
**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 March 31, 2008

OR

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

Commission File Number: 000-51404

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
(Exact name of registrant as specified in its charter)

Federally chartered corporation
(State or other jurisdiction of incorporation or organization)

35-6001443
(I.R.S. employer identification number)

8250 Woodfield Crossing Boulevard
Indianapolis, IN
(Address of principal executive offices)

46240
(Zip code)

(317) 465-0200
(Registrant's telephone number, including area code):

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 for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class B Stock, par value \$100

**Shares outstanding
as of April 30, 2008**
23,133,277

Federal Home Loan Bank of Indianapolis
Form 10-Q
Table of Contents

	<u>Page Number</u>
PART I.	<u>FINANCIAL INFORMATION</u>
Item 1.	<u>Financial Statements (unaudited)</u>
	<u>Statements of Condition as of March 31, 2008, and December 31, 2007</u> 1
	<u>Statements of Income for the Three Months Ended March 31, 2008, and 2007</u> 2
	<u>Statements of Capital for the Three Months Ended March 31, 2008, and 2007</u> 3
	<u>Statements of Cash Flows for the Three Months Ended March 31, 2008, and 2007</u> 4
	<u>Notes to Financial Statements (unaudited)</u> 6
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> 23
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 53
Item 4.	<u>Controls and Procedures</u> 57
PART II	<u>OTHER INFORMATION</u>
Item 1A.	<u>Risk Factors</u> 58
Item 6.	<u>Exhibits</u> 59

As used in this Form 10-Q, unless the context otherwise requires, the terms “we,” “us,” “our,” “FHLBI,” and the “Bank” refer to the Federal Home Loan Bank of Indianapolis.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

**Federal Home Loan Bank of Indianapolis
Statements of Condition**

(\$ and share amounts in thousands, except par value)	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
Assets		
Cash and due from banks	\$ 14,899	\$ 7,255
Interest-bearing deposits	727,000	1,660,000
Federal funds sold, members and non-members	10,080,000	11,261,000
Available-for-sale securities, (a), non-members (Note 3)	659,142	—
Held-to-maturity securities (b), members and non-members (Note 4)	7,019,464	6,714,909
Advances to members (Note 5)	30,604,792	26,769,633
Mortgage loans held for portfolio, net (Note 6)	9,259,416	9,396,757
Accrued interest receivable	189,237	193,552
Premises, software, and equipment, net	9,322	9,578
Derivative assets (Note 7)	10,564	1,926
Other assets	40,029	40,142
Total assets	<u>\$58,613,865</u>	<u>\$56,054,752</u>
Liabilities and Capital		
Deposits (Note 8)		
Interest-bearing deposits	\$ 1,042,041	\$ 555,593
Non-interest-bearing deposits	1,797	1,279
Total deposits	<u>1,043,838</u>	<u>556,872</u>
Consolidated obligations, net (Note 9)		
Discount notes	22,137,381	22,171,485
CO Bonds	<u>31,696,682</u>	<u>30,253,735</u>
Total consolidated obligations, net	<u>53,834,063</u>	<u>52,425,220</u>
Accrued interest payable	354,558	318,494
Affordable Housing Program	31,683	30,300
Payable to REFCORP	10,755	9,463
Derivative liabilities (Note 7)	637,477	304,745
Mandatorily redeemable capital stock (Note 10)	206,034	163,469
Other liabilities	<u>229,799</u>	<u>47,257</u>
Total liabilities	<u>56,348,207</u>	<u>53,855,820</u>
Commitments and contingencies (Note 5,7,9,10,13)		
Capital (Note 10)		
Capital stock-Class B-1 putable (\$100 par value) issued and outstanding shares: 20,532 and 20,029, respectively	2,053,159	2,002,862
Capital stock-Class B-2 putable (\$100 par value) issued and outstanding shares: 0.01 and 0.01, respectively	<u>1</u>	<u>1</u>
Total Capital stock putable (\$100 par value) issued and outstanding shares: 20,532.01 and 20,029.01, respectively	2,053,160	2,002,863
Retained earnings	221,566	202,111
Accumulated other comprehensive income (loss)	<u>(9,068)</u>	<u>(6,042)</u>
Total capital	<u>2,265,658</u>	<u>2,198,932</u>
Total liabilities and capital	<u>\$58,613,865</u>	<u>\$56,054,752</u>

(a) Amortized cost: \$656,739 and \$0 at March 31, 2008, and December 31, 2007, respectively.

(b) Fair values: \$6,874,369 and \$6,628,314 at March 31, 2008, and December 31, 2007, respectively.

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

Federal Home Loan Bank of Indianapolis
Statements of Income
(Unaudited)

(\$ amounts in thousands)	For the Three Months Ended March 31,	
	2008	2007
Interest Income		
Advances to members	\$293,056	\$305,363
Prepayment fees on Advances, net	146	1,802
Interest-bearing deposits	13,790	5,030
Federal funds sold, members and non-members	104,118	97,602
Available-for-sale securities	162	—
Held-to-maturity securities, members and non-members	81,317	74,655
Mortgage loans held for portfolio	121,656	130,995
Loans to other Federal Home Loan Banks	—	15
Total interest income	<u>614,245</u>	<u>615,462</u>
Interest Expense		
Discount notes	180,402	148,170
CO Bonds	355,799	405,290
Deposits	6,471	12,685
Securities sold under agreements to repurchase	3	—
Mandatorily redeemable capital stock	2,497	1,951
Other borrowings	3	—
Total interest expense	<u>545,175</u>	<u>568,096</u>
Net Interest Income	<u>69,070</u>	<u>47,366</u>
Other Income (Loss)		
Service fees	312	335
Net gains (losses) on derivatives and hedging activities	(401)	722
Other, net	338	276
Total other income (loss)	<u>249</u>	<u>1,333</u>
Other Expense		
Compensation and benefits	6,840	8,914
Other operating expenses	2,120	2,133
Finance Board	419	408
Office of Finance	444	411
Other	314	543
Total other expense	<u>10,137</u>	<u>12,409</u>
Income Before Assessments	59,182	36,290
Assessments		
Affordable Housing Program	5,086	3,161
REFCORP	10,819	6,626
Total assessments	<u>15,905</u>	<u>9,787</u>
Net Income	<u>\$ 43,277</u>	<u>\$ 26,503</u>

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

Federal Home Loan Bank of Indianapolis
Statements of Capital
(Unaudited)

(\$ and share amounts in thousands)	Capital Stock Class B-1 Putable		Capital Stock Class B-2 Putable		Retained Earnings	Accumulated Other Comprehensive Income	Total Capital
	Shares	Par Value	Shares	Par Value			
Balance, December 31, 2006	17,935	\$1,793,511	—	\$ 1	\$166,622	\$ (5,420)	\$1,954,714
Proceeds from sale of capital stock	876	87,595	—	—			87,595
Net shares reclassified to mandatorily redeemable capital stock	—	—	—	—			—
Comprehensive income:							
Net income					26,503		26,503
Other comprehensive income:							
Net unrealized loss on available-for-sale securities						—	—
Pension and postretirement benefits						(1,184)	(1,184)
Total comprehensive income (loss)					26,503	(1,184)	25,319
Mandatorily redeemable capital stock distributions					(7)		(7)
Dividends on capital stock							
Cash (5.00%)					(23,192)		(23,192)
Balance, March 31, 2007	<u>18,811</u>	<u>\$1,881,106</u>	<u>—</u>	<u>\$ 1</u>	<u>\$169,926</u>	<u>\$ (6,604)</u>	<u>\$2,044,429</u>

(\$ and share amounts in thousands)	Capital Stock Class B-1 Putable		Capital Stock Class B-2 Putable		Retained Earnings	Accumulated Other Comprehensive Income	Total Capital
	Shares	Par Value	Shares	Par Value			
Balance, December 31, 2007 (audited)	20,029	\$2,002,862	—	\$ 1	\$202,111	\$ (6,042)	\$2,198,932
Proceeds from sale of capital stock	927	92,690	—	—			92,690
Net shares reclassified to mandatorily redeemable capital stock	(424)	(42,393)	—	—			(42,393)
Comprehensive income:							
Net Income					43,277		43,277
Other comprehensive income:							
Net unrealized loss on available-for-sale securities						(3,026)	(3,026)
Pension and postretirement benefits						—	—
Total comprehensive income (loss)					43,277	(3,026)	40,251
Mandatorily redeemable capital stock distributions					(175)		(175)
Dividends on capital stock							
Cash (4.75%)					(23,647)		(23,647)
Balance, March 31, 2008	<u>20,532</u>	<u>\$2,053,159</u>	<u>—</u>	<u>\$ 1</u>	<u>\$221,566</u>	<u>\$ (9,068)</u>	<u>\$2,265,658</u>

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

Federal Home Loan Bank of Indianapolis
Statements of Cash Flows
(Unaudited)

(\$ amounts in thousands)	For the Three Months Ended March 31,	
	2008	2007
Operating Activities		
Net Income	\$ 43,277	\$ 26,503
Adjustments to reconcile Net income to net cash provided by (used in) operating activities		
Depreciation and amortization		
Net premiums and discounts on consolidated obligations	(21,166)	11,652
Net premiums and discounts on investments	(4,135)	(3,175)
Net premiums and discounts on mortgage loans	2,214	1,337
Concessions on CO bonds	5,211	1,408
Fees on derivatives, included as a component of derivative value	(2,576)	(1,149)
Net deferred gain on derivatives	(45)	(42)
Premises, software, and equipment	317	363
Other fees and amortization	407	982
Net realized gain on disposal of premises, software, and equipment	(5)	—
(Gain) loss due to change in net fair value adjustment on derivative and hedging activities	1,406	(1,467)
Net change in:		
Accrued interest receivable	4,263	11,322
Net derivatives – net accrued interest	(43,298)	(34,489)
Other assets	3,963	10,133
Affordable Housing Program liability and discount on AHP Advances	1,383	877
Accrued interest payable	36,030	3,498
Payable to REFCORP	1,292	755
Other liabilities	(544)	(6,911)
Total adjustments	(15,283)	(4,906)
Net cash provided by operating activities	27,994	21,597
Investing Activities		
Net change in:		
Interest-bearing deposits	905,456	(907,037)
Federal funds sold, members and non-members	1,181,000	(1,396,000)
Premises, software, and equipment	(56)	(15)
Held-to-maturity securities:		
Proceeds from maturities of long-term held-to-maturity securities, members and non-members	330,902	228,968
Purchases of long-term held-to-maturity securities, members and non-members	(631,270)	—
Available-for-sale securities:		
Purchases of available-for-sale securities, non-members	(473,705)	—
Advances to members:		
Principal collected on Advances	12,549,854	21,405,016
Advances made	(15,916,102)	(21,146,746)
Mortgage loans held for portfolio:		
Principal collected	311,589	273,575
Mortgage loans purchased	(177,307)	(211,605)
Other Federal Home Loan Banks:		
Principal collected on loans to other Federal Home Loan Banks	—	100,000
Loans to other Federal Home Loan Banks	—	(100,000)
Net cash used in investing activities	(1,919,639)	(1,753,844)

Federal Home Loan Bank of Indianapolis
Statements of Cash Flows, continued
(Unaudited)

(\$ amounts in thousands)	For the Three Months Ended March 31,	
	2008	2007
Financing Activities		
Net change in:		
Deposits	476,770	239,971
Net proceeds from issuance of consolidated obligations		
Discount notes	287,226,422	222,584,766
CO Bonds	10,838,803	3,792,773
Payments for maturing and retiring consolidated obligations		
Discount notes	(287,237,321)	(220,546,128)
CO Bonds	(9,513,130)	(4,407,905)
Net proceeds on derivative contracts with financing elements	38,705	—
Other Federal Home Loan Banks:		
Borrowings from other Federal Home Loan Banks	5,000	—
Maturities of borrowings from other Federal Home Loan Banks	(5,000)	—
Proceeds from issuance of capital stock	92,690	87,595
Payments for redemption of mandatorily redeemable capital stock	(3)	(142)
Cash dividends paid	(23,647)	(23,192)
Net cash provided by financing activities	<u>1,899,289</u>	<u>1,727,738</u>
Net increase (decrease) in cash and cash equivalents	7,644	(4,509)
Cash and cash equivalents at beginning of the year	7,255	15,022
Cash and cash equivalents at end of the year	<u>\$ 14,899</u>	<u>\$ 10,513</u>
Supplemental Disclosures		
Interest paid	\$ 332,800	\$ 452,269
Affordable Housing Program payments, net	3,703	2,284
REFCORP payments	9,527	5,871

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

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

Note 1 — Summary of Significant Accounting Policies and Basis of Presentation

The significant accounting policies and the financial condition and results of operations for the Federal Home Loan Bank of Indianapolis as of December 31, 2007, are contained in our Form 10-K, as filed with the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934 on March 24, 2008 (“Form 10-K”). The accompanying unaudited financial statements as of and for the three months ended March 31, 2008, should be read in conjunction with the Form 10-K. In the opinion of our management, the accompanying financial statements contain all adjustments necessary (consisting of only normal recurring adjustments) for a fair statement of the results of operations and financial condition for the interim period ended March 31, 2008, and conform with accounting principles generally accepted in the United States of America (“GAAP”) as they apply to interim financial statements. The results of operations for the three months ended March 31, 2008, are not necessarily indicative of the results to be expected for any subsequent period or entire year.

The preparation of financial statements requires management to make assumptions and estimates. These assumptions and estimates affect the reported amounts 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.

We have included descriptions of significant accounting policies in Note 1 to our 2007 Financial Statements in our Form 10-K. There have been no significant changes to these policies as of March 31, 2008, except as follows:

Cash Collateral. In accordance with Financial Accounting Standards Board (“FASB”) Staff Position No. FIN 39-1, *Amendment of FASB Interpretation No. 39 (“FSP FIN 39-1”)*, we offset the fair value amounts recognized for the right to reclaim cash collateral (held by the counterparty) or the obligation to return cash collateral (held from the counterparty) against the net derivative position with the same counterparty under a master netting arrangement. We do not have any such cash collateral that has not been offset against net derivative positions.

Certain reclassifications have been made in the prior-year financial statements to conform to current presentation as a result of our application of FSP FIN 39-1. Our adoption of FSP FIN 39-1 at January 1, 2008, had the following impact on the Statement of Condition as of December 31, 2007:

	As reported at December 31, 2007 (shown in our Form 10-K)	December 31, 2007 balances upon adoption of FSP FIN 39-1 (shown in this Form 10-Q)	Increase (Decrease)
Derivative assets	\$ 3,625	\$ 1,926	\$ (1,699)
Interest-bearing deposits	565,789	555,593	(10,196)
Accrued interest payable	318,528	318,494	(34)
Derivative liabilities	296,214	304,745	8,531

Note 2 — Recently Issued Accounting Standards and Interpretations

SFAS 157. On September 15, 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements (“SFAS 157”)*. In defining fair value, SFAS 157 retains the exchange price notion in earlier definitions of fair value. However, the definition focuses on the price that would be received to sell an asset or paid to transfer a liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). SFAS 157 applies whenever other accounting pronouncements require or permit fair value measurements. Accordingly, SFAS 157 does not expand the use of fair value in any new circumstances. SFAS 157 also establishes a fair value hierarchy that prioritizes the information used to develop assumptions used to determine the exit price.

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

SFAS 157 establishes valuation techniques that are used to measure fair value. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 - quoted prices in active markets for identical assets or liabilities,
- Level 2 - directly or indirectly observable inputs other than quoted prices, and
- Level 3 - unobservable inputs.

SFAS 157 requires disclosures detailing (1) the extent to which companies measure assets and liabilities at fair value, (2) the methods and assumptions used to measure fair value, and (3) the effect of fair value measurements on earnings, as applicable. Our adoption of SFAS 157 effective January 1, 2008, did not have an impact on our Retained earnings balance.

SFAS 159. On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (“**SFAS 159**”). SFAS 159 creates a fair value option allowing an entity to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities, with changes in fair value recognized in earnings as they occur. SFAS 159 also requires an entity to report those financial assets and financial liabilities measured at fair value in a manner that separates those reported fair values from the carrying amounts of assets and liabilities measured using another measurement attribute on the face of the statement of financial position. Lastly, SFAS 159 requires an entity to provide information that would allow users to understand the effect on earnings of changes in the fair value on those instruments selected for the fair value election. We did not elect the fair value option provided by SFAS 159 for any financial assets or liabilities upon our adoption of SFAS 159 on January 1, 2008. As such, the adoption of SFAS 159 did not have a material impact on our results of operations and financial condition. Further, we have not elected the fair value option for any financial assets or liabilities at any point subsequent to our adoption of SFAS 159.

Issue E23. In January 2008, the FASB issued Statement 133 Implementation Issue No. E23, *Issues Involving the Application of the Shortcut Method under Paragraph 68* (“**Issue E23**”). Issue E23 amends Statement 133 to explicitly permit use of the shortcut method for those hedging relationships in which (1) the interest rate swap has a nonzero fair value at the inception of the hedging relationship, attributable solely to differing prices within the bid-ask spread, and/or (2) the hedged item has a trade date that differs from its settlement date because of generally established conventions in the marketplace in which the transaction to acquire or issue the hedged item is executed. Issue E23 is effective for hedging relationships designated on or after January 1, 2008. At adoption, pre-existing hedging relationships utilizing the shortcut method which did not meet the requirements of Issue 23 as of the inception of the hedging relationship must be dedesignated prospectively. The effect of applying hedge accounting prior to the effective date may not be reversed. A hedging relationship that does not qualify for the shortcut method based on Issue E23 could be redesignated without the application of the shortcut method if that hedging relationship meets the applicable requirements of Statement 133. Our adoption of Issue E23 did not have a material impact on our results of operations or financial condition.

