S&P Global
Ratings

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Federal Home Loan Bank of Cincinnati

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Major Rating Factors

Issuer Credit Rating
AA+/Stable/A-1+

Strengths:	Weaknesses:
• Critical to the implementation of U.S. government housing policy • Very strong risk-adjusted capitalization • Strong loan-asset quality and limited risk from peripheral activities • Stable and favorable funding	• Concentrated exposure to the U.S. mortgage market • Geographically restricted to a limited region of the U.S. • Vulnerable to future potential legislative changes

Outlook

The stable outlook on Federal Home Loan Bank of Cincinnati (FHLB Cincinnati) reflects the company's stable operating performance, as well as S&P Global Ratings' stable outlook on the U.S. If we changed our rating or outlook on the U.S., the change would likely flow through to our ratings on the Federal Home Loan Bank System's (FHLB System) debt and its individual banks, including FHLB Cincinnati. Despite recent and possible changes in the FHLB System, we expect FHLB Cincinnati to maintain its adequate financial profile and build retained earnings, given its comprehensive and adequate governing policies and management's intention to maintain them for at least the next two years. We could also lower the rating in the next two years if, in the context of government-sponsored entity (GSE) reform, the role of the FHLB System in housing finance was diminished, thereby reducing its importance to the government.

Rationale

Our issuer credit rating on FHLB Cincinnati reflects our view of the wholesale bank's government-supported role in providing liquidity to member institutions, very strong loan-asset quality and capitalization, low funding costs, and conservative risk management. It also reflects the bank's regulated status, overseen by the Federal Housing Finance Agency (FHFA). Based on our criteria for rating government-related entities, the rating on FHLB Cincinnati includes a one-notch uplift from the bank's stand-alone credit profile (SACP) of 'aa', reflecting our expectation that there is a very high likelihood of the bank receiving extraordinary government support given the FHLB System's high importance to the U.S. housing market.

Anchor: Adjusted for an FHLB to reflect regulated status, strong competitive position, and favorable funding

Our starting point, or anchor, for our ratings on U.S. finance companies (fincos), which include FHLBs that we rate under our nonbank financial institutions (NBFI) criteria, is 'bb+'. Because of FHLBs' public policy role and regulatory status, we raise the anchor for FHLB Cincinnati and its sister banks to 'bbb+', three notches above our anchor for U.S. fincos. This is to account for the FHFA's regulatory oversight, the favorable funding an FHLB enjoys through its close relationship with the U.S. government, its strong competitive position alongside other housing-related GSEs, including Fannie Mae and Freddie Mac in the U.S. housing finance market, and the statutory priority of liens in a bank wind-down situation.

Business position: A unique and strong market position with longstanding members

We view FHLB Cincinnati's business position as strong, reflecting the company's established market position, recurring business volumes, and public policy role (for more detail, see "Federal Home Loan Banks," published Aug. 1, 2018, on RatingsDirect), which we believe offset some of the risks associated with its lack of business diversity.

With total assets of $108.1 billion, FHLB Cincinnati is the fourth–largest bank within the FHLB system as of June 30, 2018, behind FHLB New York, FHLB Atlanta, and FHLB Des Moines. Its portfolio consists of 660 member institutions: 385 commercial banks, 132 credit unions, 92 savings institutions, 46 insurance companies, and five community development financial institutions in Ohio, Kentucky, and Tennessee as of Dec. 31, 2017. At the end of 2017, the composition of membership by state was Ohio with 302 members, Kentucky with 184, and Tennessee with 174. FHLB Cincinnati is heavily affected by the economic conditions in Ohio, where more than 45% of its members belong.

The bank had $60.7 billion in advances at June 30, 2018. It has the second-highest concentration in advances by borrowers among the FHLB peers as the top five and three largest borrowers held approximately 65% and 59% of advances, respectively, as of March 31, 2018. The largest is JPMorgan Chase Bank N.A., with about 38% of all advances, followed by US Bank N.A., with about 15% and Third Federal Savings and Loan Association with 6%. Moreover, members are concentrated within a limited region of the U.S. We believe that this concentration poses a risk to the bank's profitability but not its financial condition because capital is not returned until advances are repaid.

Capital, leverage, and earnings: Collateralized lending to financial institutions limits risk

We believe FHLB Cincinnati's capital is very strong based on its member-capitalized co-op structure and low-risk collateralized lending business. FHLB Cincinnati is required to keep capital in excess of 4% of assets by the FHFA, and as of first-quarter 2018, it had a 4.94% regulatory capital-to-assets ratio and a leverage ratio of 7.40%, above the regulatory requirement of 5%. Because the majority of its assets as of this date are advances (56.1% as of June 30, 2018), which attract a relatively low risk weight in our methodology because all of the exposure is to financial institutions, capital on a risk-adjusted basis is stronger than it might otherwise appear.

We expect the S&P Global Ratings RAC ratio to remain above 20% over the next two years, comfortably above our 15% threshold for a very strong capital and earnings assessment. The bank has a large buffer primarily because, in contrast to other FHLBs, it does not have a private-label mortgage-backed securities portfolio. Unlike several other FHLBs, the company has continued to pay a cash dividend each year since year-end 2008, when its excess stock first exceeded 1% of total assets. At 74.1% (as of March 31, 2018), the bank's dividend payout ratio exceeds that of several other banks, and contributes to one of the lowest retained earnings-to-assets ratios among peers, 0.86% versus a peer average of 1.77%.

