# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

## FORM 10-K

(Mark One)

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

**For the fiscal year ended December 31, 2020**

**or**

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

**For the transition period from _____ to _____.**

**Commission file number 000-51404**

## FEDERAL HOME LOAN BANK OF INDIANAPOLIS

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Federally Chartered Corporation** | **35-6001443** |
| (State or other jurisdiction of incorporation) | (IRS employer identification number) |
| **8250 Woodfield Crossing Blvd. Indianapolis, IN** | **46240** |
| (Address of principal executive offices) | (Zip code) |

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

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| None | None | None |

**Securities registered pursuant to Section 12(g) of the Act:**
**Class B capital stock, par value $100 per share**
**(Title of class)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

☐ Large accelerated filer ☐ Accelerated filer ☐ Emerging growth company

☒ Non-accelerated filer ☐ Smaller reporting company

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

Indicate by check mark whether the registrant has filed a report on and attestation on its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒ Yes ☐ No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

Registrant's stock is not publicly traded and is only issued to members of the registrant. Such stock is issued and redeemed at par value, $100 per share, subject to certain regulatory and statutory limits. At June 30, 2020, the aggregate par value of the Class B stock held by members and former members of the registrant was approximately $2.5 billion. At February 28, 2021, including mandatorily redeemable capital stock, we had zero outstanding shares of Class A stock and 24,441,185 outstanding shares of Class B stock.

**DOCUMENTS INCORPORATED BY REFERENCE: None.**

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**DEFINED TERMS**

**2005 SERP:** Federal Home Loan Bank of Indianapolis 2005 Supplemental Executive Retirement Plan, as amended
**ABS:** Asset-Backed Securities
**Advance:** Secured loan to members, former members or Housing Associates
**AFS:** Available-for-Sale
**Agency:** GSE and Ginnie Mae
**AHP:** Affordable Housing Program
**AMA:** Acquired Member Assets
**AOCI:** Accumulated Other Comprehensive Income (Loss)
**Bank Act:** Federal Home Loan Bank Act of 1932, as amended
**bps:** basis points
**CARES Act:** Coronavirus Aid, Relief and Economic Security Act
**CDFI:** Community Development Financial Institution
**CE:** Credit Enhancement
**CFI:** Community Financial Institution, an FDIC-insured depository institution with average total assets below an annually-adjusted limit established by the Finance Agency Director based on the Consumer Price Index
**CFPB:** Bureau of Consumer Financial Protection
**CFTC:** United States Commodity Futures Trading Commission
**Clearinghouse:** A United States Commodity Futures Trading Commission-registered derivatives clearing organization
**CME:** CME Clearing
**CMO:** Collateralized Mortgage Obligation
**CO bond:** Consolidated Obligation bond
**COVID-19:** Coronavirus Disease 2019
**DB Plan:** Pentegra Defined Benefit Pension Plan for Financial Institutions, as amended
**DC Plan:** Collectively, the Pentegra Defined Contribution Retirement Savings Plan for Financial Institutions, as amended, in effect through October 1, 2020 and the Federal Home Loan Bank of Indianapolis Retirement Savings Plan, commencing October 2, 2020
**DDCP:** Directors' Deferred Compensation Plan
**Dodd-Frank Act:** Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended
**EFFR:** Effective Federal Funds Rate
**Exchange Act:** Securities Exchange Act of 1934, as amended
**Fannie Mae:** Federal National Mortgage Association
**FASB:** Financial Accounting Standards Board
**FCA:** Financial Conduct Authority
**FDIC:** Federal Deposit Insurance Corporation
**FHA:** Federal Housing Administration
**FHLBank:** A Federal Home Loan Bank
**FHLBanks:** The 11 Federal Home Loan Banks or a subset thereof
**FHLBank System:** The 11 Federal Home Loan Banks and the Office of Finance
**FICO®:** Fair Isaac Corporation, the creators of the FICO credit score
**Final Membership Rule:** Final Rule on FHLBank Membership issued by the Finance Agency effective February 19, 2016
**Finance Agency:** Federal Housing Finance Agency, successor to Finance Board
**Finance Board:** Federal Housing Finance Board, predecessor to Finance Agency
**FLA:** First Loss Account
**FOMC:** Federal Open Market Committee
**Form 8-K:** Current Report on Form 8-K as filed with the SEC under the Exchange Act
**Form 10-K:** Annual Report on Form 10-K as filed with the SEC under the Exchange Act
**Form 10-Q:** Quarterly Report on Form 10-Q as filed with the SEC under the Exchange Act
**Freddie Mac:** Federal Home Loan Mortgage Corporation
**Frozen SERP:** Federal Home Loan Bank of Indianapolis Supplemental Executive Retirement Plan, frozen effective December 31, 2004
**GAAP:** Generally Accepted Accounting Principles in the United States of America
**Ginnie Mae:** Government National Mortgage Association
**GLB Act:** Gramm-Leach-Bliley Act of 1999, as amended
**GSE:** United States Government-Sponsored Enterprise
**HERA:** Housing and Economic Recovery Act of 2008, as amended
**Housing Associate:** Approved lender under Title II of the National Housing Act of 1934 that is either a government agency or is chartered under federal or state law with rights and powers similar to those of a corporation

**HTM:** Held-to-Maturity
**HUD:** United States Department of Housing and Urban Development
**JCE Agreement:** Joint Capital Enhancement Agreement, as amended, among the 11 FHLBanks
**KESP:** Key Employee Severance Policy
**LCH:** LCH.Clearnet LLC
**LIBOR:** London Interbank Offered Rate
**LRA:** Lender Risk Account
**LTV:** Loan-to-Value
**MAP-21:** Moving Ahead for Progress in the 21st Century Act, enacted on July 6, 2012
**MBS:** Mortgage-Backed Securities
**MCC:** Master Commitment Contract
**MDC:** Mandatory Delivery Commitment
**Moody's:** Moody's Investor Services
**MPF:** Mortgage Partnership Finance®
**MPP:** Mortgage Purchase Program, including Original and Advantage unless indicated otherwise
**MRCS:** Mandatorily Redeemable Capital Stock
**MVE:** Market Value of Equity
**NRSRO:** Nationally Recognized Statistical Rating Organization
**OCC:** Office of the Comptroller of the Currency
**OCI:** Other Comprehensive Income (Loss)
**OIS:** Overnight-Indexed Swap
**ORERC:** Other Real Estate-Related Collateral
**OTTI:** Other-Than-Temporary Impairment or -Temporarily Impaired (as the context indicates)
**PFI:** Participating Financial Institution
**PMI:** Primary Mortgage Insurance
**REMIC:** Real Estate Mortgage Investment Conduit
**REO:** Real Estate Owned
**RMBS:** Residential Mortgage-Backed Securities
**S&P:** Standard & Poor's Rating Service
**Safety and Soundness Act:** Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended
**SBA:** Small Business Administration
**SEC:** Securities and Exchange Commission
**Securities Act:** Securities Act of 1933, as amended
**SERP:** Collectively, the 2005 SERP and the Frozen SERP
**SETP:** Federal Home Loan Bank of Indianapolis 2016 Supplemental Executive Thrift Plan, as amended and restated
**SMI:** Supplemental Mortgage Insurance
**SOFR:** Secured Overnight Financing Rate
**TBA:** To Be Announced, a forward contract for the purchase or sale of MBS at a future agreed-upon date for an established price
**TDR:** Troubled Debt Restructuring
**TVA:** Tennessee Valley Authority
**UPB:** Unpaid Principal Balance
**VaR:** Value at Risk
**WAIR:** Weighted-Average Interest Rate