SFAS 161. On March 19, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (“**SFAS 161**”). SFAS 161 requires enhanced disclosures about an entity’s derivative and hedging activities. These enhanced disclosures will discuss (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 (January 1, 2009, for the Bank), with earlier adoption allowed. Management is evaluating whether our adoption of SFAS 161 will have a material impact on our financial statement disclosures.

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

Note 3 — Available-for-Sale Securities

Major Security Types. Available-for-sale securities (AAA rated agency debentures) purchased from non-member counterparties as of March 31, 2008, were as follows (\$ amounts in thousands).

	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government Sponsored Enterprises (“GSEs”)	\$656,739	\$ 2,403	\$ —	\$659,142
Total	<u>\$656,739</u>	<u>\$ 2,403</u>	<u>\$ —</u>	<u>\$659,142</u>

There were no available-for-sale securities outstanding as of December 31, 2007.

Redemption Terms. The amortized cost and estimated fair value of available-for-sale securities by contractual maturity at March 31, 2008, and December 31, 2007, are shown below (\$ amounts in thousands). All of the available-for-sale securities pay a fixed rate of interest.

Year of Maturity	March 31, 2008		December 31, 2007	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ —	\$ —	\$ —	\$ —
Due after one year through five years	—	—	—	—
Due after five years through ten years	656,739	659,142	—	—
Total	<u>\$656,739</u>	<u>\$659,142</u>	<u>\$ —</u>	<u>\$ —</u>

Gains and Losses. There were no sales of available-for-sale securities during the three months ended March 31, 2008, and 2007.

Note 4 — Held-to-Maturity Securities

Major Security Types. Held-to-maturity securities purchased from non-member counterparties and members and their affiliates as of March 31, 2008, were as follows (\$ amounts in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
State or local housing agency obligations	\$ 2,530	\$ 44	\$ —	\$ 2,574
MBS and ABS:				
U.S. agency obligations – guaranteed	20,606	92	—	20,698
GSEs	1,432,587	10,360	(8,105)	1,434,842
Other ⁽¹⁾	<u>5,563,741</u>	<u>6,621</u>	<u>(154,107)</u>	<u>5,416,255</u>
Total	<u>\$7,019,464</u>	<u>\$ 17,117</u>	<u>\$(162,212)</u>	<u>\$6,874,369</u>

(1) Included in other Mortgage Backed Securities (“MBS”) and Asset Backed Securities (“ABS”) are securities issued by affiliates of members.

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

A summary of the MBS issued by affiliates of members as of March 31, 2008, follows (\$ amounts in thousands):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Bank of America Mortgage Securities	<u>\$134,075</u>	<u>\$ 70</u>	<u>\$ (3,208)</u>	<u>\$130,937</u>

Held-to-maturity securities purchased from non-member counterparties and members and their affiliates as of December 31, 2007, were as follows (\$ amounts in thousands):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
State or local housing agency obligations	\$ 3,720	\$ 34	\$ —	\$ 3,754
MBS and ABS:				
U.S. agency obligations – guaranteed	23,671	28	(33)	23,666
GSEs	848,526	1,902	(17,110)	833,318
Other ⁽¹⁾	<u>5,838,992</u>	<u>13,539</u>	<u>(84,955)</u>	<u>5,767,576</u>
Total	<u>\$6,714,909</u>	<u>\$ 15,503</u>	<u>\$(102,098)</u>	<u>\$6,628,314</u>

(1) Included in other MBS and ABS are securities issued by affiliates of members.

A summary of the MBS issued by affiliates of members as of December 31, 2007, follows (\$ amounts in thousands):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Bank of America Mortgage Securities	<u>\$138,361</u>	<u>\$ 818</u>	<u>\$ (1,714)</u>	<u>\$137,465</u>

The following tables summarize the held-to-maturity securities with unrealized losses as of March 31, 2008, and December 31, 2007 (\$ amounts in thousands). The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position.

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
March 31, 2008						
MBS and ABS						
U.S. agency obligations – guaranteed	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
GSEs	281,204	(3,155)	363,018	(4,950)	644,222	(8,105)
Other ⁽¹⁾	<u>3,235,619</u>	<u>(57,574)</u>	<u>1,419,365</u>	<u>(96,533)</u>	<u>4,654,984</u>	<u>(154,107)</u>
Total temporarily impaired	<u>\$3,516,823</u>	<u>\$(60,729)</u>	<u>\$1,782,383</u>	<u>\$(101,483)</u>	<u>\$5,299,206</u>	<u>\$(162,212)</u>

(1) Included in the column for Unrealized Losses Less than 12 months are two securities we purchased from Bank of America Mortgage Securities, an affiliate of a member, with an amortized cost of \$80.6 million and a market value of \$80.0 million. Included in the column for Unrealized Losses 12 months or more is a security we purchased from Bank of America Mortgage Securities, an affiliate of a member, with an amortized cost of \$52.2 million and a market value of \$49.6 million.

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2007						
MBS and ABS						
U.S. agency obligations – guaranteed	\$ —	\$ —	\$ 20,724	\$ (33)	\$ 20,724	\$ (33)
GSEs	—	—	603,326	(17,110)	603,326	(17,110)
Other ⁽¹⁾	553,179	(3,808)	3,143,443	(81,147)	3,696,622	(84,955)
Total temporarily impaired	\$553,179	\$ (3,808)	\$3,767,493	\$ (98,290)	\$4,320,672	\$ (102,098)

(1) Included in the column for Unrealized Losses 12 months or more were two securities we purchased from Bank of America Mortgage Securities, an affiliate of a member, with an amortized cost of \$76.1 million and a market value of \$74.4 million.

Redemption Terms. The amortized cost and estimated fair value of held-to-maturity securities by contractual maturity at March 31, 2008, and December 31, 2007, are shown below (\$ amounts in thousands). Expected maturities of some securities and MBS and ABS may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

Year of Maturity	March 31, 2008		December 31, 2007	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Due in one year or less	\$ 872	\$ 860	\$ 869	\$ 860
Due after 10 years	1,702	1,670	2,885	2,860
MBS and ABS	6,871,795	7,016,934	6,624,560	6,711,189
Total	\$6,874,369	\$7,019,464	\$6,628,314	\$6,714,909

The amortized cost of our MBS and ABS classified as held-to-maturity includes net discounts of \$32,823,000 and \$34,034,000 at March 31, 2008, and December 31, 2007, respectively.

Interest Rate Payment Terms. The following table details interest rate payment terms for investment securities classified as held-to-maturity at March 31, 2008, and December 31, 2007 (\$ amounts in thousands):

	March 31, 2008	December 31, 2007
Amortized cost of held-to-maturity state or local housing agency securities		
Fixed rate	\$ 2,530	\$ 3,720
Amortized cost of held-to-maturity MBS and ABS		
Pass-through securities		
Fixed rate	300	517
Variable rate	2,756	2,914
Collateralized mortgage obligations		
Fixed rate	6,982,118	6,674,853
Variable rate	31,760	32,905
Total	\$7,019,464	\$6,714,909

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

Note 5 — Advances to Members

Redemption Terms. At March 31, 2008, and December 31, 2007, we had Advances to members (“Advances”) outstanding, including Affordable Housing Program (“AHP”) Advances, at interest rates ranging from 1.82% to 8.34%, and 2.37% to 8.34%, respectively, as summarized below (\$ amounts in thousands).

Year of Contractual Maturity	March 31, 2008		December 31, 2007	
	Amount	WAIR % ⁽¹⁾	Amount	WAIR % ⁽¹⁾
Overdrawn demand deposit accounts	\$ 74	4.25	\$ 4,842	5.75
Due in 1 year or less	9,170,668	3.24	8,718,260	4.21
Due after 1 year through 2 years	3,882,473	4.56	3,224,175	4.62
Due after 2 years through 3 years	4,469,969	4.64	3,954,541	4.93
Due after 3 years through 4 years	2,137,842	4.84	1,994,265	5.00
Due after 4 years through 5 years	3,919,132	3.99	3,600,640	4.38
Thereafter	6,186,696	4.37	4,903,736	4.99
Index amortizing Advances	186	7.62	333	7.27
Total par value	29,767,040	4.07	26,400,792	4.60
Unamortized discount on AHP Advances	(240)		(251)	
Unamortized discount on Advances	(435)		(461)	
SFAS 133 hedging adjustments	830,149		360,875	
Other adjustments ⁽²⁾	8,278		8,678	
Total	<u>\$30,604,792</u>		<u>\$26,769,633</u>	

(1) Weighted Average Interest Rate

(2) Other adjustments include deferred prepayment fees being recognized through the payment on the new Advance.

The following table summarizes Advances at March 31, 2008, and December 31, 2007, by the earlier of the year of contractual maturity or next call date (\$ amounts in thousands):

Year of Contractual Maturity or Next Call Date	March 31, 2008	December 31, 2007
Overdrawn demand deposit accounts	\$ 74	\$ 4,842
Due in 1 year or less	9,302,513	8,718,260
Due after 1 year through 2 years	3,882,473	3,224,175
Due after 2 years through 3 years	4,469,969	3,954,541
Due after 3 years through 4 years	2,137,842	1,994,265
Due after 4 years through 5 years	3,871,182	3,600,640
Thereafter	6,102,801	4,903,736
Index amortizing Advances	186	333
Total par value	<u>\$29,767,040</u>	<u>\$ 26,400,792</u>

The following table summarizes Advances at March 31, 2008, and December 31, 2007, by the earlier of the year of contractual maturity or next put date (\$ amounts in thousands):

Year of Contractual Maturity or Next Put Date	March 31, 2008	December 31, 2007
Overdrawn demand deposit accounts	\$ 74	\$ 4,842
Due in 1 year or less	13,663,669	12,646,310
Due after 1 year through 2 years	4,226,973	3,659,675
Due after 2 years through 3 years	3,558,669	2,976,691
Due after 3 years through 4 years	1,973,342	1,829,765
Due after 4 years through 5 years	818,431	1,035,440
Thereafter	5,525,696	4,247,736
Index amortizing Advances	186	333
Total par value	<u>\$29,767,040</u>	<u>\$ 26,400,792</u>

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

Interest Rate Payment Terms. The following table details interest rate payment terms for Advances at March 31, 2008, and December 31, 2007 (\$ amounts in thousands):

<u>Par value of Advances</u>	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Fixed rate	\$25,569,178	\$23,431,872
Variable rate	4,197,862	2,968,920
Total	<u>\$29,767,040</u>	<u>\$26,400,792</u>

Note 6 — Mortgage Loans Held for Portfolio

The Mortgage Purchase Program (“MPP”) involves the investment in mortgage loans that are purchased directly from our participating members. The total loans represent held-for-portfolio loans under the MPP whereby our members originate or acquire certain home mortgage loans that are then sold to us. See Note 14 for detailed information on transactions with related parties. The following table presents information as of March 31, 2008, and December 31, 2007, on Mortgage loans held for portfolio, net (\$ amounts in thousands):

<u>Real Estate Mortgages</u>	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Fixed-rate medium-term ⁽¹⁾ single-family mortgages	\$1,382,882	\$1,407,128
Fixed-rate long-term ⁽²⁾ single-family mortgages	7,848,914	7,959,694
Total mortgage loans held for portfolio, par value	<u>9,231,796</u>	<u>9,366,822</u>
Unamortized premiums.	53,982	56,025
Unamortized discounts	(45,144)	(46,831)
SFAS 133 hedging adjustments	18,782	20,741
Mortgage loans held for portfolio, net	<u>\$9,259,416</u>	<u>\$9,396,757</u>

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

(2) Long-term is defined as an original term greater than 15 years.

The following table details the Total mortgage loans held for portfolio, par value outstanding at March 31, 2008, and December 31, 2007 (\$ amounts in thousands):

<u>FHA loans</u>	<u>March 31, 2008</u>	<u>December 31, 2007</u>
FHA loans	\$ 773,824	\$ 800,169
Conventional loans	8,457,972	8,566,653
Total mortgage loans held for portfolio, par value	<u>\$9,231,796</u>	<u>\$9,366,822</u>

The allowance for credit losses was \$0 at March 31, 2008, and December 31, 2007. The provision for credit losses was \$0 for each of the three months ended March 31, 2008, and 2007. At March 31, 2008, and December 31, 2007, we had no recorded investments in impaired mortgage loans.

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

The following table presents changes in the lender risk account (“LRA”) for the three months ended March 31, 2008, and for the year ended December 31, 2007 (\$ amounts in thousands):

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Balance of LRA at beginning of period	\$ 21,090	\$ 17,999
Collected through periodic interest payments	1,551	6,444
Disbursed for mortgage loan losses	(231)	(514)
Returned to the member	(990)	(2,839)
Balance of LRA at end of period	<u>\$ 21,420</u>	<u>\$ 21,090</u>

We are required to use secondary mortgage insurance (“SMI”) providers that are rated at least AA-. The following table presents the concentration of SMI insurance on our conventional loans and the related credit ratings of our SMI providers at March 31, 2008:

	<u>% of portfolio</u>	<u>S&P Credit rating</u>	<u>Moody’s Credit rating</u>	<u>Fitch Credit rating</u>
Mortgage Guaranty Insurance Corporation (“MGIC”)	87%	AA-	Aa2	AA
Genworth Residential Mortgage Insurance Corporation of North Carolina (“Genworth”)	13%	AA	Aa2	AA
Total	<u>100%</u>			

Note 7 — Derivatives and Hedging Activities

Net gains (losses) on derivatives and hedging activities recorded in Other Income for the three months ended March 31, 2008, and 2007, were as follows (\$ amounts in thousands):

	<u>For the Three Months Ended March 31,</u>	
	<u>2008</u>	<u>2007</u>
Net Gains (Losses) on Derivatives and Hedging Activities		
Gains (losses) related to fair value hedge ineffectiveness	\$ (2,066)	\$ (68)
Gains (losses) on economic hedges	1,665	790
Net gains (losses) on derivatives and hedging activities	<u>\$ (401)</u>	<u>\$ 722</u>

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

The following table represents outstanding notional balances and estimated fair values of the derivatives outstanding at March 31, 2008, and December 31, 2007 (\$ amounts in thousands):

	March 31, 2008		December 31, 2007	
	Notional	Estimated Fair Value	Notional	Estimated Fair Value
Interest rate swaps				
Fair value hedges	\$35,426,273	\$(747,223)	\$30,416,890	\$(340,500)
Economic hedges	419,090	2,084	494,183	296
Interest rate swaptions				
Economic hedges	50,000	—	200,000	—
Interest rate futures/forwards				
Economic hedges	50,100	(639)	38,800	(232)
Mortgage delivery commitments				
Economic hedges	51,505	227	40,204	103
Total	<u>\$35,996,968</u>	<u>\$(745,551)</u>	<u>\$31,190,077</u>	<u>\$(340,333)</u>
Total derivatives excluding accrued interest		\$(745,551)		\$(340,333)
Accrued interest		91,043		47,744
Cash collateral held by (from) counterparty		27,595		(10,230)
Net derivative balances		<u>\$(626,913)</u>		<u>\$(302,819)</u>
Net derivative asset balances		\$ 10,564		\$ 1,926
Net derivative liability balances		(637,477)		(304,745)
Net derivative balances		<u>\$(626,913)</u>		<u>\$(302,819)</u>

Note 8 — Deposits

The average interest rates paid on average interest-bearing deposits was 2.83% and 5.11% for the three months ended March 31, 2008, and 2007, respectively.

