
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2016

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 000-51405

FEDERAL HOME LOAN BANK OF DALLAS

(Exact name of registrant as specified in its charter)

Federally chartered corporation
(State or other jurisdiction of incorporation
or organization)

71-6013989
(I.R.S. Employer
Identification Number)

8500 Freeport Parkway South, Suite 600
Irving, TX
(Address of principal executive offices)

75063-2547
(Zip code)

(214) 441-8500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant [1] has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and [2] has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (17 C.F.R. §232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

At November 4, 2016, the registrant had outstanding 19,405,462 shares of its Class B Capital Stock, \$100 par value per share.

FEDERAL HOME LOAN BANK OF DALLAS

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**FEDERAL HOME LOAN BANK OF DALLAS
STATEMENTS OF CONDITION
(Unaudited; in thousands, except share data)**

	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$ 67,739	\$ 837,202
Interest-bearing deposits	329	260
Securities purchased under agreements to resell (Note 10)	3,250,000	1,000,000
Federal funds sold	6,803,000	2,171,000
Trading securities (Note 3)	118,431	211,056
Available-for-sale securities (Notes 4, 10 and 15) (\$640,563 and \$300,184 pledged at September 30, 2016 and December 31, 2015, respectively, which could be rehypothecated)	13,357,821	9,713,191
Held-to-maturity securities ^(a) (Note 5)	2,670,612	3,228,011
Advances (Notes 6 and 7)	31,821,835	24,746,802
Mortgage loans held for portfolio, net of allowance for credit losses of \$141 at both September 30, 2016 and December 31, 2015, respectively (Note 7)	69,988	55,117
Accrued interest receivable	91,827	69,676
Premises and equipment, net	18,437	18,520
Derivative assets (Notes 10 and 11)	79,488	23,080
Other assets	8,112	8,112
TOTAL ASSETS	\$ 58,357,619	\$ 42,082,027
LIABILITIES AND CAPITAL		
Deposits		
Interest-bearing	\$ 1,121,356	\$ 1,045,939
Non-interest bearing	19	19
Total deposits	1,121,375	1,045,958
Consolidated obligations (Note 8)		
Discount notes	31,099,645	20,541,329
Bonds	23,122,425	18,024,692
Total consolidated obligations	54,222,070	38,566,021
Mandatorily redeemable capital stock	2,341	8,929
Accrued interest payable	36,806	38,972
Affordable Housing Program (Note 9)	22,223	22,710
Derivative liabilities (Notes 10 and 11)	9,953	6,964
Other liabilities (Note 4)	285,186	193,161
Total liabilities	55,699,954	39,882,715
Commitments and contingencies (Notes 7 and 15)		
CAPITAL (Note 12)		
Capital stock		
Capital stock — Class B-1 putable (\$100 par value) issued and outstanding shares: 6,739,819 and 6,324,540 shares at September 30, 2016 and December 31, 2015, respectively	673,982	632,454
Capital stock — Class B-2 putable (\$100 par value) issued and outstanding shares: 12,060,596 and 9,076,781 shares at September 30, 2016 and December 31, 2015, respectively	1,206,060	907,678
Total Class B Capital Stock	1,880,042	1,540,132
Retained earnings		
Unrestricted	727,513	699,213
Restricted	73,110	62,990
Total retained earnings	800,623	762,203
Accumulated other comprehensive income (loss) (Note 18)	(23,000)	(103,023)
Total capital	2,657,665	2,199,312
TOTAL LIABILITIES AND CAPITAL	\$ 58,357,619	\$ 42,082,027

^(a) Fair values: \$2,689,513 and \$3,262,283 at September 30, 2016 and December 31, 2015, respectively.

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

FEDERAL HOME LOAN BANK OF DALLAS
STATEMENTS OF INCOME
(Unaudited, in thousands)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
INTEREST INCOME				
Advances	\$ 56,830	\$ 30,955	\$ 152,180	\$ 89,608
Prepayment fees on advances, net	2,160	1,039	3,502	8,178
Interest-bearing deposits	1,012	172	2,531	537
Securities purchased under agreements to resell	2,593	718	4,758	1,936
Federal funds sold	5,535	1,628	14,737	5,823
Trading securities	579	152	2,336	243
Available-for-sale securities	36,347	11,185	92,170	26,632
Held-to-maturity securities	7,393	6,856	22,721	22,354
Mortgage loans held for portfolio	813	881	2,377	2,802
Total interest income	<u>113,262</u>	<u>53,586</u>	<u>297,312</u>	<u>158,113</u>
INTEREST EXPENSE				
Consolidated obligations				
Bonds	36,086	19,613	96,681	56,226
Discount notes	31,916	5,568	80,752	12,919
Deposits	586	55	1,641	121
Mandatorily redeemable capital stock and other borrowings	6	1	23	17
Total interest expense	<u>68,594</u>	<u>25,237</u>	<u>179,097</u>	<u>69,283</u>
NET INTEREST INCOME	<u>44,668</u>	<u>28,349</u>	<u>118,215</u>	<u>88,830</u>
OTHER INCOME (LOSS)				
Total other-than-temporary impairment losses on held-to-maturity securities	—	(11)	(310)	(111)
Net non-credit impairment losses on held-to-maturity securities recognized in other comprehensive income	(8)	8	290	83
Credit component of other-than-temporary impairment losses on held-to-maturity securities	(8)	(3)	(20)	(28)
Net gains (losses) on trading securities	(797)	1,169	9,133	1,508
Net gains (losses) on derivatives and hedging activities	197	(10,832)	(20,563)	1,854
Realized gains on sales of held-to-maturity securities	65	3,297	794	13,410
Realized gains on sales of available-for-sale securities	889	1,457	5,104	3,802
Letter of credit fees	1,430	983	4,275	3,202
Other, net	629	619	1,979	1,615
Total other income (loss)	<u>2,405</u>	<u>(3,310)</u>	<u>702</u>	<u>25,363</u>
OTHER EXPENSE				
Compensation and benefits	14,468	11,019	38,069	31,478
Other operating expenses	6,788	6,237	17,970	19,196
Finance Agency	630	520	2,004	1,671
Office of Finance	842	642	2,322	1,935
Discretionary grant programs	592	328	1,541	1,277
Derivative clearing fees	280	126	786	288
Total other expense	<u>23,600</u>	<u>18,872</u>	<u>62,692</u>	<u>55,845</u>
INCOME BEFORE ASSESSMENTS	<u>23,473</u>	<u>6,167</u>	<u>56,225</u>	<u>58,348</u>
Affordable Housing Program assessment	2,348	617	5,625	5,836
NET INCOME	<u>\$ 21,125</u>	<u>\$ 5,550</u>	<u>\$ 50,600</u>	<u>\$ 52,512</u>

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

FEDERAL HOME LOAN BANK OF DALLAS
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in thousands)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
NET INCOME	\$ 21,125	\$ 5,550	\$ 50,600	\$ 52,512
OTHER COMPREHENSIVE INCOME (LOSS)				
Net unrealized gains (losses) on available-for-sale securities, net of unrealized gains and losses relating to hedged interest rate risk included in net income	97,845	(69,013)	92,381	(63,977)
Reclassification adjustment for realized gains on sales of available-for-sale securities included in net income	(889)	(1,457)	(5,104)	(3,802)
Unrealized gains (losses) on cash flow hedges	2,147	(2,415)	(12,980)	(2,415)
Reclassification adjustment for losses on cash flow hedges included in net income	990	107	2,570	107
Non-credit portion of other-than-temporary impairment losses on held-to-maturity securities	—	(8)	(302)	(83)
Reclassification adjustment for non-credit portion of other-than-temporary impairment losses recognized as credit losses in net income	8	—	12	—
Accretion of non-credit portion of other-than-temporary impairment losses to the carrying value of held-to-maturity securities	1,076	1,495	3,505	4,796
Postretirement benefit plan				
Amortization of prior service cost included in net periodic benefit cost	5	2	15	6
Amortization of net actuarial gain included in net periodic benefit cost	(25)	(21)	(74)	(62)
Total other comprehensive income (loss)	101,157	(71,310)	80,023	(65,430)
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ 122,282</u>	<u>\$ (65,760)</u>	<u>\$ 130,623</u>	<u>\$ (12,918)</u>

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

FEDERAL HOME LOAN BANK OF DALLAS
STATEMENTS OF CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(Unaudited, in thousands)

	Capital Stock Class B-1 - Putable (Membership/Excess)		Capital Stock Class B-2 - Putable (Activity)		Capital Stock Class B - Putable		Retained Earnings			Accumulated Other Comprehensive Income (Loss)	Total Capital
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Unrestricted	Restricted	Total		
BALANCE, JANUARY 1, 2016	6,325	\$ 632,454	9,077	\$ 907,678	—	\$ —	\$ 699,213	\$ 62,990	\$762,203	\$ (103,023)	\$2,199,312
Net transfers of shares between Class B-1 and Class B-2 Stock	5,734	573,408	(5,734)	(573,408)	—	—	—	—	—	—	—
Proceeds from sale of capital stock	48	4,761	8,718	871,790	—	—	—	—	—	—	876,551
Repurchase/redemption of capital stock	(5,486)	(548,550)	—	—	—	—	—	—	—	—	(548,550)
Shares reclassified to mandatorily redeemable capital stock	(1)	(68)	—	—	—	—	—	—	—	—	(68)
Comprehensive income											
Net income	—	—	—	—	—	—	40,480	10,120	50,600	—	50,600
Other comprehensive income	—	—	—	—	—	—	—	—	—	80,023	80,023
Dividends on capital stock ^(a)											
Cash	—	—	—	—	—	—	(198)	—	(198)	—	(198)
Mandatorily redeemable capital stock	—	—	—	—	—	—	(5)	—	(5)	—	(5)
Stock	120	11,977	—	—	—	—	(11,977)	—	(11,977)	—	—
BALANCE, SEPTEMBER 30, 2016	<u>6,740</u>	<u>\$ 673,982</u>	<u>12,061</u>	<u>\$ 1,206,060</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 727,513</u>	<u>\$ 73,110</u>	<u>\$800,623</u>	<u>\$ (23,000)</u>	<u>\$2,657,665</u>
BALANCE, JANUARY 1, 2015	—	\$ —	—	\$ —	12,227	\$1,222,738	\$ 650,224	\$ 49,552	\$699,776	\$ (3,601)	\$1,918,913
Proceeds from sale of capital stock	—	—	—	—	8,941	894,107	—	—	—	—	894,107
Repurchase/redemption of capital stock	—	—	—	—	(6,545)	(654,493)	—	—	—	—	(654,493)
Shares reclassified to mandatorily redeemable capital stock	—	—	—	—	(13)	(1,344)	—	—	—	—	(1,344)
Comprehensive income (loss)											
Net income	—	—	—	—	—	—	42,010	10,502	52,512	—	52,512
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	—	(65,430)	(65,430)
Dividends on capital stock (at 0.375 percent annualized rate)											
Cash	—	—	—	—	—	—	(123)	—	(123)	—	(123)
Mandatorily redeemable capital stock	—	—	—	—	—	—	(2)	—	(2)	—	(2)
Stock	—	—	—	—	33	3,298	(3,298)	—	(3,298)	—	—
BALANCE, SEPTEMBER 30, 2015	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>14,643</u>	<u>\$1,464,306</u>	<u>\$ 688,811</u>	<u>\$ 60,054</u>	<u>\$748,865</u>	<u>\$ (69,031)</u>	<u>\$2,144,140</u>

^(a) Dividends were paid at annualized rates of 0.375 percent and 1.251 percent on Class B-1 Stock and Class B-2 Stock, respectively, in the first quarter of 2016, at 0.431 percent and 1.431 percent on Class B-1 Stock and Class B-2 Stock, respectively, in the second quarter of 2016 and at 0.444 percent and 1.444 percent on Class B-1 Stock and Class B-2 Stock, respectively, in the third quarter of 2016.

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

FEDERAL HOME LOAN BANK OF DALLAS
STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	For the Nine Months Ended	
	September 30,	
	2016	2015
OPERATING ACTIVITIES		
Net income	\$ 50,600	\$ 52,512
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization		
Net premiums and discounts on advances, consolidated obligations, investments and mortgage loans	64,114	70,845
Concessions on consolidated obligations	3,633	2,106
Premises, equipment and computer software costs	2,944	2,897
Non-cash interest on mandatorily redeemable capital stock	22	10
Credit component of other-than-temporary impairment losses on held-to-maturity securities	20	28
Gains on sales of held-to-maturity securities	(794)	(13,410)
Gains on sales of available-for-sale securities	(5,104)	(3,802)
Net increase in trading securities	(9,599)	(1,530)
Loss due to change in net fair value adjustment on derivative and hedging activities	59,297	26,481
Increase in accrued interest receivable	(22,178)	(13,712)
Increase in other assets	(28)	(1,714)
Decrease in Affordable Housing Program (AHP) liability	(487)	(3,184)
Increase (decrease) in accrued interest payable	(2,166)	5,589
Increase (decrease) in other liabilities	3,486	(466)
Total adjustments	93,160	70,138
Net cash provided by operating activities	143,760	122,650
INVESTING ACTIVITIES		
Net decrease (increase) in interest-bearing deposits, including swap collateral pledged	(482,108)	27,190
Net increase in securities purchased under agreements to resell	(2,250,000)	(2,650,000)
Net decrease (increase) in federal funds sold	(4,632,000)	1,833,000
Net decrease in short-term trading securities held for investment	102,215	297,151
Purchases of available-for-sale securities	(5,807,501)	(2,555,885)
Proceeds from maturities of available-for-sale securities	37,186	21,927
Proceeds from sales of available-for-sale securities	2,655,395	740,794
Proceeds from sales of held-to-maturity securities	129,857	761,800
Proceeds from maturities of long-term held-to-maturity securities	434,292	597,638
Purchases of long-term held-to-maturity securities	—	(35,000)
Principal collected on advances	441,973,938	488,493,239
Advances made	(449,027,085)	(492,312,269)
Principal collected on mortgage loans held for portfolio	10,643	12,442
Purchases of mortgage loans held for portfolio	(25,570)	—
Purchases of premises, equipment and computer software	(2,850)	(4,122)
Net cash used in investing activities	(16,883,588)	(4,772,095)

	For the Nine Months Ended	
	September 30,	
	2016	2015
FINANCING ACTIVITIES		
Net increase in deposits, including swap collateral held	75,481	198,803
Net payments on derivative contracts with financing elements	(48,590)	(138,398)
Net proceeds from issuance of consolidated obligations		
Discount notes	276,563,409	625,012,807
Bonds	19,079,312	13,362,767
Debt issuance costs	(3,686)	(1,328)
Payments for maturing and retiring consolidated obligations		
Discount notes	(266,023,001)	(623,891,793)
Bonds	(13,993,680)	(10,373,790)
Proceeds from issuance of capital stock	876,551	894,107
Proceeds from issuance of mandatorily redeemable capital stock	—	2
Payments for redemption of mandatorily redeemable capital stock	(6,683)	(2,060)
Payments for repurchase/redemption of capital stock	(548,550)	(654,493)
Cash dividends paid	(198)	(123)
Net cash provided by financing activities	<u>15,970,365</u>	<u>4,406,501</u>
Net decrease in cash and cash equivalents	(769,463)	(242,944)
Cash and cash equivalents at beginning of the period	837,202	1,507,708
Cash and cash equivalents at end of the period	<u>\$ 67,739</u>	<u>\$ 1,264,764</u>
Supplemental Disclosures:		
Interest paid	<u>\$ 160,096</u>	<u>\$ 71,414</u>
AHP payments, net	<u>\$ 6,112</u>	<u>\$ 9,020</u>
Stock dividends issued	<u>\$ 11,977</u>	<u>\$ 3,298</u>
Dividends paid through issuance of mandatorily redeemable capital stock	<u>\$ 5</u>	<u>\$ 2</u>
Net capital stock reclassified to mandatorily redeemable capital stock	<u>\$ 68</u>	<u>\$ 1,344</u>

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

FEDERAL HOME LOAN BANK OF DALLAS
NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS

Note 1—Basis of Presentation

The accompanying interim financial statements of the Federal Home Loan Bank of Dallas (the “Bank”) are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions provided by Article 10, Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. The financial statements contain all adjustments that are, in the opinion of management, necessary for a fair statement of the Bank’s financial position, results of operations and cash flows for the interim periods presented. All such adjustments were of a normal recurring nature. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full fiscal year or any other interim period.

The Bank’s significant accounting policies and certain other disclosures are set forth in the notes to the audited financial statements for the year ended December 31, 2015. The interim financial statements presented herein should be read in conjunction with the Bank’s audited financial statements and notes thereto, which are included in the Bank’s Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 22, 2016 (the “2015 10-K”). The notes to the interim financial statements update and/or highlight significant changes to the notes included in the 2015 10-K.

The Bank is one of 11 district Federal Home Loan Banks, each individually a “FHLBank” and collectively the “FHLBanks,” and, together with the Office of Finance, a joint office of the FHLBanks, the “FHLBank System.” The Office of Finance manages the sale and servicing of the FHLBanks’ consolidated obligations. The Federal Housing Finance Agency (“Finance Agency”), an independent agency in the executive branch of the U.S. government, supervises and regulates the housing government-sponsored enterprises (“GSEs”), including the FHLBanks and the Office of Finance.

Use of Estimates and Assumptions. The preparation of financial statements in conformity with U.S. GAAP requires management to make assumptions and estimates. These assumptions and estimates may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. Significant estimates include the valuations of the Bank’s investment securities, as well as its derivative instruments and any associated hedged items. Actual results could differ from these estimates.

Note 2—Recently Issued Accounting Guidance

Simplifying the Presentation of Debt Issuance Costs. On April 7, 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-03 *“Simplifying the Presentation of Debt Issuance Costs”* (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the statement of condition as a direct deduction from that debt liability, consistent with the presentation of a debt discount. For public business entities, the guidance in ASU 2015-03 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 (January 1, 2016 for the Bank). The guidance is required to be applied on a retrospective basis to each individual period presented on the statement of condition. Accordingly, \$1,267,000 of unamortized debt issuance costs were reclassified as a reduction of consolidated obligation bonds in the accompanying statement of condition as of December 31, 2015. Previously, these unamortized debt issuance costs were included in other assets. The adoption of this guidance did not have any impact on the Bank’s results of operations.

On August 18, 2015, the FASB issued ASU 2015-15 *“Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements”* (“ASU 2015-15”). ASU 2015-15 clarifies that, given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The adoption of this guidance on January 1, 2016 did not have any impact on the Bank’s results of operations or financial condition.

Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. On April 15, 2015, the FASB issued ASU 2015-05 *“Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement”* (“ASU 2015-05”), which clarifies when fees paid in a cloud computing arrangement pertain to the acquisition of a software license, services, or both. For public business entities, the guidance in ASU 2015-05 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 (January 1, 2016 for the Bank). Early adoption was permitted. The Bank could elect to adopt ASU 2015-05 either (i) prospectively to all arrangements entered into or materially modified after the effective date or (ii) retrospectively. The Bank elected to adopt this guidance prospectively. The adoption of this guidance has not had any impact on the Bank’s results of operations or financial condition.

Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. On March 10, 2016, the FASB issued ASU 2016-05, "*Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*" ("ASU 2016-05"), which clarifies the hedge accounting impact when there is a change in one of the counterparties to the derivative contract (i.e., a novation). ASU 2016-05 clarifies that a change in the counterparty to a derivative contract, in and of itself, does not require the dedesignation of a hedging relationship. An entity will, however, still need to evaluate whether it is probable that the counterparty will perform under the contract as part of its ongoing effectiveness assessment for hedge accounting. For public business entities, the guidance in ASU 2016-05 is effective for fiscal years beginning after December 15, 2016 (January 1, 2017 for the Bank), and interim periods within those fiscal years. Early adoption is permitted. Entities have the option to adopt ASU 2016-05 on a prospective basis to new derivative contract novations or on a modified retrospective basis. The Bank elected to adopt this guidance on a prospective basis beginning January 1, 2016. The adoption of ASU 2016-05 has not had any impact on the Bank's results of operations or financial condition.

Contingent Put and Call Options in Debt Instruments. On March 14, 2016, the FASB issued ASU 2016-06, "*Contingent Put and Call Options in Debt Instruments*" ("ASU 2016-06"), which clarifies the requirements for assessing whether contingent call or put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The guidance requires entities to apply only the four-step decision sequence when assessing whether the economic characteristics and risks of call or put options are clearly and closely related to the economic characteristics and risks of their debt hosts. Consequently, when a call or put option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call or put option is related to interest rates or credit risks. For public business entities, the guidance in ASU 2016-06 is effective for fiscal years beginning after December 15, 2016 (January 1, 2017 for the Bank), and interim periods within those fiscal years. Early adoption is permitted. The guidance is to be applied on a modified retrospective basis to existing debt instruments as of the beginning of the period for which the amendments are effective. The Bank has not yet determined the effect, if any, that the adoption of ASU 2016-06 will have on its results of operations or financial condition.

Credit Losses on Financial Instruments. On June 16, 2016, the FASB issued ASU 2016-13, "*Measurement of Credit Losses on Financial Instruments*" ("ASU 2016-13"), which amends the guidance for the accounting for credit losses on financial instruments by replacing the current incurred loss methodology with an expected credit loss methodology. Among other things, ASU 2016-13 requires:

- entities to present financial assets, or groups of financial assets, measured at amortized cost at the net amount expected to be collected, which is computed by deducting an allowance for credit losses from the amortized cost basis of the financial asset(s);
- the measurement of expected credit losses to be based upon relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount;
- the statement of income to reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases in expected credit losses that have taken place during the period;
- entities to determine the allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination ("PCD assets") that are measured at amortized cost in a manner similar to other financial assets measured at amortized cost (the initial allowance for credit losses on PCD assets is added to the purchase price rather than being reported as a credit loss expense);
- credit losses relating to available-for-sale debt securities to be recorded through an allowance for credit losses, the amount of which is limited to the amount by which fair value is below amortized cost; and
- public business entities to further disaggregate the current disclosure of credit quality indicators in relation to the amortized cost of financing receivables by year of origination.

For public business entities that are SEC filers, the guidance in ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 (January 1, 2020 for the Bank), and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The guidance is to be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period in which the amendments are adopted. However, entities are required to use a prospective transition approach for debt securities for which an other-than-temporary impairment had been recognized before the date of adoption. The Bank has not yet determined the effect that the adoption of ASU 2016-13 will have on its results of operations or financial condition.

Classification of Certain Cash Receipts and Cash Payments. On August 26, 2016, the FASB issued ASU 2016-15, "*Classification of Certain Cash Receipts and Cash Payments*" ("ASU 2016-15"), which clarifies the guidance for classifying certain cash receipts and cash payments in the statement of cash flows. The guidance is intended to reduce existing diversity in practice regarding eight specific cash flow presentation issues. For public business entities, the guidance in ASU 2016-15 is

effective for fiscal years beginning after December 15, 2017 (January 1, 2018 for the Bank), and interim periods within those fiscal years. Early adoption, including adoption in an interim period, is permitted. The guidance is to be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied as if the change was made prospectively as of the earliest date practicable. The adoption of ASU 2016-15 will not have any impact on the Bank's statement of cash flows, nor will it have any impact on the Bank's results of operations or financial condition.

Note 3—Trading Securities

Trading securities as of September 30, 2016 and December 31, 2015 were as follows (in thousands):

	September 30, 2016	December 31, 2015
U.S. Treasury Notes	\$ 108,503	\$ 202,199
Other	9,928	8,857
Total	\$ 118,431	\$ 211,056

Other trading securities consist solely of mutual fund investments associated with the Bank's non-qualified deferred compensation plans.

Note 4—Available-for-Sale Securities

Major Security Types. Available-for-sale securities as of September 30, 2016 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debentures				
U.S. government-guaranteed obligations	\$ 515,124	\$ 3,254	\$ 1,504	\$ 516,874
GSE obligations	6,739,214	42,060	1,132	6,780,142
Other	338,297	1,125	—	339,422
	<u>7,592,635</u>	<u>46,439</u>	<u>2,636</u>	<u>7,636,438</u>
GSE commercial mortgage-backed securities	5,760,187	17,195	55,999	5,721,383
Total	\$ 13,352,822	\$ 63,634	\$ 58,635	\$13,357,821

Available-for-sale securities as of December 31, 2015 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debentures				
U.S. government-guaranteed obligations	\$ 498,185	\$ 1,315	\$ 1,748	\$ 497,752
GSE obligations	5,328,125	12,597	1,775	5,338,947
Other	372,532	10	1,002	371,540
	<u>6,198,842</u>	<u>13,922</u>	<u>4,525</u>	<u>6,208,239</u>
GSE commercial mortgage-backed securities	3,596,627	766	92,441	3,504,952
Total	\$ 9,795,469	\$ 14,688	\$ 96,966	\$ 9,713,191

Included in the tables above are GSE commercial mortgage-backed securities ("MBS") that were purchased but which had not yet settled as of September 30, 2016 and December 31, 2015. The aggregate amounts due of \$253,370,000 and \$164,889,000, respectively, are included in other liabilities on the statements of condition at those dates.

Other debentures are comprised of securities issued by the Private Export Funding Corporation ("PEFCO"). These debentures are fully secured by U.S. government-guaranteed obligations and the payment of interest on the debentures is guaranteed by an agency of the U.S. government. The amortized cost of the Bank's available-for-sale securities includes hedging adjustments.

The following table summarizes (in thousands, except number of positions) the available-for-sale securities with unrealized losses as of September 30, 2016. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous loss position.

	Less than 12 Months			12 Months or More			Total		
	Number of Positions	Estimated Fair Value	Gross Unrealized Losses	Number of Positions	Estimated Fair Value	Gross Unrealized Losses	Number of Positions	Estimated Fair Value	Gross Unrealized Losses
Debentures									
U.S. government-guaranteed obligations	1	\$ 34,094	\$ 507	2	\$ 58,280	\$ 997	3	\$ 92,374	\$ 1,504
GSE obligations	8	700,459	1,032	1	53,535	100	9	753,994	1,132
GSE commercial MBS	13	351,007	1,266	97	3,128,779	54,733	110	3,479,786	55,999
Total	22	\$ 1,085,560	\$ 2,805	100	\$3,240,594	\$ 55,830	122	\$4,326,154	\$ 58,635

The following table summarizes (in thousands, except number of positions) the available-for-sale securities with unrealized losses as of December 31, 2015. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous loss position.

	Less than 12 Months			12 Months or More			Total		
	Number of Positions	Estimated Fair Value	Gross Unrealized Losses	Number of Positions	Estimated Fair Value	Gross Unrealized Losses	Number of Positions	Estimated Fair Value	Gross Unrealized Losses
Debentures									
U.S. government-guaranteed obligations	7	\$ 229,793	\$ 1,748	—	\$ —	\$ —	7	\$ 229,793	\$ 1,748
GSE obligations	28	802,283	1,775	—	—	—	28	802,283	1,775
Other	22	279,138	522	8	48,567	480	30	327,705	1,002
GSE commercial MBS	80	2,401,148	63,602	29	849,297	28,839	109	3,250,445	92,441
Total	137	\$ 3,712,362	\$ 67,647	37	\$ 897,864	\$ 29,319	174	\$ 4,610,226	\$ 96,966

At September 30, 2016, the gross unrealized losses on the Bank's available-for-sale securities were \$58,635,000. All of the Bank's available-for-sale securities are either guaranteed by the U.S. government, issued by GSEs, or fully secured by collateral that is guaranteed by the U.S. government. As of September 30, 2016, the U.S. government and the issuers of the Bank's holdings of GSE debentures and GSE MBS were rated triple-A by Moody's Investors Service ("Moody's") and Fitch Ratings, Ltd. ("Fitch") and AA+ by S&P Global Ratings ("S&P"). The Bank's holdings of PEFCO debentures are rated triple-A by Moody's and Fitch, and are not rated by S&P. Based upon the Bank's assessment of the strength of the government guaranty, the Bank expects that the U.S. government-guaranteed debentures that were in an unrealized loss position at September 30, 2016 would not be settled at an amount less than the Bank's amortized cost bases in the investments. In addition, based upon the Bank's assessment of the creditworthiness of the issuers of the GSE debentures and the credit ratings assigned by each of the nationally recognized statistical rating organizations ("NRSROs"), the Bank expects that its holdings of GSE debentures that were in an unrealized loss position at September 30, 2016 would not be settled at an amount less than the Bank's amortized cost bases in these investments. Further, based upon the Bank's assessment of the strength of the GSEs' guarantees of the Bank's holdings of GSE commercial MBS and the credit ratings assigned by each of the NRSROs, the Bank expects that its holdings of GSE commercial MBS that were in an unrealized loss position at September 30, 2016 would not be settled at an amount less than the Bank's amortized cost bases in these investments. Because the current market value deficits associated with the Bank's available-for-sale securities are not attributable to credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, the Bank does not consider any of these investments to be other-than-temporarily impaired at September 30, 2016.

Redemption Terms. The amortized cost and estimated fair value of available-for-sale securities by contractual maturity at September 30, 2016 and December 31, 2015 are presented below (in thousands).

Maturity	September 30, 2016		December 31, 2015	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Debentures				
Due in one year or less	\$ 436,175	\$ 437,028	\$ 133,117	\$ 133,077
Due after one year through five years	2,519,757	2,534,800	3,637,966	3,643,909
Due after five years through ten years	4,402,345	4,427,341	2,313,112	2,316,854
Due after ten years	234,358	237,269	114,647	114,399
	7,592,635	7,636,438	6,198,842	6,208,239
GSE commercial MBS	5,760,187	5,721,383	3,596,627	3,504,952
Total	\$ 13,352,822	\$ 13,357,821	\$ 9,795,469	\$ 9,713,191

Interest Rate Payment Terms. The following table provides interest rate payment terms for investment securities classified as available-for-sale at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Amortized cost of available-for-sale securities other than MBS		
Fixed-rate	\$ 7,592,635	\$ 6,123,842
Variable-rate	—	75,000
	7,592,635	6,198,842
Amortized cost of fixed-rate multi-family MBS	5,760,187	3,596,627
Total	\$ 13,352,822	\$ 9,795,469

At September 30, 2016 and December 31, 2015, substantially all of the Bank's fixed-rate available-for-sale securities were swapped to a variable rate.