**Special Note Regarding Forward-Looking Statements**

Statements in this Form 10-K, including statements describing our objectives, projections, estimates or predictions, may be considered to 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, including the timing and volume of market activity, inflation or deflation, changes in the value of global currencies, and changes in the financial condition of market participants;
- volatility of market prices, interest rates, and indices or the availability of suitable interest rate indices, or other factors, resulting from the effects of, and changes in, various monetary or fiscal policies and regulations, including those determined by the Federal Reserve and the FDIC, or a decline in liquidity in the financial markets, that could affect the value of investments, or collateral we hold as security for the obligations of our members and counterparties;
- changes in demand for our advances and purchases of mortgage loans resulting from:
    - changes in our members' deposit flows and credit demands;
    - changes in products or services we are able to provide;
    - federal or state regulatory developments impacting suitability or eligibility of membership classes;
    - membership changes, including, but not limited to, mergers, acquisitions and consolidations of charters;
    - changes in the general level of housing activity in the United States and particularly our district states of Michigan and Indiana, the level of refinancing activity and consumer product preferences;
    - competitive forces, including, without limitation, other sources of funding available to our members; and
    - changes in the terms and conditions of ownership of our capital stock;
- changes in mortgage asset prepayment patterns, delinquency rates and housing values or improper or inadequate mortgage originations and mortgage servicing;
- ability to introduce and successfully manage new products and services, including new types of collateral securing advances;
- political events, including federal government shutdowns, administrative, legislative, regulatory, or other developments, national or international health crises (such as the COVID-19 pandemic) and the responses of governments and financial markets to such crises, changes in international political structures and alliances, and judicial rulings that affect us, our status as a secured creditor, our members (or certain classes of members), prospective members, counterparties, GSE's generally, one or more of the FHLBanks and/or investors in the consolidated obligations of the FHLBanks;
- ability to access the capital markets and raise capital market funding on acceptable terms;
- changes in our credit ratings or the credit ratings of the other FHLBanks and the FHLBank System;
- changes in the level of government guarantees provided to other United States and international financial institutions;
- dealer commitment to supporting the issuance of our consolidated obligations;
- ability of one or more of the FHLBanks to repay its portion of the consolidated obligations, or otherwise meet its financial obligations;
- ability to attract and retain skilled personnel;
- ability to develop, implement and support technology and information systems sufficient to manage our business effectively;
- nonperformance of counterparties to uncleared and cleared derivative transactions;
- changes in terms of derivative agreements and similar agreements;
- loss arising from natural disasters, acts of war or acts of terrorism;
- changes in or differing interpretations of accounting guidance; and
- other risk factors identified in our filings with the SEC.

Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, additional disclosures may be made through reports filed with the SEC in the future, including our Forms 10-K, 10-Q and 8-K. This Form 10-K, including Business, Risk Factors and Management’s Discussion and Analysis of Financial Condition and Results of Operations, should be read in conjunction with our financial statements and notes, which are included in Item 8.

## ITEM 1. BUSINESS

As used in this Form 10-K, unless the context otherwise requires, the terms "we," "us," "our," and "Bank" refer to the Federal Home Loan Bank of Indianapolis or its management. We use acronyms and terms throughout this Item that are defined herein or in the *Defined Terms*.

Unless otherwise stated, amounts disclosed in this Item are rounded to the nearest million; therefore, dollar amounts of less than one million may not be reflected or, due to rounding, may not appear to agree to the amounts presented in thousands in the *Financial Statements* and related *Notes to Financial Statements*. Amounts used to calculate dollar and percentage changes are based on numbers in the thousands. Accordingly, calculations based upon the disclosed amounts (millions) may not produce the same results.

### Background Information

The Federal Home Loan Bank of Indianapolis is a regional wholesale bank that serves its member financial institutions in Michigan and Indiana. We are one of 11 regional FHLBanks across the United States, which, along with the Office of Finance, compose the FHLBank System established in 1932. Each FHLBank is a federal instrumentality of the United States of America that is privately capitalized and funded, receives no Congressional appropriations, and operates as an independent entity with its own board of directors, management, and employees.

Our mission is to provide reliable and readily available liquidity to our member institutions to support housing finance and community investment. Our advance and mortgage purchase programs provide funding to assist members with asset/liability management, interest-rate risk management, mortgage pipelines, and other liquidity needs. In addition to funding, we provide various correspondent services, such as securities safekeeping and wire transfers. We also help to meet the economic and housing needs of communities and families through grants and low-cost advances that help support affordable housing and economic development initiatives.

We are wholly owned by our member institutions. All federally insured depository institutions (including commercial banks, savings associations and credit unions), CDFIs certified by the CDFI Fund of the United States Treasury, certain non-federally insured credit unions, and non-captive insurance companies are eligible to become members of our Bank if they have a principal place of business, or are domiciled, in our district states of Michigan or Indiana. Applicants for membership must meet specific requirements that demonstrate that they are engaged in residential housing finance.

All member institutions are required to purchase a minimum amount of our Class B capital stock as a condition of membership. Only members may own our capital stock, except for former members or their legal successors holding stock during their stock redemption period. Our capital stock is not publicly traded; it is purchased by members from us and redeemed or repurchased by us at the stated par value. With our written approval, a member may transfer any of its excess capital stock in our Bank to another member at par value. For additional information regarding our capital plan, see *Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

As a financial cooperative, our members are also our primary customers. We are generally limited to making advances to and purchasing mortgage loans from members. We do not lend directly to or purchase mortgage loans directly from the general public.

Our principal funding source is the proceeds from the sale to the public of FHLBank debt instruments, known as consolidated obligations, which consist of CO bonds and discount notes. The Office of Finance was established as a joint office of the FHLBanks to facilitate the issuance and servicing of consolidated obligations. The United States government does not guarantee, directly or indirectly, our consolidated obligations, which are the joint and several obligations of all FHLBanks.

Each FHLBank was organized under the authority of the Bank Act as a GSE, which is an entity that combines elements of private capital, public sponsorship, and public policy. The public sponsorship and public policy attributes of the FHLBanks include:

- an exemption from federal, state, and local taxation, except employment and real estate taxes;
- an exemption from registration under the Securities Act (although the FHLBanks are required by federal law to register a class of their equity securities under the Exchange Act);
- the requirement that at least 40% of our directors be non-member "independent" directors; that two of these "independent" directors have more than four years of experience representing consumer or community interests in banking services, credit needs, housing, or consumer financial protections; and that the remaining "independent" directors have demonstrated knowledge or experience in auditing or accounting, derivatives, financial management, organizational management, project development or risk management practices, or other expertise established by Finance Agency regulations;
- the United States Treasury's authority to purchase up to $4.0 billion of FHLBank consolidated obligations; and
- the required allocation of 10% of annual net earnings before interest expense on MRCS to fund the AHP.

As an FHLBank, we seek to maintain a balance between our public policy mission and our goal of providing adequate returns on our members' capital.

The Finance Agency is the federal regulator of the FHLBanks, Fannie Mae and Freddie Mac. The Finance Agency's stated mission is to ensure that the housing GSEs operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment. The Finance Agency's operating expenses with respect to the FHLBanks are funded by assessments on the FHLBanks. No tax dollars are used to support the operations of the Finance Agency relating to the FHLBanks.

**Operating Segments**

We manage our operations by grouping products and services within two operating segments. The segments identify the principal ways we provide services to our members. These segments reflect our two primary mission-asset activities and the manner in which they are managed from the perspective of development, resource allocation, product delivery, pricing, credit risk and operational administration.

These operating segments are (i) traditional, which consists of credit products, investments, and correspondent services and deposits; and (ii) mortgage loans, which consist substantially of mortgage loans purchased from our members through our MPP. The revenues, profit or loss, and total assets for each segment are disclosed in *Notes to Financial Statements - Note 15 - Segment Information*.