The following table details Deposits as of March 31, 2008, and December 31, 2007 (\$ amounts in thousands):

	March 31, 2008	December 31, 2007
Interest-bearing:		
Demand and overnight	\$ 973,019	\$ 555,575
Other deposits	69,022	18
Total interest-bearing deposits	<u>1,042,041</u>	<u>555,593</u>
Non-interest-bearing:		
Pass-thru deposit reserves	1,797	1,279
Total non-interest-bearing deposits	<u>1,797</u>	<u>1,279</u>
Total Deposits	<u>\$1,043,838</u>	<u>\$ 556,872</u>

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

Note 9 — Consolidated Obligations

Redemption Terms. The following is a summary of our participation in Consolidated Obligation (“CO”) Bonds outstanding at March 31, 2008, and December 31, 2007, by year of contractual maturity (\$ amounts in thousands):

Year of Contractual Maturity	March 31, 2008		December 31, 2007	
	Amount	WAIR %	Amount	WAIR %
Due in 1 year or less	\$ 8,469,270	3.80	\$ 7,298,070	4.29
Due after 1 year through 2 years	5,627,450	4.22	4,994,880	4.65
Due after 2 years through 3 years	3,455,920	4.30	4,284,220	4.66
Due after 3 years through 4 years	2,541,750	4.55	1,900,950	4.98
Due after 4 years through 5 years	3,453,300	4.73	3,299,250	5.08
Thereafter	8,006,900	5.22	8,453,650	5.35
Total par value	31,554,590	4.45	30,231,020	4.83
Unamortized bond premiums	38,010		33,014	
Unamortized bond discounts	(29,074)		(32,898)	
SFAS 133 hedging adjustments	133,156		22,599	
Total	<u>\$31,696,682</u>		<u>\$30,253,735</u>	

Interest Rate Payment Terms. The following table details CO Bonds by interest rate payment type at March 31, 2008, and December 31, 2007 (\$ amounts in thousands):

Par value of CO Bonds	March 31, 2008	December 31, 2007
Fixed rate	\$29,869,590	\$28,182,940
Step-up	1,465,000	1,703,080
Simple variable rate	100,000	155,000
Fixed that converts to variable	70,000	140,000
Variable that converts to fixed	50,000	50,000
Total par value	<u>\$31,554,590</u>	<u>\$30,231,020</u>

Our outstanding CO Bonds at March 31, 2008, and December 31, 2007, include (\$ amounts in thousands):

Par value of CO Bonds	March 31, 2008	December 31, 2007
Non-callable	\$13,055,220	\$11,810,570
Callable	18,499,370	18,420,450
Total par value	<u>\$31,554,590</u>	<u>\$30,231,020</u>

The following table summarizes CO Bonds outstanding at March 31, 2008, and December 31, 2007, by year of contractual maturity or next call date (\$ amounts in thousands):

Year of Contractual Maturity or Next Call Date	March 31, 2008	December 31, 2007
Due in 1 year or less	\$23,242,640	\$21,744,520
Due after 1 year through 2 years	3,088,450	2,813,800
Due after 2 years through 3 years	1,378,550	1,884,850
Due after 3 years through 4 years	805,750	457,950
Due after 4 years through 5 years	443,300	745,250
Thereafter	2,595,900	2,584,650
Total par value	<u>\$31,554,590</u>	<u>\$30,231,020</u>

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

Discount Notes. Our participation in Discount notes, all of which are due within one year, was as follows (\$ amounts in thousands):

	<u>Book Value</u>	<u>Par Value</u>	<u>WAIR</u>
March 31, 2008	\$22,137,381	\$22,188,616	2.46%
December 31, 2007	\$22,171,485	\$22,262,035	4.20%

Note 10 — Capital

We are subject to three capital requirements under our Capital Plan and Finance Board regulations. First, we must maintain at all times permanent capital in an amount at least equal to the sum of our credit risk capital requirement, our market risk capital requirement, and our operations risk capital requirement, calculated in accordance with the rules and regulations of the Finance Board. Only “permanent capital,” defined as Retained earnings and Class B Stock (including Mandatorily redeemable capital stock), satisfies the risk-based capital requirement. The Finance Board may require us to maintain a greater amount of permanent capital than is required by the risk-based capital requirements as defined. In addition, we are required to maintain at all times at least a 4% total capital-to-asset ratio and at least a 5% leverage ratio, defined as the sum of permanent capital weighted 1.5 times, and non-permanent capital weighted 1.0 times, divided by Total assets. We were in compliance with the aforementioned capital rules and requirements during the reporting periods. The following table shows our compliance with the Finance Board’s capital requirements at March 31, 2008, and December 31, 2007 (\$ amounts in thousands):

<u>Regulatory Capital Requirements</u>	<u>March 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Required</u>	<u>Actual</u>	<u>Required</u>	<u>Actual</u>
Risk-based capital	\$ 452,834	\$2,480,761	\$ 439,867	\$2,368,443
Total capital-to-asset ratio	4.00%	4.23%	4.00%	4.23%
Total capital	\$2,344,555	\$2,480,761	\$2,242,190	\$2,368,443
Leverage ratio	5.00%	6.35%	5.00%	6.34%
Leverage capital	\$2,930,693	\$3,721,141	\$2,802,738	\$3,552,664

The following table provides the number of former members and the related dollar amounts for activities recorded in Mandatorily redeemable capital stock during the three months ended March 31, 2008 (\$ amounts in thousands):

	<u>Number of Former Members</u>	<u>Amount</u>
Beginning of period	16	\$163,469
Due to mergers and acquisitions	3	42,393
Due to withdrawals	—	—
Redemptions/repurchases during the period	—	(3)
Accrued dividends classified as mandatorily redeemable	—	175
End of period	<u>19</u>	<u>\$206,034</u>

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

The following table shows the amount of excess and other stock subject to a redemption request by year of redemption at March 31, 2008, and December 31, 2007 (\$ amounts in thousands):

Non-contractual Year of Redemption – Excess and Other Stock	March 31, 2008	December 31, 2007
Due in 1 year or less	\$ —	\$ —
Due after 1 year through 2 years	5,000	5,000
Due after 2 years through 3 years	10,000	—
Due after 3 years through 4 years	26,589	40,088
Due after 4 years through 5 years	9,387	11,150
Total	\$50,976	\$ 56,238

The following table shows the amount of Mandatorily redeemable capital stock by year of redemption at March 31, 2008, and December 31, 2007 (\$ amounts in thousands):

Contractual Year of Redemption – Mandatorily Redeemable Capital Stock	March 31, 2008	December 31, 2007
Due in 1 year or less	\$ 4,815	\$ 4,643
Due after 1 year through 2 years	6,549	3,748
Due after 2 years through 3 years	1,082	3,883
Due after 3 years through 4 years	138,923	138,923
Due after 4 years through 5 years	54,665	12,272
Total	\$206,034	\$ 163,469

Capital Concentrations. The following table presents shareholder holdings of 10% or more of our total par value of capital stock including Mandatorily redeemable capital stock outstanding as of March 31, 2008, and December 31, 2007 (\$ amounts in thousands, at par value):

Name	March 31, 2008		December 31, 2007	
	Capital Stock Outstanding	Percent of Total	Capital Stock Outstanding	Percent of Total
Flagstar Bank, FSB	\$ 348,944	15.4%	\$ 348,944	16.1%
LaSalle Bank Midwest NA	334,110	14.8%	334,110	15.4%
Total capital stock, at par value	2,259,021	100.0%	2,166,332	100.0%

Note 11 — Segment Information

We have identified two primary operating segments: Traditional Funding, Investments and Deposit Products (“**Traditional**”), and MPP, based on our method of internal reporting. The products and services presented reflect the manner in which financial information is evaluated by management. Traditional includes the effects of premium and discount amortization, the impact of net interest settlements related to interest rate exchange agreements, interest income on Advances, investments (including MBS), and the borrowing costs related to those assets. Traditional also includes the costs related to holding deposit products for members and other miscellaneous borrowings as well as all other miscellaneous income and expense not associated with the MPP. MPP income is derived primarily from the difference, or spread, between the interest income earned on mortgage loans, including the direct effects of premium and discount amortization in accordance with SFAS 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (“**SFAS 91**”), and the borrowing cost related to those loans.

We measure the performance of each segment based upon the net interest spread of the underlying portfolio(s). For this reason, we have presented each segment on a net interest income basis. Direct other income and expense items have been allocated to each segment based upon actual results. MPP includes the direct earnings effects of SFAS 133 as well as direct salary and other expenses (including an allocation

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

for indirect overhead) associated with operating the MPP and volume-driven costs associated with master servicing and quality control fees. Direct other income/expense related to Traditional includes the direct earnings impact of SFAS 133 related to Advances and investment products as well as all other income and expense not associated with MPP. The assessments related to AHP and the Resolution Funding Corporation (“REFCORP”) have been allocated to each segment based upon each segment’s proportionate share of Income Before Assessments.

We have not symmetrically allocated assets to each segment based upon financial results as it is impracticable to measure the performance of our segments from a total assets perspective. As a result, there is asymmetrical information presented in the tables below including, among other items, the allocation of depreciation without an allocation of the depreciable assets, the SFAS 133 earnings adjustments with no corresponding allocation to derivative assets, if any, and the recording of interest income with no allocation to accrued interest receivable. Total assets reported for MPP include only the mortgage loans outstanding, net of premiums, discounts and SFAS 133 basis adjustments. Total assets reported for Traditional include all other assets of the Bank.

The following table sets forth our financial performance by operating segment for the three months ended March 31, 2008, and 2007 (\$ amounts in thousands):

March 31, 2008	Traditional	MPP	Total
Net Interest Income	\$ 56,451	\$12,619	\$69,070
Other income (loss)	914	(665)	249
Other expenses	9,544	593	10,137
Income Before Assessments	47,821	11,361	59,182
AHP	4,159	927	5,086
REFCORP	8,732	2,087	10,819
Total assessments	12,891	3,014	15,905
Net Income	<u>\$ 34,930</u>	<u>\$ 8,347</u>	<u>\$43,277</u>
March 31, 2007	Traditional	MPP	Total
Net Interest Income	\$ 36,765	\$10,601	\$47,366
Other income (loss)	1,383	(50)	1,333
Other expenses	11,537	872	12,409
Income Before Assessments	26,611	9,679	36,290
AHP	2,371	790	3,161
REFCORP	4,848	1,778	6,626
Total assessments	7,219	2,568	9,787
Net Income	<u>\$ 19,392</u>	<u>\$ 7,111</u>	<u>\$26,503</u>

Note 12 — Estimated Fair Values

Effective January 1, 2008, we adopted SFAS 157 and SFAS 159. SFAS 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS 157 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. SFAS 157 applies whenever other accounting pronouncements require or permit assets or liabilities to be measured at fair value. Accordingly, SFAS 157 does not expand the use of fair value in any new circumstances. SFAS 159 allows an entity to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities, with changes in fair value recognized in earnings as they occur. Our adoption of SFAS 157 and SFAS 159 did not impact our Retained earnings at January 1, 2008.

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

We record available-for-sale securities and derivative assets and liabilities at fair value on our Statement of Condition. Fair value is a market-based measurement and defined 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. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. In general, the transaction price will equal the exit price and, therefore, represent the fair value of the asset or liability at initial recognition. In determining whether a transaction price represents the fair value of the asset or liability at initial recognition, each reporting entity is required to consider factors specific to the asset or liability, the principal or most advantageous market for the assets or liability, and market participants with whom the entity would transact in that market.

SFAS 157 establishes a fair value hierarchy to prioritize the inputs of valuation techniques used to measure 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 and defines the level of disclosure. SFAS 157 clarifies fair value in terms of the price in an orderly transaction between market participants to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability. The objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price). In order to determine the fair value or the exit price, entities must determine the unit of account, highest and best use, principal market, and market participants. These determinations allow the reporting entity to define the inputs for fair value and level of hierarchy.

Outlined below is the application of the fair value hierarchy established by SFAS 157 to our financial assets and financial liabilities that are carried at fair value.

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. 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. We do not have any assets or liabilities carried at Level 1 fair value.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. We carry Available-for-sale securities, Derivative assets and Derivative liabilities at Level 2 fair value.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs supported by little or no market activity or by the entity's own assumptions. We do not have any assets or liabilities carried at Level 3 fair value.

We utilize valuation techniques that, to the extent possible, use observable inputs in our valuation models. Described below are our fair value measurement methodologies for assets and liabilities carried at fair value:

- Available-for-sale securities – The estimated fair values are based on executable prices for identical assets. The fair values of our assets fall within the Level 2 hierarchy as we consider the assets to trade in markets where there is not enough volume or depth to be considered active. Prior to 2008, we have not held AFS securities in our portfolio since 2005.
- Derivative assets and Derivative liabilities – The estimated fair values of our derivative assets and liabilities are based on widely accepted valuation models which utilize market observable valuation inputs such as the U.S. dollar swap curve and U.S. dollar swaption values with the valuation inputs and techniques remaining consistent with those used in previous periods. We use the mid-point in the bid/ask range as a practical expedient. Additionally, derivative market values are corroborated through quotes provided by the derivative counterparties and significant differences are investigated.

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

Fair Value on a Recurring Basis

The following table presents for each SFAS 157 hierarchy level our assets and liabilities that are measured at fair value on our Statement of Condition at March 31, 2008 (table and footnote \$ amounts in thousands):

	<u>Fair Value Measurements at March 31, 2008</u>				<u>Netting Adjustment (1)</u>
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets					
Available-for-sale securities	\$659,142	\$ —	\$659,142	\$ —	\$ —
Derivative assets	10,564		10,564		
Total assets at fair value	<u>\$669,706</u>	<u>\$ —</u>	<u>\$669,706</u>	<u>\$ —</u>	<u>\$ —</u>
Liabilities					
Derivative liabilities	\$637,477	\$ —	\$665,072	\$ —	\$ (27,595)
Total liabilities at fair value	<u>\$637,477</u>	<u>\$ —</u>	<u>\$665,072</u>	<u>\$ —</u>	<u>\$ (27,595)</u>

(1) Amounts represent the effect of legally enforceable master netting agreements that allow us to settle positive and negative positions and also cash collateral held or placed with the same counterparties. Cash collateral plus accrued interest totaled \$27,595 at March 31, 2008.

For instruments carried at fair value, we review the fair value hierarchy classifications on a quarterly basis. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in/out of Level 3 at fair value in the quarter in which the changes occur, as applicable.

We determined estimated fair value amounts by using available market information and our assumptions applied in our valuation models. These estimates are based on pertinent information available to us as of March 31, 2008, and December 31, 2007. Because of the assumptions used in the valuation process, there are inherent limitations in estimating the fair value of these instruments. For example, because an active secondary market does not exist for a portion of our financial instruments, in certain cases, fair values are not subject to precise quantification or verification and may change as economic and market factors and evaluation of those factors change. Therefore, these estimated fair values are not necessarily indicative of the amounts that would be realized in current market transactions.

Note 13 — Commitments and Contingencies

The Federal Home Loan Banks have joint and several liability for all COs issued on behalf of any of the other Federal Home Loan Banks. Accordingly, should one or more of the Federal Home Loan Banks be unable to pay its participation in the COs, each of the Federal Home Loan Banks could be called upon to repay all or part of such obligations, as determined or approved by the Finance Board. No Federal Home Loan Bank has ever had to assume or pay the CO of another Federal Home Loan Bank.

We considered the guidance under FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others-an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34 ("FIN 45")*, and determined it was not necessary to recognize a liability for the fair value of our joint and several liability for all of the COs. The joint and several obligations are mandated by Finance Board regulations and are not the result of arms-length transactions among the Federal Home Loan Banks. The Federal Home Loan Banks have no control over the amount of the guaranty or the determination of how each Federal Home Loan Bank would perform under the joint and several liability. Because the Federal Home Loan Banks are subject to the authority of the Finance Board as it relates to decisions involving the allocation of the joint

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

and several liability for each of the Federal Home Loan Bank's COs, our joint and several obligation is excluded from the initial recognition and measurement provisions of FIN 45. Accordingly, we do not recognize a liability for our joint and several obligation related to COs issued for the benefit of other Federal Home Loan Banks. The par amounts of the Federal Home Loan Banks' outstanding COs, including COs held by other Federal Home Loan Banks, were approximately \$1,220.4 billion and \$1,189.7 billion at March 31, 2008, and December 31, 2007, respectively.

Commitments that legally bind and unconditionally obligate us for additional Advances totaled approximately \$77,510,000 and \$10,910,000 at March 31, 2008, and December 31, 2007, respectively. Commitments generally are for periods up to 12 months. Based on management's credit analyses and collateral requirements, we do not deem it necessary to record any additional liability on these commitments.

Standby letters of credit are executed for members for a fee. A standby letter of credit is a financing arrangement between the Bank and one of our members. If we are required to make payment for a beneficiary's draw, these amounts are converted into a collateralized Advance to the member. Outstanding standby letters of credit were as follows (\$ amounts in thousands):

	March 31, 2008	December 31, 2007
Outstanding notional	\$ 278,453	\$ 226,387
Original terms	1 year - 15 years	11 months - 15 years
Final expiration year	2018	2016

The value of the guarantees related to standby letters of credit entered into after 2002 are recorded in Other liabilities and amount to \$1,805,000 at March 31, 2008. Based on management's credit analyses and collateral requirements, we have not deemed it necessary to record any additional liability on these commitments. We also had an outstanding commitment that unconditionally obligates us for additional letters of credit that totaled approximately \$6,208,000 at March 31, 2008, compared to \$1,357,000 at December 31, 2007.

We had \$166,546,000 of unused lines of credit available to members at March 31, 2008.

For managing the inherent credit risk in MPP, participating members pay us credit enhancement fees in order to fund the LRA and pay SMI. The LRA is held to offset any losses that may occur. When a credit loss occurs, the accumulated LRA is used to cover the credit loss in excess of equity and primary mortgage insurance. Funds not used are returned to the member over time. The LRA amounted to \$21,420,000 and \$21,090,000 at March 31, 2008, and December 31, 2007, respectively. SMI provides additional coverage over and above losses covered by the LRA. Reserves for additional probable losses are provisioned through the allowance for credit losses. No allowance for credit losses was considered necessary at March 31, 2008, and December 31, 2007.

Commitments that unconditionally obligate us to fund/purchase mortgage loans totaled \$51,505,000 and \$40,204,000 at March 31, 2008, and December 31, 2007, respectively. Commitments are generally for periods not to exceed 91 days. Such commitments were recorded as derivatives at their fair value.

We generally execute derivatives with major banks and broker-dealers and generally enter into bilateral collateral agreements. We have pledged collateral totaling \$27,544,000 and \$0, at March 31, 2008, and December 31, 2007, respectively.

We committed to issue \$999,500,000 par value of CO Bonds, \$660,000,000 of which were hedged with associated interest rate swaps, and \$32,000,000 par value of Discount notes that had traded but not settled as of March 31, 2008. This compares to \$69,500,000 par value of CO Bonds, none of which were hedged with associated interest rate swaps, and \$243,775,000 par value of Discount notes that had traded but not settled as of December 31, 2007.

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
Information as of and for the Three Months Ended March 31, 2008, and 2007 is Unaudited

We may be subject to various pending legal proceedings that may arise in the normal course of business. After consultation with legal counsel, management does not anticipate that the ultimate liability, if any, arising out of these matters will have a material effect on our financial condition or results of operations.

Notes 5, 7, 9, and 10 discuss other commitments and contingencies.

Note 14 — Transactions with Shareholders

Our activities with shareholders are summarized below and have been identified in the Statement of Condition, Statement of Income, and Statement of Cash Flows.

In the normal course of business, we have invested in federal funds sold activity and other short-term investments with shareholders or their affiliates.

In addition, included in our held-to-maturity investment portfolio are purchases of MBS issued by shareholders or their affiliates.

Transactions with Directors' Financial Institutions. We provide, in the ordinary course of business, products and services to members whose officers or directors may serve on our Board of Directors (“**Directors' Financial Institutions**”). Finance Board regulations require that transactions with Directors' Financial Institutions be made on the same terms as those with any other member. As of March 31, 2008, and December 31, 2007, we had Advances and capital stock outstanding (including Mandatorily redeemable capital stock) to Directors' Financial Institutions as follows (\$ amounts in thousands):

	<u>Advances (\$ at par)</u>	<u>% of Advances outstanding</u>	<u>Capital Stock (\$ at par)</u>	<u>% of Capital Stock outstanding</u>
March 31, 2008	\$7,690,919	25.8%	\$446,855	19.8%
December 31, 2007	\$1,545,920	5.9%	\$103,775	4.8%

The increase in Advances and Capital stock outstanding to Directors' Financial Institutions from December 31, 2007, to March 31, 2008, is substantially due to the addition of one Directors' Financial Institution since December 31, 2007.

