



2015 ANNUAL REPORT  
15 YEARS OF MPP

# Financial Highlights

(dollars in millions)

Selected Items at Year-End	2015	2014	2013	2012	2011
Total assets	\$118,797	\$106,640	\$103,181	\$81,562	\$60,397
Advances	73,292	70,406	65,270	53,944	28,424
Mortgage loans held for portfolio, net	7,980	6,984	6,819	7,530	7,850
Investments	37,356	26,007	22,364	19,950	21,941
Deposits	804	730	914	1,177	1,084
Consolidated obligations	112,304	100,449	96,373	75,186	54,991
Retained earnings	765	689	621	538	444
Total capital	5,181	4,939	5,310	4,537	3,559
<b>Annual Operating Results</b>					
Net income	\$ 249	\$ 244	\$ 261	\$ 235	\$ 138
Operating expenses	62	54	51	45	46
Affordable Housing Program assessments	28	28	30	27	17
Total dividends paid	172	176	178	141	132
Weighted average dividend rate	4.00%	4.00%	4.18%	4.44 %	4.25 %
<b>Performance Ratios</b>					
Return on average assets	0.24%	0.24%	0.28%	0.35 %	0.21 %
Return on average equity (ROE)	4.90	4.93	5.10	6.20	3.89
Operating expenses to average assets	0.058	0.054	0.055	0.067	0.068
Average three-month LIBOR	0.32	0.23	0.27	0.43	0.34
Average Federal funds effective rate	0.13	0.09	0.11	0.14	0.10
ROE spread to three-month LIBOR	4.58	4.70	4.83	5.77	3.55
ROE spread to Federal funds effective rate	4.77	4.84	4.99	6.06	3.79
<b>Capital Ratios at Year-End</b>					
Capital-to-assets ratio – GAAP	4.36%	4.63%	5.15%	5.56 %	5.89 %
Capital-to-assets ratio – Regulatory	4.40	4.71	5.27	5.84	6.37

The Federal Home Loan Bank of Cincinnati's 2015 annual report on Form 10-K, as filed with the Securities and Exchange Commission, is available on the FHLB's web site, [www.fhlbcin.com](http://www.fhlbcin.com). For a hard copy, you may email [info@fhlbcin.com](mailto:info@fhlbcin.com) or call toll-free 1-877-925-3452.



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## 2015 ANNUAL REPORT

*The Federal Home Loan Bank of Cincinnati is a regional wholesale bank providing financial services for residential housing and economic development to 699 member stockholders in the FHLB System's Fifth District of Kentucky, Ohio and Tennessee.*

**Standing:**  
Andrew S. Howell,  
*President and CEO*

**Seated:**  
Donald J. Mullineaux,  
*Chair, Board of Directors*



President and CEO  
and Board Chair



# A Message for Our Members



*We are pleased to report that the Federal Home Loan Bank of Cincinnati (FHLB) achieved a successful financial and operating performance year in 2015. We dedicate our efforts to deliver value to our member stockholders through competitively priced services consistent with our housing finance mission, stable and solid dividend rates, and constructive affordable housing programs. We met all of those objectives in 2015. We attribute our performance to our strong partnership with our members and our collective commitment to help meet the housing finance and economic development needs of the FHLB Fifth District communities.*

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## FINANCIAL AND OPERATING PERFORMANCE

Earnings were strong and rose slightly in 2015. This steady performance reflected a stable business and interest rate environment, consistent demand for Advances, and a conservative approach to risk management. Net income in 2015 was \$249 million compared to \$244 million in 2014, a 2 percent increase. Our reliable financial performance enabled us to pay an average quarterly dividend

rate of 4.00 percent and add \$76 million to retained earnings.

Total assets at year-end were \$118.8 billion, rising 11 percent compared to assets at year-end 2014 of \$106.6 billion. Advances, our principal mission asset, rose 4 percent. Advances grew amid a shift by our members to short-term borrowing and borrowing by new insurance company members. As always, we believe the key to the ongoing success of the FHLB is our diverse membership base, aided by favorable housing and economic conditions.

## MEMBERSHIP RULE

In September 2014 our regulator, the Federal Housing Finance Agency, proposed a rule that would have imposed an ongoing housing-asset test on all members to maintain their FHLB membership. It would also effectively ban captive insurance companies from membership. By January 2015 more than 1,300 comment letters had been submitted to the Finance Agency, overwhelmingly opposing every section of the proposal, and we concurred with that opposition. Discussions with the Agency



Images from this year's MPP Users Group meeting from left to right:

Andrew S. Howell preparing for his opening statements.

A view from above the Renaissance in downtown Cincinnati.

Mike Boyer of Greenville National Bank looks on at the Nov. 2 event.

This year's conference was attended by 165 people from 69 member institutions.

Bob Harlow from First National Bank and FHLB Director David Sartore from Field & Main Bank spoke to the group in the LRA Panel discussion.

*The mortgage portfolio grew by \$1.0 billion to \$8.0 billion, and the program enjoyed record participation by members, with 99 active sellers during 2015.*

continued through 2015, and the System sought to meet the regulator's concern of preserving the System's housing mission, while finding ways to strengthen the mission by adapting to the nation's evolving housing finance market, which increasingly requires private capital.

The Finance Agency issued its final rule that took effect February 2016. The Agency laudably heeded the concerns of FHLB members, and abandoned an ongoing asset test for membership. We are disappointed, however, that the Agency enacted the ban on captive insurance companies from membership. Current captive insurance members are required to leave the System by February 2017, one year after the rule took effect. We disagree with this determination. We believe captive insurance companies are important members that help deepen and diversify the flow of funds to the mortgage markets. It is possible this decision could be reconsidered through legislation or other means, and we will keep our members informed of any developments.

