calculated simultaneously because of their interdependence. The Bank accrues this expense monthly based on its net earnings. Calculation of the REFCORP assessment is discussed in Note 12. If the Bank experienced a net loss during a quarter but still had net earnings for the year, the Bank's obligation to the AHP would be calculated based on the Bank's year-to-date net earnings. If the Bank had net earnings in subsequent quarters, it would be required to contribute additional amounts to meet its calculated annual obligation. If the Bank experienced a net loss for a full year, the amount of the AHP liability would be equal to zero, since each FHLBank's required annual AHP contribution is limited to its annual net earnings. However, if the result of the aggregate 10% calculation is less than $100 for all 12 FHLBanks, then the FHLBank Act requires that each FHLBank contribute such prorated sums as may be required to ensure that the aggregate contribution of the FHLBanks equals $100. The pro ration would be made on the basis of an FHLBank's income in relation to the income of all the FHLBanks for the previous year. There was no AHP shortfall, as described above, in 2009, 2008, or 2007. If an FHLBank finds that its required AHP assessments are contributing to the financial instability of that FHLBank, it may apply to the Finance Agency for a temporary suspension of its contributions. The Bank did not make such an application in 2009, 2008, or 2007.

The Bank set aside $58, $53, and $73 during 2009, 2008, and 2007, respectively, for the AHP. These amounts were charged to earnings each year and recognized as a liability. As subsidies are disbursed, the AHP liability is reduced. The AHP liability was as follows:

	2009	2008	2007
Balance, beginning of the year	$180	$175	$147
AHP assessments	58	53	73
AHP grant payments	(52)	(48)	(45)
Balance, end of the year	$186	$180	$175

All subsidies were distributed in the form of direct grants in 2009, 2008, and 2007. The Bank had $5 and $5 in outstanding AHP advances at December 31, 2009 and 2008, respectively.

Note 12 – Resolution Funding Corporation Assessments

The FHLBanks are required to make payments to REFCORP. REFCORP was established in 1989 under 12 U.S.C. Section 1441b as a means of funding the RTC, a federal instrumentality established to provide funding for the resolution and disposition of insolvent savings institutions. Each FHLBank is required to pay 20% of income calculated in accordance with U.S. GAAP after the assessment for AHP, but before the assessment for REFCORP. The AHP and REFCORP assessments are calculated simultaneously because of their interdependence. The Bank accrues its REFCORP assessment on a monthly basis. Calculation of the AHP assessment is discussed in Note 11.REFCORP has been designated as the calculation agent for REFCORP and AHP assessments. Each FHLBank provides its net income before REFCORP and AHP assessments to REFCORP, which then performs the calculations for each quarter end.

The FHLBanks will continue to record an expense for these amounts until the aggregate amounts actually paid by all 12 FHLBanks are equivalent to a $300 annual annuity (or a scheduled payment of $75 per quarter) whose final maturity date is April 15, 2030, at which point the required payment of each FHLBank to REFCORP will be fully satisfied. The Finance Agency in consultation with the U.S. Secretary of the Treasury selects the appropriate discounting factors to be used in this annuity calculation. The cumulative amount to be paid to REFCORP by the Bank is not determinable at this time because it depends on the future earnings of all 12 FHLBanks and interest rates. If the Bank experienced a net loss during a quarter, but still had net income for the year, the Bank's obligation to REFCORP would be calculated based on the Bank's year-to-date net income. If the Bank had net income in subsequent quarters, it would be required to contribute additional amounts to meet its calculated annual obligation. The Bank would be entitled to a refund or credit toward future payments of amounts paid for the full year that were in excess of its calculated annual obligation. If the Bank experienced a net loss for a full year, the Bank would have no obligation to REFCORP for the year. The Finance Agency is required to

extend the term of the FHLBanks' obligation to REFCORP for each calendar quarter in which there is a deficit quarterly payment. A deficit quarterly payment is the amount by which the actual quarterly payment for all 12 FHLBanks falls short of $75.

The FHLBanks' aggregate payments through 2009 have exceeded the scheduled payments, effectively accelerating payment of the REFCORP obligation and shortening its remaining term to April 15, 2012. The FHLBanks' aggregate payments through 2009 have satisfied $2 of the $75 scheduled payment due on April 15, 2012, and have completely satisfied all scheduled payments thereafter. This date assumes that the FHLBanks will pay the required $300 annual payments after December 31, 2009, until the annuity is satisfied.

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

In addition to the FHLBanks' responsibility to fund REFCORP, the FHLBank presidents are appointed to serve on a rotating basis as two of the three directors on the REFCORP Directorate.

The Bank's total REFCORP assessments equaled $128 in 2009, $115 in 2008, and $163 in 2007. Since the Bank experienced a net loss in the fourth quarter of 2008, the Bank recorded a $51 receivable from REFCORP in the Statements of Condition for the amount of the excess payments made during the nine months ended September 30, 2008. This receivable was applied as a credit toward the Bank's 2009 REFCORP assessments.

Changes in the REFCORP (asset)/liability were as follows:

	2009	2008
Balance, beginning of the year	$ (51)	$ 58
REFCORP assessments	128	115
REFCORP payments	(52)	(224)
Balance, end of the year	$ 25	$ (51)

Note 13 – Capital

Capital Requirements. The Bank issues only one class of stock, Class B stock, with a par value of one hundred dollars per share, which may be redeemed (subject to certain conditions) upon five years' notice by the member to the Bank. However, at its discretion, under certain conditions, the Bank may repurchase excess stock at any time before the five years have expired. (See "Excess and Surplus Capital Stock" below for a discussion of the Bank's surplus capital stock repurchase policy and repurchase of excess stock.) The stock may be issued, redeemed, and repurchased only at its stated par value. The Bank may only redeem or repurchase capital stock from a member if, following the redemption or repurchase, the member will continue to meet its minimum stock requirement and the Bank will continue to meet its regulatory requirements for total capital, leverage capital, and risk-based capital.

Under the Housing Act, the director of the Finance Agency is responsible for setting risk-based capital standards for the FHLBanks. The FHLBank Act and regulations governing the operations of the FHLBanks require that the minimum stock requirement for members must be sufficient to enable the Bank to meet its regulatory requirements for total capital, leverage capital, and risk-based capital. The Bank must maintain (i) total regulatory capital in an amount equal to at least 4% of its total assets, (ii) leverage capital in an amount equal to at least 5% of its total assets, and (iii) permanent capital in an amount at least equal to its regulatory risk-based capital requirement. Regulatory capital and permanent capital are defined as retained earnings and Class B stock, which includes mandatorily redeemable capital stock that is classified as a liability for financial reporting purposes. Regulatory capital and permanent capital do not include AOCI. Leverage capital is defined as the sum of permanent capital, weighted by a 1.5 multiplier, plus non-permanent capital. (Non-permanent capital consists of Class A capital stock, which is redeemable upon six months' notice. The Bank's capital plan does not provide for the issuance of Class A capital stock.)

The risk-based capital requirements must be met with permanent capital, which must be at least equal to the sum of the Bank's credit risk, market risk, and operations risk capital requirements, all of which are calculated in accordance with the rules and regulations of the Finance Agency. The Finance Agency may require an FHLBank to maintain a greater amount of permanent capital than is required by the risk-based capital requirements as defined.

As of December 31, 2009 and 2008, the Bank was in compliance with these capital rules and requirements.

The following table shows the Bank's compliance with the Finance Agency's capital requirements at December 31, 2009 and 2008:

Regulatory Capital Requirements

	2009		2008	
	Required	Actual	Required	Actual
Risk-based capital	$6,207	$14,657	$ 8,635	$13,539
Total regulatory capital	$7,714	$14,657	$12,850	$13,539
Total regulatory capital ratio	4.00%	7.60%	4.00%	4.21%
Leverage capital	$9,643	$21,984	$16,062	$20,308
Leverage ratio	5.00%	11.40%	5.00%	6.32%

In general, the Bank's capital plan requires each member to own stock in an amount equal to the greater of its membership stock requirement or its activity-based stock requirement. The Bank may adjust these requirements from time to time within limits established in the capital plan. Any changes to the capital plan must be approved by the Bank's Board of Directors and the Finance Agency.

A member's membership stock requirement is 1.0% of its membership asset value. The membership stock requirement for a member is capped at $25. The Bank may adjust the membership stock requirement for all members within a range of 0.5% to 1.5% of a member's membership asset value and may adjust the cap for all members within an authorized range of $10 to $50. A member's membership asset value is determined by multiplying the amount of the member's membership assets by the applicable membership asset factors. Membership assets are those assets (other than Bank capital stock) of a type that could qualify as collateral to secure a member's indebtedness to the Bank under applicable law, whether or not the assets are pledged to the Bank or accepted by the Bank as eligible collateral. The membership asset factors were initially based on the typical borrowing capacity percentages generally assigned by the Bank to the same types of assets when pledged to the Bank (although the factors may differ from the actual borrowing capacities, if any, assigned to particular assets pledged by a specific member at any point in time).

A member's activity-based stock requirement is the sum of 4.7% of the member's outstanding advances plus 5.0% of any portion of any mortgage loan sold by the member and owned by the Bank. The Bank may adjust the activity-based stock requirement for all members within a range of 4.4% to 5.0% of the member's outstanding advances and a range of 5.0% to 5.7% of any portion of any mortgage loan sold by the member and owned by the Bank.

At the Bank's discretion, capital stock that is greater than a member's minimum requirement may be repurchased or transferred to other Bank members at par value. Stock required to meet a withdrawing member's membership stock requirement may only be redeemed at the end of the five-year redemption period.

The Gramm-Leach-Bliley Act (GLB Act) established voluntary membership for all members. Any member may withdraw from membership and, subject to certain statutory and regulatory restrictions, have its capital stock redeemed after giving the required notice. Members that withdraw from membership may not reapply for membership for five years, in accordance with Finance Agency rules.

Mandatorily Redeemable Capital Stock. The Bank reclassifies the stock subject to redemption from capital to a liability after a member provides the Bank with a written notice of redemption; gives notice of intention to withdraw from membership; or attains nonmember status by merger or acquisition, charter termination, or other involuntary termination from membership; or after a receiver or other liquidating agent for a member transfers the member's Bank capital stock to a nonmember entity, resulting in the member's shares then meeting the definition of a mandatorily redeemable financial instrument. Shares meeting this definition are reclassified to a liability at fair value. Dividends declared on shares classified as a liability are accrued at the expected dividend rate and reflected as interest expense in the Statements of Income. The repayment of these mandatorily redeemable financial instruments (by repurchase or redemption of the shares) is reflected as a financing cash outflow in the Statements of Cash Flows once settled.

The Bank had mandatorily redeemable capital stock totaling $4,843 at December 31, 2009, and $3,747 at December 31, 2008. The increase in mandatorily redeemable capital stock is primarily due to the merger of Wachovia Mortgage, FSB, into Wells Fargo Bank, N.A. (for more information regarding the merger, see below), partially offset by members' acquisition of mandatorily redeemable

capital stock held by nonmembers. Dividends on mandatorily redeemable capital stock in the amount of $7, $14, and $7 were recorded as interest expense for the years ended December 31, 2009, 2008, and 2007, respectively.

The Bank has a cooperative ownership structure under which current member financial institutions own most of the Bank's capital stock. Former members and certain nonmembers own the remaining capital stock and are required to maintain their investment in the Bank's capital stock until their outstanding transactions are paid off or until their capital stock is redeemed following the five-year redemption period for capital stock, in accordance with the Bank's capital requirements. Capital stock cannot be purchased or sold except between the Bank and its members (or their successors) at the stock's par value of one hundred dollars per share. If a member cancels its written notice of redemption or notice of withdrawal or if the Bank allows the transfer of mandatorily redeemable capital stock to a member, the Bank reclassifies mandatorily redeemable capital stock from a liability to capital. After the reclassification, dividends on the capital stock are no longer classified as interest expense.

The Bank will not redeem or repurchase stock that is required to meet the minimum member retention requirement until five years after the member's membership is terminated or after the Bank receives notice of the member's withdrawal. The Bank is not required to redeem activity-based stock until the later of the expiration of the notice of redemption or until the activity no longer remains outstanding, and then only if certain statutory and regulatory conditions are met. In accordance with the Bank's current practice, if activity-based stock becomes excess stock because an activity no longer remains outstanding, the Bank may repurchase the excess activity-based stock on a scheduled quarterly basis subject to certain conditions, at its discretion.

The change in mandatorily redeemable capital stock for the years ended December 31, 2009, 2008, and 2007, was as follows:

	2009		2008		2007	
	Number of institutions	Amount	Number of institutions	Amount	Number of institutions	Amount
Balance at the beginning of the year	30	$3,747	16	$ 229	12	$106
Reclassified from/(to) capital during the year:						
Merger with or acquisition by nonmember institution[1]	3	1,568	2	3	6	161
Withdrawal from membership	—	—	3	4	—	—
Termination of membership[2]	11	162	9	3,894	—	—
Acquired by/transferred to members[2][3]	—	(618)	—	—	(2)	(13)
Redemption of mandatorily redeemable capital stock	(2)	(16)	—	—	—	—
Repurchase of excess mandatorily redeemable capital stock	—	—	—	(397)	—	(32)
Dividends accrued on mandatorily redeemable capital stock	—	—	—	14	—	7
Balance at the end of the year	42	$4,843	30	$3,747	16	$229

(1) On December 31, 2008, Wells Fargo & Company, a nonmember, acquired Wachovia Corporation, the parent company of Wachovia Mortgage, FSB. Wachovia Mortgage, FSB, operated as a separate entity and continued to be a member of the Bank until its merger into Wells Fargo Bank, N.A., a subsidiary of Wells Fargo & Company, on November 1, 2009. Effective November 1, 2009, Wells Fargo Financial National Bank, an affiliate of Wells Fargo & Company, became a member of the Bank, and the Bank allowed the transfer of excess capital stock totaling $5 from Wachovia Mortgage, FSB, to Wells Fargo Financial National Bank to enable Wells Fargo Financial National Bank to satisfy its initial membership stock requirement. As a result of the merger, Wells Fargo Bank, N.A., assumed all outstanding Bank advances and the remaining Bank capital stock of Wachovia Mortgage, FSB. The Bank reclassified the capital stock transferred to Wells Fargo Bank, N.A., totaling $1,567, to mandatorily redeemable capital stock (a liability).

(2) During 2008, JPMorgan Chase Bank, National Association, a nonmember, assumed Washington Mutual Bank's outstanding Bank advances and acquired the associated Bank capital stock. The Bank reclassified the capital stock transferred to JPMorgan Chase Bank, National Association, totaling $3,208, to mandatorily redeemable capital stock (a liability). JPMorgan Bank and Trust Company, National Association, an affiliate of JPMorgan Chase Bank, National Association, became a member of the Bank. During the first quarter of 2009, the Bank allowed the transfer of excess stock totaling $300 from JPMorgan Chase Bank, National Association, to JPMorgan Bank and Trust Company, National Association, to enable JPMorgan Bank and Trust Company, National Association, to satisfy its activity-based stock requirement. The capital stock transferred is no longer classified as mandatorily redeemable capital stock (a liability). However, the capital stock remaining with JPMorgan Chase Bank, National Association, totaling $2,695, remains classified as mandatorily redeemable capital stock (a liability).

(3) On March 19, 2009, OneWest Bank, FSB, became a member of the Bank, assumed the outstanding advances of IndyMac Federal Bank, FSB, a nonmember, and acquired the associated Bank capital stock totaling $318. Bank capital stock acquired by OneWest Bank, FSB, is no longer classified as mandatorily redeemable capital stock (a liability). However, the capital stock remaining with IndyMac Federal Bank, FSB, totaling $49, remains classified as mandatorily redeemable capital stock (a liability).

The following table presents mandatorily redeemable capital stock amounts by contractual year of redemption at December 31, 2009 and 2008.

Contractual Year of Redemption	2009	2008
Within 1 year	$ 3	$ 17
After 1 year through 2 years	63	3
After 2 years through 3 years	91	63
After 3 years through 4 years	2,955	91
After 4 years through 5 years	1,731	3,573
Total	$4,843	$3,747

A member may cancel its notice of redemption or notice of withdrawal from membership by providing written notice to the Bank prior to the end of the five-year redemption period or the membership termination date. If the Bank receives the notice of cancellation within 30 months following the notice of redemption or notice of withdrawal, the member is charged a fee equal to fifty cents multiplied by the number of shares of capital stock affected. If the Bank receives the notice of cancellation more than 30 months following the notice of redemption or notice of withdrawal (or if the Bank does not redeem the member's capital stock because following the redemption the member would fail to meet its minimum stock requirement), the member is charged a fee equal to one dollar multiplied by the number of shares of capital stock affected. In certain cases the Board of Directors may waive a cancellation fee for bona fide business purposes.

The Bank's stock is considered putable by the shareholder. There are significant statutory and regulatory restrictions on the Bank's obligation or ability to redeem outstanding stock, which include the following:

- In no case may the Bank redeem any capital stock if, following such redemption, the Bank would fail to meet its minimum capital requirements for total capital, leverage capital, and risk-based capital. All holdings of the Bank's stock immediately become nonredeemable if the Bank fails to meet its minimum capital requirements.
- The Bank may not be able to redeem any capital stock if either its Board of Directors or the Finance Agency determines that it has incurred or is likely to incur losses resulting in or expected to result in a charge against capital.
- In addition to being able to prohibit stock redemptions, the Bank's Board of Directors has a right and an obligation to call for additional capital stock purchases by its members, as a condition of continuing membership, as needed for the Bank to satisfy its statutory and regulatory capital requirements. The Bank is also required to maintain at least a stand-alone AA credit rating from a nationally recognized statistical rating organization.
- If, during the period between receipt of a stock redemption notice from a member and the actual redemption (a period that could last indefinitely), the Bank becomes insolvent and is either liquidated or merged with another FHLBank, the redemption value of the stock will be established either through the liquidation or the merger process. If the Bank is liquidated, after payment in full to the Bank's creditors and to the extent funds are then available, each shareholder will be entitled to receive the par value of its capital stock as well as any retained earnings in an amount proportional to the shareholder's share of the total shares of capital stock. In the event of a merger or consolidation, the Board of Directors will determine the rights and preferences of the Bank's shareholders, subject to any terms and conditions imposed by the Finance Agency.
- The Bank may not redeem any capital stock if the principal or interest due on any consolidated obligations issued by the Office of Finance has not been paid in full.
- The Bank may not redeem any capital stock if the Bank fails to provide the Finance Agency with the quarterly certification required by section 966.9(b)(1) of the Finance Agency rules prior to declaring or paying dividends for a quarter.
- The Bank may not redeem any capital stock if the Bank 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 fully meet all of its obligations on a timely basis, 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.

Mandatorily redeemable capital stock is considered capital for determining the Bank's compliance with its regulatory capital requirements.

Based on Finance Agency interpretation, the classification of certain shares of the Bank's capital stock as mandatorily redeemable does not affect the definition of total capital for purposes of: determining the Bank's compliance with its regulatory capital requirements, calculating its mortgage securities investment authority (300% of total capital), calculating its unsecured credit exposure to other GSEs (limited to 100% of total capital), or calculating its unsecured credit limits to other counterparties (various percentages of total capital depending on the rating of the counterparty).

Retained Earnings and Dividend Policy. By Finance Agency regulation, dividends may be paid only out of current net earnings or previously retained earnings. As required by the Finance Agency, the Bank has a formal retained earnings policy that is reviewed at least annually by the Bank's Board of Directors. The Board of Directors may amend the Retained Earnings and Dividend Policy from time to time. The Bank's Retained Earnings and Dividend Policy establishes amounts to be retained in restricted retained earnings, which are not made available for dividends in the current dividend period. The Bank may be restricted from paying dividends if the Bank is not in compliance with any of its minimum capital requirements or if payment would cause the Bank to fail to meet any of its minimum capital requirements. In addition, the Bank may not pay dividends if any principal or interest due on any consolidated obligations has not been paid in full or is not expected to be paid in full by any FHLBank, or, under certain circumstances, if the Bank fails to satisfy certain liquidity requirements under applicable Finance Agency regulations.

Retained Earnings Related to Valuation Adjustments – In accordance with the Retained Earnings and Dividend Policy, the Bank retains in restricted retained earnings any cumulative net gains in earnings (net of applicable assessments) resulting from gains or losses on derivatives and associated hedged items and financial instruments carried at fair value (valuation adjustments).

In general, the Bank's derivatives and hedged instruments, as well as certain assets and liabilities that are carried at fair value, are held to the maturity, call, or put date. For these financial instruments, net gains or losses are primarily a matter of timing and will generally reverse through changes in future valuations and settlements of contractual interest cash flows over the remaining contractual terms to maturity, or by the exercised call or put dates. However, the Bank may have instances in which hedging relationships are terminated prior to maturity or prior to the call or put dates. Terminating the hedging relationship may result in a realized gain or loss. In addition, the Bank may have instances in which it may sell trading securities prior to maturity, which may also result in a realized gain or loss.

As the cumulative net gains are reversed by periodic net losses and settlements of contractual interest cash flows, the amount of cumulative net gains decreases. The amount of retained earnings required by this provision of the policy is therefore decreased, and that portion of the previously restricted retained earnings becomes unrestricted and may be made available for dividends. In this case, the potential dividend payout in a given period will be substantially the same as it would have been without the effects of valuation adjustments, provided that at the end of the period the cumulative net effect since inception remains a net gain. The purpose of the valuation adjustments category of restricted retained earnings is to provide sufficient retained earnings to offset future net losses that result from the reversal of cumulative net gains, so that potential dividend payouts in future periods are not necessarily affected by the reversals of these gains. Although restricting retained earnings in accordance with this provision of the policy may preserve the Bank's ability to pay dividends, the reversal of the cumulative net gains in any given period may result in a net loss if the reversal exceeds net earnings before the impact of valuation adjustments for that period. Also, if the net effect of valuation adjustments since inception results in a cumulative net loss, the Bank's other retained earnings at that time (if any) may not be sufficient to offset the net loss. As a result, the future effects of valuation adjustments may cause the Bank to reduce or temporarily suspend dividend payments.

Retained earnings restricted in accordance with these provisions totaled $181 at December 31, 2009, and $52 at December 31, 2008. In accordance with this provision, the amount increased by $129 in 2009 as a result of net unrealized gains resulting from valuation adjustments during this period.

Other Retained Earnings – Targeted Buildup – In addition to any cumulative net gains resulting from valuation adjustments, the Bank holds an additional amount in restricted retained earnings intended to protect members' paid-in capital from the effects of an extremely adverse credit event, an extremely adverse operations risk event, an extremely high level of quarterly losses related to the Bank's derivatives and associated hedged items and financial instruments carried at fair value, and the risk of higher-than-anticipated OTTI related to credit loss on PLRMBS, especially in periods of extremely low net income resulting from an adverse interest rate environment.

In September 2009, the Board of Directors increased the targeted amount of restricted retained earnings to $1,800 from $1,200. Most of the increase in the target was due to an increase in the projected losses on the collateral underlying the Bank's PLRMBS under stress

case assumptions about housing market conditions. The retained earnings restricted in accordance with this provision of the Retained Earnings and Dividend Policy totaled $1,058 at December 31, 2009, and $124 at December 31, 2008.

In addition, on May 29, 2009, the Bank's Board of Directors amended the Bank's Retained Earnings and Dividend Policy to change the way the Bank determines the amount of earnings to be restricted for the targeted buildup. Instead of retaining a fixed percentage of earnings toward the retained earnings target each quarter, the Bank will designate any earnings not restricted for other reasons or not paid out in dividends as restricted retained earnings for the purpose of meeting the target.

On January 29, 2010, the Board of Directors adopted technical revisions to the Retained Earnings and Dividend Policy that did not have any impact on the Bank's methodology for calculating restricted retained earnings or the dividend.

Dividend Payments – Finance Agency rules state that FHLBanks may declare and pay dividends only from previously retained earnings or current net earnings, and may not declare or pay dividends based on projected or anticipated earnings. There is no requirement that the Board of Directors declare and pay any dividend. A decision by the Board of Directors to declare or not declare a dividend is a discretionary matter and is subject to the requirements and restrictions of the FHLBank Act and applicable requirements under the regulations governing the operations of the FHLBanks.

In 2009, the Bank continued to face a number of challenges and uncertainties because of volatile market conditions, particularly in the PLRMBS market. Throughout the year, the Bank focused on preserving capital in response to the possibility of future OTTI charges on its PLRMBS portfolio. As a result, the Bank did not pay a dividend for the first or third quarters of 2009, and the dividends for the second and fourth quarters of 2009 were small. The Bank recorded and paid the second quarter dividend during the third quarter of 2009. The Bank recorded the fourth quarter dividend on February 22, 2010, the day it was declared by the Board of Directors. The Bank expects to pay the fourth quarter dividend (including dividends on mandatorily redeemable capital stock), which will total $9, on or about March 26, 2010. The Bank's dividend rate for 2009, including both the second and fourth quarter dividends, was 0.28%. The Bank's dividend rate for 2008 was 3.93%.

The Bank paid the second quarter and expects to pay the fourth quarter dividend in cash rather than stock form to comply with Finance Agency rules, which do not permit the Bank to pay dividends in the form of capital stock if the Bank's excess capital stock exceeds 1% of its total assets. As of June 30, 2009, the Bank's excess capital stock totaled $4,586, or 2% of total assets. As of December 31, 2009, the Bank's excess capital stock totaled $6,462, or 3% of total assets.

The Bank will continue to monitor the condition of its MBS portfolio, its overall financial performance and retained earnings, developments in the mortgage and credit markets, and other relevant information as the basis for determining the status of dividends in future quarters.

Excess and Surplus Capital Stock. The Bank may repurchase some or all of a member's excess capital stock and any excess mandatorily redeemable capital stock, at the Bank's discretion and subject to certain statutory and regulatory requirements. The Bank must give the member 15 days' written notice; however, the member may waive this notice period. The Bank may also repurchase some or all of a member's excess capital stock at the member's request, at the Bank's discretion and subject to certain statutory and regulatory requirements. Excess capital stock is defined as any stock holdings in excess of a member's minimum capital stock requirement, as established by the Bank's capital plan.

A member may obtain redemption of excess capital stock following a five-year redemption period, subject to certain conditions, by providing a written redemption notice to the Bank. As noted above, at its discretion, under certain conditions the Bank may repurchase excess stock at any time before the five-year redemption period has expired. Although historically the Bank has repurchased excess stock at a member's request prior to the expiration of the redemption period, the decision to repurchase excess stock prior to the expiration of the redemption period remains at the Bank's discretion. Stock required to meet a withdrawing member's membership stock requirement may only be redeemed at the end of the five-year redemption period subject to statutory and regulatory limits and other conditions.

The Bank's surplus capital stock repurchase policy provides for the Bank to repurchase excess stock that constitutes surplus stock, at the Bank's discretion and subject to certain statutory and regulatory requirements, if a member has surplus capital stock as of the last business day of the quarter. A member's surplus capital stock is defined as any stock holdings in excess of 115% of the member's minimum capital stock requirement, generally excluding stock dividends earned and credited for the current year.

When the Bank repurchases excess stock from a member, the Bank first repurchases any excess stock subject to a redemption notice submitted by that member, followed by the most recently purchased shares of excess stock not subject to a redemption notice, then by shares of excess stock most recently acquired other than by purchase and not subject to a redemption notice, unless the Bank receives different instructions from the member.

On a quarterly basis, the Bank determines whether it will repurchase excess capital stock, including surplus capital stock. The Bank has not repurchased excess stock since the fourth quarter of 2008 to preserve the Bank's capital.

Although the Bank did not repurchase excess capital stock during 2009, the five-year redemption period for $16 in mandatorily redeemable capital stock expired in 2009, and the Bank redeemed the stock at its $100 par value on the relevant expiration dates.

The Bank will continue to monitor the condition of its MBS portfolio, its overall financial performance and retained earnings, developments in the mortgage and credit markets, and other relevant information as the basis for determining the status of capital stock repurchases in future quarters.

In 2008, the Bank repurchased surplus capital stock totaling $792 and excess capital stock that was not surplus capital stock totaling $1,739.

Excess capital stock totaled $6,462 as of December 31, 2009, which included surplus capital stock of $5,769.

Concentration. The following table presents the concentration in capital stock held by institutions whose capital stock ownership represented 10% or more of the Bank's outstanding capital stock, including mandatorily redeemable capital stock, as of December 31, 2009 and 2008.

Concentration of Capital Stock
Including Mandatorily Redeemable Capital Stock

	2009		2008	
Name of Institution	Capital Stock Outstanding	Percentage of Total Capital Stock Outstanding	Capital Stock Outstanding	Percentage of Total Capital Stock Outstanding
Citibank, N.A.	$ 3,877	29%	$ 3,877	29%
JPMorgan Chase Bank, National Association[1]	2,695	20	2,995	22
Wells Fargo Bank, N.A.[2]	1,567	12	1,572	12
Subtotal	8,139	61	8,444	63
Others	5,279	39	4,919	37
Total	$13,418	100%	$13,363	100%

(1) On September 25, 2008, the OTS closed Washington Mutual Bank and appointed the FDIC as receiver for Washington Mutual Bank. On the same day, JPMorgan Chase Bank, National Association, a nonmember, assumed Washington Mutual Bank's outstanding Bank advances and acquired the associated Bank capital stock. The capital stock held by JPMorgan Chase Bank, National Association, is classified as mandatorily redeemable capital stock (a liability). JPMorgan Chase Bank, National Association, remains obligated for all of Washington Mutual Bank's outstanding advances and continues to hold most of the Bank capital stock it acquired from the FDIC as receiver for Washington Mutual Bank. JPMorgan Bank and Trust Company, National Association, an affiliate of JPMorgan Chase Bank, National Association, became a member of the Bank in 2008. During the first quarter of 2009, the Bank allowed the transfer of excess stock totaling $300 from JPMorgan Chase Bank, National Association, to JPMorgan Bank and Trust Company, National Association, to enable JPMorgan Bank and Trust Company, National Association, to satisfy its activity-based stock requirement. The capital stock transferred is no longer classified as mandatorily redeemable capital stock (a liability). However, the capital stock remaining with JPMorgan Chase Bank, National Association, totaling $2,695, remains classified as mandatorily redeemable capital stock (a liability).