Sales of Securities. During the three and nine months ended September 30, 2016, the Bank sold available-for-sale securities with an amortized cost (determined by the specific identification method) of \$200,214,000 and \$2,650,291,000, respectively. Proceeds from the sales totaled \$201,103,000 and \$2,655,395,000, respectively, resulting in realized gains of \$889,000 and \$5,104,000, respectively. During the three and nine months ended September 30, 2015, the Bank sold available-for-sale securities with an amortized cost (determined by the specific identification method) of \$199,068,000 and \$736,992,000, respectively. Proceeds from the sales totaled \$200,525,000 and \$740,794,000, respectively, resulting in realized gains of \$1,457,000 and \$3,802,000, respectively.

Note 5—Held-to-Maturity Securities

Major Security Types. Held-to-maturity securities as of September 30, 2016 were as follows (in thousands):

	Amortized Cost	OTTI Recorded in Accumulated Other Comprehensive Income (Loss)	Carrying Value	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Estimated Fair Value
Debentures						
U.S. government-guaranteed obligations	\$ 16,658	\$ —	\$ 16,658	\$ 9	\$ 107	\$ 16,560
State housing agency obligations	110,000	—	110,000	51	—	110,051
	<u>126,658</u>	<u>—</u>	<u>126,658</u>	<u>60</u>	<u>107</u>	<u>126,611</u>
Mortgage-backed securities						
U.S. government-guaranteed residential MBS	3,330	—	3,330	1	2	3,329
GSE residential MBS	2,375,818	—	2,375,818	12,713	4,268	2,384,263
Non-agency residential MBS	121,154	18,161	102,993	13,301	2,381	113,913
GSE commercial MBS	61,813	—	61,813	—	416	61,397
	<u>2,562,115</u>	<u>18,161</u>	<u>2,543,954</u>	<u>26,015</u>	<u>7,067</u>	<u>2,562,902</u>
Total	\$ 2,688,773	\$ 18,161	\$ 2,670,612	\$ 26,075	\$ 7,174	\$ 2,689,513

Held-to-maturity securities as of December 31, 2015 were as follows (in thousands):

	Amortized Cost	OTTI Recorded in Accumulated Other Comprehensive Income (Loss)	Carrying Value	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Estimated Fair Value
Debentures						
U.S. government-guaranteed obligations	\$ 21,546	\$ —	\$ 21,546	\$ 15	\$ 151	\$ 21,410
State housing agency obligations	110,000	—	110,000	—	—	110,000
	<u>131,546</u>	<u>—</u>	<u>131,546</u>	<u>15</u>	<u>151</u>	<u>131,410</u>
Mortgage-backed securities						
U.S. government-guaranteed residential MBS	4,040	—	4,040	11	—	4,051
GSE residential MBS	2,909,065	—	2,909,065	22,457	766	2,930,756
Non-agency residential MBS	142,920	21,376	121,544	16,118	2,963	134,699
GSE commercial MBS	61,816	—	61,816	—	449	61,367
	<u>3,117,841</u>	<u>21,376</u>	<u>3,096,465</u>	<u>38,586</u>	<u>4,178</u>	<u>3,130,873</u>
Total	\$ 3,249,387	\$ 21,376	\$ 3,228,011	\$ 38,601	\$ 4,329	\$ 3,262,283

The following table summarizes (in thousands, except number of positions) the held-to-maturity securities with unrealized losses as of September 30, 2016. The unrealized losses include other-than-temporary impairments recorded in accumulated other comprehensive income (loss) ("AOCI") and gross unrecognized holding losses (or, in the case of the Bank's holdings of non-agency residential MBS, gross unrecognized holding gains) and are aggregated by major security type and length of time that individual securities have been in a continuous loss position.

	Less than 12 Months			12 Months or More			Total		
	Number of Positions	Estimated Fair Value	Gross Unrealized Losses	Number of Positions	Estimated Fair Value	Gross Unrealized Losses	Number of Positions	Estimated Fair Value	Gross Unrealized Losses
Debentures									
U.S. government-guaranteed obligations	3	\$ 12,358	\$ 107	—	\$ —	\$ —	3	\$ 12,358	\$ 107
Mortgage-backed securities									
U.S. government-guaranteed obligations	4	2,123	2	—	—	—	4	2,123	2
GSE residential MBS	56	1,089,422	3,934	5	69,373	334	61	1,158,795	4,268
Non-agency residential MBS	3	16,551	104	19	82,250	8,036	22	98,801	8,140
GSE commercial MBS	—	—	—	3	61,397	416	3	61,397	416
Total	66	\$ 1,120,454	\$ 4,147	27	\$ 213,020	\$ 8,786	93	\$ 1,333,474	\$ 12,933

The following table summarizes (in thousands, except number of positions) the held-to-maturity securities with unrealized losses as of December 31, 2015. The unrealized losses include other-than-temporary impairments recorded in AOCI and gross unrecognized holding losses (or, in the case of the Bank's holdings of non-agency residential MBS, gross unrecognized holding gains) and are aggregated by major security type and length of time that individual securities have been in a continuous loss position.

	Less than 12 Months			12 Months or More			Total		
	Number of Positions	Estimated Fair Value	Gross Unrealized Losses	Number of Positions	Estimated Fair Value	Gross Unrealized Losses	Number of Positions	Estimated Fair Value	Gross Unrealized Losses
Debentures									
U.S. government-guaranteed obligations	2	\$ 12,683	\$ 151	—	\$ —	\$ —	2	\$ 12,683	\$ 151
Mortgage-backed securities									
GSE residential MBS	19	503,000	697	1	44,782	69	20	547,782	766
Non-agency residential MBS	—	—	—	24	107,302	9,060	24	107,302	9,060
GSE commercial MBS	—	—	—	3	61,366	449	3	61,366	449
Total	21	\$ 515,683	\$ 848	28	\$ 213,450	\$ 9,578	49	\$ 729,133	\$ 10,426

At September 30, 2016, the gross unrealized losses on the Bank's held-to-maturity securities were \$12,933,000, of which \$8,140,000 were attributable to its holdings of non-agency (i.e., private-label) residential MBS and \$4,793,000 were attributable to securities that are either guaranteed by the U.S. government or issued and guaranteed by GSEs.

As of September 30, 2016, the U.S. government and the issuers of the Bank's holdings of GSE MBS were rated triple-A by Moody's and Fitch and AA+ by S&P. Based upon the Bank's assessment of the strength of the government guaranty, the Bank expects that the U.S. government-guaranteed debentures and its holdings of U.S. government-guaranteed MBS that were in an unrealized loss position at September 30, 2016 would not be settled at an amount less than the Bank's amortized cost bases in these investments. In addition, based upon the credit ratings assigned by the NRSROs and the Bank's assessment of the strength of the GSEs' guarantees of the Bank's holdings of GSE MBS, the Bank expects that its holdings of GSE MBS that were in an unrealized loss position at September 30, 2016 would not be settled at an amount less than the Bank's amortized cost bases in these investments. Because the current market value deficits associated with these securities are not attributable to credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, the Bank does not consider any of these investments to be other-than-temporarily impaired at September 30, 2016.

The deterioration in the U.S. housing markets that occurred primarily during the period from 2007 through 2011, as reflected during that period by declines in the values of residential real estate and higher levels of delinquencies, defaults and

losses on residential mortgages, including the mortgages underlying the Bank's non-agency residential MBS ("RMBS"), generally increased the risk that the Bank may not ultimately recover the entire cost bases of some of its non-agency RMBS. However, based upon its analysis of the securities in this portfolio, the Bank believes that the unrealized losses as of September 30, 2016 were principally the result of liquidity risk related discounts in the non-agency RMBS market and do not accurately reflect the currently likely future credit performance of the securities.

Because the ultimate receipt of contractual payments on the Bank's non-agency RMBS will depend upon the credit and prepayment performance of the underlying loans and the credit enhancements for the senior securities owned by the Bank, the Bank closely monitors these investments in an effort to determine whether the credit enhancement associated with each security is sufficient to protect against potential losses of principal and interest on the underlying mortgage loans. The credit enhancement for each of the Bank's non-agency RMBS is provided by a senior/subordinate structure, and none of the securities owned by the Bank are insured by third-party bond insurers. More specifically, each of the Bank's non-agency RMBS represents a single security class within a securitization that has multiple classes of securities. Each security class has a distinct claim on the cash flows from the underlying mortgage loans, with the subordinate securities having a junior claim relative to the more senior securities. The Bank's non-agency RMBS have a senior claim on the cash flows from the underlying mortgage loans.

To assess whether the entire amortized cost bases of its 24 non-agency RMBS holdings are likely to be recovered, the Bank performed a cash flow analysis for each security as of September 30, 2016 using 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 and interest rates, to project prepayments, defaults 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"), which are based upon an assessment of the individual housing markets. (The term "CBSA" refers collectively to metropolitan and micropolitan statistical areas as defined by the U.S. 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, 2016 assumed changes in home prices ranging from declines of 1 percent to increases of 10 percent over the 12-month period beginning July 1, 2016. For the vast majority of markets, the changes were projected to range from increases of 3 percent to 6 percent. Thereafter, home price changes for each market were projected to return (at varying rates and over varying transition periods based on historical housing price patterns) to their long-term historical equilibrium levels. Following these transition periods, the constant long-term annual rates of appreciation for the vast majority of markets were projected to range between 2 percent and 5 percent.

The month-by-month projections of future loan performance derived from the first model, which reflect projected prepayments, defaults 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 the securitization structure in accordance with its prescribed cash flow and loss allocation rules. In a securitization in which the credit enhancement for the senior securities is derived from the presence of subordinate securities, losses are generally allocated first to the subordinate securities until their principal balance is reduced to zero.

Based on the results of its cash flow analyses, the Bank determined it was not likely that it would fully recover the remaining amortized cost basis of one of its previously other-than-temporarily impaired non-agency RMBS and, accordingly, this security was deemed to be other-than-temporarily impaired as of September 30, 2016. The difference between the present value of the cash flows expected to be collected from this security and its amortized cost basis (i.e., the credit loss) totaled \$8,000 at September 30, 2016. Because the Bank does not intend to sell the investment and it is not more likely than not that the Bank will be required to sell the investment before recovery of its remaining amortized cost basis, only the amount related to the credit loss was recognized in earnings. The credit loss associated with this security was reclassified from AOCI to earnings during the three months ended September 30, 2016 as the estimated fair value of the security was greater than its carrying value at that date. None of the Bank's other non-agency RMBS were deemed to be other-than-temporarily impaired at September 30, 2016.

For the security for which an other-than-temporary impairment was determined to have occurred as of September 30, 2016, the following table presents a summary of the significant inputs used to measure the amount of the credit loss recognized in earnings (dollars in thousands):

Year of Securitization	Collateral Type ⁽¹⁾	Unpaid Principal Balance as of September 30, 2016	Significant Inputs ⁽²⁾			Current Credit Enhancement as of September 30, 2016 ⁽³⁾
			Projected Prepayment Rate	Projected Default Rate	Projected Loss Severity	
2005	Alt-A/Option ARM	\$ 9,845	8.5%	17.6%	35.4%	31.3%

⁽¹⁾ Although the other-than-temporarily impaired security was not labeled as Alt-A at the time of issuance, based upon its current collateral and performance characteristics, it was analyzed using Alt-A assumptions.

⁽²⁾ The prepayment rate reflects the weighted average of projected future voluntary prepayments. The default rate reflects the total balance of loans projected to default as a percentage of the current unpaid principal balance of the underlying loan pool. The loss severity reflects the total projected loan losses as a percentage of the total balance of loans that are projected to default.

⁽³⁾ The current credit enhancement percentage reflects the ability of subordinated classes of securities to absorb principal losses and interest shortfalls before the senior class held by the Bank is impacted (i.e., the losses, expressed as a percentage of the outstanding principal balances, that could be incurred in the underlying loan pool before the security held by the Bank would be impacted, assuming that all of those losses occurred on the measurement date). Depending upon the timing and amount of losses in the underlying loan pool, it is possible that the senior class held by the Bank could bear losses in scenarios where the cumulative loan losses do not exceed the current credit enhancement percentage.

In addition to the security that was determined to be other-than-temporarily impaired at September 30, 2016, 14 of the Bank's holdings of non-agency RMBS were determined to be other-than-temporarily impaired in periods prior to 2013. The following table presents a rollforward for the three and nine months ended September 30, 2016 and 2015 of the amount related to credit losses on the Bank's non-agency RMBS holdings for which a portion of an other-than-temporary impairment was recognized in other comprehensive income (loss) (in thousands).

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Balance of credit losses, beginning of period	\$ 11,120	\$ 12,100	\$ 11,696	\$ 12,512
Credit losses on securities for which an other-than-temporary impairment was previously recognized	8	3	20	28
Increases in cash flows expected to be collected (accrued as interest income over the remaining lives of the applicable securities)	(313)	(213)	(901)	(650)
Balance of credit losses, end of period	10,815	11,890	10,815	11,890
Cumulative principal shortfalls on securities held at end of period	(1,865)	(1,602)	(1,865)	(1,602)
Cumulative amortization of the time value of credit losses at end of period	418	335	418	335
Credit losses included in the amortized cost bases of other-than-temporarily impaired securities at end of period	\$ 9,368	\$ 10,623	\$ 9,368	\$ 10,623

Redemption Terms. The amortized cost, carrying value and estimated fair value of held-to-maturity securities by contractual maturity at September 30, 2016 and December 31, 2015 are presented below (in thousands). The expected maturities of some debentures could differ from the contractual maturities presented because issuers may have the right to call such debentures prior to their final stated maturities.

Maturity	September 30, 2016			December 31, 2015		
	Amortized Cost	Carrying Value	Estimated Fair Value	Amortized Cost	Carrying Value	Estimated Fair Value
Debentures						
Due in one year or less	\$ 1,106	\$ 1,106	\$ 1,107	\$ —	\$ —	\$ —
Due after one year through five years	4,087	4,087	4,093	8,712	8,712	8,727
Due after five years through ten years	11,465	11,465	11,360	12,834	12,834	12,683
Due after ten years	110,000	110,000	110,051	110,000	110,000	110,000
	126,658	126,658	126,611	131,546	131,546	131,410
Mortgage-backed securities	2,562,115	2,543,954	2,562,902	3,117,841	3,096,465	3,130,873
Total	\$2,688,773	\$2,670,612	\$2,689,513	\$3,249,387	\$3,228,011	\$3,262,283

The amortized cost of the Bank's mortgage-backed securities classified as held-to-maturity includes net purchase discounts of \$10,262,000 and \$13,139,000 at September 30, 2016 and December 31, 2015, respectively.

Interest Rate Payment Terms. The following table provides interest rate payment terms for investment securities classified as held-to-maturity at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Amortized cost of variable-rate held-to-maturity securities other than MBS	\$ 126,658	\$ 131,546
Amortized cost of held-to-maturity MBS		
Fixed-rate pass-through securities	155	228
Collateralized mortgage obligations		
Fixed-rate	336	453
Variable-rate	2,499,811	3,055,344
Variable-rate multi-family MBS	61,813	61,816
	<u>2,562,115</u>	<u>3,117,841</u>
Total	<u>\$ 2,688,773</u>	<u>\$ 3,249,387</u>

All of the Bank's variable-rate collateralized mortgage obligations classified as held-to-maturity securities have coupon rates that are subject to interest rate caps, none of which were reached during 2015 or the nine months ended September 30, 2016.

Sales of Securities. During the three and nine months ended September 30, 2016, the Bank sold held-to-maturity securities with an amortized cost (determined by the specific identification method) of \$14,842,000 and \$129,063,000, respectively. Proceeds from the sales totaled \$14,907,000 and \$129,857,000, respectively, resulting in realized gains of \$65,000 and \$794,000, respectively. During the three and nine months ended September 30, 2015, the Bank sold held-to-maturity securities with an amortized cost (determined by the specific identification method) of \$159,952,000 and \$748,390,000, respectively. Proceeds from these sales totaled \$163,249,000 and \$761,800,000, respectively, resulting in realized gains of \$3,297,000 and \$13,410,000, respectively. For each of these securities, the Bank had previously collected at least 85 percent of the principal outstanding at the time of acquisition. As such, the sales were considered maturities for purposes of security classification.

Note 6—Advances

Redemption Terms. At September 30, 2016 and December 31, 2015, the Bank had advances outstanding at interest rates ranging from 0.25 percent to 8.27 percent and from 0.21 percent to 8.27 percent, respectively, as summarized below (dollars in thousands).

Contractual Maturity	September 30, 2016		December 31, 2015	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Due in one year or less	\$ 13,945,641	0.60%	\$ 12,431,831	0.44%
Due after one year through two years	7,930,825	0.80	5,886,049	0.77
Due after two years through three years	1,254,384	1.66	1,375,560	2.11
Due after three years through four years	775,799	2.20	613,243	2.01
Due after four years through five years	1,206,218	1.18	1,129,859	1.53
Due after five years	5,092,211	0.72	1,732,577	1.44
Amortizing advances	1,497,676	2.81	1,480,532	3.15
Total par value	<u>31,702,754</u>	0.88%	<u>24,649,651</u>	0.93%
Premiums	55		22	
Deferred net prepayment fees	(13,834)		(16,113)	
Commitment fees	(125)		(131)	
Hedging adjustments	<u>132,985</u>		<u>113,373</u>	
Total	<u>\$ 31,821,835</u>		<u>\$ 24,746,802</u>	

Amortizing advances require repayment according to predetermined amortization schedules.

The Bank offers advances to members that may be prepaid on specified dates without the member incurring prepayment or termination fees (prepayable and callable advances). The prepayment of other advances requires the payment of a fee to the Bank (prepayment fee) if necessary to make the Bank financially indifferent to the prepayment of the advance. At September 30, 2016 and December 31, 2015, the Bank had aggregate prepayable and callable advances totaling \$12,475,424,000 and \$5,895,751,000, respectively.

The following table summarizes advances outstanding at September 30, 2016 and December 31, 2015, by the earlier of contractual maturity or next call date, or the first date on which prepayable advances can be repaid without a prepayment fee (in thousands):

Contractual Maturity or Next Call Date	September 30, 2016	December 31, 2015
Due in one year or less	\$ 24,769,458	\$ 18,135,949
Due after one year through two years	2,430,033	1,727,927
Due after two years through three years	1,207,784	1,375,559
Due after three years through four years	695,999	605,243
Due after four years through five years	534,968	613,459
Due after five years	566,836	710,982
Amortizing advances	<u>1,497,676</u>	<u>1,480,532</u>
Total par value	<u>\$ 31,702,754</u>	<u>\$ 24,649,651</u>

The Bank also offers putable advances. With a putable advance, the Bank purchases a put option from the member that allows the Bank to terminate the fixed-rate advance on specified dates and offer, subject to certain conditions, replacement funding at prevailing market rates. At September 30, 2016 and December 31, 2015, the Bank had putable advances outstanding totaling \$1,053,071,000 and \$1,097,071,000, respectively.

The following table summarizes advances outstanding at September 30, 2016 and December 31, 2015, by the earlier of contractual maturity or next possible put date (in thousands):

Contractual Maturity or Next Put Date	September 30, 2016	December 31, 2015
Due in one year or less	\$ 14,919,091	\$ 13,523,902
Due after one year through two years	7,206,875	5,489,429
Due after two years through three years	1,004,884	715,109
Due after three years through four years	775,799	578,243
Due after four years through five years	1,206,218	1,129,859
Due after five years	5,092,211	1,732,577
Amortizing advances	1,497,676	1,480,532
Total par value	<u>\$ 31,702,754</u>	<u>\$ 24,649,651</u>

Interest Rate Payment Terms. The following table provides interest rate payment terms for advances outstanding at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Fixed-rate		
Due in one year or less	\$ 12,415,365	\$ 12,236,879
Due after one year	6,603,002	6,463,464
Total fixed-rate	<u>19,018,367</u>	<u>18,700,343</u>
Variable-rate		
Due in one year or less	1,613,783	208,590
Due after one year	11,070,604	5,740,718
Total variable-rate	<u>12,684,387</u>	<u>5,949,308</u>
Total par value	<u>\$ 31,702,754</u>	<u>\$ 24,649,651</u>

At September 30, 2016 and December 31, 2015, 27 percent and 26 percent, respectively, of the Bank's fixed-rate advances were swapped to a variable rate.

Prepayment Fees. When a member/borrower prepays an advance, the Bank could suffer lower future income if the principal portion of the prepaid advance is reinvested in lower-yielding assets. To protect against this risk, the Bank generally charges a prepayment fee that makes it financially indifferent to a borrower's decision to prepay an advance. The Bank records prepayment fees received from members/borrowers on prepaid advances net of any associated hedging adjustments on those advances. These fees are reflected as interest income in the statements of income either immediately (as prepayment fees on advances) or over time (as interest income on advances) as further described below. In cases in which the Bank funds a new advance concurrent with or within a short period of time before or after the prepayment of an existing advance and the advance meets the accounting criteria to qualify as a modification of the prepaid advance, the net prepayment fee on the prepaid advance is deferred, recorded in the basis of the modified advance, and amortized into interest income on advances over the life of the modified advance using the level-yield method. During the three months ended September 30, 2016 and 2015, gross advance prepayment fees received from members/borrowers were \$4,878,000 and \$4,054,000, respectively, of which \$172,000 and \$1,909,000, respectively, were deferred. During the nine months ended September 30, 2016 and 2015, gross advance prepayment fees received from members/borrowers were \$7,613,000 and \$18,583,000, respectively, of which \$456,000 and \$6,398,000, respectively, were deferred.

Note 7—Allowance for Credit Losses

An allowance for credit losses is separately established for each of the Bank's identified portfolio segments, if necessary, to provide for probable losses inherent in its financing receivables portfolio and other off-balance sheet credit exposures as of the balance sheet date. To the extent necessary, an allowance for credit losses for off-balance sheet credit exposures is recorded as a liability.

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. The Bank has developed and documented a systematic methodology for determining an allowance for credit losses for the following portfolio segments: (1) advances and other extensions of credit to members/

borrowers, collectively referred to as “extensions of credit to members”; (2) government-guaranteed/insured mortgage loans held for portfolio; and (3) conventional mortgage loans held for portfolio.

Classes of financing receivables are generally a disaggregation of a portfolio segment and are determined on the basis of their initial measurement attribute, the risk characteristics of the financing receivable and an entity’s method for monitoring and assessing credit risk. Because the credit risk arising from the Bank’s financing receivables is assessed and measured at the portfolio segment level, the Bank does not have separate classes of financing receivables within each of its portfolio segments.

During the nine months ended September 30, 2016 and 2015, there were no significant purchases or sales of financing receivables, nor were any financing receivables reclassified to held for sale.

Advances and Other Extensions of Credit to Members. In accordance with federal statutes, including the Federal Home Loan Bank Act of 1932, as amended (the “FHLB Act”), the Bank lends to financial institutions within its five-state district that are involved in housing finance. The FHLB Act requires the Bank to obtain and maintain sufficient collateral for advances and other extensions of credit to protect against losses. The Bank makes advances and otherwise extends credit only against eligible collateral, as defined by regulation. To ensure the value of collateral pledged to the Bank is sufficient to secure its advances and other extensions of credit, the Bank applies various haircuts, or discounts, to the collateral to determine the value against which borrowers may borrow. As additional security, the Bank has a statutory lien on each borrower’s capital stock in the Bank.

On at least a quarterly basis, the Bank evaluates all outstanding extensions of credit to members/borrowers for potential credit losses. These evaluations include a review of: (1) the amount, type and performance of collateral available to secure the outstanding obligations; (2) metrics that may be indicative of changes in the financial condition and general creditworthiness of the member/borrower; and (3) the payment status of the obligations. Any outstanding extensions of credit that exhibit a potential credit weakness that could jeopardize the full collection of the outstanding obligations would be classified as substandard, doubtful or loss. The Bank did not have any advances or other extensions of credit to members/borrowers that were classified as substandard, doubtful or loss at September 30, 2016 or December 31, 2015.

The Bank considers the amount, type and performance of collateral to be the primary indicator of credit quality with respect to its extensions of credit to members/borrowers. At September 30, 2016 and December 31, 2015, the Bank had rights to collateral on a borrower-by-borrower basis with an estimated value in excess of each borrower’s outstanding extensions of credit.

The Bank continues to evaluate and, as necessary, modify its credit extension and collateral policies based on market conditions. At September 30, 2016 and December 31, 2015, the Bank did not have any advances that were past due, on nonaccrual status, or considered impaired. There have been no troubled debt restructurings related to advances.

The Bank has never experienced a credit loss on an advance or any other extension of credit to a member/borrower and, based on its credit extension and collateral policies, management currently does not anticipate any credit losses on its extensions of credit to members/borrowers. Accordingly, the Bank has not provided any allowance for credit losses on advances, nor has it recorded any liabilities to reflect an allowance for credit losses related to its off-balance sheet credit exposures.

Mortgage Loans — Government-guaranteed/Insured. The Bank’s government-guaranteed/insured fixed-rate mortgage loans are insured or guaranteed by the Federal Housing Administration or the Department of Veterans Affairs. Any losses from these loans are expected to be recovered from those entities. Any losses from these loans that are not recovered from those entities are absorbed by the servicers. Therefore, the Bank has not established an allowance for credit losses on government-guaranteed/insured mortgage loans. Government-guaranteed/insured loans are not placed on nonaccrual status.

Mortgage Loans — Conventional Mortgage Loans. The Bank’s conventional mortgage loans have been acquired through the Mortgage Partnership Finance[®] (“MPF[®]”) program, as more fully described in the Bank’s 2015 10-K. The allowance for losses on conventional mortgage loans is determined by an analysis that includes consideration of various data such as past performance, current performance, loan portfolio characteristics, collateral-related characteristics, and prevailing economic conditions. The allowance for losses on conventional mortgage loans also factors in the credit enhancement under the MPF program. Any incurred losses that are expected to be recovered from the credit enhancements are not reserved as part of the Bank’s allowance for loan losses.

The Bank places a conventional mortgage loan on nonaccrual status when the collection of the contractual principal or interest is 90 days or more past due. When a 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 until it recovers all interest, and then as a reduction of principal. A loan on nonaccrual status is restored to accrual status when none of its contractual principal and interest is due and unpaid, and the Bank expects repayment of the remaining contractual interest and principal.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Collateral-dependent loans that are on nonaccrual status are measured for impairment based on the fair value of the underlying property less estimated selling costs. Loans are considered collateral-dependent if repayment is expected to be provided solely by the sale of the underlying property; that is, there is no other available and reliable source of repayment. A collateral-dependent loan is impaired if the fair value of the underlying collateral is insufficient to recover the unpaid principal and interest on the loan. Interest income on impaired loans is recognized in the same manner as it is for nonaccrual loans noted above.

The Bank evaluates whether to record a charge-off on a conventional mortgage loan when the loan becomes 180 days or more past due or upon the occurrence of a confirming event, whichever occurs first. Confirming events include, but are not limited to, the occurrence of foreclosure or notification of a claim against any of the credit enhancements. A charge-off is recorded if the recorded investment in the loan will not be recovered.

The Bank considers the key credit quality indicator for conventional mortgage loans to be the payment status of each loan. The table below summarizes the recorded investment by payment status for mortgage loans at September 30, 2016 and December 31, 2015 (dollars in thousands).

	September 30, 2016			December 31, 2015		
	Conventional Loans	Government-Guaranteed/Insured Loans	Total	Conventional Loans	Government-Guaranteed/Insured Loans	Total
Mortgage loans:						
30-59 days delinquent	\$ 741	\$ 1,287	\$ 2,028	\$ 920	\$ 1,180	\$ 2,100
60-89 days delinquent	123	141	264	348	337	685
90 days or more delinquent	289	68	357	387	202	589
Total past due	1,153	1,496	2,649	1,655	1,719	3,374
Total current loans	44,418	23,410	67,828	23,844	28,340	52,184
Total mortgage loans	\$ 45,571	\$ 24,906	\$ 70,477	\$ 25,499	\$ 30,059	\$ 55,558
Other delinquency statistics:						
In process of foreclosure ⁽¹⁾	\$ 31	\$ 28	\$ 59	\$ 329	\$ 77	\$ 406
Serious delinquency rate ⁽²⁾	0.6%	0.3%	0.5%	1.5%	0.7%	1.1%
Past due 90 days or more and still accruing interest ⁽³⁾	\$ —	\$ 68	\$ 68	\$ —	\$ 202	\$ 202
Nonaccrual loans	\$ 289	\$ —	\$ 289	\$ 387	\$ —	\$ 387
Troubled debt restructurings	\$ 20	\$ —	\$ 20	\$ 118	\$ —	\$ 118

⁽¹⁾ Includes loans where the decision of foreclosure or similar alternative such as pursuit of deed-in-lieu has been made.

⁽²⁾ Loans that are 90 days or more past due or in the process of foreclosure expressed as a percentage of the loan portfolio.

⁽³⁾ Only government-guaranteed/insured mortgage loans continue to accrue interest after they become 90 days or more past due.

At September 30, 2016 and December 31, 2015, the Bank's other assets included \$85,000 and \$49,000, respectively, of real estate owned.