### MORTGAGE PURCHASE PROGRAM

Our Mortgage Purchase Program (MPP) enjoyed another strong year. The mortgage portfolio grew

by \$1.0 billion to \$8.0 billion, and the program achieved record participation by members, with 99 active sellers during 2015. As you'll read later in this report, MPP is celebrating its 15-year anniversary. MPP offers our members a viable secondary market channel for their mortgage assets, as many members attested at the Users Group meeting in Cincinnati last November. The program also helps the FHLB fulfill its mission of housing finance, and is a strong contributor to our earnings and dividend. We expect another strong performance for MPP in 2016, and are working to continue to grow the program.

### CHANGES ON THE BOARD

For 2016, we added one new director and three directors were re-elected by the membership. Newly elected as an Ohio Member Director is Robert T. Lameier, President and CEO of Miami Savings Bank, Miamitown. Bob is a past chairman of the Ohio Bankers League and a respected community banker. That seat on the FHLB Board opened when Director Mark N. DuHamel, Executive Vice President and Deputy Chief Financial Officer of FirstMerit Bank in Akron, retired from the Board. Mark served the Board with distinction for eight years, and was a strong voice on



the Audit Committee and for all members. We valued his expertise and thank him for his significant contributions to the FHLB.

Returning to the Board following the 2015 election is another Ohio Member Director, Michael R. Melvin, President and CEO of Perpetual Federal Savings Bank, Urbana. Also re-elected were two Independent Directors: our Chairman, Donald J. Mullineaux of Lexington, Ky., and Charles J. Ruma of Columbus, Ohio. All four directors elected last fall will serve four-year terms, through 2019. Additionally, Director William J. Small, who is Chairman of First Federal Bank of the Midwest in Defiance, Ohio, was re-elected as Vice Chairman by the Board, and will serve in that capacity through 2017.

In addition, the Board revised its committee structure, splitting the Financial & Risk Management committee into two committees: Business & Operations and Risk. The Business & Operations Committee will work to ensure FHLB operations are effective, efficient and aligned with fulfilling the FHLB's mission. The Risk Committee provides a forum for the Board to oversee the FHLB's comprehensive risk management program.

We bid a fond farewell to Thomas J. Ciresi, Senior Vice President, Member Services, who retired in September after 34 years with the FHLB. Tom was the embodiment of one of FHLB Cincinnati's core values: the personal attention and responsiveness to members' needs within our cooperative. His leadership and commitment to the FHLB's members was instrumental in sustaining the long-term success of the FHLB.

### THE YEAR AHEAD

Change is a constant, and it often takes a steadfast resolve to resist impulsive reaction when shifting external forces create uncertainty. From dramatically falling commodity prices to marginally rising interest rates to an unpredictable presidential election, 2016 will most certainly promise more change domestically. Global events are no less volatile and will likewise have an impact on economic markets and consumer behavior.

The FHLB has thrived for more than 80 years, through economic expansion and turmoil, peace and war. We have been sustained by a belief in the validity of our mission – that every community, large or small, deserves vital financial institutions that can help them thrive, that every citizen deserves a decent, safe place to live, and that we are here to help. In support of our mission, we strive to run our FHLB conservatively so that it remains strong, with a focus on returning value to our members so that they remain vital in their communities. Our affordable housing programs help provide direct assistance to communities in need. We endeavor to confront the change around us in a steady and measured way, consistent with our mission. We are confident that we can meet our goals of delivering value to our members and provide a solid foundation for housing finance in the Fifth District.

Sincerely,

**Donald J. Mullineaux**  
Chair, Board of Directors

**Andrew S. Howell**  
President and CEO



# 2015 Board of Directors

*Front row, seated left to right:*

**Alvin J. Nance**  
*CEO, Development and  
Property Management  
Operating Divisions  
LHP Capital  
Knoxville, Tenn.*

**Charles J. Ruma**  
*President  
Davidson Phillips Inc.  
Columbus, Ohio*

**James R. DeRoberts**  
*Chairman  
The Arlington Bank  
Upper Arlington, Ohio*

*Back row,  
standing left to right:*

**William J. Small**  
*(Board Vice Chair)  
Chairman  
First Federal Bank  
of the Midwest  
Defiance, Ohio*

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

**David E. Sartore**  
*Executive Vice President  
and CFO  
Field & Main Bank  
Henderson, Ky.*

**J. Lynn Anderson**  
*Senior Vice President  
Nationwide Mutual  
Insurance Company  
Columbus, Ohio*

**Greg W. Caudill**  
*President and CEO  
Farmers National Bank  
Danville, Ky.*



*Front row, seated left to right:*

**Dr. Donald J. Mullineaux**  
*(Board Chair)*  
 Emeritus duPont Endowed  
 Chair in Banking and  
 Financial Services  
 University of Kentucky  
 Lexington, Ky.