During the three months ended March 31, 2008, and 2007, we acquired mortgage loans from Directors' Financial Institutions as follows (\$ amounts in thousands):

	<u>For the Three Months Ended March 31,</u>	
	<u>2008</u>	<u>2007</u>
Mortgage Loans originated by Directors' Financial Institutions	\$ 338	\$ 1,009

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Special Note Regarding Forward-looking Statements

Statements in this Quarterly Report on Form 10-Q, including statements describing the objectives, projections, estimates or future predictions of the Bank may be "forward-looking statements." These statements may use forward-looking terminology, such as "anticipates," "believes," "could," "estimates," "may," "should," "expects," "will," or their negatives or other variations on these terms. We caution that, by their nature, forward-looking statements involve risk or uncertainty and that actual results either could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate, or prediction is realized. These forward-looking statements involve risks and uncertainties including, but not limited to, the following:

- economic and market conditions;
- demand for our Advances resulting from changes in our members' deposit flows and credit demands;
- demand for purchases of mortgage loans resulting from, among other things, changes in the general level of housing activity in the U.S., the level of refinancing activity and consumer product preferences;
- changes in asset prepayment patterns;
- changes in delinquency rates;
- changes in or differing interpretations of accounting rules;
- negative adjustments in Federal Home Loan Bank System credit agency ratings that could adversely impact the marketability of our COs, products, or services;
- changes in our ability to raise capital market funding;
- volatility of market prices, rates, and indices that could affect the value of collateral we hold as security for the obligations of our members and counterparties;
- political events, including legislative, regulatory, or other developments, and judicial rulings that affect us, our members, counterparties, and/or investors in the COs of the 12 Federal Home Loan Banks;
- competitive forces, including without limitation other sources of funding available to our members, other entities borrowing funds in the capital markets, and the ability to attract and retain skilled individuals;
- ability to develop and support technology and information systems, including the Internet, sufficient to effectively manage the risks of our business;
- changes in investor demand for COs and the terms of interest rate exchange agreements and similar agreements;
- membership changes, including, but not limited to, mergers, acquisitions and consolidation of charters;
- timing and volume of market activity;
- ability to introduce new products and services and successfully manage the risks associated with those products and services, including new types of collateral securing Advances and securitizations;
- risk of loss arising from litigation filed against one or more of the Federal Home Loan Banks;
- risk of loss arising from natural disasters or acts of terrorism;
- risk of loss should one or more of the Federal Home Loan Banks be unable to repay its participation in the COs;
- inflation or deflation; and
- costs associated with compliance with the Sarbanes-Oxley Act of 2002 and other SEC reporting requirements, such as the Securities Exchange Act of 1934.

Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make through reports filed with the SEC in the future, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the financial statements and related footnotes contained in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2007 ("**2007 Form 10-K**").

Overview

Our Business

We are a regional wholesale bank that makes Advances (loans), purchases mortgages, and provides other financial services to our member financial institutions. These member financial institutions consist of commercial banks, thrifts, credit unions and insurance companies. All member financial institutions are required to purchase shares of our Class B Stock as a condition of membership. Our public policy mission is to facilitate and expand the availability of financing for housing and community development. We seek to achieve this by providing services to our members in a safe, sound, and profitable manner, and by generating a competitive return on their capital investment.

We manage our business by grouping our products and services within two business segments:

- **Traditional**, which includes credit services (such as Advances, letters of credit, and lines of credit), investments (including MBS), and deposits; and
- **MPP**, which consists of mortgage loans purchased from our members.

Our primary source of revenues is interest earned on:

- Advances;
- long- and short-term investments; and
- mortgage loans acquired from our members.

Our principal source of funding is the proceeds from the sale to the public of Federal Home Loan Bank debt instruments, called COs, which are the joint and several obligation of all 12 Federal Home Loan Banks. We obtain additional funds from deposits, other borrowings, and capital stock.

Our profitability is primarily determined by the interest rate spread between the amount earned on our assets and the amount paid on our share of the COs. We use funding and hedging strategies to mitigate risk. Another important component of our profitability is the earnings on our capital balances. For this component, generally higher rates will tend to generate higher levels of earnings.

Our overall prospects are dependent on the market environment and our members' demand for wholesale funding and sales of mortgage loans. Our members typically use wholesale funding, in the form of Advances, after they have exhausted their other sources of funding, such as retail deposits and excess liquidity. Also, members may sell mortgage loans to us as part of an overall business strategy. In the past, periods of economic growth have led to significant use of wholesale funds by our members because businesses typically fund expansion by borrowing and/or reducing deposit balances. Conversely, slow economic growth has tended to decrease our members' wholesale borrowing activity. However, recent market conditions, including the liquidity, credit quality and valuation issues in the housing and mortgage markets, have led to increased demand for Advances and sales of mortgage loans from our members. Member demand for Advances and the sale of mortgage loans is also influenced by the steepness of the yield curve, as well as the availability and cost of other sources of wholesale funding.

The Economy and the Financial Services Industry

The credit quality and valuation issues in the housing and mortgage markets began several years ago as low mortgage interest rates fueled an escalation of home values and production. Lenders also lowered their underwriting standards to qualify more borrowers and made use of more exotic types of mortgage products with less consideration of a borrower's ability to repay the loans. Credit quality issues emerged as many of these borrowers defaulted on their mortgage loans. These issues were compounded when low introductory rates began to reset to higher market interest rates on adjustable-rate mortgage loans, leaving more borrowers unable to make their mortgage payments. Higher mortgage rates combined with an increasing supply of residential real estate for sale have driven home prices downward. In an attempt to address liquidity and economic concerns, the Federal Reserve Board cut the federal funds rate by 100 basis points at the Federal Open Market Committee meetings held during the second half of 2007, and by an additional 225 basis points in the first four months of 2008, bringing the rate to 2.00%. We will continue to monitor the changing market conditions affecting our mortgage portfolios and the value of collateral pledged by our members. If the serious economic decline continues, we anticipate that it could have a negative impact on the financial condition of some of our members, which would adversely affect our profitability if such members are no longer able to conduct business with us due to poor financial condition or lack of qualified collateral. Additionally, if these conditions continue, they could have a serious adverse effect on our MBS and MPP portfolios.

The mortgage market issues also played a role in the slowing of the economy for our district states of Indiana and Michigan. Economic data for Michigan have generally been unfavorable compared to national data, while Indiana's economic performance is more in line with the national economy. Michigan's unemployment rate as of March 31, 2008, of 7.2% is well above the U.S. rate of 5.1%, and Indiana's rate of 5.1%. Michigan's foreclosure rate of 1.9% of all households was the third highest in the nation for 2007 while Indiana's foreclosure rate of 1.0% matched the national rate. We believe the economic outlook for our district will continue to trail the overall U.S. economy.

Highlights of Our Operating Results for the Three Months Ended March 31, 2008

Our financial results were influenced by market conditions during the first quarter of 2008 as we responded to our members' increased need for liquidity. Total assets were \$58.6 billion as of March 31, 2008, an increase of \$2.5 billion compared to \$56.1 billion as of December 31, 2007. This increase was primarily due to:

- an increase in Advances of \$3.8 billion mainly as a result of increased demand from our members;
- our purchase of \$0.7 billion of Available-for-sale securities in order to utilize capital capacity and take advantage of investment opportunities; and
- an increase in Held-to-maturity securities of \$0.3 billion due to purchases of MBS.

These increases were partially offset by a decrease of \$2.1 billion in our short-term investments, consisting of Federal funds sold and Interest-bearing deposits due to our members' increased demand for Advances and the purchase of Available-for-sale securities.

The overall balance of our COs, which fluctuates in relation to our Total assets, equaled \$53.8 billion at March 31, 2008, an increase of \$1.4 billion compared to \$52.4 billion at December 31, 2007. This increase enabled us to enhance our liquidity position and support our members' increased demand for Advances in the current housing market.

A more detailed discussion of the above changes can be found in "Analysis of Financial Condition" herein.

Net Interest Income was \$69.1 million for the three months ended March 31, 2008, compared to \$47.4 million for the same period in 2007. This increase is primarily due to the increase in average earning assets, and recent declines in market interest rates that resulted in wider spreads on our interest-earning assets.

Overall, Net Income was \$43.3 million for the three months ended March 31, 2008, an increase of \$16.8 million or 63.3%, compared to \$26.5 million for the same period in 2007. This increase was primarily due to the increase of \$21.7 million in Net Interest Income, as described above, and a decrease of \$2.3 million in compensation and benefits, partially offset by an increase of \$6.1 in Total assessments. A more detailed discussion of these changes in Net Income can be found in “Results of Operations for the Three Months Ended March 31, 2008, and 2007” herein.

On April 11, 2008, we announced a cash dividend on our Class B-1 stock of 5.25% (annualized) and Class B-2 stock of 4.20% (annualized), based on our results for the first quarter of 2008. During the first three months of 2008, Retained earnings increased by approximately \$19.5 million compared to December 31, 2007, bringing our level of Retained earnings to \$221.6 million.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities (if applicable), and the reported amounts of income and expenses during the reported period. We believe the application of our accounting policies on a consistent basis enables us to provide financial statement users with useful, reliable and timely information about our earnings results, financial position and cash flows. Our management reviews these estimates and assumptions based on historical experience, changes in business conditions and other relevant factors we believe to be reasonable under the circumstances. Changes in estimates and assumptions could potentially affect our financial position and results of operations significantly. In any given reporting period, our actual results may differ from the estimates and assumptions used in preparing our financial statements.

We have identified four accounting policies that we believe are critical because they require management to make subjective judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These policies are:

- accounting for derivatives and hedging activities (SFAS 133);
- accounting for premiums and discounts and other costs associated with originating or acquiring mortgage loans and MBS (SFAS 91);
- provision for credit losses (SFAS 114, *Accounting by Creditors for Impairment of a Loan*); and
- fair value estimates.

A discussion of these critical accounting policies and estimates can be found in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section under the caption “Critical Accounting Policies and Estimates” of our 2007 Form 10-K. See below for additional information regarding our use of fair values.

Fair Values. We carry certain assets and liabilities on the Statement of Condition at fair value, including investments classified as available-for-sale and all derivatives. We adopted SFAS 157 on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and requires additional disclosures for instruments carried at fair value on the Statement of Condition. SFAS 157 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, or an exit price.

Fair values play an important role in the valuation of certain of our assets, liabilities and hedging transactions. Fair values are based on quoted market prices or market-based prices, if such prices are available. If quoted market prices or market-based prices are not available, fair values are determined based on valuation models that use either:

- discounted cash flows, using market estimates of interest rates and volatility; or
- dealer prices and prices of similar instruments.

Pricing models and their underlying assumptions are based on the best estimates of management with respect to:

- discount rates;
- prepayments;
- market volatility; and
- other factors.

We utilize valuation techniques that, to the extent possible, use observable inputs in our valuation models. Described below are our fair value measurement methodologies for assets and liabilities carried at fair value:

- Available-for-sale securities – The estimated fair values are based on executable prices for identical assets. The fair values of our assets fall within the Level 2 hierarchy as we consider the assets to trade in markets where there is not enough volume or depth to be considered active. Prior to 2008, we have not held AFS securities in our portfolio since 2005.
- Derivative assets and Derivative liabilities – The estimated fair values of our derivative assets and liabilities are based on widely accepted valuation models which utilize market observable valuation inputs such as the U.S. dollar swap curve and U.S. dollar swaption values with the valuation inputs and techniques remaining consistent with those used in previous periods. We use the mid-point in the bid/ask range as a practical expedient. Additionally, derivative market values are corroborated through quotes provided by the derivative counterparties and significant differences are investigated.

These assumptions may have a significant effect on the reported fair values of assets and liabilities, including derivatives, and the income and expense related thereto. The use of different assumptions, as well as changes in market conditions, could result in materially different net income and retained earnings.

We categorize our financial instruments carried at fair value into a three-level classification in accordance with SFAS 157. The valuation hierarchy is based upon the transparency (observable or unobservable) of inputs to the valuation of an asset or liability as of the measurement date. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions.

Summary of Selected Financial Data

The following table presents a summary of certain financial information as of and for the periods indicated:

Financial Highlights (\$ amounts in thousands)

Selected Statement of Condition Items at Period End	As of and for the Three Months ended,				
	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Total assets	\$ 58,613,865	\$ 56,054,752	\$ 53,534,735	\$ 48,834,886	\$ 48,600,802
Advances	30,604,792	26,769,633	24,170,125	21,981,605	22,077,482
Mortgage loans held for portfolio, net	9,259,416	9,396,757	9,521,926	9,713,474	9,958,762
Available-for-sale securities	659,142	—	—	—	—
Held-to-maturity securities	7,019,464	6,714,909	6,676,653	6,548,528	6,318,598
Federal funds sold	10,080,000	11,261,000	10,420,000	9,057,000	8,720,000
COs					
Discount notes	22,137,381	22,171,485	15,966,504	10,388,267	12,520,976
Bonds	31,696,682	30,253,735	33,912,297	34,737,984	32,272,258
Mandatorily redeemable capital stock	206,034	163,469	163,471	163,249	151,197
Capital stock, Class B-1 putable	2,053,159	2,002,862	1,941,491	1,893,712	1,881,106
Retained earnings	221,566	202,111	185,985	175,468	169,926
Total capital	2,265,658	2,198,932	2,121,143	2,062,680	2,044,429
Quarterly Operating Results					
Net Interest Income	69,070	60,564	51,438	47,534	47,366
Other income (loss)	249	1,769	1,206	(2,621)	1,333
Other expense	10,137	10,607	9,396	9,190	12,409
Total assessments	15,905	13,874	11,625	9,606	9,787
Net Income	43,277	37,852	31,623	26,117	26,503
Other Data					
Return on average equity	7.83%	6.95%	6.01%	5.11%	5.34%
Return on average assets	0.31%	0.27%	0.24%	0.22%	0.23%
Weighted average dividend rate, Class B-1 stock	4.75%	4.50%	4.50%	4.50%	5.00%
Dividend payout ratio ⁽¹⁾	54.64%	57.40%	66.74%	78.53%	87.51%
Total capital ratio (at period end) ⁽²⁾	3.87%	3.92%	3.96%	4.22%	4.21%
Regulatory capital ratio (at period end) ⁽³⁾	4.23%	4.23%	4.28%	4.57%	4.53%
Par amount of outstanding COs for all 12 Federal Home Loan Banks	\$1,220,430,703	\$1,189,705,970	\$1,148,571,404	\$970,857,067	\$951,469,858

(1) The dividend payout ratio is calculated by dividing dividends paid in cash and stock by Net Income.

(2) Total capital ratio represents Total capital divided by Total assets.

(3) Regulatory capital ratio represents the sum of Capital stock (Class B-1 and B-2 putable), Retained earnings, and Mandatorily redeemable capital stock divided by Total assets.

Results of Operations for the Three Months Ended March 31, 2008, and 2007

The following table presents average balances, interest, and average rates of major earning asset categories and the sources funding those earning assets for the three months ended March 31, 2008, and 2007:

Average Balances, Interest and Average Rates (\$ amounts in thousands)

	Three months ended March 31,					
	2008			2007		
	Average Balance	Interest	Avg. Rate	Average Balance	Interest	Avg. Rate
Assets						
Interest-bearing deposits	\$ 1,181,040	\$ 13,790	4.70%	\$ 397,954	\$ 5,030	5.13%
Federal funds sold	10,940,923	104,118	3.83%	7,451,867	97,602	5.31%
Available-for-sale securities ⁽¹⁾⁽²⁾	48,976	162	1.33%	—	—	—
Held-to-maturity securities	6,843,564	81,317	4.78%	6,390,318	74,655	4.74%
Advances ⁽¹⁾	27,896,981	293,202	4.23%	22,936,530	307,165	5.43%
Mortgage loans held for portfolio	9,348,434	121,656	5.23%	10,010,074	130,995	5.31%
Loans to other Federal Home Loan Banks	—	—	—	1,111	15	5.48%
Total Interest-earning assets	<u>56,259,918</u>	<u>614,245</u>	<u>4.39%</u>	<u>47,187,854</u>	<u>615,462</u>	<u>5.29%</u>
Other assets	339,288			373,136		
Total assets	<u>\$56,599,206</u>			<u>\$47,560,990</u>		
Liabilities and Capital						
Interest-bearing deposits	\$ 919,685	6,471	2.83%	\$ 1,007,738	12,685	5.11%
Other borrowings	989	6	2.44%	—	—	—
Discount Notes	20,684,788	180,402	3.51%	11,482,674	148,170	5.23%
CO Bonds ⁽¹⁾	31,420,714	355,799	4.55%	32,350,223	405,290	5.08%
Mandatorily redeemable capital stock	189,256	2,497	5.31%	151,230	1,951	5.23%
Total interest-bearing liabilities	<u>53,215,432</u>	<u>545,175</u>	<u>4.12%</u>	<u>44,991,865</u>	<u>568,096</u>	<u>5.12%</u>
Other liabilities	1,160,106			557,642		
Total capital	<u>2,223,668</u>			<u>2,011,483</u>		
Total liabilities and capital	<u>\$56,599,206</u>			<u>\$47,560,990</u>		
Net Interest Income and net spread on interest-earning assets less interest-bearing liabilities		<u>\$ 69,070</u>	<u>0.27%</u>		<u>\$ 47,366</u>	<u>0.17%</u>
Net interest margin	<u>0.49%</u>			<u>0.41%</u>		
Average interest-earning assets to interest-bearing liabilities	<u>1.06</u>			<u>1.05</u>		

- (1) Interest income/expense and average rates include the effect of associated interest rate exchange agreements to the extent such agreements qualify as fair value hedges in accordance with SFAS 133.
- (2) The average balances of available-for-sale securities are reflected at amortized cost; therefore, the resulting yields do not reflect changes in fair value.

