

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

ANTI-FRAUD POLICY

1) Purpose and Scope

This Anti-Fraud policy has been created to support the Federal Home Loan Bank's (the "Bank") commitment to protecting its revenue, property, reputation and other assets; to clearly emphasize the need for accurate financial reporting; and to establish guidelines for the investigation and handling of allegations of fraud, should they occur. This policy applies to all employees, officers, Directors and Affordable Housing Advisory Council members. It is intended to address not only instances of internal fraud at the Bank, but includes fraud detected by our dealings with our members, including issues related to their collateral or loan origination process, AHP sponsors, and other vendor relationships. Federal Housing Finance Agency (FHFA) regulation 12 CFR Part 1233 places an affirmative duty to report suspected fraud to the regulator, as well as to appropriate law enforcement.

2) Definition of Fraud

The term "fraud" generally means an act of deception, bribery, forgery, extortion, theft, misappropriation, false representation, conspiracy, corruption, collusion, embezzlement, or intentional concealment or the omission of material facts. Fraud is a violation of trust that, in general, refers to an intentional act committed to secure personal or business advantage.

In relation to the purchase or sale of a loan or financial instrument or any transaction involving a financial instrument, the FHFA, for purposes of our Bank reporting possible fraud to the FHFA, defines fraud as "a misstatement, misrepresentation, or omission that cannot be corrected and that was relied upon by a regulated entity to purchase or sell a loan or financial instrument." (12 CFR 1233.2)

While fraud can cover many activities, this policy is directed primarily at financial matters that could be legally defined as fraud. There are numerous criminal and civil definitions of fraud. Listed below are several examples of "financial fraud", which generally fall into three broad categories and may include, but are not limited to, the intentional:

- Misappropriation of Assets
 - Forgery, alteration or misappropriation of checks, drafts, promissory notes, or securities
 - Unauthorized non-business acquisition, use, or disposition of funds, inventory, furniture, fixtures, equipment, records, or other assets
 - Embezzlement
 - Theft

- Falsifying time sheets or payroll records including, but not limited to, reporting hours not worked or a supervisor not allowing the reporting of all hours worked by hourly employees
- Falsifying travel and entertainment expenses and/or utilizing Bank funds to pay for personal expenses
- Fictitious reporting of receipts from suppliers or shipments to customers
- Misappropriation of Bank-owned computer hardware, software, data, or other records including intangibles (e.g. proprietary information, trade secrets, patents, etc.)
- Fraudulent Financial Reporting
 - Improper earnings management
 - Improper revenue recognition
 - Overstatement of assets
 - Understatement of liabilities
 - Misapplication of generally accepted accounting principles
- Expenditures and Liabilities for Improper Purposes
 - Bribery
 - Kickbacks

This also includes the intentional and willful making of any other material representations. Fraud is not the breach of a future promise because there is no third-party reliance. Also there can be no reliance for a change of opinion.

3) Fraud Reporting Extends to Activities Internal or External to the Bank

Fraud may be internal to the Bank, but it may also be broader to include activities or omissions by any affiliated party of the Bank. This includes:

- a) any director, officer, employee, or controlling stockholder of, or agent for, the Bank;
- b) any shareholder, affiliate, consultant, or joint venture partner of the Bank, and any other person, as determined by the FHFA Director (by regulation or on a case-by-case basis) that participates in the conduct of the affairs of the Bank, provided that a member of a Federal Home Loan Bank shall not be deemed to have participated in the affairs of that Federal Home Loan Bank solely by virtue of being a shareholder of, and obtaining advances from, that Federal Home Loan Bank;
- c) any independent contractor for the Bank (including any attorney, appraiser, or accountant); and
- d) any not-for-profit corporation that receives its principal funding, on an ongoing basis, from the Bank.

4) Bank Products and Investments

This policy concerning fraud, monitoring and reporting applies to all Bank products, services and investments, including without limitation:

- Advances
- Collateral
- MBS Investments
- Unsecured Investments
- Mortgage Purchase Program
- Derivatives
- Affordable Housing Program
- Community Investment Program
- Correspondent Services
- Bank Administration
- Office of Finance Funding

5) Staff and Board of Director Responsibilities

It is the Bank's intent to investigate any suspected acts of *internal* fraud, misappropriation, or other similar irregularity. An objective and impartial investigation, as deemed necessary, shall be conducted regardless of the position, title, length of service, or relationship with the Bank of any party who might be or becomes involved in or becomes or is the subject of such investigation.