**Nancy E. Uridil**  
 Director  
 Flexsteel Industries, Inc.  
 Avon Lake, Ohio

**Charles J. “Bud” Koch**  
 Principal/Owner  
 Lakehurst Associates  
 Bratenahl, Ohio

*Back row,  
 standing left to right:*

**James A. England**  
 Chairman  
 Decatur County Bank  
 Decaturville, Tenn.

**William S. “Sammy” Stuard Jr.**  
 President, CEO and Chairman  
 F&M Bank  
 Clarksville, Tenn.

**Thomas L. Moore**  
 Director  
 First Federal Bank of Ohio  
 Galion, Ohio

**Grady P. Appleton**  
 President and CEO  
 East Akron Neighborhood  
 Development Corp.  
 Akron, Ohio

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

*Not pictured:*

**Mark N. DuHamel**  
 Executive Vice President and  
 Deputy Chief Financial Officer  
 FirstMerit Bank, N.A.  
 Akron, Ohio

# MPP Celebrates 15 Years



*Our Mortgage Purchase Program is celebrating its 15th anniversary – 15 years of service to our housing finance mission and 15 years of helping members serve their communities.*



**“ We’re able to offer lower rates than what we could offer on our own. ”**

**Sandra Hoehne** Chief Financial Officer  
OSB Bancorp

*Operationally we set it up for ease of use. Our guidelines for selling and delivery are industry-standard.*

**R. Kyle Lawler**  
Executive Vice President  
and Chief Business Officer  
FHLB Cincinnati

MPP bought its first mortgages from members in 2000. “We started MPP to offer a competitive secondary market execution for the underserved members in the Fifth District,” said R. Kyle Lawler, who joined FHLB Cincinnati in 2000 to launch MPP. “The lion’s share of our membership was practically excluded from the national secondary market.”

Mr. Lawler, who today is the FHLB’s Executive Vice President and Chief Business Officer, said the Bank saw MPP as a way to purchase a good investment and reward members for originating high-credit-quality loans, furthering the Bank’s housing mission.

At the end of 2015, the MPP portfolio stood at \$8.0 billion. Regulation limits how quickly FHLB can grow the program, but through 2015, more than \$33 billion in mortgages have been purchased.

Through MPP, the FHLB purchases qualifying residential mortgage loans from members. By selling mortgage loans, members can increase their balance sheet liquidity and minimize

the risks associated with holding fixed-rate mortgages in portfolio.

Osgood State Bank in Osgood, Ohio, is the kind of member MPP targeted. “We weren’t able to offer fixed rate mortgages because of the interest rate risk,” said Michael Monnier, president and CEO of OSB Bancorp, the holding company. As a small community bank, “We didn’t have a relationship with Freddie or Fannie or any other large secondary market player. We wanted to keep the servicing rights so we still had the contact with the customer.”

An early user of MPP, Osgood State Bank has sold more than \$90 million in mortgages to the FHLB. “Overall, we’ve just been very pleased with the Mortgage Purchase Program,” Sandra Hoehne, Chief Financial Officer, OSB Bancorp said. “We’re able to offer lower rates than what we could offer on our own.”

Nearby, St. Henry Bank in St. Henry, Ohio, has turned to the FHLB’s MPP to help manage interest rate risk on fixed-rate mortgages. “We used to



*“The people at FHLB are so much more helpful...”*

**Suzanne Anderson**  
Assistant Vice President and Loan Officer  
Farmers State Bank



*“Using MPP has absolutely made us better. It’s allowed us to be much more competitive in the marketplace.”*

**David Romer** President and CEO  
St. Henry Bank



*“To be able to use a third-party servicer that’s not trying to compete with us is a good thing.”*

**Spencer Pratt** Executive Vice President  
Leaders Credit Union

just match them in house, but that was getting to be too much risk, so we joined MPP,” said David Romer, President and CEO of St. Henry Bank. The bank joined MPP following the financial crisis in 2008. “We felt we were taking on too much interest rate risk,” he said. “Using MPP has absolutely made us better. It’s allowed us to be much more competitive in the marketplace.”

MPP offers members the option of retaining or releasing servicing. Victory Community Bank in Fort Mitchell, Ky., chooses to retain servicing. CEO Jack Kenkel said too many customers have had poor experiences after their mortgages have been sold. “Messed-up escrow accounts, 800 numbers – customers often tell us ‘don’t sell our loans,’” he said. Retaining servicing “keeps the customers close to our bank branches.”

MPP gives Victory the flexibility it needs. “MPP has been profitable for us,” Mr. Kenkel said. “It’s a good execution, and it’s competitive from a price perspective.”

Leaders Credit Union in Jackson, Tenn., prefers to release servicing, and likes the option provided by MPP, said Executive Vice President Spencer Pratt. MPP’s service release servicer, Capital Markets Cooperative, “is a true third-party servicer, not a financial institution,” he said. “To be able to use a third-party servicer that’s not trying to compete with us is a good thing.”

Suzanne Anderson, Assistant Vice President and Loan Officer at Farmers State Bank in Greenville, Ohio, appreciates the personal service she receives. “The people at FHLB are so much more helpful,” she said. She’s worked with other secondary market firms and complained she could never get the same person on the phone. “It’s so much easier to deal with FHLB.”

FHLB’s Mr. Lawler said good customer service has been the keystone of MPP’s success. “We provide a lot of education, from hands-on training to annual meetings of the Users Group, with industry experts who talk about trends and best practices. It’s a great program and there’s no reason you shouldn’t be involved.”

## MPP pays five ways:

**Cash Price:** FHLB Cincinnati pays a competitive price at the time of purchase.

**Lender Risk Account (LRA):** Members receive future payments based on the performance of the loans.

**Servicing Released Premium or Servicing Spread:** Members can earn more current income when selling the servicing.

**Dividend:** As a profitable program for FHLB Cincinnati, MPP assets enhance the dividend paid on member stock.

**Loan Level Price Adjustments:** MPP has fewer adjustments compared to other secondary market alternatives.

# Carol M. Peterson Housing Fund



*Now in its fifth year, the Carol M. Peterson Housing Fund is dedicated to serve the elderly and those with special needs with grant funds to use for emergency home repairs and modifications for home accessibility. Since its inception, more than \$4.8 million has been disbursed through the Carol M. Peterson Housing Fund, benefitting more than 1,036 households.*

It's a fine line between homeowner and homeless for some of the most financially vulnerable in Kentucky, Ohio and Tennessee. A leaky roof, a broken furnace, the inability to manage stairs or bathtubs – finding the funds to make these repairs can prove impossible for those living on fixed incomes. These situations can ultimately force homeowners to live in unsafe conditions or abandon their homes. FHLB Cincinnati's Board created a voluntary fund, the Carol M. Peterson Housing Fund (CMPHF) in 2010 to help keep homes viable for very low- and low-income homeowners.