Mortgage loans are considered impaired when, based upon current information and events, it is probable that the Bank will be unable to collect all principal and interest amounts due according to the contractual terms of the mortgage loan agreement. Each nonaccrual mortgage loan and each troubled debt restructuring is specifically reviewed for impairment. At September 30, 2016 and December 31, 2015, the estimated value of the collateral securing each of these loans, plus the estimated amount that can be recovered through credit enhancements and mortgage insurance, if any, exceeded the outstanding loan amount. Therefore, no specific reserve was established for any of these mortgage loans. The remaining conventional mortgage loans were evaluated for impairment on a pool basis. Based upon the current and past performance of these loans and current economic conditions, the Bank determined that an allowance for loan losses of \$141,000 was adequate to reserve for credit losses in its conventional mortgage loan portfolio at September 30, 2016.

The following table presents the activity in the allowance for credit losses on conventional mortgage loans held for portfolio during the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$ 141	\$ 141	\$ 141	\$ 143
Chargeoffs	—	—	—	(2)
Balance, end of period	\$ 141	\$ 141	\$ 141	\$ 141

The following table presents information regarding the balances of the Bank's conventional mortgage loans held for portfolio that were individually or collectively evaluated for impairment as well as information regarding the ending balance of the allowance for credit losses as of September 30, 2016 and December 31, 2015 (in thousands).

	September 30, 2016	December 31, 2015
Ending balance of allowance for credit losses related to loans collectively evaluated for impairment	\$ 141	\$ 141
Recorded investment		
Individually evaluated for impairment	\$ 309	\$ 407
Collectively evaluated for impairment	45,262	25,092
	\$ 45,571	\$ 25,499

Note 8—Consolidated Obligations

Consolidated obligations are the joint and several obligations of the FHLBanks and consist of consolidated obligation bonds and discount notes. Consolidated obligations are backed only by the financial resources of the 11 FHLBanks. Consolidated obligations are not obligations of, nor are they guaranteed by, the U.S. government. The FHLBanks issue consolidated obligations through the Office of Finance as their agent. In connection with each debt issuance, one or more of the FHLBanks specifies the amount of debt it wants issued on its behalf; the Bank receives the proceeds of only the debt issued on its behalf and records on its statements of condition only that portion of the consolidated obligations for which it has received the proceeds. Consolidated obligation bonds are issued primarily to raise intermediate- and long-term funds for the FHLBanks and are not subject to any statutory or regulatory limits on maturity. Consolidated obligation discount notes are issued to raise short-term funds and have maturities of one year or less. These notes are generally issued at a price that is less than their face amount and are redeemed at par value when they mature. For additional information regarding the FHLBanks' joint and several liability on consolidated obligations, see Note 15.

The par amounts of the 11 FHLBanks' outstanding consolidated obligations, including consolidated obligations held as investments by other FHLBanks, were approximately \$968 billion and \$905 billion at September 30, 2016 and December 31, 2015, respectively. The Bank was the primary obligor on \$54.2 billion and \$38.6 billion (at par value), respectively, of these consolidated obligations.

Interest Rate Payment Terms. The following table summarizes the Bank's consolidated obligation bonds outstanding by interest rate payment terms at September 30, 2016 and December 31, 2015 (in thousands, at par value).

	September 30, 2016	December 31, 2015
Fixed-rate	\$ 12,114,505	\$ 11,759,035
Variable-rate	8,451,000	3,625,000
Step-up	2,454,500	2,510,000
Step-down	100,000	150,000
Total par value	\$ 23,120,005	\$ 18,044,035

At September 30, 2016 and December 31, 2015, 93 percent and 90 percent, respectively, of the Bank's fixed-rate consolidated obligation bonds were swapped to a variable rate.

Redemption Terms. The following is a summary of the Bank's consolidated obligation bonds outstanding at September 30, 2016 and December 31, 2015, by contractual maturity (dollars in thousands):

Contractual Maturity	September 30, 2016		December 31, 2015	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Due in one year or less	\$ 11,694,135	0.63%	\$ 5,811,410	0.75%
Due after one year through two years	6,462,980	1.03	5,383,590	0.77
Due after two years through three years	1,624,205	1.23	3,313,585	1.54
Due after three years through four years	750,385	1.62	585,180	1.41
Due after four years through five years	998,800	1.23	1,275,000	1.56
Due after five years	1,589,500	1.97	1,675,270	2.00
Total par value	23,120,005	0.93%	18,044,035	1.09%
Premiums	11,866		11,612	
Discounts	(1,732)		(2,708)	
Debt issuance costs	(1,319)		(1,267)	
Hedging adjustments	(6,395)		(26,980)	
Total	<u>\$ 23,122,425</u>		<u>\$ 18,024,692</u>	

At September 30, 2016 and December 31, 2015, the Bank's consolidated obligation bonds outstanding included the following (in thousands, at par value):

	September 30, 2016	December 31, 2015
Non-callable bonds	\$ 18,673,505	\$ 12,868,765
Callable bonds	4,446,500	5,175,270
Total par value	<u>\$ 23,120,005</u>	<u>\$ 18,044,035</u>

The following table summarizes the Bank's consolidated obligation bonds outstanding at September 30, 2016 and December 31, 2015, by the earlier of contractual maturity or next possible call date (in thousands, at par value):

Contractual Maturity or Next Call Date	September 30, 2016	December 31, 2015
Due in one year or less	\$ 15,535,635	\$ 10,774,680
Due after one year through two years	5,959,980	4,888,590
Due after two years through three years	1,109,205	2,005,585
Due after three years through four years	500,385	245,180
Due after four years through five years	11,800	130,000
Due after five years	3,000	—
Total par value	<u>\$ 23,120,005</u>	<u>\$ 18,044,035</u>

Discount Notes. At September 30, 2016 and December 31, 2015, the Bank's consolidated obligation discount notes, all of which are due within one year, were as follows (dollars in thousands):

	Book Value	Par Value	Weighted Average Implied Interest Rate
September 30, 2016	<u>\$ 31,099,645</u>	<u>\$ 31,120,716</u>	<u>0.37%</u>
December 31, 2015	<u>\$ 20,541,329</u>	<u>\$ 20,544,821</u>	<u>0.18%</u>

Note 9—Affordable Housing Program (“AHP”)

The following table summarizes the changes in the Bank’s AHP liability during the nine months ended September 30, 2016 and 2015 (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Balance, beginning of period	\$ 22,710	\$ 25,998
AHP assessment	5,625	5,836
Grants funded, net of recaptured amounts	(6,112)	(9,020)
Balance, end of period	<u>\$ 22,223</u>	<u>\$ 22,814</u>

Note 10—Assets and Liabilities Subject to Offsetting

The Bank has derivatives and securities purchased under agreements to resell that are subject to enforceable master netting agreements or similar arrangements. For purposes of reporting derivative assets and derivative liabilities, the Bank offsets the fair value amounts recognized for derivative instruments (including the right to reclaim cash collateral and the obligation to return cash collateral) where a legally enforceable right of setoff exists. The Bank did not have any liabilities that were eligible to offset its securities purchased under agreements to resell (i.e., securities sold under agreements to repurchase) as of September 30, 2016 or December 31, 2015.

The Bank's derivative transactions are executed either bilaterally or, if required, cleared through a third-party central clearinghouse. The Bank has entered into master agreements with each of its bilateral derivative counterparties that provide for the netting of all transactions with each of these counterparties. Under its master agreements with its non-member bilateral derivative counterparties, collateral is delivered (or returned) daily when certain thresholds (ranging from \$100,000 to \$500,000) are met. The Bank offsets the fair value amounts recognized for bilaterally traded derivatives executed with the same counterparty, including any cash collateral remitted to or received from the counterparty. When entering into derivative transactions with its members, the Bank requires the member to post eligible collateral in an amount equal to the sum of the net market value of the member’s derivative transactions with the Bank (if the value is positive to the Bank) plus a percentage of the notional amount of any interest rate swaps, with market values determined on at least a monthly basis. Eligible collateral for derivative transactions with members consists of collateral that is eligible to secure advances and other obligations under the member's Advances and Security Agreement with the Bank. The Bank is not required to pledge collateral to its members to secure derivative positions. For cleared derivatives, all transactions with each clearing member of each clearinghouse are netted pursuant to legally enforceable setoff rights. Cleared derivatives are subject to initial and variation margin requirements established by the clearinghouse and its clearing members. Collateral associated with cleared derivatives (i.e., initial and variation margin) is typically delivered (or returned) daily and is not subject to any maximum unsecured thresholds. The Bank offsets the fair value amounts recognized for cleared derivatives transacted with each clearing member of each clearinghouse, including cash collateral pledged or received.

The following table presents derivative instruments and securities purchased under agreements to resell with the legal right of offset, including the related collateral received from or pledged to counterparties as of September 30, 2016 and December 31, 2015 (in thousands).

	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Condition	Net Amounts Presented in the Statement of Condition	Collateral Not Offset in the Statement of Condition ⁽¹⁾	Net Unsecured Amount
September 30, 2016					
Assets					
Derivatives					
Bilateral derivatives	\$ 24,470	\$ (4,598)	\$ 19,872	\$ (17,937) ⁽²⁾	\$ 1,935
Cleared derivatives	36,521	23,095	59,616	—	59,616
Total derivatives	60,991	18,497	79,488	(17,937)	61,551
Securities purchased under agreements to resell	3,250,000	—	3,250,000	(3,250,000)	—
Total assets	\$ 3,310,991	\$ 18,497	\$ 3,329,488	\$ (3,267,937)	\$ 61,551
Liabilities					
Derivatives					
Bilateral derivatives	\$ 259,533	\$ (249,580)	\$ 9,953	\$ —	\$ 9,953
Cleared derivatives	736,244	(736,244)	—	— ⁽⁴⁾	—
Total liabilities	\$ 995,777	\$ (985,824)	\$ 9,953	\$ —	\$ 9,953
December 31, 2015					
Assets					
Derivatives					
Bilateral derivatives	\$ 25,809	\$ (8,110)	\$ 17,699	\$ (13,214) ⁽³⁾	\$ 4,485
Cleared derivatives	25,962	(20,581)	5,381	—	5,381
Total derivatives	51,771	(28,691)	23,080	(13,214)	9,866
Securities purchased under agreements to resell	1,000,000	—	1,000,000	(1,000,000)	—
Total assets	\$ 1,051,771	\$ (28,691)	\$ 1,023,080	\$ (1,013,214)	\$ 9,866
Liabilities					
Derivatives					
Bilateral derivatives	\$ 300,494	\$ (293,530)	\$ 6,964	\$ —	\$ 6,964
Cleared derivatives	257,480	(257,480)	—	— ⁽⁴⁾	—
Total liabilities	\$ 557,974	\$ (551,010)	\$ 6,964	\$ —	\$ 6,964

⁽¹⁾ Any overcollateralization at an individual clearinghouse/clearing member or bilateral counterparty level is not included in the determination of the net unsecured amount.

⁽²⁾ Consists of \$17,670,000 of collateral pledged by member counterparties and \$267,000 of securities pledged by non-member counterparties.

⁽³⁾ Consists of collateral pledged by member counterparties.

⁽⁴⁾ The Bank had pledged securities with an aggregate fair value of \$640,563,000 and \$300,184,000 at September 30, 2016 and December 31, 2015, respectively, to further secure its cleared derivatives, which is a result of the initial margin requirements imposed upon the Bank.

Note 11—Derivatives and Hedging Activities

Hedging Activities. As a financial intermediary, the Bank is exposed to interest rate risk. This risk arises from a variety of financial instruments that the Bank enters into on a regular basis in the normal course of its business. The Bank enters into interest rate swap, swaption, cap and forward rate agreements (collectively, interest rate exchange agreements) to manage its exposure to changes in interest rates. The Bank may use these instruments to adjust the effective maturity, repricing frequency, or option characteristics of financial instruments to achieve risk management objectives. In addition, the Bank may use these instruments to hedge the variable cash flows associated with forecasted transactions. The Bank has not entered into any credit default swaps or foreign exchange-related derivatives and, as of September 30, 2016, it was not a party to any forward rate agreements.

The Bank uses interest rate exchange agreements in three ways: (1) by designating the agreement as a fair value hedge of a specific financial instrument or firm commitment; (2) by designating the agreement as a cash flow hedge of a forecasted transaction; or (3) by designating the agreement as a hedge of some other defined risk (referred to as an “economic hedge”). For example, the Bank uses interest rate exchange agreements in its overall interest rate risk management activities to adjust the interest rate sensitivity of consolidated obligations to approximate more closely the interest rate sensitivity of its assets (both advances and investments), and/or to adjust the interest rate sensitivity of advances or investments to approximate more closely the interest rate sensitivity of its liabilities. In addition to using interest rate exchange agreements to manage mismatches between the coupon features of its assets and liabilities, the Bank also uses interest rate exchange agreements to, among other things, manage embedded options in assets and liabilities, to preserve the market value of existing assets and liabilities, to hedge the duration risk of prepayable instruments, to hedge the variable cash flows associated with forecasted transactions, to offset interest rate exchange agreements entered into with members (the Bank serves as an intermediary in these transactions), and to reduce funding costs.

The Bank, consistent with Finance Agency regulations, enters into interest rate exchange agreements only to reduce potential market risk exposures inherent in otherwise unhedged assets and liabilities or anticipated transactions, or to act as an intermediary between its members and the Bank’s non-member derivative counterparties. The Bank is not a derivatives dealer and it does not trade derivatives for short-term profit.

At inception, the Bank formally documents the relationships between derivatives designated as hedging instruments and their hedged items, its risk management objectives and strategies for undertaking the hedge transactions, and its method for assessing the effectiveness of the hedging relationships. For fair value hedges, this process includes linking the derivatives to: (1) specific assets and liabilities on the statements of condition or (2) firm commitments. For cash flow hedges, this process includes linking the derivatives to forecasted transactions. The Bank also formally assesses (both at the inception of the hedging relationship and on a monthly basis thereafter) whether the derivatives that are used in hedging transactions have been effective in offsetting changes in the fair value of hedged items or the cash flows associated with forecasted transactions and whether those derivatives may be expected to remain effective in future periods. The Bank uses regression analyses to assess the effectiveness of its hedges.

Investments — The Bank has invested in agency and non-agency MBS. The interest rate and prepayment risk associated with these investment securities is managed through consolidated obligations and/or derivatives. The Bank may manage prepayment and duration risk presented by some investment securities with either callable or non-callable consolidated obligations or interest rate exchange agreements, including caps and interest rate swaps.

A substantial portion of the Bank’s held-to-maturity securities are variable-rate MBS that include caps that would limit the variable-rate coupons if short-term interest rates rise dramatically. To hedge a portion of the potential cap risk embedded in these securities, the Bank has entered into interest rate cap agreements. These derivatives are treated as economic hedges.

Substantially all of the Bank’s available-for-sale securities are fixed-rate agency and other highly rated debentures and agency commercial MBS. To hedge the interest rate risk associated with these fixed-rate investment securities, the Bank has entered into fixed-for-floating interest rate exchange agreements, which are designated as fair value hedges.

Advances — The Bank issues both fixed-rate and variable-rate advances. When appropriate, the Bank uses interest rate exchange agreements to adjust the interest rate sensitivity of its fixed-rate advances to approximate more closely the interest rate sensitivity of its liabilities. With issuances of puttable advances, the Bank purchases from the member a put option that enables the Bank to terminate a fixed-rate advance on specified future dates. This embedded option is clearly and closely related to the host advance contract. The Bank typically hedges a puttable advance by entering into a cancelable interest rate exchange agreement where the Bank pays a fixed-rate coupon and receives a variable-rate coupon, and sells an option to cancel the swap to the swap counterparty. This type of hedge is treated as a fair value hedge. The swap counterparty can cancel the interest rate exchange agreement on the call date and the Bank can cancel the puttable advance and offer, subject to certain conditions, replacement funding at prevailing market rates.

A small portion of the Bank's variable-rate advances are subject to interest rate caps that would limit the variable-rate coupons if short-term interest rates rise above a predetermined level. To hedge the cap risk embedded in these advances, the Bank generally enters into interest rate cap agreements. This type of hedge is treated as a fair value hedge.

The Bank may hedge a firm commitment for a forward-starting advance through the use of an interest rate swap. In this case, the swap will function as the hedging instrument for both the firm commitment and the subsequent advance. The carrying value of the firm commitment will be included in the basis of the advance at the time the commitment is terminated and the advance is issued. The basis adjustment will then be amortized into interest income over the life of the advance.

The Bank enters into optional advance commitments with its members. In an optional advance commitment, the Bank sells an option to the member that provides the member with either the right to enter into an advance (a stand-alone option) or increase the amount of an existing advance (an embedded option) at a specified fixed rate and term on a specified future date, provided the member has satisfied all of the customary requirements for such advance. Optional advance commitments involving Community Investment Program and Economic Development Program advances with a commitment period of three months or less are currently provided at no cost to members. The Bank may hedge an optional advance commitment through the use of an interest rate swaption. In this case, the swaption will function as the hedging instrument for both the commitment and, if the option is exercised by the member, the subsequent advance. These swaptions are treated as either economic hedges (in the case of stand-alone options) or fair value hedges (in the case of embedded options).

Consolidated Obligations — While consolidated obligations are the joint and several obligations of the FHLBanks, each FHLBank is the primary obligor for the consolidated obligations it has issued or assumed from another FHLBank. The Bank generally enters into derivative contracts to hedge the interest rate risk associated with its specific debt issuances.

To manage the interest rate risk of certain of its consolidated obligations, the Bank will match the cash outflow on a consolidated obligation with the cash inflow of an interest rate exchange agreement. With issuances of fixed-rate consolidated obligation bonds, the Bank typically enters into a matching interest rate exchange agreement in which the counterparty pays fixed cash flows to the Bank that are designed to mirror in timing and amount the cash outflows the Bank pays on the consolidated obligation. In this transaction, the Bank pays a variable cash flow that closely matches the interest payments it receives on short-term or variable-rate assets, typically one-month or three-month LIBOR. These transactions are treated as fair value hedges. On occasion, the Bank may enter into fixed-for-floating interest rate exchange agreements to hedge the interest rate risk associated with certain of its consolidated obligation discount notes. The derivatives associated with the Bank's fair value discount note hedging are treated as economic hedges. The Bank may also use interest rate exchange agreements to convert variable-rate consolidated obligation bonds from one index rate (e.g., the daily effective federal funds rate) to another index rate (e.g., one-month or three-month LIBOR). These transactions are treated as economic hedges.

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

Forecasted Issuances of Consolidated Obligations — The Bank uses derivatives to hedge the variability of cash flows over a specified period of time as a result of the forecasted issuances and maturities of short-term, fixed-rate instruments, such as three-month consolidated obligation discount notes. Although each short-term consolidated obligation discount note has a fixed rate of interest, a portfolio of rolling consolidated obligation discount notes effectively has a variable interest rate. The variable cash flows associated with these liabilities are converted to fixed-rate cash flows by entering into receive-variable, pay-fixed interest rate swaps. The maturity dates of the cash flow streams are closely matched to the interest rate reset dates of the derivatives. These derivatives are treated as cash flow hedges.

Intermediation — The Bank offers interest rate swaps, caps and floors to its members to assist them in meeting their hedging needs. In these transactions, the Bank acts as an intermediary for its members by entering into an interest rate exchange agreement with a member and then entering into an offsetting interest rate exchange agreement with one of the Bank's approved derivative counterparties. All interest rate exchange agreements related to the Bank's intermediary activities with its members are accounted for as economic hedges.

Other — From time to time, the Bank may enter into derivatives to hedge risks to its earnings that are not directly linked to specific assets, liabilities or forecasted transactions. These derivatives are treated as economic hedges.

Accounting for Derivatives and Hedging Activities. The Bank accounts for derivatives and hedging activities in accordance with the guidance in Topic 815 of the FASB's Accounting Standards Codification ("ASC") entitled "*Derivatives and Hedging*" ("ASC 815"). All derivatives are recognized on the statements of condition at their fair values, including accrued interest receivable and payable. For purposes of reporting derivative assets and derivative liabilities, the Bank offsets the fair value amounts recognized for derivative instruments (including the right to reclaim cash collateral and the obligation to return cash collateral) where a legally enforceable right of setoff exists.

Changes in the fair value of a derivative that is effective as — and that is designated and qualifies as — a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (including changes that reflect gains or losses on firm commitments), are recorded in current period earnings. 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 attributable to the hedged risk) is recorded in other income (loss) as “net gains (losses) on derivatives and hedging activities.” Net interest income/expense associated with derivatives that qualify for fair value hedge accounting under ASC 815 is recorded as a component of net interest income.

If fair value hedging relationships meet certain criteria specified in ASC 815, 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 fair value hedging relationships on an ongoing basis and to calculate the changes in fair value of the derivatives and related hedged items independently. This is commonly known as the “long-haul” method of hedge accounting. Transactions that meet more stringent criteria qualify for the “shortcut” method of hedge accounting in which an assumption can be made that the change in fair value of a hedged item exactly offsets the change in value of the related derivative. The Bank considers hedges of committed advances to be eligible for the shortcut method of accounting as long as the settlement of the committed advance occurs within the shortest period possible for that type of instrument based on market settlement conventions, the fair value of the swap is zero at the inception of the hedging relationship, and the transaction meets all of the other criteria for shortcut accounting specified in ASC 815. The Bank has defined the market settlement convention to be five business days or less for advances.

Changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in AOCI until earnings are affected by the variability of the cash flows of the hedged transaction. Any ineffective portion of a cash flow hedge (which represents the amount by which the change in the fair value of the derivative differs from the change in fair value of a hypothetical derivative having terms that match identically the critical terms of the hedged forecasted transaction) is recognized in other income (loss) as “net gains (losses) on derivatives and hedging activities.”

An economic hedge is defined as a derivative hedging specific or non-specific assets or liabilities that does not qualify or was not designated for hedge accounting under ASC 815, but is an acceptable hedging strategy under the Bank’s Enterprise Market Risk Management Policy. These hedging strategies also comply with Finance Agency regulatory requirements prohibiting speculative derivative transactions. An economic hedge by definition introduces the potential for earnings variability as changes in the fair value of a derivative designated as an economic hedge are recorded in current period earnings with no offsetting fair value adjustment to an asset or liability. Both the net interest income/expense and the fair value changes associated with derivatives in economic hedging relationships are recorded in other income (loss) as “net gains (losses) on derivatives and hedging activities.”

The Bank records the changes in fair value of all derivatives (and, in the case of fair value hedges, the hedged item) beginning on the trade date.

Cash flows associated with all derivatives are reported as cash flows from operating activities in the statements of cash flows, unless the derivative contains an other-than-insignificant financing element, in which case its cash flows are reported as cash flows from financing activities.

The Bank may issue debt, make advances, or purchase financial instruments in which a derivative instrument is “embedded” and the financial instrument that embodies the embedded derivative instrument is not remeasured at fair value with changes in fair value reported in earnings as they occur. 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 financial instrument (i.e., the host contract) and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and designated as either (1) a hedging instrument in a fair value hedge or (2) a stand-alone derivative instrument pursuant to an economic hedge. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings, or if the Bank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the statement of condition at fair value and no portion of the contract would be separately accounted for as a derivative.

The Bank discontinues hedge accounting prospectively when: (1) management determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (2) the derivative and/or the hedged item expires or is sold, terminated, or exercised; (3) it is no longer probable that a forecasted transaction will occur within the originally specified time frame; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines that designating the derivative as a hedging instrument in accordance with ASC 815 is no longer appropriate.

In all cases in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the statement of condition, recognizing any additional changes in the fair value of the derivative in current period earnings.

When fair value hedge accounting for a specific derivative is discontinued due to the Bank's determination that such derivative no longer qualifies for hedge accounting treatment or because the derivative is terminated, the Bank will cease to adjust the hedged asset or liability for changes in fair value and amortize the cumulative basis adjustment on the formerly hedged item into earnings over its remaining term using the level-yield method.

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

When cash flow hedge accounting for a specific derivative is discontinued due to the Bank's determination that such derivative no longer qualifies for hedge accounting treatment or because the derivative is terminated, the Bank will reclassify the cumulative fair value gains or losses recorded in AOCI as of the discontinuance date from AOCI into earnings when earnings are affected by the original forecasted transaction, except in cases where the cash flow hedge is discontinued because the forecasted transaction is no longer probable (i.e., the forecasted transaction will not occur in the originally expected period or within an additional two-month period of time thereafter). In such cases, any fair value gains or losses recorded in AOCI as of the determination date are immediately reclassified to earnings as a component of "net gains (losses) on derivatives and hedging activities." Similarly, if the Bank expects at any time that continued reporting of a net loss in AOCI would lead to recognizing a net loss on the combination of the hedging instrument and hedged transaction in one or more future periods, the amount that is not expected to be recovered is immediately reclassified to earnings as a component of "net gains (losses) on derivatives and hedging activities."

Impact of Derivatives and Hedging Activities. The following table summarizes the notional balances and estimated fair values of the Bank's outstanding derivatives at September 30, 2016 and December 31, 2015 (in thousands).

	September 30, 2016			December 31, 2015		
	Notional Amount of Derivatives	Estimated Fair Value		Notional Amount of Derivatives	Estimated Fair Value	
		Derivative Assets	Derivative Liabilities		Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments under ASC 815						
Interest rate swaps						
Advances	\$ 5,107,905	\$ 2,170	\$ 142,605	\$ 4,800,307	\$ 3,176	\$ 126,161
Available-for-sale securities	12,625,712	1,847	806,894	9,375,109	11,109	401,543
Consolidated obligation bonds	13,612,970	30,295	17,483	12,988,035	21,319	16,273
Consolidated obligation discount notes	425,000	6	11,833	100,000	—	1,508
Interest rate swaptions related to advances	3,000	9	—	4,000	17	—
Total derivatives designated as hedging instruments under ASC 815	31,774,587	34,327	978,815	27,267,451	35,621	545,485
Derivatives not designated as hedging instruments under ASC 815						
Interest rate swaps						
Advances	1,500	—	4	1,500	2	—
Available-for-sale securities	2,624	—	192	2,625	21	40
Trading securities	—	—	—	100,000	1,270	—
Consolidated obligation discount notes	3,716,640	3,412	—	—	—	—
Intermediary transactions	363,503	17,743	16,592	1,925,960	13,480	11,810
Other	325,000	5,124	—	—	—	—
Mortgage delivery commitments	138	1	—	—	—	—
Interest rate caps						
Held-to-maturity securities	1,200,000	210	—	1,650,000	738	—
Intermediary transactions	80,000	174	174	80,000	639	639
Total derivatives not designated as hedging instruments under ASC 815	5,689,405	26,664	16,962	3,760,085	16,150	12,489
Total derivatives before collateral and netting adjustments	\$ 37,463,992	60,991	995,777	\$ 31,027,536	51,771	557,974
Cash collateral and related accrued interest		(1,681)	(1,006,002)		(1,617)	(523,936)
Netting adjustments		20,178	20,178		(27,074)	(27,074)
Total collateral and netting adjustments⁽¹⁾		18,497	(985,824)		(28,691)	(551,010)
Net derivative balances reported in statements of condition		\$ 79,488	\$ 9,953		\$ 23,080	\$ 6,964

⁽¹⁾ Amounts represent the effect of legally enforceable master netting agreements or other legally enforceable arrangements between the Bank and its derivative counterparties that allow the Bank to offset positive and negative positions as well as the cash collateral held or placed with those same counterparties.

The following table presents the components of net gains (losses) on derivatives and hedging activities as presented in the statements of income for the three and nine months ended September 30, 2016 and 2015 (in thousands).

	Gain (Loss) Recognized in Earnings for the Three Months Ended September 30,		Gain (Loss) Recognized in Earnings for the Nine Months Ended September 30,	
	2016	2015	2016	2015
Derivatives and hedged items in ASC 815 fair value hedging relationships				
Interest rate swaps	\$ 2,071	\$ (10,673)	\$ (23,148)	\$ (443)
Interest rate swaptions	(1)	1	(8)	1
Total net gain (loss) related to fair value hedge ineffectiveness	2,070	(10,672)	(23,156)	(442)
Derivatives not designated as hedging instruments under ASC 815				
Interest rate swaps	(2,720)	115	1,209	3,109
Net interest income on interest rate swaps	836	56	1,817	157
Interest rate caps	(2)	(331)	(528)	(970)
Mortgage delivery commitments	13	—	95	—
Total net gain (loss) related to derivatives not designated as hedging instruments under ASC 815	(1,873)	(160)	2,593	2,296
Net gains (losses) on derivatives and hedging activities reported in the statements of income	\$ 197	\$ (10,832)	\$ (20,563)	\$ 1,854

The following table presents, by type of hedged item, the gains (losses) on derivatives and the related hedged items in ASC 815 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, 2016 and 2015 (in thousands).

Hedged Item	Gain (Loss) on Derivatives	Gain (Loss) on Hedged Items	Net Fair Value Hedge Ineffectiveness ⁽¹⁾	Derivative Net Interest Income (Expense) ⁽²⁾
Three Months Ended September 30, 2016				
Advances	\$ 39,433	\$ (39,327)	\$ 106	\$ (15,458)
Available-for-sale securities	114,056	(111,855)	2,201	(37,119)
Consolidated obligation bonds	(42,596)	42,359	(237)	12,298
Total	\$ 110,893	\$ (108,823)	\$ 2,070	\$ (40,279)
Three Months Ended September 30, 2015				
Advances	\$ (34,542)	\$ 34,332	\$ (210)	\$ (22,466)
Available-for-sale securities	(166,529)	160,183	(6,346)	(31,815)
Consolidated obligation bonds	58,838	(62,954)	(4,116)	36,747
Total	\$ (142,233)	\$ 131,561	\$ (10,672)	\$ (17,534)
Nine Months Ended September 30, 2016				
Advances	\$ (26,126)	\$ 25,899	\$ (227)	\$ (49,862)
Available-for-sale securities	(423,390)	404,240	(19,150)	(112,314)
Consolidated obligation bonds	15,239	(19,018)	(3,779)	45,643
Total	\$ (434,277)	\$ 411,121	\$ (23,156)	\$ (116,533)
Nine Months Ended September 30, 2015				
Advances	\$ (17,444)	\$ 18,030	\$ 586	\$ (69,448)
Available-for-sale securities	(107,668)	109,217	1,549	(84,745)
Consolidated obligation bonds	65,482	(68,059)	(2,577)	103,877
Total	\$ (59,630)	\$ 59,188	\$ (442)	\$ (50,316)

⁽¹⁾ Reported as net gains (losses) on derivatives and hedging activities in the statements of income.

