

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, 2023

or



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

For the transition period from _____ to _____.

Commission File No. 000-51399

FEDERAL HOME LOAN BANK OF CINCINNATI

(Exact name of registrant as specified in its charter)

Federally chartered corporation of the United States

*(State or other jurisdiction of
incorporation or organization)*

600 Atrium Two, P.O. Box 598, Cincinnati, Ohio

(Address of principal executive offices)

31-6000228

*(I.R.S. Employer
Identification No.)*

45201-0598

(Zip Code)

(513) 852-7500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

☒ Yes ☐ No

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

Large accelerated Filer ☐

Accelerated Filer ☐

Non-accelerated Filer ☒

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

☐ Yes ☒ No

The capital stock of the registrant is not listed on any securities exchange or quoted on any automated quotation system, only may be owned by members and former members and is transferable only at its par value of \$100 per share. As of October 31, 2023, the registrant had 51,148,115 shares of capital stock outstanding, which included stock classified as mandatorily redeemable.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

FEDERAL HOME LOAN BANK OF CINCINNATI STATEMENTS OF CONDITION (Unaudited)

(In thousands, except par value)

	September 30, 2023	December 31, 2022
ASSETS		
Cash and due from banks	\$ 20,970	\$ 19,604
Interest-bearing deposits	1,755,094	1,770,194
Securities purchased under agreements to resell	1,015,000	519,540
Federal funds sold	9,695,000	5,399,000
Investment securities:		
Trading securities	1,690,912	1,979,816
Available-for-sale securities (amortized cost of \$9,713,823 and \$8,680,491 and includes \$295,775 and \$0 pledged as collateral that may be repledged)	9,664,337	8,631,765
Held-to-maturity securities (fair value of \$16,578,209 and \$14,983,043)	16,992,525	15,304,359
Total investment securities	28,347,774	25,915,940
Advances (includes \$96,667 and \$4,954 at fair value under fair value option)	69,785,684	67,019,555
Mortgage loans held for portfolio, net of allowance for credit losses of \$316 and \$301	7,076,369	7,162,509
Accrued interest receivable	473,547	283,132
Derivative assets	393,060	490,560
Other assets, net	25,213	29,470
TOTAL ASSETS	\$ 118,587,711	\$ 108,609,504
LIABILITIES		
Deposits	\$ 1,220,415	\$ 1,039,427
Consolidated Obligations:		
Discount Notes (includes \$8,234,838 and \$21,010,746 at fair value under fair value option)	24,296,471	40,691,180
Bonds (includes \$19,181,492 and \$5,469,583 at fair value under fair value option)	86,058,153	59,667,745
Total Consolidated Obligations	110,354,624	100,358,925
Mandatorily redeemable capital stock	18,662	17,453
Accrued interest payable	383,207	290,194
Affordable Housing Program payable	133,175	87,923
Derivative liabilities	11,937	460
Other liabilities	361,659	312,891
Total liabilities	112,483,679	102,107,273
Commitments and contingencies		
CAPITAL		
Capital stock Class B putable (\$100 par value); issued and outstanding shares: 45,355 and 51,507	4,535,547	5,150,679
Retained earnings:		
Unrestricted	955,829	840,774
Restricted	663,050	560,118
Total retained earnings	1,618,879	1,400,892
Accumulated other comprehensive income (loss)	(50,394)	(49,340)
Total capital	6,104,032	6,502,231
TOTAL LIABILITIES AND CAPITAL	\$ 118,587,711	\$ 108,609,504

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

FEDERAL HOME LOAN BANK OF CINCINNATI
STATEMENTS OF INCOME
(Unaudited)

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
INTEREST INCOME:				
Advances	\$ 1,057,139	\$ 381,615	\$ 3,393,005	\$ 547,586
Prepayment fees on Advances, net	1,248	104	2,982	3,107
Interest-bearing deposits	32,951	7,646	93,981	9,749
Securities purchased under agreements to resell	30,418	14,466	113,216	17,798
Federal funds sold	169,712	70,738	445,876	93,945
Investment securities:				
Trading securities	16,765	19,157	52,515	86,727
Available-for-sale securities	139,444	52,628	375,881	74,590
Held-to-maturity securities	217,242	69,916	577,707	127,733
Total investment securities	373,451	141,701	1,006,103	289,050
Mortgage loans held for portfolio	53,120	51,793	157,935	151,217
Loans to other FHLBanks	252	97	1,075	209
Total interest income	1,718,291	668,160	5,214,173	1,112,661
INTEREST EXPENSE:				
Consolidated Obligations:				
Discount Notes	446,222	281,546	1,761,955	376,128
Bonds	1,033,895	236,968	2,762,029	431,373
Total Consolidated Obligations	1,480,117	518,514	4,523,984	807,501
Deposits	14,909	5,650	38,854	7,589
Loans from other FHLBanks	1	1	1	1
Mandatorily redeemable capital stock	1,116	2,357	2,344	4,019
Other borrowings	—	—	1	—
Total interest expense	1,496,143	526,522	4,565,184	819,110
NET INTEREST INCOME	222,148	141,638	648,989	293,551
NON-INTEREST INCOME (LOSS):				
Net gains (losses) on investment securities	(37,562)	(89,342)	(38,848)	(337,328)
Net gains (losses) on financial instruments held under fair value option	(24,103)	41,828	1,520	121,259
Net gains (losses) on derivatives	47,972	26,620	35,693	144,094
Other, net	7,962	6,805	22,445	20,793
Total non-interest income (loss)	(5,731)	(14,089)	20,810	(51,182)
NON-INTEREST EXPENSE:				
Compensation and benefits	13,422	12,250	41,140	39,376
Other operating expenses	8,504	6,031	23,575	18,024
Finance Agency	2,745	1,651	8,233	5,098
Office of Finance	1,542	1,548	4,781	4,712
Voluntary housing contributions	(2)	3,275	14,814	4,836
Other	1,527	1,596	5,150	5,965
Total non-interest expense	27,738	26,351	97,693	78,011
INCOME BEFORE ASSESSMENTS	188,679	101,198	572,106	164,358
Affordable Housing Program assessments	18,979	10,356	57,445	16,838
NET INCOME	<u>\$ 169,700</u>	<u>\$ 90,842</u>	<u>\$ 514,661</u>	<u>\$ 147,520</u>

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

FEDERAL HOME LOAN BANK OF CINCINNATI
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 169,700	\$ 90,842	\$ 514,661	\$ 147,520
Other comprehensive income (loss) adjustments:				
Net unrealized gains (losses) on available-for-sale securities	(16,122)	(8,991)	(760)	(56,751)
Pension and postretirement benefits	(98)	(36)	(294)	982
Total other comprehensive income (loss) adjustments	(16,220)	(9,027)	(1,054)	(55,769)
Comprehensive income (loss)	<u>\$ 153,480</u>	<u>\$ 81,815</u>	<u>\$ 513,607</u>	<u>\$ 91,751</u>

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

FEDERAL HOME LOAN BANK OF CINCINNATI
STATEMENTS OF CAPITAL
(Unaudited)

(In thousands)	Capital Stock Class B - Putable		Retained Earnings			Accumulated Other Comprehensive Income (Loss)	Total Capital
	Shares	Par Value	Unrestricted	Restricted	Total		
BALANCE, JUNE 30, 2022	44,145	\$4,414,529	\$ 793,150	\$ 521,054	\$ 1,314,204	\$ (33,648)	\$ 5,695,085
Comprehensive income (loss)			72,673	18,169	90,842	(9,027)	81,815
Proceeds from sale of capital stock	12,021	1,202,103					1,202,103
Repurchase of capital stock	(2,081)	(208,150)					(208,150)
Net shares reclassified to mandatorily redeemable capital stock	(9,456)	(945,611)					(945,611)
Cash dividends on capital stock			(43,793)		(43,793)		(43,793)
BALANCE, SEPTEMBER 30, 2022	<u>44,629</u>	<u>\$4,462,871</u>	<u>\$ 822,030</u>	<u>\$ 539,223</u>	<u>\$ 1,361,253</u>	<u>\$ (42,675)</u>	<u>\$ 5,781,449</u>
BALANCE, JUNE 30, 2023	58,484	\$5,848,415	\$ 953,205	\$ 629,111	\$ 1,582,316	\$ (34,174)	\$ 7,396,557
Comprehensive income (loss)			135,761	33,939	169,700	(16,220)	153,480
Proceeds from sale of capital stock	5,398	539,791					539,791
Repurchase of capital stock	(15,928)	(1,592,751)					(1,592,751)
Net shares reclassified to mandatorily redeemable capital stock	(2,599)	(259,908)					(259,908)
Cash dividends on capital stock			(133,137)		(133,137)		(133,137)
BALANCE, SEPTEMBER 30, 2023	<u>45,355</u>	<u>\$4,535,547</u>	<u>\$ 955,829</u>	<u>\$ 663,050</u>	<u>\$ 1,618,879</u>	<u>\$ (50,394)</u>	<u>\$ 6,104,032</u>
(In thousands)	Capital Stock Class B - Putable		Retained Earnings			Accumulated Other Comprehensive Income (Loss)	Total Capital
	Shares	Par Value	Unrestricted	Restricted	Total		
BALANCE, DECEMBER 31, 2021	24,900	\$2,490,016	\$ 783,072	\$ 509,719	\$ 1,292,791	\$ 13,094	\$ 3,795,901
Comprehensive income (loss)			118,016	29,504	147,520	(55,769)	91,751
Proceeds from sale of capital stock	45,460	4,545,966					4,545,966
Repurchase of capital stock	(2,081)	(208,150)					(208,150)
Net shares reclassified to mandatorily redeemable capital stock	(23,650)	(2,364,961)					(2,364,961)
Cash dividends on capital stock			(79,058)		(79,058)		(79,058)
BALANCE, SEPTEMBER 30, 2022	<u>44,629</u>	<u>\$4,462,871</u>	<u>\$ 822,030</u>	<u>\$ 539,223</u>	<u>\$ 1,361,253</u>	<u>\$ (42,675)</u>	<u>\$ 5,781,449</u>
BALANCE, DECEMBER 31, 2022	51,507	\$5,150,679	\$ 840,774	\$ 560,118	\$ 1,400,892	\$ (49,340)	\$ 6,502,231
Comprehensive income (loss)			411,729	102,932	514,661	(1,054)	513,607
Proceeds from sale of capital stock	41,693	4,169,315					4,169,315
Repurchase of capital stock	(42,112)	(4,211,156)					(4,211,156)
Net shares reclassified to mandatorily redeemable capital stock	(5,733)	(573,291)					(573,291)
Cash dividends on capital stock			(296,674)		(296,674)		(296,674)
BALANCE, SEPTEMBER 30, 2023	<u>45,355</u>	<u>\$4,535,547</u>	<u>\$ 955,829</u>	<u>\$ 663,050</u>	<u>\$ 1,618,879</u>	<u>\$ (50,394)</u>	<u>\$ 6,104,032</u>

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

FEDERAL HOME LOAN BANK OF CINCINNATI
STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2023	2022
OPERATING ACTIVITIES:		
Net income	\$ 514,661	\$ 147,520
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization/(accretion)	142,801	205,090
Net change in derivative and hedging activities	182,704	1,396,653
Net change in fair value adjustments on trading securities	38,848	337,328
Net change in fair value adjustments on financial instruments held under fair value option	(1,520)	(121,259)
Other adjustments, net	992	692
Net change in:		
Accrued interest receivable	(190,686)	(128,652)
Other assets	6,226	4,902
Accrued interest payable	413,090	124,996
Other liabilities	43,731	(8,804)
Total adjustments	636,186	1,810,946
Net cash provided by (used in) operating activities	1,150,847	1,958,466
INVESTING ACTIVITIES:		
Net change in:		
Interest-bearing deposits	146,160	(850,709)
Securities purchased under agreements to resell	(495,460)	(5,863,505)
Federal funds sold	(4,296,000)	(5,638,000)
Premises, software, and equipment	(4,596)	(1,094)
Trading securities:		
Proceeds from maturities and paydowns	250,055	2,975,070
Proceeds from sales	—	1,489,024
Available-for-sale securities:		
Purchases	(1,190,444)	(4,439,109)
Held-to-maturity securities:		
Proceeds from maturities and paydowns	1,367,685	1,335,386
Purchases	(3,057,219)	(5,006,428)
Advances:		
Repaid	1,447,329,539	1,258,440,169
Originated	(1,450,327,523)	(1,295,666,366)
Mortgage loans held for portfolio:		
Principal collected	461,990	940,613
Purchases	(391,216)	(681,827)
Net cash provided by (used in) investing activities	(10,207,029)	(52,966,776)

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

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FEDERAL HOME LOAN BANK OF CINCINNATI
STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Nine Months Ended September 30,	
	2023	2022
FINANCING ACTIVITIES:		
Net change in deposits and pass-through reserves	\$ 423,158	\$ (165,899)
Net proceeds from issuance of Consolidated Obligations:		
Discount Notes	145,979,044	216,827,582
Bonds	106,197,426	60,564,949
Bonds transferred from other FHLBanks	249,999	—
Payments for maturing and retiring Consolidated Obligations:		
Discount Notes	(162,509,982)	(195,790,454)
Bonds	(80,371,500)	(32,645,420)
Proceeds from issuance of capital stock	4,169,315	4,545,966
Payments for repurchase of capital stock	(4,211,156)	(208,150)
Payments for repurchase/redemption of mandatorily redeemable capital stock	(572,082)	(2,188,240)
Cash dividends paid	(296,674)	(79,058)
Net cash provided by (used in) financing activities	9,057,548	50,861,276
Net increase (decrease) in cash and due from banks	1,366	(147,034)
Cash and due from banks at beginning of the period	19,604	167,822
Cash and due from banks at end of the period	<u>\$ 20,970</u>	<u>\$ 20,788</u>
Supplemental Disclosures:		
Interest paid	<u>\$ 4,327,012</u>	<u>\$ 544,567</u>
Affordable Housing Program payments, net	<u>\$ 19,500</u>	<u>\$ 21,168</u>

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

FEDERAL HOME LOAN BANK OF CINCINNATI

NOTES TO UNAUDITED FINANCIAL STATEMENTS

Background Information

The Federal Home Loan Bank of Cincinnati (the FHLB), a federally chartered corporation, is one of 11 District Federal Home Loan Banks (FHLBanks). The FHLBanks are government-sponsored enterprises (GSEs) that were organized under the Federal Home Loan Bank Act of 1932, as amended (FHLBank Act), to serve the public by enhancing the availability of credit for residential mortgages and targeted community development. The FHLB is regulated by the Federal Housing Finance Agency (Finance Agency). The FHLBanks are financial cooperatives that provide a readily available, competitively-priced source of funds to their member institutions.

Note 1 - Basis of Presentation

The accompanying interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in accordance with GAAP requires management to make assumptions and estimates. These assumptions and estimates affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. Actual results could differ from these estimates. The interim financial statements presented are unaudited, but they include all adjustments (consisting of only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial condition, results of operations, and cash flows for such periods. These financial statements do not include all disclosures associated with annual financial statements and accordingly should be read in conjunction with the audited financial statements and notes included in the FHLB's Annual Report on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission (SEC) on March 16, 2023. Results for the nine months ended September 30, 2023 are not necessarily indicative of operating results for the full year.

The FHLB presents certain financial instruments, including derivative instruments and securities purchased under agreements to resell, on a net basis when it has a legal right of offset and all other requirements for netting are met (collectively referred to as the netting requirements). For these instruments, the FHLB has elected to offset its asset and liability positions, as well as cash collateral received or pledged, when it has met the netting requirements. The FHLB did not have any offsetting liabilities related to its securities purchased under agreements to resell for the periods presented.

The net exposure for these financial instruments can change on a daily basis; therefore, there may be a delay between the time this exposure change is identified and additional collateral is requested, and the time this collateral is received or pledged. Likewise, there may be a delay for excess collateral to be returned. For derivative instruments that meet the requirements for netting, any excess cash collateral received or pledged is recognized as a derivative liability or derivative asset. Additional information regarding these agreements is provided in Note 6. Based on the fair value of the related collateral held, the securities purchased under agreements to resell were fully collateralized for the periods presented. For more information about the FHLB's investments in securities purchased under agreements to resell, see "Item 8. Financial Statements and Supplementary Data - Note 1 - Summary of Significant Accounting Policies" in the FHLB's 2022 Annual Report on Form 10-K.

Subsequent Events

The FHLB has evaluated subsequent events for potential recognition or disclosure through the issuance of these financial statements and believes there have been no material subsequent events requiring additional disclosure or recognition in these financial statements.

Note 2 - Recently Issued and Adopted Accounting Guidance

Troubled Debt Restructurings and Vintage Disclosures. In March 2022, the Financial Accounting Standards Board (FASB) issued guidance that eliminates the accounting guidance for troubled debt restructurings by creditors that have adopted the current expected credit losses methodology while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors made to borrowers experiencing financial difficulty. The guidance became effective for the FHLB for the interim and annual periods beginning on January 1, 2023. The adoption of this guidance affected the FHLB's disclosures, but did not have any effect on the FHLB's financial condition, results of operations, or cash flows.

Fair Value Hedging - Portfolio Layer Method. In March 2022, the FASB issued guidance that expands fair value hedging under the current last-of-layer method by allowing multiple hedged layers of a single closed portfolio under the method. To reflect that expansion, the last-of-layer method is renamed the portfolio layer method. Additionally, among other things, this guidance (1) expands the scope of the portfolio layer method to include nonprepayable assets, (2) specifies eligible hedging instruments in a single-layer hedge, (3) provides additional guidance on the accounting for and disclosure of hedge basis adjustments under the portfolio layer method, and (4) specifies how hedge basis adjustments should be considered when determining credit losses for the assets included in the closed portfolio. The guidance became effective for the FHLB for the interim and annual periods beginning on January 1, 2023. The FHLB adopted this guidance as of January 1, 2023, and it did not have any effect on the FHLB's financial condition, results of operations, and cash flows. The FHLB may elect the fair value hedging portfolio layer method in the future.

Facilitation of the Effects of Reference Rate Reform on Financial Reporting, as amended. In March 2020, the FASB issued temporary, optional guidance to ease the potential burden in accounting for reference rate reform. The guidance provides optional expedients and exceptions for applying GAAP to transactions affected by reference rate reform if certain criteria are met. The transactions primarily include (1) contract modifications, (2) hedging relationships, and (3) sale and/or transfer of debt securities classified as held-to-maturity. This guidance became effective for the FHLB beginning March 12, 2020 and may be applied through December 31, 2024. The FHLB elected optional practical expedients specific to fair value hedging relationships and contract modifications, which did not have a material effect, and may elect additional optional expedients in the future.

Note 3 - Investments

The FHLB makes short-term investments in interest-bearing deposits, securities purchased under agreements to resell, and Federal funds sold and may make other investments in debt securities, which are classified as either trading, available-for-sale, or held-to-maturity.

Interest-Bearing Deposits, Securities Purchased under Agreements to Resell, and Federal Funds Sold

The FHLB invests in interest-bearing deposits, securities purchased under agreements to resell, and Federal funds sold to provide liquidity.

Interest-bearing deposits and Federal funds sold are generally transacted with counterparties that have received a credit rating of single-A or greater by a nationally recognized statistical rating organization (NRSRO). The FHLB's internal ratings of these counterparties may differ from those issued by an NRSRO. Finance Agency regulations include a limit on the amount of unsecured credit the FHLB may extend to a counterparty. At September 30, 2023 and December 31, 2022, all investments in interest-bearing deposits and Federal funds sold were repaid or expected to be repaid according to their respective contractual terms. No allowance for credit losses was recorded for these assets at September 30, 2023 and December 31, 2022. Carrying values of interest-bearing deposits and Federal funds sold exclude accrued interest receivable of (in thousands) \$7,972 and \$2,870 as of September 30, 2023, and \$5,524 and \$1,299 as of December 31, 2022.

Securities purchased under agreements to resell are short-term and are structured such that they are evaluated regularly to determine if the market value of the underlying securities decreases below the market value required as collateral (i.e., subject to collateral maintenance provisions). If so, the counterparty must place an equivalent amount of additional securities as collateral or remit an equivalent amount of cash, generally by the next business day. Based upon the collateral held as security and collateral maintenance provisions with counterparties, the FHLB determined that no allowance for credit losses was needed for its securities purchased under agreements to resell at September 30, 2023 and December 31, 2022. The carrying value of securities purchased under agreements to resell excludes accrued interest receivable of (in thousands) \$356 and \$232 as of September 30, 2023 and December 31, 2022, respectively.

Debt Securities

The FHLB invests in debt securities, which are classified as either trading, available-for-sale, or held-to-maturity. The FHLB is prohibited by Finance Agency regulations from purchasing certain higher-risk securities, such as equity securities and debt instruments that are not investment quality, other than certain investments targeted at low-income persons or communities. The FHLB is not required to divest instruments that experience credit deterioration after their purchase.

Trading Securities

Table 3.1 - Trading Securities by Major Security Types (in thousands)

Fair Value	September 30, 2023	December 31, 2022
Non-mortgage-backed securities (non-MBS):		
U.S. Treasury obligations	\$ 246,537	\$ 491,464
GSE obligations	1,444,313	1,488,235
Total non-MBS	1,690,850	1,979,699
Mortgage-backed securities (MBS):		
U.S. obligation single-family	62	117
Total MBS	62	117
Total	\$ 1,690,912	\$ 1,979,816

Table 3.2 - Net Gains (Losses) on Trading Securities (in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net unrealized gains (losses) on trading securities held at period end	\$ (37,562)	\$ (87,474)	\$ (40,255)	\$ (285,014)
Net gains (losses) on trading securities sold/matured during the period	—	(1,868)	1,407	(52,314)
Net gains (losses) on trading securities	\$ (37,562)	\$ (89,342)	\$ (38,848)	\$ (337,328)

Available-for-Sale Securities
Table 3.3 - Available-for-Sale Securities by Major Security Types (in thousands)

	September 30, 2023			
	Amortized Cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Non-MBS:				
U.S. Treasury obligations	\$ 7,349,493	\$ 7,688	\$ (2,745)	\$ 7,354,436
GSE obligations	115,658	747	(23)	116,382
Total non-MBS	7,465,151	8,435	(2,768)	7,470,818
MBS:				
GSE multi-family	2,248,672	74	(55,227)	2,193,519
Total MBS	2,248,672	74	(55,227)	2,193,519
Total	<u>\$ 9,713,823</u>	<u>\$ 8,509</u>	<u>\$ (57,995)</u>	<u>\$ 9,664,337</u>
	December 31, 2022			
	Amortized Cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Non-MBS:				
U.S. Treasury obligations	\$ 7,202,715	\$ 3,584	\$ (12,028)	\$ 7,194,271
GSE obligations	117,555	726	(199)	118,082
Total non-MBS	7,320,270	4,310	(12,227)	7,312,353
MBS:				
GSE multi-family	1,360,221	—	(40,809)	1,319,412
Total MBS	1,360,221	—	(40,809)	1,319,412
Total	<u>\$ 8,680,491</u>	<u>\$ 4,310</u>	<u>\$ (53,036)</u>	<u>\$ 8,631,765</u>

- (1) Amortized cost of available-for-sale securities includes adjustments made to the cost basis of an investment for accretion, amortization, and/or fair value hedge accounting adjustments, and excludes accrued interest receivable of (in thousands) \$49,972 and \$40,246 at September 30, 2023 and December 31, 2022, respectively.