The fund honors its namesake Carol Mount Peterson, who headed the FHLB's Housing and Community Investment Department for 25 years. Ms. Peterson's relentless promotion of the Affordable Housing Program took her to every corner

of the Fifth District, spreading word of the availability of funds for needed affordable housing. The CMPHF honors Ms. Peterson's passion for the FHLB's ability to change lives through the AHP by addressing the separate problem of how to keep very low- and low-income homeowners in safe and secure homes.

Sponsors are able to request up to \$7,500 per homeowner, who meet area income qualifications. With a cap of \$75,000 per sponsor organization, the fund provides accessibility repairs, such as ramps, bathroom modifications, lowering of cabinets, or vital emergency repairs, such as roofs, HVACs, or plumbing. All funds must be reserved through an FHLB member institution. The Board of Directors has approved an increase in the funds available for the program for 2016 to a total of \$1.5 million, \$100,000 of which is designated for

the Jimmy and Rosalynn Carter Work Project in Memphis, Tenn. Applications for the 2016 CMPHF offering will be accepted beginning June 1.

As illustrated in the examples that follow, these funds have allowed sponsor organizations to serve more of their local communities in ways that have made a significant impact on quality of life for homeowners.

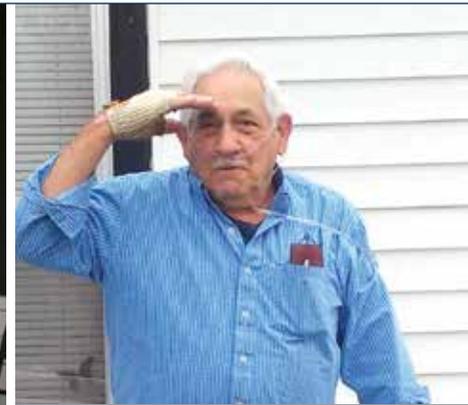
"The Carol M. Peterson Housing Fund is an important source of funding for sponsor organizations throughout our district. We are able to provide funding that fills a variety of gaps and ultimately keeps homeowners in viable, safe housing," said Damon v. Allen, Senior Vice President, Community Investment. "We are proud of the impact the fund has had on families within the Fifth District and look forward to continuing the program in 2016."



Neighborhood Housing Inc. volunteer ramp crew



Carol Arcuragi enters her home equipped with a new furnace



James Stapleton enjoys his new ramp funded through a CMPHF grant

# Home is the Foundation

James Stapleton, a veteran, and his wife Marguerite, who is disabled, were in need of an accessible restroom, extensive plumbing repairs and ramps in their Eaton, Ohio home. A Carol M. Peterson Housing Fund grant played an important role in Home is the Foundation meeting their extensive list of needs.

The group, based in Eaton, Ohio, began a senior home repair program three years ago as a way to help area seniors remain in their homes in safe living conditions.

Home is the Foundation uses the CMPHF for modifications including accessible restrooms and emergency HVAC repairs. Since its inception, the group has served more than 150 seniors through multiple funding sources, volunteers and trusted, responsible contractors.

Carol Arcuragi understands the need in the area all too well. She received a furnace through CMPHF. "I just couldn't believe it. Without this kind of help, I don't know what I would have done," she said.

"There are cases we would not have been able to address without the help of the Carol M. Peterson Housing Fund, including some where seniors were living in unsafe conditions with few other options," said Heidi Bortel, Senior Home Repair Program Manager for HIT Foundation.



## at a glance

### HOME IS THE FOUNDATION (HIT FOUNDATION)

Eaton, Ohio

**Population served:**  
Very low- and low-income seniors in the Eaton, Ohio and surrounding areas

**FHLB member:**  
LCNB National Bank, Lebanon, Ohio

**Amount of Carol M. Peterson Housing Fund grants awarded:** \$112,318

*“The Carol M. Peterson Housing Fund is an important source of funding for sponsor organizations throughout our district. We are able to provide funding that fills a variety of gaps and ultimately keeps homeowners in viable, safe housing.”*

**Damon v. Allen** Senior Vice President, Community Investment FHLB Cincinnati



*at a glance*

**HOUSING DEVELOPMENT ALLIANCE**

**Hazard, Ky.**

**Population served:**

Very low- and low-income residents throughout the Breathitt, Knott, Leslie and Perry County area

**FHLB member:**

First Federal Savings & Loan of Hazard, Hazard, Ky.

**Amount of Carol M. Peterson Housing Fund grants awarded: \$250,807**

# Housing Development Alliance

Serving some of the poorest counties in the state, the Housing Development Alliance of Hazard, Ky., is focused on getting and keeping residents in safe, affordable housing. A big part of this effort rests on the group's home repair program.

"The housing stock in the region we serve is particularly poor. Without FHLB's Carol M. Peterson Housing Fund, we just wouldn't have the funds to address everything that needs to be done," said Scott McReynolds, Executive Director at Housing Development Alliance.

The CMPHF also allows the Housing Development Alliance to do more for the people they serve.