(2) On December 31, 2008, Wells Fargo & Company, a nonmember, acquired Wachovia Corporation, the parent company of Wachovia Mortgage, FSB. Wachovia Mortgage, FSB, operated as a separate entity and continued to be a member of the Bank until its merger into Wells Fargo Bank, N.A., a subsidiary of Wells Fargo & Company, on November 1, 2009. Effective November 1, 2009, Wells Fargo Financial National Bank, an affiliate of Wells Fargo & Company, became a member of the Bank, and the Bank allowed the transfer of excess capital stock totaling $5 from Wachovia Mortgage, FSB, to Wells Fargo Financial National Bank to enable Wells Fargo Financial National Bank to satisfy its initial membership stock requirement. As a result of the merger, Wells Fargo Bank, N.A., assumed all outstanding Bank advances and the remaining Bank capital stock of Wachovia Mortgage, FSB. The Bank reclassified the capital stock transferred to Wells Fargo Bank, N.A., totaling $1,567, to mandatorily redeemable capital stock (a liability).

Note 14 – Employee Retirement Plans and Incentive Compensation Plans

Defined Benefit Plans

Cash Balance Plan. The Bank provides retirement benefits through a Bank-sponsored Cash Balance Plan, a qualified defined benefit plan. The Cash Balance Plan covers all employees who have completed six months of Bank service. Under the plan, each eligible Bank employee accrues benefits annually equal to 6% of the employee's annual pay, plus 6% interest on the benefits accrued to the employee through the prior yearend. The Cash Balance Plan is funded through a trust established by the Bank.

Non-Qualified Defined Benefit Plans. The Bank sponsors several non-qualified defined benefit retirement plans. These non-qualified plans include the following:

- Benefit Equalization Plan, a non-qualified retirement plan restoring benefits offered under the qualified plans that have been limited by laws governing the plans;
- Supplemental Executive Retirement Plan (SERP), a non-qualified retirement benefit plan available to the Bank's executive management, which provides a service-linked supplemental cash balance contribution to SERP participants that is in addition to the contributions made to the qualified Cash Balance Plan; and
- Defined benefit portion of the Deferred Compensation Plan, a non-qualified retirement plan available to all Bank officers and directors, which provides make-up pension benefits that would have been earned under the Cash Balance Plan had the compensation not been deferred. See below for further discussion on the Deferred Compensation Plan.

Postretirement Health Benefit Plan. The Bank provides a postretirement health benefit plan to employees hired before January 1, 2003. The Bank's costs are capped at 1998 health care and premium amounts. As a result, changes in health care cost trend rates will have no effect on the Bank's accumulated postretirement benefit obligation or service and interest costs.

The following tables summarize the changes in the benefit obligations, plan assets, and funded status of the defined benefit Cash Balance Plan, non-qualified defined benefit plans, and postretirement health benefit plan for the years ended December 31, 2009 and 2008.

	2009			2008		
	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan
Change in benefit obligation						
Benefit obligation, beginning of the year	$18	$ 9	$ 2	$15	$ 7	$ 2
Service cost	2	1	—	2	1	—
Interest cost	1	1	—	2	1	—
Actuarial gain	2	1	—	—	—	—
Benefits paid	(1)	—	—	(1)	—	—
Benefit obligation, end of the year	$22	$ 12	$ 2	$18	$ 9	$ 2
Change in plan assets						
Fair value of plan assets, beginning of the year	$12	$ —	$—	$15	$—	$—
Actual return on plan assets	3	—	—	(4)	—	—
Employer contributions	4	—	—	2	—	—
Benefits paid	(1)	—	—	(1)	—	—
Fair value of plan assets, end of the year	$18	$ —	$—	$12	$—	$—
Funded status at the end of the year	$ (4)	$(12)	$ (2)	$ (6)	$ (9)	$ (2)

Amounts recognized in the Statements of Condition at December 31, 2009 and 2008, consist of:

	2009			2008		
	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan
Other assets	$—	$ —	$—	$—	$—	$—
Other liabilities	(4)	(12)	(2)	(6)	(9)	(2)
Net amount recognized	$ (4)	$(12)	$ (2)	$ (6)	$ (9)	$ (2)

Amounts recognized in AOCI at December 31, 2009 and 2008, consist of:

	2009			2008		
	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan
Net loss/(gain)	$ 6	$ 1	$ (1)	$ 6	$—	$ (1)
Transition obligation	—	—	1	—	—	1
AOCI	$ 6	$ 1	$—	$ 6	$—	$—

The following table presents information for pension plans with benefit obligations in excess of plan assets at December 31, 2009 and 2008.

	2009			2008		
	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan
Projected benefit obligation	$22	$12	$ 2	$18	$ 9	$ 2
Accumulated benefit obligation	19	10	2	16	8	2
Fair value of plan assets	18	—	—	12	—	—

Components of the net periodic benefit costs/(income) and other amounts recognized in other comprehensive income for the years ended December 31, 2009, 2008, and 2007, were as follows:

	2009			2008			2007		
	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan
Net periodic benefit cost/(income)									
Service cost	$ 2	$ 1	$—	$ 2	$ 1	$—	$ 2	$ 1	$—
Interest cost	1	1	—	1	—	—	1	—	—
Expected return on assets	(1)	—	—	(1)	—	—	(1)	—	—
Net periodic benefit cost	2	2	—	2	1	—	2	1	—
Other changes in plan assets and benefit obligations recognized in other comprehensive income									
Net loss/(gain)	—	1	—	5	—	—	(2)	—	—
Total recognized in other comprehensive income	—	1	—	5	—	—	(2)	—	—
Total recognized in net periodic benefit cost and other comprehensive income	$ 2	$ 3	$—	$ 7	$ 1	$—	$—	$ 1	$—

The amounts in AOCI expected to be recognized as components of net periodic benefit cost in 2009 are immaterial.

Weighted-average assumptions used to determine the benefit obligations at December 31, 2009 and 2008, for the Cash Balance Plan, non-qualified defined benefit plans, and postretirement health benefit plan were as follows:

	2009			2008		
	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan
Discount rate	5.75%	5.75%	5.86%	6.50%	6.50%	6.20%
Rate of compensation increase	5.00	5.00	—	5.00	5.00	—

Weighted-average assumptions used to determine the net periodic benefit costs for the years ended December 31, 2009, 2008, and 2007, for the Cash Balance Plan, non-qualified defined benefit plans, and postretirement health benefit plan were as follows:

	2009			2008			2007		
	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Post-retirement Health Benefit Plan
Discount rate	6.50%	6.50%	6.20%	6.25%	6.25%	6.25%	5.75%	5.75%	5.75%
Rate of compensation increase	5.00	5.00	—	5.00	5.00	—	5.00	5.00	—
Expected return on plan assets	8.00	—	—	8.00	—	—	8.00	—	—

The Bank uses a discount rate to determine the present value of its future benefit obligations. The discount rate reflects the rates available at the measurement date on long-term high-quality fixed income debt instruments and was determined based on the Citigroup Pension Discount Curve. The Bank has determined that the timing and amount of projected cash outflows in the Citigroup Pension Discount Curve are consistent with the timing and amount of expected benefit payments by comparing the duration of projected plan liabilities to the duration of the bonds in the Citigroup Pension Discount Curve. This comparison showed that the duration of the projected plan liabilities is approximately the same, or slightly longer, than the duration of the bonds in the Citigroup Pension Discount Curve. The discount rate is reset annually on the measurement date.

The expected return on plan assets was determined based on (i) the historical returns for each asset class, (ii) the expected future long-term returns for these asset classes, and (iii) the plan's target asset allocation.

The table below presents the fair values of the Cash Balance Plan's assets as of December 31, 2009, by asset category. See Note 17 to the Financial Statements for further information regarding the three levels of fair value measurement.

	Fair Value Measurement Using:			
Asset Category	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1	$—	$—	$ 1
Collective investment trust	2	—	—	2
Equity mutual funds	10	—	—	10
Fixed income mutual funds	4	—	—	4
Real estate mutual funds	—	—	—	—
Other mutual funds	1	—	—	1
Total	$18	$—	$—	$18

The Cash Balance Plan is administered by the Bank's Retirement Committee, which establishes the plan's Statement of Investment Policy and Objectives. The Retirement Committee has adopted a strategic asset allocation that envisions a reasonably stable distribution of assets among major asset classes. These asset classes include domestic large-, mid-, and small-capitalization equity; international equity investments; and fixed income investments. The Retirement Committee has set the Cash Balance Plan's target allocation percentages for a mix range of 50-70% equity and 30-50% fixed income. The Retirement Committee reviews the performance of the Cash Balance Plan on a quarterly basis.

The Cash Balance Plan's weighted average asset allocation at December 31, 2009 and 2008, by asset category was as follows:

Asset Category	2009	2008
Cash and cash equivalents	7%	5%
Collective investment trust	10	—
Equity mutual funds	57	55
Fixed income mutual funds	22	38
Real estate mutual funds	2	1
Other mutual funds	2	1
Total	100%	100%

The Bank contributed $4 in 2009 and expects to contribute $3 in 2010 to the Cash Balance Plan. Immaterial contribution amounts were made to the non-qualified defined benefit plans and postretirement health plan in 2009. The Bank expects to contribute $1 to the non-qualified defined benefit plans and postretirement health plan in 2010.

The following are the estimated future benefit payments, which reflect expected future service, as appropriate:

	Cash Balance Plan	Non-Qualified Defined Benefit Plans	Postretirement Health Benefit Plan
2010	$ 1	$ 1	$—
2011	1	—	—
2012	2	4	—
2013	2	—	—
2014	2	1	—
2015 – 2019	13	7	1

Defined Contribution Plans

Retirement Savings Plan. The Bank sponsors a qualified defined contribution retirement savings plan, the Federal Home Loan Bank of San Francisco Savings Plan. Contributions to the Savings Plan consist of elective participant contributions of up to 20% of each participant's compensation and a Bank matching contribution of up to 6% of each participant's compensation. The Bank contributed approximately $2, $1, and $1 in 2009, 2008, and 2007, respectively.

Deferred Compensation Plan. The Bank maintains a deferred compensation plan that is available to all officers and directors. The plan is comprised of three components: (i) officer or director deferral of current compensation, (ii) make-up matching contributions for officers that would have been made by the Bank under the Savings Plan had the compensation not been deferred; and (iii) make-up pension benefits for officers that would have been earned under the Cash Balance Plan had the compensation not been deferred. The make-up benefits under the Deferred Compensation Plan vest according to the corresponding provisions of the Cash Balance Plan and the Savings Plan. The Deferred Compensation Plan liability consists of the accumulated compensation deferrals and accrued earnings on the deferrals. The Bank's obligation for this plan at December 31, 2009, 2008, and 2007, was $25, $26, and $34, respectively.

Incentive Compensation Plans

The Bank provides incentive compensation plans for many of its employees, including executive officers. Other liabilities include $11 and $9 for incentive compensation at December 31, 2009 and 2008, respectively.

Note 15 – Segment Information

The Bank uses an analysis of financial performance based on the balances and adjusted net interest income of two operating segments, the advances-related business and the mortgage-related business, as well as other financial information, to review and assess financial performance and to determine the allocation of resources to these two major business segments. For purposes of segment reporting, adjusted net interest income includes interest income and expenses associated with economic hedges that are recorded in "Net gain/(loss) on derivatives and hedging activities" in other income and excludes interest expense that is recorded in "Mandatorily redeemable

capital stock." Other key financial information, such as any OTTI loss on the Bank's held-to-maturity PLRMBS, other expenses, and assessments, are not included in the segment reporting analysis, but are incorporated into management's overall assessment of financial performance.

The advances-related business consists of advances and other credit products, related financing and hedging instruments, liquidity and other non-MBS investments associated with the Bank's role as a liquidity provider, and capital stock. Adjusted net interest income for this segment is derived primarily from the difference, or spread, between the yield on all assets associated with the business activities in this segment and the cost of funding those activities, cash flows from associated interest rate exchange agreements, and earnings on invested capital stock.

The mortgage-related business consists of MBS investments, mortgage loans acquired through the MPF Program, the consolidated obligations specifically identified as funding those assets, and related hedging instruments. Adjusted net interest income for this segment is derived primarily from the difference, or spread, between the yield on the MBS and mortgage loans and the cost of the consolidated obligations funding those assets, including the cash flows from associated interest rate exchange agreements, less the provision for credit losses on mortgage loans.

The following table presents the Bank's adjusted net interest income by operating segment and reconciles total adjusted net interest income to (loss)/income before assessments for the years ended December 31, 2009, 2008, and 2007.

Reconciliation of Adjusted Net Interest Income and Income Before Assessments

	Advances-Related Business	Mortgage-Related Business[1]	Adjusted Net Interest Income	Amortization of Deferred Gains/(Losses)[2]	Net Interest Income/(Expense) on Economic Hedges[3]	Interest Expense on Mandatorily Redeemable Capital Stock[4]	Net Interest Income	Other (Loss)/Income	Other Expense	Income Before Assessments
2009	$700	$543	$1,243	$(93)	$(452)	$ 7	$1,781	$(948)	$132	$701
2008	862	471	1,333	8	(120)	14	1,431	(690)	112	629
2007	835	127	962	28	(4)	7	931	55	98	888

(1) Does not include credit-related OTTI charges of $608 and $20 for the years ended December 31, 2009 and 2008, respectively.
(2) Represents amortization of amounts deferred for adjusted net interest income purposes only in accordance with the Bank's Retained Earnings and Dividend Policy.
(3) The Bank includes interest income and interest expense associated with economic hedges in adjusted net interest income in its analysis of financial performance for its two operating segments. For financial reporting purposes, the Bank does not include these amounts in net interest income in the Statements of Income, but instead records them in other income in "Net gain/(loss) on derivatives and hedging activities."
(4) The Bank excludes interest expense on mandatorily redeemable capital stock from adjusted net interest income in its analysis of financial performance for its two operating segments.

The following table presents total assets by operating segment at December 31, 2009, 2008, and 2007:

Total Assets

	Advances-Related Business	Mortgage-Related Business	Total Assets
2009	$161,406	$31,456	$192,862
2008	278,221	43,023	321,244
2007	284,046	38,400	322,446

Note 16 – Derivatives and Hedging Activities

General. The Bank may enter into interest rate swaps (including callable, putable, and basis swaps); swaptions; and cap, floor, corridor, and collar agreements (collectively, interest rate exchange agreements or derivatives). Most of the Bank's interest rate exchange agreements are executed in conjunction with the origination of advances and the issuance of consolidated obligation bonds to create variable rate structures. The interest rate exchange agreements are generally executed at the same time as the advances and bonds are transacted and generally have the same maturity dates as the related advances and bonds.

Additional active uses of interest rate exchange agreements include: (i) offsetting interest rate caps, floors, corridors, or collars embedded in adjustable rate advances made to members, (ii) hedging the anticipated issuance of debt, (iii) matching against consolidated obligation discount notes or bonds to create the equivalent of callable fixed rate debt, (iv) modifying the repricing intervals between variable rate assets and variable rate liabilities, and (v) exactly offsetting other derivatives executed with members (with the Bank serving as an intermediary). The Bank's use of interest rate exchange agreements results in one of the following classifications: (i) a fair value hedge of an underlying financial instrument, (ii) a forecasted transaction, (iii) a cash flow hedge of an underlying financial instrument, (iv) an economic hedge for specific asset and liability management purposes, or (v) an intermediary transaction for members.

Interest Rate Swaps – An interest rate swap is an agreement between two entities to exchange cash flows in the future. The agreement sets the dates on which the cash flows will be paid and the manner in which the cash flows will be calculated. One of the simplest forms of an interest rate swap involves the promise by one party to pay cash flows equivalent to the interest on a notional principal amount at a predetermined fixed rate for a given period of time. In return for this promise, this party receives cash flows equivalent to the interest on the same notional principal amount at a variable rate index for the same period of time. The variable rate received or paid by the Bank in most interest rate exchange agreements is LIBOR.

Swaptions – A swaption is an option on a swap that gives the buyer the right to enter into a specified interest rate swap at a certain time in the future. When used as a hedge, a swaption can protect the Bank against future interest rate changes when it is planning to lend or borrow funds in the future. The Bank purchases receiver swaptions. A receiver swaption is the option to receive fixed interest payments at a later date.

Interest Rate Caps and Floors – In a cap agreement, a cash flow is generated if the price or rate of an underlying variable rate rises above a certain threshold (or cap) price. In a floor agreement, a cash flow is generated if the price or rate of an underlying variable falls below a certain threshold (or floor) price. Caps may be used in conjunction with liabilities and floors may be used in conjunction with assets. Caps and floors are designed as protection against the interest rate on a variable rate asset or liability rising above or falling below a certain level.

An economic hedge is defined as an interest rate exchange agreement hedging specific or nonspecific underlying assets, liabilities, or firm commitments that does not qualify or was not designated for hedge accounting treatment, but is an acceptable hedging strategy under the Bank's risk management program. These economic hedging strategies also comply with Finance Agency regulatory requirements prohibiting speculative hedge transactions. An economic hedge introduces the potential for earnings variability because the changes in fair value recorded on the interest rate exchange agreements are generally not offset by corresponding changes in the value of the economically hedged assets, liabilities, or firm commitments.

Consistent with Finance Agency regulations, the Bank enters into interest rate exchange agreements only to reduce the interest rate risk exposures inherent in otherwise unhedged assets and funding positions, to achieve the Bank's risk management objectives, and to act as an intermediary between members and counterparties. Bank management uses interest rate exchange agreements when they are deemed to be the most cost-effective alternative to achieve the Bank's financial and risk management objectives. Accordingly, the Bank may enter into interest rate exchange agreements that do not necessarily qualify for hedge accounting (economic hedges). As a result, in those cases, the Bank recognizes only the change in fair value of these interest rate exchange agreements in other income as "Net gain/(loss) on derivatives and hedging activities," with no offsetting fair value adjustments for the economically hedged asset, liability, or firm commitment.

The Bank is not a derivatives dealer and does not trade derivatives for profit.

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

The Bank discontinues hedge accounting prospectively when (i) 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); (ii) the derivative and/or the hedged item expires or is sold, terminated, or exercised; (iii) it is no longer probable that the forecasted transaction will occur in the originally expected period; (iv) a hedged firm commitment no longer meets the definition of a firm commitment; (v) management determines that designating the derivative as a hedging instrument is no longer appropriate; or (vi) management decides to use the derivative to offset changes in the fair value of other derivatives or instruments carried at fair value.

Intermediation – As an additional service to its members, the Bank enters into offsetting interest rate exchange agreements, acting as an intermediary between exactly offsetting derivatives transactions with members and other counterparties. This intermediation allows members indirect access to the derivatives market. Derivatives in which the Bank is an intermediary may also arise when the Bank enters into derivatives to offset the economic effect of other derivatives that are no longer designated to advances, investments, or consolidated obligations. The offsetting derivatives used in intermediary activities do not receive hedge accounting treatment 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 Bank. These amounts are recorded in other income and presented as "Net gain/(loss) on derivatives and hedging activities."

The notional principal of interest rate exchange agreements associated with derivatives with members and offsetting derivatives with other counterparties was $616 at December 31, 2009, and $346 at December 31, 2008. The Bank did not have any interest rate exchange agreements outstanding at December 31, 2009 and 2008, that were used to offset the economic effect of other derivatives that were no longer designated to advances, investments, or consolidated obligations.

Investments – The Bank may invest in U.S. Treasury and agency obligations, MBS rated AAA at the time of acquisition, and the taxable portion of highly rated state or local housing finance agency obligations. The interest rate and prepayment risk associated with these investment securities is managed through a combination of debt issuance and derivatives. The Bank may manage prepayment risk and interest rate risk by funding investment securities with consolidated obligations that have call features or by hedging the prepayment risk with a combination of consolidated obligations and callable swaps or swaptions. The Bank executes callable swaps and purchases swaptions in conjunction with the issuance of certain liabilities to create funding equivalent to fixed rate callable debt. Although these derivatives are economic hedges against prepayment risk and are designated to individual liabilities, they do not receive either fair value or cash flow hedge accounting treatment. The derivatives are marked to market through earnings and provide modest income volatility. Investment securities may be classified as trading or held-to-maturity.

The Bank may also manage the risk arising from changing market prices or cash flows of investment securities classified as trading by entering into interest rate exchange agreements (economic hedges) that offset the changes in fair value or cash flows of the securities. The market value changes of both the trading securities and the associated interest rate exchange agreements are included in other income in the Statements of Income.

Advances – The Bank offers a wide array of advance structures to meet members' funding needs. These advances may have maturities up to 30 years with fixed or adjustable rates and may include early termination features or options. The Bank may use derivatives to adjust the repricing and/or options characteristics of advances to more closely match the characteristics of the Bank's funding liabilities. In general, whenever a member executes a fixed rate advance or a variable rate advance with embedded options, the Bank will simultaneously execute an interest rate exchange agreement with terms that offset the terms and embedded options, if any, in the advance. The combination of the advance and the interest rate exchange agreement effectively creates a variable rate asset. This type of hedge is treated as a fair value hedge.

Mortgage Loans – The Bank's investment portfolio includes fixed rate mortgage loans. The prepayment options embedded in mortgage loans can result in extensions or contractions in the expected repayment of these investments, depending on changes in estimated prepayment speeds. The Bank manages the interest rate risk and prepayment risk associated with fixed rate mortgage loans through a combination of debt issuance and derivatives. The Bank uses both callable and non-callable debt to achieve cash flow patterns and market value sensitivities for liabilities similar to those expected on the mortgage loans. Net income could be reduced if the Bank replaces prepaid mortgages with lower-yielding assets and the Bank's higher funding costs are not reduced accordingly.

The Bank executes callable swaps and purchases swaptions in conjunction with the issuance of certain consolidated obligations to create funding equivalent to fixed rate callable bonds. Although these derivatives are economic hedges against the prepayment risk of

specific loan pools and are referenced to individual liabilities, they do not receive either fair value or cash flow hedge accounting treatment. The derivatives are marked to market through earnings and are presented as "Net gain/(loss) on derivatives and hedging activities."

Consolidated Obligations – Although the joint and several liability regulation authorizes the Finance Agency to require any FHLBank to repay all or a portion of the principal or interest on consolidated obligations for which another FHLBank is the primary obligor, FHLBanks individually are counterparties to interest rate exchange agreements associated with specific debt issues. The Office of Finance acts as agent of the FHLBanks in the debt issuance process. In connection with each debt issuance, each FHLBank specifies the terms and the amount of debt it requests to have issued on its behalf. The Office of Finance tracks the amount of debt issued on behalf of each FHLBank. In addition, the Bank separately tracks and records as a liability its specific portion of consolidated obligations and is the primary obligor for its specific portion of consolidated obligations issued. Because the Bank knows the amount of consolidated obligations issued on its behalf, it has the ability to structure hedging instruments to match its specific debt. The hedge transactions may be executed on or after the issuance of consolidated obligations and are accounted for based on the accounting for derivative instruments and hedging activities.

Consolidated obligation bonds are structured to meet the Bank's and/or investors' needs. Common structures include fixed rate bonds with or without call options and adjustable rate bonds with or without embedded options. In general, when bonds with these structures are issued, the Bank will simultaneously execute an interest rate exchange agreement with terms that offset the terms and embedded options, if any, of the consolidated obligation bond. This combination of the consolidated obligation bond and the interest rate exchange agreement effectively creates an adjustable rate bond. The cost of this funding combination is generally lower than the cost that would be available through the issuance of just an adjustable rate bond. These transactions generally receive fair value hedge accounting treatment.

The Bank did not have any consolidated obligations denominated in currencies other than U.S. dollars outstanding during 2009, 2008, or 2007.

Firm Commitments – A firm commitment for a forward starting advance hedged through the use of an offsetting forward starting interest rate swap is considered a derivative. In this case, the interest rate swap functions as the hedging instrument for both the firm commitment and the subsequent advance. When the commitment is terminated and the advance is made, the current market value associated with the firm commitment is included with the basis of the advance. The basis adjustment is then amortized into interest income over the life of the advance.

Anticipated Debt Issuance – The Bank may enter into interest rate swaps for the anticipated issuances of fixed rate bonds to hedge the cost of funding. These hedges are designated and accounted for as cash flow hedges. The interest rate swap is terminated upon issuance of the fixed rate bond, with the effective portion of the realized gain or loss on the interest rate swap recorded in other comprehensive income. Realized gains and losses reported in AOCI are recognized as earnings in the periods in which earnings are affected by the cash flows of the fixed rate bonds.

Credit Risk – The Bank is subject to credit risk as a result of the risk of nonperformance by counterparties to the derivative agreements. All of the Bank's derivative agreements contain master netting provisions to help mitigate the credit risk exposure to each counterparty. The Bank manages counterparty credit risk through credit analyses and collateral requirements and by following the requirements of the Bank's risk management policies and credit guidelines. Based on the master netting provisions in each agreement, credit analyses, and the collateral requirements in place with each counterparty, the Bank does not expect to incur any credit losses on derivative agreements.

The notional amount of an interest rate exchange agreement serves as a basis for calculating periodic interest payments or cash flows and is not a measure of the amount of credit risk from that transaction. The Bank had notional amounts outstanding of $235,014 at December 31, 2009, and $331,643 at December 31, 2008. The notional amount does not represent the exposure to credit loss. The amount potentially subject to credit loss is the estimated cost of replacing an interest rate exchange agreement that has a net positive market value if the counterparty defaults; this amount is substantially less than the notional amount.

Maximum credit risk is defined as the estimated cost of replacing all interest rate exchange agreements the Bank has transacted with counterparties where the Bank is in a net favorable position (has a net unrealized gain) if the counterparties all defaulted and the related collateral proved to be of no value to the Bank. At December 31, 2009 and 2008, the Bank's maximum credit risk, as defined above,

was estimated at $1,827 and $2,493, respectively, including $399 and $493 of net accrued interest and fees receivable, respectively. Accrued interest and fees receivable and payable and the legal right to offset assets and liabilities by counterparty (under which amounts recognized for individual transactions may be offset against amounts recognized for other derivatives transactions with the same counterparty) are considered in determining the maximum credit risk. The Bank held cash, investment grade securities, and mortgage loans valued at $1,868 and $2,508 as collateral from counterparties as of December 31, 2009 and 2008, respectively. This collateral has not been sold or repledged. A significant number of the Bank's interest rate exchange agreements are transacted with financial institutions such as major banks and highly rated derivatives dealers. Some of these financial institutions or their broker-dealer affiliates buy, sell, and distribute consolidated obligations. Assets pledged as collateral by the Bank to these counterparties are more fully discussed in Note 18.

One of the Bank's derivatives counterparties was Lehman Brothers Special Financing Inc. (LBSF), a subsidiary of Lehman Brothers Holdings Inc. (LBH). In September 2008, LBH filed for Chapter 11 bankruptcy. Because the bankruptcy filing constituted an event of default under LBSF's derivatives agreement with the Bank, the Bank terminated all outstanding positions with LBSF early and entered into derivatives transactions with other dealers to replace a large portion of the terminated transactions, which totaled $13,200 (notional). Because the Bank had adequate collateral from LBSF, the Bank did not incur a loss on the terminations. LBSF subsequently filed for bankruptcy in October 2008.

Certain of the Bank's derivatives agreements contain provisions that link the Bank's credit rating from each of the major credit rating agencies to various rights and obligations. In several of the Bank's derivatives agreements, if the Bank's debt rating falls below A, the Bank's counterparty would have the right, but not the obligation, to terminate all of its outstanding derivatives transactions with the Bank. In addition, the amount of collateral that the Bank is required to deliver to a counterparty depends on the Bank's credit rating. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net derivative liability position (before cash collateral and related accrued interest) at December 31, 2009, was $190, for which the Bank had posted collateral of $40 in the normal course of business. If the credit rating of the Bank's debt had been lowered to AAA/AA, then the Bank would have been required to deliver up to an additional $48 of collateral to its derivatives counterparties at December 31, 2009. The Bank's credit ratings continue to be AAA/AAA.

The following table summarizes the fair value of derivative instruments without the effect of netting arrangements or collateral as of December 31, 2009 and 2008. For purposes of this disclosure, the derivatives values include the fair value of derivatives and related accrued interest.

Fair Values of Derivative Instruments

	2009			2008		
	Notional Amount of Derivatives	Derivative Assets	Derivative Liabilities	Notional Amount of Derivatives	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate swaps	$104,211	$ 2,476	$ 699	$114,374	$ 4,216	$ 1,340
Total	104,211	2,476	699	114,374	4,216	1,340
Derivatives not designated as hedging instruments:						
Interest rate swaps	129,108	684	756	215,374	923	1,699
Interest rate caps, floors, corridors, and/or collars	1,695	16	22	1,895	1	20
Total	130,803	700	778	217,269	924	1,719
Total derivatives before netting and collateral adjustments	$235,014	3,176	1,477	$331,643	5,140	3,059
Netting adjustments by counterparty		(1,349)	(1,349)		(2,647)	(2,647)
Cash collateral and related accrued interest		(1,375)	77		(2,026)	25
Total collateral and netting adjustments[1]		(2,724)	(1,272)		(4,673)	(2,622)
Derivative assets and derivative liabilities as reported on the Statements of Condition		$ 452	$ 205		$ 467	$ 437

(1) Amounts represent the effect of legally enforceable master netting agreements that allow the Bank to settle positive and negative positions and also cash collateral held or placed with the same counterparty.