Table 3.4 summarizes the available-for-sale securities with gross unrealized losses, which are aggregated by major security type and length of time that individual securities have been in a continuous gross unrealized loss position.

Table 3.4 - Available-for-Sale Securities in a Continuous Gross Unrealized Loss Position (in thousands)

	September 30, 2023					
	Less than 12 Months		12 Months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Non-MBS:						
U.S. Treasury obligations	\$1,506,970	\$ (1,210)	\$ 871,545	\$ (1,535)	\$2,378,515	\$ (2,745)
GSE obligations	—	—	4,173	(23)	4,173	(23)
Total non-MBS	1,506,970	(1,210)	875,718	(1,558)	2,382,688	(2,768)
MBS:						
GSE multi-family MBS	1,012,202	(12,619)	1,125,661	(42,608)	2,137,863	(55,227)
Total MBS	1,012,202	(12,619)	1,125,661	(42,608)	2,137,863	(55,227)
Total	\$2,519,172	\$ (13,829)	\$2,001,379	\$ (44,166)	\$4,520,551	\$ (57,995)

	December 31, 2022					
	Less than 12 Months		12 Months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Non-MBS:						
U.S. Treasury obligations	\$4,624,895	\$ (12,028)	\$ —	\$ —	\$4,624,895	\$ (12,028)
GSE obligations	9,887	(199)	—	—	9,887	(199)
Total non-MBS	4,634,782	(12,227)	—	—	4,634,782	(12,227)
MBS:						
GSE multi-family MBS	959,421	(22,519)	359,991	(18,290)	1,319,412	(40,809)
Total MBS	959,421	(22,519)	359,991	(18,290)	1,319,412	(40,809)
Total	\$5,594,203	\$ (34,746)	\$ 359,991	\$ (18,290)	\$5,954,194	\$ (53,036)

Table 3.5 - Available-for-Sale Securities by Contractual Maturity (in thousands)

Year of Maturity	September 30, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Non-MBS:				
Due in 1 year or less	\$ —	\$ —	\$ —	\$ —
Due after 1 year through 5 years	5,916,665	5,919,611	2,576,167	2,577,121
Due after 5 years through 10 years	1,538,944	1,541,640	4,734,017	4,725,345
Due after 10 years	9,542	9,567	10,086	9,887
Total non-MBS	7,465,151	7,470,818	7,320,270	7,312,353
MBS ⁽¹⁾	2,248,672	2,193,519	1,360,221	1,319,412
Total	\$ 9,713,823	\$ 9,664,337	\$ 8,680,491	\$ 8,631,765

(1) MBS are not presented by contractual maturity because their expected maturities will likely differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

Table 3.6 - Interest Rate Payment Terms of Available-for-Sale Securities (in thousands)

	September 30, 2023	December 31, 2022
Amortized cost of non-MBS:		
Fixed-rate	\$ 7,465,151	\$ 7,320,270
Total amortized cost of non-MBS	7,465,151	7,320,270
Amortized cost of MBS:		
Fixed-rate	2,248,672	1,360,221
Total amortized cost of MBS	2,248,672	1,360,221
Total	\$ 9,713,823	\$ 8,680,491

The FHLB had no sales of securities out of its available-for-sale portfolio for the nine months ended September 30, 2023 or 2022.

Held-to-Maturity Securities

Table 3.7 - Held-to-Maturity Securities by Major Security Types (in thousands)

	September 30, 2023			
	Amortized Cost ⁽¹⁾	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Fair Value
Non-MBS:				
U.S. Treasury obligations	\$ 48,419	\$ —	\$ (17)	\$ 48,402
Total non-MBS	48,419	—	(17)	48,402
MBS:				
U.S. obligation single-family	1,138,220	—	(181,778)	956,442
GSE single-family	2,829,502	45	(155,767)	2,673,780
GSE multi-family	12,976,384	2,170	(78,969)	12,899,585
Total MBS	16,944,106	2,215	(416,514)	16,529,807
Total	\$ 16,992,525	\$ 2,215	\$ (416,531)	\$ 16,578,209

	December 31, 2022			
	Amortized Cost ⁽¹⁾	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Fair Value
Non-MBS:				
U.S. Treasury obligations	\$ 47,405	\$ —	\$ (51)	\$ 47,354
Total non-MBS	47,405	—	(51)	47,354
MBS:				
U.S. obligation single-family	1,232,001	—	(147,423)	1,084,578
GSE single-family	1,632,099	4,074	(101,140)	1,535,033
GSE multi-family	12,392,854	598	(77,374)	12,316,078
Total MBS	15,256,954	4,672	(325,937)	14,935,689
Total	\$ 15,304,359	\$ 4,672	\$ (325,988)	\$ 14,983,043

- (1) Carrying value equals amortized cost. Amortized cost of held-to-maturity securities includes adjustments made to the cost basis of an investment for accretion and amortization and excludes accrued interest receivable of (in thousands) \$66,962 and \$48,937 as of September 30, 2023 and December 31, 2022, respectively.

Table 3.8 - Held-to-Maturity Securities by Contractual Maturity (in thousands)

<u>Year of Maturity</u>	<u>September 30, 2023</u>		<u>December 31, 2022</u>	
	<u>Amortized Cost ⁽¹⁾</u>	<u>Fair Value</u>	<u>Amortized Cost ⁽¹⁾</u>	<u>Fair Value</u>
Non-MBS:				
Due in 1 year or less	\$ 48,419	\$ 48,402	\$ 47,405	\$ 47,354
Due after 1 year through 5 years	—	—	—	—
Due after 5 years through 10 years	—	—	—	—
Due after 10 years	—	—	—	—
Total non-MBS	48,419	48,402	47,405	47,354
MBS ⁽²⁾	16,944,106	16,529,807	15,256,954	14,935,689
Total	<u>\$ 16,992,525</u>	<u>\$ 16,578,209</u>	<u>\$ 15,304,359</u>	<u>\$ 14,983,043</u>

(1) Carrying value equals amortized cost.

(2) MBS are not presented by contractual maturity because their expected maturities will likely differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

Table 3.9 - Interest Rate Payment Terms of Held-to-Maturity Securities (in thousands)

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Amortized cost of non-MBS:		
Fixed-rate	\$ 48,419	\$ 47,405
Total amortized cost of non-MBS	48,419	47,405
Amortized cost of MBS:		
Fixed-rate	3,826,902	2,709,494
Variable-rate	13,117,204	12,547,460
Total amortized cost of MBS	16,944,106	15,256,954
Total	<u>\$ 16,992,525</u>	<u>\$ 15,304,359</u>

For the nine months ended September 30, 2023 and 2022, the FHLB did not sell any held-to-maturity securities.

Allowance for Credit Losses on Available-for-Sale and Held-to-Maturity Securities

The FHLB evaluates available-for-sale and held-to-maturity investment securities for credit losses on a quarterly basis. The FHLB's available-for-sale and held-to-maturity securities are U.S. Treasury obligations, GSE obligations, and MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae that are backed by single-family or multi-family mortgage loans. The FHLB only purchases securities considered investment quality. At September 30, 2023 and December 31, 2022, all available-for-sale and held-to-maturity securities were rated single-A, or above, by an NRSRO, based on the lowest long-term credit rating for each security owned by the FHLB. The FHLB's internal ratings of these securities may differ from those obtained from an NRSRO.

The FHLB evaluates individual available-for-sale securities for impairment by comparing the security's fair value to its amortized cost. Impairment may exist when the fair value of the investment is less than its amortized cost (i.e., in an unrealized loss position). At September 30, 2023 and December 31, 2022, certain available-for-sale securities were in an unrealized loss position. These losses are considered temporary as the FHLB expects to recover the entire amortized cost basis on these available-for-sale investment securities and does not intend to sell these securities nor considers it more likely than not that it will be required to sell these securities before the anticipated recovery of each security's remaining amortized cost basis. Further, the FHLB has not experienced any payment defaults on the instruments and all of these securities are highly-rated. In the case of U.S. obligations, they carry an explicit government guarantee. In the case of GSE securities, they are purchased under the assumption that the issuers' obligation to pay principal and interest on those securities will be honored, taking into account their status as GSEs. As a result, no allowance for credit losses was recorded on these available-for-sale securities at September 30, 2023 and December 31, 2022.

The FHLB evaluates its held-to-maturity securities for impairment on a collective, or pooled basis, unless an individual assessment is deemed necessary because the securities do not possess similar risk characteristics. As of September 30, 2023 and December 31, 2022, the FHLB had not established an allowance for credit loss on any held-to-maturity securities because the securities: (1) were all highly-rated and/or had short remaining terms to maturity, (2) had not experienced, nor did the FHLB expect, any payment default on the instruments, (3) in the case of U.S. obligations, the securities carry an explicit government

guarantee such that the FHLB considered the risk of nonpayment to be zero, and (4) in the case of GSE securities, they are purchased under an assumption that the issuers' obligation to pay principal and interest on those securities will be honored, taking into account their status as GSEs.

Note 4 - Advances

The following table presents Advance redemptions by contractual maturity, including index-amortizing Advances, which are presented according to their predetermined amortization schedules.

Table 4.1 - Advances by Redemption Term (dollars in thousands)

Redemption Term	September 30, 2023		December 31, 2022	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Overdrawn demand deposit accounts	\$ 799	5.59 %	\$ —	— %
Due in 1 year or less	39,264,661	5.40	51,491,191	4.36
Due after 1 year through 2 years	10,460,975	5.11	5,904,109	3.69
Due after 2 years through 3 years	10,841,885	5.31	2,969,160	4.01
Due after 3 years through 4 years	4,344,961	3.72	2,418,222	4.14
Due after 4 years through 5 years	4,003,209	4.04	2,462,903	3.28
Thereafter	1,509,513	2.41	2,182,434	2.29
Total principal amount	70,426,003	5.10	67,428,019	4.17
Commitment fees	(86)		(90)	
Discounts	(1,591)		(2,073)	
Fair value hedging adjustments	(635,689)		(406,255)	
Fair value option valuation adjustments and accrued interest	(2,953)		(46)	
Total ⁽¹⁾	<u>\$ 69,785,684</u>		<u>\$ 67,019,555</u>	

(1) Carrying values exclude accrued interest receivable of (in thousands) \$305,363 and \$149,255 as of September 30, 2023 and December 31, 2022, respectively.

The FHLB offers certain fixed- and variable-rate Advances to members that may be prepaid on specified dates (call dates) without incurring prepayment or termination fees (callable Advances). Other Advances may only be prepaid subject to a prepayment fee paid to the FHLB that makes the FHLB financially indifferent to the prepayment of the Advance.

Table 4.2 - Advances by Redemption Term or Next Call Date (in thousands)

Redemption Term or Next Call Date	September 30, 2023	December 31, 2022
Overdrawn demand deposit accounts	\$ 799	\$ —
Due in 1 year or less	42,264,661	54,497,542
Due after 1 year through 2 years	14,960,975	5,901,058
Due after 2 years through 3 years	3,364,505	1,465,860
Due after 3 years through 4 years	4,344,961	918,222
Due after 4 years through 5 years	3,980,589	2,462,903
Thereafter	1,509,513	2,182,434
Total principal amount	<u>\$ 70,426,003</u>	<u>\$ 67,428,019</u>

The FHLB also offers puttable Advances. With a puttable Advance, the FHLB effectively purchases put options from the member that allows the FHLB to terminate the Advance at predetermined dates. The FHLB normally would exercise its put option when interest rates increase relative to contractual rates.

Table 4.3 - Advances by Redemption Term or Next Put Date for Putable Advances (in thousands)

Redemption Term or Next Put Date	September 30, 2023	December 31, 2022
Overdrawn demand deposit accounts	\$ 799	\$ —
Due in 1 year or less	39,569,661	52,461,191
Due after 1 year through 2 years	10,525,975	5,929,109
Due after 2 years through 3 years	10,861,885	2,989,160
Due after 3 years through 4 years	4,344,961	2,418,222
Due after 4 years through 5 years	3,908,209	2,382,903
Thereafter	1,214,513	1,247,434
Total principal amount	<u>\$ 70,426,003</u>	<u>\$ 67,428,019</u>

Table 4.4 - Advances by Interest Rate Payment Terms (in thousands)

	September 30, 2023	December 31, 2022
Total fixed-rate ⁽¹⁾	\$ 37,197,784	\$ 51,461,334
Total variable-rate ⁽¹⁾	33,228,219	15,966,685
Total principal amount	<u>\$ 70,426,003</u>	<u>\$ 67,428,019</u>

(1) Payment terms based on current interest rate terms, which reflect any option exercises or rate conversions that have occurred subsequent to the related Advance issuance.

Credit Risk Exposure and Security Terms

The FHLB manages its credit exposure to Advances through an integrated approach that includes establishing a credit limit for each borrower and ongoing review of each borrower's financial condition, coupled with collateral and lending policies to limit risk of loss while balancing borrowers' needs for a reliable source of funding.

In addition, the FHLB lends to eligible borrowers in accordance with federal law and Finance Agency regulations, which require the FHLB to obtain sufficient collateral to fully secure credit products. Under these regulations, collateral eligible to secure new or renewed Advances includes:

- one-to-four family mortgage loans (delinquent for no more than 60 days) and multi-family mortgage loans (delinquent for no more than 30 days) and securities representing such mortgages;
- loans and securities issued and insured, or guaranteed by the U.S. government or any U.S. government agency (for example, mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae);
- cash or deposits in the FHLB;
- certain other collateral that is real estate-related, provided that the collateral has a readily ascertainable value, can be reliably discounted to account for liquidation and other risks, can be liquidated in due course and the FHLB can perfect a security interest in it; and
- certain qualifying securities representing undivided equity interests in eligible Advance collateral.

Residential mortgage loans are the principal form of collateral for Advances. The estimated value of the collateral required to secure each member's credit products is calculated by applying collateral discounts, or haircuts, to the value of the collateral. In addition, community financial institutions are eligible to utilize expanded statutory collateral provisions for small business and agribusiness loans. The FHLB's capital stock owned by its member borrowers is also pledged as collateral. Collateral arrangements and a member's borrowing capacity vary based on the financial condition and performance of the institution, the types of collateral pledged and the overall quality of those assets. The FHLB can also require additional or substitute collateral to protect its security interest. The FHLB also has policies and procedures for validating the reasonableness of its collateral valuations and makes changes to its collateral guidelines, as necessary, based on current market conditions. In addition, collateral verifications and reviews are performed by the FHLB based on the risk profile of the borrower. Management of the FHLB believes that these policies effectively manage the FHLB's credit risk from Advances.

Members experiencing financial difficulties are subject to FHLB-performed "stress tests" to evaluate the impact of poorly performing assets on the member's capital and loss reserve positions. Depending on the results of these tests, a member may be allowed to maintain pledged loan assets in its custody, may be required to deliver those loans into the custody of the FHLB or its agent, or may be required to provide details on those loans to facilitate an estimate of their fair value. The FHLB perfects its security interest in all pledged collateral. The FHLBank Act affords any security interest granted to the FHLB by a member

priority over the claims or rights of any other party except for claims or rights of a third party that would otherwise be entitled to priority under applicable law and that are held by a bona fide purchaser for value or by a secured party holding a prior perfected security interest.

Using a risk-based approach, the FHLB considers the payment status, collateralization levels, and borrower's financial condition to be indicators of credit quality for its credit products. At September 30, 2023 and December 31, 2022, the FHLB did not have any Advances that were past due, in non-accrual status or considered impaired. In addition, there were no modifications of Advances with borrowers experiencing financial difficulty during the nine months ended September 30, 2023 or 2022. At September 30, 2023 and December 31, 2022, the FHLB had rights to collateral on a member-by-member basis with an estimated value in excess of its outstanding extensions of credit.

Based upon the collateral held as security, its credit extension and collateral policies and the repayment history on Advances, the FHLB did not expect any credit losses on Advances as of September 30, 2023 and, therefore, no allowance for credit losses on Advances was recorded. For the same reasons, the FHLB did not record any allowance for credit losses on Advances at December 31, 2022.

Advance Concentrations

Table 4.5 - Borrowers Holding Five Percent or more of Total Advances, Including Any Known Affiliates that are Members of the FHLB (dollars in millions)

September 30, 2023			December 31, 2022		
	Principal	% of Total Principal Amount of Advances		Principal	% of Total Principal Amount of Advances
Keybank, N.A.	\$ 11,337	16 %	U.S. Bank, N.A.	\$ 19,000	28 %
U.S. Bank, N.A.	11,000	16	Keybank, N.A.	11,344	17
JPMorgan Chase Bank, N.A.	6,000	9	Third Federal Savings and Loan Association	4,826	7
Fifth Third Bank	5,751	8	Fifth Third Bank	4,301	6
Third Federal Savings and Loan Association	5,251	7	Nationwide Life Insurance Company	3,136	5
Total	<u>\$ 39,339</u>	<u>56 %</u>	Total	<u>\$ 42,607</u>	<u>63 %</u>

Note 5 - Mortgage Loans

Total mortgage loans held for portfolio represent residential mortgage loans under the Mortgage Purchase Program (MPP) that the FHLB's members originate, credit enhance, and then sell to the FHLB. The FHLB does not service any of these loans.

Table 5.1 - Mortgage Loans Held for Portfolio (in thousands)

	September 30, 2023	December 31, 2022
Fixed rate medium-term single-family mortgage loans ⁽¹⁾	\$ 474,198	\$ 530,956
Fixed rate long-term single-family mortgage loans ⁽²⁾	6,453,260	6,475,525
Total unpaid principal balance	6,927,458	7,006,481
Premiums	146,879	151,756
Discounts	(2,590)	(2,246)
Hedging basis adjustments ⁽³⁾	4,938	6,819
Total mortgage loans held for portfolio ⁽⁴⁾	7,076,685	7,162,810
Allowance for credit losses on mortgage loans	(316)	(301)
Mortgage loans held for portfolio, net	<u>\$ 7,076,369</u>	<u>\$ 7,162,509</u>

(1) Medium-term is defined as a term of 15 years or less.

(2) Long-term is defined as a term of greater than 15 years up to 30 years.

(3) Represents the unamortized balance of the mortgage purchase commitments' market values at the time of settlement. The market value of the commitment is included in the basis of the mortgage loan and amortized accordingly.

(4) Excludes accrued interest receivable of (in thousands) \$22,409 and \$21,846 at September 30, 2023 and December 31, 2022, respectively.

Table 5.2 - Mortgage Loans Held for Portfolio by Collateral/Guarantee Type (in thousands)

	September 30, 2023	December 31, 2022
Conventional mortgage loans	\$ 6,826,629	\$ 6,893,552
Federal Housing Administration (FHA) mortgage loans	100,829	112,929
Total unpaid principal balance	<u>\$ 6,927,458</u>	<u>\$ 7,006,481</u>

Table 5.3 - Members, Including Any Known Affiliates that are Members of the FHLB, and Former Members Selling Five Percent or more of Total Unpaid Principal (dollars in millions)

	September 30, 2023			December 31, 2022	
	Principal	% of Total		Principal	% of Total
Union Savings Bank	\$ 1,540	22 %	Union Savings Bank	\$ 1,651	24 %
FirstBank	733	11	FirstBank	730	10
Guardian Savings Bank FSB	410	6	Guardian Savings Bank FSB	438	6
The Huntington National Bank	388	6			

Credit Risk Exposure

The FHLB manages credit risk exposure for conventional mortgage loans primarily through conservative underwriting and purchasing loans with characteristics consistent with favorable expected credit performance and by applying various credit enhancements.

Credit Enhancements. The conventional mortgage loans under the MPP are primarily supported by some combination of credit enhancements (primary mortgage insurance (PMI) and the Lender Risk Account (LRA), including pooled LRA for those members participating in an aggregated MPP pool). These credit enhancements apply after a homeowner's equity is exhausted. The LRA is funded by the FHLB upfront as a portion of the purchase proceeds to cover potential credit losses. The LRA is recorded in other liabilities in the Statement of Condition. Excess funds from the LRA are released to the member in accordance with the terms of the Master Commitment Contract, which is typically after five years, subject to performance of the related loan pool. Because the FHA makes an explicit guarantee on FHA mortgage loans, the FHLB does not require any credit enhancements on these loans beyond primary mortgage insurance.

Table 5.4 - Changes in the LRA (in thousands)

	Nine Months Ended September 30, 2023
LRA at beginning of year	\$ 244,254
Additions	5,384
Claims	(219)
Scheduled distributions	(11,419)
LRA at end of period	<u>\$ 238,000</u>

Payment Status of Mortgage Loans. The key credit quality indicator for conventional mortgage loans is payment status, which allows the FHLB to monitor borrower performance. Past due loans are those where the borrower has failed to make a full payment of principal and interest within one month of its due date. Table 5.5 presents the payment status of conventional mortgage loans.

Table 5.5 - Credit Quality Indicator of Conventional Mortgage Loans (in thousands)

	September 30, 2023		
	Origination Year		
	Prior to 2019	2019 to September 30, 2023	Total
Payment status, at amortized cost:			
Past due 30-59 days	\$ 13,366	\$ 10,305	\$ 23,671
Past due 60-89 days	2,065	1,190	3,255
Past due 90 days or more	7,781	2,620	10,401
Total past due mortgage loans	23,212	14,115	37,327
Current mortgage loans	2,387,669	4,550,145	6,937,814
Total conventional mortgage loans	<u>\$ 2,410,881</u>	<u>\$ 4,564,260</u>	<u>\$ 6,975,141</u>

	December 31, 2022		
	Origination Year		
	Prior to 2018	2018 to 2022	Total
Payment status, at amortized cost:			
Past due 30-59 days	\$ 12,643	\$ 14,440	\$ 27,083
Past due 60-89 days	3,303	1,751	5,054
Past due 90 days or more	8,251	3,682	11,933
Total past due mortgage loans	24,197	19,873	44,070
Current mortgage loans	2,404,090	4,600,889	7,004,979
Total conventional mortgage loans	<u>\$ 2,428,287</u>	<u>\$ 4,620,762</u>	<u>\$ 7,049,049</u>

Other delinquency statistics include loans in process of foreclosure, serious delinquency rates, loans past due 90 days or more and still accruing interest, and non-accrual loans. Table 5.6 presents other delinquency statistics of mortgage loans.