***Traditional.***

*Credit Products.* We offer our members a wide variety of credit products, including advances, standby letters of credit, and lines of credit. We approve member credit requests based on our assessment of the member's creditworthiness and financial condition, as well as its collateral position. All credit products must be fully collateralized by a member's pledge of eligible assets.

Our primary credit product is advances. Members use advances for a wide variety of purposes including, but not limited to:

- funding for single-family mortgages and multi-family mortgages held in portfolio, including both conforming and non-conforming mortgages (as determined in accordance with secondary market criteria);
- temporary funding during the origination, packaging, and sale of mortgages into the secondary market;
- funding for commercial real-estate loans and, especially with respect to CFIs, funding for small business, small farm, and small agri-business portfolio loans;
- acquiring or holding MBS;
- short-term liquidity;
- asset/liability and interest-rate risk management;
- a cost-effective alternative to holding short-term investments to meet contingent liquidity needs;
- a competitively-priced alternative source of funds, especially with respect to smaller members with less-diverse funding sources; and
- at-cost funding to help support affordable housing and economic development initiatives.

We offer standby letters of credit, typically for up to 10 years in term, which are rated Aaa by Moody's and AA+ by S&P. Letters of credit are performance contracts that guarantee the performance of a member to a third party and are subject to the same collateralization and borrowing limits that are applicable to advances. Letters of credit may be offered to assist members in facilitating residential housing finance, community lending, asset/liability management, or liquidity. We also offer a standby letter of credit product to collateralize public deposits.

We also offer lines of credit which allow members to fund short-term cash needs without submitting a new application for each funding request.

*Advances*. We offer a wide array of fixed-rate and adjustable-rate advances, on which interest is generally due monthly. The maturities of advances currently offered typically range from 1 day to 10 years, although the maximum maturity may be longer in some instances. Our primary advance products include:

- **Fixed-rate Bullet Advances**, which have fixed rates throughout the term of the advances. These advances are typically referred to as "bullet" advances because no principal payment is due until maturity. Prepayments prior to maturity may be subject to prepayment fees. These advances can include a feature that allows for delayed settlement;
- **Putable Advances**, which are fixed-rate advances that give us an option to terminate the advance prior to maturity. We would normally exercise the option to terminate the advance when interest rates increase. Upon our exercise of the option, the member must repay the putable advance, but replacement funding will be available to the member at current market rates;
- **Fixed-rate Amortizing Advances**, which are fixed-rate advances that require principal payments either monthly, annually, or based on a specified amortization schedule and may have a balloon payment of remaining principal at maturity;
- **Adjustable-rate Advances**, which are sometimes called "floaters," reprice periodically based on a variety of indices, including LIBOR, SOFR and the FHLBanks cost of funds index. While LIBOR-indexed floaters are the most common type of adjustable-rate advances we have outstanding to our members, we no longer offer new LIBOR-indexed adjustable-rate advances. Prepayment terms are agreed to before the advance is extended. Most frequently, no prepayment fees are required if a member prepays an adjustable-rate advance on a reset date, after a pre-determined lock-out period, with the required notification. No principal payment is due prior to maturity;
- **Variable-rate Advances**, which reprice daily. These advances may be extended on terms from one day to six months and may be prepaid on any given business day during that term without fee or penalty. No principal payment is due until maturity; and
- **Callable Advances**, which are fixed-rate advances that give the member an option to prepay the advance before maturity on call dates with no prepayment fee, which members normally would exercise when interest rates decrease.

We also offer customized advances to meet the particular needs of our members. Our entire menu of advance products is generally available to each creditworthy member, regardless of the member's asset size. Finance Agency regulations require us to price our credit products consistently and without discrimination to any member applying for advances. We are also prohibited from pricing our advances below our marginal cost of matching term and maturity funds in the marketplace, including embedded options, and the administrative cost associated with extending such advances to members. Therefore, advances are typically priced at standard spreads above our cost of funds. Our board-approved credit policy allows us to offer lower rates on certain types of advances transactions. Determinations of such rates are based on factors such as volume, maturity, product type, funding availability and costs, and competitive factors in regard to other sources of funds.

Advances Concentration. Credit risk can be magnified if a lender's portfolio is concentrated in a few borrowers. The following tables present the par value of advances outstanding to our largest borrowers ($ amounts in millions).

| December 31, 2020 | Advances Outstanding | % of Total |
|---|---|---|
| Flagstar Bank, FSB | $ 4,615 | 15 % |
| The Lincoln National Life Insurance Company | 3,130 | 10 % |
| Old National Bank | 1,999 | 7 % |
| Jackson National Life Insurance Company | 1,931 | 6 % |
| American United Life Insurance Company | 1,702 | 6 % |
| Subtotal - largest borrowers | 13,377 | 44 % |
| Next five largest borrowers | 5,641 | 18 % |
| Others | 11,673 | 38 % |
| Total advances, par value | $ 30,691 | 100 % |

| December 31, 2019 | Advances Outstanding | % of Total |
|---|---|---|
| Flagstar Bank, FSB | $ 4,345 | 13 % |
| The Lincoln National Life Insurance Company | 3,580 | 11 % |
| Jackson National Life Insurance Company | 2,281 | 7 % |
| Old National Bank | 1,801 | 6 % |
| IAS Services LLC | 1,650 | 5 % |
| Subtotal - largest borrowers | 13,657 | 42 % |
| Next five largest borrowers | 5,967 | 18 % |
| Others | 12,648 | 40 % |
| Total advances, par value | $ 32,272 | 100 % |

Because of this concentration in advances, we perform frequent credit and collateral reviews on our largest borrowers. In addition, we regularly analyze the implications to our financial management and profitability if we were to lose the business of one or more of these borrowers.

At our discretion, and provided the borrower meets our contractual requirements, advances to borrowers that are no longer members may remain outstanding until maturity, subject to certain regulatory requirements.

For the years ended December 31, 2020, 2019, and 2018, we did not have gross interest income on advances, excluding the effects of interest-rate swaps, from any one borrower that exceeded 10% of our total interest income.

*Collateral*. All credit products extended to a member must be fully collateralized by the member's pledge of eligible assets. Each borrowing member and its affiliates that hold pledged collateral are required to grant us a security interest in such collateral. All such security interests held by us are afforded a priority by the Competitive Equality Banking Act of 1987 over the claims of any party, including any receiver, conservator, trustee, or similar party having rights as a lien creditor, except for claims held by bona fide purchasers for value or by parties that are secured by prior perfected security interests, provided that such claims would otherwise be entitled to priority under applicable law. Moreover, with respect to federally-insured depository institution members, our claims are given certain preferences pursuant to the receivership provisions of the Federal Deposit Insurance Act.

With respect to insurance company members, however, Congress provided in the McCarran-Ferguson Act of 1945 that state law generally governs the regulation of insurance and shall not be preempted by federal law unless the federal law expressly regulates the business of insurance. Thus, if a court were to determine that the priority status afforded the FHLBanks under Section 10(e) of the Bank Act conflicts with state insurance law applicable to our insurance company members, the court might then determine that the priority of our security interest would be governed by state law, not Section 10(e). Under these circumstances, the "super lien" priority protection afforded to our security interest under Section 10(e) may not fully apply when we lend to insurance company members. However, our security interests in collateral posted by insurance company members have express statutory protections in the jurisdictions where our members are domiciled. In addition, we monitor applicable states' laws, and take all necessary action to obtain and maintain a prior perfected security interest in the collateral, including by taking possession or control of the collateral when appropriate.