⁽²⁾ The net interest income (expense) associated with derivatives in ASC 815 fair value hedging relationships is reported in the statements of income in the interest income/expense line item for the indicated hedged item.

The following table presents, by type of hedged item, the gains (losses) on derivatives in ASC 815 cash flow hedging relationships that were recognized in other comprehensive income and the gains (losses) reclassified from AOCI into earnings for the three and nine months ended September 30, 2016 and 2015 (in thousands).

Derivatives in Cash Flow Hedging Relationships	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest rate swaps related to anticipated issuances of consolidated obligation discount notes				
Amount of gains (losses) recognized in other comprehensive income on derivatives (effective portion)	\$ 2,147	\$ (2,415)	\$ (12,980)	\$ (2,415)
Amount of losses reclassified from AOCI into interest expense (effective portion) ⁽¹⁾	990	107	2,570	107
Amount of gains (losses) recognized in net gains (losses) on derivatives and hedging activities (ineffective portion)	—	—	—	—

⁽¹⁾ Represents net interest expense associated with the derivatives.

For the three and nine months ended September 30, 2016 and 2015, there were no amounts reclassified from AOCI 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 periods or within two-month periods thereafter. At September 30, 2016, \$3,368,000 of deferred net losses on derivative instruments in AOCI are expected to be reclassified to earnings during the next 12 months. At September 30, 2016, the maximum length of time over which the Bank is hedging its exposure to the variability in future cash flows for forecasted transactions is 10 years.

Credit Risk Related to Derivatives. The Bank is subject to credit risk due to the risk of nonperformance by counterparties to its derivative agreements. The Bank manages derivative counterparty credit risk through the use of master netting agreements or other similar collateral exchange arrangements, credit analysis, and adherence to the requirements set forth in the Bank's Enterprise Market Risk Management Policy, Enterprise Credit Risk Management Policy, and Finance Agency regulations. The Bank has transacted some of its interest rate exchange agreements bilaterally with large financial institutions under master netting agreements (as of September 30, 2016, the notional balance of outstanding transactions with non-member bilateral counterparties and member counterparties totaled \$10.3 billion and \$0.2 billion, respectively). Some of these institutions (or their affiliates) buy, sell, and distribute consolidated obligations. The remainder of the Bank's interest rate exchange agreements have been cleared through third-party central clearinghouses (as of September 30, 2016, the notional balance of cleared transactions outstanding totaled \$26.9 billion). With cleared transactions, the Bank is exposed to credit risk in the event that the clearinghouse or the clearing member fails to meet its obligations to the Bank.

The notional amount of the Bank's interest rate exchange agreements does not reflect its credit risk exposure, which is much less than the notional amount. The Bank's net credit risk exposure is based on the current estimated cost, on a present value basis, of replacing at current market rates all interest rate exchange agreements with individual counterparties, if those counterparties were to default, after taking into account the value of any cash and/or securities collateral held or remitted by the Bank. For counterparties with which the Bank is in a net gain position, the Bank has credit exposure when the collateral it is holding (if any) has a value less than the amount of the gain. For counterparties with which the Bank is in a net loss position, the Bank has credit exposure when it has delivered collateral with a value greater than the amount of the loss position. The net exposure on derivative agreements is presented in Note 10. Based on the netting provisions and collateral requirements associated with its derivative agreements and the creditworthiness of its derivative counterparties, Bank management does not currently anticipate any credit losses on its derivative agreements.

Note 12—Capital

At all times during the nine months ended September 30, 2016, the Bank was in compliance with all applicable statutory and regulatory capital requirements. The following table summarizes the Bank’s compliance with those capital requirements as of September 30, 2016 and December 31, 2015 (dollars in thousands):

	September 30, 2016		December 31, 2015	
	Required	Actual	Required	Actual
Regulatory capital requirements:				
Risk-based capital	\$ 707,088	\$ 2,683,006	\$ 493,617	\$ 2,311,264
Total capital	\$ 2,334,305	\$ 2,683,006	\$ 1,683,332	\$ 2,311,264
Total capital-to-assets ratio	4.00%	4.60%	4.00%	5.49%
Leverage capital	\$ 2,917,881	\$ 4,024,509	\$ 2,104,165	\$ 3,466,896
Leverage capital-to-assets ratio	5.00%	6.90%	5.00%	8.24%

Members are required to maintain an investment in Class B Capital Stock equal to the sum of a membership investment requirement and an activity-based investment requirement. The membership investment requirement is currently 0.04 percent of each member’s total assets as of December 31, 2015, subject to a minimum of \$1,000 and a maximum of \$7,000,000. The activity-based investment requirement is currently 4.1 percent of outstanding advances, except as described below.

On September 21, 2015, the Bank announced a Board-authorized reduction in the activity-based stock investment requirement from 4.1 percent to 2.0 percent for certain advances that were funded during the period from October 21, 2015 through December 31, 2015. To be eligible for the reduced activity-based investment requirement, advances funded during this period had to have a minimum maturity of one year or greater, among other things. The standard activity-based stock investment requirement of 4.1 percent continued to apply to all other advances that were funded during the period from October 21, 2015 through December 31, 2015.

The Bank generally repurchases surplus stock quarterly. For the repurchases that occurred during the nine months ended September 30, 2016, surplus stock was defined as the amount of stock held by a shareholder in excess of 125 percent of the shareholder’s minimum investment requirement. For those repurchases, which occurred on February 25, 2016, June 27, 2016 and September 27, 2016, a shareholder's surplus stock was not repurchased if: (1) the amount of that shareholder's surplus stock was \$2,500,000 or less, (2) the shareholder elected to opt-out of the repurchase, or (3) the shareholder was on restricted collateral status (subject to certain exceptions). On February 25, 2016, June 27, 2016 and September 27, 2016, the Bank repurchased surplus stock totaling \$103,707,000, \$60,999,000, and \$47,783,000, respectively, none of which was classified as mandatorily redeemable capital stock at those dates. From time to time, the Bank may modify the definition of surplus stock or the timing and/or frequency of surplus stock repurchases.

Note 13—Employee Retirement Plans

The Bank sponsors a retirement benefits program that includes health care and life insurance benefits for eligible retirees. Components of net periodic benefit cost (credit) related to this program for the three and nine months ended September 30, 2016 and 2015 were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Service cost	\$ 6	\$ 5	\$ 17	\$ 15
Interest cost	7	12	22	36
Amortization of prior service cost	5	2	15	6
Amortization of net actuarial gain	(25)	(21)	(74)	(62)
Net periodic benefit credit	\$ (7)	\$ (2)	\$ (20)	\$ (5)

Note 14—Estimated Fair Values

Fair value is defined under U.S. GAAP 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. U.S. GAAP establishes a fair value hierarchy and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. U.S.

GAAP also requires an entity to disclose the level within the fair value hierarchy in which each measurement is classified. The fair value hierarchy prioritizes the inputs used to measure fair value into three broad levels:

Level 1 Inputs — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2 Inputs — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following: (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in markets that are not active or in which little information is released publicly; (3) inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves that are observable at commonly quoted intervals and implied volatilities); and (4) inputs that are derived principally from or corroborated by observable market data (e.g., implied spreads).

Level 3 Inputs — Unobservable inputs for the asset or liability that are supported by little or no market activity. None of the Bank's assets or liabilities that are recorded at fair value on a recurring basis were measured using significant Level 3 inputs.

For financial instruments carried at fair value, the Bank reviews the fair value hierarchy classifications on a quarterly basis. Changes in the observability of the valuation inputs may result in a reclassification of certain assets or liabilities. Reclassifications, if any, would be reported as transfers as of the beginning of the quarter in which the changes occurred. For the nine months ended September 30, 2016 and 2015, the Bank did not reclassify any fair value measurements.

The following estimated 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 as of September 30, 2016 and December 31, 2015. 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 many of the Bank's financial instruments (e.g., advances, non-agency RMBS and mortgage loans held for portfolio), in certain cases their fair values are not subject to precise quantification or verification. Therefore, the estimated fair values presented below in the Fair Value Summary Tables may not be indicative of the amounts that would have been realized in market transactions at the reporting dates. Further, the fair values 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.

The valuation techniques used to measure the fair values of the Bank's financial instruments are described below.

Cash and due from banks. The estimated fair value equals the carrying value.

Interest-bearing deposit assets. Interest-bearing deposit assets earn interest at floating market rates; therefore, the estimated fair value of the deposits approximates their carrying value.

Securities purchased under agreements to resell and federal funds sold. All federal funds sold and securities purchased under agreements to resell represent overnight balances. The estimated fair values approximate the carrying values.

Trading, available-for-sale and held-to-maturity securities. To value its holdings of U.S. Treasury Notes classified as trading securities, all of its available-for-sale securities, and its held-to-maturity MBS holdings and state housing agency debentures, the Bank obtains prices from three designated third-party pricing vendors when available.

The pricing vendors use various proprietary models to price these securities. The inputs to those models are derived from various sources including, but not limited to, benchmark yields, reported trades, dealer estimates, issuer spreads, benchmark securities, bids, offers and other market-related data. Because many securities do not trade on a daily basis, the pricing vendors use available information as applicable such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to determine the prices for individual securities. Each pricing vendor has an established challenge process in place for all security valuations, which facilitates resolution of potentially erroneous prices identified by the Bank.

A "median" price is first established for each security using a formula that is based upon the number of prices received. If three prices are received, the middle price is the median price; if two prices are received, the average of the two prices is the median price; and if one price is received, it is the median price (and also the final price) subject to some type of validation similar to the evaluation of outliers described below. All prices that are within a specified tolerance threshold of the median price are included in the "cluster" of prices that are averaged to compute a "default" price. All prices that are outside the threshold ("outliers") are subject to further analysis (including, but not limited to, comparison to prices provided by an additional third-party valuation service, prices for similar securities, and/or non-binding dealer estimates) to determine if an outlier is a better estimate of fair value. If an outlier (or some other price identified in the analysis) is determined to be a better estimate of fair value, then the outlier (or the other price, as appropriate) is used as the final price rather than the default price. If, on the other hand, the analysis confirms that an outlier (or outliers) is (are) in fact not representative of fair value and the

default price is the best estimate, then the default price is used as the final price. In all cases, the final price is used to determine the fair value of the security.

If all prices received for a security are outside the tolerance threshold level of the median price, then there is no default price, and the final price is determined by an evaluation of all outlier prices as described above.

As of September 30, 2016, three vendor prices were received for substantially all of the Bank's trading, available-for-sale and held-to-maturity securities referred to above and the final prices for substantially all of those securities were computed by averaging the three prices. Based on the Bank's understanding of the pricing methods employed by the third-party pricing vendors and the relative lack of dispersion among the vendor prices (or, in those instances in which there were outliers, the Bank's additional analyses), the Bank believes its final prices result in reasonable estimates of the fair values and that the fair value measurements are classified appropriately in the fair value hierarchy.

The Bank estimates the fair values of its held-to-maturity government-guaranteed debentures using a pricing model and observable market data (i.e., the U.S. Government Agency Fair Value curve and, for debentures containing call features, swaption volatility).

To value its mutual fund investments classified as trading securities, the Bank obtains quoted prices for identical securities.

Advances. The Bank determines the estimated fair values of advances by calculating the present value of expected future cash flows from the advances using the replacement advance rates for advances with similar terms and, for advances containing options, swaption volatility. This amount is then reduced for accrued interest receivable. Each FHLBank prices advances at a spread to its cost of funds. Each FHLBank's cost of funds approximates the "CO curve," which is derived by adding to the U.S. Treasury curve indicative spreads obtained from market-observable sources. The indicative spreads are generally derived from dealer pricing indications, recent trades, secondary market activity and historical pricing relationships.

Mortgage loans held for portfolio. The Bank estimates the fair values of mortgage loans held for portfolio based upon the prices for to-be-announced ("TBA") securities, which represent quoted market prices for forward-settling agency MBS. The prices are adjusted for differences in coupon, cost to carry, vintage, remittance type and product type between the Bank's mortgage loans and the referenced TBA MBS. The prices of the referenced TBA MBS and the Bank's mortgage loans are highly dependent upon current mortgage rates and the market's expectations of future mortgage rates and prepayments.

Accrued interest receivable and payable. The estimated fair value of accrued interest receivable and payable approximates the carrying value due to their short-term nature.

Derivative assets/liabilities. The fair values of the Bank's interest rate swap and swaption agreements are estimated using a pricing model with inputs that are observable in the market (e.g., the relevant interest rate curves (that is, the relevant LIBOR swap curve and, for purposes of discounting, the overnight index swap ("OIS") curve) and, for agreements containing options, swaption volatility). The fair values of the Bank's interest rate caps are also estimated using a pricing model with inputs that are observable in the market (that is, cap volatility, the relevant LIBOR swap curve and, for purposes of discounting, the OIS curve).

As the collateral and netting provisions of the Bank's arrangements with its derivative counterparties significantly reduce the risk from nonperformance (see Note 10), the Bank does not consider its own nonperformance risk or the nonperformance risk associated with each of its counterparties to be a significant factor in the valuation of its derivative assets and liabilities. The Bank compares the fair values obtained from its pricing model to non-binding dealer estimates (in the case of bilateral derivatives) and clearinghouse valuations (in the case of cleared derivatives) and may also compare its fair values to those of similar instruments to ensure that the fair values are reasonable.

The fair values of the Bank's derivative assets and liabilities include accrued interest receivable/payable and cash collateral remitted to/received from counterparties; the estimated fair values of the accrued interest receivable/payable and cash collateral approximate their carrying values due to their short-term nature. The fair values of the Bank's bilateral derivatives are netted by counterparty pursuant to the provisions of the credit support annexes to the Bank's master netting agreements with its non-member bilateral derivative counterparties. The Bank's cleared derivative transactions with each clearing member of each clearinghouse are netted pursuant to the Bank's arrangements with those parties. In each case, if the netted amounts are positive, they are classified as an asset and, if negative, as a liability.

Deposit liabilities. The Bank determines the estimated fair values of its deposit liabilities with fixed rates and more than three months to maturity by calculating the present value of expected future cash flows from the deposits and reducing this amount for accrued interest payable. The discount rates used in these calculations are based on replacement funding rates for liabilities with similar terms. The estimated fair value approximates the carrying value for deposits with variable rates and fixed rates with three months or less to their maturity or repricing date.

Consolidated obligations. The Bank estimates the fair values of consolidated obligations by calculating the present value of expected future cash flows using discount rates that are based on replacement funding rates for liabilities with similar terms and

reducing this amount for accrued interest payable. The inputs to the valuation are the CO curve and, for consolidated obligations containing options, swaption volatility.

Mandatorily redeemable capital stock. The fair value of capital stock subject to mandatory redemption is generally equal to its par value (\$100 per share), as adjusted for any estimated dividend earned but unpaid at the time of reclassification from equity to liabilities. The Bank's capital stock cannot, by statute or implementing regulation, be purchased, redeemed, repurchased or transferred at any amount other than its par value.

Commitments. The estimated fair value of the Bank's commitments to extend credit, including advances and letters of credit, was not material at September 30, 2016 or December 31, 2015.

The following table presents the carrying values and estimated fair values of the Bank's financial instruments at September 30, 2016 (in thousands), as well as the level within the fair value hierarchy in which the measurements are classified. Financial assets and liabilities are classified in their entirety based on the lowest level input that is significant to the fair value estimate.

FAIR VALUE SUMMARY TABLE

Financial Instruments	Carrying Value	Estimated Fair Value				Netting Adjustment ⁽⁴⁾
		Total	Level 1	Level 2	Level 3	
Assets:						
Cash and due from banks	\$ 67,739	\$ 67,739	\$ 67,739	\$ —	\$ —	\$ —
Interest-bearing deposits	329	329	—	329	—	—
Securities purchased under agreements to resell	3,250,000	3,250,000	—	3,250,000	—	—
Federal funds sold	6,803,000	6,803,000	—	6,803,000	—	—
Trading securities ⁽¹⁾	118,431	118,431	9,928	108,503	—	—
Available-for-sale securities ⁽¹⁾	13,357,821	13,357,821	—	13,357,821	—	—
Held-to-maturity securities	2,670,612	2,689,513	—	2,575,600 ⁽²⁾	113,913 ⁽³⁾	—
Advances	31,821,835	31,905,690	—	31,905,690	—	—
Mortgage loans held for portfolio, net	69,988	75,116	—	75,116	—	—
Accrued interest receivable	91,827	91,827	—	91,827	—	—
Derivative assets ⁽¹⁾	79,488	79,488	—	60,991	—	18,497
Liabilities:						
Deposits	1,121,375	1,121,381	—	1,121,381	—	—
Consolidated obligations						
Discount notes	31,099,645	31,102,823	—	31,102,823	—	—
Bonds	23,122,425	23,120,557	—	23,120,557	—	—
Mandatorily redeemable capital stock	2,341	2,341	2,341	—	—	—
Accrued interest payable	36,806	36,806	—	36,806	—	—
Derivative liabilities ⁽¹⁾	9,953	9,953	—	995,777	—	(985,824)

⁽¹⁾ Financial instruments measured at fair value on a recurring basis as of September 30, 2016.

⁽²⁾ Consists of the Bank's holdings of U.S. government-guaranteed debentures, state housing agency obligations, U.S. government-guaranteed RMBS, GSE RMBS and GSE commercial MBS.

⁽³⁾ Consists of the Bank's holdings of non-agency RMBS.

⁽⁴⁾ Amounts represent the impact of legally enforceable master netting agreements or other legally enforceable arrangements between the Bank and its derivative counterparties that allow the Bank to offset positive and negative positions as well as the cash collateral held or placed with those same counterparties.

The following table presents the carrying values and estimated fair values of the Bank's financial instruments at December 31, 2015 (in thousands), as well as the level within the fair value hierarchy in which the measurements are classified. Financial assets and liabilities are classified in their entirety based on the lowest level input that is significant to the fair value estimate.

FAIR VALUE SUMMARY TABLE

Financial Instruments	Carrying Value	Estimated Fair Value				Netting Adjustment ⁽⁴⁾
		Total	Level 1	Level 2	Level 3	
Assets:						
Cash and due from banks	\$ 837,202	\$ 837,202	\$ 837,202	\$ —	\$ —	\$ —
Interest-bearing deposits	260	260	—	260	—	—
Security purchased under agreement to resell	1,000,000	1,000,000	—	1,000,000	—	—
Federal funds sold	2,171,000	2,171,000	—	2,171,000	—	—
Trading securities ⁽¹⁾	211,056	211,056	8,857	202,199	—	—
Available-for-sale securities ⁽¹⁾	9,713,191	9,713,191	—	9,713,191	—	—
Held-to-maturity securities	3,228,011	3,262,283	—	3,127,584 ⁽²⁾	134,699 ⁽³⁾	—
Advances	24,746,802	24,795,949	—	24,795,949	—	—
Mortgage loans held for portfolio, net	55,117	60,756	—	60,756	—	—
Accrued interest receivable	69,676	69,676	—	69,676	—	—
Derivative assets ⁽¹⁾	23,080	23,080	—	51,771	—	(28,691)
Liabilities:						
Deposits	1,045,958	1,045,956	—	1,045,956	—	—
Consolidated obligations						
Discount notes	20,541,329	20,539,576	—	20,539,576	—	—
Bonds	18,024,692	17,994,494	—	17,994,494	—	—
Mandatorily redeemable capital stock	8,929	8,929	8,929	—	—	—
Accrued interest payable	38,972	38,972	—	38,972	—	—
Derivative liabilities ⁽¹⁾	6,964	6,964	—	557,974	—	(551,010)

⁽¹⁾ Financial instruments measured at fair value on a recurring basis as of December 31, 2015.

⁽²⁾ Consists of the Bank's holdings of U.S. government-guaranteed debentures, state housing agency obligations, U.S. government-guaranteed RMBS, GSE RMBS and GSE commercial MBS.

⁽³⁾ Consists of the Bank's holdings of non-agency RMBS.

⁽⁴⁾ Amounts represent the impact of legally enforceable master netting agreements or other legally enforceable arrangements between the Bank and its derivative counterparties that allow the Bank to offset positive and negative positions as well as the cash collateral held or placed with those same counterparties.

The Bank did not record any non-credit other-than-temporary impairment losses during the three months ended September 30, 2016 or June 30, 2016. During the three months ended March 31, 2016, the Bank recorded non-credit other-than-temporary impairment losses on one of its non-agency RMBS classified as held-to-maturity. Based on the lack of significant market activity for non-agency RMBS, the nonrecurring fair value measurement for this impaired security was classified as a Level 3 measurement in the fair value hierarchy. Three third-party vendor prices were received for this security and the average of the three prices was used to determine the final fair value measurement.

Note 15—Commitments and Contingencies

Joint and several liability. The Bank is jointly and severally liable with the other 10 FHLBanks for the payment of principal and interest on all of the consolidated obligations issued by the FHLBanks. At September 30, 2016, the par amount of the other 10 FHLBanks' outstanding consolidated obligations was approximately \$913 billion. The Finance Agency, in its discretion, may require any FHLBank to make principal or interest payments due on any consolidated obligation, regardless of whether there has been a default by a FHLBank having primary liability. To the extent that a FHLBank makes any consolidated obligation payment on behalf of another FHLBank, the paying FHLBank is entitled to reimbursement from the FHLBank with primary liability. However, if the Finance Agency determines that the primary obligor is unable to satisfy its obligations, then the Finance Agency may allocate the outstanding liability among the remaining FHLBanks on a pro rata basis in proportion to each FHLBank's participation in all consolidated obligations outstanding, or on any other basis that the Finance Agency may determine. No FHLBank has ever failed to make any payment on a consolidated obligation for which it was the primary obligor; as a result, the regulatory provisions for directing other FHLBanks to make payments on behalf of another FHLBank or allocating the liability among other FHLBanks have never been invoked. If the Bank expected that it would be required to pay any amounts on behalf of its co-obligors under its joint and several liability, the Bank would charge to income the amount of the expected payment. Based upon the creditworthiness of the other FHLBanks, the Bank currently believes that the likelihood that it would have to pay any amounts beyond those for which it is primarily liable is remote.

Other commitments and contingencies. At September 30, 2016 and December 31, 2015, the Bank had commitments to make additional advances totaling approximately \$19,722,000 and \$36,892,000, respectively. In addition, outstanding standby letters of credit totaled \$9,590,809,000 and \$7,180,763,000 at September 30, 2016 and December 31, 2015, respectively. Based on management's credit analyses and collateral requirements, the Bank does not deem it necessary to have any provision for credit losses on these letters of credit (see Note 7).

At September 30, 2016 and December 31, 2015, the Bank had commitments to issue \$118,465,000 and \$90,000,000, respectively, of consolidated obligation bonds, of which \$108,465,000 and \$90,000,000, respectively, were hedged with interest rate swaps. At September 30, 2016 and December 31, 2015, the Bank had commitments to issue \$284,406,000 and \$750,000,000, respectively, of consolidated obligation discount notes, none of which were hedged.

The Bank has transacted interest rate exchange agreements with large financial institutions and third-party clearinghouses that are subject to collateral exchange arrangements. As of September 30, 2016 and December 31, 2015, the Bank had pledged cash collateral of \$1,005,910,000 and \$523,871,000, respectively, to those parties that had credit risk exposure to the Bank related to interest rate exchange agreements. The pledged cash collateral (i.e., interest-bearing deposit asset) is netted against derivative assets and liabilities in the statements of condition. In addition, as of September 30, 2016 and December 31, 2015, the Bank had pledged securities with carrying values (and fair values) of \$640,563,000 and \$300,184,000, respectively, to parties that had credit risk exposure to the Bank related to interest rate exchange agreements. The pledged securities may be rehypothecated and are not netted against derivative assets and liabilities in the statements of condition.

In the ordinary course of its business, the Bank is subject to the risk that litigation may arise. Currently, the Bank is not a party to any material pending legal proceedings.

Note 16— Transactions with Shareholders

Affiliates of two of the Bank's derivative counterparties (Citigroup and Wells Fargo) acquired member institutions on March 31, 2005 and October 1, 2006, respectively. Since the acquisitions were completed, the Bank has continued to enter into interest rate exchange agreements with Citigroup and Wells Fargo in the normal course of business and under the same terms and conditions as before. Effective October 1, 2006, Citigroup terminated the Ninth District charter of the affiliate that acquired the member institution and, as a result, an affiliate of Citigroup became a non-member shareholder of the Bank.

Note 17 — Transactions with Other FHLBanks

Occasionally, the Bank loans (or borrows) short-term federal funds to (or from) other FHLBanks. During the nine months ended September 30, 2016 and 2015, interest income from loans to other FHLBanks totaled \$1,138 and \$4,089, respectively. The following table summarizes the Bank’s loans to other FHLBanks during the nine months ended September 30, 2016 and 2015 (in thousands).

	Nine Months Ended September 30,	
	2016	2015
Balance at January 1,	\$ —	\$ —
Loans made to:		
FHLBank of San Francisco	—	865,000
FHLBank of Des Moines	—	200,000
FHLBank of Boston	—	200,000
FHLBank of Topeka	112,000	55,000
Collections from:		
FHLBank of San Francisco	—	(865,000)
FHLBank of Des Moines	—	(200,000)
FHLBank of Boston	—	(200,000)
FHLBank of Topeka	(112,000)	(55,000)
Balance at September 30,	<u>\$ —</u>	<u>\$ —</u>

During the nine months ended September 30, 2016 and 2015, interest expense on borrowings from other FHLBanks totaled \$1,910 and \$4,068, respectively. The following table summarizes the Bank’s borrowings from other FHLBanks during the nine months ended September 30, 2016 and 2015 (in thousands).

	Nine Months Ended September 30,	
	2016	2015
Balance at January 1,	\$ —	\$ —
Borrowings from:		
FHLBank of San Francisco	—	380,000
FHLBank of Topeka	125,000	360,000
FHLBank of Atlanta	—	250,000
FHLBank of Boston	—	475,000
Repayments to:		
FHLBank of San Francisco	—	(380,000)
FHLBank of Topeka	(125,000)	(360,000)
FHLBank of Atlanta	—	(250,000)
FHLBank of Boston	—	(475,000)
Balance at September 30,	<u>\$ —</u>	<u>\$ —</u>

Note 18 — Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in the components of AOCI for the three and nine months ended September 30, 2016 and 2015 (in thousands).