The following table presents the components of net (loss)/gain on derivatives and hedging activities as presented in the Statements of Income for the years ended December 31, 2009, 2008, and 2007.

	2009 Gain/(Loss)	2008 Gain/(Loss)	2007 Gain/(Loss)
Derivatives and hedged items in fair value hedging relationships – hedge ineffectiveness by derivative type:			
Interest rate swaps	$ 24	$ 10	$(24)
Total net gain/(loss) related to fair value hedge ineffectiveness	24	10	(24)
Derivatives not designated as hedging instruments:			
Economic hedges:			
Interest rate swaps	538	(863)	65
Interest rate swaptions	—	(21)	15
Interest rate caps, floors, corridors, and/or collars	12	(14)	—
Net interest settlements	(452)	(120)	(4)
Total net (loss)/gain related to derivatives not designated as hedging instruments	98	(1,018)	76
Net (loss)/gain on derivatives and hedging activities	$ 122	$(1,008)	$ 52

The following table presents, by type of hedged item, the gains and losses on derivatives and the related hedged items in fair value hedging relationships and the impact of those derivatives on the Bank's net interest income for the years ended December 31, 2009, 2008, and 2007.

Hedged Item Type	Gain/ (Loss) on Derivative	Gain/ (Loss) on Hedged Item	Net Fair Value Hedge Ineffectiveness	Effect of Derivatives on Net Interest Income[1]
Year ended December 31, 2009:				
Advances	$ 641	$ (677)	$(36)	$ (966)
Consolidated obligation bonds	(1,649)	1,709	60	2,099
Total	$(1,008)	$ 1,032	$ 24	$1,133
Year ended December 31, 2008:				
Advances	$(1,016)	$ 1,064	$ 48	$ (388)
Consolidated obligation bonds	2,528	(2,566)	(38)	1,541
Total	$ 1,512	$(1,502)	$ 10	$1,153
Year ended December 31, 2007:				
Advances	$ (800)	$ 802	$ 2	$ 230
Consolidated obligation bonds	2,405	(2,431)	(26)	(867)
Total	$ 1,605	$(1,629)	$(24)	$ (637)

(1) The net interest on derivatives in fair value hedge relationships is presented in the interest income/expense line item of the respective hedged item.

For the years ended December 31, 2009 and 2008, there were no reclassifications from other comprehensive income/(loss) into earnings as a result of the discontinuance of cash flow hedges because the original forecasted transactions occurred by the end of the originally specified time period or within a two-month period thereafter.

As of December 31, 2009, the amount of unrecognized net losses on derivative instruments accumulated in other comprehensive income expected to be reclassified to earnings during the next 12 months was immaterial. The maximum length of time over which the Bank is hedging its exposure to the variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, is less than three months.

The following table presents outstanding notional balances and estimated fair values of the derivatives outstanding at December 31, 2009 and 2008:

	2009		2008	
Type of Derivative and Hedge Classification	Notional Amount of Derivatives	Estimated Fair Value	Notional Amount of Derivatives	Estimated Fair Value
Interest rate swaps:				
Fair value	$104,211	$ 1,392	$114,374	$ 2,486
Economic	129,108	(78)	215,374	(907)
Interest rate caps, floors, corridors, and/or collars:				
Economic	1,695	(6)	1,895	(18)
Total	$235,014	$ 1,308	$331,643	$ 1,561
Total derivatives excluding accrued interest		$ 1,308		$ 1,561
Accrued interest, net		391		520
Cash collateral held from counterparties – liabilities[1]		(1,452)		(2,051)
Net derivative balances		$ 247		$ 30
Derivative assets		$ 452		$ 467
Derivative liabilities		(205)		(437)
Net derivative balances		$ 247		$ 30

(1) Amount represents the receivable or payable related to cash collateral arising from derivative instruments recognized at fair value executed with the same counterparty under a master netting arrangement.

Embedded derivatives are bifurcated, and their estimated fair values are accounted for in accordance with the accounting for derivative instruments and hedging activities. The estimated fair values of the embedded derivatives are included as valuation adjustments to the host contract and are not included in the above table. The estimated fair values of these embedded derivatives were immaterial as of December 31, 2009 and 2008.

Note 17 – Estimated Fair Values

Fair Value Measurement. Fair value measurement guidance defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and expands disclosures about fair value measurements. The Bank adopted the fair value measurement guidance on January 1, 2008. This guidance applies whenever other accounting pronouncements require or permit assets or liabilities to be measured at fair value. The Bank uses fair value measurements to record fair value adjustments for certain financial assets and liabilities and to determine fair value disclosures.

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, and the price used to measure fair value is an exit price considered from the perspective of the market participant that holds the asset or owes the liability.

This guidance establishes a three-level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets. An active market for the asset or liability is a market in which the transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are supported by little or no market activity or by the Bank's own assumptions.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

In general, fair values are based on quoted or market list prices in the principal market when they are available. If listed prices or quotes are not available, fair values are based on dealer prices and prices of similar instruments. If dealer prices and prices of similar instruments are not available, fair value is based on internally developed models that use primarily market-based or independently sourced inputs, including interest rate yield curves and option volatilities. Adjustments may be made to fair value measurements to ensure that financial instruments are recorded at fair value.

The following assets and liabilities, including those for which the Bank has elected the fair value option, are carried at fair value on the Statements of Condition as of December 31, 2009:

- Trading securities
- Available-for-sale securities
- Certain advances
- Derivative assets and liabilities
- Certain consolidated obligation bonds

These assets and liabilities are measured at fair value on a recurring basis and are summarized in the following table by fair value hierarchy (as described above).

	Fair Value Measurement Using:				
December 31, 2009	Level 1	Level 2	Level 3	Netting Adjustments[1]	Total
Assets:					
Trading securities	$—	$ 31	$—	$ —	$ 31
Available-for-sale securities	—	1,931	—	—	1,931
Advances[2]	—	22,952	—	—	22,952
Derivative assets	—	3,176	—	(2,724)	452
Total assets	$—	$28,090	$—	$(2,724)	$25,366
Liabilities:					
Consolidated obligation bonds[3]	$—	$38,173	$—	$ —	$38,173
Derivative liabilities	—	1,477	—	(1,272)	205
Total liabilities	$—	$39,650	$—	$(1,272)	$38,378

	Fair Value Measurement Using:				
December 31, 2008	Level 1	Level 2	Level 3	Netting Adjustments[1]	Total
Assets:					
Trading securities	$—	$ 35	$—	$ —	$ 35
Advances[2]	—	41,599	—	—	41,599
Derivative assets	—	5,140	—	(4,673)	467
Total assets	$—	$46,774	$—	$(4,673)	$42,101
Liabilities:					
Consolidated obligation bonds[3]	$—	$32,243	$—	$ —	$32,243
Derivative liabilities	—	3,059	—	(2,622)	437
Total liabilities	$—	$35,302	$—	$(2,622)	$32,680

(1) Amounts represent the netting of derivative assets and liabilities by counterparty, including cash collateral, where the Bank has the legal right to do so under its master netting agreement with each counterparty.

(2) Includes $21,616 and $38,573 of advances recorded under the fair value option at December 31, 2009 and 2008, respectively, and $1,336 and $3,026 of advances recorded at fair value in accordance with the accounting for derivative instruments and hedging activities at December 31, 2009 and 2008, respectively.

(3) Includes $37,022 and $30,286 of consolidated obligation bonds recorded under the fair value option at December 31, 2009 and 2008, respectively, and $1,151 and $1,957 of consolidated obligation bonds recorded at fair value in accordance with the accounting for derivatives instruments and hedging activities at December 31, 2009 and 2008, respectively.

The following is a description of the Bank's valuation methodologies for assets and liabilities measured at fair value. These valuation methodologies were applied to all of the assets and liabilities carried at fair value, whether as a result of electing the fair value option or because they were previously carried at fair value.

Trading Securities – The Bank's trading securities portfolio currently consists of agency residential MBS investments collateralized by residential mortgages. These securities are recorded at fair value on a recurring basis. In 2008, fair value measurement was based on pricing models or other model-based valuation techniques, such as the present value of future cash flows adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. During 2009, the Bank changed the methodology used to estimate the fair value of agency residential MBS. In an effort to achieve consistency among all the FHLBanks in applying a fair value methodology, the FHLBanks formed the MBS Pricing Governance Committee with the responsibility for developing a fair value methodology that all FHLBanks could adopt. Under the methodology approved by the MBS Pricing Governance Committee and adopted by the Bank, the Bank requests prices for all MBS from four specific third-party vendors. Depending on the number of prices received for each security, the Bank selects a median or average price as determined by the methodology. The methodology also incorporates variance thresholds to assist in identifying median or average prices that may require further review. In certain limited instances (for example, when prices are outside of variance thresholds or the third-party services do not provide a price), the Bank will obtain a price from securities dealers or internally model a price that is deemed appropriate after consideration of the relevant facts and circumstances that a market participant would consider. Prices for agency residential MBS held in common with other FHLBanks are reviewed with those FHLBanks for consistency. Because quoted prices are not available for these securities, the Bank has primarily relied on the pricing vendors' use of market-observable inputs and model-based valuation techniques for the fair value measurements, and the Bank classifies these investments as Level 2 within the valuation hierarchy.

The contractual interest income on the trading securities is recorded as part of net interest income on the Statements of Income. The remaining changes in fair values on the trading securities are included in the other income section on the Statements of Income.

Available-for-Sale Securities – The Bank's available-for-sale securities portfolio currently consists of corporate debentures issued under the TLGP, which are guaranteed by the FDIC and backed by the full faith and credit of the U.S. government. These securities are recorded at fair value on a recurring basis. In determining the estimated fair value, the Bank requests prices from four specific third-party vendors. Depending on the number of prices received for each security, the Bank selects a median or average price as determined by the methodology. The methodology also incorporates variance thresholds to assist in identifying median or average prices that may require further review. Because of the observable inputs from an active market used by the pricing services, the Bank considers these to be Level 2 inputs.

Advances – Certain advances either elected for the fair value option or accounted for in a qualifying full fair value hedging relationship are recorded at fair value on a recurring basis. Because quoted prices are not available for advances, the fair values are measured using model-based valuation techniques (such as the present value of future cash flows), creditworthiness of members, advance collateral type, prepayment assumptions, and other factors, such as credit loss assumptions, as necessary.

Because no principal market exists for the sale of advances, the Bank has defined the most advantageous market as a hypothetical market in which an advance sale could occur with a hypothetical financial institution. The Bank's primary inputs for measuring the fair value of advances are market-based consolidated obligation yield curve (CO Curve) inputs obtained from the Office of Finance and provided to the Bank. The CO Curve is then adjusted to reflect the rates on replacement advances with similar terms and collateral. These adjustments are not market-observable and are evaluated for significance in the overall fair value measurement and fair value hierarchy level of the advance. In addition, the Bank obtains market-observable inputs from derivatives dealers for complex advances. Pursuant to the Finance Agency's advances regulation, advances with an original term to maturity or repricing period greater than six months generally require a prepayment fee sufficient to make the Bank financially indifferent to the borrower's decision to prepay the advances, and the Bank has determined that no adjustment is required to the fair value measurement of advances for prepayment fees. The inputs used in the Bank's fair value measurement of these advances are primarily market-observable, and the Bank generally classifies these advances as Level 2 within the valuation hierarchy.

The contractual interest income on advances is recorded as part of net interest income on the Statements of Income. The remaining changes in fair values on the advances are included in the other income section on the Statements of Income.

Derivative Assets and Derivative Liabilities – In general, derivative instruments held by the Bank for risk management activities are traded in over-the-counter markets where quoted market prices are not readily available. For these derivatives, the Bank measures fair value using internally developed models that use primarily market-observable inputs, such as yield curves and option volatilities adjusted for counterparty credit risk, as necessary.

The Bank is subject to credit risk in derivatives transactions due to potential nonperformance by the derivatives counterparties. To mitigate this risk, the Bank only executes transactions with highly rated derivatives dealers and major banks (derivatives dealer counterparties) that meet the Bank's eligibility criteria. In addition, the Bank has entered into master netting agreements and bilateral security agreements with all active derivatives dealer counterparties that provide for delivery of collateral at specified levels tied to counterparty credit ratings to limit the Bank's net unsecured credit exposure to these counterparties. Under these policies and agreements, the amount of unsecured credit exposure to an individual derivatives dealer counterparty is limited to the lesser of (i) a percentage of the counterparty's capital or (ii) an absolute credit exposure limit, both according to the counterparty's credit rating, as determined by rating agency long-term credit ratings of the counterparty's debt securities or deposits. All credit exposure from derivatives transactions entered into by the Bank with member counterparties that are not derivatives dealers must be fully secured by eligible collateral. The Bank has evaluated the potential for the fair value of the instruments to be affected by counterparty credit risk and has determined that no adjustments were significant to the overall fair value measurements.

The inputs used in the Bank's fair value measurement of these derivative instruments are primarily market-observable, and the Bank generally classifies these derivatives as Level 2 within the valuation hierarchy. The fair values are netted by counterparty where such legal right of offset exists. If these netted amounts are positive, they are classified as an asset and, if negative, a liability.

The Bank records all derivative instruments on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in net gain/(loss) on derivatives and hedging activities or other comprehensive income, depending on whether or not 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 other comprehensive income are recognized as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. The difference between the gains or losses on derivatives and on the related hedged items that qualify for fair value hedge accounting represents hedge ineffectiveness and is recognized in net gain/(loss) on derivatives and hedging activities. Changes in the fair value of a derivative instrument that does not qualify as a hedge of an asset or liability for asset and liability management purposes (economic hedge) are also recorded each period in net gain/(loss) on derivatives and hedging activities. For additional information, see Note 16 to the Financial Statements.

Consolidated Obligation Bonds – Certain consolidated obligation bonds either elected for the fair value option or accounted for in a qualifying full fair value hedging relationship are recorded at fair value on a recurring basis. Because quoted prices in active markets are not generally available for identical liabilities, the Bank measures fair values using internally developed models that use primarily market-observable inputs. The Bank's primary inputs for measuring the fair value of consolidated obligation bonds are market-based inputs obtained from the Office of Finance and provided to the Bank. For consolidated obligation bonds with embedded options, the Bank also obtains market-observable quotes and inputs from derivative dealers. For example, the Bank uses swaption volatilities as an input.

Adjustments may be necessary to reflect the Bank's credit quality or the credit quality of the FHLBank System when valuing consolidated obligation bonds measured at fair value. The Bank monitors its own creditworthiness, the creditworthiness of the other 11 FHLBanks, and the FHLBank System to determine whether any adjustments are necessary for creditworthiness in its fair value measurement of consolidated obligation bonds. The credit ratings of the FHLBank System and any changes to the credit ratings are the basis for the Bank to determine whether the fair values of consolidated obligations have been significantly affected during the reporting period by changes in the instrument-specific credit risk.

The inputs used in the Bank's fair value measurement of these consolidated obligation bonds are primarily market-observable, and the Bank generally classifies these consolidated obligation bonds as Level 2 within the valuation hierarchy. For complex transactions, market-observable inputs may not be available and the inputs are evaluated to determine whether they may result in a Level 3 classification in the fair value hierarchy.

The contractual interest expense on the consolidated obligation bonds is recorded as net interest income on the Statements of Income. The remaining changes in fair values of the consolidated obligation bonds are included in the other income section on the Statements of Income.

Nonrecurring Fair Value Measurements – Certain assets and liabilities are measured at fair value on a nonrecurring basis—that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustment in certain circumstances (for example, when there is evidence of impairment). At December 31, 2009 and 2008, the Bank measured certain of its held-to-maturity investment securities at fair value on a nonrecurring basis. The following tables present the investment securities as of December 31, 2009 and 2008, for which a nonrecurring change in fair value was recorded at December 31, 2009 and 2008, by level within the fair value hierarchy.

	Fair Value Measurement Using:		
December 31, 2009	Level 1	Level 2	Level 3
Assets:			
Held-to-maturity securities – PLRMBS	$—	$—	$1,880

PLRMBS with a carrying amount of $2,177 were written down to their fair value of $1,880.

	Fair Value Measurement Using:		
December 31, 2008	Level 1	Level 2	Level 3
Assets:			
Held-to-maturity securities – PLRMBS	$—	$—	$924

PLRMBS with a carrying value of $1,514 were written down to their fair value of $924. The Bank adopted OTTI guidance as of January 1, 2009, and recognized the cumulative effect of initially applying this OTTI guidance, totaling $570, as an increase in the retained earnings balance at January 1, 2009, with a corresponding change in AOCI.

To determine the estimated fair value of PLRMBS at December 31, 2008, March 31, 2009, and June 30, 2009, the Bank used a weighting of its internal price (based on valuation models using market-based inputs obtained from broker-dealer data and price indications) and the price from an external pricing service to determine the estimated fair value that the Bank believed market participants would use to purchase the PLRMBS. The divergence among prices obtained from third-party broker/dealers and pricing services, which were derived from third parties' proprietary models, led the Bank to conclude that the prices received were reflective of significant unobservable inputs. Because of the significant unobservable inputs used by the pricing services, the Bank considered these to be Level 3 inputs.

Beginning with the quarter ended September 30, 2009, the Bank changed the methodology used to estimate the fair value of PLRMBS. In an effort to achieve consistency among all the FHLBanks in applying a fair value methodology, the FHLBanks formed the MBS Pricing Governance Committee with the responsibility for developing a fair value methodology that all FHLBanks could adopt. Under the methodology approved by the MBS Pricing Governance Committee and adopted by the Bank, the Bank requests prices for all MBS from four specific third-party vendors. Depending on the number of prices received for each security, the Bank selects a median or average price as determined by the methodology. The methodology also incorporates variance thresholds to assist in identifying median or average prices that may require further review. In certain limited instances (for example, when prices are outside of variance thresholds or the third-party services do not provide a price), the Bank will obtain a price from securities dealers or internally model a price that is deemed appropriate after consideration of the relevant facts and circumstances that a market participant would consider. Prices for PLRMBS held in common with other FHLBanks are reviewed with those FHLBanks for consistency. In adopting this common methodology, the Bank remains responsible for the selection and application of its fair value methodology and the reasonableness of assumptions and inputs used.

This change in fair value methodology did not have a significant impact on the Bank's estimated fair values of its PLRMBS at September 30, 2009, and December 31, 2009.

Fair Value Option. The fair value option permits an entity to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value. The Bank elected the fair value option for certain financial instruments on January 1, 2008, as follows:

- Adjustable rate credit advances with embedded options
- Callable fixed rate credit advances
- Putable fixed rate credit advances

- Putable fixed rate credit advances with embedded options
- Fixed rate credit advances with partial prepayment symmetry
- Callable or non-callable capped floater consolidated obligation bonds
- Convertible consolidated obligation bonds
- Floating or fixed rate range accrual consolidated obligation bonds
- Ratchet consolidated obligation bonds

In addition to the items transitioned to the fair value option on January 1, 2008, the Bank has elected that any new transactions in these categories will be accounted for under the fair value option. In general, transactions for which the Bank has elected the fair value option are in economic hedge relationships. The Bank has also elected the fair value option for the following additional categories for all new transactions entered into starting on January 1, 2008:

- Adjustable rate credit advances indexed to the following: Prime Rate, U.S. Treasury Bill, Federal funds, CMT, Constant Maturity Swap (CMS), and 12-month Moving Treasury Average of one-year CMT (12MTA)
- Adjustable rate consolidated obligation bonds indexed to the following: Prime Rate, U.S. Treasury Bill, Federal funds, CMT, CMS, and 12MTA

The Bank has elected these items for the fair value option to assist in mitigating potential income statement volatility that can arise from economic hedging relationships. The risk associated with using fair value only for the derivative is the Bank's primary reason for electing the fair value option for financial assets and liabilities that do not qualify for hedge accounting or that have not previously met or may be at risk for not meeting the hedge effectiveness requirements.

The fair value option requires entities to display the fair value of those assets and liabilities for which the entity has chosen to use fair value on the face of the balance sheet. Under the fair value option, fair value is used for both the initial and subsequent measurement of the designated assets, liabilities, and commitments, with the changes in fair value recognized in other income and presented as "Net (loss)/gain on advances and consolidated obligation bonds held at fair value."

The following table summarizes the activity related to financial assets and liabilities for which the Bank elected the fair value option for the years ended December 31, 2009 and 2008:

	2009		2008	
	Advances	Consolidated Obligation Bonds	Advances	Consolidated Obligation Bonds
Balance, beginning of the year	$ 38,573	$ 30,286	$15,985	$ 1,247
New transactions elected for fair value option	511	33,575	27,698	30,903
Maturities and terminations	(16,823)	(26,736)	(6,090)	(1,903)
Net (loss)/gain on advances and net loss/(gain) on consolidated obligation bonds held at fair value	(572)	(101)	914	24
Change in accrued interest	(73)	(2)	66	15
Balance, end of the year	$ 21,616	$ 37,022	$38,573	$30,286

For advances and consolidated obligations recorded under the fair value option, the estimated impact of changes in credit risk for 2009 and 2008 was immaterial.

The following table presents the changes in fair value included in the Statements of Income for each item for which the fair value option has been elected for the years ended December 31, 2009 and 2008:

	2009				2008			
	Interest Income on Advances	Interest Expense on Consolidated Obligation Bonds	Net (Loss)/ Gain on Advances and Consolidated Obligation Bonds Held at Fair Value	Total Changes in Fair Value Included in Current Period Earnings	Interest Income on Advances	Interest Expense on Consolidated Obligation Bonds	Net Gain/ (Loss) on Advances and Consolidated Obligation Bonds Held at Fair Value	Total Changes in Fair Value Included in Current Period Earnings
Advances	$1,084	$ —	$(572)	$512	$1,003	$ —	$914	$1,917
Consolidated obligation bonds	—	(188)	101	(87)	—	(452)	(24)	(476)
Total	$1,084	$(188)	$(471)	$425	$1,003	$(452)	$890	$1,441

The following table presents the difference between the aggregate fair value and aggregate remaining contractual principal balance outstanding of advances and consolidated obligation bonds for which the fair value option has been elected at December 31, 2009 and 2008:

	2009			2008		
	Principal Balance	Fair Value	Fair Value Over/(Under) Principal Balance	Principal Balance	Fair Value	Fair Value Over/(Under) Principal Balance
Advances[1]	$21,000	$21,616	$616	$37,274	$38,573	$1,299
Consolidated obligation bonds	37,075	37,022	(53)	30,236	30,286	50

(1) At December 31, 2009 and 2008, none of these advances were 90 days or more past due or had been placed on nonaccrual status.

Estimated Fair Values. The tables show the estimated fair values of the Bank's financial instruments at December 31, 2009 and 2008. These estimates are based on pertinent information available to the Bank as of December 31, 2009 and 2008. Although the Bank 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 Bank's financial instruments, in certain cases fair values are not subject to precise quantification or verification and may change as economic and market factors, and evaluation of those factors, change. Therefore, these estimated fair values are not necessarily indicative of the amounts that would be realized in current market transactions, although they do reflect the Bank's judgment of how market participants would estimate fair values. The fair value summary tables do not represent an estimate of the overall market value of the Bank as a going concern, which would take into account future business opportunities.

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

The assumptions used in estimating the fair values of the Bank's financial instruments at December 31, 2009, are discussed below. See Note 17 to the Financial Statements in the Bank's 2008 Form 10-K for the assumptions used in estimating the fair value rules of the Bank's financial investments at December 31, 2008.

Cash and Due from Banks – The estimated fair value approximates the recorded carrying value.

Federal Funds Sold – The estimated fair value of these instruments has been determined based on quoted prices or by calculating the present value of expected cash flows for the instruments excluding accrued interest. The discount rates used in these calculations are the replacement rates for comparable instruments with similar terms.

Trading and Available-for-Sale Securities – The estimated fair value of trading securities is measured as described in "Fair Value Measurement – Trading Securities" above and the estimated fair value of available-for-sale securities is measured as described in "Fair Value Measurement – Available-for-Sale Securities" above.

Held-to-Maturity Securities – The estimated fair value of held-to-maturity MBS is measured as described in Note 6. The estimated fair value of all other instruments is determined based on each security's quoted price, or prices obtained from pricing services, excluding accrued interest, as of the last business day of the period, or when quoted prices are not available, the estimated fair value is determined by calculating the present value of expected cash flows, excluding accrued interest, using market-observable inputs as of the last business day of the period, or by using industry standard analytical models and certain actual and estimated market information. The discount rates used in these calculations are the replacement rates for comparable instruments with similar terms.

Advances – The estimated fair value of these instruments is measured as described in "Fair Value Measurement – Advances" above.

Mortgage Loans Held for Portfolio – The estimated fair value for mortgage loans represents modeled prices based on observable market spreads for agency passthrough MBS adjusted for differences in credit, coupon, average loan rate, and seasoning. Market prices are highly dependent on the underlying prepayment assumptions. Changes in the prepayment speeds often have a material effect on the fair value estimates.

Accrued Interest Receivable and Payable – The estimated fair value approximates the recorded carrying value of accrued interest receivable and accrued interest payable.

Derivative Assets and Liabilities – The estimated fair value of these instruments is measured as described in "Fair Value Measurement – Derivative Assets and Derivative Liabilities" above.

Deposits and Other Borrowings – For deposits and other borrowings, the estimated fair value has been determined by calculating the present value of expected future cash flows from the deposits and other borrowings excluding accrued interest. The discount rates used in these calculations are the cost of deposits and borrowings with similar terms.

Consolidated Obligations – The estimated fair value of these instruments is measured as described in "Fair Value Measurement – Consolidated Obligation Bonds" above.

Mandatorily Redeemable Capital Stock – The fair value of capital stock subject to mandatory redemption is at par value. Fair value includes estimated dividends earned at the time of reclassification from capital to liabilities, until such amount is paid, and any subsequently declared stock dividend. The Bank's stock can only be acquired by members at par value and redeemed at par value, subject to statutory and regulatory requirements. The Bank's stock is not traded, and no market mechanism exists for the exchange of Bank stock outside the cooperative ownership structure.

Commitments – The estimated fair value of the Bank's commitments to extend credit was immaterial at December 31, 2009 and 2008. The estimated fair value of standby letters of credit is based on the present value of fees currently charged for similar agreements. The value of these guarantees is recorded in other liabilities.

Fair Value of Financial Instruments

	December 31, 2009		December 31, 2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets				
Cash and due from banks	$ 8,280	$ 8,280	$ 19,632	$ 19,632
Federal funds sold	8,164	8,164	9,431	9,431
Trading securities	31	31	35	35
Available-for-sale securities	1,931	1,931	—	—
Held-to-maturity securities	36,880	35,682	51,205	44,270
Advances (includes $21,616 and $38,573 at fair value under the fair value option, respectively)	133,559	133,778	235,664	235,626
Mortgage loans held for portfolio, net of allowance for credit losses on mortgage loans	3,037	3,117	3,712	3,755
Accrued interest receivable	355	355	865	865
Derivative assets(1)	452	452	467	467
Liabilities				
Deposits	224	224	604	604
Consolidated obligations:				
Bonds (includes $37,022 and $30,286 at fair value under the fair value option, respectively)	162,053	162,220	213,114	213,047
Discount notes	18,246	18,254	91,819	92,096
Mandatorily redeemable capital stock	4,843	4,843	3,747	3,747
Accrued interest payable	754	754	1,451	1,451
Derivative liabilities(1)	205	205	437	437
Other				
Standby letters of credit	27	27	39	39

(1) Amounts include the netting of derivative assets and liabilities by counterparty, including cash collateral, where the Bank has the legal right to do so under its master netting agreement with each counterparty.

As of December 31, 2009, the Bank's investment in held-to-maturity securities had net unrecognized holding losses totaling $1,198. These net unrecognized holding losses were primarily in MBS and were primarily due to illiquidity in the MBS market, uncertainty about the future condition of the housing and mortgage markets and the economy, and continued deterioration in the credit performance of the loan collateral underlying these securities, which caused these assets to be valued at significant discounts to their acquisition cost. For more information, see Note 6 to the Financial Statements.

As of December 31, 2008, the Bank's investment in held-to-maturity securities had net unrealized losses totaling $6,935. These net unrealized losses were primarily in MBS and were mainly due to illiquidity in the MBS market and uncertainty about the future condition of the housing and mortgage markets and the economy, causing these assets to be valued at significant discounts to their acquisition cost. For more information, see Note 6 to the Financial Statements in the Bank's 2008 Form 10-K.

Note 18 – Commitments and Contingencies

As provided by the FHLBank Act or regulations governing the operations of the FHLBanks, all FHLBanks have joint and several liability for all FHLBank consolidated obligations, which are backed only by the financial resources of the FHLBanks. The joint and several liability regulation authorizes the Finance Agency to require any FHLBank to repay all or a portion of the principal or interest on consolidated obligations for which another FHLBank is the primary obligor. The Bank has never been asked or required to repay the principal or interest on any consolidated obligation on behalf of another FHLBank, and as of December 31, 2009, and through the date of this report, does not believe that is probable that it will be asked to do so.