"Donna Combs had already been helped with a roof, electrical and window work. However, she had a bathroom that was about to collapse. With the help of the Carol M. Peterson Housing Fund, we were able to take care of that for her as well," Mr. McReynolds said.



From left to right:

1. The rot and damage to Evelyn Coates' roof was clearly visible prior to much needed repairs.
2. The new, flat-style roof was completed with the help of volunteers.

# Neighborhood Housing Inc.

*(part of Knoxville Leadership Foundation)*

Evelyn Coates is a staple in her east Knoxville neighborhood. When she needed a new roof, however, finding the funds for the repair was difficult. Fortunately, she was put in touch with Knoxville Leadership Foundation's minor home repair program, Operation Backyard, which was able to use Carol M. Peterson Housing Fund money to make the repairs to her unique flat-style roof. Without access to CMPHF, Evelyn's roof would likely still be in need of repair.

Neighborhood Housing Inc., the single-family housing development corporation of Knoxville Leadership Foundation, manages Operation

Backyard, which helps homeowners like Evelyn get the resources they need to make essential repairs to their homes. The program focuses on assisting homeowners with roofing, accessibility features and weatherization. Operation Backyard maximizes the impact of CMPHF dollars by leveraging trained volunteers to complete as much labor as possible.

"FHLB's Carol M. Peterson Housing Fund has allowed us to serve more people, serve a broader area and take on bigger projects that are difficult to find funding for," said Adam Montgomery, Director of Neighborhood Housing Inc.



*at a glance*

**NEIGHBORHOOD HOUSING INC. (PART OF KNOXVILLE LEADERSHIP FOUNDATION)**

**Knoxville, Tenn.**

**Population served:**

Very low- and low-income residents throughout Knox County and neighboring areas

**FHLB member:**

Home Federal Bank of Tennessee, Knoxville, Tenn.

**Amount of Carol M. Peterson Housing Fund grants awarded: \$250,349**



# Advisory Council

*Front row, seated left to right:*

**David L. Kreher**  
Executive Director  
People's Self-Help  
Housing Inc.  
Vanceburg, Ky.

**Deborah W. Williams**  
Executive Director  
Housing Assistance and  
Development Services  
(HANDS) Inc.  
Bowling Green, Ky.

**Jeffrey J. Woda**  
Principal  
The Woda Group Inc.  
Westerville, Ohio

**Tammy K. Weidinger**  
President and CEO  
Brighton Center Inc.  
Newport, Ky.

*Back row, standing left to right:*

**Debbie Watts Robinson**  
Chief Executive Officer  
Miami Valley Housing  
Opportunities  
Dayton, Ohio

**Cecil F. Dunn**  
Executive Director  
HOPE Center  
Lexington, Ky.

**Linda G. Leathers**  
Executive Director and CEO  
The Next Door Inc.  
Nashville, Tenn.

**Danny Herron**  
President and CEO  
Habitat for Humanity  
of Greater Nashville  
Nashville, Tenn.

**Steven D. Gladman**  
(Council Chair)  
President  
The Affordable Housing  
Trust for Columbus and  
Franklin County  
Columbus, Ohio

**Don R. Alexander**  
(Council Vice Chair)  
Executive Director  
Crossville Housing Authority  
Crossville, Tenn.

**Kenneth "Jay" Kittenbrink**  
Executive Director  
Episcopal Retirement Homes  
Cincinnati, Ohio

**Thomas K. Stone**  
Executive Director  
Mt. Pleasant NOW  
Development Corp.  
Cleveland, Ohio

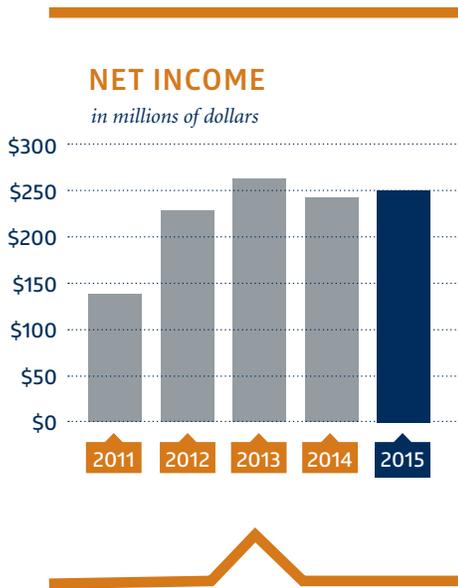
**Douglas A. Garver**  
Executive Director  
Ohio Housing Finance Agency  
Columbus, Ohio

*Not pictured:*

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

**Terry W. Cunningham**  
Executive Director  
Kingsport Housing and  
Redevelopment Authority  
Kingsport, Tenn.

# Performance



## EARNINGS

The FHLB posted earnings of \$249 million in 2015, an increase of 2 percent from 2014. Our return on equity (ROE) averaged 4.90 percent, compared to 4.93 percent a year earlier. ROE in 2015 was 458 basis points above the average 3-month London InterBank Offered Rate (LIBOR); this spread is a key measure of the competitiveness of the profitability resulting from operations. We believe this represents an excellent performance on behalf of our member stockholders in the current low interest rate environment. Operating expenses as a percentage of average assets rose slightly to 5.8 basis points in 2015, compared to 5.4 basis points in 2014.

The financial and economic environment in 2015 closely resembled that of 2014 – steady overall interest rates, and steady demand for Advances through most of the year. We continued to retire some of our Consolidated Bonds,

replacing them with lower-cost Obligations. On the asset side of the balance sheet, growth in mission assets – Advances, mortgages held in the Mortgage Purchase Program and Letters of Credit – contributed positively to earnings.