	Net Unrealized Gains (Losses) on Available-for-Sale Securities ⁽¹⁾	Net Unrealized Gains (Losses) on Cash Flow Hedges	Non-Credit Portion of Other-than-Temporary Impairment Losses on Held-to-Maturity Securities	Postretirement Benefits	Total AOCI
Three Months Ended September 30, 2016					
Balance at July 1, 2016	\$ (91,957)	\$ (14,394)	\$ (19,245)	\$ 1,439	\$ (124,157)
Reclassifications from AOCI to net income					
Realized gains on sales of available-for-sale securities included in net income	(889)	—	—	—	(889)
Losses on cash flow hedges included in interest expense	—	990	—	—	990
Non-credit portion of other-than-temporary impairment losses on held-to-maturity securities recognized as credit losses in net income	—	—	8	—	8
Amortization of prior service costs and net actuarial gains recognized in compensation and benefits expense	—	—	—	(20)	(20)
Other amounts of other comprehensive income (loss)					
Net unrealized gains on available-for-sale securities	97,845	—	—	—	97,845
Unrealized gains on cash flow hedges	—	2,147	—	—	2,147
Accretion of non-credit portion of other-than-temporary impairment losses to the carrying value of held-to-maturity securities	—	—	1,076	—	1,076
Total other comprehensive income (loss)	96,956	3,137	1,084	(20)	101,157
Balance at September 30, 2016	<u>\$ 4,999</u>	<u>\$ (11,257)</u>	<u>\$ (18,161)</u>	<u>\$ 1,419</u>	<u>\$ (23,000)</u>
Three Months Ended September 30, 2015					
Balance at July 1, 2015	\$ 25,103	\$ —	\$ (24,123)	\$ 1,299	\$ 2,279
Reclassifications from AOCI to net income					
Realized gains on sales of available-for-sale securities included in net income	(1,457)	—	—	—	(1,457)
Losses on cash flow hedge included in interest expense	—	107	—	—	107
Amortization of prior service costs and net actuarial gains recognized in compensation and benefits expense	—	—	—	(19)	(19)
Other amounts of other comprehensive income (loss)					
Net unrealized losses on available-for-sale securities	(69,013)	—	—	—	(69,013)
Unrealized loss on cash flow hedge	—	(2,415)	—	—	(2,415)
Non-credit portion of other-than-temporary impairment losses on held-to-maturity securities	—	—	(8)	—	(8)
Accretion of non-credit portion of other-than-temporary impairment losses to the carrying value of held-to-maturity securities	—	—	1,495	—	1,495
Total other comprehensive income (loss)	(70,470)	(2,308)	1,487	(19)	(71,310)
Balance at September 30, 2015	<u>\$ (45,367)</u>	<u>\$ (2,308)</u>	<u>\$ (22,636)</u>	<u>\$ 1,280</u>	<u>\$ (69,031)</u>

	Net Unrealized Gains (Losses) on Available-for-Sale Securities ⁽¹⁾	Net Unrealized Gains (Losses) on Cash Flow Hedges	Non-Credit Portion of Other-than-Temporary Impairment Losses on Held-to-Maturity Securities	Postretirement Benefits	Total AOCI
Nine Months Ended September 30, 2016					
Balance at January 1, 2016	\$ (82,278)	\$ (847)	\$ (21,376)	\$ 1,478	\$ (103,023)
Reclassifications from AOCI to net income					
Realized gains on sales of available-for-sale securities included in net income	(5,104)	—	—	—	(5,104)
Losses on cash flow hedges included in interest expense	—	2,570	—	—	2,570
Non-credit portion of other-than-temporary impairment losses on held-to-maturity securities recognized as credit losses in net income	—	—	12	—	12
Amortization of prior service costs and net actuarial gains recognized in compensation and benefits expense	—	—	—	(59)	(59)
Other amounts of other comprehensive income (loss)					
Net unrealized gains on available-for-sale securities	92,381	—	—	—	92,381
Unrealized losses on cash flow hedges	—	(12,980)	—	—	(12,980)
Non-credit portion of other-than-temporary impairment losses on held-to-maturity securities	—	—	(302)	—	(302)
Accretion of non-credit portion of other-than-temporary impairment losses to the carrying value of held-to-maturity securities	—	—	3,505	—	3,505
Total other comprehensive income (loss)	87,277	(10,410)	3,215	(59)	80,023
Balance at September 30, 2016	\$ 4,999	\$ (11,257)	\$ (18,161)	\$ 1,419	\$ (23,000)
Nine Months Ended September 30, 2015					
Balance at January 1, 2015	\$ 22,412	\$ —	\$ (27,349)	\$ 1,336	\$ (3,601)
Reclassifications from AOCI to net income					
Realized gains on sales of available-for-sale securities included in net income	(3,802)	—	—	—	(3,802)
Losses on cash flow hedge included in interest expense	—	107	—	—	107
Amortization of prior service costs and net actuarial gains recognized in compensation and benefits expense	—	—	—	(56)	(56)
Other amounts of other comprehensive income (loss)					
Net unrealized losses on available-for-sale securities	(63,977)	—	—	—	(63,977)
Unrealized loss on cash flow hedge	—	(2,415)	—	—	(2,415)
Non-credit portion of other-than-temporary impairment losses on held-to-maturity securities	—	—	(83)	—	(83)
Accretion of non-credit portion of other-than-temporary impairment losses to the carrying value of held-to-maturity securities	—	—	4,796	—	4,796
Total other comprehensive income (loss)	(67,779)	(2,308)	4,713	(56)	(65,430)
Balance at September 30, 2015	\$ (45,367)	\$ (2,308)	\$ (22,636)	\$ 1,280	\$ (69,031)

⁽¹⁾Net unrealized gains (losses) on available-for-sale securities are net of unrealized gains and losses relating to hedged interest rate risk included in net income.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the financial statements and notes thereto included in “Item 1. Financial Statements.”

Forward-Looking Information

This quarterly report contains forward-looking statements that reflect current beliefs and expectations of the Federal Home Loan Bank of Dallas (the “Bank”) about its future results, performance, liquidity, financial condition, prospects and opportunities. These statements are identified by the use of forward-looking terminology, such as “anticipates,” “plans,” “believes,” “could,” “estimates,” “may,” “should,” “would,” “will,” “might,” “expects,” “intends” or their negatives or other similar terms. The Bank cautions that forward-looking statements involve risks or uncertainties that could cause the Bank’s actual results to differ materially from those expressed or implied in these forward-looking statements, or could affect the extent to which a particular objective, projection, estimate or prediction is realized. As a result, undue reliance should not be placed on these statements.

These risks and uncertainties include, without limitation, evolving economic and market conditions, political events, and the impact of competitive business forces. The risks and uncertainties related to evolving economic and market conditions include, but are not limited to, changes in interest rates, changes in the Bank’s access to the capital markets, changes in the cost of the Bank’s debt, changes in the ratings on the Bank’s debt, adverse consequences resulting from a significant regional, national or global economic downturn (including, but not limited to, reduced demand for the Bank’s products and services), credit and prepayment risks, or changes in the financial health of the Bank’s members or non-member borrowers. Among other things, political events could possibly lead to changes in the Bank’s regulatory environment or its status as a government-sponsored enterprise (“GSE”), or to changes in the regulatory environment for the Bank’s members or non-member borrowers. Risks and uncertainties related to competitive business forces include, but are not limited to, the potential loss of a significant amount of member borrowings through acquisitions or other means or changes in the relative competitiveness of the Bank’s products and services for member institutions. For a more detailed discussion of the risk factors applicable to the Bank, see “Item 1A — Risk Factors” in the Bank’s Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the Securities and Exchange Commission (“SEC”) on March 22, 2016 (the “2015 10-K”). The Bank undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances, or any other reason.

Overview

Business

The Bank is one of 11 district Federal Home Loan Banks (each individually a “FHLBank” and collectively the “FHLBanks” and, together with the Federal Home Loan Banks Office of Finance (“Office of Finance”), a joint office of the FHLBanks, the “FHLBank System”) that were created by the Federal Home Loan Bank Act of 1932. The FHLBanks serve the public by enhancing the availability of credit for residential mortgages, community lending and targeted community development. As independent, member-owned cooperatives, the FHLBanks seek to maintain a balance between their public purpose and their ability to provide adequate returns on the capital supplied by their members. The Federal Housing Finance Agency (“Finance Agency”), an independent agency in the executive branch of the U.S. government, is responsible for supervising and regulating the FHLBanks and the Office of Finance. The Finance Agency’s stated mission is to ensure that the housing GSEs, including the FHLBanks, operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. Consistent with this mission, the Finance Agency establishes policies and regulations covering the operations of the FHLBanks.

The Bank serves eligible financial institutions in Arkansas, Louisiana, Mississippi, New Mexico and Texas (collectively, the Ninth District of the FHLBank System). The Bank’s primary business is lending relatively low cost funds (known as advances) to its member institutions, which include commercial banks, thrifts, insurance companies, credit unions, and Community Development Financial Institutions that are certified under the Community Development Banking and Financial Institutions Act of 1994. While not members of the Bank, housing associates, including state and local housing authorities, that meet certain statutory criteria may also borrow from the Bank. The Bank also maintains a portfolio of investments, substantially all of which are highly rated, for liquidity purposes and to provide additional earnings. Additionally, the Bank holds interests in a small portfolio of government-guaranteed/insured and conventional mortgage loans, the majority of which were acquired during the period from 1998 to mid-2003 through the Mortgage Partnership Finance[®] (“MPF[®]”) Program offered by the FHLBank of Chicago. In 2016, the Bank resumed acquiring conventional mortgage loans through the MPF Program; during the nine months ended September 30, 2016, \$25.6 million of mortgage loans were acquired. Shareholders’ return on their investment includes dividends (which are typically paid quarterly in the form of capital stock) and the value derived from access to the Bank’s products and services. Historically, the Bank has balanced the financial rewards to shareholders by seeking to pay a dividend that meets or exceeds the return on alternative short-term money market investments available to

shareholders, while lending funds at the lowest rates expected to be compatible with that objective and its objective to build retained earnings over time.

The Bank's capital stock is not publicly traded and can be held only by members of the Bank, by non-member institutions that acquire stock by virtue of acquiring member institutions, by a federal or state agency or insurer acting as a receiver of a closed institution, or by former members of the Bank that retain capital stock to support advances or other obligations that remain outstanding or until any applicable stock redemption or withdrawal notice period expires. All members must hold stock in the Bank. The Bank's capital stock has a par value of \$100 per share and is purchased, redeemed, repurchased and transferred only at its par value. By regulation, the parties to a transaction involving the Bank's stock can include only the Bank and its member institutions (or non-member institutions or former members, as described above). While a member could transfer stock to another member of the Bank, that transfer could occur only upon approval of the Bank and then only at par value. Members may redeem excess stock, or withdraw from membership and redeem all outstanding capital stock, with five years' written notice to the Bank.

The FHLBanks' debt instruments (known as consolidated obligations) are their primary source of funds and are the joint and several obligations of all 11 FHLBanks. Consolidated obligations are issued through the Office of Finance (acting as agent for the FHLBanks) and generally are publicly traded in the over-the-counter market. The Bank records on its statements of condition only those consolidated obligations for which it receives the proceeds. Consolidated obligations are not obligations of the U.S. government and the U.S. government does not guarantee them. Consolidated obligations are currently rated Aaa/P-1 by Moody's Investors Service ("Moody's") and AA+/A-1+ by S&P Global Ratings ("S&P"). These ratings indicate that each of these nationally recognized statistical rating organizations ("NRSROs") has concluded that the FHLBanks have a very strong capacity to meet their commitments to pay principal and interest on consolidated obligations. The ratings also reflect the FHLBank System's status as a GSE. Historically, the FHLBanks' GSE status and very high credit ratings on consolidated obligations have provided the FHLBanks with excellent capital markets access. Deposits, other borrowings and the proceeds from capital stock issued to members are also sources of funds for the Bank.

In addition to ratings on the FHLBanks' consolidated obligations, each FHLBank is rated individually by both S&P and Moody's. These individual FHLBank ratings apply to the individual obligations of the respective FHLBanks, such as interest rate derivatives, deposits and letters of credit. As of September 30, 2016, Moody's had assigned a deposit rating of Aaa/P-1 to each of the FHLBanks and S&P had rated each of the FHLBanks AA+/A-1+.

Shareholders, bondholders and prospective shareholders and bondholders should understand that these credit ratings are not a recommendation to buy, hold or sell securities and they may be subject to revision or withdrawal at any time by the NRSRO. The ratings from each of the NRSROs should be evaluated independently.

The Bank conducts its business and fulfills its public purpose primarily by acting as a financial intermediary between its members and the capital markets. The intermediation of the timing, structure and amount of its members' credit needs with the investment requirements of the Bank's creditors is made possible by the extensive use of interest rate exchange agreements, including interest rate swaps, swaptions and caps. The Bank's interest rate exchange agreements are accounted for in accordance with the provisions of Topic 815 of the Financial Accounting Standards Board Accounting Standards Codification entitled "*Derivatives and Hedging*."

The Bank's profitability objective is to generate sufficient earnings to allow the Bank to continue to increase its retained earnings and pay dividends on capital stock at rates that meet the Bank's dividend targets. The Bank's target for quarterly dividends on Class B-1 Stock is an annualized rate that approximates the average one-month LIBOR rate for the immediately preceding quarter, with the expectation that dividend rates on Class B-1 Stock will not be lower than an annualized rate of 0.375 percent (the rate paid on previously outstanding Class B shares during the period from 2010 through 2015). The target range for quarterly dividends on Class B-2 Stock is an annualized rate that approximates the average one-month LIBOR rate for the preceding quarter plus 0.5 - 1.0 percent. While the Bank has had a long-standing practice of paying quarterly dividends, future dividend payments cannot be assured.

The Bank operates in only one reportable segment. All of the Bank's revenues are derived from U.S. operations.

The following table summarizes the Bank’s membership, by type of institution, as of September 30, 2016 and December 31, 2015.

MEMBERSHIP SUMMARY

	September 30, 2016	December 31, 2015
Commercial banks	624	631
Thrifts	60	59
Credit unions	106	104
Insurance companies	37	36
Community Development Financial Institutions	5	5
Total members	832	835
Housing associates	8	8
Non-member borrowers	8	11
Total	848	854
Community Financial Institutions (“CFIs”) ⁽¹⁾	621	636

⁽¹⁾ The figures shown reflect the number of institutions that were Community Financial Institutions as of September 30, 2016 and December 31, 2015 based upon the definitions of Community Financial Institutions that applied as of those dates.

For 2016, Community Financial Institutions (“CFIs”) are defined to include all institutions insured by the Federal Deposit Insurance Corporation (“FDIC”) with average total assets as of December 31, 2015, 2014 and 2013 of less than \$1.128 billion. For 2015, CFIs were defined as FDIC-insured institutions with average total assets as of December 31, 2014, 2013 and 2012 of less than \$1.123 billion.

Financial Market Conditions

Economic growth in the United States expanded moderately during the third quarter of 2016. The gross domestic product increased at an annual rate of 2.9 percent during the third quarter of 2016, after increasing at an annual rate of 1.4 percent during the second quarter of 2016, 0.8 percent during the first quarter of 2016 and 2.6 percent during 2015. The nationwide unemployment rate was 5.0 percent at September 30, 2016, up slightly from 4.9 percent at June 30, 2016 and the same as the rates at both March 31, 2016 and December 31, 2015. Housing prices continued to improve in most major metropolitan areas.

The Federal Open Market Committee ("FOMC") maintained its target for the federal funds rate at a range between 0.25 percent and 0.50 percent throughout the first nine months of 2016. At its November 2016 meeting, the FOMC stated that it expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.

One-month and three-month LIBOR increased during the first nine months of 2016, with one-month and three-month LIBOR ending the third quarter at 0.53 percent and 0.85 percent, respectively, as compared to 0.43 percent and 0.61 percent, respectively, at the end of 2015.

The following table presents information on various market interest rates at September 30, 2016 and December 31, 2015 and various average market interest rates for the three-month and nine-month periods ended September 30, 2016 and 2015.

	Ending Rate		Average Rate		Average Rate	
	September 30, 2016	December 31, 2015	Third Quarter 2016	Third Quarter 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Federal Funds Target ⁽¹⁾	0.50%	0.50%	0.50%	0.25%	0.50%	0.25%
Average Effective Federal Funds Rate ⁽²⁾	0.29%	0.20%	0.40%	0.14%	0.38%	0.19%
1-month LIBOR ⁽¹⁾	0.53%	0.43%	0.51%	0.20%	0.46%	0.18%
3-month LIBOR ⁽¹⁾	0.85%	0.61%	0.79%	0.31%	0.69%	0.28%
2-year LIBOR ⁽¹⁾	1.01%	1.18%	0.96%	0.88%	0.92%	0.86%
5-year LIBOR ⁽¹⁾	1.18%	1.74%	1.14%	1.65%	1.21%	1.64%
10-year LIBOR ⁽¹⁾	1.46%	2.19%	1.43%	2.28%	1.60%	2.20%
3-month U.S. Treasury ⁽¹⁾	0.29%	0.16%	0.30%	0.04%	0.28%	0.03%
2-year U.S. Treasury ⁽¹⁾	0.77%	1.06%	0.73%	0.69%	0.78%	0.64%
5-year U.S. Treasury ⁽¹⁾	1.14%	1.76%	1.13%	1.56%	1.24%	1.51%
10-year U.S. Treasury ⁽¹⁾	1.60%	2.27%	1.56%	2.22%	1.74%	2.12%

⁽¹⁾ Source: Bloomberg

⁽²⁾ Source: Federal Reserve Statistical Release

Year-to-Date 2016 Summary

- The Bank ended the third quarter of 2016 with total assets of \$58.4 billion compared with \$42.1 billion at the end of 2015. The \$16.3 billion increase in total assets during the nine-month period was attributable primarily to increases in the Bank's advances (\$7.1 billion), short-term liquidity portfolio (\$6.1 billion) and long-term investments (\$3.0 billion).
- Total advances increased from \$24.7 billion at December 31, 2015 to \$31.8 billion at September 30, 2016.
- The Bank's net income for the three and nine months ended September 30, 2016 was \$21.1 million and \$50.6 million, respectively, as compared to \$5.6 million and \$52.5 million, respectively, during the corresponding periods in 2015. The increase of \$15.5 million for the three months ended September 30, 2016 compared to the corresponding period in 2015 was due primarily to a \$16.3 million increase in net interest income and an \$11.0 million favorable change in gains and losses on derivatives and hedging activities (most of which are expected to be transitory in nature), offset by a \$4.7 million increase in other expenses, a \$3.8 million decrease in realized gains on the sales of long-term investment securities, a \$2.0 million unfavorable change in gains and losses on trading securities and a \$1.7 million increase in Affordable Housing Program expenses. The decrease of \$1.9 million for the nine months ended September 30, 2016 compared to the corresponding period in 2015 was due primarily to a \$22.4 million unfavorable change in gains and losses on derivatives and hedging activities (most of which are expected to be transitory in nature), an \$11.3 million decrease in realized gains on the sales of long-term investment securities and a \$6.8 million increase in other expenses, offset by a \$29.4 million increase in net interest income, a \$7.6 million increase in gains on trading securities and a \$1.1 million increase in letter of credit fees. For additional discussion, see the section entitled "Results of Operations" beginning on page 62 of this report.
- At all times during the first nine months of 2016, the Bank was in compliance with all of its regulatory capital requirements. In addition, the Bank's retained earnings increased to \$800.6 million (1.37 percent of total assets) at September 30, 2016 from \$762.2 million (1.81 percent of total assets) at December 31, 2015.
- During the first nine months of 2016, the Bank paid dividends totaling \$12.2 million. The Bank's first quarter 2016 dividends on Class B-1 Stock and Class B-2 Stock were paid at annualized rates of 0.375 percent (as average one-month LIBOR for the fourth quarter of 2015 was 0.251 percent) and 1.251 percent (a rate equal to average one-month LIBOR for the fourth quarter of 2015 plus 1.0 percent), respectively. The Bank's second quarter 2016 dividends on Class B-1 Stock and Class B-2 Stock were paid at annualized rates of 0.431 percent (a rate equal to average one-month LIBOR for the first quarter of 2016) and 1.431 percent (a rate equal to average one-month LIBOR for the first quarter of 2016 plus 1.0 percent), respectively. The Bank's third quarter 2016 dividends on Class B-1 Stock and Class B-2 Stock were paid at annualized rates of 0.444 percent (a rate equal to average one-month LIBOR for the second

quarter of 2016) and 1.444 percent (a rate equal to average one-month LIBOR for the second quarter of 2016 plus 1.0 percent), respectively.

Selected Financial Data

SELECTED FINANCIAL DATA (dollars in thousands)

	2016			2015	
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
Balance sheet (at quarter end)					
Advances	\$ 31,821,835	\$ 31,122,698	\$ 24,294,953	\$ 24,746,802	\$ 22,769,525
Investments ⁽¹⁾	26,200,193	22,982,268	24,989,577	16,323,518	18,773,335
Mortgage loans	70,129	67,009	54,051	55,258	59,234
Allowance for credit losses on mortgage loans	141	141	141	141	141
Total assets	58,357,619	54,438,210	49,503,208	42,082,027	42,990,088
Consolidated obligations — discount notes	31,099,645	30,047,547	27,023,718	20,541,329	20,253,360
Consolidated obligations — bonds	23,122,425	20,747,687	19,006,826	18,024,692	19,130,108
Total consolidated obligations ⁽²⁾	54,222,070	50,795,234	46,030,544	38,566,021	39,383,468
Mandatorily redeemable capital stock ⁽³⁾	2,341	3,251	8,936	8,929	4,358
Capital stock — putable	1,880,042	1,810,769	1,583,434	1,540,132	1,464,306
Unrestricted retained earnings	727,513	715,278	702,374	699,213	688,811
Restricted retained earnings	73,110	68,885	64,648	62,990	60,054
Total retained earnings	800,623	784,163	767,022	762,203	748,865
Accumulated other comprehensive income (loss)	(23,000)	(124,157)	(101,804)	(103,023)	(69,031)
Total capital	2,657,665	2,470,775	2,248,652	2,199,312	2,144,140
Dividends paid ⁽³⁾	4,665	4,048	3,467	1,343	1,200
Income statement (for the quarter)					
Net interest income	\$ 44,668	\$ 37,813	\$ 35,734	\$ 32,759	\$ 28,349
Other income (loss)	2,405	5,393	(7,096)	4,411	(3,310)
Other expense	23,600	19,662	19,430	20,857	18,872
AHP assessment	2,348	2,355	922	1,632	617
Net income	21,125	21,189	8,286	14,681	5,550
Performance ratios					
Net interest margin ⁽⁴⁾	0.31%	0.30%	0.31%	0.31%	0.27%
Return on average assets	0.15	0.17	0.07	0.14	0.05
Return on average equity	3.23	3.46	1.51	2.72	1.02
Return on average capital stock ⁽⁵⁾	4.49	4.88	2.10	3.95	1.55
Total average equity to average assets	4.61	4.79	4.83	5.16	5.02
Regulatory capital ratio ⁽⁶⁾	4.60	4.77	4.77	5.49	5.16
Dividend payout ratio ⁽³⁾⁽⁷⁾	22.08	19.10	41.84	9.15	21.62
Average effective federal funds rate ⁽⁸⁾	0.40%	0.37%	0.36%	0.16%	0.14%

- (1) Investments consist of federal funds sold, interest-bearing deposits, securities purchased under agreements to resell and securities classified as held-to-maturity, available-for-sale, and trading.
- (2) The Bank is jointly and severally liable with the other FHLBanks for the payment of principal and interest on the consolidated obligations of all of the FHLBanks. At September 30, 2016, June 30, 2016, March 31, 2016, December 31, 2015 and September 30, 2015, the outstanding consolidated obligations (at par value) of all of the FHLBanks totaled approximately \$968 billion, \$964 billion, \$897 billion, \$905 billion and \$857 billion, respectively. As of those dates, the Bank's outstanding consolidated obligations (at par value) were \$54 billion, \$51 billion, \$46 billion, \$39 billion and \$39 billion, respectively.
- (3) Mandatorily redeemable capital stock represents capital stock that is classified as a liability under accounting principles generally accepted in the United States of America. Dividends on mandatorily redeemable capital stock are recorded as interest expense and excluded from dividends paid. Dividends paid on mandatorily redeemable capital stock totaled \$9 thousand, \$11 thousand, \$4 thousand, \$4 thousand and \$4 thousand for the quarters ended September 30, 2016, June 30, 2016, March 31, 2016, December 31, 2015 and September 30, 2015, respectively.
- (4) Net interest margin is net interest income as a percentage of average earning assets.
- (5) Return on average capital stock is derived by dividing net income by average capital stock balances excluding mandatorily redeemable capital stock.
- (6) The regulatory capital ratio is computed by dividing regulatory capital (the sum of capital stock — putable, mandatorily redeemable capital stock and retained earnings) by total assets at each quarter-end.
- (7) Dividend payout ratio is computed by dividing dividends paid by net income for each quarter.
- (8) Rates obtained from the Federal Reserve Statistical Release.

Regulatory Developments

Joint Proposed Rule on Incentive-Based Compensation Arrangements

On April 26, 2016, the Finance Agency, jointly with five other federal regulators, published a proposed rule in response to Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), which requires implementation of regulations or guidelines to: (1) prohibit incentive-based payment arrangements that encourage inappropriate risks by certain financial institutions and (2) require those financial institutions to disclose information concerning incentive-based compensation arrangements to the appropriate federal regulator.

The proposed rule identifies three categories of institutions that would be covered by these regulations based on average total consolidated assets, applying less prescriptive incentive-based compensation program requirements to the smallest covered institutions (Level 3) and progressively more rigorous requirements to the larger covered institutions (Level 1). Under the proposed rule, the Bank would fall into the middle category (Level 2). The proposed rule would supplement existing Finance Agency executive compensation rules.

The proposed rule would prohibit the Bank from establishing or maintaining incentive-based compensation arrangements that encourage inappropriate risks by "senior executive officers" and "significant risk-takers" (each as defined in the proposed rule, and together, "covered persons") that could lead to a material financial loss at the Bank.

If adopted in its current form, the proposed rule would, among other things, impose requirements relating to the Bank's incentive-based compensation arrangements for covered persons, including the following:

- mandatory deferrals of 50 percent and 40 percent of annual and long-term incentive-based compensation payments for senior executive officers and significant risk takers, respectively, over no less than three years for annual incentive-based compensation and one year for compensation awarded under a long-term incentive plan;
- risk of downward adjustment and forfeiture of awards;
- clawbacks of vested compensation; and
- limits on the maximum incentive-based compensation opportunities.

Comments on the proposed rule were due by July 22, 2016.

Joint Proposed Rule Regarding Net Stable Funding Ratio

On May 3, 2016, the Federal Reserve Board ("FRB"), the Department of Treasury and the FDIC jointly issued a proposed rule that would implement a stable funding requirement for large and internationally active banking organizations. The net stable funding ratio ("NSFR") would require institutions to maintain liquidity to match their assets over a one-year time horizon. The FRB is proposing a modified NSFR requirement for bank holding companies and certain savings and loan holding companies that, in each case, have more than \$50 billion but less than \$250 billion in total consolidated assets and less than \$10 billion in total on-balance sheet foreign exposure. If adopted in its current form, the proposed rule would provide that secured funding

with maturities between six months and one year, including FHLBank advances, would be assigned 50 percent liquidity credit for purposes of calculating compliance with the NSFR, which could affect demand for the Bank's advances.

Comments on the proposed rule were due by August 5, 2016.

Final Rule Establishing Margin Requirements for the TBA Market

On June 15, 2016, the SEC approved a rule that was proposed by the Financial Industry Regulatory Authority ("FINRA") which will require the margining of certain "to-be-announced" ("TBA") transactions. Specifically, FINRA Rule 4210 will require FINRA members to collect from, but not post to, their customer's maintenance margin (i.e., initial margin) and variation margin on transactions that are "Covered Agency Transactions," subject to certain exemptions. A "Covered Agency Transaction" includes:

- TBA transactions inclusive of ARM transactions and Specified Pool Transactions (each as defined by FINRA rules) for which the difference between the trade date and contractual settlement date is greater than one business day; and
- Collateralized mortgage obligations issued in conformity with a program of an agency or a GSE for which the difference between the trade date and contractual settlement date is greater than three business days.

Covered Agency Transactions with a counterparty in multifamily housing securities are exempt from the margin requirements provided that certain requirements are met.

Under the rule, the Bank is exempt from posting initial margin but would be required to post variation margin to its FINRA-member counterparty in connection with any Covered Agency Transactions, provided the Bank has more than \$10 million in gross open positions with the counterparty.

FINRA members will be required to comply with the new margin requirements beginning in December 2017.

Proposed Rule on Indemnification Payments

On September 20, 2016, the Finance Agency issued a re-proposed rule that, if adopted, would establish standards for identifying whether an indemnification payment by a FHLBank to an officer, director, employee, or other entity-affiliated party in connection with an administrative proceeding or civil action initiated by the Finance Agency is prohibited or permissible.

Under the proposed rule, those payments would only be permitted if they relate to:

- premiums for professional liability insurance or fidelity bonds for directors and officers, to the extent that the insurance or fidelity bond covers expenses and restitution, but not a judgment in favor of the Finance Agency or a civil money penalty;
- expenses of defending an action, subject to an agreement to repay those expenses in certain instances; and
- amounts due under an indemnification agreement entered into on or prior to September 20, 2016.

The proposed rule also outlines the process that a board of directors must undertake prior to making any permitted indemnification payment for expenses of defending an action initiated by the Finance Agency.

Comments on the proposed rule are due by December 21, 2016.

Financial Condition

The following table provides selected period-end balances as of September 30, 2016 and December 31, 2015, as well as selected average balances for the nine-month period ended September 30, 2016 and the year ended December 31, 2015. As shown in the table, the Bank's total assets increased by 38.7 percent between December 31, 2015 and September 30, 2016, due primarily to increases in the Bank's advances, short-term liquidity portfolio and long-term investments of \$7.1 billion, \$6.1 billion and \$3.0 billion, respectively. As the Bank's assets increased, the funding for those assets also increased. During the nine months ended September 30, 2016, total consolidated obligations increased by \$15.7 billion as consolidated obligation bonds and consolidated obligation discount notes increased by \$5.1 billion and \$10.6 billion, respectively.

The activity in each of the major balance sheet captions is discussed in the sections following the table.

SUMMARY OF CHANGES IN FINANCIAL CONDITION
(dollars in millions)

	September 30, 2016			Balance at December 31, 2015
	Balance	Increase (Decrease)		
		Amount	Percentage	
Advances	\$ 31,822	\$ 7,075	28.6 %	\$ 24,747
Short-term liquidity holdings				
Non-interest bearing excess cash balances ⁽¹⁾	—	(800)	(100.0)%	800
Securities purchased under agreements to resell	3,250	2,250	225.0 %	1,000
Federal funds sold	6,803	4,632	213.4 %	2,171
Long-term investments				
Trading securities	109	(93)	(46.0)%	202
Available-for-sale securities	13,358	3,645	37.5 %	9,713
Held-to-maturity securities	2,671	(557)	(17.3)%	3,228
Mortgage loans, net	70	15	27.3 %	55
Total assets	58,358	16,276	38.7 %	42,082
Consolidated obligations — bonds	23,122	5,097	28.3 %	18,025
Consolidated obligations — discount notes	31,100	10,559	51.4 %	20,541
Total consolidated obligations	54,222	15,656	40.6 %	38,566
Mandatorily redeemable capital stock	2	(7)	(77.8)%	9
Capital stock	1,880	340	22.1 %	1,540
Retained earnings	801	39	5.1 %	762
Average total assets	51,190	9,004	21.3 %	42,186
Average capital stock	1,737	387	28.7 %	1,350
Average mandatorily redeemable capital stock	6	2	50.0 %	4

⁽¹⁾ Represents excess cash held by the Bank. These amounts are classified as “Cash and due from banks” in the Bank’s statements of condition.

Advances

The Bank's advances balances (at par value) increased by \$7.1 billion (28.6 percent) during the first nine months of 2016. The increase in the Bank's advances was due largely to increased demand for loans from its larger members. The following table presents advances outstanding, by type of institution, as of September 30, 2016 and December 31, 2015.