The Bank determined it was not necessary to recognize a liability for the fair value of the Bank's joint and several liability for all consolidated obligations. The joint and several obligations are mandated by regulations governing the operations of the FHLBanks and are not the result of arms-length transactions among the FHLBanks. The FHLBanks have no control over the amount of the guaranty or the determination of how each FHLBank would perform under the joint and several obligations. Because the FHLBanks are subject to the authority of the Finance Agency as it relates to decisions involving the allocation of the joint and several liability for the FHLBanks' consolidated obligations, the FHLBanks' joint and several obligations are excluded from the initial recognition and measurement provisions. Accordingly, the Bank has not recognized a liability for its joint and several obligation related to other FHLBanks' participations in the consolidated obligations. The par amount of the outstanding consolidated obligations of all 12 FHLBanks was $930,617 at December 31, 2009, and $1,251,542 at December 31, 2008. The par value of the Bank's participation in consolidated obligations was $178,186 at December 31, 2009, and $301,202 at December 31, 2008.

The joint and several liability regulation provides a general framework for addressing the possibility that an FHLBank may be unable to repay its participation in the consolidated obligations for which it is the primary obligor. In accordance with this regulation, the president of each FHLBank is required to provide a quarterly certification that, among other things, the FHLBank will remain capable of making full and timely payment of all its current obligations, including direct obligations.

In addition, the regulation requires that an FHLBank must provide written notice to the Finance Agency if at any time the FHLBank is unable to provide the quarterly certification; projects that it will be unable to fully meet all of its current obligations, including direct obligations, on a timely basis during the quarter; or negotiates or enters into an agreement with another FHLBank for financial assistance to meet its obligations. If an FHLBank gives any one of these notices (other than in a case of a temporary interruption in the FHLBank's debt servicing operations resulting from an external event such as a natural disaster or a power failure), it must promptly file a consolidated obligations payment plan for Finance Agency approval specifying the measures the FHLBank will undertake to make full and timely payments of all of its current obligations.

Notwithstanding any other provisions in the regulation, the regulation provides that the Finance Agency in its discretion may at any time order any FHLBank to make any principal or interest payment due on any consolidated obligation. To the extent an FHLBank makes any payment on any consolidated obligation on behalf of another FHLBank, the paying FHLBank is entitled to reimbursement from the FHLBank that is the primary obligor, which will have a corresponding obligation to reimburse the FHLBank for the payment and associated costs, including interest.

The regulation also provides that the Finance Agency may allocate the outstanding liability of an FHLBank for consolidated obligations among the other FHLBanks on a pro rata basis in proportion to each FHLBank's participation in all consolidated obligations outstanding. The Finance Agency reserves the right to allocate the outstanding liabilities for the consolidated obligations among the FHLBanks in any other manner it may determine to ensure that the FHLBanks operate in a safe and sound manner.

In 2008, the Bank and the other FHLBanks entered into Lending Agreements with the U.S. Treasury in connection with the U.S. Treasury's GSE Credit Facility, as authorized by the Housing Act. None of the FHLBanks drew on the GSE Credit Facility in 2008 or 2009, and the Lending Agreements expired on December 31, 2009. The GSE Credit Facility was designed to serve as a contingent source of liquidity for the housing government-sponsored enterprises, including the FHLBanks. Any borrowings by one or more of the FHLBanks under the GSE Credit Facility would have been considered consolidated obligations with the same joint and several liability as all other consolidated obligations. The terms of any borrowings would have been agreed to at the time of borrowing. Loans under the Lending Agreements were to be secured by collateral acceptable to the U.S. Treasury, which may consist of FHLBank member advances collateralized in accordance with regulatory standards or MBS issued by Fannie Mae or Freddie Mac. Each FHLBank was required to submit to the Federal Reserve Bank of New York, acting as fiscal agent of the U.S. Treasury, a listing of eligible collateral, updated on a weekly basis, that could be used as security in the event of a borrowing. The amount of collateral was subject to an increase or decrease (subject to approval of the U.S. Treasury) at any time by delivery of an updated listing of collateral.

Commitments that legally obligate the Bank for additional advances totaled $32 at December 31, 2009, and $470 at December 31, 2008. Advance commitments are generally for periods up to 12 months. Standby letters of credit are generally issued for a fee on behalf of members to support their obligations to third parties. A standby letter of credit is a financing arrangement between the Bank and its member. If the Bank is required to make payment for a beneficiary's drawing under a letter of credit, the amount is charged to the member's demand deposit account with the Bank. The Bank's outstanding standby letters of credit at December 31, 2009 and 2008, were as follows:

	2009	2008
Outstanding notional	$5,269	$5,723
Original terms	23 days to 10 years	23 days to 10 years
Final expiration year	2019	2018

The value of the guarantees related to standby letters of credit is recorded in other liabilities and amounted to $27 at December 31, 2009, and $39 at December 31, 2008. Based on management's credit analyses of members' financial condition and collateral requirements, no allowance for losses is deemed necessary by management on these advance commitments and letters of credit. Advances funded under these advance commitments and letters of credit are fully collateralized at the time of funding or issuance (see Note 7 to the Financial Statements). The estimated fair value of advance commitments and letters of credit was immaterial to the balance sheet as of December 31, 2009 and 2008.

The Bank executes interest rate exchange agreements with major banks and derivatives entities affiliated with broker-dealers that have, or are supported by, guaranties from related entities that have long-term credit ratings equivalent to single-A or better from both Standard & Poor's and Moody's. The Bank also executes interest rate exchange agreements with its members. The Bank enters into master agreements with netting provisions with all counterparties and into bilateral security agreements with all active derivatives dealer counterparties. All member counterparty master agreements, excluding those with derivatives dealers, are subject to the terms of the Bank's Advances and Security Agreement with members, and all member counterparties (except for those that are derivative dealers) must fully collateralize the Bank's net credit exposure. As of December 31, 2009, the Bank had pledged as collateral securities with a carrying value of $40, all of which could be sold or repledged, to counterparties that have market risk exposure from the Bank related to derivatives. As of December 31, 2008, the Bank had pledged as collateral securities with a carrying value of $307, all of which could be sold or repledged, to counterparties that have market risk exposure from the Bank related to derivatives.

The Bank charged operating expenses for net rental costs of approximately $4, $4, and $4 for the years ended December 31, 2009, 2008, and 2007, respectively. Future minimum rentals at December 31, 2009, were as follows:

Year	Future Minimum Rentals
2010	$ 4
2011	4
2012	3
2013	3
2014	3
Thereafter	19
Total	$36

Lease agreements for Bank premises generally provide for increases in the basic rentals resulting from increases in property taxes and maintenance expenses. Such increases are not expected to have a material effect on the Bank's financial condition or results of operations.

The Bank may be subject to various pending legal proceedings that may arise 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 Bank's financial condition or results of operations.

At December 31, 2009, the Bank had committed to the issuance of $1,090 in consolidated obligation bonds, of which $1,000 were hedged with associated interest rate swaps. At December 31, 2008, the Bank had committed to the issuance of $960 in consolidated obligation bonds, of which $500 were hedged with associated interest rate swaps.

The Bank entered into interest rate exchange agreements that had traded but not yet settled with notional amounts totaling $1,110 at December 31, 2009, and $1,230 at December 31, 2008.

Other commitments and contingencies are discussed in Notes 1, 7, 8, 10, 11, 12, 13, 14, and 16.

Note 19 – Transactions with Certain Members, Certain Nonmembers, and Other FHLBanks

Transactions with Members. The Bank has a cooperative ownership structure under which current member institutions own most of the outstanding capital stock of the Bank. Former members and certain nonmembers own the remaining capital stock and are required to maintain their investment in the Bank's capital stock until their outstanding transactions mature or are paid off or until their capital stock is redeemed following the five-year redemption period for capital stock, in accordance with the Bank's capital requirements (see Note 13 to the Financial Statements for further information).

All advances are made to members, and all mortgage loans held for portfolio were purchased from members. The Bank also maintains deposit accounts for members primarily to facilitate settlement activities that are directly related to advances and mortgage loan purchases. All transactions with members and their affiliates are entered into in the normal course of business. In instances where the member has an officer or director who is a director of the Bank, transactions with the member are subject to the same eligibility and credit criteria, as well as the same conditions, as transactions with all other members, in accordance with regulations governing the operations of the FHLBanks.

The Bank has investments in Federal funds sold, interest-bearing deposits, and commercial paper, and executes MBS and derivatives transactions with members or their affiliates. The Bank purchases MBS through securities brokers or dealers and executes all MBS investments without preference to the status of the counterparty or the issuer of the investment as a nonmember, member, or affiliate of a member. When the Bank executes non-MBS investments with members, the Bank may give consideration to their secured credit and the Bank's advance price levels. As an additional service to its members, the Bank enters into offsetting interest rate exchange agreements, acting as an intermediary between exactly offsetting derivative transactions with members and other counterparties. These transactions are executed at market rates.

Transactions with Certain Members and Certain Nonmembers. The following tables set forth information at the dates and for the periods indicated with respect to transactions with (i) members and nonmembers holding more than 10% of the outstanding shares of the Bank's capital stock, including mandatorily redeemable capital stock, at each respective period end, (ii) members that had an officer or director serving on the Bank's Board of Directors at any time during the periods indicated, and (iii) affiliates of the foregoing members or nonmembers. All transactions with members, the nonmembers described in the preceding sentence, and their respective affiliates are entered into in the normal course of business.

	December 31,	
	2009	2008
Assets:		
Cash and due from banks	$ —	$ 1
Federal funds sold	—	460
Held-to-maturity securities[1]	2,638	4,268
Advances	87,701	164,349
Mortgage loans held for portfolio	2,391	2,880
Accrued interest receivable	150	537
Derivative assets	956	1,350
Total	$93,836	$173,845
Liabilities:		
Deposits	$ 993	$ 1,384
Mandatorily redeemable capital stock	4,311	3,021
Derivative liabilities	—	39
Total	$ 5,304	$ 4,444
Notional amount of derivatives	$55,152	$ 62,819
Standby letters of credit	3,885	4,579

(1) Held-to-maturity securities include MBS issued by and/or purchased from the members or nonmembers described in this section or their affiliates.

	For the years ended December 31,		
	2009	2008	2007
Interest Income:			
Federal funds sold	$ 2	$ 3	$ 23
Held-to-maturity securities	142	146	173
Advances[1]	1,891	5,672	7,371
Mortgage loans held for portfolio	130	149	164
Total	$2,165	$5,970	$7,731
Interest Expense:			
Deposits	$ —	$ 3	$ 1
Mandatorily redeemable capital stock	6	2	—
Consolidated obligations[1]	(670)	(83)	56
Total	$ (664)	$ (78)	$ 57
Other Income:			
Net (loss)/gain on derivatives and hedging activities	$ (436)	$ 609	$ 85
Other income	4	3	—
Total	$ (432)	$ 612	$ 85

(1) Includes the effect of associated derivatives with the members or nonmembers described in this section or their affiliates.

Transactions with Other FHLBanks. Transactions with other FHLBanks are identified on the face of the Bank's financial statements, which begin on page 102.

Note 20 – Other

The table below discloses the categories included in other operating expense for the years ended December 31, 2009, 2008, and 2007.

	2009	2008	2007
Professional and contract services	$32	$26	$21
Travel	2	2	1
Occupancy	5	4	5
Equipment	8	6	6
Other	4	4	3
Total	$51	$42	$36

Note 21 – Subsequent Events

The Bank has evaluated events subsequent to December 31, 2009, until the time of the Form 10-K filing with the SEC, and no material subsequent events were identified, other than those discussed below.

On February 22, 2010, the Bank's Board of Directors declared a cash dividend for the fourth quarter of 2009 at an annualized dividend rate of 0.27%. The Bank recorded the fourth quarter dividend during the first quarter of 2010. The Bank expects to pay the fourth quarter dividend of $9 on or about March 26, 2010. The Bank expects to pay the dividend in cash rather than stock form to comply with Finance Agency rules.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Federal Home Loan Bank of San Francisco
Statements of Condition
(Unaudited)

(In millions-except par value)	September 30, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 2	$ 8,280
Federal funds sold	16,001	8,164
Trading securities[a]	1,612	31
Available-for-sale securities[a]	1,929	1,931
Held-to-maturity securities (fair values were $30,559 and $35,682, respectively)[b]	30,227	36,880
Advances (includes $11,090 and $21,616 at fair value under the fair value option, respectively)	89,327	133,559
Mortgage loans held for portfolio, net of allowance for credit losses on mortgage loans of $4 and $2, respectively	2,623	3,037
Loans to other Federal Home Loan Banks	120	—
Accrued interest receivable	198	355
Premises and equipment, net	23	21
Derivative assets	505	452
Other assets	128	152
Total Assets	$ 142,695	$ 192,862
Liabilities and Capital		
Liabilities:		
Deposits:		
Interest-bearing:		
Demand and overnight	$ 148	$ 192
Term	8	29
Other	3	1
Non-interest-bearing - other	3	2
Total deposits	162	224
Consolidated obligations, net:		
Bonds (includes $16,962 and $37,022 at fair value under the fair value option, respectively)	118,764	162,053
Discount notes	11,138	18,246
Total consolidated obligations, net	129,902	180,299
Mandatorily redeemable capital stock	3,627	4,843
Accrued interest payable	598	754
Affordable Housing Program	173	186
Payable to REFCORP	34	25
Derivative liabilities	152	205
Other liabilities	846	96
Total Liabilities	135,494	186,632
Commitments and Contingencies (Note 13)		
Capital:		
Capital stock—Class B—Putable ($100 par value) issued and outstanding:		
89 shares and 86 shares, respectively	8,875	8,575
Restricted retained earnings	1,478	1,239
Accumulated other comprehensive loss	(3,152)	(3,584)
Total Capital	7,201	6,230
Total Liabilities and Capital	$ 142,695	$ 192,862

(a) At September 30, 2010, and at December 31, 2009, none of these securities were pledged as collateral that may be repledged.
(b) Includes $75 at September 30, 2010, and $40 at December 31, 2009, pledged as collateral that may be repledged.

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

Federal Home Loan Bank of San Francisco
Statements of Income
(Unaudited)

(In millions)	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	For the Nine Months Ended September 30, 2010	For the Nine Months Ended September 30, 2009
Interest Income:				
Advances	$ 255	$ 546	$ 861	$ 2,363
Prepayment fees on advances, net	11	2	50	22
Federal funds sold	8	5	21	18
Trading securities	2	—	3	1
Available-for-sale securities	2	—	4	—
Held-to-maturity securities	249	358	819	1,162
Mortgage loans held for portfolio	33	39	108	118
Total Interest Income	560	950	1,866	3,684
Interest Expense:				
Consolidated obligations:				
Bonds	241	418	799	1,866
Discount notes	8	67	30	435
Mandatorily redeemable capital stock	5	7	11	7
Total Interest Expense	254	492	840	2,308
Net Interest Income	306	458	1,026	1,376
Provision for credit losses on mortgage loans	—	—	2	1
Net Interest Income After Mortgage Loan Loss Provision	306	458	1,024	1,375
Other Loss:				
Services to members	—	—	—	1
Net (loss)/gain on trading securities	—	—	(1)	1
Total other-than-temporary impairment loss on held-to-maturity securities	(87)	(1,385)	(469)	(3,824)
Portion of impairment loss recognized in other comprehensive income	31	1,069	211	3,332
Net other-than-temporary impairment loss on held-to-maturity securities	(56)	(316)	(258)	(492)
Net gain/(loss) on advances and consolidated obligation bonds held at fair value	66	(62)	(55)	(423)
Net (loss)/gain on derivatives and hedging activities	(98)	(166)	(257)	92
Other	2	1	5	3
Total Other Loss	(86)	(543)	(566)	(818)
Other Expense:				
Compensation and benefits	16	14	49	44
Other operating expense	12	12	37	36
Federal Housing Finance Agency	3	3	9	8
Office of Finance	1	2	4	5
Other	1	—	5	—
Total Other Expense	33	31	104	93
Income/(Loss) Before Assessments	187	(116)	354	464
REFCORP	34	(21)	65	85
Affordable Housing Program	16	(10)	30	38
Total Assessments	50	(31)	95	123
Net Income/(Loss)	$ 137	$ (85)	$ 259	$ 341

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

Federal Home Loan Bank of San Francisco
Statements of Capital Accounts
(Unaudited)

(In millions)	Capital Stock Class B—Putable Shares	Capital Stock Class B—Putable Par Value	Retained Earnings Restricted	Retained Earnings Unrestricted	Retained Earnings Total	Accumulated Other Comprehensive Income/(Loss)	Total Capital
Balance, December 31, 2008	96	$ 9,616	$ 176	$ —	$ 176	$ (7)	$ 9,785
Adjustments to opening balance[a]				570	570	(570)	—
Issuance of capital stock	1	56					56
Capital stock reclassified from mandatorily redeemable capital stock, net	6	572					572
Comprehensive income/(loss):							
Net income				341	341		341
Other comprehensive income/(loss):							
Additional minimum liability on benefit plans						(1)	(1)
Other-than-temporary impairment loss related to all other factors						(3,740)	(3,740)
Reclassified to income for previously impaired securities						408	408
Accretion of impairment loss						309	309
Total comprehensive income/(loss)							(2,683)
Transfers to restricted retained earnings			889	(889)	—		—
Dividends on capital stock (0.28%)							
Cash dividends paid		—	—	(22)	(22)		(22)
Balance, September 30, 2009	103	$ 10,244	$ 1,065	$ —	$ 1,065	$ (3,601)	$ 7,708
Balance, December 31, 2009	86	$ 8,575	$ 1,239	$ —	$ 1,239	$ (3,584)	$ 6,230
Issuance of capital stock	—	54			—	—	54
Repurchase/redemption of capital stock	(6)	(618)		—	—		(618)
Capital stock reclassified to mandatorily redeemable capital stock, net	9	864			—		864
Comprehensive income/(loss):							
Net income				259	259		259
Other comprehensive income/(loss):							
Net change in available-for-sale valuation						2	2
Other-than-temporary impairment loss related to all other factors					—	(466)	(466)
Reclassified to income for previously impaired securities					—	255	255
Accretion of impairment loss					—	641	641
Total comprehensive income/(loss)							691
Transfers to restricted retained earnings			239	(239)	—		—
Dividends on capital stock (0.32%)							
Cash dividends paid		—	—	(20)	(20)		(20)
Balance, September 30, 2010	89	$ 8,875	$ 1,478	$ —	$ 1,478	$ (3,152)	$ 7,201

(a) Adjustments to the opening balance consist of the effects of adopting guidance related to the recognition and presentation of other-than-temporary impairments. For more information, see Note 2 to the Financial Statements in the Bank's 2009 Form 10-K.

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

Federal Home Loan Bank of San Francisco
Statements of Cash Flows
(Unaudited)

(In millions)	For the Nine Months Ended September 30, 2010	2009
Cash Flows from Operating Activities:		
Net Income	$ 259	$ 341
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	(7)	(232)
Provision for credit losses on mortgage loans	2	1
Change in net fair value adjustment on trading securities	1	(1)
Change in net fair value adjustment on advances and consolidated obligation bonds held at fair value	55	423
Change in net fair value adjustment on derivatives and hedging activities	59	(597)
Net other-than-temporary impairment loss on held-to-maturity securities	258	492
Other adjustments	—	1
Net change in:		
Accrued interest receivable	206	547
Other assets	—	7
Accrued interest payable	(169)	(585)
Other liabilities	(5)	20
Total adjustments	400	76
Net cash provided by operating activities	659	417
Cash Flows from Investing Activities:		
Net change in:		
Federal funds sold	(7,837)	2,345
Loans to other Federal Home Loan Banks	(120)	—
Premises and equipment	(7)	(6)
Trading securities:		
Proceeds from maturities	4	4
Purchases	(1,586)	—
Held-to-maturity securities:		
Net (increase)/decrease in short-term	1,239	3,324
Proceeds from maturities of long-term	6,857	5,933
Purchases of long-term	(520)	(406)
Advances:		
Principal collected	159,970	835,367
Made to members	(115,894)	(755,682)
Mortgage loans held for portfolio:		
Principal collected	415	530
Net cash provided by investing activities	42,521	91,409

Federal Home Loan Bank of San Francisco
Statements of Cash Flows (continued)
(Unaudited)

(In millions)	For the Nine Months Ended September 30, 2010	2009
Cash Flows from Financing Activities:		
Net change in:		
Deposits	(118)	(834)
Net payments on derivative contracts with financing elements	64	106
Net proceeds from consolidated obligations:		
Bonds issued	65,299	57,264
Discount notes issued	69,708	126,457
Payments for consolidated obligations:		
Bonds matured or retired	(108,694)	(114,199)
Discount notes matured or retired	(76,781)	(174,155)
Proceeds from issuance of capital stock	54	56
Payments for repurchase/redemption of mandatorily redeemable capital stock	(352)	(16)
Payments for repurchase of capital stock	(618)	—
Cash dividends paid	(20)	(22)
Net cash used in financing activities	(51,458)	(105,343)
Net decrease in cash and cash equivalents	(8,278)	(13,517)
Cash and cash equivalents at beginning of the period	8,280	19,632
Cash and cash equivalents at end of the period	$ 2	$ 6,115
Supplemental Disclosures:		
Interest paid during the period	$ 938	$ 3,528
Affordable Housing Program payments during the period	43	38
REFCORP payments during the period	56	53
Transfers of mortgage loans to real estate owned	4	3

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

Federal Home Loan Bank of San Francisco
Notes to Financial Statements
(Unaudited)

(Dollars in millions)

Note 1 — Summary of Significant Accounting Policies

The information about the Federal Home Loan Bank of San Francisco (Bank) included in these unaudited financial statements reflects all adjustments that, in the opinion of management, are necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed. The results of operations in these interim statements are not necessarily indicative of the results to be expected for any subsequent period or for the entire year ending December 31, 2010. These unaudited financial statements should be read in conjunction with the Bank's Annual Report on Form 10-K for the year ended December 31, 2009 (2009 Form 10-K).

Use of Estimates. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make a number of judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, if applicable, and the reported amounts of income, expenses, gains, and losses during the reporting period. The most significant of these estimates include the fair value of derivatives, investments classified as other-than-temporarily impaired, certain advances, certain investment securities, and certain consolidated obligations that are reported at fair value in the Statements of Condition. In addition, significant judgments, estimates, and assumptions were made in the determination of other-than-temporarily impaired securities. Changes in judgments, estimates, and assumptions could potentially affect the Bank's financial position and results of operations significantly. Although management believes these judgments, estimates, and assumptions to be reasonable, actual results may differ.

Descriptions of the Bank's significant accounting policies are included in Note 1 (Summary of Significant Accounting Policies) to the Financial Statements in the Bank's 2009 Form 10-K. Other changes to these policies as of September 30, 2010, are discussed in Note 2 to the Financial Statements.

Note 2 — Recently Issued and Adopted Accounting Guidance

Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses. On July 21, 2010, the Financial Accounting Standards Board (FASB) issued amended guidance to enhance disclosures about an entity's allowance for credit losses and the credit quality of its financing receivables. The amended guidance requires all public and nonpublic entities with financing receivables, including loans, lease receivables, and other long-term receivables, to provide disclosure of the following: (i) the nature of the credit risk inherent in the financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and (iii) the changes in the allowance of credit losses and reasons for those changes. Both new and existing disclosures must be disaggregated by portfolio segment or class of financing receivable. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. Short-term accounts receivable, receivables measured at fair value or at the lower of cost or fair value, and debt securities are exempt from this amended guidance. For public entities, the required disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010 (December 31, 2010, for the Bank). The required disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010 (January 1, 2011, for the Bank). The adoption of this amended guidance will likely result in increased financial statement disclosures, but will not affect the Bank's financial condition, results of operations, or cash flows.

Scope Exception Related to Embedded Credit Derivative. On March 5, 2010, the FASB issued amended guidance to clarify that the only type of embedded credit derivative feature related to the transfer of credit risk that is exempt from derivative bifurcation requirements is one that is in the form of subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a

form other than such subordination will need to assess those embedded credit derivatives to determine whether bifurcation and separate accounting as a derivative are required. Upon adoption, entities are permitted to irrevocably elect the fair value option for any investment in a beneficial interest in a securitized financial asset. Any impairment would be recognized prior to applying the fair value option election. This amended guidance became effective at the beginning of the first interim reporting period beginning after June 15, 2010 (July 1, 2010, for the Bank). The Bank adopted this amended guidance as of July 1, 2010, and the adoption has not had a material effect on the Bank's financial condition, results of operations, or cash flows.

Fair Value Measurements and Disclosures – Improving Disclosures about Fair Value Measurements. On January 21, 2010, the FASB issued amended guidance for fair value measurements and disclosures. The update requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. Furthermore, this update requires a reporting entity to present separately information about purchases, sales, issuances, and settlements in the reconciliation of fair value measurements using significant unobservable inputs; clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value; and amends guidance on employers' disclosures about postretirement benefit plan assets to require that disclosures be provided by classes of assets instead of by major categories of assets. The amended guidance became effective for interim and annual reporting periods beginning after December 15, 2009 (January 1, 2010, for the Bank), except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 (January 1, 2011, for the Bank), and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. Early adoption is permitted. The Bank adopted this amended guidance as of January 1, 2010, with the exception of the required changes noted above related to the reconciliation of Level 3 fair values. Its adoption resulted in increased financial statement disclosures but did not have any effect on the Bank's financial condition, results of operations, or cash flows.

Accounting for Consolidation of Variable Interest Entities. On June 12, 2009, the FASB issued guidance for amending certain requirements of consolidation of variable interest entities (VIEs). This guidance was to improve financial reporting by enterprises involved with VIEs and to provide more relevant and reliable information to users of financial statements. This guidance amended the manner in which entities evaluate whether consolidation is required for VIEs. An entity must first perform a qualitative analysis in determining whether it must consolidate a VIE, and if the qualitative analysis is not determinative, the entity must perform a quantitative analysis. This guidance also required that an entity continually evaluate VIEs for consolidation, rather than making such an assessment based on the occurrence of triggering events. In addition, the guidance requires enhanced disclosures about how an entity's involvement with a VIE affects its financial statements and its exposure to risks. The Bank evaluated its investments in VIEs, which are limited to the Bank's private-label residential mortgage-backed securities (PLRMBS), and determined that as of January 1, 2010, and September 30, 2010, consolidation accounting is not required under the new accounting guidance because the Bank is not the primary beneficiary. The Bank does not have the power to significantly affect the economic performance of any of these investments because it does not act as a key decision maker nor does it have the unilateral ability to replace a key decision maker. In addition, the Bank does not design, sponsor, transfer, service, or provide credit or liquidity support in any of its investments in VIEs. The Bank's maximum loss exposure for these investments is limited to the carrying value. The Bank adopted this guidance as of January 1, 2010, and the adoption did not have a material impact on the Bank's financial condition, results of operations, or cash flows.

Accounting for Transfers of Financial Assets. On June 12, 2009, the FASB issued guidance intended to improve the relevance, representational faithfulness, and comparability of the information a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. Key provisions of the guidance included (i) the removal of the concept of qualifying special purpose entities; (ii) the introduction of the concept of a participating interest, in circumstances in which a portion of a financial asset has

been transferred; and (iii) the requirement that to qualify for sale accounting, the transferor must evaluate whether it maintains effective control over transferred financial assets either directly or indirectly. The guidance also required enhanced disclosures about transfers of financial assets and a transferor's continuing involvement. The Bank adopted this guidance as of January 1, 2010, and the adoption did not have a material impact on the Bank's financial condition, results of operations, or cash flows.

Note 3 — Trading Securities

Trading securities as of September 30, 2010, and December 31, 2009, were as follows:

	September 30, 2010		December 31, 2009	
	Estimated Fair Value	Weighted Average Interest Rate	Estimated Fair Value	Weighted Average Interest Rate
Government-sponsored enterprises (GSEs):				
Federal Farm Credit Bank (FFCB) bonds	$ 1,457	0.49%	$ —	—%
Temporary Liquidity Guarantee Program (TLGP)[1]	129	2.20	—	—
Mortgage-backed securities (MBS):				
Other U.S. obligations:				
Ginnie Mae	21	3.39	23	4.11
GSEs:				
Fannie Mae	5	4.77	8	4.77
Total	$ 1,612	0.68%	$ 31	4.28%

(1) TLGP securities represent corporate debentures of the issuing party that are guaranteed by the Federal Deposit Insurance Corporation (FDIC) and backed by the full faith and credit of the U.S. government.

Redemption Terms. The contractual maturity (based on contractual final principal payment) of the FFCB bonds and TLGP securities is from one year through five years as of September 30, 2010. Expected maturities of MBS will differ from contractual maturities because borrowers generally have the right to prepay the underlying obligations without prepayment fees.

Interest Rate Payment Terms. Interest rate payment terms for trading securities at September 30, 2010, and December 31, 2009, are detailed in the following table:

	September 30, 2010	December 31, 2009
Estimated fair value of trading securities other than MBS:		
Fixed rate	$ 129	$ —
Adjustable rate	1,457	—
Subtotal	1,586	—
Estimated fair value of trading MBS:		
Passthrough securities:		
Adjustable rate	21	23
Collateralized mortgage obligations:		
Fixed rate	5	8
Subtotal	26	31
Total	$ 1,612	$ 31

The net unrealized gain/(loss) on trading securities was immaterial for the three months ended September 30, 2010 and 2009, respectively. The net unrealized (loss)/gain on trading securities was $(1) and $1 for the nine months ended September 30, 2010 and 2009, respectively. These amounts represent the changes in the fair value of the

securities during the reported periods.

Note 4 — Available-for-Sale Securities

Available-for-sale securities as of September 30, 2010, and December 31, 2009, were as follows:

September 30, 2010

	Amortized Cost[1]	Other-Than-Temporary Impairment (OTTI) Recognized in Accumulated Other Comprehensive Income/(Loss) (AOCI)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Weighted Average Interest Rate
TLGP	$ 1,928	$ —	$ 1	$ —	$ 1,929	0.49%

December 31, 2009

	Amortized Cost[1]	OTTI Recognized in AOCI	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Weighted Average Interest Rate
TLGP	$ 1,932	$ —	$ —	$ (1)	$ 1,931	0.41%

(1) Amortized cost includes unpaid principal balance and unamortized premiums and discounts.