All *external* suspected acts of fraud, misappropriation, or other similar irregularity may be investigated by the appropriate state and/or federal agencies.

Manager Oversight of Controls and Management Reporting

Each manager is responsible for instituting and maintaining a system of control to provide reasonable assurance of the prevention and detection of fraud, misappropriations and other irregularities. Management personnel should be familiar with the types of improprieties which may occur within their area of responsibility and be alert to any indications of such conduct.

Based on the initial fact-finding, subject to the oversight of General Counsel and the Director of Internal Audit, they may direct a designated staff member, most knowledgeable of the facts, to prepare an initial draft of the FHFA-prescribed reporting form.

Note: employee and third party procedures for reporting suspected fraud is set forth in Section 6 below.

Corporate Risk Fraud Assessments

The Corporate Risk Management Division shall, working with each Bank manager, perform fraud risk assessments for each department of the Bank as part of the annual risk assessment process. The risk of fraud may increase if a control is inadequate. As Bank operations change, the fraud risk assessment should be updated, where feasible, and the adequacy of the operating controls used to prevent or detect fraud should be evaluated. These fraud risk assessments shall be subject to review and comment by the Internal Audit staff when performing their routine or special audits.

Director of Internal Audit and General Counsel

The Director of Internal Audit and the General Counsel, in consultation with the appropriate management team, have the primary responsibility for jointly overseeing the investigation of all activity as defined in this policy. They will oversee the reporting of fraud to the FHFA and the Audit Committee.

Upon notification or discovery of a suspected fraud internal to the Bank, or pervasive, systemic third party fraud that could adversely affect the Bank, the Director of Internal Audit will promptly notify the Chairman and Vice Chairman of the Audit Committee. The Bank will make every effort to keep the investigation confidential; however, from time to time outside experts such as legal counsel or auditors will need to be consulted in conjunction with the investigation. Also, the Director of Internal Audit and the General Counsel shall involve others from Human Resources, Legal, or other management as deemed appropriate. Subject to keeping the Audit Committee apprised, as noted below, the Director of Internal Audit and/or the General Counsel may agree to authorize an independent investigation or to engage consultants to assist in the investigation.

Advisory Notice

The President-CEO and the Senior Vice President-CFO shall be apprised of the existence of any internal investigation, unless their potential involvement has been raised in any allegation or report leading to the investigation. They shall also be kept apprised of the status of the investigation at least quarterly and prior to the end of any reporting period for which the CEO and CFO must provide written certifications and representations to the outside auditors, the FHFA or the SEC.

Chairman of the Audit Committee and Investigations

After an initial review and a determination that the suspected fraud warrants additional investigation, the Director of Internal Audit and the General Counsel will notify the Audit Committee and management, as appropriate. The Chairman of the Audit Committee may determine that the Director of Internal Audit or the General Counsel may initiate an internal

investigation. The Chairman of the Audit Committee, or the Vice Chairman if the Chairman is precluded from acting under this policy, shall determine the appropriate investigative course of action and will keep the Audit Committee so advised. The Audit Committee shall keep the Board apprised, and the Committee or the Board may elect to form a special committee to investigate or review and act upon the findings of any internal investigation. The Chairman of the Audit Committee may require an independent investigation of the alleged fraud by outside counsel or other external consultation. The Board or Audit Committee may engage its own experts or consultants as it deems appropriate.

No person who is the subject of any report will receive the notification provided for hereunder.

Upon conclusion of any internal investigation, the results will be reported to the appropriate management representatives and the entire Audit Committee. In addition, quarterly updates of any investigations or findings of fraud shall be provided to the Audit Committee.

Where there are reasonable grounds to indicate that a fraud may have occurred, the Bank, through the Director of Internal Audit and/or the General Counsel, shall report the incident to the appropriate legal and/or regulatory authorities (including the FHFA as required by 12 CFR Part 1233), and the applicable insurance carriers in order to pursue all legal remedies. Also, the Bank shall pursue every reasonable effort, including legal action where necessary, to obtain recovery of any losses from the offender. The risk of corporate libel and slander counter-claims if the primary fraud action is not pursued or is dismissed will also be considered.

