



FEDERAL HOME LOAN BANK OF INDIANAPOLIS  
*Building Partnerships. Serving Communities.*

## NEWS RELEASE

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Contact: Barbara K. Hembree  
317.465.0445  
bhembree@fhlbi.com

### **Federal Home Loan Bank of Indianapolis Announces Plan to Restate its Financial Statements to Correct SFAS 133 Accounting**

Today, the Federal Home Loan Bank of Indianapolis (FHLBI) announced its plan to restate its annual financial statements for the years ended December 31, 2001, through 2004, its quarterly statements for 2003 and 2004, and for the quarter ended March 31, 2005. In light of today's announcement, these financial statements should not continue to be relied upon. While preparing to register its stock with the Securities and Exchange Commission (SEC), FHLBI determined that corrections needed to be made in the way it had applied Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), although due to the nature of the expected corrections, management currently believes there will be no significant change in total capital as a result of such corrections.

"In the course of preparing for SEC registration we discovered accounting errors related to SFAS 133," said Martin L. Heger, President-CEO. "We do not believe this correction detracts from FHLBI's core strengths or its progress toward achieving FHLBI's strategic plan."

SFAS 133 requires that all derivatives be carried on FHLBI's balance sheet at fair value, and that periodic changes in their fair value be recorded in earnings. If hedging relationships meet certain criteria specified in SFAS 133, one of which is that compliance with the criteria is appropriately documented at the time the hedging relationship is established, they are eligible for hedge accounting and the offsetting changes in fair value of the hedged items may be recorded in earnings. Transactions that meet more stringent criteria qualify for the short-cut method of hedge accounting in which an assumption can be made that the change in value of the hedged item exactly offsets the change in value of the derivative. In the course of preparing for SEC registration, FHLBI has identified the incorrect application of the short-cut method for certain available-for-sale investment securities (AFS) that were purchased in the late 1990s prior to the implementation of SFAS 133 on January 1, 2001.

As a result, FHLBI cannot record the changes in market value of both sides of the transaction but must only recognize in income the market value changes in the derivative and not in the hedged item. FHLBI continues to believe that the hedged items and the derivatives were well matched and that the income volatility that results from one-sided marks is not representative of FHLBI's actual economic earnings. FHLBI estimates that the cumulative reduction in income before Affordable Housing Program (AHP) and REFCORP assessments related to the errors identified in the AFS transactions will be approximately \$35 million for the period from January 1, 2001, through March 31, 2005. However, because these securities are classified as AFS, they will still

be carried on FHLBI's restated prior period balance sheets at their fair value and the reduction to earnings will be largely offset by increases in the other comprehensive income component of FHLBI's capital. The effect of these corrections on FHLBI's AHP and REFCORP assessments cannot be determined at this time.

FHLBI cannot determine at this time when the restatement will be completed. FHLBI is continuing to evaluate its previous application of SFAS 133 to other transactions, including the assessment of the short-cut method used for the FHLBI's putable/convertible advance product. Once this review is completed, additional material adjustments may be required. Upon completion of the restatement, FHLBI will take the steps necessary to complete the registration of its equity securities under the Securities Exchange Act of 1934. As a result of the restatement, the FHLBI will withdraw the Form 10 previously filed with the SEC on June 30, 2005, and will not be able to comply with the Federal Housing Finance Board regulation that requires the FHLBI to have effective registration by August 29, 2005.

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*This press release contains forward-looking statements that reflect current beliefs and expectations of FHLBI about its future results, performance, liquidity, financial condition, prospects and opportunities. These statements are identified by the use of forward-looking terminology, such as "anticipates," "plans," "believes," "could," "estimates," "may," "should," "will," "expects," "intends" or their negatives or other similar terms. FHLBI cautions that forward-looking statements involve risks or uncertainties that could cause FHLBI's actual results to 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. As a result, undue reliance should not be placed on such statements*

*FHLBI is one of twelve regional banks that make up the Federal Home Loan Bank System. FHLBanks are government-sponsored enterprises created by Congress to ensure access to low-cost funding for insured financial institutions, such as commercial banks, savings institutions and credit unions. FHLBanks are privately capitalized and funded, and receive no Congressional appropriations.*