The following table summarizes the available-for-sale securities with unrealized losses as of September 30, 2010, and December 31, 2009. The unrealized losses are aggregated by major security type and the length of time that individual securities have been in a continuous unrealized loss position.

September 30, 2010

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
TLGP	$ 587	$ —	$ —	$ —	$ 587	$ —

December 31, 2009

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
TLGP	$ 1,281	$ 1	$ —	$ —	$ 1,281	$ 1

Redemption Terms. The contractual maturity (based on contractual final principal payment) of the Bank's TLGP securities is from one year through five years as of September 30, 2010, and December 31, 2009.

The amortized cost of the TLGP securities, which are classified as available-for-sale, included net premiums of $5 at September 30, 2010, and net premiums of $8 at December 31, 2009.

Interest Rate Payment Terms. Available-for-sale securities at September 30, 2010, and December 31, 2009, had adjustable rate interest payment terms.

Other-Than-Temporary Impairment. On a quarterly basis, the Bank evaluates its individual available-for-sale investment securities in an unrealized loss position for OTTI. As part of this evaluation, the Bank considers whether it intends to sell each debt security and whether it is more likely than not that it will be required to sell the security

before its anticipated recovery of the amortized cost basis. If either of these conditions is met, the Bank recognizes an OTTI charge to earnings equal to the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. For securities in an unrealized loss position that meet neither of these conditions, the Bank considers whether it expects to recover the entire amortized cost basis of the security by comparing its best estimate of the present value of the cash flows expected to be collected from the security with the amortized cost basis of the security. If the Bank's best estimate of the present value of the cash flows expected to be collected is less than the amortized cost basis, the difference is considered the credit loss.

For all the securities in its available-for-sale portfolio, the Bank does not intend to sell any security and it is not more likely than not that the Bank will be required to sell any security before its anticipated recovery of the remaining amortized cost basis.

As of September 30, 2010, the Bank's available-for-sale portfolio had immaterial gross unrealized losses. As a result, the Bank determined that the unrealized losses on its available-for-sale investment securities are temporary because it determined that the strength of the guarantees and direct support from the U.S. government was sufficient to protect the Bank from losses.

Note 5 — Held-to-Maturity Securities

The Bank classifies the following securities as held-to-maturity because the Bank has the positive intent and ability to hold these securities to maturity:

September 30, 2010

	Amortized Cost[1]	OTTI Recognized in AOCI[1]	Carrying Value[1]	Gross Unrecognized Holding Gains[2]	Gross Unrecognized Holding Losses[2]	Estimated Fair Value
Interest-bearing deposits	$ 4,115	$ —	$ 4,115	$ —	$ —	$ 4,115
Commercial paper	2,259	—	2,259	—	—	2,259
Housing finance agency bonds	743	—	743	—	(109)	634
TLGP	302	—	302	—	—	302
Subtotal	7,419	—	7,419	—	(109)	7,310
MBS:						
Other U.S. obligations:						
Ginnie Mae	34	—	34	—	—	34
GSEs:						
Freddie Mac	2,387	—	2,387	106	—	2,493
Fannie Mae	6,457	—	6,457	280	(11)	6,726
Subtotal GSEs	8,844	—	8,844	386	(11)	9,219
PLRMBS:						
Prime	4,737	(354)	4,383	155	(252)	4,286
Alt-A, option ARM	1,828	(728)	1,100	51	(15)	1,136
Alt-A, other	10,510	(2,063)	8,447	687	(560)	8,574
Subtotal PLRMBS	17,075	(3,145)	13,930	893	(827)	13,996
Total MBS	25,953	(3,145)	22,808	1,279	(838)	23,249
Total	$ 33,372	$ (3,145)	$ 30,227	$ 1,279	$ (947)	$ 30,559

Federal Home Loan Bank of San Francisco
Notes to Financial Statements (continued)

December 31, 2009

	Amortized Cost[1]	OTTI Recognized in AOCI[1]	Carrying Value[1]	Gross Unrecognized Holding Gains[2]	Gross Unrecognized Holding Losses[2]	Estimated Fair Value
Interest-bearing deposits	$ 6,510	$ —	$ 6,510	$ —	$ —	$ 6,510
Commercial paper	1,100	—	1,100	—	—	1,100
Housing finance agency bonds	769	—	769	—	(138)	631
TLGP	304	—	304	—	(1)	303
Subtotal	8,683	—	8,683	—	(139)	8,544
MBS:						
Other U.S. obligations:						
Ginnie Mae	16	—	16	—	—	16
GSEs:						
Freddie Mac	3,423	—	3,423	150	(1)	3,572
Fannie Mae	8,467	—	8,467	256	(13)	8,710
Subtotal GSEs	11,890	—	11,890	406	(14)	12,282
PLRMBS:						
Prime	5,999	(407)	5,592	72	(554)	5,110
Alt-A, option ARM	2,086	(908)	1,178	37	(104)	1,111
Alt-A, other	11,781	(2,260)	9,521	385	(1,287)	8,619
Subtotal PLRMBS	19,866	(3,575)	16,291	494	(1,945)	14,840
Total MBS	31,772	(3,575)	28,197	900	(1,959)	27,138
Total	$ 40,455	$ (3,575)	$ 36,880	$ 900	$ (2,098)	$ 35,682

(1) Amortized cost includes unpaid principal balance, unamortized premiums and discounts, and previous other-than-temporary impairments recognized in earnings (less any cumulative-effect adjustments recognized). The carrying value of held-to-maturity securities represents amortized cost after adjustment for impairment related to all other factors recognized in AOCI.

(2) Gross unrecognized holding gains/(losses) represent the difference between estimated fair value and carrying value, while gross unrealized gains/(losses) represent the difference between estimated fair value and amortized cost.

As of September 30, 2010, all of the interest-bearing deposits, commercial paper, and housing finance agency bonds had a credit rating of at least A. The TLGP securities are guaranteed by the FDIC and backed by the full faith and credit of the U.S. government. In addition, as of September 30, 2010, 32% of the PLRMBS, based on amortized cost, were rated above investment grade (12% had a credit rating of AAA), and the remaining 68% were rated below investment grade. Credit ratings of BB and lower are below investment grade. The credit ratings used by the Bank are based on the lowest of Moody's Investors Service (Moody's), Standard & Poor's Ratings Services (Standard & Poor's), or comparable Fitch ratings.

At September 30, 2010, PLRMBS labeled Alt-A by the issuer represented 47% of the amortized cost of the Bank's MBS portfolio. Alt-A PLRMBS are generally collateralized by mortgage loans that are considered less risky than subprime loans, but more risky than prime loans. These loans are generally made to borrowers who have sufficient credit ratings to qualify for a conforming mortgage loan, but the loans may not meet all standard guidelines for documentation requirements, property type, or loan-to-value ratios.

The following tables summarize the held-to-maturity securities with unrealized losses as of September 30, 2010, and December 31, 2009. The unrealized losses are aggregated by major security type and the length of time that individual securities have been in a continuous unrealized loss position.

Federal Home Loan Bank of San Francisco
Notes to Financial Statements (continued)

September 30, 2010

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Interest-bearing deposits	$ 3,056	$ —	$ —	$ —	$ 3,056	$ —
Commercial paper	1,560	—	—	—	1,560	—
Housing finance agency bonds	—	—	634	109	634	109
Subtotal	4,616	—	634	109	5,250	109
MBS:						
Other U.S. obligations:						
Ginnie Mae	—	—	5	—	5	—
GSEs:						
Freddie Mac	2	—	30	—	32	—
Fannie Mae	309	4	94	7	403	11
Subtotal GSEs	311	4	124	7	435	11
PLRMBS[1]:						
Prime	11	—	3,611	606	3,622	606
Alt-A, option ARM	—	—	1,126	743	1,126	743
Alt-A, other	—	—	8,566	2,623	8,566	2,623
Subtotal PLRMBS	11	—	13,303	3,972	13,314	3,972
Total MBS	322	4	13,432	3,979	13,754	3,983
Total	$ 4,938	$ 4	$ 14,066	$ 4,088	$ 19,004	$ 4,092

December 31, 2009

	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Interest-bearing deposits	$ 6,510	$ —	$ —	$ —	$ 6,510	$ —
Housing finance agency bonds	30	7	600	131	630	138
TLGP	303	1	—	—	303	1
Subtotal	6,843	8	600	131	7,443	139
MBS:						
Other U.S. obligations:						
Ginnie Mae	—	—	13	—	13	—
GSEs:						
Freddie Mac	—	—	40	1	40	1
Fannie Mae	1,037	10	172	3	1,209	13
Subtotal GSEs	1,037	10	212	4	1,249	14
PLRMBS[1]:						
Prime	—	—	5,110	961	5,110	961
Alt-A, option ARM	—	—	1,111	1,012	1,111	1,012
Alt-A, other	—	—	8,619	3,547	8,619	3,547
Subtotal PLRMBS	—	—	14,840	5,520	14,840	5,520
Total MBS	1,037	10	15,065	5,524	16,102	5,534
Total	$ 7,880	$ 18	$ 15,665	$ 5,655	$ 23,545	$ 5,673

(1) Includes securities with gross unrecognized holding losses of $827 and $1,945 at September 30, 2010, and December 31, 2009, respectively, and securities with OTTI charges of $3,145 and $3,575 that have been recognized in AOCI at September 30, 2010, and December 31, 2009, respectively.

As indicated in the tables above, as of September 30, 2010, the Bank's investments classified as held-to-maturity had gross unrealized losses totaling $4,092, primarily relating to PLRMBS. The gross unrealized losses associated

with the PLRMBS were primarily due to illiquidity in the MBS market, uncertainty about the future condition of the housing and mortgage markets and the economy, and continued deterioration in the credit performance of loan collateral underlying these securities, which caused these assets to be valued at significant discounts to their acquisition cost.

Redemption Terms. The amortized cost, carrying value, and estimated fair value of non-MBS securities by contractual maturity (based on contractual final principal payment) and of MBS as of September 30, 2010, and December 31, 2009, are shown below. Expected maturities of MBS will differ from contractual maturities because borrowers generally have the right to prepay the underlying obligations without prepayment fees.

September 30, 2010

Year of Contractual Maturity	Amortized Cost[1]	Carrying Value[1]	Estimated Fair Value	Weighted Average Interest Rate
Held-to-maturity securities other than MBS:				
Due in 1 year or less	$ 6,676	$ 6,676	$ 6,676	0.29%
Due after 1 year through 5 years	7	7	7	0.62
Due after 5 years through 10 years	26	26	23	0.59
Due after 10 years	710	710	604	0.69
Subtotal	7,419	7,419	7,310	0.33
MBS:				
Other U.S. obligations:				
Ginnie Mae	34	34	34	1.97
GSEs:				
Freddie Mac	2,387	2,387	2,493	4.53
Fannie Mae	6,457	6,457	6,726	4.01
Subtotal GSEs	8,844	8,844	9,219	4.15
PLRMBS:				
Prime	4,737	4,383	4,286	3.56
Alt-A, option ARM	1,828	1,100	1,136	0.52
Alt-A, other	10,510	8,447	8,574	3.92
Subtotal PLRMBS	17,075	13,930	13,996	3.42
Total MBS	25,953	22,808	23,249	3.66
Total	$ 33,372	$ 30,227	$ 30,559	2.94%

Federal Home Loan Bank of San Francisco
Notes to Financial Statements (continued)

December 31, 2009

Year of Contractual Maturity	Amortized Cost[1]	Carrying Value[1]	Estimated Fair Value	Weighted Average Interest Rate
Held-to-maturity securities other than MBS:				
Due in 1 year or less	$ 7,610	$ 7,610	$ 7,610	0.15%
Due after 1 year through 5 years	316	316	314	1.75
Due after 5 years through 10 years	27	27	23	0.40
Due after 10 years	730	730	597	0.53
Subtotal	8,683	8,683	8,544	0.24
MBS:				
Other U.S. obligations:				
Ginnie Mae	16	16	16	1.26
GSEs:				
Freddie Mac	3,423	3,423	3,572	4.83
Fannie Mae	8,467	8,467	8,710	4.15
Subtotal GSEs	11,890	11,890	12,282	4.35
PLRMBS:				
Prime	5,999	5,592	5,110	3.91
Alt-A, option ARM	2,086	1,178	1,111	0.49
Alt-A, other	11,781	9,521	8,619	4.25
Subtotal PLRMBS	19,866	16,291	14,840	3.73
Total MBS	31,772	28,197	27,138	3.95
Total	$ 40,455	$ 36,880	$ 35,682	3.17%

(1) Amortized cost includes unpaid principal balance, unamortized premiums and discounts, and previous other-than-temporary impairments recognized in earnings (less any cumulative-effect adjustments recognized). The carrying value of held-to-maturity securities represents amortized cost after adjustment for impairment related to all other factors recognized in AOCI.

At September 30, 2010, the carrying value of the Bank's MBS classified as held-to-maturity included net discounts of $5, OTTI related to credit loss of $920 (including interest accretion adjustments of $34), and OTTI related to all other factors of $3,145. At December 31, 2009, the carrying value of the Bank's MBS classified as held-to-maturity included net discounts of $16, OTTI related to credit loss of $652 (including interest accretion adjustments of $24), and OTTI related to all other factors of $3,575.

Interest Rate Payment Terms. Interest rate payment terms for held-to-maturity securities at September 30, 2010, and December 31, 2009, are detailed in the following table:

Federal Home Loan Bank of San Francisco
Notes to Financial Statements (continued)

	September 30, 2010	December 31, 2009
Amortized cost of held-to-maturity securities other than MBS:		
Fixed rate	$ 6,676	$ 7,914
Adjustable rate	743	769
Subtotal	7,419	8,683
Amortized cost of held-to-maturity MBS:		
Passthrough securities:		
Fixed rate	2,644	3,326
Adjustable rate	180	87
Collateralized mortgage obligations:		
Fixed rate	12,087	16,619
Adjustable rate	11,042	11,740
Subtotal	25,953	31,772
Total	$ 33,372	$ 40,455

Certain MBS classified as fixed rate passthrough securities and fixed rate collateralized mortgage obligations have an initial fixed interest rate that subsequently converts to an adjustable interest rate on a specified date as follows:

	September 30, 2010	December 31, 2009
Passthrough securities:		
Converts in 1 year or less	$ 18	$ 158
Converts after 1 year through 5 years	1,416	2,061
Converts after 5 years through 10 years	1,019	1,076
Converts after 10 years	164	—
Total	$ 2,617	$ 3,295
Collateralized mortgage obligations:		
Converts in 1 year or less	$ 552	$ 1,216
Converts after 1 year through 5 years	4,085	6,167
Converts after 5 years through 10 years	867	1,652
Total	$ 5,504	$ 9,035

The Bank does not own MBS that are backed by mortgage loans purchased by another Federal Home Loan Bank (FHLBank) from either (i) members of the Bank or (ii) members of other FHLBanks.

Other-Than-Temporary Impairment. On a quarterly basis, the Bank evaluates its individual held-to-maturity investment securities in an unrealized loss position for OTTI. As part of this evaluation, the Bank considers whether it intends to sell each debt security and whether it is more likely than not that it will be required to sell the security before its anticipated recovery of the amortized cost basis. If either of these conditions is met, the Bank recognizes an OTTI charge to earnings equal to the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. For securities in an unrealized loss position that meet neither of these conditions, the Bank considers whether it expects to recover the entire amortized cost basis of the security by comparing its best estimate of the present value of the cash flows expected to be collected from the security with the amortized cost basis of the security. If the Bank's best estimate of the present value of the cash flows expected to be collected is less than the amortized cost basis, the difference is considered the credit loss.

For all the securities in its held-to-maturity portfolio, the Bank does not intend to sell any security and it is not more likely than not that the Bank will be required to sell any security before its anticipated recovery of the remaining amortized cost basis.

The Bank determined that, as of September 30, 2010, the immaterial gross unrealized losses on its interest-bearing deposits and commercial paper are temporary because the gross unrealized losses were caused by movements in interest rates and not by the deterioration of the issuers' creditworthiness. The interest-bearing deposits and commercial paper were all with issuers that had credit ratings of at least A at September 30, 2010, and all of the securities had maturity dates within 45 days of September 30, 2010. As a result, the Bank expects to recover the entire amortized cost basis of these securities.

As of September 30, 2010, the Bank's investments in housing finance agency bonds, which were issued by the California Housing Finance Agency (CalHFA), had gross unrealized losses totaling $109. These gross unrealized losses were mainly due to an illiquid market, causing these investments to be valued at a discount to their acquisition cost. In addition, the Bank independently modeled cash flows for the underlying collateral, using assumptions for default rates and loss severity that management deemed reasonable, and concluded that the available credit support within the CalHFA structure more than offset the projected losses on the underlying collateral. The Bank determined that, as of September 30, 2010, all of the gross unrealized losses on these bonds are temporary because the underlying collateral and credit enhancements were sufficient to protect the Bank from losses based on current expectations and because CalHFA had a credit rating of A at September 30, 2010 (based on the lower of Moody's or Standard & Poor's ratings). As a result, the Bank expects to recover the entire amortized cost basis of these securities.

For its agency MBS, the Bank expects to recover the entire amortized cost basis of these securities because it determined that the strength of the issuers' guarantees through direct obligations or support from the U.S. government is sufficient to protect the Bank from losses based on current expectations. As a result, the Bank determined that, as of September 30, 2010, all of the gross unrealized losses on its agency MBS are temporary.

To assess whether it expects to recover the entire amortized cost basis of its PLRMBS, the Bank performed a cash flow analysis for all of its PLRMBS as of September 30, 2010. In performing the cash flow analysis for each security, the Bank used two third-party models. The first model considers borrower characteristics and the particular attributes of the loans underlying the Bank's securities, in conjunction with assumptions about future changes in home prices, interest rates, and other assumptions, to project prepayments, default rates, and loss severities. A significant input to the first model is the forecast of future housing price changes for the relevant states and core-based statistical areas (CBSAs) based on an assessment of the relevant housing markets. CBSA refers collectively to metropolitan and micropolitan statistical areas as defined by the United States Office of Management and Budget. As currently defined, a CBSA must contain at least one urban area of 10,000 or more people. The Bank's housing price forecast as of September 30, 2010, assumed CBSA-level current-to-trough housing price declines ranging from 0% to 10% over the 3- to 9-month periods beginning July 1, 2010 (average price decline for all areas during their current-to-trough period equaled 3.9%). For each area, after the current-to-trough period, home prices are projected to increase 0% in the first year, 1% in the second year, 3% in the third year, 4% in the fourth year, 5% in the fifth year, 6% in the sixth year, and 4% in each subsequent year. The month-by-month projections of future loan performance derived from the first model, which reflect projected prepayments, default rates, and loss severities, are then input into a second model that allocates the projected loan level cash flows and losses to the various security classes in each securitization structure in accordance with the structure's prescribed cash flow and loss allocation rules. When the credit enhancement for the senior securities in a securitization is derived from the presence of subordinated securities, losses are generally allocated first to the subordinated securities until their principal balance is reduced to zero. The projected cash flows are based on a number of assumptions and expectations, and the results of these models can vary significantly with changes in assumptions and expectations. The scenario of cash flows determined based on the model approach described above reflects a best-estimate scenario and includes a base case current-to-trough housing price forecast and a base case housing price recovery path.

At each quarter end, the Bank compares the present value of the cash flows expected to be collected on its PLRMBS to the amortized cost basis of the securities to determine whether a credit loss exists. For the Bank's variable rate and hybrid PLRMBS, the Bank uses a forward interest rate curve to project the future estimated cash

flows. The Bank then uses the effective interest rate for the security prior to impairment for determining the present value of the future estimated cash flows. For securities previously identified as other-than-temporarily impaired, the Bank updates its estimate of future estimated cash flows on a quarterly basis.

For securities determined to be other-than-temporarily impaired as of September 30, 2010 (that is, securities for which the Bank determined that it does not expect to recover the entire amortized cost basis), the following table presents a summary of the significant inputs used in measuring the amount of credit loss recognized in earnings in the third quarter of 2010.

Credit enhancement is defined as the subordinated tranches and over-collateralization, if any, in a security structure that will generally absorb losses before the Bank will experience a loss on the security, expressed as a percentage of the underlying collateral balance. The calculated averages represent the dollar-weighted averages of all the PLRMBS investments in each category shown. The classification (prime or Alt-A) is based on the model used to run the estimated cash flows for the CUSIP, which may not necessarily be the same as the classification at the time of origination.

September 30, 2010

	Significant Inputs						Current	
	Prepayment Rates		Default Rates		Loss Severities		Credit Enhancement	
Year of Securitization	Weighted Average %	Range %	Weighted Average %	Range %	Weighted Average %	Range %	Weighted Average %	Range %
Prime								
2005	5.1	5.1	28.2	28.2	31.4	31.4	17.1	17.1
Alt-A								
2007	8.8	4.7 - 15.4	64.9	23.9 - 87.7	48.0	41.2 - 59.2	28.7	8.9 - 46.6
2006	12.9	6.5 - 15.2	45.1	27.1 - 80.0	47.7	40.7 - 52.6	22.9	8.6 - 34.1
2005	12.9	6.9 - 16.8	34.4	13.5 - 74.5	44.5	31.3 - 57.7	15.0	6.4 - 28.2
Total Alt-A	11.0	4.7 - 16.8	50.5	13.5 - 87.7	46.8	31.3 - 59.2	22.8	6.4 - 46.6
Total	11.0	4.7 - 16.8	50.4	13.5 - 87.7	46.7	31.3 - 59.2	22.8	6.4 - 46.6

The Bank recorded OTTI related to credit loss of $56 and $316 that was recognized in "Other Loss" for the third quarter of 2010 and 2009, respectively, and recognized OTTI related to all other factors of $31 and $1,069 in "Other comprehensive income/(loss)" for the third quarter of 2010 and 2009, respectively. The Bank recorded OTTI related to credit loss of $258 and $492 that was recognized in "Other Loss" for the first nine months of 2010 and 2009, respectively, and recognized OTTI related to all other factors of $211 and $3,332 in "Other comprehensive income/ (loss)" for the first nine months of 2010 and 2009, respectively. For each security, the estimated impairment related to all other factors is accreted prospectively, based on the amount and timing of future estimated cash flows, over the remaining life of the security as an increase in the carrying value of the security (with no effect on earnings unless the security is subsequently sold or there are additional decreases in the cash flows expected to be collected). The Bank accreted $213 and $186 from AOCI to increase the carrying value of the respective PLRMBS for the third quarter of 2010 and 2009, respectively. The Bank accreted $641 and $309 from AOCI to increase the carrying value of the respective PLRMBS for the first nine months of 2010 and 2009, respectively. The Bank does not intend to sell these securities and it is not more likely than not that the Bank will be required to sell these securities before its anticipated recovery of the remaining amortized cost basis.

For certain other-than-temporarily impaired securities that had previously been impaired and subsequently incurred additional OTTI related to credit loss, the additional credit-related OTTI, up to the amount in AOCI, was reclassified out of non-credit-related OTTI in AOCI and charged to earnings. This amount was $56 and $282 for the third quarter of 2010 and 2009, respectively. This amount was $255 and $408 for the first nine months of 2010 and 2009, respectively.

Federal Home Loan Bank of San Francisco
Notes to Financial Statements (continued)

The following tables present the OTTI related to credit loss, which is recognized in earnings, and the OTTI related to all other factors, which is recognized in "Other comprehensive income/(loss)" for the three and nine months ended September 30, 2010.

	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	OTTI Related to Credit Loss	OTTI Related to All Other Factors	Total OTTI	OTTI Related to Credit Loss	OTTI Related to All Other Factors	Total OTTI
Balance, beginning of the period	$ 830	$ 3,327	$ 4,157	$ 196	$ 2,710	$ 2,906
Charges on securities for which OTTI was not previously recognized	—	81	81	34	1,219	1,253
Additional charges on securities for which OTTI was previously recognized[1]	56	(50)	6	282	(150)	132
Accretion of impairment related to all other factors	—	(213)	(213)	—	(186)	(186)
Balance, end of the period	$ 886	$ 3,145	$ 4,031	$ 512	$ 3,593	$ 4,105

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	OTTI Related to Credit Loss	OTTI Related to All Other Factors	Total OTTI	OTTI Related to Credit Loss	OTTI Related to All Other Factors	Total OTTI
Balance, beginning of the period[2]	$ 628	$ 3,575	$ 4,203	$ 20	$ 570	$ 590
Charges on securities for which OTTI was not previously recognized	7	369	376	308	3,368	3,676
Additional charges on securities for which OTTI was previously recognized[1]	251	(158)	93	184	(36)	148
Accretion of impairment related to all other factors	—	(641)	(641)	—	(309)	(309)
Balance, end of the period	$ 886	$ 3,145	$ 4,031	$ 512	$ 3,593	$ 4,105

(1) For the three months ended September 30, 2010, "securities for which OTTI was previously recognized" represents all securities that were also other-than-temporarily impaired prior to July 1, 2010. For the three months ended September 30, 2009, "securities for which OTTI was previously recognized" represents all securities that were also previously other-than-temporarily impaired prior to July 1, 2009. For the nine months ended September 30, 2010, "securities for which OTTI was previously recognized" represents all securities that were also other-than-temporarily impaired prior to January 1, 2010. For the nine months ended September 30, 2009, "securities for which OTTI was previously recognized" represents all securities that were also previously other-than-temporarily impaired prior to January 1, 2009.

(2) The Bank adopted the OTTI guidance as of January 1, 2009, and recognized the cumulative effect of initially applying the OTTI guidance, totaling $570, as an increase in the retained earnings balance at January 1, 2009, with a corresponding change in AOCI.

The following tables present the Bank's other-than-temporarily impaired PLRMBS that incurred an OTTI charge during the three months ended September 30, 2010, and 2009, by loan collateral type:

September 30, 2010

	Unpaid Principal Balance	Amortized Cost	Carrying Value	Estimated Fair Value
Other-than-temporarily impaired PLRMBS backed by loans classified at origination as:				
Prime	$ 826	$ 744	$ 473	$ 568
Alt-A, option ARM	1,336	1,218	693	732
Alt-A, other	5,050	4,737	3,369	3,753
Total	$ 7,212	$ 6,699	$ 4,535	$ 5,053

September 30, 2009

	Unpaid Principal Balance	Amortized Cost	Carrying Value	Estimated Fair Value
Other-than-temporarily impaired PLRMBS backed by loans classified at origination as:				
Prime	$ 1,396	$ 1,357	$ 923	$ 935
Alt-A, option ARM	2,146	1,971	986	997
Alt-A, other	6,142	5,835	3,915	4,124
Total	$ 9,684	$ 9,163	$ 5,824	$ 6,056

The following tables present the Bank's other-than-temporarily impaired PLRMBS that incurred an OTTI charge anytime during the life of the securities at September 30, 2010, and December 31, 2009, by loan collateral type:

September 30, 2010

	Unpaid Principal Balance	Amortized Cost	Carrying Value	Estimated Fair Value
Other-than-temporarily impaired PLRMBS backed by loans classified at origination as:				
Prime	$ 1,344	$ 1,240	$ 885	$ 1,036
Alt-A, option ARM	2,092	1,800	1,072	1,118
Alt-A, other	7,933	7,413	5,351	6,038
Total	$ 11,369	$ 10,453	$ 7,308	$ 8,192

December 31, 2009

	Unpaid Principal Balance	Amortized Cost	Carrying Value	Estimated Fair Value
Other-than-temporarily impaired PLRMBS backed by loans classified at origination as:				
Prime	$ 1,392	$ 1,333	$ 927	$ 998
Alt-A, option ARM	2,084	1,873	964	1,001
Alt-A, other	7,410	7,031	4,771	5,150
Total	$ 10,886	$ 10,237	$ 6,662	$ 7,149

The following tables present the Bank's OTTI related to credit loss and OTTI related to all other factors on its other-than-temporarily impaired PLRMBS during the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	OTTI Related to Credit Loss	OTTI Related to All Other Factors	Total OTTI	OTTI Related to Credit Loss	OTTI Related to All Other Factors	Total OTTI
Other-than-temporarily impaired PLRMBS backed by loans classified at origination as:						
Prime	$ 10	$ (10)	$ —	$ 26	$ 91	$ 117
Alt-A, option ARM	13	(11)	2	121	425	546
Alt-A, other	33	52	85	169	553	722
Total	$ 56	$ 31	$ 87	$ 316	$ 1,069	$ 1,385

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	OTTI Related to Credit Loss	OTTI Related to All Other Factors	Total OTTI	OTTI Related to Credit Loss	OTTI Related to All Other Factors	Total OTTI
Other-than-temporarily impaired PLRMBS backed by loans classified at origination as:						
Prime	$ 44	$ 19	$ 63	$ 41	$ 403	$ 444
Alt-A, option ARM	84	3	87	171	981	1,152
Alt-A, other	130	189	319	280	1,948	2,228
Total	$ 258	$ 211	$ 469	$ 492	$ 3,332	$ 3,824

For the Bank's PLRMBS that were not other-than-temporarily impaired as of September 30, 2010, the Bank has experienced net unrealized losses and a decrease in fair value primarily because of illiquidity in the MBS market, uncertainty about the future condition of the housing and mortgage markets and the economy, and continued deterioration in the credit performance of loan collateral underlying these securities, which caused these assets to be valued at significant discounts to their acquisition cost. The Bank does not intend to sell these securities, it is not more likely than not that the Bank will be required to sell these securities before its anticipated recovery of the remaining amortized cost basis, and the Bank expects to recover the entire amortized cost basis of these securities. As a result, the Bank determined that, as of September 30, 2010, the gross unrealized losses on these remaining PLRMBS are temporary. Seventy-five percent of the PLRMBS, based on amortized cost, that were not other-than-temporarily impaired were rated investment grade (30% were rated AAA), and the remaining 25% were rated below investment grade. These securities were included in the securities that the Bank reviewed and analyzed for OTTI as discussed above, and the analyses performed indicated that these securities were not other-than-temporarily impaired. The credit ratings used by the Bank are based on the lowest of Moody's, Standard & Poor's, or comparable Fitch ratings.