Results of Operations for the Three Months Ended March 31, 2008, and 2007

Net Income

Net Income totaled \$43.3 million for the three months ended March 31, 2008, an increase of 63.3% compared to \$26.5 million for the three months ended March 31, 2007. The following factors contributed to this increase in Net Income:

- Net Interest Income increased by \$21.7 million for the three months ended March 31, 2008, compared to the same period in 2007. The factors impacting Net Interest Income are addressed separately below under “Net Interest Income;” and
- Total other expenses decreased by \$2.3 million due to lower Compensation and benefits expenses as a result of a \$3.2 million charge during the first quarter of 2007 related to the early retirement incentive offered in the fourth quarter of 2006.

These factors were partially offset by the following:

- Total assessments for AHP and REFCORP increased by \$6.1 million for the three months ended March 31, 2008, consistent with the higher level of Income Before Assessments.

Net Interest Income

Net Interest Income was \$69.1 million for the three months ended March 31, 2008, an increase of \$21.7 million compared to the same period in 2007. The following components comprised the change in Net Interest Income:

- *Effect of the change in the spread and average net earning assets* – The spread between the yield on earning assets and liabilities increased to 0.27% for the three months ended March 31, 2008, compared to 0.17% for the three months ended March 31, 2007, primarily due to a higher spread between the yield on earning assets and liabilities that resulted from recent market volatility and the widening of credit spreads. The imputed increase in Net Interest Income due to the increased spread was approximately \$14.0 million. Our average interest-earning assets increased by approximately \$9.0 billion at March 31, 2008, compared to March 31, 2007. The imputed increase in Net Interest Income due to this increase was approximately \$4.3 million.
- *Effect of the change in the cost of funds and average capital and net non-earning assets and non-interest-bearing liabilities* – Our average cost of funds decreased by 100 basis points for the three months ended March 31, 2008, compared to the three months ended March 31, 2007, to 4.12% from 5.12%. Since we earn interest on the investment of capital and any non-interest-bearing liabilities, Net Interest Income is negatively impacted as interest rates fall, and we earn a lower return on our average net capital investment. The imputed decrease in Net Interest Income due to the decrease in the cost of funds was approximately \$5.9 million. Likewise, as our average net capital investment increases or decreases, this also leads to a corresponding change in Net Interest Income. Our average net capital investment increased by \$848.6 million from March 31, 2007 to March 31, 2008. Earnings from our average net capital investment can be computed as the average cost of interest-bearing liabilities multiplied by the difference between the amount of interest-earning assets and the amount of interest-bearing liabilities. The imputed increase in Net Interest Income due to the increase in our average net capital investment was approximately \$9.3 million.

Changes in both volume and interest rates influence changes in Net Interest Income and Net interest margin. Changes in interest income and interest expense that are not identifiable as either volume-related or rate-related, but rather attributable to both volume and rate changes, have been allocated to the volume and rate categories based upon the proportion of the volume and rate changes. The following table summarizes changes in interest income and interest expense between the three months ended March 31, 2008, and 2007:

Rate and Volume Analysis
(\$ amounts in thousands)

	For the Three Months ended March 31, 2008 over 2007		
	Volume	Rate	Total
Increase (decrease) in interest income			
Advances	\$ 59,265	\$ (73,228)	\$(13,963)
Interest-bearing deposits	9,172	(412)	8,760
Federal funds sold	37,810	(31,294)	6,516
Available-for-sale securities	162	—	162
Held-to-maturity securities	5,368	1,294	6,662
Mortgage loans held for portfolio	(8,614)	(725)	(9,339)
Loans to other Federal Home Loan Banks	(15)	—	(15)
Total	<u>103,148</u>	<u>(104,365)</u>	<u>(1,217)</u>
Increase (decrease) in interest expense			
Discount notes	91,339	(59,107)	32,232
CO Bonds	(11,387)	(38,104)	(49,491)
Interest-bearing deposits	(1,028)	(5,186)	(6,214)
Mandatorily redeemable capital stock	501	45	546
Other borrowings	6	—	6
Total	<u>79,431</u>	<u>(102,352)</u>	<u>(22,921)</u>
Increase (decrease) in Net Interest Income	<u>\$ 23,717</u>	<u>\$ (2,013)</u>	<u>\$ 21,704</u>

Earnings Analysis

The following table presents changes in the components of our Net Income for the three months ended March 31, 2008, and 2007:

Change in Earnings Components (\$ amounts in thousands)

Increase (decrease) in:	For the Three Months ended March 31, 2008 vs. 2007	
	\$ change	% change
Interest income	\$ (1,217)	(0.2)%
Interest expense	(22,921)	(4.0)%
Net Interest Income	21,704	45.8%
Other income (loss)	(1,084)	(81.3)%
Other expense	(2,272)	(18.3)%
Income Before Assessments	22,892	63.1%
AHP	1,925	60.9%
REFCORP	4,193	63.3%
Total assessments	6,118	62.5%
Net Income	\$ 16,774	63.3%

Other Income

The following table presents the components of Other income (loss) for the three months ended March 31, 2008, and 2007, and an analysis of the changes in the components of these income items:

Analysis of Other Income (Loss) (\$ amounts in thousands)

	For the Three Months ended March 31, 2008 vs. 2007			
	2008	2007	\$ Amt	% change
Service fees	\$ 312	\$ 335	\$ (23)	(6.9)%
Net gains (losses) on derivatives and hedging activities	(401)	722	(1,123)	(155.5)%
Other, net	338	276	62	22.5%
Total other income (loss)	\$ 249	\$1,333	\$ (1,084)	(81.3)%

The decrease in Other income (loss) for the three months ended March 31, 2008, compared to the same period in 2007 was primarily due to fair value adjustments made in accordance with SFAS 133 that resulted in a loss in Net gain (loss) on derivatives and hedging activities.

The following tables present the components of the change in the Net gain (loss) on derivatives and hedging activities by type of hedge and type of product:

**Components of Net Gain (Loss) on Derivatives and Hedging Activities
By Hedge
(\$ amounts in thousands)**

	For the Three Months ended March 31,	
	2008	2007
Fair Value Hedges		
Net gain (loss) due to ineffectiveness on		
Advances	\$ (261)	\$ (215)
Investments	53	—
MPP	—	122
CO Bonds	(1,858)	25
Net gain (loss) on fair value hedges	<u>(2,066)</u>	<u>(68)</u>
Non SFAS 133/Economic Hedges		
Net interest receipt (payment) settlements ⁽¹⁾		
Advances	—	2
Investments	(7)	2
Discount notes	561	—
CO Bonds	(11)	(547)
Net settlements	<u>543</u>	<u>(543)</u>
SFAS 133 derivative fair value gain (loss) adjustments		
Advances	—	(3)
Investments	(18)	1
CO Bonds	1,009	1,507
Discount notes	796	—
MPP	(665)	(172)
Fair value adjustments	<u>1,122</u>	<u>1,333</u>
Net gain (loss) on economic hedges	<u>1,665</u>	<u>790</u>
Net gain (loss) on derivatives and hedging activities	<u>\$ (401)</u>	<u>\$ 722</u>

(1) Net settlements represent the net interest payments or receipts on interest rate exchange agreements for hedges not receiving fair value hedge accounting.

**Net Gain (Loss) on Derivatives and Hedging Activities
By Product
(\$ amounts in thousands)**

	For the Three Months ended March 31,	
	2008	2007
Advances	\$ (261)	\$ (216)
Investments	28	3
MPP	(665)	(50)
Discount notes	1,357	—
CO Bonds	(860)	985
Net gain (loss) on derivatives and hedging activities	<u>\$ (401)</u>	<u>\$ 722</u>

Other Expense

The following table presents a breakdown of Total other expense for the three months ended March 31, 2008, and 2007, and an analysis of the changes in the components of these expenses:

Analysis of Other Expense (\$ amounts in thousands)

	For the Three Months ended March 31,			
	2008	2007	2008 vs. 2007 \$ Amt	% change
Compensation and benefits	\$ 6,840	\$ 8,914	\$(2,074)	(23.3)%
Other operating expenses	2,120	2,133	(13)	(0.6)%
Finance Board and Office of Finance expenses	863	819	44	5.4%
Other	314	543	(229)	(42.2)%
Total other expense	\$10,137	\$12,409	\$(2,272)	(18.3)%

The decrease in Total other expense for the three months ended March 31, 2008, compared to the same period in 2007, was primarily due to:

- a decrease in Compensation and benefits due to a \$3.2 million charge during the first quarter of 2007 related to the early retirement incentive offered to certain employees; and
- lower master servicing fees for MPP that were renegotiated during the second quarter of 2007.

AHP and REFCORP Assessments

The financial obligations of AHP and REFCORP assessments as described below are statutorily required.

AHP. The Federal Home Loan Banks are required to contribute, in the aggregate, the greater of \$100 million or 10% of their Net Income, before interest expense for Mandatorily redeemable capital stock that is classified as debt, and after the REFCORP assessments to fund the AHP. The AHP expense for the three months ended March 31, 2008, was \$5.1 million compared to \$3.2 million for the same period in 2007.

REFCORP. With the Financial Services Modernization Act of 1999, Congress established a fixed payment of 20% of Net Income after the AHP obligation as the REFCORP payment beginning in 2000 for each Federal Home Loan Bank. The law also calls for an adjustment to be made to the total number of REFCORP payments due in future years so that, on a present value basis, the combined REFCORP payments of all 12 Federal Home Loan Banks are equal in amount to what had been required under the previous calculation method. The 20% fixed percentage REFCORP rate applied to earnings resulted in expenses of \$10.8 million for the three months ended March 31, 2008, compared to \$6.6 million for the same period in 2007.

The increases in both AHP and REFCORP are directly attributable to our increase in Income Before Assessments.

Business Segments

We manage our business by grouping the income and expenses from our products and services within two business segments: Traditional, which includes traditional funding (such as Advances), investments and deposit products, and MPP.

The following tables set forth our financial performance by operating segment for the three months ended March 31, 2008, and 2007:

Traditional (\$ amounts in thousands)

	For the Three Months ended March 31,			
	2008 vs. 2007			
	2008	2007	\$ Amt	% change
Net Interest Income	\$56,451	\$36,765	\$19,686	53.5%
Other income (loss)	914	1,383	(469)	(33.9)%
Other expenses	9,544	11,537	(1,993)	(17.3)%
Income Before Assessments	47,821	26,611	21,210	79.7%
AHP	4,159	2,371	1,788	75.4%
REFCORP	8,732	4,848	3,884	80.1%
Total assessments	12,891	7,219	5,672	78.6%
Net Income	<u>\$34,930</u>	<u>\$19,392</u>	<u>\$15,538</u>	<u>80.1%</u>

The increase in Net Income for the Traditional segment for the three months ended March 31, 2008, compared to the same period in 2007, was primarily due to the following factors:

- an increase in Net Interest Income resulting from higher interest-earning assets, higher net equity and recent declines in market interest rates that have resulted in wider spreads due to lower funding costs; and
- a decrease in Other expenses that is described in greater detail in “Other Expense” herein.

These increases were partially offset by:

- a decrease in Other income (loss) due to fair value adjustments made in accordance with SFAS 133 that resulted in a loss in Net gain (loss) on derivatives and hedging activities; and
- an increase in Total assessments that is consistent with the higher level of Income Before Assessments.

MPP
(\$ amounts in thousands)

	For the Three Months ended March 31,			
	2008 vs. 2007			
	2008	2007	\$ Amt	% change
Net Interest Income	\$12,619	\$10,601	\$2,018	19.0%
Other income (loss)	(665)	(50)	(615)	(1,230.0)%
Other expenses	593	872	(279)	(32.0)%
Income Before Assessments	11,361	9,679	1,682	17.4%
AHP	927	790	137	17.3%
REFCORP	2,087	1,778	309	17.4%
Total assessments	3,014	2,568	446	17.4%
Net Income	<u>\$ 8,347</u>	<u>\$ 7,111</u>	<u>\$1,236</u>	<u>17.4%</u>

The increase in Net Income for the MPP segment for the three months ended March 31, 2008, compared to the same period in 2007, was primarily due to:

- an increase in Net Interest Income mainly due to recent declines in market interest rates that resulted in wider spreads as we have been able to replace higher-costing debt with lower-costing debt;
- a decrease in Other expenses resulting from lower master servicing fees for MPP that were renegotiated during the second quarter of 2007.

These increases were partially offset by:

- a decrease in Other income (loss) as a result of an increase in the fair value loss adjustments made in accordance with SFAS 133 related to MPP hedges and commitments that resulted in a loss in Net gain (loss) on derivatives and hedging activities; and
- an increase in Total assessments consistent with the higher level of Income Before Assessments.

Analysis of Financial Condition

Advances

Advances increased by \$3.8 billion or 14.3% during the first three months of 2008 to \$30.6 billion, compared to \$26.8 billion at December 31, 2007. This increase was primarily caused by increased demand for Advances from many of our members, including, in particular, our insurance company members and an increase of \$0.5 billion due to fair value adjustments made in accordance with SFAS 133. Advances at par to insurance company members have increased to \$3.9 billion, or 12.9% of total Advances, at par, at March 31, 2008, compared to \$3.0 billion, or 11.3% of total Advances, as of December 31, 2007.

In general, Advance balances fluctuate in accordance with our members' funding needs related to their mortgage pipelines, investment opportunities, other balance sheet strategies, and the cost of alternative funding opportunities.

A breakdown of Advances, at par value, by primary product line, as of March 31, 2008, and December 31, 2007, is provided below:

Advances by Product Line
(\$ amounts in thousands, at par)

	March 31, 2008		December 31, 2007	
	\$ amount	% of Total	\$ amount	% of Total
Fixed-rate bullet	\$17,653,323	59.3%	\$16,387,203	62.1%
Putable	5,618,500	18.9%	4,982,550	18.9%
Adjustable ⁽¹⁾	3,443,884	11.6%	2,006,134	7.6%
Fixed-rate amortizing	2,201,510	7.4%	2,088,120	7.9%
Variable	717,978	2.4%	936,785	3.5%
Callable	131,845	0.4%	—	—
Total Advances, at par value	\$29,767,040	100.0%	\$26,400,792	100.0%

⁽¹⁾ Includes two outstanding Advances with a total par of \$15 million modified (in accordance with Emerging Issues Task Force 01-07, *Creditor's Accounting for a Modification or Exchange of Debt Instruments*) from Putable Advances to Adjustable Advances with \$0.55 million, and \$0.59 million in remaining deferred fees outstanding as of March 31, 2008, and December 31, 2007, respectively.

Short-term Investments

As of March 31, 2008, short-term investments, which are comprised of Interest-bearing deposits and Federal funds sold, totaled \$10.8 billion, a decrease of \$2.1 billion from December 31, 2007, primarily due to decreases of \$1.2 billion in Federal funds sold and \$0.9 billion in interest-bearing deposits resulting from the increased demand for Advances and our purchase of Available-for-sale securities.

Available-for-sale Securities

Available-for-sale securities were \$0.7 billion at March 31, 2008, compared to \$0 at December 31, 2007. We purchased AAA-rated agency debentures for our Available-for-sale portfolio during the first three months of 2008 in order to utilize capital capacity and take advantage of investment opportunities.

Held-to-maturity Securities

Held-to-maturity securities increased to \$7.0 billion at March 31, 2008, compared to \$6.7 billion at December 31, 2007, due to purchases made within the regulatory limit described below of three times our Total regulatory capital.

The Finance Board's regulations provide that the total book value of our investments in MBS and ABS must not exceed 300% of our Total regulatory capital, consisting of Retained earnings, Class B stock, and Mandatorily redeemable capital stock, as of the previous month end on the day we purchase the securities. If our outstanding investments in MBS and ABS exceed the limitation at any time, but were in compliance at the time we purchased the investments, we would not be considered out of compliance with the regulation. However, we would not be permitted to purchase additional MBS or ABS until we were back within the capital limitation. We were in compliance with this limit at March 31, 2008, and December 31, 2007.

On March 24, 2008, the Finance Board passed a resolution to temporarily grant the Federal Home Loan Banks the ability to purchase additional MBS and ABS, not to exceed 600% of Total regulatory capital, in order to increase liquidity in the MBS markets. Investments under this authority are limited to Fannie Mae and Freddie Mac MBS, and this authority will expire on March 31, 2010. Each Federal Home Loan Bank must have its board's approval and must provide notice to the Finance Board of its intention to participate.

and meet certain reporting and recordkeeping requirements with the Finance Board in order to invest up to the increased limit. It is not known at this time whether we will participate or on what terms our board may authorize any increased investment in MBS under this temporary authority.

We regularly evaluate outstanding held-to-maturity investments for changes in fair value and record an impairment loss when a decline in fair value is deemed to be other-than-temporary. An investment is considered for impairment if the fair value of the investment is less than its amortized cost. After the investment is determined to be impaired, we evaluate whether this decline in value is other-than-temporary. When evaluating whether the impairment is other-than-temporary, we take into consideration whether or not we expect to receive all of the investment's contractual cash flows based on factors that include, but are not limited to: the creditworthiness of the issuer (i.e., rating agency actions) and the underlying collateral; the length of time and extent that fair value has been less than amortized cost; and whether we have the intent and ability to hold the investment for a sufficient amount of time to recover the unrealized losses. We may also evaluate the issuer's business and financial outlook, as well as broader industry and sector performance indicators.

The following tables summarize the held-to-maturity securities with unrealized losses as of March 31, 2008, and December 31, 2007. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position (\$ amounts in thousands).