Collateral Status Categories. We take collateral under a blanket, specific listings or possession status depending on the credit quality of the borrower, the type of institution, and our lien position on assets owned by the member (i.e., blanket, specific, or partially subordinated). The blanket status is the least restrictive and allows the member to retain possession of the pledged collateral, provided that the member executes a written security agreement and agrees to hold the collateral for our benefit. Under the specific listings status, the member maintains possession of the specific collateral pledged, but the member generally provides listings of loans pledged with detailed loan information such as loan amount, payments, maturity date, interest rate, LTV, collateral type, FICO® scores, etc. Members under possession status are required to place the collateral in possession with our Bank or an approved third-party custodian in amounts sufficient to secure all outstanding obligations.

Eligible Collateral. Eligible collateral types include certain investment securities, one-to-four family first mortgage loans, multi-family first mortgage loans, deposits in our Bank, certain ORERC assets (such as commercial MBS, municipal securities, commercial real estate loans and home equity loans), and small business loans or farm real estate loans from CFIs. While we only extend credit based on the borrowing capacity for such approved collateral, our contractual arrangements typically allow us to take other assets as collateral to provide additional protection. In addition, under the Bank Act, we have a lien on the borrower's stock in our Bank as security for all of the borrower's indebtedness.

We have an Anti-Predatory Lending Policy and a Subprime and Nontraditional Residential Mortgage Policy that establish guidelines for any subprime or nontraditional loans included in the collateral pledged to us. Loans that are delinquent or violate those policies do not qualify as acceptable collateral and are required to be removed from any collateral value calculation. Consistent with the CFPB home mortgage lending rules, we accept loans that comply with or are exempt from the ability-to-pay requirements as collateral.

In order to help mitigate the market, credit, liquidity, operational and business risk associated with collateral, we apply an over-collateralization requirement to the book value or market value of pledged collateral to establish its lending value. Collateral that we have determined to contain a low level of risk, such as United States government obligations, is over-collateralized at a lower rate than collateral that carries a higher level of risk, such as small business loans. Standard requirements range from 100% for deposits (cash) to 140% - 155% for residential mortgages pledged through blanket status. Over-collateralization requirements for eligible securities range from 103% to 190%; less traditional types of collateral have standard over-collateralization ratios up to 360%.

The over-collateralization requirement applied to asset classes may also vary depending on collateral status, because lower requirements are applied as our levels of information and control over the assets increase. Over-collateralization requirements are applied using market values for collateral in listing and possession status and book value for collateral pledged through blanket status. In no event, however, would market values assigned to whole loan collateral exceed par value. For more information, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Management - Credit Risk Management - Advances and Other Credit Products*.

Collateral Review and Monitoring. We verify collateral balances by performing periodic, collateral audits on our borrowers, which allows us to verify loan pledge eligibility, credit strength and documentation quality, as well as adherence to our Anti-Predatory Lending Policy, our Subprime and Nontraditional Residential Mortgage Policy, and other collateral policies. In addition, collateral audit findings are used to adjust over-collateralization amounts to mitigate credit risk and collateral liquidity concerns.

*Investments.* We maintain a portfolio of investments, purchased from approved counterparties, members and their affiliates, or other FHLBanks, to provide liquidity, utilize balance sheet capacity and supplement our earnings. Higher earnings bolster our ability to support affordable housing and community investment. Our investment portfolio may only include investments deemed investment quality at the time of purchase.

Our short-term investments are placed with large, high-quality financial institutions with investment-grade long-term credit ratings, and ensure the availability of funds to meet our members' credit needs. Such investments typically include interest-bearing demand deposit accounts, unsecured federal funds sold and securities purchased under agreements to resell, which are secured by United States Treasuries. Each may be purchased with either overnight or term maturities, or in the case of demand deposit accounts, redeemed at any time during business hours. In the aggregate, the FHLBanks may represent a significant percentage of the federal funds sold market at any one time, although each FHLBank manages its investment portfolio separately.

Our liquidity portfolio also includes investments in U.S. Treasury securities.

The longer-term investments typically generate higher returns and consist of (i) securities issued by the United States government, its agencies, and certain GSEs, and (ii) Agency MBS.

All unsecured investments are subject to certain selection criteria. Each unsecured counterparty must be approved and has an exposure limit, which is computed in the same manner regardless of the counterparty's status as a member, affiliate of a member or unrelated party. These criteria determine the permissible amount and maximum term of the investment. For more information, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Management - Credit Risk Management - Investments*.

Under Finance Agency regulations, except for certain investments authorized under state trust law for our retirement plans, we are prohibited from investing in the following types of securities:

- instruments, such as common stock, that represent an equity ownership in an entity, other than stock in small business investment companies, or certain investments targeted to low-income persons or communities;
- instruments issued by non-United States entities, other than those issued by United States branches and agency offices of foreign commercial banks;
- non-investment grade debt instruments, other than certain investments targeted to low-income persons or communities and instruments that were downgraded after their purchase;
- whole mortgages or other whole loans, except for:
  - those acquired under the MPP or the MPF Program;
  - certain investments targeted to low-income persons or communities; and
  - certain foreign housing loans authorized under Section 12(b) of the Bank Act; and
- non-United States dollar denominated securities.

In addition, we are prohibited by a Finance Agency regulation and Advisory Bulletin, as well as internal policy, from purchasing certain types of investments, such as interest-only or principal-only stripped MBS, CMOs, REMICs or ABS; residual-interest or interest-accrual classes of CMOs, REMICs, ABS and MBS; and CMOs or REMICs with underlying collateral containing pay option/negative amortization mortgage loans, unless those loans or securities are guaranteed by the United States government, Fannie Mae, Freddie Mac or Ginnie Mae.

Finance Agency regulation further provides that the total book value of our investments in MBS and ABS must not exceed 300% of our total regulatory capital, consisting of Class B stock, Class A stock, if any, retained earnings, and MRCS, as of the day we purchase the investments, based on the capital amount most recently reported to the Finance Agency. If the outstanding balances of our 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, but we would not be permitted to purchase additional investments in MBS or ABS until these outstanding balances were within the capital limitation. Generally, our goal is to maintain these investments near the 300% limit.

*Deposit Products.* Deposit products provide a small portion of our funding resources, while also giving members a high-quality asset that satisfies their regulatory liquidity requirements. We offer several types of deposit products to our members and other institutions including overnight and demand deposits. We may accept uninsured deposits from:

- our members;
- institutions eligible to become members;
- any institution for which we are providing correspondent services;
- interest-rate swap counterparties;
- other FHLBanks; or
- other federal government instrumentalities.

***Mortgage Loans.*** Mortgage loans held for portfolio consist substantially of residential mortgage loans purchased from our members through our MPP. Participating interests were purchased in 2012-2014 from the FHLBank of Topeka in residential mortgage loans that were originated by certain of its members under the MPF Program. These programs help fulfill the FHLBank System's housing mission and provide an additional source of liquidity to FHLBank members that choose to sell mortgage loans into the secondary market rather than holding them in their own portfolios. These programs are considered AMA, a core mission activity of the FHLBanks, as defined by Finance Agency regulations.

*Mortgage Purchase Program.*

*Overview.* We purchase mortgage loans directly from our members through our MPP. Members that participate in the MPP are known as PFIs. By regulation, we are not permitted to purchase loans directly from any institution that is not a member or Housing Associate of the FHLBank System, and we may not use a trust or other entity to purchase the loans. We purchase conforming, medium- or long-term, fixed-rate, fully amortizing, level payment loans predominantly for primary, owner-occupied, detached residences, including single-family properties, and two-, three-, and four-unit properties. Additionally, to a lesser degree, we purchase loans for primary, owner-occupied, attached residences (including condominiums and planned unit developments), and second/vacation homes.