ADVANCES OUTSTANDING BY BORROWER TYPE

(par value, dollars in millions)

	September 30, 2016		December 31, 2015	
	Amount	Percent	Amount	Percent
Commercial banks	\$ 23,428	74%	\$ 17,726	72%
Thrifts	2,441	8	2,590	11
Credit unions	2,595	8	2,763	11
Insurance companies	3,186	10	1,546	6
Community Development Financial Institutions	14	—	11	—
Total member advances	31,664	100	24,636	100
Housing associates	28	—	2	—
Non-member borrowers	11	—	12	—
Total par value of advances	<u>\$ 31,703</u>	<u>100%</u>	<u>\$ 24,650</u>	<u>100%</u>
Total par value of advances outstanding to CFIs ⁽¹⁾	<u>\$ 7,496</u>	<u>24%</u>	<u>\$ 6,559</u>	<u>27%</u>

⁽¹⁾ The figures shown reflect the advances outstanding to CFIs as of September 30, 2016 and December 31, 2015 based upon the definitions of CFIs that applied as of those dates.

At September 30, 2016, advances outstanding to the Bank's five largest borrowers totaled \$8.2 billion, representing 25.8 percent of the Bank's total outstanding advances as of that date. In comparison, advances outstanding to the Bank's five largest borrowers as of December 31, 2015 totaled \$6.5 billion, representing 26.2 percent of the total outstanding advances at that date. The following table presents the Bank's five largest borrowers as of September 30, 2016.

FIVE LARGEST BORROWERS AS OF SEPTEMBER 30, 2016

(par value, dollars in millions)

Name	Par Value of Advances	Percent of Total Par Value of Advances
Comerica Bank	\$ 2,800	8.8%
Texas Capital Bank, N.A.	1,650	5.2
Centennial Bank	1,420	4.5
Southside Bank	1,172	3.7
LegacyTexas Bank	1,134	3.6
	<u>\$ 8,176</u>	<u>25.8%</u>

The following table presents information regarding the composition of the Bank's advances by product type as of September 30, 2016 and December 31, 2015.

ADVANCES OUTSTANDING BY PRODUCT TYPE
(par value, dollars in millions)

	September 30, 2016		December 31, 2015	
	Balance	Percentage of Total	Balance	Percentage of Total
Fixed-rate	\$ 17,521	55.3%	\$ 17,220	69.9%
Adjustable/variable-rate indexed	12,684	40.0	5,949	24.1
Amortizing	1,498	4.7	1,481	6.0
Total par value	\$ 31,703	100.0%	\$ 24,650	100.0%

The Bank is required by statute and regulation to obtain sufficient collateral from members/borrowers to fully secure all advances and other extensions of credit. The Bank's collateral arrangements with its members/borrowers and the types of collateral it accepts to secure advances are described in the 2015 10-K. To ensure the value of collateral pledged to the Bank is sufficient to secure its advances, the Bank applies various haircuts, or discounts, to determine the value of the collateral against which borrowers may borrow. From time to time, the Bank reevaluates the adequacy of its collateral haircuts under a range of stress scenarios to ensure that its collateral haircuts are sufficient to protect the Bank from credit losses on advances.

In addition, as described in the 2015 10-K, the Bank reviews the financial condition of its depository institution borrowers on at least a quarterly basis to identify any borrowers whose financial condition indicates they might pose an increased credit risk and, as needed, takes appropriate action. The Bank has not experienced any credit losses on advances since it was founded in 1932 and, based on its credit extension and collateral policies, management currently does not anticipate any credit losses on advances. Accordingly, the Bank has not provided any allowance for losses on advances.

Short-Term Liquidity Holdings

At September 30, 2016, the Bank's short-term liquidity holdings were comprised of \$6.8 billion of overnight federal funds sold and \$3.3 billion of overnight reverse repurchase agreements. At December 31, 2015, the Bank's short-term liquidity holdings were comprised of \$2.2 billion of overnight federal funds sold, a \$1.0 billion overnight reverse repurchase agreement and \$0.8 billion of non-interest bearing excess cash balances held at the Federal Reserve Bank of Dallas. All of the Bank's federal funds sold during the nine months ended September 30, 2016 were transacted with domestic bank counterparties and U.S. branches of foreign financial institutions on an overnight basis. As of September 30, 2016, the Bank's overnight federal funds sold consisted of \$2.5 billion sold to counterparties rated double-A, \$3.8 billion sold to counterparties rated single-A and \$0.5 billion sold to counterparties rated triple-B. The credit ratings presented in the preceding sentence represent the lowest long-term rating assigned to the counterparty by Moody's, S&P or Fitch Ratings, Ltd. ("Fitch").

The amount of the Bank's short-term liquidity holdings fluctuates in response to several factors, including the anticipated demand for advances, the timing and extent of advance prepayments, changes in the Bank's deposit balances, the Bank's pre-funding activities, prevailing conditions (or anticipated changes in conditions) in the short-term debt markets, changes in the returns provided by short-term investment alternatives relative to the Bank's discount note funding costs, the level of liquidity needed to satisfy Finance Agency requirements and, on and after July 14, 2015, the Finance Agency's expectations with regard to the Bank's core mission achievement. For a discussion of the Finance Agency's liquidity requirements, see the section below entitled "Liquidity and Capital Resources." For a discussion of the Finance Agency's guidance regarding core mission achievement, see Item 1 - Business - Legislative and Regulatory Developments in the 2015 10-K. For the nine months ended September 30, 2016, the Bank's core mission asset ("CMA") ratio was 60.73 percent. In comparison, the Bank's CMA ratio was 55.96 percent for the year ended December 31, 2015.

Long-Term Investments

The composition of the Bank's long-term investment portfolio at September 30, 2016 and December 31, 2015 is set forth in the table below.

COMPOSITION OF LONG-TERM INVESTMENT PORTFOLIO

(in millions)

	Balance Sheet Classification			Total Long-Term	
	Held-to-Maturity (at carrying value)	Available-for-Sale (at fair value)	Trading (at fair value)	Investments (at carrying value)	Held-to-Maturity (at fair value)
September 30, 2016					
Debentures					
U.S. government-guaranteed obligations	\$ 17	\$ 517	\$ 109	\$ 643	\$ 17
GSE obligations	—	6,780	—	6,780	—
State housing agency obligations	110	—	—	110	110
Other	—	340	—	340	—
Total debentures	127	7,637	109	7,873	127
Mortgage-backed securities portfolio					
U.S. government-guaranteed residential MBS	3	—	—	3	3
GSE residential MBS	2,376	—	—	2,376	2,384
GSE commercial MBS	62	5,721	—	5,783	61
Non-agency residential MBS	103	—	—	103	114
Total MBS	2,544	5,721	—	8,265	2,562
Total long-term investments	\$ 2,671	\$ 13,358	\$ 109	\$ 16,138	\$ 2,689
	Balance Sheet Classification			Total Long-Term	
	Held-to-Maturity (at carrying value)	Available-for-Sale (at fair value)	Trading (at fair value)	Investments (at carrying value)	Held-to-Maturity (at fair value)
December 31, 2015					
Debentures					
U.S. government-guaranteed obligations	\$ 22	\$ 498	\$ 202	\$ 722	\$ 21
GSE obligations	—	5,339	—	5,339	—
State housing agency obligations	110	—	—	110	110
Other	—	371	—	371	—
Total debentures	132	6,208	202	6,542	131
Mortgage-backed securities portfolio					
U.S. government-guaranteed residential MBS	4	—	—	4	4
GSE residential MBS	2,909	—	—	2,909	2,931
GSE commercial MBS	62	3,505	—	3,567	61
Non-agency residential MBS	121	—	—	121	135
Total MBS	3,096	3,505	—	6,601	3,131
Total long-term investments	\$ 3,228	\$ 9,713	\$ 202	\$ 13,143	\$ 3,262

As of September 30, 2016, the U.S. government and the issuers of the Bank's holdings of GSE debentures and GSE mortgage-backed securities ("MBS") were rated triple-A by Moody's and Fitch and AA+ by S&P. The Bank's holdings of other debentures, which were comprised of securities issued by the Private Export Funding Corporation ("PEFCO"), are currently rated triple-A by Moody's and Fitch. The PEFCO debentures are not currently rated by S&P. The credit ratings associated with the Bank's holdings of non-agency residential MBS ("RMBS") are presented in the table on page 53.

During the nine months ended September 30, 2016, the Bank acquired (based on trade date) \$1.9 billion of GSE commercial MBS ("CMBS"), \$3.7 billion of GSE debentures and \$0.3 billion of U.S. Treasury Notes, all of which were classified as available-for-sale. All of the Bank's CMBS holdings are backed by multi-family loans. During this same nine-month period, the proceeds from maturities and paydowns of held-to-maturity securities and available-for-sale securities totaled approximately \$434.3 million and \$37.2 million, respectively.

During the nine months ended September 30, 2016, the Bank sold approximately \$130 million (par value) of GSE RMBS classified as held-to-maturity securities. The aggregate gains recognized on these sales totaled \$0.8 million. For each of these securities, the Bank had previously collected at least 85 percent of the principal outstanding at the time of acquisition. As such, the sales were considered maturities for purposes of security classification. The proceeds from these sales were reinvested in higher yielding GSE CMBS. During this same nine-month period, the Bank sold approximately \$2.6 billion (par value) of non-MBS securities classified as available-for-sale. The aggregate gains recognized on these sales totaled \$5.1 million. The non-MBS securities that were sold were largely replaced with longer-dated, higher yielding GSE debentures.

The Bank is precluded by regulation from purchasing additional MBS if such purchase would cause the aggregate amortized cost of its MBS holdings to exceed 300 percent of the Bank's total regulatory capital (the sum of its capital stock, mandatorily redeemable capital stock and retained earnings). However, the Bank is not required to sell any mortgage securities that it purchased at a time when it was in compliance with this ratio. At September 30, 2016, the Bank held \$8.3 billion (amortized cost) of MBS, which represented 310 percent of its total regulatory capital as of that date. The Bank intends to continue to purchase additional GSE MBS if securities with adequate returns are available when the Bank has the regulatory capacity to increase its MBS portfolio.

In addition to MBS, the Bank is also permitted under applicable policies and regulations to purchase certain other types of highly rated, long-term, non-MBS investments (including but not limited to the non-MBS debt obligations of other GSEs, subject to certain limits). Subject to applicable regulatory limits and the constraints imposed by the Finance Agency's guidance regarding core mission achievement, the Bank may continue to add these types of securities to its long-term investment portfolio if attractive opportunities to do so are available.

Gross unrealized losses on the Bank's MBS investments decreased from \$102.7 million at December 31, 2015 to \$68.8 million at September 30, 2016. As of September 30, 2016, \$56.4 million of the gross unrealized losses related to the Bank's holdings of GSE CMBS, \$8.1 million related to non-agency RMBS and \$4.3 million related to GSE RMBS.

The Bank evaluates all outstanding held-to-maturity and available-for-sale investment securities in an unrealized loss position as of the end of each calendar quarter for other-than-temporary impairment ("OTTI"). An investment security is impaired if the fair value of the investment is less than its amortized cost. For a summary of the Bank's OTTI evaluation, see "Item 1. Financial Statements" (specifically, Notes 4 and 5 beginning on pages 9 and 12, respectively, of this report).

The deterioration in the U.S. housing markets that occurred primarily during the period from 2007 through 2011, as reflected during that period by declines in the values of residential real estate and higher levels of delinquencies, defaults and losses on residential mortgages, including the mortgages underlying the Bank's non-agency RMBS, generally increased the risk that the Bank may not ultimately recover the entire cost bases of some of its non-agency RMBS. However, based upon its analysis of the securities in this portfolio, the Bank believes that the unrealized losses as of September 30, 2016 were principally the result of liquidity risk related discounts in the non-agency RMBS market and do not accurately reflect the currently likely future credit performance of the securities.

All but one of the Bank’s non-agency RMBS are rated by one or more of the following NRSROs: Moody’s, S&P and/or Fitch. The following table presents the credit ratings assigned to the Bank’s non-agency RMBS holdings as of September 30, 2016. The credit ratings presented in the table represent the lowest rating assigned to the security by Moody’s, S&P or Fitch.

NON-AGENCY RMBS CREDIT RATINGS
(dollars in thousands)

Credit Rating	Number of Securities	Unpaid Principal Balance	Amortized Cost	Carrying Value	Estimated Fair Value	Unrealized Losses
Single-A	1	\$ 7,020	\$ 7,020	\$ 7,020	\$ 6,593	\$ 427
Triple-B	3	13,713	13,713	13,713	13,056	657
Double-B	2	2,787	2,787	2,787	2,621	166
Single-B	4	18,588	18,479	16,632	16,571	1,908
Triple-C	12	78,153	70,847	56,218	66,859	4,887
Single-D	1	10,159	8,209	6,524	8,120	89
Not Rated	1	99	99	99	93	6
Total	24	\$ 130,519	\$ 121,154	\$ 102,993	\$ 113,913	\$ 8,140

At September 30, 2016, the Bank’s portfolio of non-agency RMBS was comprised of 5 securities with an aggregate unpaid principal balance of \$18 million that are backed by first lien fixed-rate loans and 19 securities with an aggregate unpaid principal balance of \$112 million that are backed by first lien option adjustable-rate mortgage (“option ARM”) loans. In comparison, as of December 31, 2015, the Bank’s portfolio of non-agency RMBS was comprised of 8 securities backed by fixed-rate loans with an aggregate unpaid principal balance of \$25 million and 19 securities backed by option ARM loans with an aggregate unpaid principal balance of \$128 million. Three of the Bank’s unimpaired non-agency RMBS were paid in full during the nine months ended September 30, 2016. A summary of the Bank’s non-agency RMBS as of December 31, 2015 by classification by the originator at the time of issuance and collateral type is presented in the 2015 10-K; there were no material changes to this information during the nine months ended September 30, 2016.

To assess whether the entire amortized cost bases of its non-agency RMBS are likely to be recovered, the Bank performed a cash flow analysis for each of its non-agency RMBS holdings as of September 30, 2016 under a base case (or best estimate) scenario. The procedures used in this analysis, together with the results thereof, are summarized in “Item 1. Financial Statements” (specifically, Note 5 beginning on page 12 of this report).

Since 2009, the Bank has recorded credit impairments totaling \$13.1 million on 15 of its non-agency RMBS. The vast majority of these credit impairments were recorded in 2009, 2010 and 2011. Through September 30, 2016, the Bank has amortized \$0.4 million of the time value associated with these credit losses. Through this same date, actual principal shortfalls on these securities have totaled \$1.9 million and the Bank has recognized recoveries (i.e., increases in cash flows expected to be collected) totaling \$2.3 million. Based on the cash flow analyses performed as of September 30, 2016, the Bank currently expects to recover in future periods an additional \$8.7 million of the previously recorded losses. These anticipated recoveries will be accreted as interest income over the remaining lives of the applicable securities in the same manner as the recoveries that have been recorded through September 30, 2016.

In addition to evaluating its non-agency RMBS under a best estimate scenario, the Bank also performed a cash flow analysis for each of these securities as of September 30, 2016 under a more stressful housing price scenario. This more stressful scenario was based on a housing price forecast that assumed home price changes for the 12-month period beginning July 1, 2016 were 5 percentage points lower than the base case scenario followed by home price changes that are 33 percent lower than those used in the base case scenario. Under the more stressful housing price scenario, an additional \$1,000 of credit impairment would have been recorded as of September 30, 2016 on the one security that was deemed to be other-than-temporarily impaired at that date under the best estimate scenario. None of the Bank’s other non-agency RMBS would have been deemed to be other-than-temporarily impaired under the more stressful housing price scenario.

While substantially all of the Bank’s RMBS portfolio is comprised of collateralized mortgage obligations (“CMOs”) with variable-rate coupons (\$2.5 billion par value at September 30, 2016) that do not expose it to interest rate risk if interest rates rise moderately, these securities include caps that would limit increases in the variable-rate coupons if short-term interest rates rise above the caps. In addition, if interest rates rise, prepayments on the mortgage loans underlying the securities would likely decline, thus lengthening the time that the securities would remain outstanding with their coupon rates capped. As of September 30, 2016, one-month LIBOR was 0.53 percent and the effective interest rate caps on one-month LIBOR (the interest cap rate minus the stated spread on the coupon) embedded in the CMO floaters ranged from 5.95 percent to 15.29 percent. The

largest concentration of embedded effective caps (\$2.0 billion) was between 6.00 percent and 6.50 percent. As of September 30, 2016, one-month LIBOR rates were 542 basis points below the lowest effective interest rate cap embedded in the CMO floaters. To hedge a portion of the potential cap risk embedded in these securities, the Bank held \$1.2 billion of interest rate caps with remaining maturities ranging from 24 months to 59 months as of September 30, 2016, and strike rates of 6.50 percent. If interest rates rise above the strike rates specified in these interest rate cap agreements, the Bank will be entitled to receive interest payments according to the terms and conditions of such agreements. These payments would be based upon the notional amounts of those agreements and the difference between 6.50 percent and three-month LIBOR.

The following table provides a summary of the notional amounts and expiration periods of the Bank's portfolio of stand-alone CMO-related interest rate cap agreements as of September 30, 2016.

SUMMARY OF CMO-RELATED INTEREST RATE CAP AGREEMENTS
(dollars in millions)

Expiration	Notional Amount
Third quarter 2018	\$ 200
First quarter 2019	250
Third quarter 2021 ⁽¹⁾	750
	\$ 1,200

⁽¹⁾ This cap is effective beginning in August 2018 and its notional balance declines by \$250 million in August 2019 and again in August 2020, to \$500 million and \$250 million, respectively.

Consolidated Obligations and Deposits

During the nine months ended September 30, 2016, the Bank's outstanding consolidated obligation bonds (at par value) increased by \$5.1 billion and its outstanding consolidated obligation discount notes increased by \$10.6 billion. The following table presents the composition of the Bank's outstanding bonds at September 30, 2016 and December 31, 2015.

COMPOSITION OF CONSOLIDATED OBLIGATION BONDS OUTSTANDING
(par value, dollars in millions)

	September 30, 2016		December 31, 2015	
	Balance	Percentage of Total	Balance	Percentage of Total
Fixed-rate				
Non-callable	\$ 10,223	44.2%	\$ 9,244	51.3%
Callable	1,892	8.2	2,515	13.9
Variable-rate	8,451	36.6	3,625	20.1
Callable step-up	2,454	10.6	2,510	13.9
Callable step-down	100	0.4	150	0.8
Total par value	\$ 23,120	100.0%	\$ 18,044	100.0%

During the first nine months of 2016, the Bank issued \$19.1 billion of consolidated obligation bonds and approximately \$103.9 billion of consolidated obligation discount notes (excluding those with overnight terms), the proceeds of which were used primarily to replace maturing or called consolidated obligation bonds and maturing discount notes, as well as to fund the increases in the Bank's investment and advances portfolios. At September 30, 2016 and December 31, 2015, discount notes comprised approximately 57 percent and 53 percent, respectively, of the Bank's total outstanding consolidated obligations. During the nine months ended September 30, 2016, the Bank's bond issuance (based on par value) consisted of approximately \$8.7 billion of variable-rate bonds, \$4.8 billion of fixed-rate non-callable bonds (most of which were swapped), and \$5.6 billion of swapped fixed-rate callable bonds (including step-up and step-down bonds).

The weighted average cost of swapped and variable-rate consolidated obligation bonds issued by the Bank approximated LIBOR minus 19 basis points during the three months ended September 30, 2016, compared to LIBOR minus 14 basis points during the three months ended June 30, 2016, LIBOR minus 12 basis points during the three months ended March 31, 2016

and LIBOR minus 12 basis points during the three months ended September 30, 2015. The Bank's funding levels (relative to LIBOR) for consolidated obligation bonds deteriorated in the second half of 2015 due to a significant decrease in swap spreads during that period and an increase in competing debt issuance by other GSEs. Swap spreads tightened relative to U.S. Treasury debt during the second half of 2015 due to several factors, including a large volume of swapped corporate debt issuance, a rise in repo rates and increased sales of U.S. Treasury debt by central banks. Swap spreads widened during the second and third quarters of 2016, resulting in an improvement in the Bank's funding levels (relative to LIBOR) for consolidated obligation bonds. The widening of swap spreads was mainly due to the then impending changes to the rules that govern money market funds.

The cost of the Bank's consolidated obligation discount notes also increased during the second half of 2015 due to short term debt investors' desire to invest only in very short maturity instruments, which was attributable to the uncertainty at that time regarding potential interest rate increases by the FOMC at its September 2015 and December 2015 meetings. Dealers' reduced capacity to hold consolidated obligation discount notes (due to balance sheet constraints) also contributed to the increase in the Bank's discount note funding costs during the second half of 2015. While dealers' balance sheets were less constrained during the first quarter of 2016, the cost of discount notes increased commensurate with the increase in short-term interest rates during the first quarter of 2016. The cost of discount notes continued to increase early in the second quarter, primarily due to uncertainty regarding future rate increases by the FOMC. Toward the end of the second quarter and continuing into the third quarter, the Bank's discount note funding costs improved due in part to Great Britain's vote to exit the European Union and the then impending changes to the rules that govern money market funds, each of which contributed to increased demand for discount notes.

Demand and term deposits were \$1.1 billion and \$1.0 billion at September 30, 2016 and December 31, 2015, respectively. The size of the Bank's deposit base varies as market factors change, including the attractiveness of the Bank's deposit pricing relative to the rates available to members on alternative money market investments, members' investment preferences with respect to the maturity of their investments, and member liquidity.

Capital

The Bank's outstanding capital stock (excluding mandatorily redeemable capital stock) was \$1.9 billion and \$1.5 billion at September 30, 2016 and December 31, 2015, respectively. The Bank's average outstanding capital stock (excluding mandatorily redeemable capital stock) increased from \$1.4 billion for the year ended December 31, 2015 to \$1.7 billion for the nine months ended September 30, 2016.

Mandatorily redeemable capital stock outstanding at September 30, 2016 and December 31, 2015 was \$2.3 million and \$8.9 million, respectively. Although mandatorily redeemable capital stock is excluded from capital (equity) for financial reporting purposes, it is considered capital for regulatory purposes.

At September 30, 2016 and December 31, 2015, the Bank's five largest shareholders collectively held \$350 million and \$278 million, respectively, of capital stock, which represented 18.6 percent and 17.9 percent, respectively, of the Bank's total outstanding capital stock (including mandatorily redeemable capital stock) as of those dates. The following table presents the Bank's five largest shareholders as of September 30, 2016.

FIVE LARGEST SHAREHOLDERS AS OF SEPTEMBER 30, 2016

(par value, dollars in thousands)

Name	Par Value of Capital Stock	Percent of Total Par Value of Capital Stock
Comerica Bank	\$ 121,800	6.5%
Centennial Bank	66,522	3.5
Texas Capital Bank, N.A.	62,223	3.3
Southside Bank	51,901	2.8
Iberiabank	47,589	2.5
	\$ 350,035	18.6%

As of September 30, 2016, all of the stock held by the five institutions shown in the table above was classified as capital in the statement of condition.

The following table presents outstanding capital stock, by type of institution, as of September 30, 2016 and December 31, 2015.

CAPITAL STOCK OUTSTANDING BY INSTITUTION TYPE
(par value, dollars in millions)

	September 30, 2016		December 31, 2015	
	Par Value of Capital Stock	Percent of Total Par Value of Capital Stock	Par Value of Capital Stock	Percent of Total Par Value of Capital Stock
Commercial banks	\$ 1,345	71%	\$ 1,065	69%
Credit unions	228	12	226	15
Thrifts	131	8	152	10
Insurance companies	175	9	97	6
Community Development Financial Institutions	1	—	—	—
Total capital stock classified as capital	1,880	100	1,540	100
Mandatorily redeemable capital stock	2	—	9	—
Total regulatory capital stock	<u>\$ 1,882</u>	<u>100%</u>	<u>\$ 1,549</u>	<u>100%</u>

Members are required to maintain an investment in Class B Stock equal to the sum of a membership investment requirement and an activity-based investment requirement. The membership investment requirement is currently 0.04 percent of each member's total assets as of the previous calendar year-end, subject to a minimum of \$1,000 and a maximum of \$7,000,000. The activity-based investment requirement is currently 4.1 percent of outstanding advances, except for advances that were funded under the Bank's special reduced stock advances offering that ran from October 21, 2015 through December 31, 2015. The activity-based investment requirement for those advances was (and continues to be) 2.0 percent of the outstanding advances. Class B-1 Stock is used to meet the membership investment requirement and Class B-2 Stock is used to meet the activity-based investment requirement.

Quarterly, the Bank generally repurchases a portion of members' excess capital stock. Excess capital stock is defined as the amount of stock held by a member (or former member) in excess of that institution's minimum investment requirement. The portion of members' excess capital stock subject to repurchase is known as surplus stock. For the repurchases that occurred during the nine months ended September 30, 2016, surplus stock was defined as the amount of stock held by a shareholder in excess of 125 percent of the shareholder's minimum investment requirement. For those repurchases, which occurred on February 25, 2016, June 27, 2016 and September 27, 2016, a shareholder's surplus stock was not repurchased if: (1) the amount of that shareholder's surplus stock was \$2,500,000 or less; (2) the shareholder elected to opt-out of the repurchase; or (3) the shareholder was on restricted collateral status (subject to certain exceptions). On February 25, 2016, June 27, 2016 and September 27, 2016, the Bank repurchased surplus stock totaling \$103,707,000, \$60,999,000 and \$47,783,000, respectively, none of which was classified as mandatorily redeemable capital stock at those dates.

At September 30, 2016, the Bank's excess stock totaled \$380.2 million, which represented 0.7 percent of the Bank's total assets as of that date.

During the nine months ended September 30, 2016, the Bank's retained earnings increased by \$38.4 million, from \$762.2 million to \$800.6 million. During this same period, the Bank paid dividends on capital stock totaling \$12.2 million, which represented a weighted average annualized dividend rate of 1.01 percent. The Bank's first quarter dividends on Class B-1 Stock and Class B-2 Stock were paid at annualized rates of 0.375 percent (as average one-month LIBOR for the fourth quarter of 2015 was 0.251 percent) and 1.251 percent (a rate equal to average one-month LIBOR for the fourth quarter of 2015 plus 1.0 percent), respectively. The first quarter dividends, which were applied to average Class B-1 Stock and average Class B-2 Stock held during the period from October 1, 2015 through December 31, 2015, were paid on March 31, 2016. The Bank's second quarter dividends on Class B-1 Stock and Class B-2 Stock were paid at annualized rates of 0.431 percent (a rate equal to average one-month LIBOR for the first quarter of 2016) and 1.431 percent (a rate equal to average one-month LIBOR for the first quarter of 2016 plus 1.0 percent), respectively. The second quarter dividends, which were applied to average Class B-1 Stock and average Class B-2 Stock held during the period from January 1, 2016 through March 31, 2016, were paid on June 28, 2016. The Bank's third quarter dividends on Class B-1 Stock and Class B-2 Stock were paid at annualized rates of 0.444 percent (a rate equal to average one-month LIBOR for the second quarter of 2016) and 1.444 percent (a rate equal to average one-month LIBOR for the second quarter of 2016 plus 1.0 percent), respectively. The third quarter dividends, which were applied to average Class B-1 Stock and average Class B-2 Stock held during the period from April 1, 2016 through June 30, 2016, were paid on September 28, 2016.

While there can be no assurances, taking into consideration its current earnings expectations and anticipated market conditions, the Bank currently expects to pay dividends on Class B-1 Stock during the fourth quarter of 2016 at an annualized rate equal to average one-month LIBOR for the third quarter of 2016. Further, the Bank currently expects to pay dividends on Class B-2 Stock at an annualized rate equal to average one-month LIBOR for the third quarter of 2016 plus 1.0 percent.

The Bank is required to maintain at all times permanent capital in an amount at least equal to its risk-based capital requirement, which is the sum of its credit risk capital requirement, its market risk capital requirement, and its operations risk capital requirement, as further described in the 2015 10-K. Permanent capital is defined under the Finance Agency's rules as retained earnings and amounts paid in for Class B stock (which for the Bank includes both Class B-1 Stock and Class B-2 Stock), regardless of its classification as equity or liabilities for financial reporting purposes. At September 30, 2016, the Bank's total risk-based capital requirement was \$707 million, comprised of credit risk, market risk and operations risk capital requirements of \$363 million, \$181 million and \$163 million, respectively, and its permanent capital was \$2.7 billion.

In addition to the risk-based capital requirement, the Bank is subject to two other capital requirements. First, the Bank must, at all times, maintain a minimum total capital-to-assets ratio of 4.0 percent. For this purpose, total capital is defined by Finance Agency rules and regulations as the Bank's permanent capital and the amount of any general allowance for losses (i.e., those reserves that are not held against specific assets). Second, the Bank is required to maintain at all times a minimum leverage capital-to-assets ratio in an amount at least equal to 5.0 percent of its total assets. In applying this requirement to the Bank, leverage capital includes the Bank's permanent capital multiplied by a factor of 1.5 plus the amount of any general allowance for losses. The Bank did not have any general allowance for losses at September 30, 2016 or December 31, 2015. Under the regulatory definitions, total capital and permanent capital exclude accumulated other comprehensive income (loss). At all times during the nine months ended September 30, 2016, the Bank was in compliance with all of its regulatory capital requirements. At September 30, 2016, the Bank's total capital-to-assets and leverage capital-to-assets ratios were 4.60 percent and 6.90 percent, respectively. For a summary of the Bank's compliance with the Finance Agency's capital requirements as of September 30, 2016 and December 31, 2015, see "Item 1. Financial Statements" (specifically, Note 12 on page 32 of this report).