Note 6 — Advances

Redemption Terms. The Bank had advances outstanding, excluding overdrawn demand deposit accounts, at interest rates ranging from 0.03% to 8.57% at September 30, 2010, and 0.01% to 8.57% at December 31, 2009, as summarized below.

Federal Home Loan Bank of San Francisco
Notes to Financial Statements (continued)

Contractual Maturity	September 30, 2010 Amount Outstanding	September 30, 2010 Weighted Average Interest Rate	December 31, 2009 Amount Outstanding	December 31, 2009 Weighted Average Interest Rate
Within 1 year	$ 41,925	1.31%	$ 76,854	1.54%
After 1 year through 2 years	15,281	1.82	30,686	1.69
After 2 years through 3 years	15,200	1.29	7,313	2.85
After 3 years through 4 years	3,982	2.43	9,211	1.77
After 4 years through 5 years	4,992	2.10	1,183	4.12
After 5 years	6,848	2.02	7,066	2.12
Total par amount	88,228	1.55%	132,313	1.72%
Valuation adjustments for hedging activities	572		630	
Valuation adjustments under fair value option	527		616	
Total	$ 89,327		$ 133,559	

The following table summarizes advances at September 30, 2010, and December 31, 2009, by the earlier of the year of contractual maturity or next call date for callable advances.

Earlier of Contractual Maturity or Next Call Date	September 30, 2010	December 31, 2009
Within 1 year	$ 42,061	$ 76,864
After 1 year through 2 years	15,286	30,686
After 2 years through 3 years	15,196	7,318
After 3 years through 4 years	3,977	9,201
After 4 years through 5 years	4,978	1,183
After 5 years	6,730	7,061
Total par amount	$ 88,228	$ 132,313

The following table summarizes advances at September 30, 2010, and December 31, 2009, by the earlier of the year of contractual maturity or next put date for putable advances.

Earlier of Contractual Maturity or Next Put Date	September 30, 2010	December 31, 2009
Within 1 year	$ 44,438	$ 79,552
After 1 year through 2 years	14,490	30,693
After 2 years through 3 years	14,998	6,385
After 3 years through 4 years	3,778	8,933
After 4 years through 5 years	4,674	942
After 5 years	5,850	5,808
Total par amount	$ 88,228	$ 132,313

Security Terms. The Bank lends to member financial institutions that have a principal place of business in Arizona, California, or Nevada. The Bank is required by the Federal Home Loan Bank Act of 1932, as amended (FHLBank Act), to obtain sufficient collateral for advances to protect against losses and to accept as collateral for advances only certain U.S. government or government agency securities, residential mortgage loans or MBS, other eligible real estate-related assets, and cash or deposits in the Bank. The capital stock of the Bank owned by each borrowing member is pledged as additional collateral for the member's indebtedness to the Bank. The Bank may also accept small business, small farm, and small agribusiness loans that are fully secured by collateral (such as real estate, equipment and vehicles, accounts receivable, and inventory) or securities representing a whole interest in such loans as eligible collateral from members that qualify as community financial institutions. The Housing and Economic Recovery Act of 2008 (Housing Act) added secured loans for community development activities as collateral that the Bank may accept from community financial institutions. The Housing Act defines community financial

institutions as FDIC-insured depository institutions with average total assets over the preceding three-year period of $1,000 or less. The Federal Housing Finance Agency (Finance Agency) adjusts the average total asset cap for inflation annually. Effective January 1, 2010, the cap was $1,029. In addition, the Bank has advances outstanding to former members and member successors, which are also subject to these security terms. For more information on security terms, see Note 7 to the Financial Statements in the Bank's 2009 Form 10-K.

Credit and Concentration Risk. The Bank's potential credit risk from advances is concentrated in five institutions whose advances outstanding represented 69% of the Bank's total par amount of advances outstanding at September 30, 2010. The following tables present the concentration in advances to these five institutions as of September 30, 2010, and December 31, 2009. The tables also present the interest income from these advances before the impact of interest rate exchange agreements associated with these advances for the third quarter of 2010 and 2009 and for the first nine months of 2010 and 2009.

Concentration of Advances

	September 30, 2010		December 31, 2009	
Name of Borrower	Advances Outstanding[1]	Percentage of Total Advances Outstanding	Advances Outstanding[1]	Percentage of Total Advances Outstanding
Citibank, N.A.	$ 29,913	34%	$ 46,544	35%
JPMorgan Chase & Co.:				
JPMorgan Bank & Trust Company, National Association	11,600	13	5,000	4
JPMorgan Chase Bank, National Association [2]	4,092	5	20,622	16
Subtotal JPMorgan Chase & Co.	15,692	18	25,622	20
Bank of America California, N.A.	11,354	13	9,304	7
Wells Fargo Bank, N.A.[2]	3,364	4	14,695	11
Subtotal	60,323	69	96,165	73
Others	27,905	31	36,148	27
Total par amount	$ 88,228	100%	$ 132,313	100%

Concentration of Interest Income from Advances

	Three Months Ended			
	September 30, 2010		September 30, 2009	
Name of Borrower	Interest Income from Advances[3]	Percentage of Total Interest Income from Advances	Interest Income from Advances[3]	Percentage of Total Interest Income from Advances
Citibank, N.A.	$ 28	7%	$ 57	7%
JPMorgan Chase & Co.:				
JPMorgan Bank & Trust Company, National Association	19	5	3	—
JPMorgan Chase Bank, National Association [2]	47	12	299	36
Subtotal JPMorgan Chase & Co.	66	17	302	36
Bank of America California, N.A.	31	8	32	4
Wells Fargo Bank, N.A.[2]	9	2	45	5
Subtotal	134	34	436	52
Others	251	66	404	48
Total	$ 385	100%	$ 840	100%

Federal Home Loan Bank of San Francisco
Notes to Financial Statements (continued)

	Nine Months Ended			
	September 30, 2010		September 30, 2009	
Name of Borrower	Interest Income from Advances[3]	Percentage of Total Interest Income from Advances	Interest Income from Advances[3]	Percentage of Total Interest Income from Advances
Citibank, N.A.	$ 75	6%	$ 414	13%
JPMorgan Chase & Co.:				
JPMorgan Bank & Trust Company, National Association	25	2	6	—
JPMorgan Chase Bank, National Association[2]	273	20	1,040	33
Subtotal JPMorgan Chase & Co.	298	22	1,046	33
Bank of America California, N.A.	94	7	127	4
Wells Fargo Bank, N.A.[2]	65	5	208	7
Subtotal	532	40	1,795	57
Others	800	60	1,333	43
Total	$ 1,332	100%	$ 3,128	100%

(1) Borrower advance amounts and total advance amounts are at par value, and total advance amounts will not agree to carrying value amounts shown in the Statements of Condition. The differences between the par and carrying value amounts primarily relate to unrealized gains or losses associated with hedged advances resulting from valuation adjustments related to hedging activities and the fair value option.
(2) Nonmember institutions.
(3) Interest income amounts exclude the interest effect of interest rate exchange agreements with derivatives counterparties; as a result, the total interest income amounts will not agree to the Statements of Income. The amount of interest income from advances can vary depending on the amount outstanding, terms to maturity, interest rates, and repricing characteristics.

The Bank held a security interest in collateral from each of these five advances borrowers sufficient to support their respective advances outstanding, and the Bank does not expect to incur any credit losses on these advances. As of September 30, 2010, three of these five advances borrowers (Citibank, N.A.; JPMorgan Bank & Trust Company, National Association; and Wells Fargo Bank, N.A.) each owned more than 10% of the Bank's outstanding capital stock, including mandatorily redeemable capital stock.

During the first nine months of 2010, 16 member institutions were placed into receivership or liquidation. Fifteen of these institutions had advances outstanding at the time they were placed into receivership or liquidation and one institution did not. The advances outstanding to the 15 institutions were either repaid prior to September 30, 2010, or assumed by other institutions, and no losses were incurred by the Bank. Bank capital stock held by 8 of the 16 institutions totaling $36 was classified as mandatorily redeemable capital stock (a liability). The capital stock of the other 8 institutions was transferred to other member institutions.

The Bank has policies and procedures in place to manage the credit risk of advances. Based on the collateral pledged as security for advances, the Bank's credit analyses of members' financial condition, and the Bank's credit extension and collateral policies, the Bank expects to collect all amounts due according to the contractual terms of the advances. Therefore, no allowance for losses on advances was deemed necessary by management. The Bank has never experienced any credit losses on advances.

From October 1, 2010, to October 29, 2010, two member institutions were placed into receivership or liquidation. One institution had no advances outstanding at the time it was placed into receivership or liquidation. The advances outstanding to the other institution were repaid prior to October 29, 2010. The Bank capital stock held by these two institutions totaling $272 was classified as mandatorily redeemable capital stock (a liability).

Interest Rate Payment Terms. Interest rate payment terms for advances at September 30, 2010, and December 31, 2009, are detailed below:

	September 30, 2010	December 31, 2009
Par amount of advances:		
Fixed rate	$ 44,373	$ 68,411
Adjustable rate	43,855	63,902
Total par amount	$ 88,228	$ 132,313

Prepayment Fees, Net. The Bank charges borrowers prepayment fees or pays borrowers prepayment credits when the principal on certain advances is paid prior to original maturity. The Bank records prepayment fees net of any associated fair value adjustments related to prepaid advances that were hedged. The net amount of prepayment fees is reflected as interest income in the Statements of Income, as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Prepayment fees received	$ 75	$ 5	$ 153	$ 57
Fair value adjustments	(63)	(3)	(82)	(35)
Other basis adjustments	(1)	—	(21)	—
Net	$ 11	$ 2	$ 50	$ 22
Advance principal prepaid	$ 1,490	$ 391	$ 16,040	$ 14,459

Note 7 — Mortgage Loans Held for Portfolio

Under the Mortgage Partnership Finance® (MPF®) Program, the Bank purchased conventional conforming fixed rate residential mortgage loans directly from its participating members from May 2002 through October 2006. ("Mortgage Partnership Finance" and "MPF" are registered trademarks of the Federal Home Loan Bank of Chicago.) The mortgage loans are held-for-portfolio loans. Participating members originated or purchased the mortgage loans, credit-enhanced them and sold them to the Bank, and generally retained the servicing of the loans.

The following table presents information as of September 30, 2010, and December 31, 2009, on mortgage loans, all of which are secured by one- to four-unit residential properties and single-unit second homes.

	September 30, 2010	December 31, 2009
Fixed rate medium-term mortgage loans	$ 767	$ 927
Fixed rate long-term mortgage loans	1,874	2,130
Subtotal	2,641	3,057
Net unamortized discounts	(14)	(18)
Mortgage loans held for portfolio	2,627	3,039
Less: Allowance for credit losses	(4)	(2)
Total mortgage loans held for portfolio, net	$ 2,623	$ 3,037

Medium-term loans have original contractual terms of 15 years or less, and long-term loans have contractual terms of more than 15 years.

For taking on the credit enhancement obligation, the Bank pays the participating member or any successor a credit enhancement fee, which is calculated on the remaining unpaid principal balance of the mortgage loans. The Bank records credit enhancement fees as a reduction to interest income. In the third quarter of 2010 and 2009, the Bank reduced net interest income for credit enhancement fees totaling $1 and $1, respectively. In the first nine months of 2010 and 2009, the Bank reduced net interest income for credit enhancement fees totaling $1 and $2, respectively.

Concentration Risk. The Bank had the following concentration in MPF loans with institutions whose outstanding

total of mortgage loans sold to the Bank represented 10% or more of the Bank's total outstanding mortgage loans at September 30, 2010, and December 31, 2009.

Concentration of Mortgage Loans

September 30, 2010

Name of Institution	Mortgage Loan Balances Outstanding	Percentage of Total Mortgage Loan Balances Outstanding	Number of Mortgage Loans Outstanding	Percentage of Total Number of Mortgage Loans Outstanding
JPMorgan Chase Bank, National Association	$ 2,083	79%	16,798	73%
OneWest Bank, FSB	343	13	4,436	19
Subtotal	2,426	92	21,234	92
Others	215	8	1,861	8
Total	$ 2,641	100%	23,095	100%

December 31, 2009

Name of Institution	Mortgage Loan Balances Outstanding	Percentage of Total Mortgage Loan Balances Outstanding	Number of Mortgage Loans Outstanding	Percentage of Total Number of Mortgage Loans Outstanding
JPMorgan Chase Bank, National Association	$ 2,391	78%	18,613	73%
OneWest Bank, FSB	409	13	4,893	19
Subtotal	2,800	91	23,506	92
Others	257	9	2,109	8
Total	$ 3,057	100%	25,615	100%

Credit Risk. A mortgage loan is considered to be impaired when it is reported 90 days or more past due (nonaccrual) or when it is probable, based on current information and events, that the Bank will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage loan agreement.

The following table presents information on delinquent mortgage loans as of September 30, 2010, and December 31, 2009.

	September 30, 2010		December 31, 2009	
Days Past Due	Number of Loans	Mortgage Loan Balances	Number of Loans	Mortgage Loan Balance
30 – 59 days delinquent	193	$ 21	243	$ 29
60 – 89 days delinquent	55	7	81	10
90 days or more delinquent	119	15	97	13
In process of foreclosure[1]	114	14	80	9
Total	481	$ 57	501	$ 61
Nonaccrual loans[2]	233	$ 29	177	$ 22
Loans past due 90 days or more and still accruing interest	—	—	—	—
Real estate owned inventory	47	$ 4	26	$ 3
Serious delinquency rate[3]		1.10%		0.70%

(1) Includes loans for which the servicer has reported a decision to foreclose or to pursue a similar alternative, such as deed-in-lieu.
(2) Nonaccrual loans at September 30, 2010, included 27 loans, totaling $3, for which the borrower was in bankruptcy. Nonaccrual loans at December 31, 2009, included 23 loans, totaling $2, for which the borrower was in bankruptcy.
(3) Loans that are 90 days or more past due or in the process of foreclosure expressed as a percentage of the total loan portfolio principal balance.

The Bank's average recorded investment in impaired loans totaled $29 and $17 for the third quarter of 2010 and 2009, respectively. The Bank's average recorded investment in impaired loans totaled $27 and $13 for the nine

months ended September 30, 2010 and 2009, respectively. The Bank did not recognize any interest income for impaired loans in the third quarter of 2010 and 2009 and in the first nine months of 2010 and 2009.

The allowance for credit losses on the mortgage loan portfolio was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Balance, beginning of the period	$ 3.6	$ 2.0	$ 2.0	$ 1.0
Chargeoffs - transferred to real estate owned	(0.3)	—	(1.0)	—
Provision for/(recovery of) credit losses	0.3	(0.1)	2.6	0.9
Balance, end of the period	$ 3.6	$ 1.9	$ 3.6	$ 1.9
Ratio of net charge-offs during the period to average loans outstanding during the period	(0.01)%	—%	(0.04)%	—%

For more information on how the Bank determines its estimated allowance for credit losses on mortgage loans, see Note 8 to the Financial Statements in the Bank's 2009 Form 10-K.

Note 8 — Consolidated Obligations

Consolidated obligations, consisting of consolidated obligation bonds and discount notes, are jointly issued by the FHLBanks through the Office of Finance, which serves as the FHLBanks' agent. As provided by the FHLBank Act or by regulations governing the operations of the FHLBanks, all FHLBanks have joint and several liability for all FHLBank consolidated obligations. For a discussion of the joint and several liability regulation, see Note 18 to the Financial Statements in the Bank's 2009 Form 10-K. In connection with each debt issuance, each FHLBank specifies the type, term, and amount of debt it requests to have issued on its behalf. The Office of Finance tracks the amount of debt issued on behalf of each FHLBank. In addition, the Bank separately tracks and records as a liability its specific portion of the consolidated obligations issued and is the primary obligor for that portion of the consolidated obligations issued. The Finance Agency, the successor agency to the Federal Housing Finance Board (Finance Board), and the U.S. Secretary of the Treasury have oversight over the issuance of FHLBank debt through the Office of Finance.

Redemption Terms. The following is a summary of the Bank's participation in consolidated obligation bonds at September 30, 2010, and December 31, 2009.

	September 30, 2010		December 31, 2009	
Contractual Maturity	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
Within 1 year	$ 65,532	1.51%	$ 75,865	1.29%
After 1 year through 2 years	20,231	2.02	42,745	2.40
After 2 years through 3 years	13,791	2.94	11,589	2.12
After 3 years through 4 years	4,942	3.37	12,855	3.86
After 4 years through 5 years	3,510	2.07	5,308	3.11
After 5 years	8,509	4.21	11,561	4.38
Index amortizing notes	5	4.61	6	4.61
Total par amount	116,520	2.06%	159,929	2.14%
Net unamortized premiums/(discounts)	1		(26)	
Valuation adjustments for hedging activities	2,234		2,203	
Fair value option valuation adjustments	9		(53)	
Total	$ 118,764		$ 162,053	

The Bank's participation in consolidated obligation bonds outstanding includes callable bonds of $12,424 at

September 30, 2010, and $32,185 at December 31, 2009. Contemporaneous with the issuance of a callable bond for which the Bank is the primary obligor, the Bank routinely enters into an interest rate swap (in which the Bank pays a variable rate and receives a fixed rate) with a call feature that mirrors the call option embedded in the bond (a sold callable swap). The Bank had notional amounts of interest rate exchange agreements hedging callable bonds of $8,994 at September 30, 2010, and $25,530 at December 31, 2009. The combined sold callable swap and callable bond enable the Bank to meet its funding needs at costs not otherwise directly attainable solely through the issuance of non-callable debt, while effectively converting the Bank's net payment to an adjustable rate.

The Bank's participation in consolidated obligation bonds was as follows:

	September 30, 2010	December 31, 2009
Par amount of consolidated obligation bonds:		
Non-callable	$ 104,096	$ 127,744
Callable	12,424	32,185
Total par amount	$ 116,520	$ 159,929

The following is a summary of the Bank's participation in consolidated obligation bonds outstanding at September 30, 2010, and December 31, 2009, by the earlier of the year of contractual maturity or next call date.

Earlier of Contractual Maturity or Next Call Date	September 30, 2010	December 31, 2009
Within 1 year	$ 75,890	$ 103,215
After 1 year through 2 years	20,456	36,750
After 2 years through 3 years	10,701	5,494
After 3 years through 4 years	3,572	9,480
After 4 years through 5 years	1,516	593
After 5 years	4,380	4,391
Index amortizing notes	5	6
Total par amount	$ 116,520	$ 159,929

Consolidated obligation discount notes are consolidated obligations issued to raise short-term funds. These notes are issued at less than their face amount and redeemed at par value when they mature. The Bank's participation in consolidated obligation discount notes, all of which are due within one year, was as follows:

	September 30, 2010		December 31, 2009	
	Amount Outstanding	Weighted Average Interest Rate	Amount Outstanding	Weighted Average Interest Rate
Par amount	$ 11,148	0.27%	$ 18,257	0.35%
Unamortized discounts	(10)		(11)	
Total	$ 11,138		$ 18,246	

Interest Rate Payment Terms. Interest rate payment terms for consolidated obligations at September 30, 2010, and December 31, 2009, are detailed in the following table. For information on the general terms and types of consolidated obligations outstanding, see Note 10 to the Financial Statements in the Bank's 2009 Form 10-K.

	September 30, 2010	December 31, 2009
Par amount of consolidated obligations:		
Bonds:		
Fixed rate	$ 79,606	$ 98,619
Adjustable rate	32,836	49,244
Step-up	3,298	10,433
Step-down	65	350
Fixed rate that converts to adjustable rate	540	915
Adjustable rate that converts to fixed rate	160	250
Range bonds	10	112
Index amortizing notes	5	6
Total bonds, par	116,520	159,929
Discount notes, par	11,148	18,257
Total consolidated obligations, par	$ 127,668	$ 178,186

Note 9 — Capital

Capital Requirements. Under the Housing Act, the Director of the Finance Agency is responsible for setting the risk-based capital standards for the FHLBanks. The FHLBank Act and regulations governing the operations of the FHLBanks require that the minimum stock requirement for members must be sufficient to enable the Bank to meet its regulatory requirements for total capital, leverage capital, and risk-based capital. The Bank must maintain (i) total regulatory capital in an amount equal to at least 4% of its total assets, (ii) leverage capital in an amount equal to at least 5% of its total assets, and (iii) permanent capital in an amount at least equal to its regulatory risk-based capital requirement. Regulatory capital and permanent capital are defined as retained earnings and Class B stock, which includes mandatorily redeemable capital stock that is classified as a liability for financial reporting purposes. Regulatory capital and permanent capital do not include AOCI. Leverage capital is defined as the sum of permanent capital, weighted by a 1.5 multiplier, plus non-permanent capital. (Non-permanent capital consists of Class A capital stock, which is redeemable upon six months' notice. The Bank's capital plan does not provide for the issuance of Class A capital stock.)

The risk-based capital requirements must be met with permanent capital, which must be at least equal to the sum of the Bank's credit risk, market risk, and operations risk capital requirements, all of which are calculated in accordance with the rules and regulations of the Finance Agency. The Finance Agency may require an FHLBank to maintain a greater amount of permanent capital than is required by the risk-based capital requirements as defined.

The following table shows the Bank's compliance with the Finance Agency's capital requirements at September 30, 2010, and December 31, 2009.

Regulatory Capital Requirements

	September 30, 2010		December 31, 2009	
	Required	Actual	Required	Actual
Risk-based capital	$ 5,194	$ 13,980	$ 6,207	$ 14,657
Total regulatory capital	$ 5,708	$ 13,980	$ 7,714	$ 14,657
Total regulatory capital ratio	4.00%	9.80%	4.00%	7.60%
Leverage capital	$ 7,135	$ 20,970	$ 9,643	$ 21,984
Leverage ratio	5.00%	14.70%	5.00%	11.40%

The Bank's total regulatory capital ratio increased to 9.80% at September 30, 2010, from 7.60% at December 31, 2009, primarily because of increased excess capital stock resulting from the decline in advances outstanding, coupled with the Bank's decision not to repurchase excess capital stock in 2009 and the first quarter of 2010.

Mandatorily Redeemable Capital Stock. The Bank had mandatorily redeemable capital stock totaling $3,627 outstanding to 46 institutions at September 30, 2010, and $4,843 outstanding to 42 institutions at December 31, 2009. The change in mandatorily redeemable capital stock for the three and nine months ended September 30, 2010 and 2009, was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Balance at the beginning of the period	$ 4,690	$ 3,165	$ 4,843	$ 3,747
Reclassified from/(to) capital during the period:				
Termination of membership	6	10	36	46
Acquired by/transferred to members[(1)(2)(3)]	(900)	—	(900)	(618)
Redemption of mandatorily redeemable capital stock	(1)	(16)	(4)	(16)
Repurchase of excess mandatorily redeemable capital stock	(168)	—	(348)	—
Balance at the end of the period	$ 3,627	$ 3,159	$ 3,627	$ 3,159

(1) During 2008, JPMorgan Chase Bank, National Association, a nonmember, assumed Washington Mutual Bank's outstanding Bank advances and acquired the associated Bank capital stock. The Bank reclassified the capital stock transferred to JPMorgan Chase Bank, National Association, totaling $3,208, to mandatorily redeemable capital stock (a liability). JPMorgan Bank and Trust Company, National Association, an affiliate of JPMorgan Chase Bank, National Association, became a member of the Bank. During the first quarter of 2009 and the third quarter of 2010, the Bank allowed the transfer of excess stock totaling $300 and $875, respectively, from JPMorgan Chase Bank, National Association, to JPMorgan Bank and Trust Company, National Association. to enable JPMorgan Bank and Trust Company, National Association, to satisfy its activity-based stock requirement. The capital stock transferred is no longer classified as mandatorily redeemable capital stock (a liability). However, the capital stock remaining with JPMorgan Chase Bank, National Association, remains classified as mandatorily redeemable capital stock (a liability).

(2) On March 19, 2009, OneWest Bank, FSB, became a member of the Bank, assumed the outstanding advances of IndyMac Federal Bank, FSB, a nonmember, and acquired the associated Bank capital stock totaling $318. Bank capital stock acquired by OneWest Bank, FSB, is no longer classified as mandatorily redeemable capital stock (a liability). However, the capital stock remaining with IndyMac Federal Bank, FSB, remains classified as mandatorily redeemable capital stock (a liability).

(3) As a result of the management-led buyback of First Republic Bank from Bank of America, N.A., in the third quarter of 2010, the Bank allowed the transfer of $25 of excess capital stock from Bank of America to First Republic to satisfy First Republic's minimum capital stock requirement.

Cash dividends on mandatorily redeemable capital stock in the amount of $5 and $11 were recorded as interest expense for the three and nine months ended September 30, 2010. Cash dividends on mandatorily redeemable capital stock in the amount of $7 were recorded as interest expense for both the three and nine months ended September 30, 2009.

The Bank's mandatorily redeemable capital stock is discussed more fully in Note 13 to the Financial Statements in the Bank's 2009 Form 10-K.

The following table presents mandatorily redeemable capital stock amounts by contractual redemption period at September 30, 2010, and December 31, 2009.

Contractual Redemption Period	September 30, 2010	December 31, 2009
Within 1 year	$ 53	$ 3
After 1 year through 2 years	55	63
After 2 years through 3 years	1,705	91
After 3 years through 4 years	222	2,955
After 4 years through 5 years	1,592	1,731
Total	$ 3,627	$ 4,843

Retained Earnings and Dividend Policy. The Bank's Retained Earnings and Dividend Policy establishes amounts to be retained in restricted retained earnings, which are not made available for dividends in the current dividend period.

Retained Earnings Related to Valuation Adjustments - In accordance with the Retained Earnings and Dividend Policy, the Bank retains in restricted retained earnings any cumulative net gains in earnings (net of applicable assessments) resulting from gains or losses on derivatives and associated hedged items and financial instruments carried at fair value (valuation adjustments). As the cumulative net gains are reversed by periodic net losses and settlements of contractual interest cash flows, the amount of cumulative net gains decreases. The amount of retained earnings required by this provision of the policy is therefore decreased, and that portion of the previously restricted retained earnings becomes unrestricted and may be made available for dividends. Retained earnings restricted in accordance with these provisions totaled $95 at September 30, 2010, and $181 at December 31, 2009. In accordance with this provision, the amount decreased by $86 in the first nine months of 2010 as a result of net unrealized losses resulting from valuation adjustments during this period.

Other Retained Earnings-Targeted Buildup - In addition to any cumulative net gains resulting from valuation adjustments, the Bank holds an additional amount in restricted retained earnings intended to protect members' paid-in capital from the effects of an extremely adverse credit event, an extremely adverse operations risk event, an extremely high level of quarterly losses related to the Bank's derivatives and associated hedged items and financial instruments carried at fair value, and the risk of higher-than-anticipated OTTI related to credit loss on PLRMBS, especially in periods of extremely low net income resulting from an adverse interest rate environment.

The Board of Directors has set the targeted amount of restricted retained earnings at $1,800. The Bank's retained earnings target may be changed at any time. The Board of Directors will periodically review the methodology and analysis to determine whether any adjustments are appropriate. The retained earnings restricted in accordance with this provision of the Retained Earnings and Dividend Policy totaled $1,383 at September 30, 2010, and $1,058 at December 31, 2009.

For more information on these two categories of restricted retained earnings and the Bank's Retained Earnings and Dividend Policy, see Note 13 to the Financial Statements in the Bank's 2009 Form 10-K.

Dividend Payments - Finance Agency rules state that FHLBanks may declare and pay dividends only from previously retained earnings or current net earnings, and may not declare or pay dividends based on projected or anticipated earnings. There is no requirement that the Board of Directors declare and pay any dividend. A decision by the Board of Directors to declare a dividend is a discretionary matter and is subject to the requirements and restrictions of the FHLBank Act and applicable requirements under the regulations governing the operations of the FHLBanks.

On October 28, 2010, the Bank's Board of Directors declared a cash dividend for the third quarter of 2010 at an annualized dividend rate of 0.39%. The Bank recorded the third quarter dividend on October 28, 2010, the day it was declared by the Board of Directors. The Bank expects to pay the third quarter dividend (including dividends on mandatorily redeemable capital stock), which will total $13, on or about November 12, 2010.

The Bank will pay the third quarter 2010 dividend in cash rather than stock form to comply with Finance Agency rules, which do not permit the Bank to pay dividends in the form of capital stock if the Bank's excess stock (defined as any stock holdings in excess of a member's minimum capital stock requirement, as established by the Bank's capital plan) exceeds 1% of its total assets. As of September 30, 2010, the Bank's excess capital stock totaled $7,438, or 5.21% of total assets.

On July 29, 2010, the Bank's Board of Directors declared a cash dividend for the second quarter of 2010 at an annualized rate of 0.44%. The total dividend amount was $14 and was recorded and paid during the third quarter of 2010. On April 29, 2010, the Bank's Board of Directors declared a cash dividend for the first quarter of 2010 at an annualized rate of 0.26%. The total dividend amount was $9 and was recorded and paid during the second quarter of 2010. On February 22, 2010, the Bank's Board of Directors declared a cash dividend for the fourth quarter of 2009 at an annualized dividend rate of 0.27%. The total dividend amount was $9 and was recorded and paid during the first quarter of 2010.