Table 5.6 - Other Delinquency Statistics (dollars in thousands)

	September 30, 2023		
	Conventional MPP Loans	FHA Loans	Total
Amortized Cost:			
In process of foreclosure ⁽¹⁾	\$ 7,143	\$ 116	\$ 7,259
Serious delinquency rate ⁽²⁾	0.15 %	0.68 %	0.16 %
Past due 90 days or more still accruing interest ⁽³⁾	\$ 9,907	\$ 688	\$ 10,595
Loans on non-accrual status ⁽⁴⁾	\$ 1,267	\$ —	\$ 1,267

	December 31, 2022		
	Conventional MPP Loans	FHA Loans	Total
Amortized Cost:			
In process of foreclosure ⁽¹⁾	\$ 7,206	\$ 361	\$ 7,567
Serious delinquency rate ⁽²⁾	0.18 %	1.32 %	0.19 %
Past due 90 days or more still accruing interest ⁽³⁾	\$ 11,369	\$ 1,500	\$ 12,869
Loans on non-accrual status ⁽⁴⁾	\$ 1,423	\$ —	\$ 1,423

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

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

(3) Each conventional loan past due 90 days or more still accruing interest is on a schedule/scheduled monthly settlement basis and contains one or more credit enhancements. Loans that are well secured and in the process of collection as a result of remaining credit enhancements and schedule/scheduled settlement are not placed on non-accrual status.

(4) At September 30, 2023 and December 31, 2022, (in thousands) \$1,267 and \$971, respectively, of conventional MPP loans on non-accrual status do not have a related allowance because these loans were either previously charged off to their expected recoverable value and/or the fair value of the underlying collateral, including any credit enhancements, is greater than the amortized cost of the loans.

The FHLB did not have any real estate owned at September 30, 2023 or December 31, 2022.

Mortgage Loan Modifications. Under certain circumstances, the FHLB offers loan modifications within its MPP. Most commonly, loan modifications consist of capitalization of any past due interest with a corresponding increase in unpaid principal and a recast of the monthly principal and interest payment. Less frequently, loan modifications may include interest rate reductions, term extensions, balloon payments, or a combination of these types. The amortized cost basis of mortgage loans modified with borrowers experiencing financial difficulty during the three and nine months ended September 30, 2023 was (in thousands) \$745 and \$3,594, respectively. The financial effect of the modifications was not material to the FHLB's financial condition or results of operations.

Evaluation of Current Expected Credit Losses

Mortgage Loans - FHA. The FHLB invests in fixed-rate mortgage loans secured by one-to-four-family residential properties insured by the FHA. The FHLB expects to recover any losses from such loans from the FHA. Any losses from these loans that are not recovered from the FHA would be caused by a claim rejection by the FHA and, as such, would be recoverable from the selling participating financial institutions. Therefore, the FHLB only has credit risk for these loans if the seller or servicer fails to pay for losses not covered by the FHA insurance, but in such instance, the FHLB would have recourse against the servicer for such failure. As a result, the FHLB did not record an allowance for credit losses on its FHA insured mortgage loans. Furthermore, due to the insurance, none of these mortgage loans have been placed on non-accrual status.

Mortgage Loans - Conventional MPP. Conventional loans are evaluated collectively when similar risk characteristics exist; loans that do not share risk characteristics with other pools are removed from the collective evaluation and evaluated for expected credit losses on an individual basis. For loans with similar risk characteristics, the FHLB determines the allowance for credit losses through analyses that include considering various loan portfolio and collateral-related characteristics, such as past performance, current conditions, and reasonable and supportable forecasts of expected economic conditions. The FHLB uses a model that employs a variety of methods, such as projected cash flows to estimate expected credit losses over the life of the loans. This model relies on a number of inputs, such as both current and forecasted property values and interest rates, as well as historical borrower behavior experience. The FHLB's calculation of expected credit losses includes a forecast of home prices over the entire contractual terms of its conventional loans rather than a reversion to historical home price trends after an initial forecast period. The FHLB also incorporates associated credit enhancements to determine estimated expected credit losses.

Certain conventional loans may be evaluated for credit losses by using the practical expedient for collateral dependent assets. A mortgage loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be substantially through the sale of the underlying collateral. The FHLB may estimate the fair value of this collateral by either applying an appropriate loss severity rate, using third-party estimates, or using a property valuation model. The expected credit loss of a collateral dependent mortgage loan is equal to the difference between the amortized cost of the loan and the estimated fair value of the collateral, less estimated selling costs. The FHLB will either reserve for these estimated losses or record a direct charge-off of the loan balance, if certain triggering criteria are met. Expected recoveries of prior charge-offs, if any, are included in the allowance for credit losses.

The FHLB also assesses other qualitative factors in its estimation of loan losses for the collectively evaluated population. This amount represents a subjective management judgment, based on facts and circumstances that exist as of the reporting date, which is intended to cover other expected losses that may not otherwise be captured in the methodology described above.

Allowance for Credit Losses on Conventional Mortgage Loans. At September 30, 2023 and December 31, 2022 the FHLB's allowance for credit losses on its conventional mortgage loans held for portfolio was (in thousands) \$316 and \$301, respectively.

Note 6 - Derivatives and Hedging Activities

Nature of Business Activity

The FHLB is exposed to interest rate risk primarily from the effect of changes in interest rates. The goal of the FHLB's interest-rate risk management strategy is not to eliminate interest-rate risk, but to manage it within appropriate limits. To mitigate the risk of loss, the FHLB has established policies and procedures, which include guidelines on the amount of exposure to interest rate changes it is willing to accept. In addition, the FHLB monitors the risk to its interest income, net interest margin and average maturity of interest-earning assets and interest-bearing liabilities. The FHLB uses derivatives when they are considered to be the most cost-effective alternative to achieve the FHLB's financial and risk management objectives. See Note 7 - Derivatives and Hedging Activities in the FHLB's 2022 Annual Report on Form 10-K for additional information on the FHLB's derivative transactions.

The FHLB transacts its derivatives with counterparties that are large banks and major broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell, and distribute Consolidated Obligations. Derivative transactions may be executed either with a counterparty, referred to as uncleared derivatives, or cleared through a Futures Commission Merchant (i.e., clearing agent) with a Derivative Clearing Organization, referred to as cleared derivatives. The FHLB is not a derivative dealer and does not trade derivatives for short-term profit.

Financial Statement Effect and Additional Financial Information

The notional amount of derivatives serves as a factor in determining periodic interest payments or cash flows received and paid. The notional amount reflects the FHLB's involvement in the various classes of financial instruments and represents neither the actual amounts exchanged nor the overall exposure of the FHLB to credit and market risk. The risks of derivatives only can be measured meaningfully on a portfolio basis that takes into account the counterparties, the types of derivatives, the items being hedged and any offsets between the derivatives and the items being hedged.

Table 6.1 summarizes the notional amount and fair value of derivative instruments and total derivative assets and liabilities. Total derivative assets and liabilities include the effect of netting adjustments and cash collateral. For purposes of this disclosure, the derivative values include the fair value of derivatives and the related accrued interest.

Table 6.1 - Fair Value of Derivative Instruments (in thousands)

	September 30, 2023		
	Notional Amount of Derivatives	Derivative Assets	Derivative Liabilities
Derivatives designated as fair value hedging instruments:			
Interest rate swaps	\$ 32,335,274	\$ 8,503	\$ 59,395
Derivatives not designated as hedging instruments:			
Interest rate swaps	29,061,179	306,341	38,358
Interest rate swaptions	425,000	11,321	—
Mortgage delivery commitments	67,613	9	515
Total derivatives not designated as hedging instruments	29,553,792	317,671	38,873
Total derivatives before adjustments	<u>\$ 61,889,066</u>	<u>326,174</u>	<u>98,268</u>
Netting adjustments and cash collateral ⁽¹⁾		66,886	(86,331)
Total derivative assets and total derivative liabilities		<u>\$ 393,060</u>	<u>\$ 11,937</u>

	December 31, 2022		
	Notional Amount of Derivatives	Derivative Assets	Derivative Liabilities
Derivatives designated as fair value hedging instruments:			
Interest rate swaps	\$ 21,577,007	\$ 37,175	\$ 32,630
Derivatives not designated as hedging instruments:			
Interest rate swaps	28,840,270	5,839	55,327
Interest rate swaptions	355,000	7,766	—
Mortgage delivery commitments	14,291	12	88
Total derivatives not designated as hedging instruments	29,209,561	13,617	55,415
Total derivatives before adjustments	<u>\$ 50,786,568</u>	<u>50,792</u>	<u>88,045</u>
Netting adjustments and cash collateral ⁽¹⁾		439,768	(87,585)
Total derivative assets and total derivative liabilities		<u>\$ 490,560</u>	<u>\$ 460</u>

- (1) Amounts represent the application of the netting requirements that allow the FHLB to settle positive and negative positions, and also cash collateral, including accrued interest, held or placed by the FHLB with the same clearing agent and/or counterparty. Cash collateral posted, including accrued interest, was (in thousands) \$402,216 and \$533,270 at September 30, 2023 and December 31, 2022, respectively. Cash collateral received, including accrued interest, was (in thousands) \$248,999 and \$5,917 at September 30, 2023 and December 31, 2022, respectively.

Table 6.2 presents the impact of qualifying fair value hedging relationships on net interest income as well as the total interest income (expense) by product.

Table 6.2 - Impact of Fair Value Hedging Relationships on Net Interest Income (in thousands)

	Three Months Ended September 30, 2023		
	Advances	Available-for-Sale Securities	Consolidated Bonds
Total interest income (expense) recorded in the Statements of Income	\$ 1,057,139	\$ 139,444	\$ (1,033,895)
Impact of Fair Value Hedging Relationships			
Interest rate swaps:			
Net interest settlements	\$ 96,145	\$ 95,929	\$ (8,152)
Gain (loss) on derivatives	127,167	207,130	2,396
Gain (loss) on hedged items	(127,317)	(206,195)	(2,644)
Price alignment amount ⁽¹⁾	(7,407)	(15,842)	93
Effect on net interest income	\$ 88,588	\$ 81,022	\$ (8,307)
	Three Months Ended September 30, 2022		
	Advances	Available-for-Sale Securities	Consolidated Bonds
Total interest income (expense) recorded in the Statements of Income	\$ 381,615	\$ 52,628	\$ (236,968)
Impact of Fair Value Hedging Relationships			
Interest rate swaps:			
Net interest settlements	\$ 10,498	\$ 13,560	\$ (1,106)
Gain (loss) on derivatives	208,971	438,701	(20,031)
Gain (loss) on hedged items	(204,055)	(440,029)	20,290
Price alignment amount ⁽¹⁾	(1,470)	(3,570)	70
Effect on net interest income	\$ 13,944	\$ 8,662	\$ (777)
	Nine Months Ended September 30, 2023		
	Advances	Available-for-Sale Securities	Consolidated Bonds
Total interest income (expense) recorded in the Statements of Income	\$ 3,393,005	\$ 375,881	\$ (2,762,029)
Impact of Fair Value Hedging Relationships			
Interest rate swaps:			
Net interest settlements	\$ 238,028	\$ 251,625	\$ (24,075)
Gain (loss) on derivatives	229,033	217,040	8,249
Gain (loss) on hedged items	(229,434)	(214,052)	(8,224)
Price alignment amount ⁽¹⁾	(16,212)	(37,411)	380
Effect on net interest income	\$ 221,415	\$ 217,202	\$ (23,670)

	Nine Months Ended September 30, 2022		
	Advances	Available-for-Sale Securities	Consolidated Bonds
Total interest income (expense) recorded in the Statements of Income	\$ 547,586	\$ 74,590	\$ (431,373)
Impact of Fair Value Hedging Relationships			
Interest rate swaps:			
Net interest settlements	\$ (23,891)	\$ (10,366)	\$ 1,599
Gain (loss) on derivatives	543,638	981,377	(42,830)
Gain (loss) on hedged items	(534,278)	(983,258)	43,030
Price alignment amount ⁽¹⁾	(1,878)	(4,683)	91
Effect on net interest income	\$ (16,409)	\$ (16,930)	\$ 1,890

(1) This amount is for derivatives for which variation margin is characterized as a daily settled contract.

Table 6.3 presents the cumulative basis adjustments on hedged items designated as fair value hedges and the related amortized cost of the hedged items.

Table 6.3 - Cumulative Basis Adjustments for Fair Value Hedges (in thousands)

	September 30, 2023		
	Advances	Available-for-Sale Securities	Consolidated Bonds
Amortized cost of hedged asset or liability ⁽¹⁾	\$ 19,505,253	\$ 9,689,161	\$ 1,270,267
Fair value hedging adjustments			
Basis adjustments for active hedging relationships included in amortized cost	\$ (636,309)	\$ (1,202,764)	\$ (33,521)
Basis adjustments for discontinued hedging relationships included in amortized cost	620	16,514	—
Total amount of fair value hedging basis adjustments	\$ (635,689)	\$ (1,186,250)	\$ (33,521)
	December 31, 2022		
	Advances	Available-for-Sale Securities	Consolidated Bonds
Amortized cost of hedged asset or liability ⁽¹⁾	\$ 10,199,624	\$ 8,668,634	\$ 1,286,881
Fair value hedging adjustments			
Basis adjustments for active hedging relationships included in amortized cost	\$ (407,137)	\$ (989,810)	\$ (41,745)
Basis adjustments for discontinued hedging relationships included in amortized cost	882	13,932	—
Total amount of fair value hedging basis adjustments	\$ (406,255)	\$ (975,878)	\$ (41,745)

(1) Includes only the portion of amortized cost representing the hedged items in fair value hedging relationships.

Table 6.4 presents net gains (losses) recorded in non-interest income (loss) on derivatives not designated as hedging instruments.

Table 6.4 - Net Gains (Losses) Recorded in Non-interest Income (Loss) on Derivatives Not Designated as Hedging Instruments (in thousands)

	Three Months Ended September 30,	
	2023	2022
Derivatives not designated as hedging instruments:		
Economic hedges:		
Interest rate swaps	\$ 43,437	\$ 42,188
Interest rate swaptions	6,930	4,450
Net interest settlements	850	(18,558)
Mortgage delivery commitments	(1,500)	(1,244)
Total net gains (losses) related to derivatives not designated as hedging instruments	49,717	26,836
Price alignment amount ⁽¹⁾	(1,745)	(216)
Net gains (losses) on derivatives	\$ 47,972	\$ 26,620
	Nine Months Ended September 30,	
	2023	2022
Derivatives not designated as hedging instruments:		
Economic hedges:		
Interest rate swaps	\$ 48,421	\$ 191,830
Interest rate swaptions	1,903	11,008
Net interest settlements	(9,091)	(49,999)
Mortgage delivery commitments	(1,573)	(8,568)
Total net gains (losses) related to derivatives not designated as hedging instruments	39,660	144,271
Price alignment amount ⁽¹⁾	(3,967)	(177)
Net gains (losses) on derivatives	\$ 35,693	\$ 144,094

(1) This amount is for derivatives for which variation margin is characterized as a daily settled contract.

Credit Risk on Derivatives

The FHLB is subject to credit risk given the risk of non-performance by counterparties to its derivative transactions and manages credit risk through credit analyses of derivative counterparties, collateral requirements and adherence to the requirements set forth in its policies, U.S. Commodity Futures Trading Commission regulations, and Finance Agency regulations.

For uncleared derivatives, the degree of credit risk depends on the extent to which master netting arrangements are included in these contracts to mitigate this risk. The FHLB requires collateral agreements on its uncleared derivatives with the collateral delivery threshold set to zero.

For cleared derivatives, the Clearinghouse is the FHLB's counterparty. The Clearinghouse notifies the clearing agent of the required initial and variation margin and the clearing agent in turn notifies the FHLB. The FHLB utilizes two Clearinghouses for all cleared derivative transactions, LCH Ltd. and CME Clearing. At both Clearinghouses, variation margin is characterized as daily settlement payments, while initial margin is considered to be collateral. The requirement that the FHLB post initial and variation margin through the clearing agent, to the Clearinghouse, exposes the FHLB to credit risk if the clearing agent or the Clearinghouse fails to meet its obligations. The use of cleared derivatives is intended to mitigate credit risk exposure because a central counterparty is substituted for individual counterparties and collateral/payments for changes in the value of cleared derivatives is posted daily through a clearing agent. On the Statements of Cash Flows, the variation margin cash payments, or daily settlement payments, are included in net change in derivative and hedging activities, as an operating activity.

For cleared derivatives, the Clearinghouse determines initial margin requirements and generally credit ratings are not factored into the initial margin. However, clearing agents may require additional initial margin to be posted based on credit considerations, including, but not limited to, credit rating downgrades. At September 30, 2023, the FHLB was not required to post additional initial margin by its clearing agents based on credit considerations.

Offsetting of Derivative Assets and Derivative Liabilities

The FHLB presents derivative instruments, related cash collateral received or pledged, and associated accrued interest, on a net basis by clearing agent and/or by counterparty when it has met the netting requirements.

The FHLB has analyzed the enforceability of offsetting rights incorporated in its cleared derivative transactions, and it expects that the exercise of those offsetting rights by a non-defaulting party under these transactions would be upheld under applicable law upon an event of default, including bankruptcy, insolvency, or similar proceeding involving the Clearinghouse or the FHLB's clearing agent, or both. Based on this analysis, the FHLB presents a net derivative receivable or payable for all of its transactions through a particular clearing agent with a particular Clearinghouse.

Table 6.5 presents separately the fair value of derivative instruments meeting or not meeting netting requirements, including the related collateral. Any over-collateralization under an individual clearing agent and/or counterparty level is not included in the determination of the net unsecured amount.

Table 6.5 - Offsetting of Derivative Assets and Derivative Liabilities (in thousands)

September 30, 2023							
	Derivative Instruments Meeting Netting Requirements				Non-cash Collateral Not Offset		
	Gross Recognized Amount	Gross Amount of Netting Adjustments and Cash Collateral	Derivative Instruments Not Meeting Netting Requirements ^(H)	Total Derivative Assets and Total Derivative Liabilities	Can Be Sold or Repledged	Net Amount ⁽²⁾	
Derivative Assets:							
Uncleared	\$ 323,419	\$ (314,013)	\$ 9	\$ 9,415	\$ —	\$ 9,415	
Cleared	2,746	380,899	—	383,645	—	383,645	
Total				<u>\$ 393,060</u>		<u>\$ 393,060</u>	
Derivative Liabilities:							
Uncleared	\$ 65,927	\$ (65,014)	\$ 515	\$ 1,428	\$ —	\$ 1,428	
Cleared	31,826	(21,317)	—	10,509	10,509	—	
Total				<u>\$ 11,937</u>		<u>\$ 1,428</u>	
December 31, 2022							
	Derivative Instruments Meeting Netting Requirements				Non-cash Collateral Not Offset		
	Gross Recognized Amount	Gross Amount of Netting Adjustments and Cash Collateral	Derivative Instruments Not Meeting Netting Requirements ^(H)	Total Derivative Assets and Total Derivative Liabilities	Can Be Sold or Repledged	Net Amount ⁽²⁾	
Derivative Assets:							
Uncleared	\$ 19,195	\$ (12,600)	\$ 12	\$ 6,607	\$ —	\$ 6,607	
Cleared	31,585	452,368	—	483,953	—	483,953	
Total				<u>\$ 490,560</u>		<u>\$ 490,560</u>	
Derivative Liabilities:							
Uncleared	\$ 83,896	\$ (83,524)	\$ 88	\$ 460	\$ —	\$ 460	
Cleared	4,061	(4,061)	—	—	—	—	
Total				<u>\$ 460</u>		<u>\$ 460</u>	

(1) Includes mortgage delivery commitments that are not subject to an enforceable netting agreement.

(2) Any over-collateralization at the individual clearing agent and/or counterparty level is not included in the determination of the net amount. At September 30, 2023, the FHLB had additional net credit exposure of (in thousands) \$285,266 due to instances where the FHLB's non-cash collateral to a counterparty exceeded the FHLB's net derivative position.

Note 7 - Consolidated Obligations

Table 7.1 - Consolidated Discount Notes Outstanding (dollars in thousands)

	Carrying Value	Principal Amount	Weighted Average Interest Rate ⁽¹⁾
September 30, 2023	\$ 24,296,471	\$ 24,483,853	5.04 %
December 31, 2022	\$ 40,691,180	\$ 41,007,526	3.95 %

(1) Represents an implied rate without consideration of concessions.

Table 7.2 - Consolidated Bonds Outstanding by Original Contractual Maturity (dollars in thousands)

Year of Original Contractual Maturity	September 30, 2023		December 31, 2022	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Due in 1 year or less	\$ 60,178,795	5.19 %	\$ 48,105,620	4.00 %
Due after 1 year through 2 years	17,426,730	4.91	3,056,405	2.97
Due after 2 years through 3 years	1,817,500	2.06	2,815,000	1.70
Due after 3 years through 4 years	1,466,500	2.01	934,000	1.97
Due after 4 years through 5 years	1,181,500	3.32	1,586,000	1.94
Thereafter	3,750,140	3.26	3,246,140	2.83
Total principal amount	85,821,165	4.90	59,743,165	3.69
Premiums	30,865		28,958	
Discounts	(25,348)		(18,716)	
Fair value hedging adjustments	(33,521)		(41,745)	
Fair value option valuation adjustment and accrued interest	264,992		(43,917)	
Total	\$ 86,058,153		\$ 59,667,745	

Table 7.3 - Consolidated Bonds Outstanding by Call Features (in thousands)

	September 30, 2023	December 31, 2022
Principal Amount of Consolidated Bonds:		
Non-callable	\$ 62,449,665	\$ 49,628,665
Callable	23,371,500	10,114,500
Total principal amount	\$ 85,821,165	\$ 59,743,165

Table 7.4 - Consolidated Bonds Outstanding by Original Contractual Maturity or Next Call Date (in thousands)

Year of Original Contractual Maturity or Next Call Date	September 30, 2023	December 31, 2022
Due in 1 year or less	\$ 65,490,295	\$ 54,465,620
Due after 1 year through 2 years	15,808,730	1,543,405
Due after 2 years through 3 years	641,000	803,000
Due after 3 years through 4 years	266,500	571,000
Due after 4 years through 5 years	863,500	258,000
Thereafter	2,751,140	2,102,140
Total principal amount	<u>\$ 85,821,165</u>	<u>\$ 59,743,165</u>

Consolidated Bonds, beyond having fixed-rate or variable-rate interest-rate payment terms, may also have a step-up interest-rate payment type. Step-up bonds pay interest at increasing fixed rates for specified intervals over the life of the Consolidated Bond. These Consolidated Bonds generally contain provisions enabling the FHLB to call the Consolidated Bonds at its option on the step-up dates.