March 31, 2008	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS and ABS						
U.S. agency obligations – guaranteed	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
GSEs	281,204	(3,155)	363,018	(4,950)	644,222	(8,105)
Other ⁽¹⁾	3,235,619	(57,574)	1,419,365	(96,533)	4,654,984	(154,107)
Total temporarily impaired	\$3,516,823	\$(60,729)	\$1,782,383	\$(101,483)	\$5,299,206	\$(162,212)

- (1) Included in the column for Unrealized Losses Less than 12 months are two securities we purchased from Bank of America Mortgage Securities, an affiliate of a member, with an amortized cost of \$80.6 million and a market value of \$80.0 million. Included in the column for Unrealized Losses 12 months or more is a security we purchased from Bank of America Mortgage Securities, an affiliate of a member, with an amortized cost of \$52.2 million and a market value of \$49.6 million.

December 31, 2007	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS and ABS						
U.S. agency obligations – guaranteed	\$ —	\$ —	\$ 20,724	\$ (33)	\$ 20,724	\$ (33)
GSEs	—	—	603,326	(17,110)	603,326	(17,110)
Other ⁽¹⁾	553,179	(3,808)	3,143,443	(81,147)	3,696,622	(84,955)
Total temporarily impaired	\$553,179	\$(3,808)	\$3,767,493	\$(98,290)	\$4,320,672	\$(102,098)

- (1) Included in the column for Unrealized Losses 12 months or more were two securities we purchased from Bank of America Mortgage Securities, an affiliate of a member, with an amortized cost of \$76.1 million and a market value of \$74.4 million.

The unrealized losses on our investments in MBS and ABS reflected above were caused by continued deterioration in the credit performance of mortgage loans in the overall market and declining housing prices, compounded by the effect of forced portfolio liquidations by certain large investors, which resulted in the current reduced liquidity in the credit markets. If there is an other-than-temporary impairment in value of an investment, the decline in value is recognized as a loss and presented in the Statement of Income as Other expense.

Since we have the ability and intent to hold these investments until a full recovery of the unrealized losses, which may be maturity, and in part based on the creditworthiness of the issuers and the underlying collateral, we do not consider these investments to be other-than-temporarily impaired at March 31, 2008, or December 31, 2007.

Mortgage Loans Held for Portfolio, Net

We purchase mortgage loans from our members through our MPP. At March 31, 2008, after considering the effects of premiums, discounts, SFAS 133 basis adjustments, and allowances for credit losses on mortgage loans, we held \$9.3 billion in mortgage loans purchased from our members, compared to \$9.4 billion at December 31, 2007. We anticipate that our outstanding Mortgage loans held for portfolio will continue to decrease during 2008 due to the loss of several large sellers of new mortgage loans, the reduction of outstanding balances due to maturity or prepayment, and our transition to purchasing loans primarily from small to mid-size members.

Some of the other factors that impact the volume of mortgage loans purchased through the MPP include the general level of housing activity in the U.S., the level of refinancing activity, and consumer product preferences. In accordance with our MPP policy for conventional loans, we purchase conforming, fixed-rate, fixed-term mortgage loans.

The following table presents the composition of our outstanding purchased mortgage loans at March 31, 2008, and December 31, 2007:

**Mortgage Loans Held for Portfolio
(\$ amounts in thousands)**

	March 31, 2008		
	Long-term ⁽¹⁾	Medium-term ⁽²⁾	Total
Unpaid principal balance	\$7,848,914	\$1,382,882	\$9,231,796
Deferred net premium	2,915	5,923	8,838
Basis adjustments from terminated fair value hedges, and loan commitments.	19,184	(402)	18,782
Total mortgage loans held for portfolio	\$7,871,013	\$1,388,403	\$9,259,416
	December 31, 2007		
	Long-term ⁽¹⁾	Medium-term ⁽²⁾	Total
Unpaid principal balance	\$7,959,694	\$1,407,128	\$9,366,822
Deferred net premium	2,945	6,249	9,194
Basis adjustments from terminated fair value hedges, and loan commitments.	20,866	(125)	20,741
Total mortgage loans held for portfolio	\$7,983,505	\$1,413,252	\$9,396,757

(1) Long-term is defined as an original term greater than 15 years.

(2) Medium-term is defined as an original term of 15 years or less.

Finance Board regulations and Bank policy require that providers of SMI be rated not lower than AA-, and our sellers are legally obligated to maintain such insurance with an insurer rated not lower than AA-. If at any time one of our SMI providers is downgraded below AA-, we may be required by the Finance Board to seek replacement insurance from another company that meets the rating requirement. Alternatively, we may be required to seek regulatory forbearance if such alternative insurance is unavailable. Depending upon market conditions at that time, the cost of replacement insurance could be higher than the current cost, which could have a material adverse impact on the profitability of our MPP portfolio.

On April 8, 2008, S&P lowered MGIC's rating to A with a negative outlook from AA-/watch negative. As of April 30, 2008, Moody's credit rating for MGIC is Aa2/watch negative and Fitch's is AA/watch negative. If MGIC's rating is lowered by Moody's and Fitch, we anticipate requesting regulatory forbearance as S&P has affirmed that MGIC's near-term ability to satisfy claims from existing resources remains strong.

Deposits (Liabilities)

Total deposits were \$1.0 billion at March 31, 2008, compared to \$0.6 billion at December 31, 2007. These deposits represent a relatively small portion of our funding, and they vary depending upon market factors, such as the attractiveness of our deposit pricing relative to the rates available on alternative money market instruments, members' investment preferences with respect to the maturity of their investments, and member liquidity.

Consolidated Obligations

At March 31, 2008, the carrying values of Discount notes and CO Bonds issued on our behalf totaled \$22.1 billion and \$31.7 billion, respectively, compared to \$22.2 billion and \$30.3 billion, respectively, at December 31, 2007. The overall balance of our COs fluctuates in relation to our Total assets. For the three months ended March 31, 2008, the increase was primarily attributable to the increases in our Advances, Available-for-sale securities and Held-to-maturity securities.

Derivatives

As of March 31, 2008, and December 31, 2007, we had derivative assets net of collateral held or paid including accrued interest with market values of \$10.6 million and \$1.9 million, respectively, and derivative liabilities net of collateral held or paid including accrued interest with market values of \$637.5 million and \$304.7 million, respectively. These amounts reflect the impact of interest rate changes that affected the market value of our derivatives. We record all derivative financial instruments on the Statements of Condition at their fair value with changes in the fair value of all derivatives, excluding collateral, recorded through earnings.

The principal derivative instruments we use are interest-rate swaps and to-be-announced mortgage-backed securities ("TBAs"). We classify interest-rate swaps as derivative assets or liabilities according to the net fair value of the interest-rate swaps with each counterparty. Because these swaps are covered by a master netting agreement, they are classified as an asset if the net fair value of the interest rate swaps with a counterparty is positive or as a liability if the net fair value of the interest rate swaps with a counterparty is negative. TBAs are not covered by a master netting agreement and are recorded as a derivative asset or liability based upon fair value. Increases and decreases in the fair value of each of these instruments are primarily caused by market changes in the derivative's underlying interest rate index.

Capital

Total capital increased to \$2.3 billion at March 31, 2008, compared to \$2.2 billion at December 31, 2007. The following table presents the components of this \$0.1 billion increase:

	Capital Stock	Retained Earnings	Other Comprehensive Income	Total
Balance at December 31, 2007	\$2,002,863	\$202,111	\$ (6,042)	\$2,198,932
Reclassification to Mandatorily redeemable capital stock related to membership withdrawal	(42,393)			(42,393)
Proceeds from the sale of capital stock	92,690			92,690
Net Income		43,277		43,277
Mandatorily redeemable capital stock distributions		(175)		(175)
Dividends paid		(23,647)		(23,647)
Net unrealized loss on available-for-sale securities			(3,026)	(3,026)
Balance at March 31, 2008	<u>\$2,053,160</u>	<u>\$221,566</u>	<u>\$ (9,068)</u>	<u>\$2,265,658</u>

Total Regulatory Capital

Our total regulatory capital consists of Retained earnings, Class B stock, and Mandatorily redeemable capital stock. Mandatorily redeemable capital stock is classified as a liability in accordance with GAAP on our Statements of Condition.

As of March 31, 2008, \$585.4 million or 26% of our total regulatory capital stock balance, which consists of Class B stock and Mandatorily redeemable capital stock, was comprised of stock not required as a condition of membership or to support services to members, compared to \$649.3 million or 30% at December 31, 2007. The decrease of \$63.9 million in excess stock was primarily due to the increase in Advances to our members as described in “*Advances*” herein. In general, the level of excess stock fluctuates with our members’ demand for Advances.

Retained Earnings

Retained earnings equaled \$221.6 million at March 31, 2008, an increase of \$19.5 million compared to December 31, 2007. The following table quantifies the net change in Retained earnings:

Net Income versus Dividends Paid (\$ amounts in thousands)

	For the Three Months ended March 31,	
	2008	2007
Net Income	\$ 43,277	\$ 26,503
Dividends paid	(23,647)	(23,192)
Mandatorily redeemable capital stock distributions	(175)	(7)
Change in Retained earnings	<u>\$ 19,455</u>	<u>\$ 3,304</u>

Our Retained Earnings Policy establishes guidelines for our board to use in determining the amount of earnings to retain. These guidelines include, but are not limited to: (i) a retained earnings target that is comprised of market, credit, operations and accounting risk components; (ii) the impact on our members; and (iii) the stability of stock and membership levels. The retained earnings target reflects a minimum Retained earnings balance after the quarterly dividend is paid. The Retained earnings balance at March 31, 2008, adjusted for the first quarter dividend of \$26.2 million that was declared in April 2008, was \$195.4 million.

Our retained earnings target can be superseded by Finance Board mandates, either by an order specific to the Bank, by issuance of new advisory guidelines, or by promulgation of new regulations requiring a level of Retained earnings that is different from our currently targeted level. Over time, and as our risk profile changes, we will continue to evaluate our Retained earnings position.

Liquidity and Capital Resources

Liquidity

Our primary sources of liquidity are short-term investments and the issuance of new COs in the form of CO Bonds and Discount notes. As of April 30, 2008, the COs were rated Aaa/P-1 by Moody's and AAA/A-1+ by S&P. Their GSE-issuer status and these ratings have historically provided excellent access to the capital markets for the Federal Home Loan Banks. In addition, under certain circumstances, the U.S. Treasury may acquire up to \$4 billion of the Federal Home Loan Banks' COs, which would offer additional liquidity to the Federal Home Loan Banks, if needed. See "Risk Factors – Our Credit Rating Could be Lowered" in our 2007 Form 10-K, for a discussion of events that could have a negative impact on the rating of these COs.

We maintain a contingency liquidity plan designed to enable us to meet our obligations and the liquidity needs of our members in the event of operational disruptions at the Federal Home Loan Banks or the Office of Finance, or short-term capital market disruptions. Our regulatory liquidity requirement is to maintain at least five business days of liquidity without access to the capital markets. In accordance with our contingency liquidity plan, we might be required to rely upon asset-based liquid reserves to meet our cash flow obligations. Member deposits and other short-term borrowings, such as Federal funds purchased, securities sold under agreements to repurchase, and loans from other Federal Home Loan Banks provide additional sources of liquidity. On a daily basis, we model our cash commitments and expected cash flows to determine our liquidity position.

Our cash and short-term investment portfolio, which includes Federal funds sold and Interest-bearing deposits, totaled \$10.8 billion at March 31, 2008, compared to \$12.9 billion at December 31, 2007. The maturities of these short-term investments provide cash flows to support our ongoing liquidity needs.

Capital Resources

The following table presents minimum capital ratios, permanent and risk-based capital requirement amounts, and various leverage ratios as of March 31, 2008, and December 31, 2007:

Regulatory Capital Requirements (\$ amounts in thousands)

	As of March 31, 2008	As of December 31, 2007
Minimum regulatory capital ratio requirement	4.00%	4.00%
Minimum regulatory capital requirement	\$ 2,344,555	\$ 2,242,190
Actual regulatory capital ratio ⁽¹⁾	4.23%	4.23%
Permanent capital ⁽²⁾	\$ 2,480,761	\$ 2,368,443
Risk-based capital requirement	\$ 452,834	\$ 439,867
Minimum regulatory leverage ratio	5.00%	5.00%
Minimum regulatory leverage capital requirement	\$ 2,930,693	\$ 2,802,738
Actual regulatory leverage ratio	6.35%	6.34%
Actual regulatory leverage capital	\$ 3,721,141	\$ 3,552,664

- (1) The regulatory capital ratio is calculated by dividing permanent capital by Total assets.
- (2) Permanent capital is defined as Retained earnings, Class B Stock, and Mandatorily redeemable capital stock.

Mandatorily Redeemable Capital Stock

At March 31, 2008, we had \$206.0 million in capital stock subject to mandatory redemption, compared to \$163.5 million in capital stock subject to mandatory redemption at December 31, 2007. The following table presents the components of this \$42.5 million increase.

	Number of Former Members	Amount
Balance at December 31, 2007	16	\$163,469
Due to mergers and acquisitions	3	42,393
Redemptions/repurchases during the period	—	(3)
Accrued dividends classified as mandatorily redeemable	—	175
Balance at March 31, 2008	19	\$206,034

We generally will not redeem or repurchase member capital stock until five years after either the membership is terminated or we receive a notice of withdrawal from membership. If we receive a request to redeem excess stock, we are not required to redeem or repurchase such excess stock until the expiration of the five-year redemption period. However, we reserve the right to repurchase, and have repurchased, excess stock from a member, without a member request and at our discretion, upon 15 days' notice to the member.

In addition to the Mandatorily redeemable capital stock, we had \$51.0 million of excess and other stock subject to a redemption request at March 31, 2008, and \$56.2 million of excess and other stock subject to a redemption request at December 31, 2007. These stock redemption requests are not subject to reclassification from equity to liability, as the requesting member may revoke its request at any time, without penalty, throughout the five-year waiting period, and the amount ultimately redeemed, if any, is contingent on the member meeting various stock requirements on the redemption date. These requests are not considered substantive in nature, and, therefore, these amounts are not classified as a liability.

The following table shows the amount of all pending capital redemption requests received from members by year of redemption at March 31, 2008, and December 31, 2007 (\$ amounts in thousands):

Contractual Year of Redemption	March 31, 2008	December 31, 2007
Due in 1 year or less	\$ 4,643	\$ 4,643
Due after 1 year through 2 years	11,549	8,748
Due after 2 years through 3 years	11,082	3,883
Due after 3 years through 4 years	165,511	179,011
Due after 4 years through 5 years	64,052	23,422
Total	<u>\$256,837</u>	<u>\$ 219,707</u>

Capital Distributions

We may, but are not required to, pay dividends on our stock. Dividends may be paid in cash or Class B Stock out of current and previously Retained earnings, as authorized by our board, and subject to Finance Board regulations. Finance Board regulations prohibit a Federal Home Loan Bank from issuing new excess stock if the amount of excess stock outstanding exceeds 1.00% of the Bank's Total assets. Therefore, we have not been permitted to pay stock dividends because our excess stock balance has exceeded 1.00% of our Total assets. However, at March 31, 2008, our outstanding excess stock of \$585.4 million was slightly less than 1.00% of our Total assets.

Cash dividends on Class B-1 Stock were paid at an annualized rate of 4.75% during the first quarter of 2008 and 5.00% during the first quarter of 2007 based on our earnings for the fourth quarters of 2007 and 2006. The decrease in our dividend payout ratio for the quarters ended March 31, 2007, through the quarter ended March 31, 2008, reflects our board's decision to increase our Retained earnings.

On April 11, 2008, we announced a cash dividend on our Class B-1 stock of 5.25% (annualized) based on our results for the first quarter of 2008. On April 13, 2007, we announced a cash dividend on our Class B-1 stock of 4.50% (annualized), based on our results for the first quarter of 2007. Future dividends will be determined based on income earned each quarter, our Retained Earnings Policy, and capital management considerations.

Off-balance Sheet Arrangements

Commitments that legally bind and unconditionally obligate us for additional Advances and letters of credit totaled approximately \$77.5 million and \$10.9 million at March 31, 2008, and December 31, 2007, respectively. The increase is primarily due to an increase in funds-only commitments on Advances and letters of credit that tend to be higher at the beginning of the year than the end of the year. Funds-only commitments generally are for periods up to six months. Based on management's credit analyses and collateral requirements, we do not deem it necessary to record any additional liability on these commitments.

Commitments that unconditionally obligate us to fund/purchase mortgage loans totaled \$51.5 million and \$40.2 million at March 31, 2008, and December 31, 2007, respectively. Commitments are generally for periods not to exceed 91 days.

Unused lines of credit totaled \$166.5 million at March 31, 2008, and \$158.2 million at December 31, 2007.

Recent Accounting and Regulatory Developments

Accounting Developments

SFAS 157. On September 15, 2006, the FASB issued SFAS No. 157. In defining fair value, SFAS 157 retains the exchange price notion in earlier definitions of fair value. However, the definition focuses on the price that would be received to sell an asset or paid to transfer a liability (an exit price), not the price that

would be paid to acquire the asset or received to assume the liability (an entry price). SFAS 157 applies whenever other accounting pronouncements require or permit fair value measurements. Accordingly, SFAS 157 does not expand the use of fair value in any new circumstances. SFAS 157 also establishes a fair value hierarchy that prioritizes the information used to develop assumptions used to determine the exit price. SFAS 157 establishes valuation techniques that are used to measure fair value. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 - quoted prices in active markets for identical assets or liabilities,
- Level 2 - directly or indirectly observable inputs other than quoted prices, and
- Level 3 - unobservable inputs.

SFAS 157 requires disclosures detailing (1) the extent to which companies measure assets and liabilities at fair value, (2) the methods and assumptions used to measure fair value, and (3) the effect of fair value measurements on earnings, as applicable. Our adoption of SFAS 157 effective January 1, 2008, did not have an impact on our Retained earnings balance.