Our mortgage loan purchases are governed by the Finance Agency's AMA regulation. Further, while the regulation does not expressly limit us to purchasing fixed-rate loans, before purchasing adjustable-rate loans we would need to analyze whether such purchases would require Finance Agency approval under its New Business Activity regulation. Such regulation provides that any material change to an FHLBank's business activity that results in new risks or operations needs to be pre-approved by the Finance Agency.

Under Finance Agency regulations, all pools of mortgage loans currently purchased by us, other than government-insured mortgage loans, must have sufficient credit enhancement to be rated by us as at least investment grade, and we operate our credit enhancement model and methodology accordingly to estimate the amount of necessary credit enhancement for those pools.

As a result of the credit enhancements, the PFI shares the credit risk with us on conventional mortgage loans. We manage the interest-rate risk, prepayment option risk, and liquidity risk.

*Mortgage Standards.* All loans we purchase must meet the guidelines for our MPP or be specifically approved as an exception based on compensating factors. Our guidelines generally meet or exceed the underwriting standards of Fannie Mae and Freddie Mac. For example, the maximum LTV ratio for any conventional mortgage loan at the time of purchase is 95%, and borrowers must meet certain minimum credit scores depending upon the type of property or loan. In addition, we will not knowingly purchase any loan that violates the terms of our Anti-Predatory Lending Policy or our Subprime and Nontraditional Residential Mortgage Policy. Furthermore, we require our members to warrant to us that all of the loans sold to us are in compliance with all applicable laws, including prohibitions on anti-predatory lending. All loans purchased through our MPP must qualify as "Safe-Harbor Qualified Mortgages" under CFPB rules.

Under our guidelines, a PFI must:

- be an active originator of conventional mortgages and have servicing capabilities, if applicable, or use a servicer that we approve;
- advise us if it has been the subject of any adverse action by either Fannie Mae or Freddie Mac; and
- along with its parent company, if applicable, meet the capital requirements of each state and federal regulatory agency with jurisdiction over the member's or parent company's activities.

*Mortgage Loan Concentration.* During 2020, our top-selling PFI sold us mortgage loans totaling $138 million, or 7% of the total mortgage loans purchased by the Bank in 2020. Our five top-selling PFIs sold us 27%. Because of this concentration, we regularly analyze the implications to our financial management and profitability if we were to lose the business of one or more of these sellers.

For the years ended December 31, 2020, 2019, and 2018, no aggregate mortgage loans outstanding previously purchased from any one PFI contributed interest income that exceeded 10% of our total interest income.

The properties underlying the mortgage loans in our MPP portfolio are dispersed across 50 states, the District of Columbia and the Virgin Islands, with concentrations in Michigan and Indiana, the two states in our district.

The median original size of each mortgage loan outstanding was approximately $157 thousand at December 31, 2020.

*Credit Enhancement.* FHA mortgage loans are backed by insurance provided by the United States government and, therefore, no additional credit enhancements (such as an LRA or SMI) are required.

For conventional mortgage loans, the credit enhancement required to reach the minimum credit rating is determined by using a credit risk model. The model is used to evaluate each MCC or pool of MCCs to ensure the LRA percentage as credit enhancement is sufficient. The model evaluates the characteristics of the loans the PFIs actually delivered for the likelihood of timely payment of principal and interest. The model's results are based on numerous standard borrower and loan attributes, such as the LTV ratio and borrower's credit score, as well as housing market factors, such as the Home Price Index and zip code. Based on the credit assessment, we are required to hold risk-based capital to help mitigate the potential credit risk in accordance with the Finance Agency regulations.

Our original MPP, which we ceased offering for conventional loans in 2010, relied on credit enhancement from LRA and SMI to achieve an implied credit rating of at least AA based on a NRSRO model in compliance with Finance Agency regulations. In 2010, we began offering Advantage MPP for new conventional MPP loans, which utilizes an enhanced fixed LRA for additional credit enhancement, resulting in an implied credit rating of at least investment grade, consistent with Finance Agency regulations, instead of utilizing coverage from an SMI provider. The only substantive difference between the two programs is the credit enhancement structure. For both the original MPP and Advantage MPP, the funds in the LRA are established in an amount sufficient to cover expected losses in excess of the borrower's equity and PMI, if any, and used to pay losses on a pool basis.

Credit losses on defaulted mortgage loans in a pool are paid from these sources, until they are exhausted, in the following order:

- borrower's equity;
- PMI, if applicable;
- LRA;
- SMI, if applicable; and
- our Bank.

LRA. We use either a "spread LRA" or a "fixed LRA" for credit enhancement. The spread LRA is used in combination with SMI for credit enhancement of conventional mortgage loans purchased under our original MPP, and the fixed LRA is used for all acquisitions of conventional mortgage loans under Advantage MPP.

- *Original MPP.* The spread LRA is funded through a reduction to the net yield earned on the loans, and the corresponding purchase price paid to the PFI reflects our reduced net yield. The LRA for each pool of loans is funded monthly at an annual rate ranging from 6 to 20 bps, depending on the terms of the MCC, and is used to pay loan loss claims or is held until the LRA accumulates to a required "release point." The release point is 20 to 85 bps of the then outstanding principal balances of the loans in that pool, depending on the terms of the original contract. If the LRA exceeds the required release point, the excess amount is eligible for return to the PFI(s) that sold us the loans in that pool, generally subject to a minimum five-year lock-out period after the pool is closed to acquisitions.

- *Advantage MPP.* The LRA for Advantage MPP differs from our original MPP in that the funding of the fixed LRA occurs at the time we acquire the loan and is based on the principal amount purchased. Depending on the terms of the MCC, the LRA funding amount varies between 110 bps and 120 bps of the principal amount. LRA funds not used to pay loan losses may be returned to the PFI subject to a retention schedule detailed in each MCC based on the original LRA amount. Per the retention schedule, no LRA funds are returned to the PFI for the first five years after the pool is closed to acquisitions. We absorb any losses in excess of available LRA funds.

SMI. For pools of loans acquired under our original MPP, we have credit protection from loss on each loan, where eligible, through SMI, which provides insurance to cover credit losses to approximately 50% of the property's original value, depending on the SMI contract terms, and subject, in certain cases, to an aggregate stop-loss provision in the SMI policy. Some MCCs that equal or exceed $35 million of total initial principal to be sold on a "best-efforts" basis include an aggregate loss/ benefit limit or "stop-loss" that is equal to the total initial principal balance of loans under the MCC multiplied by the stop-loss percentage (ranges from 200 - 400 bps), as is then in effect, and represents the maximum aggregate amount payable by the SMI provider under the SMI policy for that pool. Even with the stop-loss provision, the aggregate of the LRA and the amount payable by the SMI provider under an SMI stop-loss contract will be equal to or greater than the amount of credit enhancement required for the pool to have an implied NRSRO credit rating of at least AA at the time of purchase. Non-credit losses, such as uninsured property damage losses that are not covered by the SMI, can be recovered from the LRA to the extent that there are releasable LRA funds available. We absorb any non-credit losses greater than the available LRA. We do not have SMI coverage on loans purchased under Advantage MPP.

*Pool Aggregation.* We offer pool aggregation under our MPP. Our pool aggregation program is designed to reduce the credit enhancement costs to small and mid-size PFIs. Under pool aggregation, a PFI's loans are pooled with similar loans originated by other PFIs to create aggregate pools of approximately $100 million original UPB or greater. The combination of small and mid-size PFIs' loans into one pool also assists in the evaluation of the amount of LRA needed for the overall credit enhancement.

*Conventional Loan Pricing.* We consider the cost of the credit enhancement (LRA and SMI, if applicable) when we formulate conventional loan pricing. Each of these credit enhancement structures is accounted for, not only in our expected return on acquired mortgage loans, but also in the risk review performed during the accumulation/pooling process.