Derivatives and Hedging Activities

The Bank enters into interest rate swap, swaption, cap and forward rate agreements (collectively, interest rate exchange agreements) to manage its exposure to changes in interest rates and/or to adjust the effective maturity, repricing index and/or frequency or option characteristics of financial instruments. This use of derivatives is integral to the Bank's financial management strategy, and the impact of these interest rate exchange agreements permeates the Bank's financial statements. For additional discussion, see "Item 1. Financial Statements" (specifically, Note 11 beginning on page 25 of this report).

The following table provides the notional balances of the Bank's derivative instruments, by balance sheet category and accounting designation, as of September 30, 2016 and December 31, 2015.

COMPOSITION OF DERIVATIVES BY BALANCE SHEET CATEGORY AND ACCOUNTING DESIGNATION
(in millions)

	Fair Value Hedges		Cash Flow Hedges	Economic Hedges	Total
	Shortcut Method	Long-Haul Method			
September 30, 2016					
Advances	\$ 3,820	\$ 1,291	\$ —	\$ 2	\$ 5,113
Investments	—	12,626	—	1,203	13,829
Consolidated obligation bonds	—	13,613	—	—	13,613
Consolidated obligation discount notes	—	—	425	3,716	4,141
Intermediary positions	—	—	—	443	443
Other	—	—	—	325	325
Total notional balance	<u>\$ 3,820</u>	<u>\$ 27,530</u>	<u>\$ 425</u>	<u>\$ 5,689</u>	<u>\$ 37,464</u>
December 31, 2015					
Advances	\$ 3,361	\$ 1,443	\$ —	\$ 2	\$ 4,806
Investments	—	9,375	—	1,753	11,128
Consolidated obligation bonds	—	12,988	—	—	12,988
Consolidated obligation discount notes	—	—	100	—	100
Intermediary positions	—	—	—	2,006	2,006
Total notional balance	<u>\$ 3,361</u>	<u>\$ 23,806</u>	<u>\$ 100</u>	<u>\$ 3,761</u>	<u>\$ 31,028</u>

The following table presents the earnings impact of derivatives and hedging activities during the three and nine months ended September 30, 2016 and 2015.

NET EARNINGS IMPACT OF DERIVATIVES AND HEDGING ACTIVITIES
(in millions)

	Advances	Investments	Consolidated Obligation Bonds	Consolidated Obligation Discount Notes	Intermediary Transactions	Other	Total
Three Months Ended September 30, 2016							
Amortization/accretion of hedging activities in net interest income ⁽¹⁾	\$ —	\$ 17	\$ (1)	\$ —	\$ —	\$ —	\$ 16
Net interest settlements included in net interest income ⁽²⁾	(16)	(55)	13	(1)	—	—	(59)
Net gain (loss) on derivatives and hedging activities							
Net gains on fair value hedges	—	2	—	—	—	—	2
Net losses on economic hedges	—	—	—	(2)	—	(2)	(4)
Net interest settlements on economic hedges	—	—	—	1	—	—	1
Total net gains (losses) on derivatives and hedging activities	—	2	—	(1)	—	(2)	(1)
Net impact of derivatives and hedging activities	<u>\$ (16)</u>	<u>\$ (36)</u>	<u>\$ 12</u>	<u>\$ (2)</u>	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ (44)</u>
Three Months Ended September 30, 2015							
Amortization/accretion of hedging activities in net interest income ⁽¹⁾	\$ (1)	\$ 22	\$ —	\$ —	\$ —	\$ —	\$ 21
Net interest settlements included in net interest income ⁽²⁾	(24)	(54)	37	—	—	—	(41)
Net gain (loss) on derivatives and hedging activities							
Net gains (losses) on fair value hedges	1	(6)	(5)	—	—	—	(10)
Total net gains (losses) on derivatives and hedging activities	1	(6)	(5)	—	—	—	(10)
Net impact of derivatives and hedging activities	<u>\$ (24)</u>	<u>\$ (38)</u>	<u>\$ 32</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (30)</u>
Nine Months Ended September 30, 2016							
Amortization/accretion of hedging activities in net interest income ⁽¹⁾	\$ (1)	\$ 55	\$ (6)	\$ —	\$ —	\$ —	\$ 48
Net interest settlements included in net interest income ⁽²⁾	(51)	(168)	50	(3)	—	—	(172)
Net gain (loss) on derivatives and hedging activities							
Net losses on fair value hedges	—	(19)	(4)	—	—	—	(23)
Net gains (losses) on economic hedges	—	(3)	(2)	—	—	5	—
Net interest settlements on economic hedges	—	—	—	1	—	1	2
Total net gains (losses) on derivatives and hedging activities	—	(22)	(6)	1	—	6	(21)
Net impact of derivatives and hedging activities	<u>(52)</u>	<u>(135)</u>	<u>38</u>	<u>(2)</u>	<u>—</u>	<u>6</u>	<u>(145)</u>
Net gain on hedged financial instrument classified as trading	—	2	—	—	—	—	2
Net impact of derivatives and hedging activities	<u>\$ (52)</u>	<u>\$ (133)</u>	<u>\$ 38</u>	<u>\$ (2)</u>	<u>\$ —</u>	<u>\$ 6</u>	<u>\$ (143)</u>
Nine Months Ended September 30, 2015							
Amortization/accretion of hedging activities in net interest income ⁽¹⁾	\$ (6)	\$ 73	\$ 1	\$ —	\$ —	\$ —	\$ 68
Net interest settlements included in net interest income ⁽²⁾	(72)	(158)	103	—	—	—	(127)
Net gain (loss) on derivatives and hedging activities							
Net gains (losses) on fair value hedges	1	2	(3)	—	—	—	—
Net gains (losses) on economic hedges	—	(1)	2	—	1	—	2
Total net gains (losses) on derivatives and hedging activities	1	1	(1)	—	1	—	2
Net impact of derivatives and hedging activities	<u>\$ (77)</u>	<u>\$ (84)</u>	<u>\$ 103</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ (57)</u>

⁽¹⁾ Represents the amortization/accretion of hedging fair value adjustments for both open and closed hedge positions.

⁽²⁾ Represents interest income/expense on derivatives included in net interest income.

The Bank has transacted some of its interest rate exchange agreements bilaterally with large financial institutions (with which it has in place master agreements). In doing so, the Bank has generally exchanged a defined market risk for the risk that the counterparty will not be able to fulfill its obligations in the future. The Bank manages this credit risk by spreading its transactions among as many highly rated counterparties as is practicable, by entering into master agreements with each of its non-member bilateral counterparties that include maximum unsecured credit exposure thresholds ranging from \$100,000 to \$500,000, and by monitoring its exposure to each counterparty on a daily basis. In addition, all of the Bank's master agreements with its bilateral counterparties include netting arrangements whereby the fair values of all interest rate derivatives (including accrued interest receivables and payables) with each counterparty are offset for purposes of measuring credit exposure. As of September 30, 2016, the notional balances of outstanding interest rate exchange agreements transacted with non-member bilateral counterparties totaled \$10.3 billion.

Under the Bank's master agreements with its non-member bilateral counterparties, the unsecured credit exposure thresholds must be met before collateral is required to be delivered by one party to the other party. Once the counterparties agree to the valuations of the interest rate exchange agreements, and if it is determined that the unsecured credit exposure exceeds the threshold, then, upon a request made by the unsecured counterparty, the party that has the unsecured obligation to the counterparty bearing the risk of the unsecured credit exposure generally must deliver sufficient collateral (or return a sufficient amount of previously remitted collateral) to reduce the unsecured credit exposure to zero (or, in the case of pledged securities, to an amount equal to the discount applied to the securities under the terms of the master agreement). Collateral is delivered (or returned) daily when these thresholds are met. The master agreements with the Bank's non-member bilateral counterparties require the delivery of collateral consisting of cash or very liquid, highly rated securities (generally consisting of U.S. government-guaranteed or agency debt securities) if credit risk exposures rise above the thresholds.

As a result of statutory and regulatory requirements emanating from the Dodd-Frank Act, certain derivative transactions that the Bank enters into are required to be cleared through a third-party central clearinghouse. As of September 30, 2016, the Bank had cleared trades outstanding with notional amounts totaling \$26.9 billion. Cleared trades are subject to initial and variation margin requirements established by the clearinghouse and its clearing members. Collateral is typically delivered (or returned) daily and, unlike bilateral derivatives, is not subject to any maximum unsecured credit exposure thresholds. The fair values of all interest rate derivatives (including accrued interest receivables and payables) with each clearing member of each clearinghouse are offset for purposes of measuring credit exposure and determining initial and variation margin requirements. With cleared transactions, the Bank is exposed to credit risk in the event that the clearinghouse or the clearing member fails to meet its obligations to the Bank. The Bank has determined that the exercise by a non-defaulting party of the setoff rights incorporated in its cleared derivative transactions should be upheld in the event of a default, including a bankruptcy, insolvency or similar proceeding involving the clearinghouse or any of its clearing members or both.

The notional amount of interest rate exchange agreements does not reflect the Bank's credit risk exposure, which is much less than the notional amount. The Bank's net credit risk exposure is based on the current estimated cost, on a present value basis, of replacing at current market rates all interest rate exchange agreements with individual counterparties, if those counterparties were to default, after taking into account the value of any cash and/or securities collateral held or remitted by the Bank. For counterparties with which the Bank is in a net gain position, the Bank has credit exposure when the collateral it is holding (if any) has a value less than the amount of the gain. For counterparties with which the Bank is in a net loss position, the Bank has credit exposure when it has delivered collateral with a value greater than the amount of the loss position.

The following table provides information regarding the Bank's derivative counterparty credit exposure as of September 30, 2016.

DERIVATIVES COUNTERPARTY CREDIT EXPOSURE

(dollars in millions)

Credit Rating ⁽¹⁾	Number of Bilateral Counterparties	Notional Principal ⁽²⁾	Net Derivatives Fair Value Before Collateral	Cash Collateral Pledged To (From) Counterparty	Other Collateral Pledged To (From) Counterparty	Net Credit Exposure
Non-member counterparties						
Liability positions with credit exposure						
Single-A	1	\$ 745.4	\$ (15.4)	\$ 15.5	\$ —	\$ 0.1
Triple-B ⁽³⁾	3	3,576.5	(142.5)	144.3	—	1.8
Cleared derivatives ⁽⁴⁾		26,906.7	(699.7)	759.3	640.6	700.2
Total derivative positions with non-member counterparties to which the Bank had credit exposure	4	31,228.6	(857.6)	919.1	640.6	702.1
Asset positions without credit exposure	5	552.0	1.7	(1.7)	(0.3)	—
Liability positions without credit exposure ⁽⁵⁾	9	5,461.5	(96.4)	86.9	—	—
Total derivative positions with non-member counterparties to which the Bank did not have credit exposure	14	6,013.5	(94.7)	85.2	(0.3)	—
Total non-member counterparties	18	37,242.1	(952.3)	\$ 1,004.3	\$ 640.3	\$ 702.1
Member institutions						
Interest rate exchange agreements ⁽⁶⁾						
Asset positions	10	181.8	17.7			
Liability positions	1	40.0	(0.2)			
Mortgage delivery commitments		0.1	—			
Total member institutions	11	221.9	17.5			
Total	29	\$ 37,464.0	\$ (934.8)			

⁽¹⁾ Credit ratings shown in the table reflect the lowest rating from Moody's, S&P or Fitch and are as of September 30, 2016.

⁽²⁾ Includes amounts that had not settled as of September 30, 2016.

⁽³⁾ The figures for the liability positions with credit exposure include transactions with an aggregate notional principal of \$1.5 billion with a counterparty that is affiliated with a non-member shareholder of the Bank.

⁽⁴⁾ The counterparties to the Bank's cleared derivatives transactions are unrated.

⁽⁵⁾ The figures for the liability positions without credit exposure included transactions with an aggregate notional principal of \$630.8 million with a counterparty that is affiliated with a non-member shareholder of the Bank and transactions with an aggregate notional principal of \$325.1 million with a counterparty that is affiliated with a member of the Bank as of September 30, 2016.

⁽⁶⁾ This product offering and the collateral provisions associated therewith are discussed in the paragraph below.

The Bank offers interest rate swaps, caps and floors to its members to assist them in meeting their risk management objectives. In derivative transactions with its members, the Bank acts as an intermediary by entering into an interest rate exchange agreement with the member and then entering into an offsetting interest rate exchange agreement with one of the Bank's non-member derivative counterparties discussed above. When entering into interest rate exchange agreements with its members, the Bank requires the member to post eligible collateral in an amount equal to the sum of the net market value of the member's derivative transactions with the Bank (if the value is positive to the Bank) plus a percentage of the notional amount of any interest rate swaps, with market values determined on at least a monthly basis. Eligible collateral for derivative transactions consists of collateral that is eligible to secure advances and other obligations under the member's Advances and Security Agreement with the Bank.

The Dodd-Frank Act changed the regulatory framework for derivative transactions that are not subject to mandatory clearing requirements (uncleared trades). While the Bank expects to be able in certain instances to continue to enter into uncleared trades on a bilateral basis, those transactions will be subject to new regulatory requirements, including minimum margin

requirements imposed by regulators. For additional discussion, see Item 1 - Business - Legislative and Regulatory Developments in the 2015 10-K.

Market Value of Equity

The ratio of the Bank's estimated market value of equity to its book value of equity was approximately 104 percent and 105 percent at September 30, 2016 and December 31, 2015, respectively. For additional discussion, see "Part I / Item 3 — Quantitative and Qualitative Disclosures About Market Risk — Interest Rate Risk."

Results of Operations

Net Income

Net income for the three months ended September 30, 2016 and 2015 was \$21.1 million and \$5.6 million, respectively. The Bank's net income for the three months ended September 30, 2016 represented an annualized return on average capital stock ("ROCS") of 4.49 percent. In comparison, the Bank's ROCS was 1.55 percent for the three months ended September 30, 2015. Net income for the nine months ended September 30, 2016 and 2015 was \$50.6 million and \$52.5 million, respectively. For the nine months ended September 30, 2016, the Bank's ROCS was 3.89 percent. In comparison, the Bank's ROCS was 5.37 percent for the nine months ended September 30, 2015. To derive the Bank's ROCS, net income is divided by average capital stock outstanding excluding stock that is classified as mandatorily redeemable capital stock. The factors contributing to the changes in the Bank's net income are discussed below.

Income Before Assessments

During the three months ended September 30, 2016 and 2015, the Bank's income before assessments was \$23.5 million and \$6.2 million, respectively. As discussed in more detail below, the \$17.3 million increase in income before assessments from period to period was attributable to a \$16.3 million increase in net interest income and a \$5.7 million favorable change in other income (loss), offset by a \$4.7 million increase in other expense.

During the nine months ended September 30, 2016 and 2015, the Bank's income before assessments was \$56.2 million and \$58.3 million, respectively. As discussed in more detail below, the \$2.1 million decrease in income before assessments from period to period was attributable to a \$24.7 million unfavorable change in other income (loss) and a \$6.8 million increase in other expense, offset by a \$29.4 million increase in net interest income.

The components of income before assessments (net interest income, other income/loss and other expense) are discussed in more detail in the following sections.

Net Interest Income

For the three months ended September 30, 2016 and 2015, the Bank's net interest income was \$44.7 million and \$28.3 million, respectively. The Bank's net interest income was \$118.2 million and \$88.8 million for the nine months ended September 30, 2016 and 2015, respectively. The increase in net interest income for both the three- and nine-month periods ended September 30, 2016 as compared to the corresponding periods in 2015 was due primarily to an increase in the average balances of the Bank's interest-earning assets. The Bank's average balance of interest-earning assets increased from \$43.3 billion during the three months ended September 30, 2015 to \$57.2 billion during the comparable period in 2016. For the nine-month periods, the Bank's average balance of interest-earning assets increased from \$42.8 billion in 2015 to \$52.0 billion in 2016.

For the three months ended September 30, 2016 and 2015, the Bank's net interest margin was 31 basis points and 27 basis points, respectively. The Bank's net interest margin was 30 basis points and 28 basis points for the nine months ended September 30, 2016 and 2015, respectively. Net interest margin, or net interest income as a percentage of average earning assets, is a function of net interest spread and the rates of return on assets funded by the investment of the Bank's capital. Net interest spread is the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities. The Bank's net interest spread was 28 basis points and 27 basis points for the three and nine months ended September 30, 2016, respectively, compared to 25 basis points and 26 basis points for the three and nine months ended September 30, 2015, respectively.

The contribution of earnings from the Bank's invested capital to the net interest margin (the impact of non-interest bearing funds) increased from 2 basis points during both the three and nine months ended September 30, 2015, to 3 basis points during both the three and nine months ended September 30, 2016, due to an increase in short-term interest rates.

The following table presents average balance sheet amounts together with the total dollar amounts of interest income and expense and the weighted average interest rates of major earning asset categories and the funding sources for those earning assets for the three months ended September 30, 2016 and 2015.

YIELD AND SPREAD ANALYSIS

(dollars in millions)

	For the Three Months Ended September 30,					
	2016			2015		
	Average Balance	Interest Income/Expense	Average Rate ^(f)	Average Balance	Interest Income/Expense	Average Rate ^(f)
Assets						
Interest-bearing deposits ⁽²⁾	\$ 1,019	\$ 1	0.40%	\$ 539	\$ —	0.13%
Securities purchased under agreements to resell	2,409	3	0.43%	2,822	1	0.10%
Federal funds sold	5,386	6	0.41%	4,985	2	0.13%
Investments						
Trading	119	—	1.95%	212	—	0.29%
Available-for-sale ⁽³⁾	13,080	36	1.11%	7,612	12	0.59%
Held-to-maturity ⁽³⁾	2,785	7	1.06%	3,595	6	0.76%
Advances ⁽⁴⁾	32,336	59	0.73%	23,457	32	0.55%
Mortgage loans held for portfolio	67	1	4.89%	61	1	5.77%
Total earning assets	57,201	113	0.79%	43,283	54	0.50%
Cash and due from banks	39			105		
Other assets	152			169		
Derivatives netting adjustment ⁽²⁾	(1,021)			(546)		
Fair value adjustment on available-for-sale securities ⁽³⁾	(46)			3		
Adjustment for net non-credit portion of other-than-temporary impairments on held-to-maturity securities ⁽³⁾	(19)			(24)		
Total assets	\$ 56,306	113	0.80%	\$ 42,990	54	0.50%
Liabilities and Capital						
Interest-bearing deposits ⁽²⁾	\$ 794	1	0.29%	\$ 856	—	0.03%
Consolidated obligations						
Bonds	21,186	36	0.68%	20,630	19	0.38%
Discount notes	31,447	32	0.41%	19,060	6	0.12%
Mandatorily redeemable capital stock and other borrowings	4	—	0.53%	11	—	0.01%
Total interest-bearing liabilities	53,431	69	0.51%	40,557	25	0.25%
Other liabilities	1,298			823		
Derivatives netting adjustment ⁽²⁾	(1,021)			(546)		
Total liabilities	53,708	69	0.51%	40,834	25	0.25%
Total capital	2,598			2,156		
Total liabilities and capital	\$ 56,306		0.49%	\$ 42,990		0.23%
Net interest income		\$ 44			\$ 29	
Net interest margin			0.31%			0.27%
Net interest spread			0.28%			0.25%
Impact of non-interest bearing funds			0.03%			0.02%

-
- (1) Percentages are annualized figures. Amounts used to calculate average rates are based on whole dollars. Accordingly, recalculations based upon the disclosed amounts (millions) may not produce the same results.
- (2) The Bank offsets the fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against the fair value amounts recognized for derivative instruments transacted under a master netting agreement or other similar arrangement. The average balances of interest-bearing deposit assets for the three months ended September 30, 2016 and 2015 in the table above include \$1.0 billion and \$0.5 billion, respectively, which are classified as derivative assets/liabilities on the statements of condition. In addition, the average balance of interest-bearing deposit liabilities for the three months ended September 30, 2016 and 2015 in the table above includes \$2 million and \$7 million, respectively, which are classified as derivative assets/liabilities on the statements of condition.
- (3) Average balances for available-for-sale and held-to-maturity securities are calculated based upon amortized cost.
- (4) Interest income and average rates include net prepayment fees on advances.

The following table presents average balance sheet amounts together with the total dollar amounts of interest income and expense and the weighted average interest rates of major earning asset categories and the funding sources for those earning assets for the nine months ended September 30, 2016 and 2015.

YIELD AND SPREAD ANALYSIS

(dollars in millions)

	For the Nine Months Ended September 30,					
	2016			2015		
	Average Balance	Interest Income/Expense	Average Rate ^(f)	Average Balance	Interest Income/Expense	Average Rate ^(f)
Assets						
Interest-bearing deposits ⁽²⁾	\$ 898	\$ 3	0.38%	\$ 604	\$ —	0.12%
Securities purchased under agreements to resell	1,637	5	0.39%	2,855	2	0.09%
Federal funds sold	5,083	15	0.39%	6,848	6	0.11%
Investments						
Trading	180	2	1.73%	245	—	0.13%
Available-for-sale ⁽³⁾	12,144	92	1.01%	7,053	27	0.50%
Held-to-maturity ⁽³⁾	2,971	22	1.02%	3,947	22	0.76%
Advances ⁽⁴⁾	29,021	156	0.72%	21,202	98	0.61%
Mortgage loans held for portfolio	58	3	5.46%	65	3	5.73%
Total earning assets	51,992	298	0.76%	42,819	158	0.49%
Cash and due from banks	45			67		
Other assets	147			140		
Derivatives netting adjustment ⁽²⁾	(902)			(607)		
Fair value adjustment on available-for-sale securities ⁽³⁾	(72)			12		
Adjustment for net non-credit portion of other-than-temporary impairments on held-to-maturity securities ⁽³⁾	(20)			(25)		
Total assets	\$ 51,190	298	0.77%	\$ 42,406	158	0.50%
Liabilities and Capital						
Interest-bearing deposits ⁽²⁾	\$ 858	2	0.26%	\$ 876	—	0.02%
Consolidated obligations						
Bonds	19,794	97	0.65%	19,627	56	0.38%
Discount notes	27,860	81	0.39%	19,498	13	0.09%
Mandatorily redeemable capital stock and other borrowings	21	—	0.14%	13	—	0.17%
Total interest-bearing liabilities	48,533	180	0.49%	40,014	69	0.23%
Other liabilities	1,135			967		
Derivatives netting adjustment ⁽²⁾	(902)			(607)		
Total liabilities	48,766	180	0.49%	40,374	69	0.23%
Total capital	2,424			2,032		
Total liabilities and capital	\$ 51,190		0.47%	\$ 42,406		0.22%
Net interest income		\$ 118			\$ 89	
Net interest margin			0.30%			0.28%
Net interest spread			0.27%			0.26%
Impact of non-interest bearing funds			0.03%			0.02%

- (1) Percentages are annualized figures. Amounts used to calculate average rates are based on whole dollars. Accordingly, recalculations based upon the disclosed amounts (millions) may not produce the same results.
- (2) The Bank offsets the fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against the fair value amounts recognized for derivative instruments transacted under a master netting agreement or other similar arrangement. The average balances of interest-bearing deposit assets for the nine months ended September 30, 2016 and 2015 in the table above include \$898 million and \$604 million, respectively, which are classified as derivative assets/liabilities on the statements of condition. In addition, the average balance of interest-bearing deposit liabilities for the nine months ended September 30, 2016 and 2015 in the table above includes \$4 million and \$3 million, respectively, which are classified as derivative assets/liabilities on the statements of condition.
- (3) Average balances for available-for-sale and held-to-maturity securities are calculated based upon amortized cost.
- (4) Interest income and average rates include net prepayment fees on advances.

Changes in both volume (i.e., average balances) and interest rates influence changes in net interest income and net interest margin. The following table summarizes changes in interest income and interest expense between the three and nine-month periods in 2016 and 2015. Changes in interest income and interest expense that cannot be attributed to either volume or rate have been allocated to the volume and rate categories based upon the proportion of the absolute value of the volume and rate changes.

RATE AND VOLUME ANALYSIS

(in millions)

	For the Three Months Ended September 30, 2016 vs. 2015			For the Nine Months Ended September 30, 2016 vs. 2015		
	Volume	Rate	Total	Volume	Rate	Total
Interest income						
Interest-bearing deposits	\$ —	\$ 1	\$ 1	\$ 1	\$ 2	\$ 3
Securities purchased under agreements to resell	—	2	2	(1)	4	3
Federal funds sold	—	4	4	(2)	11	9
Investments						
Trading	(1)	1	—	—	2	2
Available-for-sale	10	14	24	27	38	65
Held-to-maturity	(1)	2	1	(7)	7	—
Advances	14	13	27	40	18	58
Mortgage loans held for portfolio	—	—	—	—	—	—
Total interest income	22	37	59	58	82	140
Interest expense						
Interest-bearing deposits	—	1	1	—	2	2
Consolidated obligations						
Bonds	1	16	17	—	41	41
Discount notes	6	20	26	8	60	68
Mandatorily redeemable capital stock and other borrowings	—	—	—	—	—	—
Total interest expense	7	37	44	8	103	111
Changes in net interest income	\$ 15	\$ —	\$ 15	\$ 50	\$ (21)	\$ 29

Other Income (Loss)

The following table presents the various components of other income (loss) for the three and nine months ended September 30, 2016 and 2015.

OTHER INCOME (LOSS)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net interest income (expense) associated with:				
Member/offsetting swaps	\$ 42	\$ 61	\$ 152	\$ 131
Economic hedge derivatives related to advances	14	(1)	(27)	(5)
Economic hedge derivatives related to trading securities	—	—	(296)	—
Economic hedge derivatives related to available-for-sale securities	(4)	(18)	(14)	(32)
Economic hedge derivatives related to consolidated obligation discount notes	167	14	627	63
Other stand-alone economic hedge derivatives	617	—	1,375	—
Total net interest income associated with economic hedge derivatives	836	56	1,817	157
Gains (losses) related to economic hedge derivatives				
Interest rate swaps				
Advances	30	(2)	27	(7)
Available-for-sale securities	27	(98)	(177)	(4)
Trading securities	—	—	(2,067)	—
Consolidated obligation bonds	—	259	(1,905)	2,174
Consolidated obligation discount notes	(857)	(13)	437	—
Other stand-alone economic hedge derivatives	(1,946)	—	4,620	—
Mortgage delivery commitments	13	—	95	—
Interest rate caps related to held-to-maturity securities	(2)	(331)	(528)	(970)
Member/offsetting swaps and caps	26	(31)	274	946
Total fair value gains (losses) related to economic hedge derivatives	(2,709)	(216)	776	2,139
Gains (losses) related to fair value hedge ineffectiveness				
Advances and associated hedges	106	(210)	(227)	586
Available-for-sale securities and associated hedges	2,201	(6,346)	(19,150)	1,549
Consolidated obligation bonds and associated hedges	(237)	(4,116)	(3,779)	(2,577)
Total fair value hedge ineffectiveness	2,070	(10,672)	(23,156)	(442)
Total net gains (losses) on derivatives and hedging activities	197	(10,832)	(20,563)	1,854
Net gains (losses) on trading securities	(797)	1,169	9,133	1,508
Credit component of other-than-temporary impairment losses on held-to-maturity securities	(8)	(3)	(20)	(28)
Gains on sales of held-to-maturity securities	65	3,297	794	13,410
Gains on sales of available-for-sale securities	889	1,457	5,104	3,802
Service fees	619	600	1,640	1,588
Letter of credit fees	1,430	983	4,275	3,202
Other, net	10	19	339	27
Total other	2,208	7,522	21,265	23,509
Total other income (loss)	\$ 2,405	\$ (3,310)	\$ 702	\$ 25,363

Hedge Ineffectiveness

The Bank uses interest rate swaps to hedge the risk of changes in the fair value of some of its advances and consolidated obligation bonds and substantially all of its available-for-sale securities. These hedging relationships are designated as fair value hedges. To the extent these relationships qualify for hedge accounting, changes in the fair values of both the derivative (the interest rate swap) and the hedged item (limited to changes attributable to the hedged risk) are recorded in earnings. For those relationships that qualified for hedge accounting, the differences between the change in fair value of the hedged items and the change in fair value of the associated interest rate swaps (representing hedge ineffectiveness) were net gains (losses) of \$2.1 million and \$(10.7) million for the three months ended September 30, 2016 and 2015, respectively, and \$(23.2) million and \$(0.4) million for the nine months ended September 30, 2016 and 2015, respectively. To the extent these hedges do not qualify for hedge accounting, or cease to qualify because they are determined to be ineffective, only the change in fair value of the derivative is recorded in earnings (in this case, there is no offsetting change in fair value of the hedged item). For the three months ended September 30, 2016 and 2015, the change in the fair value of derivatives associated with specific advances, available-for-sale securities and consolidated obligation bonds that were not in qualifying hedging relationships was \$0.1 million and \$0.2 million, respectively. The change in the fair value of derivatives associated with specific advances, available-for-sale securities and consolidated obligation bonds that were not in qualifying hedging relationships was \$(2.1) million and \$2.2 million for the nine months ended September 30, 2016 and 2015, respectively.