SFAS 159. On February 15, 2007, the FASB issued SFAS No. 159. SFAS 159 creates a fair value option allowing an entity to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities, with changes in fair value recognized in earnings as they occur. SFAS 159 also requires an entity to report those financial assets and financial liabilities measured at fair value in a manner that separates those reported fair values from the carrying amounts of assets and liabilities measured using another measurement attribute on the face of the statement of financial position. Lastly, SFAS 159 requires an entity to provide information that would allow users to understand the effect on earnings of changes in the fair value on those instruments selected for the fair value election. We did not elect the fair value option provided by SFAS 159 for any financial assets or liabilities upon our adoption of SFAS 159 on January 1, 2008. As such, the adoption of SFAS 159 did not have a material impact on our results of operations and financial condition. Further, we have not elected the fair value option for any financial assets or liabilities at any point subsequent to our adoption of SFAS 159.

FSP FIN 39-1. On April 30, 2007, the FASB issued FASB Staff Position No. FIN 39-1. FSP FIN 39-1 permits an entity to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instruments recognized at fair value executed with the same counterparty under a master netting arrangement. Under FSP FIN 39-1, the receivable or payable related to cash collateral may not be offset if the amount recognized does not represent or approximate fair value or arises from instruments in a master netting arrangement that are not eligible to be offset. The decision whether to offset such fair value amounts represents an elective accounting policy decision that, once elected, must be applied consistently. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Bank), with earlier application permitted. An entity should recognize the effects of applying FSP FIN 39-1 as a change in accounting principle through retrospective application for all financial statements presented unless it is impracticable to do so. Upon adoption of FSP FIN 39-1, an entity is permitted to change its accounting policy to offset or not offset fair value amounts recognized for derivative instruments under master netting arrangements. Our adoption of FSP FIN 39-1 at January 1, 2008, had the following impact on the Statement of Condition as of December 31, 2007:

	As reported at December 31, 2007 (shown in our 2007 Form 10-K)	December 31, 2007 balances upon adoption of FSP FIN 39-1 (shown in this Form 10-Q)	Increase/ (Decrease)
Derivative assets	\$ 3,625	\$ 1,926	\$ (1,699)
Interest-bearing deposits	565,789	555,593	(10,196)
Accrued interest payable	318,528	318,494	(34)
Derivative liabilities	296,214	304,745	8,531

Issue E23. In January 2008, the FASB issued Statement 133 Implementation Issue No. E23. Issue E23 amends Statement 133 to explicitly permit use of the shortcut method for those hedging relationships in which (1) the interest rate swap has a nonzero fair value at the inception of the hedging relationship, attributable solely to differing prices within the bid-ask spread, and/or (2) the hedged item has a trade date that differs from its settlement date because of generally established conventions in the marketplace in which the transaction to acquire or issue the hedged item is executed. Issue E23 is effective for hedging relationships designated on or after January 1, 2008. At adoption, pre-existing hedging relationships utilizing the shortcut method which did not meet the requirements of Issue 23 as of the inception of the hedging relationship must be redesignated prospectively. The effect of applying hedge accounting prior to the effective date may not be reversed. A hedging relationship that does not qualify for the shortcut method based on Issue E23 could be redesignated without the application of the shortcut method if that hedging relationship meets the applicable requirements of Statement 133. Our adoption of Issue E23 did not have a material impact on our results of operations or financial condition.

SFAS 161. On March 19, 2008, the FASB issued SFAS No. 161. SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. These enhanced disclosures will discuss (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008 (January 1, 2009, for the Bank), with earlier adoption allowed. Management is evaluating whether our adoption of SFAS 161 will have a material impact on our financial statement disclosures.

Regulatory Developments

Proposed Changes in GSE Regulation and Programs

Legislative Action

Congress has in the past and continues to consider various proposed bills designed to strengthen the regulation of Fannie Mae, Freddie Mac and the Federal Home Loan Banks and to address other GSE reform issues. Numerous House and Senate committee hearings have taken place to consider GSE restructuring over the last several years, although no new legislation has been enacted at this time. Further, in light of the current turmoil in the housing, municipal finance and economic development markets, Congress is also considering legislation to: 1) allow the Federal Home Loan Banks to issue letters of credit to credit enhance tax-exempt municipal economic development bonds; 2) use AHP set-aside program funds to refinance mortgages for families having incomes below 80% of the median income for the area; and 3) allow the Federal Home Loan Banks to invest in student loan-related securities, accept student loans or related securities as collateral and make advances to members to allow them to originate student loans or finance student loan-related securities. It is impossible to predict whether any legislation relating to the Federal Home Loan Banks or the Finance Board will be approved by Congress and signed into law. Further, it is impossible to predict when any such legislation would go into effect, if enacted, and what affect the legislation would ultimately have on the Federal Home Loan Banks.

Regulatory Action

On March 24, 2008, the Finance Board passed a resolution to temporarily grant the Federal Home Loan Banks the ability to purchase additional MBS not to exceed 600% of Total regulatory capital in order to increase liquidity in the MBS markets. Investments under this authority are limited to Fannie Mae and Freddie Mac MBS, and this authority will expire on March 31, 2010. Each Federal Home Loan Bank must have its board's approval, provide notice to the Finance Board of its intention to participate, and must meet certain reporting and recordkeeping requirements with the Finance Board in order to invest up to the increased limit. It is not known at this time whether we will participate or on what terms our board may authorize any increased investment in MBS under this temporary authority.

The Finance Board has also issued a proposed rule that would permit the Federal Home Loan Banks to establish AHP homeownership set-aside programs for the purpose of refinancing or restructuring eligible households' nontraditional or subprime owner-occupied mortgage loans through June 30, 2011. Comments on the proposed rule are due by June 16, 2008. It is not yet known how or if the proposed rule would affect our current AHP programs, including HomeRetain, a program designed to help members assist customers in danger of foreclosure.

Risk Management

The U.S. residential mortgage market weakened substantially during the second half of 2007. Concern over the impact of subprime loans caused the subprime-related and broader credit markets to deteriorate considerably. In particular, the market for mortgage-related securities has been characterized by high levels of volatility and uncertainty; reduced demand and liquidity; and significantly wider credit spreads. During late 2007, risk aversion escalated in the marketplace as mortgage-related securities, particularly those backed by nontraditional mortgage products, have been subject to various rating agency downgrades. The Federal Reserve attempted to prevent a serious and extended economic downturn resulting from these mortgage market difficulties by taking significant interest rate reduction and liquidity actions. The various factors that have caused this broad credit market deterioration in the housing and mortgage markets are expected to continue throughout 2008.

We are heavily dependent on the residential mortgage market through the collateral securing member loans and holdings of mortgage-related assets. We have outstanding credit exposures related to the MPP, investments in private-label and agency MBS, short-term investments and derivatives which may be directly affected by the mortgage market deterioration.

We have the potential for exposure to a number of risks in pursuing our business objectives. One primary risk, market risk, is discussed in detail below under "Quantitative and Qualitative Disclosures about Market Risk." Other critical risks may be broadly classified as credit, liquidity, operational, and business. A detailed discussion of the policies and practices that have been established to manage these risk positions can be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management" in our 2007 Form 10-K.

Credit Risk Management

Credit risk is the risk that members or other counterparties may be unable to meet their contractual obligations, or that the value of an obligation will decline as a result of deterioration in creditworthiness. We face credit risk on Advances and other credit products, investments, mortgage loans, derivative financial instruments, and AHP grants. The most important step in the management of credit risk is the initial decision to extend credit. We also manage credit risk by following established policies, evaluating the creditworthiness of our members and counterparties, and utilizing collateral agreements and settlement netting. Periodic monitoring of members and other counterparties is performed for all areas where we are exposed to credit risk.

Based on the current exposure, management does not anticipate any material credit loss on Advances, investments, mortgage loans, derivatives or AHP grants due to our careful application of underwriting, collateralization standards, and counterparty limits, as described below.

Advances. We have never experienced a credit loss on an Advance to a member in over 75 years of existence. We manage our exposure to credit risk on Advances through a combined approach that provides ongoing review of the financial condition of our borrowers coupled with a conservative collateral policy. Protection is provided via thorough underwriting and collateralization before Advances are issued. Quarterly or annual credit analyses are performed on existing borrowers, with the frequency depending primarily on the financial condition of the borrower and/or the amount of our credit products outstanding.

Credit risk can be magnified if the lender concentrates its portfolio in a few borrowers. Because of our limited territory, Indiana and Michigan, and because of continuing consolidation among the financial

institutions that comprise the members of the 12 Federal Home Loan Banks, we have only a limited pool of large borrowers. As of March 31, 2008, our top two borrowers held 38.7% of total Advances outstanding, at par. Because of this concentration in Advances, we perform frequent credit and collateral reviews on our largest borrowers. In addition, we analyze the implications to our financial management and profitability if we were to lose the business of one or more of these borrowers.

AHP. Our AHP requires participating members and project sponsors to make commitments with respect to the usage of the AHP grants to assist very low-, low-, and moderate-income families, as defined by regulation. If these commitments are not met, we may have the obligation to recapture these funds from the member or project sponsor or to replenish the AHP fund. This credit exposure is not explicitly collateralized but is addressed in part by evaluating project feasibility at the time of an award and the ongoing monitoring of AHP projects.

Investments. We are also exposed to credit risk through our investment portfolios. The Risk Management Policy (“RMP”) approved by our board restricts the acquisition of investments to high-quality, short-term money market instruments and highly rated long-term securities. The short-term investment portfolio represents unsecured credit. Therefore, counterparty ratings, performance, and capital adequacy are monitored in an effort to mitigate unsecured credit risk on the short-term investments. Our long-term investments consist of residential MBS, commercial MBS and ABS. We primarily hold AAA-rated (privately-issued and GSE-issued) collateralized mortgage obligations and pass-throughs. All of our MBS and ABS are rated AAA by S&P or Moody’s, except for an ABS bond with a book value of \$26.6 million that was downgraded to AA on April 3, 2006, and two MBS bonds with a combined book value of \$4.7 million that were downgraded to AA by Fitch on April 7, 2008. Currently, these MBS bonds are rated AAA by S&P and Moody’s, as shown on the table below.

The subprime segment of the mortgage market primarily serves borrowers with poorer credit payment histories; such loans typically have a mix of credit characteristics that indicate a higher likelihood of default and higher loss severities than prime loans. The following table also shows the investments that are categorized by S&P, Moody’s or Fitch as subprime in our MBS portfolio.

Subprime MBS
(\$ amounts in thousands, at par value)

	<u>March 31, 2008</u>	<u>Rating</u>	<u>December 31, 2007</u>	<u>Rating</u>
Private-label residential MBS	\$ 522	AAA	\$ 583	AAA
Home equity loans	4,708	AAA	5,018	AAA
Manufactured housing	26,602	AA	27,392	AA
Total subprime MBS	<u>\$ 31,832</u>		<u>\$ 32,993</u>	

Although there is no standard industry definition for Alt-A mortgage loans, generally, they are characterized by a lower level of loan documentation. The following table shows the investments that are categorized by S&P and Moody’s as Alt-A in our MBS portfolio.

Alt-A MBS
(\$ amounts in thousands, at par value)

	<u>March 31, 2008</u>	<u>Rating</u>	<u>December 31, 2007</u>	<u>Rating</u>
Total Alt-A MBS	<u>\$ 381,297</u>	AAA	<u>\$ 398,792</u>	AAA

MPP. We are exposed to credit risk on loans purchased from members through the MPP. In the MPP, we establish an LRA for each pool of conventional loans purchased that is funded over time from the monthly interest payment on the mortgages in that pool and is recorded as an increase to Other liabilities in the Statement of Condition. These funds are available to cover losses in excess of the borrower’s equity and primary mortgage insurance, if any, on the conventional loans we have purchased.

Our outstanding loans, non-accrual loans, and loans 90 days or more past due and accruing interest as of March 31, 2008, and December 31, 2007, as well as the total amount of interest income recognized and the total amount of interest received on real estate mortgages during the three months ended March 31, 2008, and 2007, is presented in the tables below:

Loan Portfolio Analysis
(\$ amounts in thousands)

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Real estate mortgages	\$ 9,259,416	\$ 9,396,757
Non-accrual loan participations ⁽¹⁾	1	1
Real estate mortgages past due 90 days or more and still accruing interest ⁽²⁾	\$ 82,446	\$ 81,172
	Three Months ended	
	March 31,	
	<u>2008</u>	<u>2007</u>
Interest contractually due during the period	\$123,842	\$132,325
Interest actually received during the period	123,842	132,325
Shortfall ⁽²⁾	\$ —	\$ —

- (1) Non-accrual loans include our residual participation in conventional loans not part of the MPP.
- (2) Interest on MPP is advanced by the servicer based upon scheduled principal and interest payments and therefore will not reflect the actual shortfall associated with non-accruing loans because, under this arrangement, our servicers remit payments to us as scheduled whether or not payment is received from the borrower. Although we began offering an actual/actual remittance option on June 1, 2006, it has not yet had an effect on the shortfall. Under actual/actual servicing agreements, the servicers remit payments only as they are received from the borrowers. The monthly delinquency information reported as of quarter end is provided by the servicer through the master servicer one month after the actual mortgage loan balance activity.

Loans in the MPP are dispersed geographically, as shown in the following table:

Geographic Concentration of MPP Loans ⁽¹⁾⁽²⁾

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Midwest	34.9%	33.9%
Northeast	11.3%	11.4%
Southeast	20.2%	20.5%
Southwest	21.0%	21.3%
West	12.6%	12.9%
Total	<u>100.0%</u>	<u>100.0%</u>

- (1) Percentages calculated based on the unpaid principal balance at the end of each period.
- (2) Midwest includes IA, IL, IN, MI, MN, ND, NE, OH, SD, and WI.
 Northeast includes CT, DE, MA, ME, NH, NJ, NY, PA, RI, VI and VT.
 Southeast includes AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA, and WV.
 Southwest includes AR, AZ, CO, KS, LA, MO, NM, OK, TX, and UT.
 West includes AK, CA, HI, ID, MT, NV, OR, WA, and WY.

The MPP mortgage loans held for portfolio are dispersed across all fifty states, the District of Columbia and the U.S. Virgin Islands. No single zip code represented more than 1% of MPP loans outstanding at March 31, 2008, or December 31, 2007. It is likely that the concentration of MPP loans in our district states of Indiana and Michigan will increase in the future due to the loss of our three largest sellers because those three sellers were our greatest sources of nationwide mortgages. The median size of an outstanding MPP loan was approximately \$138,750 at March 31, 2008, and \$138,800 at December 31, 2007.

An analysis of real estate mortgages past due 90 days or more and still accruing interest and the percentage of those loans to the mortgage loans outstanding as of March 31, 2008, and December 31, 2007, follows:

Real Estate Mortgages Past Due 90 Days or More
(\$ amounts in thousands)

	<u>As of March 31, 2008</u>	<u>As of December 31, 2007</u>
Total Conventional mortgage loan delinquencies	\$ 36,905	\$ 36,201
Total Conventional mortgage loans outstanding, at par	\$ 8,457,972	\$ 8,566,653
Percentage of delinquent conventional loans	0.44%	0.42%
Total FHA mortgage loan delinquencies	\$ 45,541	\$ 44,971
Total FHA mortgage loans outstanding, at par	\$ 773,824	\$ 800,169
Percentage of delinquent FHA loans	5.89%	5.62%

The 90 day delinquency ratio for conventional mortgages increased from 0.42% to 0.44% during the first three months of 2008. A continued decline in the general economic conditions in the U.S. and, in particular, Michigan and Indiana, could result in increased delinquencies in our portfolio. Another factor that impacts the delinquency ratio is the age of our loans. It is typical for mortgage delinquencies to increase during the first few years of a loan portfolio's life. Since our portfolio contains relatively new loans, the delinquency ratio is increasing as the loans age, and our percentage of new loans and the outstanding balance decrease. The conventional delinquency ratios are below the national average for conforming, fixed-rate mortgages.

For government-insured (FHA) mortgages, the delinquency rate is generally higher than for the conventional mortgages held in our portfolio. We rely on government insurance, which generally provides a 100% guarantee, as well as quality control processes, to maintain the credit quality of this portfolio. The 90-day delinquency ratio for FHA mortgages has increased from 5.62% to 5.89% during the first three months of 2008. This is due to the aging of the portfolio described above as well as other credit factors. Also, we have not purchased any FHA loans since August 2006.

Although we have had no loan charge-offs in the first three months of 2008, our policy is to charge-off a loan if, after foreclosure, the liquidation value of the real estate collateral plus credit enhancements does not cover our mortgage loan balance outstanding, or when an estimated or known loss exists. A loss contingency will be recorded when, in management's judgment, it is probable that impairment has occurred, and the amount of loss can be reasonably estimated. Probable impairment is defined as the point at which, using current information and events, we estimate that we will be unable to collect all principal and interest contractually due.

In addition to the LRAs, we have credit protection on each loan, where eligible, through SMI, which provides sufficient insurance to cover credit losses to approximately 50% of the property's original value (subject, in certain cases, to an aggregate stop-loss provision in the SMI policy). We have an aggregate loss/benefit limit or "stop-loss" on any master commitment contract that equals or exceeds \$35,000,000.

Credit enhancement fees as of and for the three months ended March 31, 2008, and 2007, are presented below:

Credit Enhancement Fees
(\$ amounts in thousands)

	Three Months ended	
	March 31,	
	2008	2007
Average conventional MPP loans outstanding	\$8,512,179	\$9,049,248
LRA fees	\$ 1,551	\$ 1,654
SMI fees	1,773	1,913
Total Credit Enhancement fees	\$ 3,324	\$ 3,567
Enhancement fees as a % of average conventional MPP loans outstanding	0.16%	0.16%

If a credit loss occurs, the accumulated LRA is used to cover the credit loss in excess of equity and primary mortgage insurance. SMI provides limited additional coverage over and above losses covered by the LRA.