We typically receive a 0.25% fee on cash-out refinancing transactions with LTVs between 75% and 80%. Our current guidelines do not allow cash-out refinance loans above 80% LTV. We also adjust the market price we pay for loans depending upon market conditions. We continue to evaluate the scope and rate of such fees as they evolve in the industry. We do not pay a PFI any fees other than the servicing fee when the PFI retains the servicing rights.

*Servicing.* We do not service the mortgage loans we purchase. PFIs may elect to retain servicing rights for the loans sold to us, or they may elect to sell servicing rights to an MPP-approved servicer.

Those PFIs that retain servicing rights receive a monthly servicing fee and may be required to undergo a review by a third-party quality control contractor that advises the PFIs of any deficiencies in servicing procedures or processes and then notifies us so that we can monitor the PFIs' performance. The PFIs that retain servicing rights can sell those rights at a later date with our approval. If we deem servicing to be inadequate, we can require that the servicing of those loans be transferred to a servicer that is acceptable to us.

The servicers are responsible for all aspects of servicing, including, among other responsibilities, the administration of any foreclosure and claims processes from the date we purchase the loan until the loan has been fully satisfied. Our MPP was designed to require loan servicers to foreclose and liquidate in the servicer's name rather than in our name. As the servicer progresses through the process from foreclosure to liquidation, we are paid in full for all unpaid principal and accrued interest on the loan through the normal remittance process.

It is the servicer's responsibility to initiate claims for losses on the loans. If a loss is expected, no claims are settled until the claim has been reviewed and approved by the Bank. For loans that are credit-enhanced with SMI, if it is determined that a loss is covered, the SMI provider pays the claim in full and seeks reimbursement from the LRA funds. The SMI provider is entitled to reimbursement for credit losses from funds available in the LRA that are equal to the aggregate amounts contributed to the LRA less any amounts paid for previous claims and any amounts that have been released to the PFI from the LRA or paid to us to cover prior claims. If the LRA has been depleted but is still being funded, based on our contractual arrangement, we and/or the SMI provider are entitled to reimbursement from those funds as they are received, up to the full reimbursable amount of the claim. These claim payments would be reflected as additional deductions from the LRA as they were paid. For more information, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Management - Credit Risk Management - Mortgage Loans Held for Portfolio - MPP*.

*Housing Goals.* The Bank Act requires the Finance Agency to establish low-income housing goals for mortgage purchases. The Finance Agency issued a final FHLBank Housing Goals rule in 2020. The rule establishes two goals for any FHLBank that acquires mortgages in an AMA program during a year: (i) a prospective target of 20% of the number of an FHLBank's total AMA mortgage purchases for its purchases of mortgage loans to very low-income families, low-income families, or families in low-income areas; and (ii) a separate small-member participation housing goal with a target level of 50% of an FHLBank's total AMA users. The rule provides that an FHLBank may request Finance Agency approval of alternative target levels for either or both of these goals. If we fail to meet one or both goals, we may be required to submit a housing plan to the Finance Agency. The rule took effect August 24, 2020, and enforcement will phase in through December 31, 2023. During the phase-in period, the Finance Agency will monitor and report our housing goals performance, but will not impose a housing plan remedy if the Bank fails to meet either or both of the housing goal target levels.

**Funding Sources**

The primary source of funds for each of the FHLBanks is the sale of consolidated obligations, which consist of CO bonds and discount notes. The Finance Agency and the United States Secretary of the Treasury oversee the issuance of this debt in the capital markets. Finance Agency regulations govern the issuance of debt on our behalf and authorize us to issue consolidated obligations through the Office of Finance, under Section 11(a) of the Bank Act. No FHLBank is permitted to issue individual debt without the approval of the Finance Agency.

While the primary liability for consolidated obligations issued to provide funds for a particular FHLBank rests with that FHLBank, consolidated obligations are the joint and several obligations of all of the FHLBanks under Section 11(a). Although each FHLBank is a GSE, consolidated obligations are not obligations of, and are not guaranteed by, the United States government. Consolidated obligations are backed only by the financial resources of all of the FHLBanks and are rated Aaa by Moody's and AA+ by S&P.

***Consolidated Obligation Bonds.*** CO bonds satisfy term funding requirements and are issued with a variety of maturities and terms under various programs. The maturities of these securities may range from 4 months to 30 years, but the maturities are not subject to any statutory or regulatory limit. CO bonds can be fixed or adjustable rate and callable or non-callable. Those issued with adjustable-rate payment terms use a variety of indices for interest rate resets, including LIBOR, EFFR, United States Treasury Bill, Constant Maturity Swap, Prime Rate, SOFR, and others. CO bonds are issued and distributed through negotiated or competitively bid transactions with approved underwriters or selling group members.

***Consolidated Obligation Discount Notes.*** We also issue discount notes to provide short-term funds. These securities can have maturities that range from one day to one year, and are offered daily through a discount note selling group and other authorized securities dealers. Discount notes are generally sold below their face values and are redeemed at par when they mature.

***Office of Finance.*** The issuance of consolidated obligations is facilitated and executed by the Office of Finance, which also services all outstanding debt, provides information on capital market developments to the FHLBanks, and manages our relationship with the NRSROs with respect to consolidated obligations. The Office of Finance also prepares and publishes the FHLBanks' combined quarterly and annual financial reports.

As the FHLBanks' fiscal agent for debt issuance, the Office of Finance can control the timing and amount of each issuance. Through its oversight of the United States financial markets, the United States Treasury can also affect debt issuance for the FHLBanks. For more information, see *Item 1. Business - Supervision and Regulation - Government Corporations Control Act*.

**Affordable Housing Programs, Community Investment and Small Business Grants**

Each FHLBank is required to set aside 10% of its annual net earnings before interest expense on MRCS to fund its AHP, subject to an annual FHLBank System-wide minimum of $100 million. Through our AHP, we may provide cash grants or interest subsidies on advances to our members, which are, in turn, provided to awarded projects or qualified individuals to finance the purchase, construction, or rehabilitation of very low- to moderate-income owner-occupied or rental housing. Our AHP includes the following:

- Competitive Program, which is the primary grant program to finance the purchase, construction or rehabilitation of housing for individuals with incomes at or below 80% of the median income for the area, and to finance the purchase, construction, or rehabilitation of rental housing, with at least 20% of the units occupied by, and affordable for, very low-income households. Each year, 65% of our annual available AHP funds are granted through this program. AHP-related advances, of which none were outstanding at December 31, 2020 or 2019, are also part of this program.
- Set-Aside Programs, which include 35% of our annual available AHP funds, are administered through the following:
    - Homeownership Opportunities Program, which provides assistance with down payments and closing costs to first-time homebuyers;
    - Neighborhood Impact Program, which provides rehabilitation assistance to homeowners to help improve neighborhoods;
    - Accessibility Modifications Program, which provides funding for accessibility modifications and minor home rehabilitation for eligible senior homeowners or owner-occupied households with one or more individuals having a permanent disability; and
    - Disaster Relief Program, which may be activated at our discretion in cases of federal or state disaster declarations for rehabilitation or down payment assistance targeted to low- or moderate-income homeowner disaster victims. The disaster relief program was most recently approved by the board of directors and activated to assist homeowners impacted by significant flooding in several Michigan counties.

In addition, we offer a variety of specialized advance programs to support housing and community development needs. Through our Community Investment Program ("CIP"), we offer advances to our members involved in community economic development activities benefiting low- or moderate-income families or neighborhoods. These funds can be used for the development of housing, infrastructure improvements, or assistance to small businesses or businesses that are creating or retaining jobs in the member's community for low- and moderate-income families. These advances typically have maturities ranging from overnight to 20 years and are priced at our cost of funds plus reasonable administrative expenses. At December 31, 2020 and 2019, we had $753 million and $831 million, respectively, of outstanding principal on CIP-related advances.