We believe earnings at FHLB Cincinnati are relatively stable. The bank's mortgage portfolio continues to contribute significantly to earnings. Historically, FHLB Cincinnati has been slightly below the peer average with respect to its earnings as it is a spread lender and does not significantly diverge from its business activity to augment income. As of March 31, 2018, FHLB Cincinnati's earnings were in line with those of peers, with a return on average assets of 0.30%. Spread income has historically been a key driver of revenues and contributes more than 97% of operating revenues. We do not believe the absolute level of earnings is an important ratings consideration because of the firm's strong capital level, as well as its co-op structure, which ensures that profit maximization is not a goal.

Risk position: Limited risk from peripheral activity

We consider FHLB Cincinnati's risk position to be very strong, reflecting the fact that in its eight decades of existence neither the company nor its sister FHLBs has ever suffered a loss on a collateralized advance to a member.

FHLB Cincinnati requires each member to provide a security interest in eligible collateral before it can undertake any secured borrowing. We believe that FHLB Cincinnati maintains a robust analytical process to support its collateral market valuation and haircut methodology. The company monitors the financial condition of its members, advance rates, and security agreements to further mitigate credit risk. FHLB Cincinnati uses a proprietary credit scoring model as one of its tools to implement a risk-based approach to underwriting and monitoring. The bank follows strict underwriting standards and credit requirements from borrowers. As of year-end 2017, the Mortgage Purchase Program portfolio had a weighted average FICO score of 765, with 77% of loans having a FICO score greater than 740.

The bank is exposed to interest rate risk primarily from the effect of interest rate changes on its interest-earning assets and on the funding sources that finance these assets. However, it manages the risk within appropriate limits using various derivatives, which may include interest rate swaps, swaptions, interest rate cap and floor agreements, calls, puts, futures, and forward contracts. At March 31, 2018, the investment securities portfolio totaled $16.6 billion, including $16.1 billion of mortgage-backed securities. FHLB Cincinnati is the only bank in the FHLB System to have no exposure to private-label mortgage-backed securities and has a fairly high percentage of advances to total assets (56.1% of total assets as of June 30, 2018). The bank has a relatively homogenous lending portfolio, considering all advances are made to financial institutions backed by a majority of residential and commercial mortgages, and its first-lien position with regard to Federal Deposit Insurance Corp.-backed institutions has prevented it from suffering any losses on advances. Therefore, we do not view the concentration of its portfolio as a material risk.

Funding and liquidity: Stable and cheap funding supports the business model

The FHLB System has a diverse and global investor base, and it readily sells its debt at a small spread to U.S. Treasury obligations. Both of these factors support FHLB Cincinnati's funding and liquidity. Also, we expect that, based on the availability of funding for the system in the 2008 liquidity crisis, access to funding is unlikely to be an issue in stress scenarios.

We consider FHLB Cincinnati's liquidity adequate compared with its potential cash flow requirements in the next year. The bank's liquidity position complies with the FHLB Act and certain regulations and policies.

External influence: Very important to U.S. housing policy

The ratings on FHLB Cincinnati reflect our opinion that there is a very high likelihood that the U.S. government would provide the bank with timely and sufficient extraordinary support in the event of financial distress. Therefore, our issuer credit rating on the bank reflects one-notch uplift from our SACP.

In accordance with our criteria on NBFIs, our view of government support on our assessment of FHLB Cincinnati reflects the following factors:

- Very important role providing low-cost funding to support housing and community development in the U.S., which we believe are key economic and political objectives of the U.S. government; and
- Very strong link with the U.S. government, because a financially distressed or defaulted FHLB could significantly affect the government's reputation, and we believe the government has the administrative capacity and mechanisms (via the FHFA) for responding to an FHLB's financial distress in a timely manner. Moreover, we view the government as having a track record of providing very strong and timely credit support to the FHLBs, such as their inclusion in a U.S. Treasury GSE credit facility created in September 2008.

Ratings Score Snapshot

Federal Home Loan Bank of Cincinnati	
Issuer credit rating	AA+/Stable/A-1+
Stand-alone credit profile	aa
Anchor	bb+
Entity-Specific Anchor Adjustment	3
Business Position	Strong (+1)
Capital, Leverage, and Earnings	Very Strong (+2)
Risk Position	Very Strong (+2)
Funding and Liquidity	Adequate and Adequate (0)
Comparable Ratings Analysis	0
External Influence	1
Government Influence	1
Group Influence	0
Rating Above The Sovereign	0

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Criteria - Financial Institutions - General: Issue Credit Rating Methodology For Nonbank Financial Institutions And

Nonbank Financial Services Companies, Dec. 9, 2014

- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Ratings Detail (As Of August 8, 2018)	
Federal Home Loan Bank of Cincinnati	
Issuer Credit Rating	AA+/Stable/A-1+
Issuer Credit Ratings History	
10-Jun-2013	AA+/Stable/A-1+
08-Aug-2011	AA+/Negative/A-1+
15-Jul-2011	AAA/Watch Neg/A-1+
Sovereign Rating	
United States	AA+/Stable/A-1+
Related Entities	
Federal Home Loan Bank of Atlanta	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Boston	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Chicago	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Dallas	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Des Moines	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Indianapolis	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of New York	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Pittsburgh	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of San Francisco	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Topeka	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Banks	
Senior Unsecured	AA+
Senior Unsecured	AA+/A-1+

Ratings Detail (As Of August 8, 2018) (cont.)	
Senior Unsecured	AA+/Stable
Short-Term Debt	A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.