On July 30, 2009, the Bank's Board of Directors declared a cash dividend for the second quarter of 2009 at an annualized rate of 0.84%. The total dividend amount was $28 and was recorded and paid during the third quarter of 2009. The Bank did not declare a dividend for the first and third quarters of 2009.

The Bank will continue to monitor the condition of its PLRMBS portfolio, its overall financial performance and retained earnings, developments in the mortgage and credit markets, and other relevant information as the basis for determining the status of dividends in future quarters.

Excess and Surplus Capital Stock. The Bank may repurchase some or all of a member's excess capital stock and any excess mandatorily redeemable capital stock, at the Bank's discretion and subject to certain statutory and regulatory requirements. The Bank must give the member 15 days' written notice; however, the member may waive this notice period. The Bank may also repurchase some or all of a member's excess capital stock at the member's request, at the Bank's discretion and subject to certain statutory and regulatory requirements. Excess capital stock is defined as any stock holdings in excess of a member's minimum capital stock requirement, as established by the Bank's capital plan.

The Bank's surplus capital stock repurchase policy provides for the Bank to repurchase excess stock that constitutes surplus stock, at the Bank's discretion and subject to certain statutory and regulatory requirements, if a member has surplus capital stock as of the last business day of the quarter. A member's surplus capital stock is defined as any stock holdings in excess of 115% of the member's minimum capital stock requirement, generally excluding stock dividends earned and credited for the current year.

On a quarterly basis, the Bank determines whether it will repurchase excess capital stock, including surplus capital stock. On October 28, 2010, the Bank announced that it plans to repurchase up to $500 in excess capital stock on November 15, 2010. The amount of excess capital stock to be repurchased from any shareholder will be based on the shareholder's pro rata ownership share of total capital stock outstanding as of the repurchase date, up to the amount of the shareholder's excess capital stock.

In the second and third quarters of 2010, the Bank repurchased excess capital stock totaling $487 and $478, respectively. The Bank did not repurchase excess stock in 2009 and in the first quarter of 2010 to preserve the Bank's capital.

The Bank will continue to monitor the condition of its PLRMBS portfolio, its overall financial performance and retained earnings, developments in the mortgage and credit markets, and other relevant information as the basis for determining the status of capital stock repurchases in future quarters.

Excess capital stock totaled $7,438 as of September 30, 2010, which included surplus capital stock of $6,847.

For more information on excess and surplus capital stock, see Note 13 to the Financial Statements in the Bank's 2009 Form 10-K.

Concentration. The following table presents the concentration in capital stock held by institutions whose capital stock ownership represented 10% or more of the Bank's outstanding capital stock, including mandatorily redeemable capital stock, as of September 30, 2010, and December 31, 2009.

Federal Home Loan Bank of San Francisco
Notes to Financial Statements (continued)

Concentration of Capital Stock
Including Mandatorily Redeemable Capital Stock

Name of Institution	September 30, 2010 Capital Stock Outstanding	September 30, 2010 Percentage of Total Capital Stock Outstanding	December 31, 2009 Capital Stock Outstanding	December 31, 2009 Percentage of Total Capital Stock Outstanding
Citibank, N.A.	$ 3,589	29%	$ 3,877	29%
JPMorgan Chase & Co.:				
JPMorgan Bank & Trust Company, National Association	1,631	13	2,695	20
JPMorgan Chase Bank, National Association[1]	1,145	9	300	2
Subtotal JPMorgan Chase & Co.	2,776	22	2,995	22
Wells Fargo & Company:				
Wells Fargo Bank, N.A.[1]	1,495	12	1,615	12
Wells Fargo Financial National Bank	5	—	5	—
Subtotal Wells Fargo & Company	1,500	12	1,620	12
Total capital stock ownership over 10%	7,865	63	8,492	63
Others	4,638	37	4,926	37
Total	$ 12,503	100%	$ 13,418	100%

(1) The capital stock held by these institutions is classified as mandatorily redeemable capital stock.

Note 10 — Segment Information

The Bank uses an analysis of financial performance based on the balances and adjusted net interest income of two operating segments, the advances-related business and the mortgage-related business, as well as other financial information, to review and assess financial performance and to determine the allocation of resources to these two major business segments. For purposes of segment reporting, adjusted net interest income includes interest income and expense associated with economic hedges that are recorded in "Net (loss)/gain on derivatives and hedging activities" in other income and excludes interest expense that is recorded in "Mandatorily redeemable capital stock." Other key financial information, such as any OTTI loss on the Bank's held-to-maturity PLRMBS, other expenses, and assessments, are not included in the segment reporting analysis, but are incorporated into management's overall assessment of financial performance.

For more information on these operating segments, see Note 15 to the Financial Statements in the Bank's 2009 Form 10-K.

The following table presents the Bank's adjusted net interest income by operating segment and reconciles total adjusted net interest income to (loss)/income before assessments for the three and nine months ended September 30, 2010 and 2009.

Reconciliation of Adjusted Net Interest Income and Income Before Assessments

	Advances-Related Business	Mortgage-Related Business[1]	Adjusted Net Interest Income	Amortization of Deferred Losses[2]	Net Interest Expense on Economic Hedges[3]	Interest Expense on Mandatorily Redeemable Capital Stock[4]	Net Interest Income	Other Loss	Other Expense	Income Before Assessments
Three months ended:										
September 30, 2010	$ 113	$ 141	$ 254	$ (25)	$ (32)	$ 5	$ 306	$ (86)	$ 33	$ 187
September 30, 2009	159	151	310	(21)	(134)	7	458	(543)	31	(116)
Nine months ended:										
September 30, 2010	394	433	827	(69)	(139)	11	1,024	(566)	104	354
September 30, 2009	552	405	957	(66)	(359)	7	1,375	(818)	93	464

(1) Does not include credit-related OTTI charges of $56 and $316 for the three months ended September 30, 2010 and 2009, respectively. Does not include credit-related OTTI charges of $258 and $492 for the nine months ended September 30, 2010 and 2009, respectively.
(2) Represents amortization of amounts deferred for adjusted net interest income purposes only in accordance with the Bank's Retained Earnings and Dividend Policy.
(3) The Bank includes interest income and interest expense associated with economic hedges in adjusted net interest income in its analysis of financial performance for its two operating segments. For financial reporting purposes, the Bank does not include these amounts in net interest income in the Statements of Income, but instead records them in other income in "Net (loss)/gain on derivatives and hedging activities."
(4) The Bank excludes interest expense on mandatorily redeemable capital stock from adjusted net interest income in its analysis of financial performance for its two operating segments.

The following table presents total assets by operating segment at September 30, 2010, and December 31, 2009.

Total Assets

	Advances-Related Business	Mortgage-Related Business	Total Assets
September 30, 2010	$ 117,089	$ 25,606	$ 142,695
December 31, 2009	161,406	31,456	192,862

Note 11 — Derivatives and Hedging Activities

General. The Bank may enter into interest rate swaps (including callable, putable, and basis swaps); swaptions; and cap, floor, corridor, and collar agreements (collectively, interest rate exchange agreements or derivatives). Most of the Bank's interest rate exchange agreements are executed in conjunction with the origination of advances and the issuance of consolidated obligation bonds to create variable rate structures. The interest rate exchange agreements are generally executed at the same time the advances and bonds are transacted and generally have the same maturity dates as the related advances and bonds.

Additional active uses of interest rate exchange agreements include: (i) offsetting interest rate caps, floors, corridors, or collars embedded in adjustable rate advances made to members, (ii) hedging the anticipated issuance of debt, (iii) matching against consolidated obligation discount notes or bonds to create the equivalent of callable fixed rate debt, (iv) modifying the repricing intervals between variable rate assets and variable rate liabilities, and (v) exactly offsetting other derivatives executed with members (with the Bank serving as an intermediary). The Bank's use of interest rate exchange agreements results in one of the following classifications: (i) a fair value hedge of an underlying financial instrument, (ii) a forecasted transaction, (iii) a cash flow hedge of an underlying financial instrument, (iv) an economic hedge for specific asset and liability management purposes, or (v) an intermediary transaction for members.

Interest Rate Swaps - An interest rate swap is an agreement between two entities to exchange cash flows in the future. The agreement sets the dates on which the cash flows will be paid and the manner in which the cash flows will be calculated. One of the simplest forms of an interest rate swap involves the promise by one party to pay cash flows equivalent to the interest on a notional principal amount at a predetermined fixed rate for a given period of time. In return for this promise, the party receives cash flows equivalent to the interest on the same notional principal amount at a variable rate for the same period of time. The variable rate received or paid by the Bank in most interest rate exchange agreements is indexed to the London Inter-Bank Offered Rate (LIBOR).

Swaptions - A swaption is an option on a swap that gives the buyer the right to enter into a specified interest rate swap at a certain time in the future. When used as a hedge, a swaption can protect the Bank against future interest rate changes when it is planning to lend or borrow funds in the future. The Bank purchases receiver swaptions. A receiver swaption is the option to receive fixed interest rate payments at a later date.

Interest Rate Caps and Floors - In a cap agreement, a cash flow is generated if the price or interest rate of an underlying variable rises above a certain threshold (or cap) price. In a floor agreement, a cash flow is generated if the price or interest rate of an underlying variable falls below a certain threshold (or floor) price. Caps may be used in conjunction with liabilities and floors may be used in conjunction with assets. Caps and floors are designed as

protection against the interest rate on a variable rate asset or liability rising above or falling below a certain level.

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

The Bank discontinues hedge accounting prospectively when (i) 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); (ii) the derivative and/or the hedged item expires or is sold, terminated, or exercised; (iii) it is no longer probable that the forecasted transaction will occur in the originally expected period; (iv) a hedged firm commitment no longer meets the definition of a firm commitment; (v) management determines that designating the derivative as a hedging instrument is no longer appropriate; or (vi) management decides to use the derivative to offset changes in the fair value of other derivatives or instruments carried at fair value.

Intermediation - As an additional service to its members, the Bank enters into offsetting interest rate exchange agreements, acting as an intermediary between exactly offsetting derivatives transactions with members and other counterparties. This intermediation allows members indirect access to the derivatives market. Derivatives in which the Bank is an intermediary may also arise when the Bank enters into derivatives to offset the economic effect of other derivatives that are no longer designated to advances, investments, or consolidated obligations. The offsetting derivatives used in intermediary activities do not receive hedge accounting treatment 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 Bank. These amounts are recorded in other income and presented as "Net (loss)/gain on derivatives and hedging activities."

The notional principal of the interest rate exchange agreements associated with derivatives with members and offsetting derivatives with other counterparties was $960 at September 30, 2010, and $616 at December 31, 2009. The Bank did not have any interest rate exchange agreements outstanding at September 30, 2010, and December 31, 2009, that were used to offset the economic effect of other derivatives that were no longer designated to advances, investments, or consolidated obligations.

Investments - The Bank may invest in U.S. Treasury and agency obligations, MBS rated AAA at the time of acquisition, and the taxable portion of highly rated state or local housing finance agency obligations. The interest rate and prepayment risk associated with these investment securities is managed through a combination of debt issuance and derivatives. The Bank may manage prepayment risk and interest rate risk by funding investment securities with consolidated obligations that have call features or by hedging the prepayment risk with a combination of consolidated obligations and callable swaps or swaptions. The Bank executes callable swaps and purchases swaptions in conjunction with the issuance of certain liabilities to create funding equivalent to fixed rate callable debt. Although these derivatives are economic hedges against prepayment risk and are designated to individual liabilities, they do not receive either fair value or cash flow hedge accounting treatment. The derivatives are marked to market through earnings and provide modest income volatility. Investment securities may be classified as trading or held-to-maturity.

The Bank may also manage the risk arising from changing market prices or cash flows of investment securities classified as trading by entering into interest rate exchange agreements (economic hedges) that offset the changes in fair value or cash flows of the securities. The market value changes of both the trading securities and the associated

interest rate exchange agreements are included in other income in the Statements of Income.

Advances - The Bank offers a wide array of advance structures to meet members' funding needs. These advances may have maturities up to 30 years with fixed or adjustable rates and may include early termination features or options. The Bank may use derivatives to adjust the repricing and/or options characteristics of advances to more closely match the characteristics of the Bank's funding liabilities. In general, whenever a member executes a fixed rate advance or a variable rate advance with embedded options, the Bank will simultaneously execute an interest rate exchange agreement with terms that offset the terms and embedded options, if any, in the advance. The combination of the advance and the interest rate exchange agreement effectively creates a variable rate asset. This type of hedge is treated as a fair value hedge.

Mortgage Loans - The Bank's investment portfolio includes fixed rate mortgage loans. The prepayment options embedded in mortgage loans can result in extensions or contractions in the expected repayment of these investments, depending on changes in estimated prepayment speeds. The Bank manages the interest rate risk and prepayment risk associated with fixed rate mortgage loans through a combination of debt issuance and derivatives. The Bank uses both callable and non-callable debt to achieve cash flow patterns and market value sensitivities for liabilities similar to those expected on the mortgage loans. Net income could be reduced if the Bank replaces prepaid mortgages with lower-yielding assets and the Bank's higher funding costs are not reduced accordingly.

The Bank executes callable swaps and purchases swaptions in conjunction with the issuance of certain consolidated obligations to create funding equivalent to fixed rate callable bonds. Although these derivatives are economic hedges against the prepayment risk of specific loan pools and are referenced to individual liabilities, they do not receive either fair value or cash flow hedge accounting treatment. The derivatives are marked to market through earnings and are presented as "Net (loss)/gain on derivatives and hedging activities."

Consolidated Obligations - Although the joint and several liability regulation authorizes the Finance Agency to require any FHLBank to repay all or a portion of the principal or interest on consolidated obligations for which another FHLBank is the primary obligor, FHLBanks individually are counterparties to interest rate exchange agreements associated with specific debt issues. The Office of Finance acts as agent of the FHLBanks in the debt issuance process. In connection with each debt issuance, each FHLBank specifies the terms and the amount of debt it requests to have issued on its behalf. The Office of Finance tracks the amount of debt issued on behalf of each FHLBank. In addition, the Bank separately tracks and records as a liability its specific portion of consolidated obligations and is the primary obligor for its specific portion of consolidated obligations issued. Because the Bank knows the amount of consolidated obligations issued on its behalf, it has the ability to structure hedging instruments to match its specific debt. The hedge transactions may be executed upon or after the issuance of consolidated obligations and are accounted for based on the accounting for derivative instruments and hedging activities.

Consolidated obligation bonds are structured to meet the Bank's and/or investors' needs. Common structures include fixed rate bonds with or without call options and adjustable rate bonds with or without embedded options. In general, when bonds with these structures are issued, the Bank will simultaneously execute an interest rate exchange agreement with terms that offset the terms and embedded options, if any, of the consolidated obligation bond. This combination of the consolidated obligation bond and the interest rate exchange agreement effectively creates an adjustable rate bond. The cost of this funding combination is generally lower than the cost that would be available through the issuance of just an adjustable rate bond. These transactions generally receive fair value hedge accounting treatment.

The Bank did not have any consolidated obligations denominated in currencies other than U.S. dollars outstanding during the nine months ended September 30, 2010, or the twelve months ended December 31, 2009.

Firm Commitments - A firm commitment for a forward starting advance hedged through the use of an offsetting forward starting interest rate swap is considered a derivative. In this case, the interest rate swap functions as the hedging instrument for both the firm commitment and the subsequent advance. When the commitment is terminated

and the advance is made, the current market value associated with the firm commitment is included with the basis of the advance. The basis adjustment is then amortized into interest income over the life of the advance.

Anticipated Debt Issuance - The Bank may enter into interest rate swaps for the anticipated issuances of fixed rate bonds to hedge the cost of funding. These hedges are designated and accounted for as cash flow hedges. The interest rate swap is terminated upon issuance of the fixed rate bond, with the effective portion of the realized gain or loss on the interest rate swap recorded in other comprehensive income. Realized gains and losses reported in AOCI are recognized as earnings in the periods in which earnings are affected by the cash flows of the fixed rate bonds.

Credit Risk - The Bank is subject to credit risk as a result of the risk of nonperformance by counterparties to the derivative agreements. All of the Bank's derivative agreements contain master netting provisions to help mitigate the credit risk exposure to each counterparty. The Bank manages counterparty credit risk through credit analyses and collateral requirements and by following the requirements of the Bank's risk management policies and credit guidelines. Based on the master netting provisions in each agreement, credit analyses, and the collateral requirements in place with each counterparty, the Bank does not expect to incur any credit losses on derivatives agreements.

The notional amount of an interest rate exchange agreement serves as a basis for calculating periodic interest payments or cash flows and is not a measure of the amount of credit risk from that transaction. The Bank had notional amounts outstanding of $181,275 and $235,014 at September 30, 2010, and December 31, 2009, respectively. The notional amount does not represent the exposure to credit loss. The amount potentially subject to credit loss is the estimated cost of replacing an interest rate exchange agreement that has a net positive market value if the counterparty defaults; this amount is substantially less than the notional amount.

Maximum credit risk is defined as the estimated cost of replacing all interest rate exchange agreements the Bank has transacted with counterparties where the Bank is in a net favorable position (has a net unrealized gain) if the counterparties all defaulted and the related collateral proved to be of no value to the Bank. At September 30, 2010, the Bank's maximum credit risk, as defined above, was estimated at $1,886, including $379 of net accrued interest and fees receivable. At December 31, 2009, the Bank's maximum credit risk was estimated at $1,827, including $399 of net accrued interest and fees receivable. Accrued interest and fees receivable and payable and the legal right to offset assets and liabilities by counterparty (under which amounts recognized for individual transactions may be offset against amounts recognized for other derivatives transactions with the same counterparty) are considered in determining the maximum credit risk. The Bank held cash, investment grade securities, and mortgage loans valued at $1,904 and $1,868 as collateral from counterparties as of September 30, 2010, and December 31, 2009, respectively. This collateral has not been sold or repledged. A significant number of the Bank's interest rate exchange agreements are transacted with financial institutions such as major banks and highly rated derivatives dealers. Some of these financial institutions or their broker-dealer affiliates buy, sell, and distribute consolidated obligations. Assets pledged as collateral by the Bank to these counterparties are more fully discussed in Note 13 to the Financial Statements.

Certain of the Bank's derivatives agreements contain provisions that link the Bank's credit rating from each of the major credit rating agencies to various rights and obligations. In several of the Bank's derivatives agreements, if the Bank's debt rating falls below A, the Bank's counterparty would have the right, but not the obligation, to terminate all of its outstanding derivatives transactions with the Bank. In addition, the amount of collateral that the Bank is required to deliver to a counterparty depends on the Bank's credit rating. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net derivative liability position at September 30, 2010, was $142, for which the Bank had posted collateral of $76 in the normal course of business. If the credit rating of the Bank's debt had been lowered to AAA/Aa, then the Bank would have been required to deliver up to an additional $37 of collateral (at fair value) to its derivatives counterparties at September 30, 2010. At September 30, 2010, the Bank's credit ratings continued to be AAA/Aaa.

Federal Home Loan Bank of San Francisco
Notes to Financial Statements (continued)

The following table summarizes the fair value of derivative instruments without the effect of netting arrangements or collateral as of September 30, 2010, and December 31, 2009. For purposes of this disclosure, the derivatives values include the fair value of derivatives and related accrued interest.

Fair Values of Derivative Instruments

	September 30, 2010			December 31, 2009		
	Notional Amount of Derivatives	Derivative Assets	Derivative Liabilities	Notional Amount of Derivatives	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate swaps	$ 81,090	$ 2,450	$ 584	$ 104,211	$ 2,476	$ 699
Total	81,090	2,450	584	104,211	2,476	699
Derivatives not designated as hedging instruments:						
Interest rate swaps	98,099	578	688	129,108	684	756
Interest rate caps, floors, corridors, and/or collars	2,086	11	21	1,695	16	22
Total	100,185	589	709	130,803	700	778
Total derivatives before netting and collateral adjustments	$ 181,275	3,039	1,293	$ 235,014	3,176	1,477
Netting adjustments by counterparty		(1,153)	(1,153)		(1,349)	(1,349)
Cash collateral and related accrued interest		(1,381)	12		(1,375)	77
Total collateral and netting adjustments[1]		(2,534)	(1,141)		(2,724)	(1,272)
Derivative assets and derivative liabilities as reported on the Statements of Condition		$ 505	$ 152		$ 452	$ 205

(1) Amounts represent the effect of legally enforceable master netting agreements that allow the Bank to settle positive and negative positions and also cash collateral held or placed with the same counterparty.

The following table presents the components of net (loss)/gain on derivatives and hedging activities as presented in the Statements of Income for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	Gain/(Loss)	Gain/(Loss)	Gain/(Loss)	Gain/(Loss)
Derivatives and hedged items in fair value hedging relationships - hedge ineffectiveness by derivative type:				
Interest rate swaps	$ (6)	$ (10)	$ (1)	$ 14
Total net (loss)/gain related to fair value hedge ineffectiveness	(6)	(10)	(1)	14
Derivatives not designated as hedging instruments:				
Economic hedges:				
Interest rate swaps	(60)	(21)	(114)	428
Interest rate caps, floors, corridors, and/or collars	—	(1)	(3)	9
Net interest settlements	(32)	(134)	(139)	(359)
Total net (loss)/gain related to derivatives not designated as hedging instruments	(92)	(156)	(256)	78
Net (loss)/gain on derivatives and hedging activities	$ (98)	$ (166)	$ (257)	$ 92

The following table presents, by type of hedged item, the gains and losses on derivatives and the related hedged

items in fair value hedging relationships and the impact of those derivatives on the Bank's net interest income for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended							
	September 30, 2010				September 30, 2009			
Hedged Item Type	Gain/ (Loss) on Derivatives	Gain/ (Loss) on Hedged Item	Net Fair Value Hedge Ineffectiveness	Effect of Derivatives on Net Interest Income[1]	Gain/ (Loss) on Derivatives	Gain/ (Loss) on Hedged Item	Net Fair Value Hedge Ineffectiveness	Effect of Derivatives on Net Interest Income[1]
Advances	$ (61)	$ 60	$ (1)	$ (122)	$ 44	$ (56)	$ (12)	$ (281)
Consolidated obligation bonds	65	(70)	(5)	398	2	—	2	556
Total	$ 4	$ (10)	$ (6)	$ 276	$ 46	$ (56)	$ (10)	$ 275

	Nine Months Ended							
	September 30, 2010				September 30, 2009			
Hedged Item Type	Gain/ (Loss) on Derivatives	Gain/ (Loss) on Hedged Item	Net Fair Value Hedge Ineffectiveness	Effect of Derivatives on Net Interest Income[1]	Gain/ (Loss) on Derivatives	Gain/ (Loss) on Hedged Item	Net Fair Value Hedge Ineffectiveness	Effect of Derivatives on Net Interest Income[1]
Advances	$ (25)	$ 24	$ (1)	$ (433)	$ 437	$ (477)	$ (40)	$ (709)
Consolidated obligation bonds	104	(104)	—	1,377	(1,173)	1,227	54	1,578
Total	$ 79	$ (80)	$ (1)	$ 944	$ (736)	$ 750	$ 14	$ 869

(1) The net interest on derivatives in fair value hedge relationships is presented in the interest income/expense line item of the respective hedged item.

For the three and nine months ended September 30, 2010 and 2009, there were no reclassifications from other comprehensive income/(loss) into earnings as a result of the discontinuance of cash flow hedges because the original forecasted transactions occurred by the end of the originally specified time period or within a two-month period thereafter.

As of September 30, 2010, the amount of unrecognized net losses on derivative instruments accumulated in other comprehensive income/(loss) expected to be reclassified to earnings during the next 12 months was immaterial. The maximum length of time over which the Bank is hedging its exposure to the variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, is less than three months.

Note 12 — Fair Values

The following fair value amounts have been determined by the Bank using available market information and the Bank's best judgment of appropriate valuation methods. These estimates are based on pertinent information available to the Bank at September 30, 2010, and December 31, 2009. Although the Bank 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 Bank's financial instruments, in certain cases fair values are not subject to precise quantification or verification and may change as economic and market factors and evaluation of those factors change. Therefore, these fair values are not necessarily indicative of the amounts that would be realized in current market transactions, although they do reflect the Bank's judgment of how a market participant would estimate the fair values. The fair value summary table does not represent an estimate of the overall market value of the Bank as a going concern, which would take into account future business opportunities and the net profitability of total assets and liabilities on a combined basis.

Federal Home Loan Bank of San Francisco
Notes to Financial Statements (continued)

Fair Value of Financial Instruments

	September 30, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets				
Cash and due from banks	$ 2	$ 2	$ 8,280	$ 8,280
Federal funds sold	16,001	16,001	8,164	8,164
Trading securities	1,612	1,612	31	31
Available-for-sale securities	1,929	1,929	1,931	1,931
Held-to-maturity securities	30,227	30,559	36,880	35,682
Advances (includes $11,090 and $21,616 at fair value under the fair value option, respectively)	89,327	89,661	133,559	133,778
Mortgage loans held for portfolio, net of allowance for credit losses on mortgage loans	2,623	2,789	3,037	3,117
Loans to other FHLBanks	120	120	—	—
Accrued interest receivable	198	198	355	355
Derivative assets[1]	505	505	452	452
Liabilities				
Deposits	162	162	224	224
Consolidated obligations:				
Bonds (includes $16,962 and $37,022 at fair value under the fair value option, respectively)	118,764	119,270	162,053	162,220
Discount notes	11,138	11,141	18,246	18,254
Mandatorily redeemable capital stock	3,627	3,267	4,843	4,843
Accrued interest payable	598	598	754	754
Derivative liabilities[1]	152	152	205	205
Other				
Standby letters of credit	27	27	27	27

(1) Amounts include the netting of derivative assets and liabilities by counterparty, including cash collateral, where the Bank has the legal right to do so under its master netting agreement with each counterparty.

Fair Value Methodologies and Techniques and Significant Inputs. The valuation methodologies and techniques and significant inputs used in estimating the fair values of the Bank's financial instruments are discussed below.

Cash and Due from Banks - The estimated fair value approximates the recorded carrying value.

Federal Funds Sold - The estimated fair value of overnight Federal funds sold approximates the recorded carrying value. The estimated fair value of term Federal funds sold has been determined by calculating the present value of expected cash flows for the instruments excluding accrued interest. The discount rates used in these calculations are the replacement rates for comparable instruments with similar terms.

Investment Securities - Non-MBS - The estimated fair value of non-MBS investments is determined (i) based on each security's quoted price; (ii) based on prices obtained from pricing services, excluding accrued interest, as of the last business day of the period; or, (iii) when quoted prices are not available, by calculating the present value of expected cash flows, excluding accrued interest, using market-observable inputs as of the last business day of the period or using industry standard analytical models and certain actual and estimated market information. The discount rates used in these calculations are the replacement rates for comparable instruments with similar terms. Non-MBS investments classified as trading or available-for-sale are recorded at fair value on a recurring basis.

Investment Securities - MBS - During 2009, in an effort to achieve consistency among all the FHLBanks in applying a fair value methodology to their MBS investments, the FHLBanks formed the MBS Pricing Governance

Committee with the responsibility for developing a fair value methodology that all FHLBanks could adopt. Under the methodology approved by the MBS Pricing Governance Committee and adopted by the Bank, the Bank requests prices for all MBS from four specific third-party vendors, when available. These pricing vendors use methods that generally employ, but are not limited to, benchmark yields, recent trades, dealer estimates, valuation models, benchmarking of like securities, sector groupings, and/or matrix pricing. The Bank establishes a price for each of its MBS using a formula that is based on the number of prices received. If four prices are received, the average of the two middle prices is used; if three prices are received, the middle price is used; if two prices are received, the average of the two prices is used; and if one price is received, it is used subject to validation as described below. The computed prices are tested for reasonableness based on differences among pricing vendors using specified tolerance thresholds. Prices within the established thresholds are generally accepted unless strong evidence suggests that using the formula-driven price would not be appropriate. Preliminary estimated fair values that are outside the tolerance thresholds, or that management believes may not be appropriate based on all available information (including those limited instances in which only one price is received), are subject to further analysis, including but not limited to a price challenge of pricing vendors, a comparison to the prices for similar securities and/or to non-binding dealer estimates, or use of an internal model that is deemed most appropriate after consideration of all relevant facts and circumstances that a market participant would consider. The relative proximity of the vendor prices for each MBS, as defined by the tolerance thresholds, supports the Bank's conclusion that the final assigned prices are reasonable estimates of fair value. MBS investments classified as trading are recorded at fair value on a recurring basis.

Advances - Because quoted prices are not available for advances, the fair values are measured using model-based valuation techniques (such as the present value of future cash flows excluding the amount of the accrued interest receivable), creditworthiness of members, advance collateral types, prepayment assumptions, and other factors, such as credit loss assumptions, as necessary.

Because no principal market exists for the sale of advances, the Bank has defined the most advantageous market as a hypothetical market in which an advance sale could occur with a hypothetical financial institution. The Bank's primary inputs for measuring the fair value of advances are market-based consolidated obligation yield curve (CO Curve) inputs obtained from the Office of Finance and provided to the Bank. The Bank prices advances using the CO Curve because it represents the Bank's cost of funds. The CO Curve is then adjusted to reflect the rates on replacement advances with similar terms and collateral. These spread adjustments are not market-observable and are evaluated for significance in the overall fair value measurement and the fair value hierarchy level of the advance. As of September 30, 2010, the spread adjustment to the CO Curve ranged from 7 to 16 basis points for advances carried at fair value. The Bank obtains market-observable inputs from derivatives dealers for complex advances. These inputs may include volatility assumptions, which are market-based expectations of future interest rate volatility implied from current market prices for similar options (swaptions volatilities). The discount rates used in these calculations are the replacement advance rates for advances with similar terms. Pursuant to the Finance Agency's advances regulation, advances with an original term to maturity or repricing period greater than six months generally require a prepayment fee sufficient to make the Bank financially indifferent to the borrower's decision to prepay the advances, and the Bank determined that no adjustment is required to the fair value measurement of advances for prepayment fees.