Table 7.5 - Consolidated Bonds by Interest-rate Payment Type (in thousands)

	September 30, 2023	December 31, 2022
Principal Amount of Consolidated Bonds:		
Fixed-rate	\$ 32,081,665	\$ 19,797,165
Variable-rate	53,739,500	39,621,000
Step-up	—	325,000
Total principal amount	<u>\$ 85,821,165</u>	<u>\$ 59,743,165</u>

Note 8 - Affordable Housing Program (AHP)

The FHLBank Act requires each FHLBank to establish an AHP. Each FHLBank provides subsidies in the form of direct grants or below-market interest rates on Advances to members who provide the funds to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. Each FHLBank recognizes AHP assessment expense equal to the greater of 10 percent of its annual income subject to assessment or the prorated sum required to ensure the aggregate contribution by the FHLBanks is no less than \$100 million for each year. For purposes of the AHP calculation, income subject to assessment is defined as net income before AHP assessments, plus interest expense related to mandatorily redeemable capital stock. The FHLB accrues AHP expense monthly based on its income subject to assessment. The FHLB reduces the AHP liability as members use subsidies. In addition to the required AHP assessment, the Board of Directors may elect to make voluntary contributions to the AHP.

Table 8.1 - Rollforward of the AHP Liability (in thousands)

Balance at December 31, 2022	\$ 87,923
Assessments (current year additions)	57,445
Voluntary contribution	7,307
Subsidy uses, net	(19,500)
Balance at September 30, 2023	<u>\$ 133,175</u>

Note 9 - Capital

Table 9.1 - Capital Requirements (dollars in thousands)

	September 30, 2023		December 31, 2022	
	Minimum Requirement	Actual	Minimum Requirement	Actual
Risk-based capital	\$ 1,258,954	\$ 6,173,088	\$ 920,030	\$ 6,569,024
Capital-to-assets ratio (regulatory)	4.00 %	5.21 %	4.00 %	6.05 %
Regulatory capital	\$ 4,743,508	\$ 6,173,088	\$ 4,344,380	\$ 6,569,024
Leverage capital-to-assets ratio (regulatory)	5.00 %	7.81 %	5.00 %	9.07 %
Leverage capital	\$ 5,929,386	\$ 9,259,632	\$ 5,430,475	\$ 9,853,536

Restricted Retained Earnings. At September 30, 2023 and December 31, 2022 the FHLB had (in thousands) \$663,050 and \$560,118, respectively, in restricted retained earnings. These restricted retained earnings are not available to pay dividends, but are available to absorb unexpected losses, if any, that the FHLB may experience.

Table 9.2 - Rollforward of Mandatorily Redeemable Capital Stock (in thousands)

Balance, December 31, 2022	\$ 17,453
Capital stock subject to mandatory redemption reclassified from equity	573,291
Repurchase/redemption of mandatorily redeemable capital stock	(572,082)
Balance, September 30, 2023	<u>\$ 18,662</u>

Table 9.3 - Mandatorily Redeemable Capital Stock by Contractual Year of Redemption (in thousands)

<u>Contractual Year of Redemption</u>	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Year 1	\$ —	\$ 1,148
Year 2	9	29
Year 3	122	5
Year 4	7,984	5,853
Year 5	3,723	3,313
Past contractual redemption date due to remaining activity ⁽¹⁾	6,824	7,105
Total	<u>\$ 18,662</u>	<u>\$ 17,453</u>

(1) Represents mandatorily redeemable capital stock that is past the end of the contractual redemption period because there is activity outstanding to which the mandatorily redeemable capital stock relates.

Note 10 - Accumulated Other Comprehensive Income (Loss)

The following tables summarize the changes in accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2023 and 2022.

Table 10.1 - Accumulated Other Comprehensive Income (Loss) (in thousands)

	Net unrealized gains (losses) on available-for-sale securities	Pension and postretirement benefits	Total accumulated other comprehensive income (loss)
BALANCE, JUNE 30, 2022	\$ (21,635)	\$ (12,013)	\$ (33,648)
Other comprehensive income before reclassification:			
Net unrealized gains (losses)	(8,991)	—	(8,991)
Reclassifications from other comprehensive income (loss) to net income:			
Amortization - pension and postretirement benefits ⁽¹⁾	—	(36)	(36)
Net current period other comprehensive income (loss)	(8,991)	(36)	(9,027)
BALANCE, SEPTEMBER 30, 2022	<u>\$ (30,626)</u>	<u>\$ (12,049)</u>	<u>\$ (42,675)</u>
BALANCE, JUNE 30, 2023	\$ (33,364)	\$ (810)	\$ (34,174)
Other comprehensive income before reclassification:			
Net unrealized gains (losses)	(16,122)	—	(16,122)
Reclassifications from other comprehensive income (loss) to net income:			
Amortization - pension and postretirement benefits ⁽¹⁾	—	(98)	(98)
Net current period other comprehensive income (loss)	(16,122)	(98)	(16,220)
BALANCE, SEPTEMBER 30, 2023	<u>\$ (49,486)</u>	<u>\$ (908)</u>	<u>\$ (50,394)</u>
BALANCE, DECEMBER 31, 2021	\$ 26,125	\$ (13,031)	\$ 13,094
Other comprehensive income before reclassification:			
Net unrealized gains (losses)	(56,751)	—	(56,751)
Reclassifications from other comprehensive income (loss) to net income:			
Amortization - pension and postretirement benefits ⁽¹⁾	—	982	982
Net current period other comprehensive income (loss)	(56,751)	982	(55,769)
BALANCE, SEPTEMBER 30, 2022	<u>\$ (30,626)</u>	<u>\$ (12,049)</u>	<u>\$ (42,675)</u>
BALANCE, DECEMBER 31, 2022	\$ (48,726)	\$ (614)	\$ (49,340)
Other comprehensive income before reclassification:			
Net unrealized gains (losses)	(760)	—	(760)
Reclassifications from other comprehensive income (loss) to net income:			
Amortization - pension and postretirement benefits ⁽¹⁾	—	(294)	(294)
Net current period other comprehensive income (loss)	(760)	(294)	(1,054)
BALANCE, SEPTEMBER 30, 2023	<u>\$ (49,486)</u>	<u>\$ (908)</u>	<u>\$ (50,394)</u>

(1) Included in Non-Interest Expense - Other in the Statements of Income.

Note 11 - Segment Information

The FHLB has identified two primary operating segments based on its method of internal reporting: Traditional Member Finance and the MPP. These segments reflect the FHLB's two primary Mission Asset Activities and the manner in which they are managed from the perspective of development, resource allocation, product delivery, pricing, credit risk and operational administration. The segments identify the principal ways the FHLB provides services to member stockholders.

Table 11.1 - Financial Performance by Operating Segment (in thousands)

	Three Months Ended September 30,		
	Traditional Member Finance	MPP	Total
2023			
Net interest income (loss)	\$ 186,434	\$ 35,714	\$ 222,148
Non-interest income (loss)	(11,162)	5,431	(5,731)
Non-interest expense	25,063	2,675	27,738
Income (loss) before assessments	150,209	38,470	188,679
Affordable Housing Program assessments	15,132	3,847	18,979
Net income (loss)	<u>\$ 135,077</u>	<u>\$ 34,623</u>	<u>\$ 169,700</u>
2022			
Net interest income (loss)	\$ 120,400	\$ 21,238	\$ 141,638
Non-interest income (loss)	(17,296)	3,207	(14,089)
Non-interest expense	23,944	2,407	26,351
Income (loss) before assessments	79,160	22,038	101,198
Affordable Housing Program assessments	8,152	2,204	10,356
Net income (loss)	<u>\$ 71,008</u>	<u>\$ 19,834</u>	<u>\$ 90,842</u>
	Nine Months Ended September 30,		
	Traditional Member Finance	MPP	Total
2023			
Net interest income (loss)	\$ 544,411	\$ 104,578	\$ 648,989
Non-interest income (loss)	20,479	331	20,810
Non-interest expense	87,582	10,111	97,693
Income (loss) before assessments	477,308	94,798	572,106
Affordable Housing Program assessments	47,965	9,480	57,445
Net income (loss)	<u>\$ 429,343</u>	<u>\$ 85,318</u>	<u>\$ 514,661</u>
2022			
Net interest income (loss)	\$ 257,602	\$ 35,949	\$ 293,551
Non-interest income (loss)	(51,942)	760	(51,182)
Non-interest expense	70,066	7,945	78,011
Income (loss) before assessments	135,594	28,764	164,358
Affordable Housing Program assessments	13,962	2,876	16,838
Net income (loss)	<u>\$ 121,632</u>	<u>\$ 25,888</u>	<u>\$ 147,520</u>

Table 11.2 - Asset Balances by Operating Segment (in thousands)

	Assets		
	Traditional Member Finance	MPP	Total
September 30, 2023	\$ 110,411,290	\$ 8,176,421	\$ 118,587,711
December 31, 2022	99,649,867	8,959,637	108,609,504

Note 12 - Fair Value Disclosures

The fair value amounts recorded on the Statements of Condition and presented in the related note disclosures have been determined by the FHLB using available market information and the FHLB's best judgment of appropriate valuation methods. GAAP defines fair value 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 (i.e., an exit price). The fair values reflect the FHLB's judgment of how a market participant would estimate the fair values.

Fair Value Hierarchy. 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. The inputs are evaluated and an overall level for the measurement is determined. This overall level is an indication of how market observable the fair value measurement is.

The fair value hierarchy prioritizes the inputs used to measure fair value into three broad levels:

Level 1 Inputs - Quoted prices (unadjusted) for identical assets or liabilities in an active market that the reporting entity can access on the measurement date. An active market for the asset or liability is a market in which the transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs - Inputs other than quoted prices within Level 1 that are observable inputs 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; (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 by correlation or other means.

Level 3 Inputs - Unobservable inputs for the asset or liability, which are supported by limited to no market activity and reflect the FHLB's own assumptions.

The FHLB 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 financial assets or liabilities. The FHLB did not have any transfers of assets or liabilities into or out of Level 3 of the fair value hierarchy during the nine months ended September 30, 2023 or 2022.

Table 12.1 presents the carrying value, fair value, and fair value hierarchy of financial assets and liabilities of the FHLB. The FHLB records trading securities, available-for-sale securities, derivative assets, derivative liabilities, certain Advances and certain Consolidated Obligations at fair value on a recurring basis, and on occasion, certain mortgage loans held for portfolio on a nonrecurring basis. The FHLB records all other financial assets and liabilities at amortized cost. Refer to Table 12.2 for further details about the financial assets and liabilities held at fair value on either a recurring or nonrecurring basis.

Table 12.1 - Fair Value Summary (in thousands)

	September 30, 2023					
		Fair Value				
Financial Instruments	Carrying Value ⁽¹⁾	Total	Level 1	Level 2	Level 3	Netting Adjustments and Cash Collateral ⁽²⁾
Assets:						
Cash and due from banks	\$ 20,970	\$ 20,970	\$ 20,970	\$ —	\$ —	\$ —
Interest-bearing deposits	1,755,094	1,755,094	—	1,755,094	—	—
Securities purchased under agreements to resell	1,015,000	1,015,003	—	1,015,003	—	—
Federal funds sold	9,695,000	9,695,000	—	9,695,000	—	—
Trading securities	1,690,912	1,690,912	—	1,690,912	—	—
Available-for-sale securities	9,664,337	9,664,337	—	9,664,337	—	—
Held-to-maturity securities	16,992,525	16,578,209	—	16,578,209	—	—
Advances ⁽³⁾	69,785,684	69,752,084	—	69,752,084	—	—
Mortgage loans held for portfolio	7,076,369	5,982,503	—	5,972,022	10,481	—
Accrued interest receivable	473,547	473,547	—	473,547	—	—
Derivative assets	393,060	393,060	—	326,174	—	66,886
Liabilities:						
Deposits	1,220,415	1,218,448	—	1,218,448	—	—
Consolidated Obligations:						
Discount Notes ⁽⁴⁾	24,296,471	24,293,638	—	24,293,638	—	—
Bonds ⁽⁵⁾	86,058,153	84,755,618	—	84,755,618	—	—
Mandatorily redeemable capital stock	18,662	18,662	18,662	—	—	—
Accrued interest payable	383,207	383,207	—	383,207	—	—
Derivative liabilities	11,937	11,937	—	98,268	—	(86,331)

(1) For certain financial instruments, the amounts represent net carrying value, which include an allowance for credit losses.

(2) Amounts represent the application of the netting requirements that allow the FHLB to settle positive and negative positions and also cash collateral and related accrued interest held or placed by the FHLB with the same counterparty.

(3) Includes (in thousands) \$96,667 of Advances recorded under the fair value option at September 30, 2023.

(4) Includes (in thousands) \$8,234,838 of Consolidated Obligation Discount Notes recorded under the fair value option at September 30, 2023.

(5) Includes (in thousands) \$19,181,492 of Consolidated Obligation Bonds recorded under the fair value option at September 30, 2023.

	December 31, 2022					
		Fair Value				
Financial Instruments	Carrying Value ⁽¹⁾	Total	Level 1	Level 2	Level 3	Netting Adjustments and Cash Collateral ⁽²⁾
Assets:						
Cash and due from banks	\$ 19,604	\$ 19,604	\$ 19,604	\$ —	\$ —	\$ —
Interest-bearing deposits	1,770,194	1,770,194	—	1,770,194	—	—
Securities purchased under agreements to resell	519,540	519,545	—	519,545	—	—
Federal funds sold	5,399,000	5,399,000	—	5,399,000	—	—
Trading securities	1,979,816	1,979,816	—	1,979,816	—	—
Available-for-sale securities	8,631,765	8,631,765	—	8,631,765	—	—
Held-to-maturity securities	15,304,359	14,983,043	—	14,983,043	—	—
Advances ⁽³⁾	67,019,555	66,907,691	—	66,907,691	—	—
Mortgage loans held for portfolio	7,162,509	6,272,030	—	6,259,805	12,225	—
Accrued interest receivable	283,132	283,132	—	283,132	—	—
Derivative assets	490,560	490,560	—	50,792	—	439,768
Liabilities:						
Deposits	1,039,427	1,038,580	—	1,038,580	—	—
Consolidated Obligations:						
Discount Notes ⁽⁴⁾	40,691,180	40,680,714	—	40,680,714	—	—
Bonds ⁽⁵⁾	59,667,745	58,698,959	—	58,698,959	—	—
Mandatorily redeemable capital stock	17,453	17,453	17,453	—	—	—
Accrued interest payable	290,194	290,194	—	290,194	—	—
Derivative liabilities	460	460	—	88,045	—	(87,585)

- (1) For certain financial instruments, the amounts represent net carrying value, which include an allowance for credit losses.
- (2) Amounts represent the application of the netting requirements that allow the FHLB to settle positive and negative positions and also cash collateral and related accrued interest held or placed by the FHLB with the same counterparty.
- (3) Includes (in thousands) \$4,954 of Advances recorded under the fair value option at December 31, 2022.
- (4) Includes (in thousands) \$21,010,746 of Consolidated Obligation Discount Notes recorded under the fair value option at December 31, 2022.
- (5) Includes (in thousands) \$5,469,583 of Consolidated Obligation Bonds recorded under the fair value option at December 31, 2022.

Summary of Valuation Methodologies and Primary Inputs.

The valuation methodologies and primary inputs used to develop the measurement of fair value for assets and liabilities that are measured at fair value on a recurring or nonrecurring basis in the Statement of Condition are disclosed in Note 15 - Fair Value Disclosures in the FHLB's 2022 Annual Report on Form 10-K. There have been no significant changes in the valuation methodologies during 2023.

Fair Value Measurements.

Table 12.2 presents the fair value of financial assets and liabilities that are recorded on a recurring basis at September 30, 2023 and December 31, 2022, by level within the fair value hierarchy.

Table 12.2 - Fair Value Measurements (in thousands)

	Fair Value Measurements at September 30, 2023				
	Total	Level 1	Level 2	Level 3	Netting Adjustments and Cash Collateral ⁽¹⁾
Recurring fair value measurements - Assets					
Trading securities:					
U.S. Treasury obligations	\$ 246,537	\$ —	\$ 246,537	\$ —	\$ —
GSE obligations	1,444,313	—	1,444,313	—	—
U.S. obligation single-family MBS	62	—	62	—	—
Total trading securities	1,690,912	—	1,690,912	—	—
Available-for-sale securities:					
U.S. Treasury obligations	7,354,436	—	7,354,436	—	—
GSE obligations	116,382	—	116,382	—	—
GSE multi-family MBS	2,193,519	—	2,193,519	—	—
Total available-for-sale securities	9,664,337	—	9,664,337	—	—
Advances	96,667	—	96,667	—	—
Derivative assets:					
Interest rate related	393,051	—	326,165	—	66,886
Mortgage delivery commitments	9	—	9	—	—
Total derivative assets	393,060	—	326,174	—	66,886
Total assets at fair value	<u>\$11,844,976</u>	<u>\$ —</u>	<u>\$11,778,090</u>	<u>\$ —</u>	<u>\$ 66,886</u>
Recurring fair value measurements - Liabilities					
Consolidated Obligations:					
Discount Notes	\$ 8,234,838	\$ —	\$ 8,234,838	\$ —	\$ —
Bonds	19,181,492	—	19,181,492	—	—
Total Consolidated Obligations	27,416,330	—	27,416,330	—	—
Derivative liabilities:					
Interest rate related	11,422	—	97,753	—	(86,331)
Mortgage delivery commitments	515	—	515	—	—
Total derivative liabilities	11,937	—	98,268	—	(86,331)
Total liabilities at fair value	<u>\$27,428,267</u>	<u>\$ —</u>	<u>\$27,514,598</u>	<u>\$ —</u>	<u>\$ (86,331)</u>

(1) Amounts represent the application of the netting requirements that allow the FHLB to settle positive and negative positions and also cash collateral and related accrued interest held or placed by the FHLB with the same counterparty.

Fair Value Measurements at December 31, 2022					
	Total	Level 1	Level 2	Level 3	Netting Adjustments and Cash Collateral ⁽¹⁾
Recurring fair value measurements - Assets					
Trading securities:					
U.S. Treasury obligations	\$ 491,464	\$ —	\$ 491,464	\$ —	\$ —
GSE obligations	1,488,235	—	1,488,235	—	—
U.S. obligation single-family MBS	117	—	117	—	—
Total trading securities	1,979,816	—	1,979,816	—	—
Available-for-sale securities:					
U.S. Treasury obligations	7,194,271	—	7,194,271	—	—
GSE obligations	118,082	—	118,082	—	—
GSE multi-family MBS	1,319,412	—	1,319,412	—	—
Total available-for-sale securities	8,631,765	—	8,631,765	—	—
Advances	4,954	—	4,954	—	—
Derivative assets:					
Interest rate related	490,548	—	50,780	—	439,768
Mortgage delivery commitments	12	—	12	—	—
Total derivative assets	490,560	—	50,792	—	439,768
Total assets at fair value	<u>\$ 11,107,095</u>	<u>\$ —</u>	<u>\$ 10,667,327</u>	<u>\$ —</u>	<u>\$ 439,768</u>
Recurring fair value measurements - Liabilities					
Consolidated Obligations:					
Discount Notes	\$ 21,010,746	\$ —	\$ 21,010,746	\$ —	\$ —
Bonds	5,469,583	—	5,469,583	—	—
Total Consolidated Obligations	26,480,329	—	26,480,329	—	—
Derivative liabilities:					
Interest rate related	372	—	87,957	—	(87,585)
Mortgage delivery commitments	88	—	88	—	—
Total derivative liabilities	460	—	88,045	—	(87,585)
Total liabilities at fair value	<u>\$ 26,480,789</u>	<u>\$ —</u>	<u>\$ 26,568,374</u>	<u>\$ —</u>	<u>\$ (87,585)</u>

(1) Amounts represent the application of the netting requirements that allow the FHLB to settle positive and negative positions and also cash collateral and related accrued interest held or placed by the FHLB with the same counterparty.

Fair Value Option. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value. It requires a company to display the fair value of those assets and liabilities for which it has chosen to use fair value on the face of the Statements of Condition. Fair value is used for both the initial and subsequent measurement of the designated assets, liabilities and commitments, with the changes in fair value recognized in net income. If elected, interest income and interest expense on Advances and Consolidated Obligations carried at fair value are recognized based solely on the contractual amount of interest due or unpaid. Any transaction fees or costs are immediately recognized into other non-interest income or other non-interest expense.

The FHLB has elected the fair value option for certain financial instruments that either do not qualify for hedge accounting or may be at risk for not meeting hedge effectiveness requirements. These fair value elections were made primarily in an effort to mitigate the potential income statement volatility that can arise from economic hedging relationships in which the carrying value of the hedged item is not adjusted for changes in fair value.

Table 12.3 presents net gains (losses) recognized in earnings related to financial assets and liabilities in which the fair value option was elected during the three and nine months ended September 30, 2023 and 2022.

Table 12.3 – Fair Value Option - Financial Assets and Liabilities (in thousands)

Net Gains (Losses) from Changes in Fair Value Recognized in Earnings	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Advances	\$ (1,637)	\$ 2,957	\$ (3,172)	\$ 675
Consolidated Discount Notes	(5,231)	(2,778)	(5,565)	35,516
Consolidated Bonds	(17,235)	41,649	10,257	85,068
Total net gains (losses)	<u>\$ (24,103)</u>	<u>\$ 41,828</u>	<u>\$ 1,520</u>	<u>\$ 121,259</u>

For instruments recorded under the fair value option, the related contractual interest income, contractual interest expense and the discount amortization on Discount Notes are recorded as part of net interest income on the Statements of Income. The remaining changes in fair value for instruments in which the fair value option has been elected are recorded as “Net gains (losses) on financial instruments held under fair value option” in the Statements of Income, except for changes in fair value related to instrument specific credit risk, which are recorded in accumulated other comprehensive income (loss) in the Statement of Condition. The FHLB has determined that none of the remaining changes in fair value were related to instrument-specific credit risk for the nine months ended September 30, 2023 or 2022. In determining that there has been no change in instrument-specific credit risk period to period, the FHLB primarily considered the following factors:

- The FHLB is a federally chartered GSE, and as a result of this status, the FHLB’s Consolidated Obligations have historically received the same credit ratings as the government bond credit rating of the United States, even though they are not obligations of the United States and are not guaranteed by the United States.
- The FHLB is jointly and severally liable with the other 10 FHLBanks for the payment of principal and interest on all Consolidated Obligations of each of the other FHLBanks.

The following table reflects the difference between the aggregate unpaid principal balance outstanding and the aggregate fair value for Advances and Consolidated Obligations for which the fair value option has been elected.

Table 12.4 – Aggregate Unpaid Balance and Aggregate Fair Value (in thousands)

	September 30, 2023			December 31, 2022		
	Aggregate Unpaid Principal Balance	Aggregate Fair Value	Aggregate Fair Value Over/ (Under) Aggregate Unpaid Principal Balance	Aggregate Unpaid Principal Balance	Aggregate Fair Value	Aggregate Fair Value Over/ (Under) Aggregate Unpaid Principal Balance
Advances	\$ 99,620	\$ 96,667	\$ (2,953)	\$ 5,000	\$ 4,954	\$ (46)
Consolidated Discount Notes	8,318,295	8,234,838	(83,457)	21,182,801	21,010,746	(172,055)
Consolidated Bonds	18,916,500	19,181,492	264,992	5,513,500	5,469,583	(43,917)

Note 13 - Commitments and Contingencies

Off-Balance Sheet Commitments. Table 13.1 represents off-balance sheet commitments at September 30, 2023 and December 31, 2022. The FHLB has deemed it unnecessary to record any liabilities for credit losses on these commitments at September 30, 2023 and December 31, 2022.