The increase in fair value hedge ineffectiveness during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015, was due in large part to the addition of higher yielding, longer duration GSE CMBS and GSE debentures to the Bank's available-for-sale securities portfolio during the last nine months of 2015 and the first nine months of 2016. While the fair value hedge ineffectiveness related to this portfolio was not as significant during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015, the period to period change of \$8.5 million (a \$2.2 million gain vs. a \$6.3 million loss, respectively) contributed significantly to the favorable change in net gains (losses) on derivatives and hedging activities between the two quarterly periods. Substantially all of the Bank's GSE CMBS and GSE debentures classified as available-for-sale are hedged with fixed-for-floating interest rate swaps in long-haul hedging relationships. The hedge ineffectiveness gains and losses associated with these particular relationships are attributable in large part to the use of different discount curves to value the interest rate swaps (OIS) and the GSE CMBS/GSE debentures (LIBOR plus a constant spread). Notwithstanding the hedge ineffectiveness gains and losses, these hedging relationships have been, and are expected to continue to be, highly effective in achieving offsetting changes in fair values attributable to the hedged risk. While the ineffectiveness-related gains and losses associated with these hedging relationships can be significant when evaluated in the context of the Bank's net income, they are relatively small when expressed as a percentage of the values of the positions. Because the Bank expects to hold these interest rate swaps to maturity, the unrealized ineffectiveness-related gains (or losses) associated with its holdings of GSE CMBS and GSE debentures are expected to be transitory, meaning that they will reverse in future periods in the form of ineffectiveness-related losses (or gains).

Economic Hedge Derivatives

Notwithstanding the transitory nature of the ineffectiveness-related gains and losses associated with the Bank's available-for-sale securities portfolio (discussed above), the Bank has entered into several derivative transactions in an effort to mitigate a portion of the periodic earnings variability that can result from those fair value hedging relationships. For the three and nine months ended September 30, 2016, the gains (losses) associated with stand-alone economic hedge derivatives used for this purpose were \$(1.9) million and \$4.6 million, respectively.

As discussed previously in the section entitled "Financial Condition — Long-Term Investments," to hedge a portion of the risk associated with a significant increase in short-term interest rates, the Bank held, as of September 30, 2016, 3 interest rate cap agreements having a total notional amount of \$1.2 billion. The premiums paid for these caps totaled \$4.3 million. The fair values of interest rate cap agreements are dependent upon the level of interest rates, volatilities and remaining term to maturity. In general (assuming constant volatilities and no erosion in value attributable to the passage of time), interest rate caps will increase in value as market interest rates rise and will diminish in value as market interest rates decline. The value of interest rate caps will increase as volatilities increase and will decline as volatilities decrease. Absent changes in volatilities or interest rates, the value of interest rate caps will decline with the passage of time. As stand-alone derivatives, the changes in the fair values of the Bank's interest rate cap agreements are recorded in earnings with no offsetting changes in the fair values of the hedged CMO LIBOR floaters with embedded caps and therefore can be a source of volatility in the Bank's earnings. At September 30, 2016, the carrying values of the Bank's stand-alone interest rate cap agreements totaled \$0.2 million.

From time to time, the Bank hedges the risk of changes in the fair value of some of its longer-term consolidated obligation discount notes using fixed-for-floating interest rate swaps. As of September 30, 2016, the aggregate notional balance of these swaps totaled \$3.7 billion. As stand-alone derivatives, the changes in the fair values of the Bank's discount note swaps are recorded in earnings with no offsetting changes in the fair values of the hedged items (i.e., the consolidated obligation discount notes) and therefore can also be a source of volatility in the Bank's earnings.

Other

During the nine months ended September 30, 2016 and 2015, the Bank sold approximately \$130 million (par value) and \$757 million (par value), respectively, of GSE RMBS classified as held-to-maturity securities. The aggregate gains recognized on these sales totaled \$0.8 million and \$13.4 million, respectively. For each of these securities, the Bank had previously collected at least 85 percent of the principal outstanding at the time of acquisition. As such, the sales were considered maturities for purposes of security classification. During these same nine-month periods, the Bank sold approximately \$2.3 billion (par value) and \$0.7 billion (par value), respectively, of shorter maturity GSE debentures classified as available-for-sale. In addition, the Bank sold \$0.3 billion (par value) of U.S. Treasury Notes classified as available-for-sale during the nine months ended September 30, 2016. The aggregate gains recognized on these sales totaled \$5.1 million and \$3.8 million, respectively.

During September and October 2015, the Bank acquired fixed rate U.S. Treasury Notes with par values of \$104.8 million and \$100.0 million, respectively. Each of these securities was classified as trading. Due to fluctuations in long-term interest rates, gains (losses) on the security acquired in September 2015 totaled \$(1.1) million and \$6.2 million for the three and nine months ended September 30, 2016, respectively. Prior to its sale in June 2016, the U.S. Treasury Note that was acquired in October 2015 generated current year gains of \$2.3 million. While held by the Bank, this U.S. Treasury Note was economically hedged with a fixed-for-floating interest rate swap; during 2016, this swap, which was terminated concurrent with the sale of the U.S. Treasury Note, produced losses of \$2.1 million.

For a discussion of the other-than-temporary impairment loss on one of the Bank's held-to-maturity securities, see "Item 1. Financial Statements" (specifically, Note 5 beginning on page 12 of this report).

Other Expense

Total other expense, which includes the Bank's compensation and benefits, other operating expenses, discretionary grant programs, derivative clearing fees and its proportionate share of the costs of operating the Finance Agency and the Office of Finance, totaled \$23.6 million and \$62.7 million for the three and nine months ended September 30, 2016, respectively, compared to \$18.9 million and \$55.8 million, respectively, for the corresponding periods in 2015.

Compensation and benefits were \$14.5 million and \$38.1 million for the three and nine months ended September 30, 2016, respectively, compared to \$11.0 million and \$31.5 million, respectively, for the corresponding periods in 2015. The \$3.5 million increase in compensation and benefits for the three months ended September 30, 2016, as compared to the corresponding period in 2015, was due largely to: (1) increased costs associated with the Bank's participation in the Pentegra Defined Benefit Plan for Financial Institutions; (2) increased costs associated with the Bank's 2014 and 2015 Long-Term Incentive Plans, due largely to the retroactive inclusion (in August 2016) of additional executives in these plans (based on the date that these executives joined the Bank's Executive Management Committee) and higher anticipated goal achievement for the 2015 Long-Term Incentive Plan; (3) increased employee medical costs; (4) an increase in headcount; and (5) merit and cost-of-living adjustments. The \$6.6 million increase in compensation and benefits for the nine months ended September 30, 2016, as compared to the corresponding period in 2015, was due largely to the increases described above as it relates to the quarter-to-quarter comparison, partially offset by a reduction in employee separation costs. Average headcount increased from 205 and 201 employees for the three and nine months ended September 30, 2015, respectively, to 213 employees for each of the corresponding periods in 2016.

Other operating expenses for the three and nine months ended September 30, 2016 were \$6.8 million and \$18.0 million, respectively, compared to \$6.2 million and \$19.2 million, respectively, for the corresponding periods in 2015. The fluctuations in other operating expenses for the three and nine months ended September 30, 2016, as compared to the corresponding periods in 2015, resulted from offsetting increases and decreases in many of the Bank's other operating expenses, none of which were individually significant.

Derivative clearing fees were \$0.3 million and \$0.8 million for the three and nine months ended September 30, 2016, respectively, compared to \$0.1 million and \$0.3 million, respectively, for the corresponding periods in 2015. The increase in derivative clearing fees was attributable to the higher volume of cleared trades in 2016 as compared to 2015.

The Bank, together with the other FHLBanks, is assessed for the costs of operating the Finance Agency and the Office of Finance. The Bank's share of these expenses totaled \$1.5 million and \$4.3 million for the three and nine months ended September 30, 2016, respectively, compared to \$1.2 million and \$3.6 million, respectively, for the corresponding periods in 2015.

AHP Assessments

While the Bank is exempt from all federal, state and local income taxes, it is obligated to set aside amounts for its Affordable Housing Program ("AHP").

As required by statute, each year the Bank contributes 10 percent of its earnings (as adjusted for interest expense on mandatorily redeemable capital stock) to its AHP. The AHP provides grants that members can use to support affordable housing

projects in their communities. Generally, the Bank's AHP assessment is derived by adding interest expense on mandatorily redeemable capital stock to income before assessments; the result of this calculation is then multiplied by 10 percent. The Bank's AHP assessments totaled \$2.3 million and \$0.6 million for the three months ended September 30, 2016 and 2015, respectively, and \$5.6 million and \$5.8 million for the nine months ended September 30, 2016 and 2015, respectively.

Critical Accounting Policies and Estimates

A discussion of the Bank's critical accounting policies and the extent to which management uses judgment and estimates in applying those policies is provided in the 2015 10-K. There were no substantial changes to the Bank's critical accounting policies, or the extent to which management uses judgment and estimates in applying those policies, during the nine months ended September 30, 2016.

Liquidity and Capital Resources

In order to meet members' credit needs and the Bank's financial obligations, the Bank maintains a portfolio of money market instruments typically consisting of overnight federal funds and overnight reverse repurchase agreements. From time to time, the Bank may also invest in short-term commercial paper, U.S. Treasury Bills and GSE discount notes. Beyond those amounts that are required to meet members' credit needs and its own obligations, the Bank typically holds additional balances of short-term investments that fluctuate as the Bank invests the proceeds of debt issued to replace maturing and called liabilities, as the balance of deposits changes, as the returns provided by short-term investments vary relative to the costs of the Bank's discount notes, and as the level of liquidity needed to satisfy Finance Agency requirements changes. At September 30, 2016, the Bank's short-term liquidity portfolio was comprised of \$6.8 billion of overnight federal funds sold and \$3.3 billion of overnight reverse repurchase agreements.

The Bank's primary source of funds is the proceeds it receives from the issuance of consolidated obligation bonds and discount notes in the capital markets. Historically, the FHLBanks have issued debt throughout the business day in the form of discount notes and bonds with a wide variety of maturities and structures. Generally, the Bank has access to the capital markets as needed during the business day to acquire funds to meet its needs.

In addition to the liquidity provided from the proceeds of the issuance of consolidated obligations, the Bank also maintains access to wholesale funding sources such as federal funds purchased and securities sold under agreements to repurchase (e.g., borrowings secured by its investments in MBS and/or agency debentures). Furthermore, the Bank has access to borrowings (typically short-term) from the other FHLBanks.

The 11 FHLBanks and the Office of Finance are parties to the Federal Home Loan Banks P&I Funding and Contingency Plan Agreement (the "Contingency Agreement"). The Contingency Agreement and related procedures are designed to facilitate the timely funding of principal and interest payments on FHLBank System consolidated obligations in the event that a FHLBank is not able to meet its funding obligations in a timely manner. The Contingency Agreement and related procedures provide for the issuance of overnight consolidated obligations ("Plan COs") directly to one or more FHLBanks that provide funds to avoid a shortfall in the timely payment of principal and interest on any consolidated obligations for which another FHLBank is the primary obligor. The direct placement by a FHLBank of consolidated obligations with another FHLBank is permitted only in those instances when direct placement of consolidated obligations is necessary to ensure that sufficient funds are available to timely pay all principal and interest on FHLBank System consolidated obligations due on a particular day. Through the date of this report, no Plan COs have ever been issued pursuant to the terms of the Contingency Agreement.

On occasion, and as an alternative to issuing new debt, the Bank may assume the outstanding consolidated obligations for which other FHLBanks are the original primary obligors. This occurs in cases where the original primary obligor may have participated in a large consolidated obligation issue to an extent that exceeded its immediate funding needs in order to facilitate better market execution for the issue. The original primary obligor might then warehouse the funds until they were needed, or make the funds available to other FHLBanks. Transfers may also occur when the original primary obligor's funding needs change, and that FHLBank offers to transfer debt that is no longer needed to other FHLBanks. Transferred debt is typically fixed-rate, fixed-term, non-callable debt, and may be in the form of discount notes or bonds.

The Bank participates in such transfers of funding from other FHLBanks when the transfer represents favorable pricing relative to a new issue of consolidated obligations with similar features. The Bank did not assume any consolidated obligations from other FHLBanks during the nine months ended September 30, 2016 or 2015.

The Bank manages its liquidity to ensure that, at a minimum, it has sufficient funds to meet operational and contingent liquidity requirements. When measuring its liquidity for these purposes, the Bank includes only contractual cash flows and the amount of funds it estimates would be available in the event the Bank were to use securities held in its long-term investment portfolio as collateral for repurchase agreements. While it believes purchased federal funds might be available as a source of funds, it does not include this potential source of funds in its calculations of available liquidity.

The Bank's operational liquidity requirement stipulates that it have sufficient funds to meet its obligations due on any given day plus an amount equal to the statistically estimated (at the 99-percent confidence level) cash and credit needs of its members and associates for one business day during a stress period of elevated advances demand without accessing the capital markets for the sale of consolidated obligations. As of September 30, 2016, the Bank's estimated operational liquidity requirement was \$5.4 billion. At that date, the Bank estimated that its operational liquidity exceeded this requirement by approximately \$19.8 billion.

The Bank's contingent liquidity requirement further requires that it maintain adequate balance sheet liquidity and access to other funding sources should it be unable to issue consolidated obligations for five business days during a stress period of elevated advances demand. The combination of funds available from these sources must be sufficient for the Bank to meet its obligations as they come due and the cash and credit needs of its members, with the potential needs of members statistically estimated at the 99-percent confidence level. As of September 30, 2016, the Bank's estimated contingent liquidity requirement was \$7.2 billion. At that date, the Bank estimated that its contingent liquidity exceeded this requirement by approximately \$18.1 billion.

In addition to the liquidity measures described above, the Bank is required, pursuant to guidance issued by the Finance Agency, to meet two daily liquidity standards, each of which assumes that the Bank is unable to access the market for consolidated obligations during a prescribed period. The first standard requires the Bank to maintain sufficient funds to meet its obligations for 15 days under a scenario in which it is assumed that members do not renew any maturing, prepaid or called advances. The second standard requires the Bank to maintain sufficient funds to meet its obligations for 5 days under a scenario in which it is assumed that members renew all maturing and called advances, with certain exceptions for very large, highly rated members. These requirements are more stringent than the 5-day contingent liquidity requirement discussed above. The Bank was in compliance with both of these liquidity requirements at all times during the nine months ended September 30, 2016.

The Bank's access to the capital markets has never been interrupted to an extent that the Bank's ability to meet its obligations was compromised and the Bank does not currently believe that its ability to issue consolidated obligations will be impeded to that extent in the future. If, however, the Bank were unable to issue consolidated obligations for an extended period of time, the Bank would eventually exhaust the availability of purchased federal funds (including borrowings from other FHLBanks) and repurchase agreements as sources of funds. It is also possible that an event (such as a natural disaster) that might impede the Bank's ability to raise funds by issuing consolidated obligations would also limit the Bank's ability to access the markets for federal funds purchased and/or repurchase agreements.

Under those circumstances, to the extent that the balance of principal and interest that came due on the Bank's debt obligations and the funds needed to pay its operating expenses exceeded the cash inflows from its interest-earning assets and proceeds from maturing assets, and if access to the market for consolidated obligations was not again available, the Bank would seek to access funding under the Contingency Agreement to repay any principal and interest due on its consolidated obligations. However, if the Bank were unable to raise funds by issuing consolidated obligations, it is likely that the other FHLBanks would have similar difficulties issuing debt. If funds were not available under the Contingency Agreement, the Bank's ability to conduct its operations would be compromised even earlier than if this funding source was available.

A summary of the Bank's contractual cash obligations and off-balance-sheet lending-related financial commitments by due date or remaining maturity as of December 31, 2015 is provided in the 2015 10-K. There have been no material changes in the Bank's contractual obligations outside the normal course of business during the nine months ended September 30, 2016.

Recently Issued Accounting Guidance

For a discussion of recently issued accounting guidance, see "Item 1. Financial Statements" (specifically, Note 2 beginning on page 7 of this report).

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following quantitative and qualitative disclosures about market risk should be read in conjunction with the quantitative and qualitative disclosures about market risk that are included in the 2015 10-K. The information provided in this item is intended to update the disclosures made in the 2015 10-K.

As a financial intermediary, the Bank is subject to interest rate risk. Changes in the level of interest rates, the slope of the interest rate yield curve, and/or the relationships (or spreads) between interest yields for different instruments have an impact on the Bank's estimated market value of equity and its net earnings. This risk arises from a variety of instruments that the Bank enters into on a regular basis in the normal course of its business.

The terms of member advances, investment securities, and consolidated obligations may present interest rate risk and/or embedded option risk. As discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations, the Bank makes extensive use of interest rate derivative instruments, primarily interest rate swaps and caps, to manage the risk arising from these sources.

The Bank has investments in residential mortgage-related assets, primarily CMOs and, to a much smaller extent, MPF mortgage loans, both of which present prepayment risk. This risk arises from the mortgagors' option to prepay their mortgages, making the effective maturities of these mortgage-based assets relatively more sensitive to changes in interest rates and other factors that affect the mortgagors' decisions to repay their mortgages as compared to other long-term investment securities that do not have prepayment features. A decline in interest rates generally accelerates mortgage refinancing activity, thus increasing prepayments and thereby shortening the effective maturity of the mortgage-related assets. Conversely, rising rates generally slow prepayment activity and lengthen a mortgage-related asset's effective maturity.

The Bank has managed the potential prepayment risk embedded in mortgage assets by purchasing floating rate securities, by purchasing securities that maintain their original principal balance for a fixed number of years, by purchasing highly structured tranches of mortgage securities that substantially limit the effects of prepayment risk, by issuing debt with features similar to the mortgage assets, and/or by using interest rate derivative instruments to offset prepayment risk specific both to particular securities and to the overall mortgage portfolio.

The Bank's Enterprise Market Risk Management Policy provides a risk management framework for the financial management of the Bank consistent with the strategic principles outlined in its Strategic Business Plan. The Bank develops its funding and hedging strategies to manage its interest rate risk within the risk limits established in its Enterprise Market Risk Management Policy.

The Enterprise Market Risk Management Policy articulates the Bank's tolerance for the amount of overall interest rate risk the Bank will assume by limiting the maximum estimated loss in market value of equity that the Bank would incur under simulated 200 basis point changes in interest rates to 15 percent of the estimated base case market value. As reflected in the table below, the Bank was in compliance with this limit at each month-end during the nine months ended September 30, 2016.

As part of its ongoing risk management process, the Bank calculates an estimated market value of equity for a base case interest rate scenario and for interest rate scenarios that reflect parallel interest rate shocks. The base case market value of equity is calculated by determining the estimated fair value of each instrument on the Bank's balance sheet, and subtracting the estimated aggregate fair value of the Bank's liabilities from the estimated aggregate fair value of the Bank's assets. For purposes of these calculations, mandatorily redeemable capital stock is treated as equity rather than as a liability. The fair values of the Bank's financial instruments (both assets and liabilities) are determined using vendor prices or a pricing model. For those instruments for which a pricing model is used, the calculations are based upon parameters derived from market conditions existing at the time of measurement, and are generally determined by discounting estimated future cash flows at the replacement (or similar) rate for new instruments of the same type with the same or very similar characteristics. The market value of equity calculations include non-financial assets and liabilities, such as premises and equipment, other assets, payables for AHP, and other liabilities at their recorded carrying amounts.

For purposes of compliance with the Bank's Enterprise Market Risk Management Policy limit on estimated losses in market value, market value of equity losses are defined as the estimated net sensitivity of the value of the Bank's equity (the net value of its portfolio of assets, liabilities and interest rate derivatives) to 200 basis point parallel shifts in interest rates.

The following table provides the Bank’s estimated base case market value of equity and its estimated market value of equity under up and down 200 basis point interest rate shock scenarios (and, for comparative purposes, its estimated market value of equity under up and down 100 basis point interest rate shock scenarios) for each month-end during the period from December 2015 through September 2016. In addition, the table provides the percentage change in estimated market value of equity under each of these shock scenarios for the indicated periods.

MARKET VALUE OF EQUITY
(dollars in billions)

	Base Case Market Value of Equity	Up 200 Basis Points ⁽¹⁾		Down 200 Basis Points ⁽²⁾		Up 100 Basis Points ⁽¹⁾		Down 100 Basis Points ⁽²⁾	
		Estimated Market Value of Equity	Percentage Change from Base Case	Estimated Market Value of Equity	Percentage Change from Base Case	Estimated Market Value of Equity	Percentage Change from Base Case	Estimated Market Value of Equity	Percentage Change from Base Case
December 2015	\$ 2.318	\$ 2.271	(2.03)%	\$ 2.389	3.06%	\$ 2.310	(0.35)%	\$ 2.313	(0.22)%
January 2016	2.343	2.343	0.01 %	2.495	6.49%	2.359	0.68 %	2.354	0.47 %
February 2016	2.191	2.187	(0.18)%	2.445	11.59%	2.204	0.59 %	2.212	0.96 %
March 2016	2.332	2.315	(0.73)%	2.560	9.78%	2.337	0.21 %	2.366	1.46 %
April 2016	2.509	2.477	(1.28)%	2.746	9.45%	2.504	(0.20)%	2.554	1.79 %
May 2016	2.617	2.600	(0.65)%	2.847	8.79%	2.620	0.11 %	2.640	0.88 %
June 2016	2.519	2.530	0.44 %	2.864	13.70%	2.537	0.71 %	2.581	2.46 %
July 2016	2.610	2.601	(0.34)%	2.957	13.30%	2.616	0.23 %	2.676	2.53 %
August 2016	2.711	2.727	0.59 %	3.022	11.47%	2.729	0.66 %	2.759	1.77 %
September 2016	2.769	2.789	0.72 %	3.034	9.57%	2.793	0.87 %	2.819	1.81 %

⁽¹⁾ In the up 100 and up 200 basis point scenarios, the estimated market value of equity is calculated under assumed instantaneous +100 and +200 basis point parallel shifts in interest rates.

⁽²⁾ The estimated market value of equity is calculated under assumed instantaneous -100 and -200 basis point parallel shifts in interest rates, subject to a floor of 0.01 percent.

A related measure of interest rate risk is duration of equity. Duration is the weighted average maturity (typically measured in months or years) of an instrument’s cash flows, weighted by the present value of those cash flows. As such, duration provides an estimate of an instrument’s sensitivity to small changes in market interest rates. The duration of assets is generally expressed as a positive figure, while the duration of liabilities is generally expressed as a negative number. The change in value of a specific instrument for given changes in interest rates will generally vary in inverse proportion to the instrument’s duration. As market interest rates decline, instruments with a positive duration are expected to increase in value, while instruments with a negative duration are expected to decrease in value. Conversely, as interest rates rise, instruments with a positive duration are expected to decline in value, while instruments with a negative duration are expected to increase in value.

The values of instruments having relatively longer (or higher) durations are more sensitive to a given interest rate movement than instruments having shorter durations; that is, risk increases as the absolute value of duration lengthens. For instance, the value of an instrument with a duration of three years will theoretically change by three percent for every one percentage point (100 basis point) change in interest rates, while the value of an instrument with a duration of five years will theoretically change by five percent for every one percentage point change in interest rates.

The duration of individual instruments may be easily combined to determine the duration of a portfolio of assets or liabilities by calculating a weighted average duration of the instruments in the portfolio. These combinations provide a single straightforward metric that describes the portfolio’s sensitivity to interest rate movements. These additive properties can be applied to the assets and liabilities on the Bank’s balance sheet. The difference between the combined durations of the Bank’s assets and the combined durations of its liabilities is sometimes referred to as duration gap and provides a measure of the relative interest rate sensitivities of the Bank’s assets and liabilities.

Duration gap is a useful measure of interest rate sensitivity but does not account for the effect of leverage, or the effect of the absolute duration of the Bank’s assets and liabilities, on the sensitivity of its estimated market value of equity to changes in interest rates. The inclusion of these factors results in a measure of the sensitivity of the value of the Bank’s equity to changes in market interest rates referred to as the duration of equity. Duration of equity is the market value weighted duration of assets minus the market value weighted duration of liabilities divided by the market value of equity.

The significance of an entity’s duration of equity is that it can be used to describe the sensitivity of the entity’s market value of equity to movements in interest rates. A duration of equity equal to zero would mean, within a narrow range of interest rate movements, that the Bank had neutralized the impact of changes in interest rates on the market value of its equity.

A positive duration of equity would mean, within a narrow range of interest rate movements, that for each one year of duration the estimated market value of the Bank’s equity would be expected to decline by about 0.01 percent for every positive 0.01 percent change in the level of interest rates. A positive duration generally indicates that the value of the Bank’s assets is more sensitive to changes in interest rates than the value of its liabilities (i.e., that the duration of its assets is greater than the duration of its liabilities).

Conversely, a negative duration of equity would mean, within a narrow range of interest rate movements, that for each one year of negative duration the estimated market value of the Bank’s equity would be expected to increase by about 0.01 percent for every positive 0.01 percent change in the level of interest rates. A negative duration generally indicates that the value of the Bank’s liabilities is more sensitive to changes in interest rates than the value of its assets (i.e., that the duration of its liabilities is greater than the duration of its assets).

The following table provides information regarding the Bank’s base case duration of equity as well as its duration of equity in up and down 100 and 200 basis point interest rate shock scenarios for each month-end during the period from December 2015 through September 2016.

DURATION ANALYSIS
(expressed in years)

	Base Case Interest Rates				Duration of Equity			
	Asset Duration	Liability Duration	Duration Gap	Duration of Equity	Up 100 ⁽¹⁾	Up 200 ⁽¹⁾	Down 100 ⁽²⁾	Down 200 ⁽²⁾
December 2015	0.26	(0.31)	(0.05)	(0.53)	1.11	2.16	0.88	3.49
January 2016	0.24	(0.33)	(0.09)	(1.36)	0.04	1.19	1.44	3.45
February 2016	0.27	(0.35)	(0.08)	(1.15)	0.10	1.32	1.79	4.23
March 2016	0.28	(0.33)	(0.05)	(0.79)	0.42	1.36	2.02	4.23
April 2016	0.31	(0.34)	(0.03)	(0.20)	0.68	1.43	1.74	3.93
May 2016	0.26	(0.30)	(0.04)	(0.60)	0.36	1.07	0.77	4.54
June 2016	0.25	(0.31)	(0.06)	(0.97)	(0.21)	0.61	1.49	5.17
July 2016	0.25	(0.29)	(0.04)	(0.52)	0.17	0.88	1.46	5.46
August 2016	0.25	(0.31)	(0.06)	(1.01)	(0.27)	0.36	0.24	4.00
September 2016	0.26	(0.34)	(0.08)	(1.23)	(0.34)	0.49	0.72	3.15

⁽¹⁾ In the up 100 and up 200 scenarios, the duration of equity is calculated under assumed instantaneous +100 and +200 basis point parallel shifts in interest rates.

⁽²⁾ The duration of equity was calculated under assumed instantaneous -100 and -200 basis point parallel shifts in interest rates.

Duration of equity measures the impact of a parallel shift in interest rates on an entity’s market value of equity but may not be a good metric for measuring changes in value related to non-parallel rate shifts. An alternative measure for that purpose uses key rate durations, which measure portfolio sensitivity to changes in interest rates at particular points on a yield curve. Key rate duration is a specialized form of duration. It is calculated by estimating the change in value due to changing the market rate for one specific maturity point on the yield curve while holding all other variables constant. The sum of the key rate durations across an applicable yield curve is approximately equal to the overall portfolio duration.

The duration of equity measure represents the expected percentage change in the Bank’s market value of equity for a one percentage point (100 basis point) parallel change in interest rates. The key rate duration measure represents the expected percentage change in the Bank’s market value of equity for a one percentage point (100 basis point) parallel change in interest rates for a given maturity point on the yield curve, holding all other rates constant. The Bank’s key rate duration limit is 5 years, measured as the difference between the maximum and minimum key rate durations calculated for 11 defined individual maturity points on the yield curve. The Bank calculates these metrics monthly and was in compliance with these policy limits at each month-end during the nine months ended September 30, 2016.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Bank's management, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Bank's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, the Bank's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Bank's disclosure controls and procedures were effective in: (1) recording, processing, summarizing and reporting information required to be disclosed by the Bank in the reports that it files or submits under the Exchange Act within the time periods specified in the SEC's rules and forms and (2) ensuring that information required to be disclosed by the Bank in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Bank's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There were no changes in the Bank's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

- 10.1 Amendment to Federal Home Loan Bank of Dallas Incentive Plans, effective as of August 3, 2016 (filed as Exhibit 10.1 to the Bank's Current Report on Form 8-K dated August 3, 2016 and filed with the SEC on August 9, 2016, which exhibit is incorporated herein by reference).
- 31.1 Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from the Bank's quarterly report on Form 10-Q for the quarterly period ended September 30, 2016, formatted in eXtensible Business Reporting Language ("XBRL"): (i) Statements of Condition as of September 30, 2016 and December 31, 2015; (ii) Statements of Income for the Three and Nine Months Ended September 30, 2016 and 2015; (iii) Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2016 and 2015; (iv) Statements of Capital for the Nine Months Ended September 30, 2016 and 2015; (v) Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015; and (vi) Notes to the Financial Statements for the quarter ended September 30, 2016.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

November 10, 2016

Date

By /s/ Tom Lewis

Tom Lewis

Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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CERTIFICATION

I, Sanjay Bhasin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Federal Home Loan Bank of Dallas;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2016

/s/ Sanjay Bhasin

Sanjay Bhasin

President and Chief Executive Officer

CERTIFICATION

I, Tom Lewis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Federal Home Loan Bank of Dallas;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2016

/s/ Tom Lewis

Tom Lewis

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of the Federal Home Loan Bank of Dallas (the "Bank") for the period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Sanjay Bhasin, as President and Chief Executive Officer of the Bank, and Tom Lewis, as Executive Vice President and Chief Financial Officer of the Bank, each hereby certifies, pursuant to 18 U.S.C. Section 1350, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

/s/ Sanjay Bhasin

Sanjay Bhasin
President and Chief Executive Officer

November 10, 2016

/s/ Tom Lewis

Tom Lewis
Executive Vice President and Chief Financial Officer

November 10, 2016

A signed original of this written statement required by Section 906 has been provided to the Bank and will be retained by the Bank and furnished to the Securities and Exchange Commission or its staff upon request.