## DIVIDEND

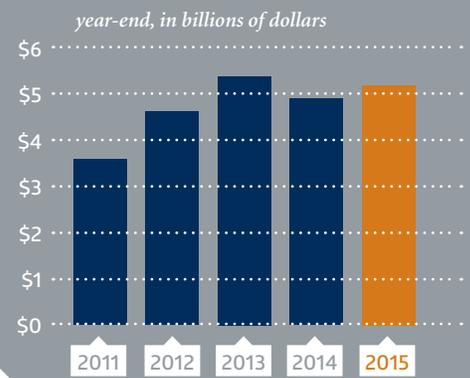
In 2015 we paid an annualized average 4.00 percent dividend in each quarter, compared to the average 3-month LIBOR benchmark rate of 0.32 percent. In doing so, the FHLB returned \$172 million in the form of a cash dividend in 2015, while prudently adding \$76 million to retained earnings.

Members are reminded there is a one-quarter lag in our dividend payments. The dividends we pay in a given quarter are based on the previous quarter’s retained earnings and members’ average capital stock balances. All 2015 dividends were paid in the form of cash.

## ANNUAL DIVIDEND



## TOTAL GAAP CAPITAL



## CAPITAL AND RETAINED EARNINGS

We report two measures of capital. GAAP capital, which comprises members' capital stock, retained earnings and accumulated other comprehensive income, was \$5.2 billion at year-end, an increase of \$242 million, or 5 percent, compared to year-end 2014. Capital stock rose as Advances grew and we welcomed 21 new members. Of those new members, however, 15 are captive

insurance companies, and will be required to relinquish their membership by February 19, 2017.

Regulatory capital is GAAP capital plus mandatorily redeemable capital stock, less accumulated other comprehensive income. Our regulatory capital-to-assets ratio averaged 4.88 percent during 2015 and stood at 4.40 percent at year-end, exceeding the minimum 4.00 percent requirement.

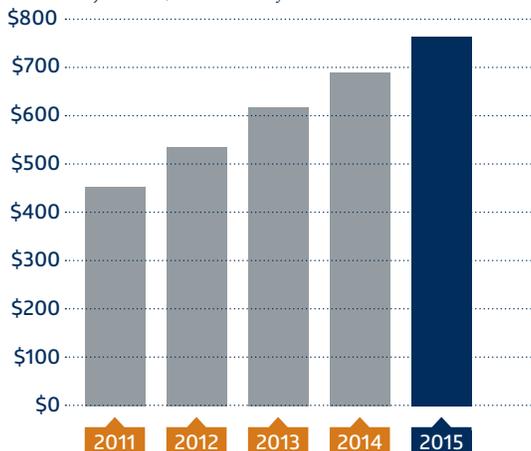
Retained earnings grew by \$76 million to end the year at \$765 million. We believe the current amount of retained earnings is sufficient to protect our members' capital stock against the remote risk of impairment and to support future dividend stability.

## INVESTMENTS

The FHLB's investment portfolio grew to \$37.4 billion by year-end 2015, up \$11.3 billion from a year earlier, mainly due to the growth in the liquidity investment portfolio. We grew the liquidity investment portfolio during the fourth quarter in anticipation of volatility in demand for Advances at year-end and any potential capital market instability. The FHLB maintains adequate liquidity to continue to support our goal of providing same day funding of Advances to members.

## RETAINED EARNINGS

year-end, in millions of dollars



*Retained earnings grew by \$76 million to end the year at \$765 million.*

*MPP balances rose 14 percent in 2015 to end the year at \$8.0 billion. Principal purchases nearly doubled to \$2.3 billion, and paydowns rose 29 percent to \$1.3 billion. Members increasingly see FHLB as a viable secondary market alternative.*

## CREDIT SERVICES

Advance balances grew during 2015 to end the year at \$73.2 billion, from \$70.3 billion at year-end 2014 – an increase of 4 percent and a record year-end balance. The FHLB offers a wide range of credit programs and services that support our members’ funding needs in various interest rate and economic environments.

The percentage of members using FHLB credit services was 77 percent in 2015, compared to 76 percent in 2014 and 72 percent in 2013.

Advance balances as a percent of assets for each member increased during the year to 3.37 percent. Aggregate Advances grew for our savings bank and insurance company members. The percentage of members that held Advances in 2015 was 65 percent, about flat compared to 2014.

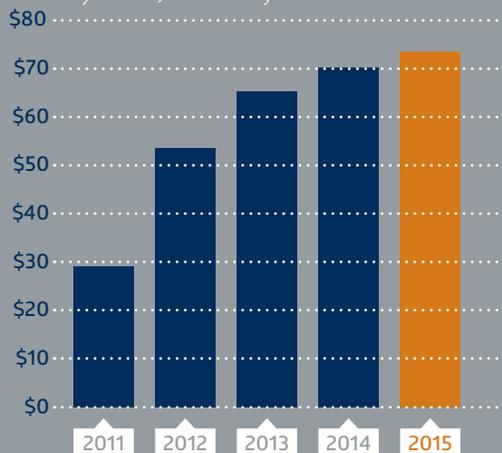
The FHLB continued to provide Advance special offerings in 2015. Offerings frequently feature an Advance program specifically

requested by members or an Advance that features advantageous pricing and terms due to a particular debt offering. A total of 127 members borrowed nearly \$1.5 billion through the 18 specials in 2015.

Average daily Letters of Credit balances rose to nearly \$17.7 billion in 2015, up 17 percent compared to 2014. Letters of Credit continue to be used by members to support public unit deposits and alternative liquidity strategies.