Table 13.1 - Off-Balance Sheet Commitments (in thousands)

Notional Amount	September 30, 2023			December 31, 2022		
	Expire within one year	Expire after one year	Total	Expire within one year	Expire after one year	Total
Letters of Credit	\$ 45,062,830	\$ 303,989	\$45,366,819	\$ 41,122,833	\$ 222,439	\$41,345,272
Commitments for standby bond purchases	—	—	—	11,015	—	11,015
Commitments to purchase mortgage loans	67,613	—	67,613	14,291	—	14,291
Unsettled Consolidated Bonds, principal amount ⁽¹⁾	641,000	—	641,000	3,000,000	—	3,000,000
Unsettled Consolidated Discount Notes, principal amount ⁽¹⁾	—	—	—	182,205	—	182,205

(1) Expiration is based on settlement period rather than underlying contractual maturity of Consolidated Obligations.

The carrying value of guarantees related to Letters of Credit are recorded in other liabilities and were (in thousands) \$10,066 and \$9,691 at September 30, 2023 and December 31, 2022.

Pledged Collateral. The FHLB pledged securities, as collateral, related to derivatives. See Note 6 - Derivatives and Hedging Activities for additional information about the FHLB's pledged collateral.

Legal Proceedings. From time to time, the FHLB is subject to legal proceedings arising in the normal course of business. The FHLB would record an accrual for a loss contingency when it is probable that a loss has been incurred and the amount could be reasonably estimated. After consultation with legal counsel, management does not anticipate that the ultimate liability and the range of reasonably possible losses, if any, arising out of any matters will have a material effect on the FHLB's financial condition or results of operations.

Note 14 - Transactions with Other FHLBanks

The FHLB notes transactions with other FHLBanks on the face of its financial statements. Occasionally, the FHLB loans short-term funds to and borrows short-term funds from other FHLBanks. These loans and borrowings are transacted at current market rates when traded. There were no such loans or borrowings outstanding at September 30, 2023 or December 31, 2022. The following table details the average daily balance of lending and borrowing between the FHLB and other FHLBanks for the nine months ended September 30, 2023 and 2022.

Table 14.1 - Lending and Borrowing Between the FHLB and Other FHLBanks (in thousands)

	Average Daily Balances for the Nine Months Ended September 30,	
	2023	2022
Loans to other FHLBanks	\$ 29,121	\$ 16,670
Borrowings from other FHLBanks	37	37

In addition, the FHLB may, from time to time, assume the outstanding primary liability for Consolidated Obligations of another FHLBank (at current market rates on the day when the transfer is traded) rather than issuing new debt for which the FHLB is the primary obligor. During the nine months ended September 30, 2023, the par amount of the liability on Consolidated Obligations transferred to the FHLB totaled (in thousands) \$250,000. The net discount associated with this transaction was immaterial. There were no Consolidated Obligations transferred to the FHLB during the nine months ended September 30, 2022. The FHLB had no Consolidated Obligations transferred to other FHLBanks during these periods.

Note 15 - Transactions with Stockholders

As a cooperative, the FHLB's capital stock is owned by its members, by former members that retain the stock as provided in the FHLB's Capital Plan and by nonmember institutions that have acquired members and must retain the stock to support Advances or other capital-requiring activities with the FHLB. All Advances were issued to members and all mortgage loans held for portfolio were purchased from members during the nine months ended September 30, 2023 and 2022. The FHLB also maintains demand deposit accounts for members, primarily to facilitate settlement activities that are directly related to Advances and mortgage loan purchases. Additionally, the FHLB may enter into interest rate swaps with its stockholders. The FHLB may not invest in any equity securities issued by its stockholders. At September 30, 2023 and December 31, 2022, the FHLB did not own any MBS securitized by, or other investment securities issued by, its stockholders.

For financial statement purposes, the FHLB defines related parties as those members with more than 10 percent of the voting interests of the FHLB capital stock outstanding. Federal statute prescribes the voting rights of members in the election of both Member and Independent directors. For Member directorships, the Finance Agency designates the number of Member directorships in a given year and an eligible voting member may vote only for candidates seeking election in its respective state. For Independent directors, the FHLB's Board of Directors nominates candidates to be placed on the ballot in an at-large election. For both Member and Independent director elections, a member is entitled to vote one share of required capital stock, subject to a statutory limitation, for each applicable directorship. Under this limitation, the total number of votes that a member may cast is limited to the average number of shares of the FHLB's capital stock that were required to be held by all members in that state as of the record date for voting. Nonmember stockholders are not eligible to vote in director elections. Given these statutory limitations, no member owned more than 10 percent of the voting interests of the FHLB at September 30, 2023 or December 31, 2022.

All transactions with stockholders are entered into in the ordinary course of business. Finance Agency regulations require the FHLB to offer the same pricing for Advances and other services to all members regardless of asset or transaction size, charter type, or geographic location. However, the FHLB may, in pricing its Advances, distinguish among members based upon its assessment of the credit and other risks to the FHLB of lending to any particular member or upon other reasonable criteria that may be applied equally to all members. The FHLB's policies and procedures require that such standards and criteria be applied consistently and without discrimination to all members applying for Advances and other services.

Transactions with Directors' Financial Institutions. In the ordinary course of its business, the FHLB provides products and services to members whose officers or directors serve as directors of the FHLB (Directors' Financial Institutions). Finance Agency regulations require that transactions with Directors' Financial Institutions be made on the same terms as those with any other member. The following table reflects balances with Directors' Financial Institutions for the items indicated below. The FHLB had no MBS or derivatives transactions with Directors' Financial Institutions at September 30, 2023 or December 31, 2022.

Table 15.1 - Transactions with Directors' Financial Institutions (dollars in millions)

	September 30, 2023		December 31, 2022	
	Balance	% of Total ⁽¹⁾	Balance	% of Total ⁽¹⁾
Advances	\$ 3,460	4.9 %	\$ 22,009	32.6 %
MPP	47	0.7	56	0.8
Regulatory capital stock	212	4.7	1,501	29.0

(1) Percentage of total principal (Advances), unpaid principal balance (MPP), and regulatory capital stock.

Concentrations. The following table shows regulatory capital stock balances, outstanding Advance principal balances, and unpaid principal balances of mortgage loans held for portfolio of stockholders holding five percent or more of regulatory capital stock and includes any known affiliates that are members of the FHLB.

Table 15.2 - Stockholders Holding Five Percent or more of Regulatory Capital Stock (dollars in millions)

<u>September 30, 2023</u>	Regulatory Capital Stock		Advance Principal	MPP Unpaid Principal Balance
	Balance	% of Total		
U.S. Bank, N.A.	\$ 706	15 %	\$ 11,000	\$ 7
Keybank, N.A.	657	14	11,337	—
JPMorgan Chase Bank, N.A.	313	7	6,000	—
Fifth Third Bank	280	6	5,751	—
Third Federal Savings and Loan Association	247	5	5,251	23

<u>December 31, 2022</u>	Regulatory Capital Stock		Advance Principal	MPP Unpaid Principal Balance
	Balance	% of Total		
U.S. Bank, N.A.	\$ 1,293	25 %	\$ 19,000	\$ 8
Keybank, N.A.	670	13	11,344	—
Fifth Third Bank	381	7	4,301	—
The Huntington National Bank	303	6	1,702	348

Nonmember Housing Associates. The FHLB has relationships with three nonmember housing associates, the Kentucky Housing Corporation, the Ohio Housing Finance Agency and the Tennessee Housing Development Agency. The FHLB had no investments in or borrowings to any of these nonmember housing associates at September 30, 2023 or December 31, 2022.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report contains forward-looking statements that describe the objectives, expectations, estimates, and assessments of the Federal Home Loan Bank of Cincinnati (the FHLB). These statements use words such as “anticipates,” “expects,” “believes,” “could,” “estimates,” “may,” and “should.” By their nature, forward-looking statements relate to matters involving risks or uncertainties, including the risk factors set forth in Part I, Item 1A. “Risk Factors” in our 2022 Annual Report on Form 10-K, some of which we may not be able to know, control, or completely manage. Actual future results could differ materially from those expressed or implied in forward-looking statements or could affect the extent to which we are able to realize an objective, expectation, estimate, or assessment. Some of the risks and uncertainties that could affect our forward-looking statements include the following:

- the effects of economic, financial, credit, market, and member conditions on our financial condition and results of operations, including changes in economic growth, general liquidity conditions, inflation and deflation, interest rates, interest rate spreads, interest rate volatility, mortgage originations, prepayment activity, housing prices, asset delinquencies, and members' mergers and consolidations, deposit flows, liquidity needs, and loan demand;
- political, national, or world events, including acts of war, civil unrest, terrorism, natural disasters, climate change, pandemics, or other catastrophic events, and legislative, regulatory, government, judicial or other developments that

could affect us, our members, our counterparties, other Federal Home Loan Banks (FHLBanks) and other government-sponsored enterprises (GSEs), and/or investors in the Federal Home Loan Bank System's (FHLBank System) unsecured debt securities, which are called Consolidated Obligations or Obligations;

- competitive forces, including those related to other sources of funding available to members, to purchases of mortgage loans, and to our issuance of Consolidated Obligations;
- the financial results and actions of other FHLBanks that could affect our ability, in relation to the FHLBank System's joint and several liability for Consolidated Obligations, to access the capital markets on acceptable terms or preserve our profitability, or could alter the regulations and legislation to which we are subject;
- changes in ratings assigned to FHLBank System Obligations or the FHLB;
- changes in investor demand for Obligations;
- the volatility of market prices, interest rates, credit quality, and other indices that could affect the value of investments and collateral we hold as security for member obligations and/or for counterparty obligations;
- the ability to attract and retain skilled management and other key employees;
- the ability to develop, secure and support technology and information systems that help effectively manage the risks we face (including cybersecurity risks);
- the risk of loss arising from failures or interruptions in our ongoing business operations, internal controls, information systems or other operating technologies;
- the ability to successfully manage new products and services; and
- the risk of loss arising from litigation filed against us or one or more other FHLBanks.

We do not undertake any obligation to update any forward-looking statements made in this report.

EXECUTIVE OVERVIEW

Recent Developments

Business Environment

During the first nine months of 2023, concerns about inflation, uncertainties regarding the U.S. government's debt ceiling, the health of the banking industry following significant deposit outflows experienced by several U.S. banks, and interest rate hikes by the Federal Reserve were dominant themes causing market stress and volatility. Throughout these challenges, we have continued to deliver on our dual mission of providing access to critical liquidity funding to member financial institutions and expanding support for affordable housing and community investment. Although some of the challenges experienced in the first nine months of 2023 have subsided, we continue to monitor the changing economic landscape and are committed to assisting members in meeting their funding needs.

In the first nine months of 2023, we affirmed our commitment to affordable housing by approving voluntary housing contributions of \$15 million given our strong earnings. These funds are in addition to the required AHP contributions and were allocated as follows:

- The Carol M. Peterson (CMP) Housing Fund received contributions of \$7 million to provide grants to cover accessibility rehabilitation and emergency repairs for special needs and elderly homeowners within the Fifth District.
- The Welcome Home program was funded with \$7 million of voluntary housing contributions in the first nine months of 2023 to assist homebuyers with down payments and closing costs.
- The Disaster Reconstruction Program disbursed nearly \$1 million for the replacement or repair of homes damaged or destroyed by natural disasters within the Fifth District.

Our capital and liquidity positions continue to remain strong, as has our overall ability to fund operations through the issuance of Consolidated Obligations at acceptable interest costs. Additionally, overall residual credit risk exposure from our Credit Services, mortgage loan portfolio, investments, and derivative transactions has remained de minimis. Likewise, our market risk measures continue to be within our risk appetite.

Financial Condition

Mission Assets and Activities

Primary Mission Assets (i.e., principal balances of Advances and mortgage loans held for portfolio) and Supplemental Mission Activities (i.e., Letters of Credit, Mandatory Delivery Contracts and standby bond purchase agreements) are the principal business activities by which we fulfill our mission with direct connections to members and what we refer to as Mission Assets and Activities. We regularly monitor our level of Mission Assets and Activities. One measure we use to assess mission achievement is our Primary Mission Asset ratio, which measures the sum of average Advances and mortgage loans as a percentage of average Consolidated Obligations (adjusted for certain high-quality liquid assets, as permitted by regulation). In the first nine months of 2023, the Primary Mission Asset ratio averaged 77 percent, above the Finance Agency's preferred ratio of 70 percent. In assessing overall mission achievement, we also consider supplemental sources of Mission Assets and Activities, the most significant of which is Letters of Credit issued for the benefit of members.

The following table summarizes our Mission Assets and Activities.

(In millions)	Ending Balances			Average Balances		
	September 30,		December 31,	Nine Months Ended		Year Ended
	2023	2022	2022	September 30,	2022	December 31,
	2023	2022	2022	2023	2022	2022
Primary Mission Assets ⁽¹⁾:						
Advances	\$ 70,426	\$ 60,181	\$ 67,428	\$ 87,138	\$ 47,043	\$ 52,367
Mortgage loans held for portfolio	6,927	7,133	7,006	6,907	7,325	7,263
Total Primary Mission Assets	<u>\$ 77,353</u>	<u>\$ 67,314</u>	<u>\$ 74,434</u>	<u>\$ 94,045</u>	<u>\$ 54,368</u>	<u>\$ 59,630</u>
Supplemental Mission Activities ⁽²⁾:						
Letters of Credit (notional)	\$ 45,367	\$ 39,002	\$ 41,345	\$ 43,005	\$ 35,957	\$ 36,887
Mandatory Delivery Contracts (notional)	68	22	14	46	54	45
Standby bond purchase agreements (notional)	—	11	11	2	16	15
Total Supplemental Mission Activities	<u>\$ 45,435</u>	<u>\$ 39,035</u>	<u>\$ 41,370</u>	<u>\$ 43,053</u>	<u>\$ 36,027</u>	<u>\$ 36,947</u>

(1) Amounts represent principal balances.

(2) Amounts represent off-balance sheet commitments.

Advance principal balances increased \$3.0 billion (four percent) from year-end 2022. Additionally, average principal Advance balances for the nine months ended September 30, 2023 increased \$40.1 billion (85 percent) compared to the same period of 2022. Advances increased substantially over the course of 2022 and have remained elevated in the first nine months of 2023 driven by depository members' demand for liquidity due to such factors as declining deposit balances, loan growth and the effects of higher interest rates. Average Advance balances were significantly higher as member demand increased in March 2023 in response to the turmoil in the banking industry and financial markets. Most of these Advances had matured or were prepaid by the end of the third quarter of 2023.

Advance balances are often volatile given our members' ability to quickly, normally on the same day, increase or decrease the amount of their Advances. We believe that a key benefit of membership comes from our business model as a wholesale lender GSE, which provides members flexibility in their Advance funding levels and helps support their asset-liability management needs. We act as a reliable source of funding for our members. Our business model is designed to support significant changes in asset levels without having to undergo material changes in staffing, operations, risk practices, or general resource needs. A key reason for this scalability is that our Capital Plan provides for additional capital when Advances grow and the opportunity for us to retire capital when Advances decline, thereby acting to preserve competitive profitability.

The MPP principal balance declined \$0.1 billion (one percent) from the year-end 2022 balance. During the first nine months of 2023, we purchased \$0.4 billion of mortgage loans, while principal reductions were \$0.5 billion. Principal reductions in the first nine months of 2023 trended lower than the reductions in 2022, due in large part to the elevated mortgage rate environment.

Letters of Credit increased \$4.0 billion (10 percent) from year-end 2022. Letters of Credit balances are primarily used by members to secure public unit deposits. We normally earn fees on Letters of Credit based on the actual average amount of the Letters utilized, which generally is less than the notional amount issued.

Investments

The balance of investments at September 30, 2023 was \$40.8 billion, an increase of \$7.2 billion (21 percent) from year-end 2022. At September 30, 2023, investments included \$19.1 billion of mortgage-backed securities (MBS) and \$21.7 billion of other investments, which consisted primarily of short-term instruments and longer-term U.S. Treasury and GSE obligations held for liquidity. All of our MBS held at September 30, 2023 were issued and guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. The increase in investments was primarily driven by higher liquidity investments. We held more liquidity investments at the end of the third quarter of 2023 to support members' Advance demand, which was somewhat volatile. Liquidity investments can vary significantly on a daily basis during times of volatility in Advance balances. We maintained a robust amount of asset liquidity throughout the first nine months of 2023 across a variety of liquidity measures, as discussed in the "Liquidity Risk" section of "Quantitative and Qualitative Disclosures About Risk Management."

Investments averaged \$44.6 billion in the first nine months of 2023, an increase of \$7.2 billion (19 percent) compared to the average during the same period of 2022, which was primarily driven by higher MBS. We target to hold MBS balances near the regulatory maximum of three times regulatory capital. As a result, we purchased over \$3.9 billion of MBS in the first nine months of 2023.

Capital

The GAAP and regulatory capital-to-assets ratios at September 30, 2023 were 5.15 percent and 5.21 percent, respectively. Both ratios exceeded the regulatory required minimum of four percent. Regulatory capital includes mandatorily redeemable capital stock accounted for as a liability under GAAP. Both GAAP and regulatory capital decreased \$0.4 billion from year-end 2022. The decrease in capital was driven by \$4.2 billion of repurchases of excess capital stock. We repurchased a significant amount of excess capital stock because most of the Advances borrowed in response to the turmoil in the banking industry and financial markets had matured or were prepaid by the end of the third quarter of 2023. Retained earnings totaled \$1.6 billion at September 30, 2023, an increase of 16 percent from year-end 2022. We believe the amount of retained earnings is sufficient to protect against members' impairment risk of their capital stock investment in the FHLB and to provide the opportunity to stabilize or increase future dividends.

Results of Operations

Overall Results

Our earnings over time reflect the combination of a stable business model and conservative management of risk. Key market driven factors that can cause significant periodic volatility in our profitability include changes in the level of interest rates, changes in spreads between benchmark interest rates and our short-term funding costs, recognition of net amortization from accelerated prepayments of mortgage assets, and fair value adjustments related to the use of derivatives and the associated hedged items. Our profitability may also be affected by our members' overall Advance demand, which is largely influenced by the monetary policies of the U.S. government and its agencies, including the Federal Reserve, and general economic conditions. The table below summarizes our results of operations.

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2023	2022	2023	2022	2022
Net income	\$ 170	\$ 91	\$ 515	\$ 148	\$ 252
Affordable Housing Program assessments	19	10	57	17	29
Return on average equity (ROE)	10.16 %	6.43 %	9.73 %	3.99 %	4.78 %
Return on average assets	0.52	0.32	0.49	0.21	0.25
Weighted average dividend rate	8.00	5.00	7.18	3.50	4.31
Dividend payout ratio ⁽¹⁾	78.5	48.2	57.6	53.6	57.1
Average overnight interest rates ⁽²⁾	5.25	2.16	4.91	1.01	1.67
ROE spread to average overnight interest rates	4.91	4.27	4.82	2.98	3.11
Dividend rate spread to average overnight interest rates	2.75	2.84	2.27	2.49	2.64

(1) Dividend payout ratio is dividends declared in the period as a percentage of net income.

(2) Average overnight interest rates consist of the Secured Overnight Financing Rate (SOFR) and the Federal funds effective rate.

Net income increased \$79 million in the three-months comparison and \$367 million in the nine-months comparison. The increases in net income were primarily a result of significantly higher interest rates and average Advance balances. In particular, during the three and nine months ended September 30, 2023, higher average interest rates increased the earnings generated from investing the FHLB's capital and contributed to improved spreads earned on mortgage loans held for portfolio. Average Advance balances were higher in both comparisons in part from depository members' greater demand for liquidity. Additionally, average Advance balances in the year-to-date comparison were significantly higher as member demand increased in March 2023 given the turmoil in the banking industry and financial markets. Most of these Advances have matured or were prepaid by the end of the third quarter of 2023. The increase in net income in the nine-months comparison was also driven by higher non-interest income as changes in net unrealized market values on interest rate swaps and related financial instruments carried at fair value improved earnings by approximately \$31 million.

In the first nine months of 2023, we accrued \$57 million for the AHP available to members. In addition to the required AHP assessment, we may elect to make voluntary contributions to our AHP or other community investment programs. For example, we approved voluntary housing contributions of \$15 million in the first nine months of 2023.

In September 2023, we paid stockholders a quarterly dividend at an 8.00 percent annualized rate on their capital investment in our company, which was 2.75 percentage points above third quarter average overnight interest rates.

Effect of Interest Rate Environment

Trends in market interest rates and the resulting shapes of the market yield curves strongly influence our results of operations and profitability because of how they affect members' demand for Mission Assets and Activities, spreads on assets, funding costs and decisions in managing the tradeoffs in our market risk/return profile. The following table presents key market interest rates (obtained from Bloomberg L.P.).

	Nine Months Ended September 30,									
	Quarter 3 2023		Quarter 2 2023		Quarter 1 2023		2023	2022	Year 2022	
	Ending	Average	Ending	Average	Ending	Average	Average	Average	Ending	Average
Federal funds effective	5.33 %	5.26 %	5.08 %	4.99 %	4.83 %	4.51 %	4.92 %	1.03 %	4.33 %	1.69 %
SOFR	5.31	5.23	5.09	4.97	4.87	4.49	4.90	0.98	4.30	1.65
2-year U.S. Treasury	5.05	4.93	4.90	4.28	4.03	4.36	4.53	2.51	4.43	2.98
10-year U.S. Treasury	4.57	4.14	3.84	3.60	3.47	3.65	3.80	2.65	3.88	2.95
15-year mortgage current coupon ⁽¹⁾	5.85	5.47	5.25	4.84	4.53	4.54	4.95	3.20	4.71	3.60
30-year mortgage current coupon ⁽¹⁾	6.36	5.92	5.63	5.32	5.05	5.17	5.47	3.85	5.39	4.25

(1) Current coupon rate of Fannie Mae par MBS indications.

At September 30, 2023, the target overnight Federal funds rate was in the range of 5.25 to 5.50 percent, a significant increase from the range of 3.00 to 3.25 percent at September 30, 2022.

Average overnight rates were approximately 390 basis points higher in the first nine months of 2023 compared to the same period of 2022, while average mortgage rates increased approximately 165 basis points. The increase in short-term rates improved our earnings from capital by \$206 million in the first nine months of 2023. Additionally, the substantial increase in average rates in the first nine months of 2023 compared to the same period of 2022 benefited net income as it improved the spreads earned on our mortgage loans held for portfolio.