In 2018, the Bank began offering small business grants under its new Elevate program, which are designed to support the growth and development of small businesses in Michigan and Indiana by providing funding for capital expenditures, workforce training, or other business-related needs. The total amounts awarded in 2020, 2019 and 2018 were $503,171, $391,751 and $255,595, respectively.

Community Mentors is a community engagement and economic development leadership program which includes a workshop and accompanying implementation grant. In 2020, the Bank began offering a $10 thousand grant to one Indiana and one Michigan community participating in the Community Mentors program.

**Use of Derivatives**

Derivatives are an integral part of our financial management strategies to manage identified risks inherent in our lending, investing and funding activities and to achieve our risk management objectives. Finance Agency regulations and our risk management policies establish guidelines for the use of derivatives. Permissible derivatives include interest-rate swaps, swaptions, interest-rate cap and floor agreements, calls, puts, futures, and forward contracts. We are only permitted to execute derivative transactions to manage interest-rate risk exposure inherent in otherwise unhedged asset or liability positions, hedge embedded options in assets and liabilities including mortgage prepayment risk positions, hedge any foreign currency positions, and act as an intermediary between our members and interest-rate swap counterparties. We are prohibited from trading in or the speculative use of these instruments.

Our use of derivatives is the primary way we align the preferences of investors for the types of debt securities they want to purchase and the preferences of member institutions for the types of advances they want to hold and the types of mortgage loans they want to sell. For more information, see *Notes to Financial Statements - Note 8 - Derivatives and Hedging Activities* and *Item 7A. Quantitative and Qualitative Disclosures About Market Risk - Use of Derivative Hedges*.

**Supervision and Regulation**

Our business is subject to extensive regulation and supervision. The laws and regulations to which we are subject cover all key aspects of our business, and directly and indirectly affect our product and service offerings, pricing, competitive position, strategic plan, relationship with members and third parties, capital structure, cash needs and uses, and information security. As discussed throughout this Form 10-K, such regulations can have a significant effect on key drivers of our results of operations.

***The Bank Act.*** We are supervised and regulated by the Finance Agency, an independent agency in the executive branch of the United States government, established by HERA.

Under the Bank Act, the Finance Agency's responsibility is to ensure that, pursuant to regulations promulgated by the Finance Agency, each FHLBank:

- carries out its housing finance mission;
- remains adequately capitalized and able to raise funds in the capital markets; and
- operates in a safe and sound manner.

The Finance Agency is headed by a Director, who is appointed to a five-year term by the President of the United States, with the advice and consent of the Senate. The Director appoints a Deputy Director for the Division of Enterprise Regulation, a Deputy Director for the Division of FHLBank Regulation, and a Deputy Director for Housing Mission and Goals, who oversees the housing mission and goals of Fannie Mae and Freddie Mac, as well as the housing finance and community and economic development mission of the FHLBanks. HERA also established the Federal Housing Finance Oversight Board, comprised of the Secretaries of the Treasury and HUD, the Chair of the SEC, and the Finance Agency Director. The Federal Housing Finance Oversight Board functions as an advisory body to the Finance Agency Director. The Finance Agency's operating expenses are funded by assessments on the FHLBanks, Fannie Mae and Freddie Mac. As such, no tax dollars or other appropriations support the operations of the Finance Agency or the FHLBanks. In addition to reviewing our submissions of monthly and quarterly information on our financial condition and results of operations, the Finance Agency conducts annual examinations and performs periodic reviews in order to assess our safety and soundness.

The United States Treasury receives a copy of the Finance Agency's annual report to Congress, monthly reports reflecting the FHLBank System's securities transactions, and other reports reflecting the FHLBank System's operations. Our annual financial statements are audited by an independent registered public accounting firm in accordance with standards issued by the Public Company Accounting Oversight Board, as well as the government auditing standards issued by the United States Comptroller General. The Comptroller General has authority under the Bank Act to audit or examine the Finance Agency and the FHLBank System and to decide the extent to which they fairly and effectively fulfill the purposes of the Bank Act. The Finance Agency's Office of Inspector General also has investigation authority over the Finance Agency and the FHLBank System.

***GLB Act Amendments to the Bank Act.*** The GLB Act amended the Bank Act to require that each FHLBank maintain a capital structure comprised of Class A stock, Class B stock, or both. A member can redeem Class A stock upon six months' prior written notice to its FHLBank. A member can redeem Class B stock upon five years' prior written notice to its FHLBank. Class B stock has a higher weighting than Class A stock for purposes of calculating the minimum leverage requirement applicable to each FHLBank.

The Bank Act requires that each FHLBank maintain permanent capital and total capital in sufficient amounts to comply with specified, minimum risk-based capital and leverage capital requirements. From time to time, for reasons of safety and soundness, the Finance Agency may require one or more individual FHLBanks to maintain more permanent capital or total capital than is required by the regulations. Failure to comply with these requirements or the minimum capital requirements could result in the imposition of operating agreements, cease and desist orders, civil money penalties, and other regulatory action, including involuntary merger, liquidation, or reorganization as authorized by the Bank Act.

***HERA Amendments to the Bank Act.*** In addition to establishing the Finance Agency, HERA eliminated regulatory authority to appoint directors to our board. HERA also eliminated regulatory authority to cap director fees (subject to the Finance Agency's review of reasonableness of such compensation), but placed additional controls over executive compensation.

***Government Corporations Control Act.*** We are subject to the Government Corporations Control Act, which provides that, before we can issue and offer consolidated obligations to the public, the Secretary of the United States Treasury must prescribe the form, denomination, maturity, interest rate, and conditions of the obligations; the way and time issued; and the selling price.

Furthermore, this Act provides that the United States Comptroller General may review any audit of the financial statements of an FHLBank conducted by an independent registered public accounting firm. If the Comptroller General undertakes such a review, the results and any recommendations must be reported to Congress, the Office of Management and Budget, and the FHLBank in question. The Comptroller General may also conduct a separate audit of any of our financial statements.

***Federal Securities Laws.*** Our shares of Class B stock are registered with the SEC under the Exchange Act, and we are generally subject to the information, disclosure, insider trading restrictions, and other requirements under the Exchange Act, with certain exceptions. Our amended capital plan authorizes us to also issue Class A stock, but we have not issued any such stock. We are not subject to the registration provisions of the Securities Act. We have been, and continue to be, subject to all relevant liability provisions of the Securities Act and the Exchange Act.

***Federal and State Banking Laws.*** We are generally not subject to the state and federal banking laws affecting United States retail depository financial institutions. However, the Bank Act requires the FHLBanks to submit reports to the Finance Agency concerning transactions involving loans and other financial instruments that involve fraud or possible fraud. In addition, we are required to maintain an anti-money laundering program, under which we are required to report suspicious transactions to the Financial Crimes Enforcement Network pursuant to the Bank Secrecy Act and the USA Patriot Act.

We contract with third-party compliance firms to perform certain services on our behalf to assist us with our compliance with these regulations as they are applicable to us. Finance Agency regulations require that we monitor and assess our third-party firms' performance of the services. As we identify deficiencies in our third-party firms' performance, we seek to remediate the deficiencies. Under certain circumstances, we are required to notify the Finance Agency about the deficiencies and our response to assure our compliance with these regulations.

