Letter to Stockholders

Despite challenging economic conditions during the first three quarters of 2004, the FHLBI has experienced continued asset growth throughout the year. Total assets at September 30, 2004, increased to $46.9 billion, up from $46.2 billion at June 30, 2004.

The increase in total assets was attributable to a higher level of investments. Total investments and fed funds sold increased by $2.8 billion during the quarter, more than offsetting the declines in other areas. The FHLBI's capital-to-asset ratio at the end of the third quarter was a healthy 4.54 percent, well above the 4.16 percent required by our risk management policy and the 4.00 percent required by our regulator.

During the third quarter of 2004, advances at par decreased $2.6 billion from the second quarter of 2004 to end at $24.4 billion. After adjustments under FAS 133, total advances outstanding were $25.0 billion compared to $27.5 billion at the end of the second quarter.

While the dollar amount of outstanding advances has declined slightly in 2004, the number of outstanding advances has continued to increase as more of our smaller community institutions are actively using our advance programs. Also, we have experienced increased usage by new members and first-time borrowers. The number of outstanding advances at September 30, 2004, increased 8 percent over the same period in 2003.

Total mortgages outstanding for the Mortgage Purchase Program (MPP) decreased $57 million to end the third quarter at $7.2 billion. This decrease is attributable to prepayments and reduced demand from one major customer. Outstanding balances among 40 of our participants increased during the quarter. As of September 30, 2004, 85 members had been approved to participate in MPP, compared to 81 at the end of the second quarter. These two factors indicate a steadily growing interest in MPP. Additionally, as part of our continuing effort to meet our members' needs, the FHLBI has amended the activity-based stock requirement from 3 percent to 0 percent for the next $3.0 billion of mortgages purchased.

Net interest income for the third quarter of 2004 was $38.5 million, compared to $52.7 million for the second quarter. The decrease was primarily due to higher projected prepayments on the mortgage loan portfolio as a result of lower interest rates for the quarter. The lower interest rates resulted in a negative FAS 91 adjustment to net income, which reflects a decrease in the estimated weighted average life of our mortgage loan portfolio. The shorter weighted average life adjusts the period over which loan costs are amortized, thereby increasing the amortization expense. Conversely, the net interest income for the second quarter 2004 was positively affected by the FAS 91 adjustment. This quarter's decrease was partially offset by increased interest income due to the greater volume of investments in fed funds.

Overall, net income for the third quarter was $21.5 million, compared to $34.8 million for the second quarter of 2004. The net gain/loss on derivatives and hedging activities declined from a $2.5 million gain in the second quarter to a $2.3 million loss in the third quarter. Under FAS 133, all derivatives are recorded at fair value and the FHLBI is required to recognize unrealized losses or gains on derivative positions regardless of whether offsetting gains or losses on the underlying assets or liabilities being hedged are permitted to be recognized in a symmetrical manner. FAS 133 introduces the potential for a considerable timing difference between income recognition from assets or liabilities and the income effects of hedge transactions entered into to mitigate interest-rate risk and cash flow variability. The adoption of FAS 133 has led to more volatility in reported earnings due to changes in market prices and interest rates. The year-to-date net income at September 30, 2004, was $81.4 million, compared to $88.7 million for the same period in 2003, a decrease of $7.0 million.

The FHLBI declared a B-1 stock dividend of 4.25 percent for the third quarter of 2004. Return on average assets and return on average equity for the nine-month period ended September 30, 2004, were 0.24 percent and 5.22 percent, respectively.

During the third quarter, our tenth annual Regional Member Meetings were conducted in seven locations throughout the district, drawing 441 participants and guests. Our community investment staff is currently scoring 83 applications received for the second round of Affordable Housing Program grants requesting $23.3 million in subsidies. Recipients of the approximately $4.4 million in available funding will be announced in early December. The continued popularity of this program is a result of our commitment to partner with members to promote housing and community economic development in Indiana and Michigan.