During the first nine months of 2023 and throughout 2022, the market risk exposure to changing interest rates was moderate and within policy limits. We believe that longer-term profitability will be competitive, unless interest rates were to further increase significantly for a sustained period of time.

Regulatory and Legislative Developments

Significant regulatory and legislative actions and developments for the period covered by this Report not previously disclosed are summarized below.

Finance Agency's Review and Analysis of the FHLBank System

Beginning in the fall of 2022, and over a period of several months, the Finance Agency undertook a review and analysis of the FHLBank System, through a series of public listening sessions, regional roundtable discussions, and receipt of comments from stakeholders. This review covered such areas as the FHLBanks' mission and purpose in a changing marketplace; their organization, operational efficiency, and effectiveness; their role in promoting affordable, sustainable, equitable, and resilient housing and community investment; their role in addressing the unique needs of rural and financially vulnerable communities; member products, services, and collateral requirements; and membership eligibility and requirements. The review and analysis culminated in a written report that the Finance Agency released on November 7, 2023. To the extent the report ultimately results in changes to supervisory expectations, stakeholder perceptions and/or our business model that impact the ability to execute on our mission of providing liquidity to members and support for affordable housing and community development, our business, results of operations, reputation, and the value of membership may be negatively impacted. For a further discussion of related risks, see Part I, Item 1A. "Risk Factors" in our 2022 Annual Report on Form 10-K.

ANALYSIS OF FINANCIAL CONDITION

Credit Services

Credit Activity and Advance Composition

The table below shows trends in Advance balances by major programs and in the notional amount of Letters of Credit.

(Dollars in millions)	September 30, 2023		December 31, 2022	
	Balance	Percent ⁽¹⁾	Balance	Percent ⁽¹⁾
Adjustable/Variable-Rate Indexed:				
LIBOR	\$ —	— %	\$ 3,012	4 %
SOFR	24,163	34	10,170	15
Other	9,064	13	2,785	4
Total	33,227	47	15,967	23
Fixed-Rate:				
Repurchase based (REPO)	10,843	15	26,436	39
Regular Fixed-Rate	21,721	31	19,505	29
Putable ⁽²⁾	445	1	1,020	2
Amortizing/Mortgage Matched	1,264	2	1,358	2
Other	2,925	4	3,142	5
Total	37,198	53	51,461	77
Other Advances	1	—	—	—
Total Advances Principal	\$ 70,426	100 %	\$ 67,428	100 %
Letters of Credit (notional) ⁽³⁾	\$ 45,367		\$ 41,345	

(1) As a percentage of total Advances principal.

(2) Excludes Putable Advances where the related put options have expired or where the Advance is indexed to a variable-rate. These Advances are classified based on their current terms.

(3) Represents the amount of an off-balance sheet commitment.

Advance principal balances at September 30, 2023 increased four percent compared to year-end 2022. The increase in Advances resulted primarily from depository members' greater demand for liquidity due to such factors as declining deposit balances, loan growth and the effects of higher interest rates. Although Advance balances have increased, some of the demand has been for short-term Advances, which are often volatile as members' funding needs may change quickly. The future levels of Advance balances are difficult to predict and depend on many factors, including but not limited to, changes in the level of liquidity in the financial markets, changes in our members' deposit levels compared to loan growth and whether an economic downturn occurs.

Letters of Credit are issued on behalf of members to support certain obligations of members (or members' customers) to third-party beneficiaries. Letters of Credit increased \$4.0 billion (10 percent) in the first nine months of 2023 as members continue to use them primarily to secure higher levels of public unit deposits. Letters of Credit usually expire without being drawn upon.

The following tables present principal balances for the five members with the largest Advance borrowings.

(Dollars in millions)

September 30, 2023			December 31, 2022		
Name	Principal Amount of Advances	Percent of Total Principal Amount of Advances	Name	Principal Amount of Advances	Percent of Total Principal Amount of Advances
Keybank, N.A.	\$ 11,337	16 %	U.S. Bank, N.A.	\$ 19,000	28 %
U.S. Bank, N.A.	11,000	16	Keybank, N.A.	11,344	17
JPMorgan Chase Bank, N.A.	6,000	9	Third Federal Savings and Loan Association	4,826	7
Fifth Third Bank	5,751	8	Fifth Third Bank	4,301	6
Third Federal Savings and Loan Association	5,251	7	Nationwide Life Insurance Company	3,136	5
Total of Top 5	<u>\$ 39,339</u>	<u>56 %</u>	Total of Top 5	<u>\$ 42,607</u>	<u>63 %</u>

Mortgage Loans Held for Portfolio (Mortgage Purchase Program, or MPP)

MPP balances are influenced by conditions in the housing and mortgage markets, the competitiveness of prices we offer to purchase loans, as well as program features and activity from our largest sellers. We manage purchases and balances at a prudent level relative to capital and total assets to effectively manage market and credit risks consistent with our risk appetite.

The table below shows principal purchases and reductions of loans in the MPP for the first nine months of 2023. All loans acquired in the first nine months of 2023 were conventional loans.

(In millions)

	MPP Principal
Balance, December 31, 2022	\$ 7,006
Principal purchases	383
Principal reductions	(462)
Balance, September 30, 2023	<u>\$ 6,927</u>

We closely track the refinancing incentives of our mortgage assets (including loans in the MPP and MBS) because the option for homeowners to change their principal payments normally represents the largest portion of our market risk exposure and can affect MPP balances. MPP principal paydowns decreased in the first nine months of 2023 to a five percent annual constant prepayment rate, compared to the 11 percent rate during 2022, driven by the elevated mortgage rate environment that has persisted over the last several quarters. Likewise, elevated mortgage rates and low housing inventories have substantially eliminated any borrower incentive to refinance and have slowed mortgage purchase originations, which in turn has continued the slow pace of our purchases of new MPP loans in the first nine months of 2023.

Overall, MPP yields on new purchases and existing portfolio balances, relative to their market and credit risks, are expected to continue to generate a profitable long-term return.

Investments

The table below presents the ending and average balances of our investment portfolio.

(In millions)	Nine Months Ended September 30, 2023		Year Ended December 31, 2022	
	Ending Balance	Average Balance	Ending Balance	Average Balance
Liquidity investments	\$ 21,675	\$ 26,187	\$ 17,028	\$ 24,608
MBS	19,138	17,774	16,577	13,678
Other investments ⁽¹⁾	—	645	—	444
Total investments	<u>\$ 40,813</u>	<u>\$ 44,606</u>	<u>\$ 33,605</u>	<u>\$ 38,730</u>

(1) The average balance includes the rights or obligations to cash collateral, which are included in the fair value of derivative assets or derivative liabilities on the Statements of Condition at period end.

Liquidity investments are either short-term (primarily overnight), or longer-term investments that may be sold and converted to cash. Under our regulatory requirements, liquidity includes certain high-quality liquid assets, which are defined as uncommitted U.S. Treasury obligations with remaining maturities of 10 years or less held as trading securities or available-for-sale securities. It is normal for liquidity investments to vary by up to several billion dollars on a daily basis. Liquidity investment levels can vary significantly based on changes in the amount of actual Advances, anticipated demand for Advances, regulatory liquidity requirements, the availability of acceptable net spreads, and the number of eligible counterparties that meet our unsecured credit risk criteria. The ending balance of liquidity investments at September 30, 2023 increased \$4.6 billion (27 percent) compared to year-end 2022 primarily because of the increased level and volatility of Advance demand.

Our overarching strategy for balances of MBS is to keep holdings as close as possible to the regulatory maximum. Finance Agency regulations prohibit us from purchasing MBS if our investment in these securities exceeds three times regulatory capital on the day we intend to purchase the securities. The ratio of MBS to regulatory capital was 3.16 at September 30, 2023, which exceeded the current regulatory limit due to stock repurchases that occurred during the quarter. We may exceed this regulatory maximum from time-to-time due to capital reductions. In these cases, new purchases will be postponed until the ratio falls below the regulatory limit.

The balance of MBS at September 30, 2023 consisted of \$18.0 billion of securities issued by Fannie Mae or Freddie Mac (of which \$13.1 billion were floating-rate securities), and \$1.1 billion of securities issued by Ginnie Mae (which are primarily fixed rate).

The table below shows principal purchases and paydowns of our MBS for the first nine months of 2023.

(In millions)	MBS Principal
Balance at December 31, 2022	\$ 16,798
Principal purchases	3,945
Principal paydowns	(1,274)
Balance at September 30, 2023	<u>\$ 19,469</u>

As mortgage rates remained elevated in the first nine months of 2023, MBS principal paydowns decreased to a nine percent annual constant prepayment rate from the 12 percent rate experienced in all of 2022.

Consolidated Obligations

We generally fund variable-rate assets with Discount Notes (a portion of which may be swapped), adjustable-rate Bonds, and swapped fixed-rate Bonds because they give us the ability to effectively match the underlying rate reset periods embedded in these assets. The balances and composition of our Consolidated Obligations tend to fluctuate with changes in the balances and composition of our assets. In addition, changes in the amount and composition of our funding may be necessary from time to time to meet the days of positive liquidity and asset/liability maturity funding gap requirements discussed in the "Liquidity Risk" section of "Quantitative and Qualitative Disclosures About Risk Management."

The table below presents the ending and average balances of our participations in Consolidated Obligations.

(In millions)	Nine Months Ended September 30, 2023		Year Ended December 31, 2022	
	Ending Balance	Average Balance	Ending Balance	Average Balance
Discount Notes:				
Unswapped	\$ 16,166	\$ 28,609	\$ 19,825	\$ 24,931
Swapped	8,318	20,781	21,183	21,692
Total par Discount Notes	24,484	49,390	41,008	46,623
Other items ⁽¹⁾	(187)	(506)	(317)	(173)
Total Discount Notes	24,297	48,884	40,691	46,450
Bonds:				
Unswapped fixed-rate	11,861	12,339	13,280	14,078
Unswapped adjustable-rate ⁽²⁾	53,739	53,729	39,621	22,834
Swapped fixed-rate	20,221	14,670	6,842	7,062
Total par Bonds	85,821	80,738	59,743	43,974
Other items ⁽¹⁾	237	43	(75)	(34)
Total Bonds	86,058	80,781	59,668	43,940
Total Consolidated Obligations ⁽³⁾	<u>\$ 110,355</u>	<u>\$ 129,665</u>	<u>\$ 100,359</u>	<u>\$ 90,390</u>

(1) Includes unamortized premiums/discounts, fair value option valuation adjustments, hedging and other basis adjustments.

(2) At September 30, 2023 and December 31, 2022, all unswapped adjustable-rate Bonds were indexed to SOFR.

(3) The 11 FHLBanks have joint and several liability for the par amount of all of the Consolidated Obligations issued on their behalves. The par amount of the outstanding Consolidated Obligations for all of the FHLBanks was (in millions) \$1,229,875 and \$1,181,743 at September 30, 2023 and December 31, 2022, respectively.

During the first nine months of 2023, the composition of Consolidated Obligations shifted away from Discount Notes to unswapped adjustable-rate Bonds as members began borrowing more longer-term, floating rate Advances. The ending balance of Discount Notes at September 30, 2023 decreased because most of the short-term Advances borrowed in March 2023 in response to the turmoil in the banking industry and financial markets had matured or were prepaid.

The ending and average balances of swapped fixed-rate Bonds at September 30, 2023 increased as the market environment during the first nine months of 2023 generally favored swapped debt. We swap term Discount Notes and fixed-rate Bonds to adjustable-rates in order to effectively match the underlying rate reset periods to the assets the Discount Notes and Bonds are funding.

Deposits

Total deposits with us are normally a relatively minor source of funding. All deposits with us are uninsured. Total interest-bearing deposits at September 30, 2023 were \$1.2 billion, an increase of \$0.2 billion compared to the balance at year-end 2022.

Derivatives Hedging Activity and Liquidity

Our use of derivatives is discussed in the "Effect of the Use of Derivatives on Net Interest Income" and "Non-Interest Income (Loss)" sections in "Results of Operations." Liquidity is discussed in the "Liquidity Risk" section in "Quantitative and Qualitative Disclosures About Risk Management."

Capital Resources

The following tables present capital amounts and capital-to-assets ratios, on both a GAAP and regulatory basis. We consider the regulatory ratio to be a better representation of financial leverage than the GAAP ratio because, although the GAAP ratio treats mandatorily redeemable capital stock as a liability, it protects investors in our debt in the same manner as GAAP capital stock and retained earnings.

(In millions)	Nine Months Ended		Year Ended	
	September 30, 2023		December 31, 2022	
	Period End	Average	Period End	Average
<u>GAAP and Regulatory Capital</u>				
GAAP Capital Stock	\$ 4,535	\$ 5,566	\$ 5,151	\$ 3,961
Mandatorily Redeemable Capital Stock	19	40	17	115
Regulatory Capital Stock	4,554	5,606	5,168	4,076
Retained Earnings	1,619	1,551	1,401	1,339
Regulatory Capital	<u>\$ 6,173</u>	<u>\$ 7,157</u>	<u>\$ 6,569</u>	<u>\$ 5,415</u>
	Nine Months Ended		Year Ended	
	September 30, 2023		December 31, 2022	
	Period End	Average	Period End	Average
<u>GAAP and Regulatory Capital-to-Assets Ratio</u>				
GAAP	5.15 %	5.06 %	5.99 %	5.33 %
Regulatory ⁽¹⁾	5.21	5.12	6.05	5.47

(1) At all times, the FHLB must maintain at least a four percent minimum regulatory capital-to-assets ratio.

Our business model is structured to be able to absorb sharp changes in assets because we can execute commensurate changes in liability and capital stock balances. For example, in the first nine months of 2023, we issued \$4.2 billion of capital stock to members primarily in support of Advance borrowings, while repurchasing \$4.2 billion of excess capital stock no longer supporting Mission Assets and Activities.

Excess capital stock is the amount of stock held by a member (or former member) in excess of that institution's minimum stock ownership requirement. Excess capital stock provides a base of capital to manage financial leverage at prudent levels, augments loss protections for bondholders, and may be used by a member to capitalize additional Mission Assets and Activities, before purchasing activity stock. At September 30, 2023, the amount of excess stock, as defined by our Capital Plan, was \$0.4 billion, a decrease of \$0.8 billion compared to the balance at year-end 2022 due to the repurchase of excess stock noted above.

See the "Capital Adequacy" section in "Quantitative and Qualitative Disclosures About Risk Management" for discussion of our retained earnings.

RESULTS OF OPERATIONS

Components of Earnings and Return on Equity

The following table is a summary income statement for the three and nine months ended September 30, 2023 and 2022. Each ROE percentage is computed by dividing income or expense for the category by the average amount of stockholders' equity for the period.

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Amount	ROE ⁽¹⁾	Amount	ROE ⁽¹⁾	Amount	ROE ⁽¹⁾	Amount	ROE ⁽¹⁾
Net interest income	\$ 222	13.30 %	\$ 141	10.03 %	\$ 649	12.27 %	\$ 294	7.94 %
Non-interest income (loss):								
Net gains (losses) on investment securities	(37)	(2.25)	(89)	(6.33)	(39)	(0.73)	(337)	(9.12)
Net gains (losses) on derivatives	48	2.87	26	1.89	36	0.67	144	3.89
Net gains (losses) on financial instruments held under fair value option	(24)	(1.44)	42	2.96	2	0.03	121	3.28
Other non-interest income, net	8	0.48	7	0.48	22	0.42	21	0.56
Total non-interest income (loss)	(5)	(0.34)	(14)	(1.00)	21	0.39	(51)	(1.39)
Total income	217	12.96	127	9.03	670	12.66	243	6.55
Non-interest expense	28	1.66	26	1.87	98	1.85	78	2.11
Affordable Housing Program assessments	19	1.14	10	0.73	57	1.08	17	0.45
Net income	<u>\$ 170</u>	<u>10.16 %</u>	<u>\$ 91</u>	<u>6.43 %</u>	<u>\$ 515</u>	<u>9.73 %</u>	<u>\$ 148</u>	<u>3.99 %</u>

(1) The ROE amounts have been computed using dollars in thousands. Accordingly, recalculations based upon the disclosed amounts in millions may produce nominally different results.

Details on the individual factors contributing to the level and changes in profitability are explained in the sections below.

Net Interest Income

Components of Net Interest Income

The following table shows selected components of net interest income.

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
	Amount	% of Earning Assets	Amount	% of Earning Assets	Amount	% of Earning Assets	Amount	% of Earning Assets
Components of net interest rate spread:								
Net (amortization)/accretion ⁽¹⁾⁽²⁾	\$ (5)	(0.02)%	\$ (7)	(0.02)%	\$ (17)	(0.02)%	\$ (25)	(0.04)%
Prepayment fees on Advances, net ⁽²⁾	1	0.01	—	—	3	—	3	0.01
Other components of net interest rate spread	138	0.43	111	0.40	398	0.39	257	0.37
Total net interest rate spread	134	0.42	104	0.38	384	0.37	235	0.34
Earnings from funding assets with interest-free capital	88	0.27	37	0.12	265	0.26	59	0.09
Total net interest income/net interest margin ⁽³⁾	<u>\$ 222</u>	<u>0.69 %</u>	<u>\$ 141</u>	<u>0.50 %</u>	<u>\$ 649</u>	<u>0.63 %</u>	<u>\$ 294</u>	<u>0.43 %</u>

- (1) Includes monthly recognition of premiums and discounts paid on purchases of mortgage assets, premiums, discounts and concessions paid on Consolidated Obligations and other hedging basis adjustments.
- (2) This component of net interest rate spread has been segregated to display its relative impact.
- (3) Net interest margin is net interest income as a percentage of average total interest-earning assets.

Net Amortization/Accretion (generally referred to as "amortization"): Net amortization can become substantial and volatile with changes in interest rates. When mortgage rates decrease, premium amortization of mortgage assets generally increases, which reduces net interest income. However, in the three and nine months ended September 30, 2023, mortgage rates remained elevated, keeping mortgage refinance activity along with net amortization low.

Prepayment Fees on Advances: Fees for members' early repayment of certain Advances, which are included in net interest income, are designed to make us economically indifferent to whether members hold Advances to maturity or repay them before maturity. Advance prepayment fees were minimal in the three and nine months ended September 30, 2023 and 2022.

Other Components of Net Interest Rate Spread: The total other components of net interest rate spread increased \$27 million and \$141 million in the three- and nine-months comparisons, respectively. The net increases were primarily due to the factors below.

Nine-Months Comparison

- **Higher average Advance balances-Favorable:** The \$39.8 billion increase in the average balance of Advances improved net interest income by an estimated \$115 million.
- **Higher spreads earned on mortgage loans held for portfolio-Favorable:** Higher spreads on mortgage loans held for portfolio increased net interest income by an estimated \$66 million. Spreads improved primarily because of the rise in interest rates.
- **Higher spreads earned on Advances-Favorable:** Net interest income earned on Advances increased by an estimated \$21 million primarily driven by a shift in the composition of Advance balances from overnight to longer-term, floating rate, Advance products.
- **Higher spreads earned on MBS-Favorable:** Higher spreads earned on MBS increased net interest income by an estimated \$21 million. The higher spreads were driven by widening market spreads, which benefited new MBS purchases.
- **Higher average MBS balances-Favorable:** Increases of \$5.1 billion in average MBS improved net interest income by an estimated \$13 million.
- **Lower spreads earned on liquidity investments-Unfavorable:** Lower spreads earned on liquidity investments decreased net interest income by an estimated \$91 million. However, the decrease in net interest income was partially

offset by a decline in the net interest settlements paid on related derivatives not receiving hedge accounting, as discussed below.

- **Lower net unrealized gains on designated fair value hedges-Unfavorable:** Net unrealized gains on hedged items and derivatives in qualifying fair value hedge relationships were lower by \$5 million.

Three-Months Comparison

The same factors generally affected the other components of net interest rate spread as in the nine-months comparison.

Earnings from Capital: Earnings from capital increased \$51 million and \$206 million in the three- and nine-months comparisons, respectively, because of the significantly higher average short-term interest rates and higher average capital balances.

Average Balance Sheet and Rates

The following tables provide average balances and rates for major balance sheet accounts, which determine the changes in net interest rate spreads. Interest amounts and average rates are affected by our use of derivatives and the related accounting elections we make. Interest amounts reported for Advances, MBS, Other investments and Swapped Bonds include gains (losses) on hedged items and derivatives in qualifying fair value hedge relationships.

In addition, the net interest settlements of interest receivables or payables and the price alignment amount associated with derivatives in a fair value hedge relationship are included in net interest income and interest rate spread. The price alignment amount approximates the amount of interest that we would receive or pay if the variation margin payments were characterized as collateral pledged to secure outstanding credit exposure on the derivative contracts. However, if the derivatives do not qualify for fair value hedge accounting, the related net interest settlements of interest receivables or payables and the price alignment amount are recorded in “Non-interest income (loss)” as “Net gains (losses) on derivatives” and therefore are excluded from the calculation of net interest rate spread. Amortization associated with some hedging-related basis adjustments is also reflected in net interest income, which affects interest rate spread.

(Dollars in millions)

	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
	Average Balance	Interest	Average Rate ⁽¹⁾	Average Balance	Interest	Average Rate ⁽¹⁾
Assets:						
Advances ⁽²⁾	\$ 74,909	\$ 1,058	5.61 %	\$ 63,265	\$ 382	2.39 %
Mortgage loans held for portfolio ⁽³⁾	7,030	53	3.00	7,358	52	2.79
Securities purchased under agreements to resell	2,288	31	5.27	2,577	14	2.23
Federal funds sold	12,684	170	5.31	12,783	71	2.20
Interest-bearing deposits in banks ⁽⁴⁾	2,501	33	5.23	1,509	8	2.01
MBS ⁽⁵⁾	18,884	249	5.24	14,378	79	2.20
Other investments ⁽⁵⁾	9,327	124	5.28	9,685	62	2.55
Loans to other FHLBanks	19	—	5.41	16	—	2.36
Total interest-earning assets	127,642	1,718	5.34	111,571	668	2.38
Other assets	1,375			565		
Total assets	<u>\$ 129,017</u>			<u>\$ 112,136</u>		
Liabilities and Capital:						
Term deposits	\$ 106	1	4.97	\$ 70	—	1.47
Other interest bearing deposits ⁽⁴⁾	1,112	14	4.85	1,191	6	1.80
Discount Notes	34,740	446	5.10	59,180	282	1.89
Unswapped fixed-rate Bonds	12,290	69	2.23	13,467	70	2.06
Unswapped adjustable-rate Bonds	52,031	707	5.39	22,556	127	2.24
Swapped Bonds	20,198	258	5.07	7,883	40	2.01
Mandatorily redeemable capital stock	51	1	8.59	168	2	5.55
Total interest-bearing liabilities	120,528	1,496	4.92	104,515	527	2.00
Other liabilities	1,862			2,020		
Total capital	6,627			5,601		
Total liabilities and capital	<u>\$ 129,017</u>			<u>\$ 112,136</u>		
Net interest rate spread			<u>0.42 %</u>			<u>0.38 %</u>
Net interest income and net interest margin ⁽⁶⁾		<u>\$ 222</u>	<u>0.69 %</u>		<u>\$ 141</u>	<u>0.50 %</u>
Average interest-earning assets to interest-bearing liabilities			<u>105.90 %</u>			<u>106.75 %</u>

- (1) Amounts used to calculate average rates are based on dollars in thousands. Accordingly, recalculations based upon the disclosed amounts in millions may not produce the same results.
- (2) Interest on Advances includes prepayment fees of (in millions) \$1 for the three months ended September 30, 2023. Advance prepayment fees for the three months ended September 30, 2022 totaled less than one million.
- (3) Non-accrual loans are included in average balances used to determine average rate.
- (4) The average balance amounts include the rights or obligations to cash collateral, which are included in the fair value of derivative assets or derivative liabilities on the Statements of Condition at period end.
- (5) Includes available-for-sale securities based on their amortized costs. The yield information does not give effect to changes in fair value that are reflected as a component of stockholders' equity for available-for-sale securities.
- (6) Net interest margin is net interest income as a percentage of average total interest-earning assets.