6) Employee and Third-Party Procedures for Reporting Suspected Fraud to the Bank

Bank staff should not, on their own initiative, investigate suspected fraud. Any employee or other person who has knowledge of an occurrence of fraudulent conduct, or has reason to suspect that a fraud has occurred, shall immediately notify his or her supervisor or, if not an employee, the Director of Internal Audit or an Ethics Officer of the Bank. The Ethics Officers are identified on the Staff Policy Portal and on the Bank's public website under "Contacts". Employees may bypass their supervisor if they have reason to believe that the supervisor might be involved. Any supervisor or other manager who is notified by an employee of suspected fraud or who has reason to believe that fraud has occurred shall notify the Director of Internal Audit or an Ethics Officer. Further, reports may be provided to senior officers or Directors, but should not be discussed with or reported to non-supervisory level employees at any time. All reporting may be done confidentially through EthicsPoint at: 1-866-850-1408 or www.ethicspoint.com.

7) Procedures for Reporting Suspected Fraud to the FHFA (when applicable)

In accordance with 12 CFR §1233.3, the Bank shall submit to the Director of FHFA or his/her designee a timely written report upon discovery by the Bank that it has purchased or sold a fraudulent loan or financial instrument, or suspects a possible fraud relating to the purchase or sale of any loan or financial instrument. A sample of the format of the fraud report to be completed, as prescribed by FHFA, is attached as Appendix A (which may be updated by FHFA from time to time). However, the actual form is a password-protected FHFA-prescribed spreadsheet. In addition to submitting a report, in any situation that would have a significant impact on the Bank, the Bank shall immediately report any fraud or possible fraud to the Director by telephone or electronic communication.

All records associated with this submission shall be maintained by the Bank's General Counsel and Director of Internal Audit for five years from the date of submission as provided for in 12 CFR 1233.3(c). The number of reports filed will be communicated to the Audit Committee annually. If a matter is internal to the Bank or is external, but significant to the Bank's operations and risks, then the reporting and investigation processes set forth in Section 5 above shall apply.

8) Security of Evidence

Once a suspected fraud is reported, immediate action to prevent the theft, alteration, or destruction of relevant records needs to occur. Such actions include, but are not necessarily limited to, removing the records and placing them in a secure location, limiting access to the location where the records currently exist, and preventing the individual(s) suspected of committing the fraud from having access to the records. The records must be adequately secured until the Director of Internal Audit and General Counsel conclude that they may be released.

9) Confidentiality

All participants in a fraud investigation shall keep the details and results of the investigation confidential. However, as noted above, from time to time other members of management or outside consultants will need to be consulted in conjunction with the investigation.

10) Personnel Actions

During the investigation, and depending on the circumstances, the Bank may suspend employees who are the subject of the investigation with pay. If a suspicion of fraud by an employee is substantiated by the investigation, management may take appropriate disciplinary action, up to and including termination, in consultation with legal counsel, in addition to pursuing any legal remedies which may be available. If a suspicion of fraud by a Director or Advisory Council member is substantiated, management shall take all steps necessary to

remove such person from his or her position, in addition to all legal remedies that may be available.

11) Whistle-Blower Protection

No employee or person acting on behalf of the Bank in attempting to comply with this policy shall:

- Be dismissed or threatened with dismissal;
- Be disciplined or suspended or threatened with discipline or suspension;
- Be penalized or have any other retribution imposed; or
- Be intimidated or coerced;

based upon the fact that the employee or other person has reported an incident or participated in an investigation in accordance with the requirements of this policy. Violation of this section of the policy shall result in disciplinary action, up to and including dismissal.

If an allegation is made in good faith, but is not confirmed by the investigation, no action will be taken against the originator. However, malicious allegations will result in disciplinary action against such individual.

This policy is subject to the Bank's Whistle-blower Policy. However, this policy shall control in the event of any conflicts with the provisions of the Whistle-blower Policy.

12) Anti-Fraud Policy Training

In conjunction with the Annual Code of Conduct Training for all employees, the Anti-Fraud Policy should be reviewed annually. All employees should be required to attest that they understand and are in compliance with the Anti-Fraud Policy.

13) Anti-Fraud Policy Review

This policy shall be reviewed annually by the Bank's Audit Committee. In addition, the Bank's Board of Directors should ratify this policy annually based upon recommendation of the Audit Committee.