Sincerely,

/s/

Martin L. Heger
President and CEO

Statement of Condition[1]

In thousands (except par value)
Unaudited

	September 30, 2004	June 30, 2004	September 30, 2003
Assets			
Cash and due from banks	$ 41,581	$ 29,931	$ 37,337
Interest bearing deposits in banks	608,445	240,683	276,446
Federal funds sold	6,424,000	3,819,000	1,190,000
Investments:			
Held-to-maturity securities	6,147,847	5,959,634	5,361,518
Available-for-sale securities	1,162,182	1,149,643	1,206,470
Securities held at fair value	97,657	97,855	102,543
Advances	25,040,690	27,490,785	28,089,373
Mortgage loans	7,199,749	7,256,611	7,349,062
Accrued interest receivable	120,339	113,106	120,048
Derivative assets	6,243	426	15,499
Other assets	44,897	37,566	58,398
Total Assets	$46,893,630	$46,195,240	$43,806,694
Liabilities and Capital			
Deposits	$ 872,273	$ 956,362	$ 2,634,961
Discount notes	10,863,416	10,273,901	11,299,726
Bonds	31,552,427	31,867,301	26,219,304
Accrued interest payable	299,861	250,184	241,357
Affordable Housing Program	26,604	28,265	34,569
Derivative liabilities	705,554	671,369	1,280,356
Other liabilities	442,173	42,877	115,183
Total liabilities	44,762,308	44,090,259	41,825,456
Commitments and contingent liabilities[2]			
Capital stock outstanding ($100 par)	2,025,803	1,999,496	1,892,422
Retained earnings	106,335	107,148	90,289
Other comprehensive income	(816)	(1,663)	(1,473)
Total capital	2,131,322	2,104,981	1,981,238
Total Liabilities and Capital	$46,893,630	$46,195,240	$43,806,694

Notes

[1]These financial statements should be read in conjunction with the audited financial statements and the related notes for the year ended December 31, 2003. Certain amounts in the 2003 financial statements have been reclassified to conform with the 2004 presentation.

[2]At September 30, 2004, the FHLBI had commitments and contingent liabilities as follows, in thousands: Commitments for member advances, $32,627; Mandatory MPP commitments, $60,457; Standby letters of credit, $273,634.

[3]MPP volume-driven (variable) costs.

Statement of Income[1]

In thousands Unaudited	For the quarters ended September 30, 2004	 June 30, 2004	 September 30, 2003	For the 9 months ended September 30, 2004	 2003
Interest income					
Advances	$ 132,184	$ 114,771	$ 125,053	$ 364,381	$ 390,168
Interest bearing deposits in banks	1,765	447	760	2,859	1,930
Federal funds sold	18,382	7,722	4,207	28,995	15,535
Investments:					
Held-to-maturity securities	62,426	59,993	50,191	180,923	164,338
Available-for-sale securities	4,162	3,057	3,061	10,257	12,046
Securities held at fair value	1,594	1,595	1,595	4,784	4,785
Mortgage loans	86,763	98,128	95,146	275,217	251,063
Loans to other FHLBanks	5	125	65	145	156
Total interest income	307,281	285,838	280,078	867,561	840,021
Interest expense					
Consolidated obligations	(265,264)	(230,307)	(211,418)	(723,877)	(685,894)
Deposits	(3,504)	(2,808)	(5,092)	(9,406)	(16,349)
Other borrowings		7)	(12)	(8)	(25)
Total interest expense	(268,768)	(233,122)	(216,522)	(733,291)	(702,268)
Net interest income before loan loss provision	38,513	52,716	63,556	134,270	137,753
Mortgage loan loss provision	0	0	(50)	0	(309)
Net Interest Income after Loss Provision	38,513	52,716	63,506	134,270	137,444
Fees and other income	1,245	919	3,650	3,776	8,279
Net gain (loss) on derivatives and hedging activities	(2,349)	2,474	(250)	(2,381)	(677)
Operating expense	(7,097)	(7,667)	(7,290)	(21,627)	(21,404)
Finance Board and Off. of Finance expense	(647)	(683)	(611)	(1,969)	(1,810)
Other[3]	(429)	(429)	(430)	(1,277)	(1,054)
Total net other (expense) income	(9,277)	(5,386)	(4,931)	(23,478)	(16,666)
Income before assessments	29,236	47,330	58,575	110,792	120,778
Affordable Housing Program	(2,387)	(3,864)	(4,781)	(9,045)	(9,859)
REFCORP assessment	(5,370)	(8,693)	(10,759)	(20,349)	(22,184)
Total assessments	(7,757)	(12,557)	(15,540)	(29,394)	(32,043)
Net Income	$ 21,479	$ 34,773	$ 43,035	$ 81,398	$ 88,735