(Dollars in millions)

	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	Average Balance	Interest	Average Rate ⁽¹⁾	Average Balance	Interest	Average Rate ⁽¹⁾
Assets:						
Advances ⁽²⁾	\$ 86,735	\$ 3,396	5.23 %	\$ 46,920	\$ 551	1.57 %
Mortgage loans held for portfolio ⁽³⁾	7,058	158	2.99	7,496	151	2.70
Securities purchased under agreements to resell	3,028	113	5.00	2,036	18	1.17
Federal funds sold	11,823	446	5.04	10,967	94	1.15
Interest-bearing deposits in banks ⁽⁴⁾	2,565	94	4.90	1,159	10	1.13
MBS ⁽⁵⁾	17,824	658	4.93	12,691	141	1.49
Other investments ⁽⁵⁾	9,409	348	4.95	10,513	148	1.88
Loans to other FHLBanks	29	1	4.94	17	—	1.68
Total interest-earning assets	138,471	5,214	5.03	91,799	1,113	1.62
Other assets	1,304			485		
Total assets	<u>\$139,775</u>			<u>\$ 92,284</u>		
Liabilities and Capital:						
Term deposits	\$ 85	3	3.95	\$ 79	1	0.69
Other interest bearing deposits ⁽⁴⁾	1,091	36	4.46	1,408	7	0.68
Discount Notes	48,884	1,762	4.82	46,033	376	1.09
Unswapped fixed-rate Bonds	12,353	201	2.17	14,304	210	1.97
Unswapped adjustable-rate Bonds	53,728	2,036	5.07	17,121	163	1.27
Swapped Bonds	14,700	525	4.78	6,547	58	1.18
Mandatorily redeemable capital stock	40	2	7.78	131	4	4.10
Total interest-bearing liabilities	130,881	4,565	4.66	85,623	819	1.28
Other liabilities	1,822			1,717		
Total capital	7,072			4,944		
Total liabilities and capital	<u>\$139,775</u>			<u>\$ 92,284</u>		
Net interest rate spread			0.37 %			0.34 %
Net interest income and net interest margin ⁽⁶⁾		\$ 649	0.63 %		\$ 294	0.43 %
Average interest-earning assets to interest-bearing liabilities			105.80 %			107.21 %

(1) Amounts used to calculate average rates are based on dollars in thousands. Accordingly, recalculations based upon the disclosed amounts in millions may not produce the same results.

(2) Interest on Advances includes prepayment fees of (in millions) \$3 for both the nine months ended September 30, 2023 and 2022.

(3) Non-accrual loans are included in average balances used to determine average rate.

(4) The average balance amounts include the rights or obligations to cash collateral, which are included in the fair value of derivative assets or derivative liabilities on the Statements of Condition at period end.

(5) Includes available-for-sale securities based on their amortized costs. The yield information does not give effect to changes in fair value that are reflected as a component of stockholders' equity for available-for-sale securities.

(6) Net interest margin is net interest income as a percentage of average total interest-earning assets.

Rates and corresponding levels of interest income and expense on all of our interest-bearing assets and liabilities increased in the three and nine months ended September 30, 2023 compared to the same periods of 2022, as these assets and liabilities have repriced to the higher interest rates.

Volume/Rate Analysis

Changes in both average balances (volume) and interest rates influence changes in net interest income, as shown in the following table.

(In millions)	Three Months Ended September 30, 2023 over 2022			Nine Months Ended September 30, 2023 over 2022		
	Volume ⁽¹⁾⁽³⁾	Rate ⁽²⁾⁽³⁾	Total	Volume ⁽¹⁾⁽³⁾	Rate ⁽²⁾⁽³⁾	Total
<u>Increase (decrease) in interest income</u>						
Advances	\$ 81	\$ 595	\$ 676	\$ 758	\$ 2,087	\$ 2,845
Mortgage loans held for portfolio	(2)	3	1	(9)	16	7
Securities purchased under agreements to resell	(1)	18	17	12	83	95
Federal funds sold	(1)	100	99	8	344	352
Interest-bearing deposits in banks	7	18	25	22	62	84
MBS	31	139	170	77	440	517
Other investments	(2)	64	62	(17)	217	200
Loans to other FHLBanks	—	—	—	—	1	1
Total	113	937	1,050	851	3,250	4,101
<u>Increase (decrease) in interest expense</u>						
Term deposits	—	1	1	—	2	2
Other interest-bearing deposits	—	8	8	(2)	31	29
Discount Notes	(155)	319	164	25	1,361	1,386
Unswapped fixed-rate Bonds	(7)	6	(1)	(30)	21	(9)
Unswapped adjustable-rate Bonds	279	301	580	783	1,090	1,873
Swapped Bonds	110	108	218	135	332	467
Mandatorily redeemable capital stock	(2)	1	(1)	(4)	2	(2)
Total	225	744	969	907	2,839	3,746
Increase (decrease) in net interest income	\$ (112)	\$ 193	\$ 81	\$ (56)	\$ 411	\$ 355

(1) Volume changes are calculated as the change in volume multiplied by the prior year rate.

(2) Rate changes are calculated as the change in rate multiplied by the prior year average balance.

(3) Changes that are not identifiable as either volume-related or rate-related, but rather are equally attributable to both volume and rate changes, have been allocated to the volume and rate categories based upon the proportion of the absolute value of the volume and rate changes.

Effect of the Use of Derivatives on Net Interest Income

The following table shows the impact on net interest income from the effect of derivatives and hedging activities. As noted above, gains (losses) on hedged items and derivatives in qualifying fair value hedge relationships are recorded in interest income or expense. In addition, for derivatives designated as a fair value hedge, the net interest settlements of interest receivables or payables and the price alignment amount related to such derivatives are recognized as adjustments to the interest income or expense of the designated hedged item. As such, all the effects on earnings of derivatives qualifying for fair value hedge accounting are reflected in net interest income. The effect on earnings from derivatives not receiving fair value hedge accounting is provided in the “Non-Interest Income (Loss)” section below.

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Advances:				
Gains (losses) on designated fair value hedges	\$ —	\$ 5	\$ —	\$ 10
Net interest settlements included in net interest income	96	10	238	(24)
Price alignment amount ⁽¹⁾	(7)	(1)	(16)	(2)
Investment securities:				
Amortization of hedging activities in net interest income	(1)	—	(1)	(1)
Gains (losses) on designated fair value hedges	1	(1)	4	(1)
Net interest settlements included in net interest income	96	14	252	(10)
Price alignment amount ⁽¹⁾	(16)	(4)	(38)	(5)
Mortgage loans:				
Amortization of derivative fair value adjustments in net interest income	—	—	(1)	(2)
Consolidated Obligation Bonds:				
Net interest settlements included in net interest income	(8)	(1)	(24)	1
Increase (decrease) to net interest income	<u>\$ 161</u>	<u>\$ 22</u>	<u>\$ 414</u>	<u>\$ (34)</u>

(1) This amount is for derivatives for which variation margin is characterized as a daily settled contract.

Most of our use of derivatives is to more closely match actual cash flows between assets and liabilities by synthetically converting the fixed interest rates on certain Advances, investments and Consolidated Obligations to adjustable rates tied to an eligible benchmark rate (e.g., the Federal funds effective rate or SOFR). The sharp increases in short-term interest rates primarily benefited net interest income in both the three and nine months ended September 30, 2023 as the conversion of certain Advances' and investments' fixed interest rates to adjustable-coupon rates resulted in a significant amount of net interest settlements being received. The fluctuation in net interest income from the use of derivatives was acceptable because it enabled us to lower market risk exposure.

Non-Interest Income (Loss)

Non-interest income (loss) consists of certain gains (losses) on investment securities, derivatives activities, financial instruments held under the fair value option, and other non-interest earning activities. The following tables present the net effect of derivatives and hedging activities on non-interest income (loss). The effects of derivatives and hedging activities on non-interest income (loss) relate only to derivatives not qualifying for fair value hedge accounting.

(In millions)

	Advances	Investment Securities	Mortgage Loans	Bonds	Discount Notes	Balance Sheet ⁽¹⁾	Other	Total
Three Months Ended September 30, 2023								
<u>Net effect of derivatives and hedging activities</u>								
Gains (losses) on derivatives not receiving hedge accounting	\$ 1	\$ 29	\$ 5	\$ 10	\$ 4	\$ —	\$ —	\$ 49
Net interest settlements on derivatives not receiving hedge accounting	1	13	—	(6)	(7)	—	—	1
Price alignment amount ⁽²⁾	—	—	—	—	—	—	(2)	(2)
Net gains (losses) on derivatives	2	42	5	4	(3)	—	(2)	48
Gains (losses) on trading securities ⁽³⁾	—	(38)	—	—	—	—	—	(38)
Gains (losses) on financial instruments held under fair value option ⁽⁴⁾	(2)	—	—	(17)	(5)	—	—	(24)
Total net effect on non-interest income	<u>\$ —</u>	<u>\$ 4</u>	<u>\$ 5</u>	<u>\$ (13)</u>	<u>\$ (8)</u>	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ (14)</u>

Three Months Ended September 30, 2022

Net effect of derivatives and hedging activities

Gains (losses) on derivatives not receiving hedge accounting	\$ (3)	\$ 75	\$ (1)	\$ (36)	\$ 6	\$ 4	\$ —	\$ 45
Net interest settlements on derivatives not receiving hedge accounting	—	—	—	(1)	(18)	—	—	(19)
Price alignment amount ⁽²⁾	—	—	—	—	—	—	—	—
Net gains (losses) on derivatives	(3)	75	(1)	(37)	(12)	4	—	26
Gains (losses) on trading securities ⁽³⁾	—	(89)	—	—	—	—	—	(89)
Gains (losses) on financial instruments held under fair value option ⁽⁴⁾	3	—	—	42	(3)	—	—	42
Total net effect on non-interest income	<u>\$ —</u>	<u>\$ (14)</u>	<u>\$ (1)</u>	<u>\$ 5</u>	<u>\$ (15)</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ (21)</u>

(In millions)	Advances	Investment Securities	Mortgage Loans	Bonds	Discount Notes	Balance Sheet ⁽¹⁾	Other	Total
Nine Months Ended September 30, 2023								
<u>Net effect of derivatives and hedging activities</u>								
Gains (losses) on derivatives not receiving hedge accounting	\$ 4	\$ 25	\$ —	\$ 9	\$ 11	\$ —	\$ —	\$ 49
Net interest settlements on derivatives not receiving hedge accounting	1	38	—	(26)	(22)	—	—	(9)
Price alignment amount ⁽²⁾	—	—	—	—	—	—	(4)	(4)
Net gains (losses) on derivatives	5	63	—	(17)	(11)	—	(4)	36
Gains (losses) on trading securities ⁽³⁾	—	(39)	—	—	—	—	—	(39)
Gains (losses) on financial instruments held under fair value option ⁽⁴⁾	(3)	—	—	10	(5)	—	—	2
Total net effect on non-interest income	<u>\$ 2</u>	<u>\$ 24</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (16)</u>	<u>\$ —</u>	<u>\$ (4)</u>	<u>\$ (1)</u>

Nine Months Ended September 30, 2022								
<u>Net effect of derivatives and hedging activities</u>								
Gains (losses) on derivatives not receiving hedge accounting	\$ (1)	\$ 300	\$ (9)	\$ (71)	\$ (36)	\$ 11	\$ —	\$ 194
Net interest settlements on derivatives not receiving hedge accounting	—	(49)	—	6	(7)	—	—	(50)
Price alignment amount ⁽²⁾	—	—	—	—	—	—	—	—
Net gains (losses) on derivatives	(1)	251	(9)	(65)	(43)	11	—	144
Gains (losses) on trading securities ⁽³⁾	—	(337)	—	—	—	—	—	(337)
Gains (losses) on financial instruments held under fair value option ⁽⁴⁾	1	—	—	85	35	—	—	121
Total net effect on non-interest income	<u>\$ —</u>	<u>\$ (86)</u>	<u>\$ (9)</u>	<u>\$ 20</u>	<u>\$ (8)</u>	<u>\$ 11</u>	<u>\$ —</u>	<u>\$ (72)</u>

- (1) For the three and nine months ended September 30, 2022, "Balance Sheet" includes swaptions, which are not designated as hedging a specific financial instrument.
- (2) This amount is for derivatives for which variation margin is characterized as a daily settled contract.
- (3) Includes only those gains (losses) on trading securities that have an assigned economic derivative; therefore, this line item may not agree to the Statement of Income.
- (4) Includes only those gains or losses on financial instruments held at fair value that have an economic derivative "assigned."

The effect of derivatives and hedging activities on non-interest income in the three and nine months ended September 30, 2023 improved primarily because of the increase in short-term rates, which resulted in net interest settlements being received on derivatives related to investments where the fixed interest rates were converted to adjustable-coupon rates. In the nine-months comparison, some of this benefit was partially offset as the increase in short-term rates also resulted in a higher amount of net interest settlements being paid on derivatives related to Bonds and Discount Notes. Additionally, a portion of the improvement in the effect of derivatives and hedging activities on earnings in the nine-months comparison was driven by net unrealized gains on certain derivatives and related financial instruments carried at fair value. Because we intend to hold these derivatives and the related financial instruments to maturity, any unrealized gains or losses are expected to reverse in future periods. As noted above, the fluctuation in earnings from the use of derivatives was acceptable because it enabled us to lower market risk exposure.

In the table above, "Gains (losses) on trading securities" consist of fixed-rate U.S. Treasury and GSE obligations that have been swapped to a variable rate. Trading securities are recorded at fair value, with changes in fair value reported in non-interest income (loss). There are a number of factors that affect the fair value of these securities, such as changes in interest rates, the passage of time, and volatility. By hedging these trading securities, the gains or losses on these trading securities will generally be offset by the gains or losses on the associated interest rate swaps.

Non-Interest Expense

The following table presents non-interest expense.

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<u>Non-interest expense</u>				
Compensation and benefits	\$ 13	\$ 12	\$ 41	\$ 39
Other operating expense	8	6	24	18
Finance Agency	3	2	8	5
Office of Finance	2	1	5	5
Voluntary housing contributions	—	3	15	5
Other	2	2	5	6
Total non-interest expense	<u>\$ 28</u>	<u>\$ 26</u>	<u>\$ 98</u>	<u>\$ 78</u>

Our business is designed to support significant changes in asset levels without having to undergo material changes in staffing, operations, risk practices, or general resource needs. Total non-interest expense increased in the first nine months of 2023 as a result of making voluntary housing contributions of \$15 million to address the needs related to affordable housing and community investment in the Fifth District.

Segment Information

Note 11 of the Notes to Unaudited Financial Statements presents information on our two operating business segments. We manage financial operations and market risk exposure primarily at the macro level, and within the context of the entire balance sheet, rather than exclusively at the level of individual segments. Under this approach, the market risk/return profile of each segment may not match, or possibly even have the same trends as, what would occur if we managed each segment on a stand-alone basis. The tables below summarize each segment's operating results for the periods shown.

(Dollars in millions)	Traditional Member Finance	MPP	Total
Three Months Ended September 30, 2023			
Net interest income (loss)	\$ 186	\$ 36	\$ 222
Net income (loss)	\$ 135	\$ 35	\$ 170
Average assets	\$ 120,358	\$ 8,659	\$ 129,017
Assumed average capital allocation	\$ 6,182	\$ 445	\$ 6,627
Return on average assets ⁽¹⁾	0.45 %	1.59 %	0.52 %
Return on average equity ⁽¹⁾	8.67 %	30.86 %	10.16 %
Three Months Ended September 30, 2022			
Net interest income (loss)	\$ 120	\$ 21	\$ 141
Net income (loss)	\$ 71	\$ 20	\$ 91
Average assets	\$ 102,600	\$ 9,536	\$ 112,136
Assumed average capital allocation	\$ 5,125	\$ 476	\$ 5,601
Return on average assets ⁽¹⁾	0.27 %	0.83 %	0.32 %
Return on average equity ⁽¹⁾	5.50 %	16.54 %	6.43 %
Nine Months Ended September 30, 2023			
Net interest income (loss)	\$ 544	\$ 105	\$ 649
Net income (loss)	\$ 430	\$ 85	\$ 515
Average assets	\$ 130,988	\$ 8,787	\$ 139,775
Assumed average capital allocation	\$ 6,626	\$ 446	\$ 7,072
Return on average assets ⁽¹⁾	0.44 %	1.30 %	0.49 %
Return on average equity ⁽¹⁾	8.66 %	25.55 %	9.73 %
Nine Months Ended September 30, 2022			
Net interest income (loss)	\$ 258	\$ 36	\$ 294
Net income (loss)	\$ 122	\$ 26	\$ 148
Average assets	\$ 82,327	\$ 9,957	\$ 92,284
Assumed average capital allocation	\$ 4,405	\$ 539	\$ 4,944
Return on average assets ⁽¹⁾	0.20 %	0.35 %	0.21 %
Return on average equity ⁽¹⁾	3.69 %	6.42 %	3.99 %

(1) Amounts used to calculate returns are based on numbers in thousands. Accordingly, recalculations based upon the disclosed amounts in millions may not produce the same results.

Traditional Member Finance Segment

Net income improved in the three- and nine-months comparisons largely because of the significantly higher interest rates, which benefited this segment as it resulted in higher earnings from capital. Additionally, net income improved because of higher average balances and spreads on Advances and MBS. However, the increase in profitability was partially offset by lower spreads earned on liquidity investments. The increase in net income in the nine-months comparison was also driven by net unrealized gains on interest rate swaps and related financial instruments carried at fair value.

MPP Segment

Earnings from the MPP segment improved in the three and nine months ended September 30, 2023 compared to the same periods of 2022 because of higher net interest income, which resulted primarily from the increase in interest rates. The MPP segment benefited from higher average interest rates, which improved the spreads earned and increased the earnings generated from capital. Additionally, higher mortgage rates resulted in a lower volume of mortgage refinance activity, which reduced premium amortization.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT RISK MANAGEMENT

Market Risk

Market Value of Equity and Duration of Equity - Entire Balance Sheet

Two key measures of long-term market risk exposure are the sensitivities of the market value of equity and the duration of equity to changes in interest rates and other variables, as presented in the following tables for various instantaneous and permanent interest rate shocks (in basis points). Market value of equity represents the difference between the market value of total assets and the market value of total liabilities, including off-balance sheet items. The duration of equity provides an estimate of the change in market value of equity to further changes in interest rates. We compiled average results using data for each month end. Given the level of rates at certain time periods, some down rate shocks are nonparallel scenarios, with short-term rates decreasing less than long-term rates such that no rate falls below zero.

Market Value of Equity

(Dollars in millions)	Down 300	Down 200	Down 100	Flat Rates	Up 100	Up 200	Up 300
<u>Average Results</u>							
<u>2023 Year-to-Date</u>							
Market Value of Equity	\$ 7,095	\$ 6,943	\$ 6,840	\$ 6,728	\$ 6,609	\$ 6,492	\$ 6,386
% Change from Flat Case	5.5 %	3.2 %	1.7 %	—	(1.8)%	(3.5)%	(5.1)%
<u>2022 Full Year</u>							
Market Value of Equity	\$ 5,643	\$ 5,498	\$ 5,408	\$ 5,317	\$ 5,207	\$ 5,101	\$ 5,012
% Change from Flat Case	6.1 %	3.4 %	1.7 %	—	(2.1)%	(4.1)%	(5.7)%
<u>Month-End Results</u>							
<u>September 30, 2023</u>							
Market Value of Equity	\$ 5,818	\$ 5,746	\$ 5,650	\$ 5,554	\$ 5,448	\$ 5,346	\$ 5,252
% Change from Flat Case	4.8 %	3.5 %	1.7 %	—	(1.9)%	(3.7)%	(5.4)%
<u>December 31, 2022</u>							
Market Value of Equity	\$ 6,517	\$ 6,402	\$ 6,283	\$ 6,160	\$ 6,042	\$ 5,937	\$ 5,844
% Change from Flat Case	5.8 %	3.9 %	2.0 %	—	(1.9)%	(3.6)%	(5.1)%

Duration of Equity

(In years)	Down 300	Down 200	Down 100	Flat Rates	Up 100	Up 200	Up 300
<u>Average Results</u>							
2023 Year-to-Date	2.1	1.5	1.8	1.9	1.9	1.7	1.6
2022 Full Year	2.6	1.9	1.5	2.0	2.2	2.0	1.7
<u>Month-End Results</u>							
September 30, 2023	1.4	1.7	1.9	1.8	1.8	1.6	1.3
December 31, 2022	1.8	2.0	2.1	2.1	2.0	1.8	1.6

The mortgage assets portfolio normally accounts for almost all market risk exposure because of prepayment volatility that we cannot completely hedge while maintaining sufficient net spreads. The overall market risk exposure to changing interest rates was well within policy limits during the periods presented. At September 30, 2023, market risk exposure to falling and rising rate shocks remained stable.

Based on the totality of our risk analysis, we expect that overall profitability, defined as the level of ROE compared with short-term market rates, will be competitive over the long term unless interest rates increase further by large amounts in a short period of time. Substantial declines in long-term interest rates could decrease income temporarily before reverting to average levels. This temporary reduction in income would be driven by additional recognition of mortgage asset premiums as the incentive for

borrowers to refinance results in faster than anticipated repayments of those mortgage assets. However, we believe the mortgage assets portfolio will continue to provide an acceptable risk-adjusted return consistent with our risk appetite philosophy.

Capital Adequacy

Retained Earnings

We must hold sufficient capital to protect against exposure to various risks, including market, credit, and operational risks. We regularly conduct a variety of measurements and assessments for capital adequacy. At September 30, 2023, our capital management policy set forth approximately \$980 million as the minimum amount of retained earnings we believe is necessary to mitigate impairment risk.

The following table presents retained earnings.