Mortgage Loans Held for Portfolio - The estimated fair value for mortgage loans represents modeled prices based on observable market prices for agency commitment rates adjusted for differences in coupon, and seasoning. Market prices are highly dependent on the underlying prepayment assumptions. Changes in the prepayment speeds often have a material effect on the fair value estimates. These underlying prepayment assumptions are susceptible to material changes in the near term because they are made at a specific point in time.

Loans to Other FHLBanks - Because these are overnight transactions, the estimated fair value approximates the recorded carrying value.

Accrued Interest Receivable and Payable - The estimated fair value approximates the recorded carrying value of

accrued interest receivable and accrued interest payable.

Derivative Assets and Liabilities - In general, derivative instruments held by the Bank for risk management activities are traded in over-the-counter markets where quoted market prices are not readily available. These derivatives are interest-rate related. For these derivatives, the Bank measures fair value using internally developed discounted cash flow models that use primarily market-observable inputs, such as the LIBOR swap yield curve, option volatilities adjusted for counterparty credit risk, as necessary, and prepayment assumptions.

The Bank is subject to credit risk in derivatives transactions due to potential nonperformance by the derivatives counterparties. To mitigate this risk, the Bank only executes transactions with highly rated derivatives dealers and major banks (derivatives dealer counterparties) that meet the Bank's eligibility criteria. In addition, the Bank has entered into master netting agreements and bilateral security agreements with all active derivatives dealer counterparties that provide for delivery of collateral at specified levels tied to counterparty credit ratings to limit the Bank's net unsecured credit exposure to these counterparties. Under these policies and agreements, the amount of unsecured credit exposure to an individual derivatives dealer counterparty is limited to the lesser of (i) a percentage of the counterparty's capital or (ii) an absolute dollar credit exposure limit, both according to the counterparty's credit rating, as determined by rating agency long-term credit ratings of the counterparty's debt securities or deposits. All credit exposure from derivatives transactions entered into by the Bank with member counterparties that are not derivatives dealers must be fully secured by eligible collateral. The Bank evaluated the potential for the fair value of the instruments to be affected by counterparty credit risk and determined that no adjustments to the overall fair value measurements were required.

Deposits and Other Borrowings - For deposits and other borrowings, the estimated fair value has been determined by calculating the present value of expected future cash flows from the deposits and other borrowings excluding accrued interest. The discount rates used in these calculations are the cost of deposits and borrowings with similar terms.

Consolidated Obligations - Because quoted prices in active markets are not generally available for identical liabilities, the Bank measures fair values using internally developed models that use primarily market-observable inputs. The Bank's primary inputs for measuring the fair value of consolidated obligation bonds are market-based CO Curve inputs obtained from the Office of Finance and provided to the Bank. The Office of Finance constructs a market observable curve, referred to as the CO Curve, using the Treasury yield curve as a base curve, which may be adjusted by indicative spreads obtained from market observable sources. These market indications are generally derived from pricing indications from dealers, historical pricing relationships, market activity for similar liabilities such as recent GSE trades or secondary market activity. For consolidated obligation bonds with embedded options, the Bank also obtains market-observable quotes and inputs from derivatives dealers. The Bank uses these swaption volatilities as significant inputs for measuring the fair value of consolidated obligations.

Adjustments may be necessary to reflect the Bank's credit quality or the credit quality of the FHLBank System when valuing consolidated obligation bonds measured at fair value. The Bank monitors its own creditworthiness, the creditworthiness of the other 11 FHLBanks, and the FHLBank System to determine whether any adjustments are necessary for creditworthiness in its fair value measurement of consolidated obligation bonds. The credit ratings of the FHLBank System and any changes to the credit ratings are the basis for the Bank to determine whether the fair values of consolidated obligations have been significantly affected during the reporting period by changes in the instrument-specific credit risk.

Mandatorily Redeemable Capital Stock - The estimated fair value of capital stock subject to mandatory redemption is generally at par value as indicated by member contemporaneous purchases and sales at par value. Fair value includes estimated dividends earned at the time of reclassification from capital to liabilities, until such amount is paid, and any subsequently declared stock dividend. The Bank's stock can only be acquired by members at par value and redeemed or repurchased at par value, subject to statutory and regulatory requirements. The Bank's stock is not traded, and no market mechanism exists for the exchange of Bank stock outside the cooperative ownership

structure.

Commitments - The estimated fair value of the Bank's commitments to extend credit was immaterial at September 30, 2010, and December 31, 2009. The estimated fair value of standby letters of credit is based on the present value of fees currently charged for similar agreements. The value of the Bank's standby letters of credit is recorded in other liabilities.

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

Fair Value Hierarchy. The fair value hierarchy is used to prioritize the fair value methodologies and valuation techniques as well as the inputs to the valuation techniques used to measure fair value for assets and liabilities carried at fair value on the Statements of Condition. The inputs are evaluated and an overall level for the fair value measurement is determined. This overall level is an indication of market observability of the fair value measurement for the asset or liability. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets. An active market for the asset or liability is a market in which the transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs are supported by little or no market activity or by the Bank's own assumptions.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following assets and liabilities, including those for which the Bank has elected the fair value option, are carried at fair value on the Statements of Condition as of September 30, 2010:

- Trading securities
- Available-for-sale securities
- Certain advances
- Derivative assets and liabilities
- Certain consolidated obligation bonds

For instruments carried at fair value, the Bank reviews the fair value hierarchy classifications on a quarterly basis. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in or out at fair value as of the beginning of the quarter in which the changes occur. For the periods presented, the Bank did not have any reclassifications for transfers in or out of the fair value hierarchy levels.

Federal Home Loan Bank of San Francisco
Notes to Financial Statements (continued)

Fair Value on a Recurring Basis. These assets and liabilities are measured at fair value on a recurring basis and are summarized in the following table by fair value hierarchy (as described above).

September 30, 2010

	Fair Value Measurement Using:			Netting	
	Level 1	Level 2	Level 3	Adjustments[1]	Total
Assets:					
Trading securities:					
GSEs:					
FFCB bonds	$ —	$ 1,457	$ —	$ —	$ 1,457
TLGP	—	129	—	—	129
MBS:					
Other U.S. obligations:					
Ginnie Mae	—	21	—	—	21
GSEs:					
Fannie Mae	—	5	—		5
Total trading securities	—	1,612	—	—	1,612
Available-for-sale securities (TLGP)	—	1,929	—	—	1,929
Advances[2]	—	11,964	—	—	11,964
Derivative assets (interest-rate related)	—	3,039	—	(2,534)	505
Total assets	$ —	$ 18,544	$ —	$ (2,534)	$ 16,010
Liabilities:					
Consolidated obligation bonds[3]	$ —	$ 17,474	$ —	$ —	$ 17,474
Derivative liabilities (interest-rate related)	—	1,293	—	(1,141)	152
Total liabilities	$ —	$ 18,767	$ —	$ (1,141)	$ 17,626

December 31, 2009

	Fair Value Measurement Using:			Netting	
	Level 1	Level 2	Level 3	Adjustments[1]	Total
Assets:					
Trading securities:					
MBS:					
Other U.S. obligations:					
Ginnie Mae	$ —	$ 23	$ —	$ —	$ 23
GSEs:					
Fannie Mae	—	8	—	—	8
Total trading securities	—	31	—	—	31
Available-for-sale securities (TLGP)	—	1,931	—	—	1,931
Advances[2]	—	22,952	—	—	22,952
Derivative assets (interest-rate related)	—	3,176	—	(2,724)	452
Total assets	$ —	$ 28,090	$ —	$ (2,724)	$ 25,366
Liabilities:					
Consolidated obligation bonds[3]	$ —	$ 38,173	$ —	$ —	$ 38,173
Derivative liabilities (interest-rate related)	—	1,477	—	(1,272)	205
Total liabilities	$ —	$ 39,650	$ —	$ (1,272)	$ 38,378

(1) Amounts represent the netting of derivative assets and liabilities by counterparty, including cash collateral, where the Bank has the legal right to do so under its master netting agreement with each counterparty.
(2) Includes $11,090 and $21,616 of advances recorded under the fair value option at September 30, 2010, and December 31, 2009, respectively, and $874

and $1,336 of advances recorded at fair value in accordance with the accounting for derivative instruments and hedging activities at September 30, 2010, and December 31, 2009, respectively.

(3) Includes $16,962 and $37,022 of consolidated obligation bonds recorded under the fair value option at September 30, 2010, and December 31, 2009, respectively, and $512 and $1,151 of consolidated obligation bonds recorded at fair value in accordance with the accounting for derivatives instruments and hedging activities at September 30, 2010, and December 31, 2009, respectively.

Fair Value on a Nonrecurring Basis. Certain assets are measured at fair value on a nonrecurring basis—that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustment in certain circumstances (for example, when there is evidence of impairment). At September 30, 2010, and December 31, 2009, the Bank measured certain of its held-to-maturity investment securities at fair value on a nonrecurring basis. The following tables present the investment securities as of September 30, 2010, and December 31, 2009, for which a nonrecurring change in fair value was recorded at September 30, 2010, and December 31, 2009, by level within the fair value hierarchy.

September 30, 2010

	Fair Value Measurement Using:		
Assets:	**Level 1**	**Level 2**	**Level 3**
Held-to-maturity securities - PLRMBS	$ —	$ —	$ 495

PLRMBS with a carrying value of $582 were written down to their fair value of $495.

December 31, 2009

	Fair Value Measurement Using:		
Assets:	**Level 1**	**Level 2**	**Level 3**
Held-to-maturity securities - PLRMBS	$ —	$ —	$ 1,880

PLRMBS with a carrying value of $2,177 were written down to their fair value of $1,880.

Based on the current lack of significant market activity for PLRMBS, the non-recurring fair value measurements for such securities as of September 30, 2010, and December 31, 2009, fell within Level 3 of the fair value hierarchy.

Fair Value Option. The fair value option provides an entity an irrevocable option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value. It requires an entity to display the fair value of those assets and liabilities for which the entity has chosen to use fair value on the face of the statement of condition. Fair value is used for both the initial and subsequent measurement of the designated assets, liabilities, and commitments, with the changes in fair value recognized in net income. Interest income and interest expense carried on advances and consolidated bonds at fair value are recognized solely on the contractual amount of interest due or unpaid. Any transaction fees or costs are immediately recognized into other non-interest income or other non-interest expense.

The Bank elected the fair value option for certain financial instruments on January 1, 2008, as follows:

- Adjustable rate credit advances with embedded options
- Callable fixed rate credit advances
- Putable fixed rate credit advances
- Putable fixed rate credit advances with embedded options
- Fixed rate credit advances with partial prepayment symmetry
- Callable or non-callable capped floater consolidated obligation bonds
- Convertible consolidated obligation bonds
- Floating or fixed rate range accrual consolidated obligation bonds
- Ratchet consolidated obligation bonds

Federal Home Loan Bank of San Francisco
Notes to Financial Statements (continued)

In addition to the items transitioned to the fair value option on January 1, 2008, the Bank has elected that any new transactions in these categories will be accounted for under the fair value option. In general, transactions for which the Bank has elected the fair value option are in economic hedge relationships. The Bank has also elected the fair value option for the following additional categories for all new transactions entered into starting on January 1, 2008:

- Adjustable rate credit advances indexed to the following: Prime Rate, U.S. Treasury Bill, Federal funds, Constant Maturity Treasury (CMT), Constant Maturity Swap (CMS), and 12-month Moving Treasury Average of one-year CMT (12MTA)
- Adjustable rate consolidated obligation bonds indexed to the following: Prime Rate, U.S. Treasury Bill, Federal funds, CMT, CMS, and 12MTA

The Bank elected the fair value option for the following financial instruments on October 1, 2009:

- Step-up callable bonds, which pay interest at increasing fixed rates for specified intervals over the life of the bond and can generally be called at the Bank's option on the step-up dates
- Step-down callable bonds, which pay interest at decreasing fixed rates for specified intervals over the life of the bond and can generally be called at the Bank's option on the step-down dates

The Bank has elected these items for the fair value option to assist in mitigating potential income statement volatility that can arise from economic hedging relationships. The risk associated with using fair value only for the derivative is the Bank's primary reason for electing the fair value option for financial assets and liabilities that do not qualify for hedge accounting or that have not previously met or may be at risk for not meeting the hedge effectiveness requirements.

The following table summarizes the activity related to financial assets and liabilities for which the Bank elected the fair value option during the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended			
	September 30, 2010		September 30, 2009	
	Advances	Consolidated Obligation Bonds	Advances	Consolidated Obligation Bonds
Balance, beginning of the period	$ 12,819	$ 21,148	$ 34,869	$ 35,157
New transactions elected for fair value option	3,152	3,389	50	2,737
Maturities and terminations	(4,933)	(7,565)	(7,426)	(11,675)
Net gain/(loss) on advances and net gain on consolidated obligation bonds held at fair value	64	(2)	(72)	(10)
Change in accrued interest	(12)	(8)	(40)	(4)
Balance, end of the period	$ 11,090	$ 16,962	$ 27,381	$ 26,205

	Nine Months Ended			
	September 30, 2010		September 30, 2009	
	Advances	Consolidated Obligation Bonds	Advances	Consolidated Obligation Bonds
Balance, beginning of the period	$ 21,616	$ 37,022	$ 38,573	$ 30,286
New transactions elected for fair value option	3,352	17,714	243	21,322
Maturities and terminations	(13,848)	(37,836)	(10,989)	(25,421)
Net gain/(loss)on advances and net loss on consolidated obligation bonds held at fair value	19	74	(393)	30
Change in accrued interest	(49)	(12)	(53)	(12)
Balance, end of the period	$ 11,090	$ 16,962	$ 27,381	$ 26,205

For advances and consolidated obligations recorded under the fair value option, the estimated impact of changes in credit risk for the three and nine months ended September 30, 2010 and 2009, was immaterial.

The following table presents the changes in fair value included in the Statements of Income for each item for which the fair value option has been elected for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended							
	September 30, 2010				September 30, 2009			
	Interest Income on Advances	Interest Expense on Consolidated Obligation Bonds	Net Gain/ (Loss) on Advances and Consolidated Obligation Bonds Held at Fair Value	Total Changes in Fair Value Included in Current Period Earnings	Interest Income on Advances	Interest Expense on Consolidated Obligation Bonds	Net Gain/ (Loss) on Advances and Consolidated Obligation Bonds Held at Fair Value	Total Changes in Fair Value Included in Current Period Earnings
Advances	$ 94	$ —	$ 64	$ 158	$ 257	$ —	$ (72)	$ 185
Consolidated obligation bonds	—	(29)	2	(27)	—	(45)	10	(35)
Total	$ 94	$ (29)	$ 66	$ 131	$ 257	$ (45)	$ (62)	$ 150

	Nine Months Ended							
	September 30, 2010				September 30, 2009			
	Interest Income on Advances	Interest Expense on Consolidated Obligation Bonds	Net Gain/ (Loss) on Advances and Consolidated Obligation Bonds Held at Fair Value	Total Changes in Fair Value Included in Current Period Earnings	Interest Income on Advances	Interest Expense on Consolidated Obligation Bonds	Net Gain/ (Loss) on Advances and Consolidated Obligation Bonds Held at Fair Value	Total Changes in Fair Value Included in Current Period Earnings
Advances	$ 390	$ —	$ 19	$ 409	$ 878	$ —	$ (393)	$ 485
Consolidated obligation bonds	—	(139)	(74)	(213)	—	(140)	(30)	(170)
Total	$ 390	$ (139)	$ (55)	$ 196	$ 878	$ (140)	$ (423)	$ 315

The following table presents the difference between the aggregate fair value and aggregate remaining contractual principal balance outstanding of advances and consolidated obligation bonds for which the fair value option has been elected at September 30, 2010, and December 31, 2009:

	At September 30, 2010			At December 31, 2009		
	Principal Balance	Fair Value	Fair Value Over/(Under) Principal Balance	Principal Balance	Fair Value	Fair Value Over/(Under) Principal Balance
Advances[1]	$ 10,563	$ 11,090	$ 527	$ 21,000	$ 21,616	$ 616
Consolidated obligation bonds	16,953	16,962	9	37,075	37,022	(53)

(1) At September 30, 2010, and December 31, 2009, none of these advances were 90 days or more past due or had been placed on nonaccrual status.

Note 13 — Commitments and Contingencies

As provided by the FHLBank Act or regulations governing the operations of the FHLBanks, all FHLBanks have joint and several liability for all FHLBank consolidated obligations, which are backed only by the financial resources of the FHLBanks. The joint and several liability regulation authorizes the Finance Agency to require any FHLBank to repay all or a portion of the principal or interest on consolidated obligations for which another FHLBank is the primary obligor. The Bank has never been asked or required to repay the principal or interest on any consolidated obligation on behalf of another FHLBank, and as of September 30, 2010, and through the filing date of this report, does not believe that is probable that it will be asked to do so. The par amount of the outstanding consolidated obligations of all 12 FHLBanks was $806,007 at September 30, 2010, and $930,617 at December 31, 2009. The par value of the Bank's participation in consolidated obligations was $127,668 at September 30, 2010,

and $178,186 at December 31, 2009. For more information on the joint and several liability regulation, see Note 18 to the Financial Statements in the Bank's 2009 Form 10-K.

At September 30, 2010, commitments that legally obligated the Bank for additional advances totaled $355. At December 31, 2009, commitments that legally obligated the Bank for additional advances totaled $32. Advance commitments are generally for periods up to 12 months. Advances funded under advance commitments are fully collateralized at the time of funding (see Note 6 to the Financial Statements). Based on the Bank's credit analyses of members' financial condition and collateral requirements, no allowance for losses was deemed necessary by the Bank on the advance commitments outstanding as of September 30, 2010, and December 31, 2009. The estimated fair value of advance commitments was immaterial to the balance sheet as of September 30, 2010, and December 31, 2009.

Standby letters of credit are generally issued for a fee on behalf of members to support their obligations to third parties. If the Bank is required to make payment for a beneficiary's drawing under a letter of credit, the amount is charged to the member's demand deposit account with the Bank. The Bank's outstanding standby letters of credit at September 30, 2010, and December 31, 2009, were as follows:

	September 30, 2010	December 31, 2009
Outstanding notional		
Expire within one year	$ 1,528	$ 1,138
Expire after one year	4,270	4,131
Total	$ 5,798	$ 5,269
Original terms	42 days to 10 years	23 days to 10 years
Final expiration year	2020	2019

The value of the Bank's obligations related to standby letters of credit is recorded in other liabilities and amounted to $27 at September 30, 2010, and $27 at December 31, 2009. Letters of credit are fully collateralized at the time of issuance. Based on the Bank's credit analyses of members' financial condition and collateral requirements, no allowance for losses was deemed necessary by the Bank on the letters of credit outstanding as of September 30, 2010, and December 31, 2009.

The Bank executes interest rate exchange agreements with major banks and derivatives entities affiliated with broker-dealers that have, or are supported by guarantees from related entities that have, long-term unsecured, unsubordinated debt or deposit ratings from Standard & Poor's, Moody's, and/or Fitch, where the lowest rating is A-/A3 or better. The Bank also executes interest rate exchange agreements with its members. The Bank enters into master agreements with netting provisions with all counterparties and into bilateral security agreements with all active derivatives dealer counterparties. All member counterparty master agreements, excluding those with derivatives dealers, are subject to the terms of the Bank's Advances and Security Agreement with members, and all member counterparties (except for those that are derivatives dealers) must fully collateralize the Bank's net credit exposure. As of September 30, 2010, the Bank had pledged as collateral securities with a carrying value of $75, all of which could be sold or repledged, to counterparties that had market risk exposure to the Bank related to derivatives. As of December 31, 2009, the Bank had pledged as collateral securities with a carrying value of $40, all of which could be sold or repledged, to counterparties that had market risk exposure to the Bank related to derivatives.

The Bank may be subject to various pending legal proceedings that may arise 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 Bank's financial condition or results of operations.

At September 30, 2010, the Bank had committed to the issuance of $2,770 in consolidated obligation bonds, of which $2,535 were hedged with associated interest rate swaps, and $500 in consolidated obligation discount notes,

of which $499 were hedged with associated interest rate swaps. At December 31, 2009, the Bank had committed to the issuance of $1,090 in consolidated obligation bonds, of which $1,000 were hedged with associated interest rate swaps.

The Bank entered into interest rate exchange agreements that had traded but not yet settled with notional amounts totaling $3,414 at September 30, 2010, and $1,110 at December 31, 2009.

Other commitments and contingencies are discussed in Notes 6, 7, 8, 9, and 11 to the Financial Statements.

Note 14 — Transactions with Certain Members, Certain Nonmembers, and Other FHLBanks

Transactions with Certain Members and Certain Nonmembers. The following tables set forth information at the dates and for the periods indicated with respect to transactions with (i) members and nonmembers holding more than 10% of the outstanding shares of the Bank's capital stock, including mandatorily redeemable capital stock, at each respective period end, (ii) members that had an officer or director serving on the Bank's Board of Directors at any time during the periods indicated, and (iii) affiliates of the foregoing members and nonmembers. All transactions with members, the nonmembers described in the preceding sentence, and their respective affiliates are entered into in the normal course of business.

	September 30, 2010	December 31, 2009
Assets:		
Cash and due from banks	$ 1	$ —
Investments[1]	2,728	2,638
Advances	49,623	87,701
Mortgage loans held for portfolio	2,084	2,391
Accrued interest receivable	53	150
Derivative assets	935	956
Total	$ 55,424	$ 93,836
Liabilities:		
Deposits	$ 945	$ 993
Mandatorily redeemable capital stock	3,126	4,311
Derivative liabilities	5	—
Total	$ 4,076	$ 5,304
Notional amount of derivatives	$ 37,826	$ 55,152
Standby letters of credit	3,797	3,885

(1) Investments consist of Federal funds sold, available-for-sale securities, and held-to-maturity securities issued by and/or purchased from the members or nonmembers described in this section or their affiliates.

Federal Home Loan Bank of San Francisco
Notes to Financial Statements (continued)

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Interest Income:				
Investments[1]	$ 21	$ 33	$ 71	$ 116
Advances[2]	85	382	418	1,632
Mortgage loans held for portfolio	26	31	84	99
Total	$ 132	$ 446	$ 573	$ 1,847
Interest Expense:				
Mandatorily redeemable capital stock	$ 5	$ 6	$ 10	$ 6
Consolidated obligations[3]	(151)	(179)	(504)	(484)
Total	$ (146)	$ (173)	$ (494)	$ (478)
Other Income/(Loss):				
Net gain/(loss) on derivatives and hedging activities	$ (29)	$ 26	$ (15)	$ (296)
Other income	1	1	3	3
Total	$ (28)	$ 27	$ (12)	$ (293)

(1) Investments consist of Federal funds sold, available-for-sale securities, and held-to-maturity securities issued by and/or purchased from the members or nonmembers described in this section or their affiliates.
(2) Includes the effect of associated derivatives with the members or nonmembers described in this section or their affiliates.
(3) Reflects the effect of associated derivatives with the members or nonmembers described in this section or their affiliates.

Transactions with Other FHLBanks. Transactions with other FHLBanks are identified on the face of the Bank's financial statements, which begin on page 1.

Note 15 — Subsequent Events

The Bank evaluated events subsequent to September 30, 2010, until the time of the Form 10-Q filing with the SEC, and no material subsequent events were identified, other than those discussed below.

On October 28, 2010, the Bank announced that it plans to repurchase up to $500 in excess capital stock on November 15, 2010. The amount of excess capital stock to be repurchased from any shareholder will be based on the shareholder's pro rata ownership share of total capital stock outstanding as of the repurchase date, up to the amount of the shareholder's excess capital stock.

On October 28, 2010, the Bank's Board of Directors declared a cash dividend for the third quarter of 2010 at an annualized dividend rate of 0.39%. The Bank recorded the third quarter dividend on October 28, 2010, the day it was declared by the Board of Directors. The Bank expects to pay the third quarter dividend (including dividends on mandatorily redeemable capital stock), which will total $13, on or about November 12, 2010. The Bank will pay the dividend in cash rather than stock form to comply with Finance Agency rules.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed by the COMPUTER HISTORY MUSEUM, a California nonprofit public benefit corporation (the "Corporation"), in connection with the issuance of $7,000,000 ABAG Finance Authority for Nonprofit Corporations Variable Rate Demand Refunding Revenue Bonds (Computer History Museum), Series 2010 (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2010 (the "Indenture"), by and between the ABAG Finance Authority for Nonprofit Corporations (the "Authority") and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The proceeds of the Bonds are being loaned by the Authority to the Corporation pursuant to a Loan Agreement, dated as of December 1, 2010 (the "Loan Agreement"), by and between the Authority and the Corporation. Pursuant to Section 5.11 of the Loan Agreement, the Corporation covenants and agree as follows:

Section 1. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

"Annual Report" shall mean any Annual Report provided by the Corporation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the Corporation or any successor Dissemination Agent designated in writing by the Corporation and which has filed with the Corporation a written acceptance of such designation. In the absence of such a designation, the Corporation shall act as the Dissemination Agent.

"EMMA" or *"Electronic Municipal Market Access"* means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"Listed Events" shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"Participating Underwriter" shall mean any original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Corporation for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report.* The Corporation shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the Corporation's fiscal year (which currently ends on June 30), commencing with the report for the 2009-10 Fiscal Year, which is due not later than March 31, 2012, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Corporation may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the Corporation's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the Corporation shall provide the Annual Report to the Dissemination Agent (if other than the Corporation). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the Corporation.

(d) *Report of Non-Compliance.* If the Corporation is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the Corporation shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the Corporation is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the Corporation, file a report with the Corporation certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) *Financial Statements.* Audited financial statements of the Corporation for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the Corporation's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited final statements of the Corporation, the Annual Report shall also include financial and operating data with respect to the Corporation for preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the official statement for the Bonds, as follows:

NONE

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Corporation or related public entities, which are available to the public on EMMA. The Corporation shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the Corporation shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The Corporation shall, or shall cause the Dissemination (if not the Corporation) to, give notice of the occurrence of any of the following events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Unscheduled draws on debt service reserves reflecting financial difficulties.

(3) Unscheduled draws on credit enhancements reflecting financial difficulties.

(4) Substitution of credit or liquidity providers, or their failure to perform.

(5) Defeasances.

(6) Rating changes.

(7) Tender offers.

(8) Bankruptcy, insolvency, receivership or similar event of the obligated person.

(9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(b) *Material Reportable Events.* The Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(1) Non-payment related defaults.

(2) Modifications to rights of security holders.

(3) Bond calls.

(4) The release, substitution, or sale of property securing repayment of the securities.

(5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

(6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* Whenever the Corporation obtains knowledge of the occurrence of a Listed Event, the Corporation shall, or shall cause the Dissemination Agent (if not the Corporation) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Indenture.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The Corporation's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Corporation shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the Corporation, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Corporation pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the Corporation. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bondholder, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the Corporation shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the Corporation.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid compensation by the Corporation for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the Corporation from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Corporation, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the Corporation or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the Corporation. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent.* In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the Corporation to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the Corporation under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Corporation may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the Corporation that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or the type of business conducted.

(b) *Compliance as of Issue Date.* The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Bondholders in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bondholders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the Corporation shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Corporation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Corporation shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the Corporation to comply with any provision of this Disclosure Certificate, any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the Corporation to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the Corporation agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Indenture. The obligations of the Corporation under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Corporation, the Dissemination Agent, the Participating Underwriter and the owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: [Closing Date]

COMPUTER HISTORY MUSEUM

By _____
Authorized Officer

EXHIBIT A

NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor:	Computer History Museum
Name of Issue:	ABAG Finance Authority for Nonprofit Corporations Variable Rate Demand Refunding Revenue Bonds (Computer History Museum), Series 2010
Date of Issuance:	[Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated [Closing Date], furnished by the Obligor in connection with the Issue. The Obligor anticipates that the Annual Report will be filed by _____.

Dated: _____

COMPUTER HISTORY MUSEUM, as
Dissemination Agent

By _____
Title _____

cc: Trustee

APPENDIX E

BOOK-ENTRY-ONLY SYSTEM

The following information concerning DTC and DTC's book-entry system has been obtained from DTC and contains statements that are believed to accurately describe DTC, the method of effecting book-entry transfers of securities distributed through DTC and certain related matters, but the Authority, the Corporation and the Underwriter take no responsibility for the accuracy of such statements.

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides assets servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of the Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial

Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the security documents. Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee or Trustee on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct Participant or Indirect Participant and not of DTC, the Trustee, the Authority or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, definitive certificates are required to be printed and delivered.

The Authority or the Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event definitive certificates will be printed and delivered.

THE AUTHORITY, THE CORPORATION, THE UNDERWRITER AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, INDIRECT DTC PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (I) THE BONDS; (II) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT OR INDIRECT DTC PARTICIPANT; (III) THE PAYMENT BY DTC, ANY DTC PARTICIPANT OR INDIRECT DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION OR PURCHASE PRICE OF AND PREMIUM, IF ANY, AND INTEREST ON THE BONDS; (IV) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC, ANY DTC PARTICIPANT OR INDIRECT DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BENEFICIAL OWNERS; (V) THE SELECTION OF BENEFICIAL OWNERS TO RECEIVE PAYMENTS IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (VI) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE, CEDE & CO., AS THE REGISTERED OWNER OF THE BONDS.