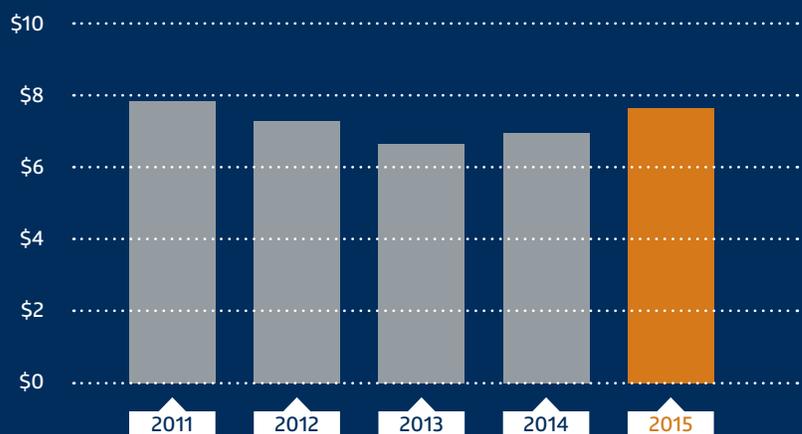
### ADVANCE BALANCES

*year-end, in billions of dollars*



### MORTGAGES HELD IN PORTFOLIO

*year-end, in billions of dollars*



## MPP

A competitive alternative to the traditional secondary mortgage market, our Mortgage Purchase Program (MPP) continued to attract substantial member interest in 2015. The number of active sellers reached a record high of 99 members.

MPP balances rose 14 percent in 2015 to end the year at \$8.0 billion. Principal purchases nearly doubled to \$2.3 billion, and paydowns rose 29 percent to \$1.3 billion. Members increasingly see FHLB as a viable secondary market alternative. MPP remains an important contributor to the FHLB's earnings and dividend.

MPP continues to grow, 15 years after we bought our first mortgage. We constantly look for opportunities to enhance MPP. During 2015, for instance, we partnered with BNY Mellon for master servicing responsibilities, and program pricing

is now available through Ellie Mae's Encompass Product and Pricing Service.

## HOUSING AND COMMUNITY INVESTMENT (HCI)

In 2015, the FHLB provided affordable housing assistance to Fifth District members and their communities. Our flagship program is the Affordable Housing Program (AHP), funded with 10 percent of our annual net income. In 2015, the FHLB awarded or disbursed \$36.1 million through AHP to its members to help 3,953 households secure decent, affordable housing. In 26 years of partnering with our members and housing organizations, we have awarded or disbursed \$562 million through AHP to assist more than 71,000 households. For 2016, the FHLB has accrued \$27.9 million for AHP, which reflects earnings in 2015.

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# 3,953

## HOUSEHOLDS HELPED

*In 2015, the FHLB awarded or disbursed \$36.1 million to its members to help 3,953 households secure decent, affordable housing through its Affordable Housing Program.*

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## 2015 HCI

Total housing funds awarded or disbursed

\$125.0 million

Housing units supported

4,926

Members taking part in one or more HCI programs

210



# 816 UNITS OF AFFORDABLE HOUSING

*Through the FHLB's Community Investment Program, Economic Development Program and the Zero-Interest Fund, \$88.0 million was disbursed through low-cost Advance programs for housing and economic development in 2015.*

*In 2015, the FHLB's Carol M. Peterson Housing Fund disbursed more than \$920,000 on behalf of 151 households through our members and their affordable housing partners to homeowners in the Fifth District.*

There are two components to the AHP. Under the AHP competitive program, in 2015 the FHLB awarded \$27.0 million in AHP grants through its members for the creation or preservation of 2,084 units of affordable housing. Under the AHP set-aside program, the Welcome Home Program, \$9.1 million was disbursed to members to assist 1,869 low- and moderate-income households with the purchase of homes, most of them first-time homebuyers.

The Carol M. Peterson Housing Fund is a voluntary program established in 2010 by the Board. The funds were designated to help elderly and special needs households with accessibility rehab and emergency repairs to their homes. Response to the program has always been enthusiastic. In 2015, the FHLB disbursed more than \$920,000 on behalf of 151 households through our members and their affordable housing partners to homeowners in the Fifth District. For 2016, the Board has approved \$1.5 million for the Fund, \$100,000 of which is designated for the Jimmy and Rosalynn Carter Work Project in Memphis, Tenn.

The Disaster Reconstruction Program, another voluntary program, continued to help Fifth District residents whose homes were damaged or destroyed by natural disasters. To date, we have disbursed more than \$2.9 million from this fund to help 177 households re-establish housing. We stand ready to come to the aid of those families affected by natural disasters.

Other FHLB housing programs include the Community Investment Program, Economic Development Program, and Zero-Interest Fund. In 2015, the FHLB disbursed \$88.0 million through these low-cost Advance programs for housing and economic development.

## MEMBERSHIP AND OUTREACH

The number of member stockholders fell to 699 in 2015 from 705 in 2014 due mainly to merger activity during the year. We also approved 21 new member stockholders in 2015, while losing 27 members to mergers. The number of member stockholders at year-end was 304 in Ohio, 196 in Kentucky and 199 in Tennessee.

During 2015, we approved 15 members who are captive insurance companies. Our regulator, the Federal Housing Finance Agency, instituted a rule in February 2016 barring captive insurance companies from FHLB membership, and requiring our current member captives to terminate their membership one year after the effective date of the rule.