(In millions)	September 30, 2023	December 31, 2022
Unrestricted retained earnings	\$ 956	\$ 841
Restricted retained earnings ⁽¹⁾	663	560
Total retained earnings	<u>\$ 1,619</u>	<u>\$ 1,401</u>

(1) Pursuant to the FHLBank System's Joint Capital Enhancement Agreement we are not permitted to distribute as dividends.

As indicated in the table above, our current balance of retained earnings exceeds the policy minimum, which we expect will continue to be the case as we bolster capital adequacy over time by allocating a portion of earnings to the restricted retained earnings account.

Market Capitalization Ratios

We measure two sets of market capitalization ratios. One measures the market value of equity (i.e., total capital) relative to the par value of regulatory capital stock (which is GAAP capital stock and mandatorily redeemable capital stock). The other measures the market value of total capital relative to the book value of total capital, which includes all components of capital, and mandatorily redeemable capital stock. The measures provide a point-in-time indication of the FHLB's liquidation or franchise value and can also serve as a measure of realized or potential market risk exposure.

The following table presents the market value of equity to regulatory capital stock (excluding retained earnings) for several interest rate environments.

	September 30, 2023	December 31, 2022
Market Value of Equity to Par Value of Regulatory Capital Stock - Base Case (Flat Rates) Scenario	122 %	119 %
Market Value of Equity to Par Value of Regulatory Capital Stock - Down Shock ⁽¹⁾	126	124
Market Value of Equity to Par Value of Regulatory Capital Stock - Up Shock ⁽²⁾	117	115

(1) Represents a down shock of 200 basis points.

(2) Represents an up shock of 200 basis points.

A base case value below 100 percent could indicate that, in the remote event of an immediate liquidation scenario involving redemption of all capital stock, capital stock may be returned to stockholders at a value below par. This could be due to experiencing risks that lower the market value of capital and/or to having an insufficient amount of retained earnings. In the first nine months of 2023, the market capitalization ratios in the scenarios presented continued to be above our policy requirements. The base case ratio at September 30, 2023 was still well above 100 percent because retained earnings were 36 percent of regulatory capital stock and we maintained stable market risk exposure.

The following table presents the market value of equity to the book value of total capital and mandatorily redeemable capital stock.

	September 30, 2023	December 31, 2022
Market Value of Equity to Book Value of Capital - Base Case (Flat Rates) Scenario ⁽¹⁾	91 %	94 %
Market Value of Equity to Book Value of Capital - Down Shock ⁽¹⁾⁽²⁾	94	98
Market Value of Equity to Book Value of Capital - Up Shock ⁽¹⁾⁽³⁾	87	91

(1) Capital includes total capital and mandatorily redeemable capital stock.

(2) Represents a down shock of 200 basis points.

(3) Represents an up shock of 200 basis points.

A base-case value below 100 percent can indicate that we have realized or could realize risks (especially market risk), such that the market value of total capital owned by stockholders is below the book value of total capital. The base-case ratio at September 30, 2023 indicates that the market value of total capital is \$569 million below the book value of total capital. In a scenario in which interest rates increase 200 basis points, the market value of total capital would be \$777 million below the book value of total capital. This indicates that in a liquidation scenario, stockholders would not receive the full sum of their total equity ownership in the FHLB. We believe the likelihood of a liquidation scenario is extremely remote.

Credit Risk

Overview

We believe our risk management practices, discussed below, minimize residual credit risk levels. At September 30, 2023, we had no loan loss reserves or impairment recorded for Credit Services, investments and derivatives and had a minimal amount of credit risk exposure in the MPP.

Credit Services

Overview: The objective of our credit risk management activities is to equalize risk exposure across members and counterparties to a zero level of expected losses. This approach is consistent with our conservative risk management principles and desire to have no residual credit risk related to Advances and Letters of Credit.

Collateral: We require each member to provide a security interest in eligible collateral before it can undertake any secured borrowing. Eligible loan collateral types include the following: single- and multi-family residential, home equity, commercial real estate, government guaranteed and farm real estate. Eligible security types include those that are government or agency backed, highly-rated municipal securities, and highly-rated private-label residential and commercial mortgage-backed securities. We have conservative eligibility criteria within each of the above asset types. The estimated value of pledged collateral is discounted in order to offset market, credit, and liquidity risks that may affect the collateral's realizable value in the event it must be liquidated. At September 30, 2023, total eligible pledged collateral of \$521.5 billion resulted in total borrowing capacity of \$400.0 billion of which \$115.8 billion was used to support outstanding Advances and Letters of Credit. Borrowers often pledge collateral in excess of their collateral requirement to demonstrate access to liquidity and to have the ability to borrow additional amounts in the future. Over-collateralization by one member is not applied to another member.

Borrowing Capacity/Lendable Value: Lendable Value Rates (LVRs) represent the percent of collateral value net of the discount, or haircut, we apply for purposes of determining borrowing capacity. LVRs are derived using scenario analysis, statistical analysis and management assumptions relating to historical price volatility, inherent credit risks, liquidation costs, and the current credit and economic environment. We apply LVR results to the estimated values of pledged assets. LVRs vary among pledged assets and members based on the member institution type, the financial strength of the member institution, the form of valuation, lien position, the issuer of bond collateral or the quality of securitized assets, the quality of the loan collateral as reflected in the manner in which it was underwritten, and the marketability of the pledged assets.

Internal Credit Ratings: We perform credit underwriting of our members and nonmember institutions and assign them an internal credit rating. These credit ratings are based on internal and third-party ratings models, credit analyses and consideration of credit ratings from independent credit rating organizations. Credit ratings are used in conjunction with other measures of credit risk in managing secured credit risk exposure.

Member Failures, Closures, and Receiverships: There have been no member failures in 2023 through the date of this report.

MPP

Overview: The residual amount of credit risk exposure to loans in the MPP is minimal, based on the same factors described in the 2022 Annual Report on Form 10-K.

Conventional Loan Portfolio Characteristics: At September 30, 2023, the weighted average loan-to-value ratios for conventional loans based on origination values and estimated current values were 73 percent and 47 percent, respectively. The estimated weighted average current loan-to-value ratio at September 30, 2023 decreased only two percent from the ratio at December 31, 2022 as the changes in home values have been relatively stable.

Credit Performance: The table below provides an analysis of conventional loans delinquent or in the process of foreclosure, along with the national average serious delinquency rate.

(Dollars in millions)	Conventional Loan Delinquencies	
	September 30, 2023	December 31, 2022
Early stage delinquencies - unpaid principal balance ⁽¹⁾	\$ 26	\$ 31
Serious delinquencies - unpaid principal balance ⁽²⁾	\$ 10	\$ 12
Early stage delinquency rate ⁽³⁾	0.4 %	0.5 %
Serious delinquency rate ⁽⁴⁾	0.2 %	0.2 %
National average serious delinquency rate ⁽⁵⁾	1.1 %	1.4 %

(1) Includes conventional loans 30 to 89 days delinquent and not in foreclosure.

(2) Includes conventional loans that are 90 days or more past due or where the decision of foreclosure or a similar alternative such as pursuit of deed-in-lieu has been reported.

(3) Early stage delinquencies expressed as a percentage of the total conventional loan portfolio.

(4) Serious delinquencies expressed as a percentage of the total conventional loan portfolio.

(5) National average number of fixed-rate prime and subprime conventional loans that are 90 days or more past due or in the process of foreclosure is based on the most recent national delinquency data available. The September 30, 2023 rate is based on June 30, 2023 data.

Overall, the MPP has experienced a minimal amount of delinquencies, with delinquency rates continuing to be well below national averages. This further supports our view that the portfolio is comprised of high-quality, well-performing loans.

Credit Enhancements: Conventional mortgage loans are primarily supported against credit losses by some combination of credit enhancements (primary mortgage insurance (PMI) and the Lender Risk Account (LRA)). The LRA is a hold back of a portion of the initial purchase price to cover potential credit losses. Starting after five years from the loan purchase date, we may return the hold back to Participating Financial Institutions (PFIs) if they manage credit risk to predefined acceptable levels of exposure on the pools of loans they sell to us. As a result, some pools of loans may have sufficient credit enhancements to recapture all losses while other pools of loans may not. The LRA had balances of \$238 million and \$244 million at September 30, 2023 and December 31, 2022, respectively. For more information, see Note 5 of the Notes to Unaudited Financial Statements.

Credit Losses: Residual credit risk exposure depends on the actual and potential credit performance of the loans in each pool compared to the pool's equity (on individual loans) and credit enhancements. Our available credit enhancements at September 30, 2023 were ample and able to cover nearly all of the estimated gross credit losses. As a result, estimated credit losses at September 30, 2023 were less than \$1 million. Estimated credit losses, after credit enhancements, are accounted for in the allowance for credit losses or as a charge off (i.e., a reduction to the principal of mortgage loans held for portfolio).

Separate from our allowance for credit losses analysis, we regularly analyze potential adverse scenarios of lifetime credit risk exposure for the loans in the MPP. Even under severely adverse macroeconomic scenarios, we expect credit losses to remain low.

Investments

Liquidity Investments: We hold liquidity investments that can be converted to cash and may be unsecured, guaranteed or supported by the U.S. government, or secured (i.e., collateralized). For unsecured liquidity investments, we invest in the instruments of investment-grade rated institutions, have appropriate and conservative limits on dollar and maturity exposure to each institution, and have strong credit underwriting practices, including active monitoring of credit quality of our counterparties and of the environment in which they operate. In addition, we believe the portion of our liquidity investments for which the investments are secured with collateral (secured resale agreements) present no credit risk exposure to us. Liquidity investments generally fluctuate because of changes in the amount of actual Advances, anticipated demand for Advances,

regulatory liquidity requirements, the availability of acceptable net spreads, and the number of eligible counterparties that meet our unsecured credit risk criteria.

The following table presents the carrying value of liquidity investments outstanding in relation to the counterparties' lowest long-term credit ratings provided by Standard & Poor's, Moody's, and/or Fitch Advisory Services. Our internal ratings of these investments may differ from those obtained from Standard & Poor's, Moody's, and/or Fitch Advisory Services. The ratings displayed in this table should not be taken as an indication of future ratings.

(In millions)

(In millions)	September 30, 2023			
	Long-Term Rating			
	AA	A	Unrated	Total
<u>Unsecured Liquidity Investments</u>				
Interest-bearing deposits	\$ —	\$ 1,755	\$ —	\$ 1,755
Federal funds sold	5,565	4,130	—	9,695
Total unsecured liquidity investments	5,565	5,885	—	11,450
<u>Guaranteed/Secured Liquidity Investments</u>				
Securities purchased under agreements to resell	15	500	500	1,015
U.S. Treasury obligations	7,649	—	—	7,649
GSE obligations	1,561	—	—	1,561
Total guaranteed/secured liquidity investments	9,225	500	500	10,225
Total liquidity investments	\$ 14,790	\$ 6,385	\$ 500	\$ 21,675

Some counterparties used to transact our securities purchased under agreements to resell are not rated by an NRSRO because they are not issuers of debt or are otherwise not required to be rated by an NRSRO. However, each of the counterparties are considered to have the equivalent of at least an investment grade rating based on our internal ratings resulting from a fundamental credit analysis. Securities purchased under agreements to resell are secured by the following types of collateral: U.S. Treasury obligations, U.S. agency/GSE obligations, or U.S. agency/GSE MBS. At September 30, 2023, the collateral received had long-term credit ratings of AA, based on the lowest long-term credit ratings of the issuer as provided by Standard & Poor's, Moody's, and/or Fitch Advisory Services. The terms of our securities purchased under agreements to resell are structured such that if the fair value of the underlying securities decreases below the fair value required as collateral, the counterparty must place an equivalent amount of additional securities as collateral or remit an equivalent amount of cash. Additionally, these investments primarily mature overnight. All overnight investments in securities purchased under agreements to resell outstanding at September 30, 2023 were repaid according to their respective contractual terms.

The following table presents the lowest long-term credit ratings provided by Standard & Poor's, Moody's, and/or Fitch Advisory Services of our unsecured investment credit exposure by the domicile of the counterparty or the domicile of the counterparty's immediate parent for U.S. branches and agency offices of foreign commercial banks. Our internal ratings of these investments may differ from those obtained from Standard & Poor's, Moody's, and/or Fitch Advisory Services. The ratings displayed in this table should not be taken as an indication of future ratings.

Domicile of Counterparty	September 30, 2023		
	Counterparty Rating		Total
	AA	A	
Domestic	\$ 1,000	\$ 2,105	\$ 3,105
U.S. branches and agency offices of foreign commercial banks:			
Canada	3,500	750	4,250
Netherlands	—	1,100	1,100
Finland	1,065	—	1,065
Germany	—	880	880
Australia	—	650	650
United Kingdom	—	400	400
Total U.S. branches and agency offices of foreign commercial banks	4,565	3,780	8,345
Total unsecured investment credit exposure	<u>\$ 5,565</u>	<u>\$ 5,885</u>	<u>\$ 11,450</u>

We are prohibited by Finance Agency regulation from investing in financial instruments issued by non-U.S. entities. Furthermore, we restrict a significant portion of unsecured lending to overnight maturities, which further limits credit risk exposure.

MBS:

GSE MBS

At September 30, 2023, \$18.0 billion of MBS held were GSE securities issued by Fannie Mae and Freddie Mac, which provide credit safeguards by guaranteeing either timely or ultimate payments of principal and interest. We believe that the conservatorships of Fannie Mae and Freddie Mac lower the chance that they would not be able to fulfill their credit guarantees.

MBS Issued by Other Government Agencies

We also invest in MBS issued and guaranteed by Ginnie Mae. These investments totaled \$1.1 billion at September 30, 2023. We believe that the strength of Ginnie Mae's guarantee and backing by the full faith and credit of the U.S. government is sufficient to protect us against credit losses on these securities.

Derivatives

Credit Risk Exposure: We mitigate most of the credit risk exposure resulting from derivative transactions through collateralization or use of daily settled contracts. The table below presents the lowest long-term counterparty credit ratings provided by Standard & Poor's, Moody's, and/or Fitch Advisory Services for derivative positions to which we had credit risk exposure at September 30, 2023. The ratings displayed in this table should not be taken as an indication of future ratings.

(In millions)	Total Notional	Net Derivatives Fair Value Before Collateral	Cash Collateral Pledged to (from) Counterparties	Non-cash Collateral Pledged to (from) Counterparties	Net Credit Exposure to Counterparties
Nonmember counterparties:					
<u>Asset positions with credit exposure:</u>					
Uncleared derivatives:					
A-rated	\$ 6,581	\$ 67	\$ (63)	\$ —	\$ 4
BBB-rated	10,745	176	(171)	—	5
Total uncleared derivatives	17,326	243	(234)	—	9
<u>Liability positions with credit exposure:</u>					
Cleared derivatives ⁽¹⁾	41,340	(29)	402	296	669
Member institutions ⁽²⁾	4	—	—	—	—
Total	\$ 58,670	\$ 214	\$ 168	\$ 296	\$ 678

(1) Represents derivative transactions cleared with LCH Ltd. and CME Clearing, the FHLB's clearinghouses. LCH Ltd. is rated AA- by Standard & Poor's, and CME Clearing is not rated, but its parent company, CME Group Inc., is rated Aa3 by Moody's and AA- by Standard & Poor's.

(2) Represents Mandatory Delivery Contracts.

Our exposure to cleared derivatives is primarily associated with the requirement to post initial margin through the clearing agent to the Derivatives Clearing Organizations. We may pledge both cash and non-cash (i.e., securities) as collateral to satisfy this initial margin requirement. However, the use of cleared derivatives mitigates credit risk exposure because a central counterparty is substituted for individual counterparties.

At September 30, 2023, the net exposure of uncleared derivatives with residual credit risk exposure was \$9 million. If interest rates rise or the composition of our derivatives change resulting in an increase to our gross exposure to uncleared derivatives, the contractual collateral provisions in these derivatives would limit our net exposure to acceptable levels.

Although we cannot predict if we will realize credit risk losses from any of our derivatives counterparties, we believe that all of the counterparties will be able to continue making timely interest payments and, more generally, to continue to satisfy the terms and conditions of their derivative contracts with us. As of September 30, 2023, we had a \$0.3 billion notional amount of interest rate swaps with a subsidiary of our member, JPMorgan Chase Bank, N.A., which also had outstanding credit services with us. We had no outstanding credit exposure to this counterparty related to interest rate swaps outstanding given the collateral exchanged.

Liquidity Risk

Liquidity Overview

We strive to be in a liquidity position at all times to meet the borrowing needs of our members and to meet all current and future financial commitments. This objective is achieved by managing liquidity positions to maintain stable, reliable, and cost-effective sources of funds while taking into account market conditions, member demand, and the maturity profile of assets and liabilities. At September 30, 2023, our liquidity position complied with the FHLBank Act, Finance Agency regulations, and internal policies.

The FHLBank System's primary source of funds is the sale of Consolidated Obligations in the capital markets. Our ability to obtain funds through the sale of Consolidated Obligations at acceptable interest costs depends on the financial market's perception of the riskiness of the Obligations and on prevailing conditions in the capital markets, particularly the short-term capital markets. The System's favorable debt ratings, which takes into account our status as a GSE, and our effective risk management practices are instrumental in ensuring stable and satisfactory access to the capital markets.

We believe our liquidity position, as well as that of the System, continued to be strong during the first nine months of 2023. Our overall ability to effectively fund our operations through debt issuances remained sufficient. Investor demand for System debt was robust in the first nine months of 2023, as investors continued to prefer short-term, high-quality money market instruments. We believe there is a low probability of a liquidity or funding crisis in the System that would impair our ability to participate, on a cost-effective basis, in issuances of debt, service outstanding debt, maintain adequate capitalization, or pay competitive dividends.

The System works collectively to manage and monitor the System-wide liquidity and funding risks. Liquidity risk includes the risk that the System could have difficulty rolling over short-term Obligations when market conditions change, also called refinancing risk. The System has a large reliance on short-term funding; therefore, it has a sharp focus on managing liquidity risk to very low levels. As shown on the unaudited Statements of Cash Flows, in the first nine months of 2023, our portion of the System's debt issuances totaled \$146.0 billion for Discount Notes and \$106.2 billion for Bonds. Access to short-term debt markets has been reliable because investors, driven by liquidity preferences and risk aversion, have sought the System's short-term debt, which has resulted in strong demand for debt maturing in one year or less.

See the Notes to Unaudited Financial Statements for more detailed information regarding maturities of certain financial assets and liabilities which are instrumental in determining the amount of liquidity risk. In addition to contractual maturities, other assumptions regarding cash flows such as estimated prepayments, embedded call optionality, and scheduled amortization are considered when managing liquidity risks.

Liquidity Management and Regulatory Requirements

We manage liquidity risk by ensuring compliance with our regulatory liquidity requirements and regularly monitoring other metrics.

The Finance Agency establishes the expectations with respect to the maintenance of sufficient liquidity without access to the capital markets for a specified number of days, which was set as a period of between 10 to 30 calendar days in the base case. Under these expectations, all Advance maturities are assumed to renew, unless the Advances relate to former members who are ineligible to borrow new Advances. The maintenance of sufficient liquidity each day is intended to provide additional assurance that we can continue to provide Advances and Letters of Credit to members over an extended period without access to the capital markets. With one exception, we were in compliance with these liquidity requirements at all times during the nine months ended September 30, 2023. On one day in the first quarter of 2023, our regulatory liquidity balances fell below 10 calendar days because of unusually large and unforeseen Advance demand in connection with the stress placed on the banking industry and financial markets in March 2023.

The Finance Agency also provides guidance related to asset/liability maturity funding gap limits. Funding gap metrics measure the difference between assets and liabilities that are scheduled to mature during a specified period of time and are expressed as a percentage of total assets. Although subject to change depending on conditions in the financial markets, the current regulatory requirement for funding gaps is between -10 percent to -20 percent for the three-month maturity horizon and is between -25 percent to -35 percent for the one-year maturity horizon. During the nine months ended September 30, 2023, we were operating within those limits.

To support our member deposits, we also must meet a statutory deposit reserve requirement. The sum of our investments in obligations of the United States, deposits in eligible banks or trust companies, and Advances with a final maturity not exceeding five years must equal or exceed the current amount of member deposits. The following table presents the components of this liquidity requirement.

(In millions)	September 30, 2023	December 31, 2022
<u>Deposit Reserve Requirement</u>		
Total Eligible Deposit Reserves	\$ 88,372	\$ 80,428
Total Member Deposits	(1,226)	(1,043)
Excess Deposit Reserves	<u>\$ 87,146</u>	<u>\$ 79,385</u>

Member Concentration Risk

We regularly assess concentration risks from business activity. We believe that the concentration of Advance activity is consistent with our risk management philosophy, and the impact of borrower concentration on market risk, credit risk, and operational risk, after considering mitigating controls, is minimal.

Operational Risks

There were no material developments regarding our operational risk exposure during the first nine months of 2023.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes in the first nine months of 2023 to our critical accounting policies and estimates. Our critical accounting policies and estimates are described in detail in our 2022 Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Information required by this Item is set forth under the caption “Quantitative and Qualitative Disclosures About Risk Management” in Part I, Item 2, of this Report.

Item 4. Controls and Procedures.

DISCLOSURE CONTROLS AND PROCEDURES

The FHLB's management, including its principal executive officer and principal financial officer, evaluate the effectiveness of the FHLB's disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Based upon that evaluation, these two officers each concluded that, as of September 30, 2023, the FHLB maintained effective disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that it files under the Exchange Act is (1) accumulated and communicated to management as appropriate to allow timely decisions regarding disclosure and (2) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The FHLB's management, including its principal executive officer and principal financial officer, evaluate the FHLB's internal control over financial reporting. Based upon that evaluation, these two officers each concluded that there were no changes in the FHLB's internal control over financial reporting that occurred during the quarter ended September 30, 2023 that materially affected, or are reasonably likely to materially affect, the FHLB's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Information regarding legal proceedings is set forth in Note 13 - Commitments and Contingencies in Part I, Item 1, of this Report.

Item 1A. Risk Factors.

For a discussion of our risk factors, see Part I, Item 1A. "Risk Factors" in our 2022 Annual Report on Form 10-K. There have been no material changes from the risk factors in our 2022 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

<u>Exhibit Number ⁽¹⁾</u>	<u>Description of exhibit</u>	<u>Document filed or furnished, as indicated below</u>
31.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer	Filed Herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer	Filed Herewith
32	Section 1350 Certifications	Furnished Herewith
101.INS	XBRL Instance Document	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document	Filed Herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed Herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed Herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed Herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed Herewith
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	Filed Herewith

(1) Numbers coincide with Item 601 of Regulation S-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, as of the 9th day of November 2023.

FEDERAL HOME LOAN BANK OF CINCINNATI
(Registrant)

By: /s/ Andrew S. Howell
Andrew S. Howell
President and Chief Executive Officer
(principal executive officer)

By: /s/ Stephen J. Sponaugle
Stephen J. Sponaugle
Executive Vice President - Chief Financial Officer
(principal financial officer)