LRA outstanding as of March 31, 2008, and December 31, 2007, is presented below:

LRA Outstanding
(\$ amounts in thousands)

	March 31, 2008	December 31, 2007
LRA Outstanding	\$ 21,420	\$ 21,090

As described above, we perform periodic reviews of our portfolio to identify the losses expected in the portfolio and to determine the likelihood of collection of loans in the portfolio. As a result of this review, we have projected that each member's LRA balance and the mortgage insurance coverage exceeds the expected losses in the portfolio. Should we have losses in excess of the collateral held, LRA and SMI, these losses would be recognized as credit losses for financial reporting purposes. Since the inception of MPP, we have not experienced any losses in the MPP portfolio, and no material losses are considered probable at this time.

Based on our analysis, and after consideration of LRA, SMI, and credit enhancements, there was no allowance for credit losses on real estate mortgage loans as of and for the three months ended March 31, 2008, or as of December 31, 2007.

Derivatives. The primary risk posed by derivative transactions is credit risk, i.e., the risk that a counterparty will fail to meet its contractual obligations on a transaction, forcing us to replace the derivative at market prices. The notional amount of interest rate exchange agreements does not measure our true credit risk exposure. Rather, when the net fair value of our interest rate exchange agreements with a counterparty is positive, this generally indicates that the counterparty owes us. When the net fair value of the interest rate exchange agreements is negative, we owe the counterparty and, therefore, we have no credit risk. If a counterparty fails to perform, credit risk is approximately equal to the fair value gain, if any, on the interest rate exchange agreement.

The following tables summarize key information on derivative counterparties and provide information on a trade date basis as of March 31, 2008, and December 31, 2007, respectively:

**Derivative Agreements
Counterparty Ratings
March 31, 2008
(\$ amounts in thousands)**

<u>S&P Rating</u>	<u>Notional Principal</u>	<u>Percentage of Notional Principal</u>	<u>Credit Exposure Before Collateral</u>	<u>Credit Exposure Net of Collateral</u>
AAA	\$ 1,235,000	3.4%	\$ —	\$ —
AA	28,177,463	78.3%	9,782	9,782
A	6,482,900	18.0%	536	536
Total	35,895,363	99.7%	10,318	10,318
Others ⁽¹⁾	101,605	0.3%	246	246
Total derivative notional and credit exposure	<u>\$35,996,968</u>	<u>100.0%</u>	<u>\$ 10,564</u>	<u>\$ 10,564</u>

**Derivative Agreements
Counterparty Ratings
December 31, 2007
(\$ amounts in thousands)**

<u>S&P Rating</u>	<u>Notional Principal</u>	<u>Percentage of Notional Principal</u>	<u>Credit Exposure Before Collateral</u>	<u>Credit Exposure Net of Collateral</u>
AAA	\$ 1,370,200	4.4%	\$ —	\$ —
AA	22,193,223	71.2%	1,792	1,792
A	7,547,650	24.2%	1,699	—
Total	31,111,073	99.8%	3,491	1,792
Others ⁽¹⁾	79,004	0.2%	134	134
Total derivative notional and credit exposure	<u>\$31,190,077</u>	<u>100.0%</u>	<u>\$ 3,625</u>	<u>\$ 1,926</u>

(1) Includes the total notional and fair value exposure related to delivery commitments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk that the market value or estimated fair value of our overall portfolio of assets, liabilities, and derivatives will decline as a result of changes in interest rates or financial market volatility, or that net earnings will be significantly reduced by interest rate changes. The goal of market risk management is to preserve our financial strength at all times, including during periods of significant market volatility and across a wide range of possible interest rate changes. We regularly assess our exposure to changes in interest rates using a diverse set of analyses and measures. As appropriate, we may rebalance our portfolio to help attain risk management objectives.

Measuring Market Risks

We utilize multiple risk measurement methodologies to calculate potential market exposure that include measuring duration, duration gaps, convexity, value at risk, market risk metric (one-month VAR), earnings at risk and changes in market value of equity. Periodically, stress tests are conducted to measure and analyze the effects that extreme movements in the level of interest rates and the slope of the yield curve would have on our risk position.

Duration of Equity

Duration of equity is a measure of interest rate risk and a primary metric used to manage our market risk exposure. It represents the percentage change in market value of our equity for a one percent parallel shift in the interest rate curves. We value our portfolios using two main interest rate curves, the LIBOR curve and the CO curve. The effective duration of each asset, liability, and off balance sheet position is computed independently to determine our duration of equity. Our board determines acceptable ranges for duration of equity.

The following table summarizes the duration of equity levels for our total position:

Effective Duration of Equity Scenarios

	<u>-200 bps⁽¹⁾</u>	<u>0 bps</u>	<u>+200 bps</u>
March 31, 2008	-1.94 years	2.51 years	1.50 years
December 31, 2007	-5.33 years	3.43 years	2.19 years

(1) For March 31, 2008, the -200 bps shock was constrained to -87 bps due to the relatively low interest rate environment as per Advisory Bulletin 03-9 issued by the Finance Board on October 3, 2003.

We were in compliance with the duration of equity limits established in the RMP that was effective at both of the above points in time.

Duration Gap

The duration gap is the difference between the effective duration of total assets and the effective duration of total liabilities, adjusted for the effect of derivatives. Duration gap is a measure of the extent to which estimated cash flows for assets and liabilities are matched. A positive duration gap signals an exposure to rising interest rates because it indicates that the duration of assets exceeds the duration of liabilities. A negative duration gap signals an exposure to declining interest rates because the duration of assets is less than the duration of liabilities. The table below provides recent period-end duration gaps:

Duration Gap

March 31, 2008	+0.6 months
December 31, 2007	+1.2 months

Convexity

Convexity measures how fast duration changes as a function of interest rate changes. Measurement of convexity is important because of the optionality embedded in the mortgage and callable debt portfolios. The mortgage portfolios exhibit negative convexity due to the embedded prepayment options. The negative convexity on the mortgage asset is mitigated by the negative convexity of underlying callable debt. Convexity is routinely reviewed by management and used in developing funding and hedging strategies for acquisition of mortgage-based assets. A primary strategy for managing convexity risk arising from our mortgage portfolio is the issuance of callable debt. At March 31, 2008, callable debt funding mortgage assets as a percentage of the net mortgage portfolio equaled 47.6%, compared to 58.6% at the end of 2007.

Market Risk-based Capital Requirement

We are subject to the Finance Board's risk-based capital regulations. This regulatory framework requires the maintenance of sufficient permanent capital to meet the combined credit risk, market risk, and operations risk requirements. Our permanent capital consists of Class B Stock (including Mandatorily redeemable capital stock) and Retained earnings. The market risk-based capital requirement ("MRBC") is the sum of two components. The first component is the market value of the portfolio at risk from movements in interest rates that could occur during times of market stress. This estimation is accomplished through an internal value-at-risk based modeling approach which was approved by the Finance Board before the implementation of our Capital Plan. The second component is the amount, if any, by which the current market value of total capital is less than 85% of the book value of total capital.

MRBC is primarily based upon historical simulation methodology. The estimation incorporates scenarios that reflect interest rate shifts, interest rate volatility, and changes in the shape of the yield curve. These observations are based on historical information from 1978 to the present. In our application, MRBC is defined as the potential dollar loss from adverse market movements, measured over 120-business day time periods, with a 99.0% confidence interval, based on these historical prices and market rates. MRBC estimates as of March 31, 2008, and December 31, 2007, are presented below:

Value at Risk

	<u>Actual</u>
March 31, 2008	\$165 million
December 31, 2007	\$154 million

Changes in Market Value of Equity between the Base Case and Shift Scenarios

We measure potential changes in the market value of equity based on the current month-end level of rates versus the market value of equity under large parallel rate shifts. This measurement provides information related to the sensitivity of our interest rate position:

Change in Market Value of Equity from Base Rates

	<u>-200 bps⁽¹⁾</u>	<u>+200 bps</u>
March 31, 2008	+0.9%	-3.8%
December 31, 2007	-1.3%	-5.8%

- (1) For March 31, 2008, the -200 bps shock was constrained to -87 bps due to the relatively low interest rate environment as per Advisory Bulletin 03-9 issued by the Finance Board on October 3, 2003.

Use of Derivative Hedges

We make use of derivatives in hedging our market risk exposures. The primary type of derivative used is interest rate exchange agreements or swaps. Interest rate swaps increase the flexibility of our funding alternatives by providing specific cash flows or characteristics that might not be as readily available or

cost-effective if obtained in the cash debt market. We also use TBAs to temporarily hedge mortgage positions. We do not speculate using derivatives and do not engage in derivatives trading. Additional information about our primary hedging activities using interest rate swaps can be found in our 2007 Form 10-K.

The volume of derivative hedges is often expressed in terms of notional principal, which is the amount upon which interest payments are calculated. The following table highlights the notional amounts by type of derivative agreement as of March 31, 2008, and December 31, 2007:

Notional Principal by Type of Derivative Agreements
(\$ amounts in thousands)

	March 31, 2008	December 31, 2007
Debt swaps		
Bullet	\$ 5,874,114	\$ 4,184,114
Callable	9,551,370	7,346,370
Complex	1,620,000	1,948,080
Advances swaps		
Bullet	12,441,938	12,444,770
Putable	5,618,500	4,985,050
Callable	131,845	—
Complex	1,000	1,000
Available-for-sale swaps	605,000	—
MBS swaps	1,596	1,689
TBA hedges	50,100	38,800
Mandatory delivery commitments	51,505	40,204
Swaptions	50,000	200,000
Total	<u>\$35,996,968</u>	<u>\$31,190,077</u>

The above table includes interest rate swaps, TBA MBS hedges, mandatory delivery commitments and swaptions. Complex swaps include, but are not limited to, step-up and range bonds. The level of different types of derivatives is contingent upon and tends to vary with, balance sheet size, Advances demand, MPP purchase activity, and CO issuance levels.

The table below presents derivative instruments by hedged instrument as of March 31, 2008, and December 31, 2007:

Derivative Instruments by Hedged Instrument
Accrued Interest Excluded from the Fair Value
(\$ amounts in thousands)

	<u>As of March 31, 2008</u>		<u>As of December 31, 2007</u>	
	<u>Total Notional</u>	<u>Estimated Fair Value</u>	<u>Total Notional</u>	<u>Estimated Fair Value</u>
Advances				
Fair value hedges	\$18,192,283	\$(825,464)	\$17,429,820	\$(355,885)
Economic hedges	1,000	(1)	1,000	(2)
Total	<u>18,193,283</u>	<u>(825,465)</u>	<u>17,430,820</u>	<u>(355,887)</u>
Investments				
Fair value hedges	605,000	(44,030)	—	—
Economic hedges	1,596	(55)	1,689	(37)
Total	<u>606,596</u>	<u>(44,085)</u>	<u>1,689</u>	<u>(37)</u>
MPP loans				
Economic hedges	100,100	(639)	238,800	(232)
Economic (stand-alone delivery commitments)	51,505	227	40,204	103
Total	<u>151,605</u>	<u>(412)</u>	<u>279,004</u>	<u>(129)</u>
COs-Bonds				
Fair value hedges	16,628,990	122,271	12,987,070	15,385
Economic hedges	25,000	1,409	100,000	400
Total	<u>16,653,990</u>	<u>123,680</u>	<u>13,087,070</u>	<u>15,785</u>
COs-Discount notes				
Economic hedges	391,494	731	391,494	(65)
Total	<u>391,494</u>	<u>731</u>	<u>391,494</u>	<u>(65)</u>
Total notional and fair value	<u>\$35,996,968</u>	<u>\$(745,551)</u>	<u>\$31,190,077</u>	<u>\$(340,333)</u>
Total derivatives excluding accrued interest		\$(745,551)		\$(340,333)
Accrued interest, net		91,043		47,744
Cash collateral held by/(from) counterparty, net		27,595		(10,230)
Net derivative balance		<u>\$(626,913)</u>		<u>\$(302,819)</u>
Net derivative asset balance		\$ 10,564		\$ 1,926
Net derivative liability balance		(637,477)		(304,745)
Net derivative balance		<u>\$(626,913)</u>		<u>\$(302,819)</u>

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, including our President – Chief Executive Officer and our Senior Vice President, Chief Accounting Officer, has evaluated our disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of March 31, 2008. Based upon their evaluation, they concluded that, as of March 31, 2008, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we submit and file under the Exchange Act is recorded, processed, summarized and reported as and when required and that such information is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

During the quarter ended March 31, 2008, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

Update to Credit Ratings Risk Factor

As discussed in our 2007 Form 10-K, the Federal Home Loan Banks are required to maintain not less than an AA counterparty credit rating. On April 8, 2008, Moody's announced that it had changed its outlook on the Federal Home Loan Bank of Chicago's subordinated debt to negative from stable. It is not anticipated that this change will have an impact on us or the other Federal Home Loan Banks as we are not jointly and severally liable on the subordinated debt issued by the Chicago Federal Home Loan Bank. However, on April 10, 2008, S&P placed the Federal Home Loan Bank of Chicago on CreditWatch with negative implications as a result of the termination of merger talks between the Federal Home Loan Bank of Chicago and the Federal Home Loan Bank of Dallas, and due to the resignation of the president of the Federal Home Loan Bank of Chicago. Further, S&P also placed four bond issues backed by letters of credit from the Federal Home Loan Bank of Chicago on CreditWatch with negative implications for the same reasons. So while the Federal Home Loan Bank of Chicago remains in compliance with the AA credit rating requirement, these actions by the rating agencies indicate that they are evaluating the Federal Home Loan Bank of Chicago for possible further downgrade if the Federal Home Loan Bank of Chicago fails to show improvement in its financial, risk management and regulatory performance. It is not clear how further rating agency action might affect the ability of the Federal Home Loan Bank of Chicago to pay its share of COs, which might require additional payments from the remaining Federal Home Loan Banks, or whether such action might affect the overall price or availability of COs for all of the Federal Home Loan Banks.

Disclosure of Occurrence of Circumstances Beyond Our Control

We have previously disclosed as a risk factor the possibility that the failure of other parties with which we deal, to adequately deal with their risks could adversely impact us. We have also disclosed that we primarily obtain SMI on our MPP portfolio from MGIC. By regulation, we are required to maintain SMI with an insurer rated not less than AA-. MGIC was downgraded by S&P to A from AA- on April 8, 2008. As of April 30, 2008, the ratings by Fitch and Moody's, however, are still at least equivalent to AA-. Due to the downgrade by one of the rating agencies and the potential for downgrades by the other rating agencies, we are currently reviewing the options that may be available, including obtaining regulatory relief. Any of the options available could increase our costs and adversely impact the profitability of our MPP portfolio.

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
3.1*	Organization Certificate of the Federal Home Loan Bank of Indianapolis, incorporated by reference to our Registration Statement on Form 10 filed February 14, 2006
3.2*	Bylaws of the Federal Home Loan Bank of Indianapolis, incorporated by reference to our Registration Statement on Form 10 filed February 14, 2006
4*	Capital Plan of the Federal Home Loan Bank of Indianapolis, incorporated by reference to our Registration Statement on Form 10 filed February 14, 2006
10.1*	Federal Home Loan Bank of Indianapolis 2008 Executive Incentive Compensation Plan
10.2*	Federal Home Loan Bank of Indianapolis Supplemental Executive Thrift Plan (with trust), as amended, incorporated by reference to our Quarterly Report on Form 10-Q filed on November 13, 2007
10.3*	Federal Home Loan Bank of Indianapolis Supplemental Executive Retirement Plan (with trust), as amended, incorporated by reference to our Quarterly Report on Form 10-Q filed on November 13, 2007
10.4*	Directors' Deferred Compensation Plan (with trust), as amended, incorporated by reference to our Quarterly Report on Form 10-Q filed on November 13, 2007
10.5*	Directors' Fee Policy effective January 2008
10.6*	Form of Key Employee Severance Agreement for Executive Officers, incorporated by reference to our Current Report on Form 8-K, filed on November 20, 2007
10.7*	Federal Home Loan Banks P&I Funding and Contingency Plan Agreement, incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 27, 2006
14.1*	Code of Conduct for Directors, Officers, Employees and Advisory Council Members, effective October 1, 2007, incorporated by reference to our Quarterly Report on Form 10-Q filed November 13, 2007
31.1	Certification of the President – Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Senior Vice President – Chief Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the President – Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Senior Vice President – Chief Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* These documents are incorporated by reference.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized on May 12, 2008.

**FEDERAL HOME LOAN BANK OF
INDIANAPOLIS**

By: /s/ MILTON J. MILLER II
Name: Milton J. Miller II
Title: President – Chief Executive Officer

By: /s/ PAUL J. WEAVER
Name: Paul J. Weaver
Title: Senior Vice President – Chief Accounting
Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Milton J. Miller, II, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Federal Home Loan Bank of Indianapolis;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2008

By: /s/ MILTON J. MILLER II
Name: Milton J. Miller II
Title: President – Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Paul J. Weaver, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Federal Home Loan Bank of Indianapolis;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2008

By: /s/ PAUL J. WEAVER
Name: Paul J. Weaver
Title: Senior Vice President – Chief Accounting Officer

**Certification by the President – Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Milton J. Miller, II, President – Chief Executive Officer of the Federal Home Loan Bank of Indianapolis certify that, to the best of my knowledge:

1. The Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2008 ("Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: May 12, 2008

By: /s/ MILTON J. MILLER II
Name: Milton J. Miller II
Title: President – Chief Executive Officer

**Certification by the Senior Vice President – Chief Accounting Officer
Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Paul J. Weaver, Senior Vice President – Chief Accounting Officer of the Federal Home Loan Bank of Indianapolis certify that, to the best of my knowledge:

1. The Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2008 ("Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: May 12, 2008

By: /s/ PAUL J. WEAVER
Name: Paul J. Weaver
Title: Senior Vice President – Chief Accounting
Officer