We remain committed to maintaining frequent and timely communications with our members. We held four regional stockholder meetings and

several housing workshops and webinars. Our annual Financial Management Conference and MPP Users Group meeting both drew their best attendance ever. Through these outreach efforts, we seek to ensure that our members are maximizing the value of their membership – that our current products and services meet their needs, that members are fully informed about the scope and availability of our broad array of products and services, and that in turn we remain informed about our members' emerging needs.

MEMBER STOCKHOLDERS	2015	2014
KENTUCKY	196	208
OHIO	304	307
TENNESSEE	199	190
<b>COMMERCIAL BANKS</b>	<b>418</b>	<b>442</b>
THRIFTS AND SAVINGS BANKS	99	101
<b>CREDIT UNIONS</b>	<b>124</b>	<b>120</b>
INSURANCE COMPANIES	54	38
<b>COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS</b>	<b>4</b>	<b>4</b>
<b>TOTAL</b>	<b>699</b>	<b>705</b>



# Senior Staff

*Seated, left to right:*

**Damon v. Allen**  
*Senior Vice President  
Community Investment Officer*

**Roger B. Batsel**  
*Senior Vice President  
Chief Information Officer*

**Tami L. Hendrickson**  
*Senior Vice President  
Treasurer*

**Stephen J. Sponaugle**  
*Senior Vice President  
Chief Risk and  
Compliance Officer*

**J. Christopher Bates**  
*Senior Vice President  
Chief Accounting Officer*

*Standing, left to right:*

**James G. Dooley Sr.**  
*Senior Vice President  
Internal Audit*

**Donald R. Able**  
*Executive Vice President  
Chief Operating Officer and  
Chief Financial Officer*

**Andrew S. Howell**  
*President and CEO*

**R. Kyle Lawler**  
*Executive Vice President  
Chief Business Officer*

**David C. Eastland**  
*Senior Vice President  
Chief Credit Officer*

# Federal Home Loan Bank of Cincinnati Officers

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*President and CEO*

**DONALD R. ABLE**

*Executive Vice President  
Chief Operating Officer and  
Chief Financial Officer*

**R. KYLE LAWLER**

*Executive Vice President  
Chief Business Officer*

**DAMON v. ALLEN**

*Senior Vice President  
Community Investment  
Officer*

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*Senior Vice President  
Chief Accounting Officer*

**ROGER B. BATSEL**

*Senior Vice President  
Chief Information Officer*

**JAMES G. DOOLEY SR.**

*Senior Vice President  
Internal Audit*

**DAVID C. EASTLAND**

*Senior Vice President  
Chief Credit Officer*

**TAMI L. HENDRICKSON**

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Treasurer*

**STEPHEN J. SPONAUGLE**

*Senior Vice President  
Chief Risk and  
Compliance Officer*

**JEFFERY S. BERRYMAN**

*Vice President  
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**HERMAN BOWLING JR.**

*Vice President  
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**JOHN J. BYCZKOWSKI**

*Vice President  
Communications*

**JOSEPH W. CASTLEN**

*Vice President  
Mortgage Purchase Program*

**BRIAN D. COMP**

*Vice President  
Assistant Chief Information  
Officer*

**MELISSA D. DALLAS**

*Vice President  
Corporate Secretary  
and Counsel*

**DEBBRA M. DEMARIS**

*Vice President  
Assistant Controller*

**MARY H. ESTELL**

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*Vice President  
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*Vice President  
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**C. DAVID HEDRICK JR.**

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Assistant Treasurer*

**MATTHEW C. MILLER**

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*Vice President  
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**KARLA M. RUSSO**

*Vice President  
Human Resources*

**DANIEL A. TULLY**

*Vice President  
Financial and Market  
Risk Analysis*

**NANCY J. BAKER**

*Assistant Vice President  
Marketing*

**JEROME C. BAUER**

*Assistant Vice President  
Correspondent Services*

**TODD W. BERRY**

*Assistant Vice President  
Marketing*

**PAUL J. DOYLE**

*Assistant Vice President  
Systems and Programming*

**JEFFREY A. FIELDS**

*Assistant Vice President  
Business Development*

**CHRISTINE A. FLISCHEL**

*Assistant Vice President  
Information Security Officer*

**KEVIN M. KENNEDY**

*Assistant Vice President  
Internal Audit*

**THOMAS C. MUTH**

*Assistant Vice President  
Marketing*

**JUDITH M. ROSE**

*Assistant Vice President  
Marketing*

**MAI D. VUE**

*Assistant Vice President  
Project Management Office*

**JANICE L. WEBER**

*Assistant Vice President  
Technical Services*

**JOHN D. ZAZYCKI**

*Assistant Vice President  
Funding and Derivatives*

**DAVID A. BAILEY**

*Mortgage Purchase  
Program Officer*

**J. BRADLEY BAKER**

*Credit Risk Management  
Officer*

**COREY M. BURNS**

*Credit Analysis Officer*

**SARAH E. CLARK**

*Financial Risk Officer*

**IRINA GIKHMAN**

*Internal Audit Officer*

**ALLISON D. KIEFT**

*Accounting Officer*

**DAVID M. KOMBEREC**

*Mortgage Portfolio Officer*

**PAVAN V. PARIKH**

*Government Relations  
Officer*

**BRENDA A. PIERRE**

*Housing Quality Assurance  
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**MARK A. RUSSELL**

*Human Resources  
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**MICHAEL E. SCHWARZ**

*Internal Audit Officer*

**LISA A. WISHART**

*Credit Operations Officer*

**CRAIG M. WUEBBEN**

*Administrative Services  
Officer*

**NOTE:** *This list reflects FHLB  
officers as of April 2016.*



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