As a wholesale secured lender and a secondary market purchaser of mortgage loans, we are not, in general, directly subject to the various federal and state laws regarding consumer credit protection, such as anti-predatory lending laws. However, as non-compliance with these laws could affect the value of these loans as collateral or acquired assets, we require our members to warrant that all of the loans pledged or sold to us are in compliance with all applicable laws. Federal law requires that, when a mortgage loan (defined to include any consumer credit transaction secured by the principal dwelling of the consumer) is sold or transferred, the new creditor shall, within 30 days of the sale or transfer, notify the borrower of the following: the identity, address and telephone number of the new creditor; the date of transfer; how to contact an agent or party with the authority to act on behalf of the new creditor; the location of the place where the transfer is recorded; and any other relevant information regarding the new creditor. In accordance with this statute, we provide the appropriate notice to borrowers whose mortgage loans we purchase under our MPP and have established procedures to ensure compliance with this notice requirement. In the case of the participating interests in mortgage loans we purchased from the FHLBank of Topeka under the MPF Program, the FHLBank of Chicago (as the MPF Provider) issued the appropriate notice to the affected borrowers and established its own procedures to ensure compliance with the notice requirement.

***Regulatory Enforcement Actions.*** While examination reports are confidential between the Finance Agency and an FHLBank, the Finance Agency may publicly disclose supervisory actions or agreements that the Finance Agency has entered into with an FHLBank. We are not subject to any such Finance Agency actions, and we are not aware of any current Finance Agency actions with respect to other FHLBanks that could have a material adverse effect on our financial results.

**Membership**

Our membership territory is comprised of the states of Michigan and Indiana. In 2020, 3 new members were added and 17 members were merged or consolidated, for a net reduction of 14 members.

The following table presents the composition of our members by type of financial institution.

| Type of Institution | December 31, 2020 | % of Total | December 31, 2019 | % of Total |
|---|---|---|---|---|
| Commercial banks and savings associations | 176 | 49 % | 187 | 50 % |
| Credit unions | 129 | 36 % | 129 | 35 % |
| Insurance companies | 50 | 14 % | 53 | 14 % |
| CDFIs | 4 | 1 % | 4 | 1 % |
| Total member institutions | 359 | 100 % | 373 | 100 % |

In light of the requirement under the Final Membership Rule for the memberships of captive insurance companies to be terminated no later than February 19, 2021, the membership of one captive insurer was terminated in 2020 and all of its advances outstanding were repaid. In addition, another captive insurer whose membership was also required to be terminated by February 19, 2021 repaid a significant amount of outstanding advances during 2020.

There was no other significant impact on our business as a result of the reduction in membership.

**Competition**

We operate in a highly competitive environment. Demand for advances is affected by, among other factors, the cost and availability of other sources of liquidity for our members, including customer deposits, brokered deposits, reciprocal deposits and public funds. We compete with other suppliers of wholesale funding, both secured and unsecured. Such other suppliers may include the United States government, the Federal Reserve Banks, corporate credit unions, the Central Liquidity Facility, investment banks, commercial banks, and in certain circumstances other FHLBanks. Large institutions may also have independent access to the national and global credit markets. Also, the availability of alternative funding sources to members, such as growth in deposits from members' banking customers, can significantly influence the demand for advances and can vary as a result of several factors, including legislative or regulatory changes, market conditions, members' creditworthiness, and availability of collateral.

Likewise, our MPP is subject to significant competition. Direct competition for purchases of mortgages comes from other buyers of conventional, conforming, fixed-rate mortgage loans, such as Fannie Mae and Freddie Mac. In addition, PFIs face increased origination competition from originators that are not members of our Bank.

We also compete with Fannie Mae, Freddie Mac, and other GSEs as well as corporate, sovereign, and supranational entities for funds raised through the issuance of CO bonds and discount notes. Increases in the supply of competing debt products may, in the absence of increases in demand, result in higher debt costs to us or lesser amounts of debt issued at the same cost than otherwise would be the case.

**Human Capital Resources**

The Bank's human capital is a significant contributor to the successful achievement of the Bank's strategic business objectives. In managing the Bank's human capital, the Bank focuses on its workforce profile and the various associated programs and philosophies.

***Workforce Profile.***

The Bank's workforce is substantially comprised of corporate office-based employees, with the Bank's principal operations in one location. As of December 31, 2020, the Bank had 259 full-time and 3 part-time employees, of which 61% were male and 39% were female, while 77% were non-minority and 23% were minority.

The Bank's workforce historically has included a large number of longer-tenured employees. The Bank strives to both develop talent from within the organization and supplement talent with external hires. The Bank believes that developing talent internally results in institutional strength and continuity and promotes loyalty and commitment in the Bank's employee base, which furthers its success, while adding new employees contributes to new ideas, continuous improvement, and the Bank's goals of a diverse and inclusive workforce. As of December 31, 2020, the average tenure of the Bank's employees was 8.6 years. There are no collective bargaining agreements with the Bank's employees.

***Total Rewards.***

The Bank seeks to attract, develop and retain talented employees to achieve its strategic business objectives, enhance business performance and provide a reasonable risk-return balance for our cooperative members, both as users of our products and as shareholders, tailored to our status and risk appetite as a housing GSE. The Bank recognizes and rewards performance through a combination of total rewards and development opportunities, including the following:

- Cash compensation
  - Competitive salary; and
  - Incentive opportunities;
- Benefits and perquisites
  - Medical, dental, and vision insurance;
  - Wellness incentive credit opportunities to reduce the net cost of medical insurance to qualifying participants;
  - Life, long-term disability, and other insurance coverages;
  - 401(k) retirement savings plans for which the Bank matches certain contributions; and
  - Pension benefits for employees hired before February 1, 2010;
- Wellness programs
  - Employee assistance program;
  - Health coaching;
  - Interactive education sessions; and
  - An online portal to inspire fitness and health goals;
- Employee engagement
  - Employee resource groups; and
  - Cultural and inclusion initiatives;
- Work/Life balance
  - 100% paid salary continuation for short-term disability, parental and military leave, bereavement, jury duty, and certain court appearances; and
  - Remote working options;
- Time away from work
  - Vacation, illness, personal, holiday, and certain volunteer opportunities;
- Development
  - Training focused on leadership development, employee engagement, and skill enhancement;
  - Educational assistance programs and student loan repayment assistance;
  - Internal educational and development opportunities; and
  - Fee reimbursement for external educational and development programs;
- Management succession planning. The Bank's board and leadership actively engage in succession planning, with a defined plan for our President-CEO, Executive Vice Presidents, and Senior Vice Presidents.

The Bank's performance management framework includes establishing individual performance goals tailored to reflect business and development objectives while also reflecting our Bank's Guiding Principles for its corporate culture, mid-year performance check-ins, and annual performance reviews. Overall annual ratings are calibrated and salary adjustments are differentiated for the Bank's highest performers.

The Bank is committed to the health, safety and wellness of its employees. In response to the COVID-19 pandemic, the Bank has implemented significant operating environment changes, safety protocols and procedures that it determined were in the best interest of the Bank's employees and members, and which comply with government regulations. In addition, nearly all of the Bank's employees work remotely to support safety protocols.

***Diversity, Equity, and Inclusion Program.***

Our Diversity, Equity, and Inclusion program is a strategic business priority for the Bank. The Bank's Senior Vice President – Chief Human Resources and Diversity, Equity, & Inclusion Officer is a member of our executive management team, reports directly to our President-CEO, and serves as a liaison to the Board of Directors. The Bank recognizes that diversity increases capacity for innovation and creativity, that equity recognizes the essential contributions of all Bank employees, and that inclusion allows the Bank to leverage the unique perspectives of all employees and strengthens the Bank's retention efforts. The Bank evaluates inclusive behaviors as part of the Bank's annual performance management process. The Bank's commitment is demonstrated through the development and execution of a three-year Diversity, Equity, and Inclusion Strategic Plan ("DEI Strategic Plan"). The DEI Strategic Plan focuses on Workforce, Workplace, Community, Supplier Diversity, and Capital Markets and includes quantifiable metrics to measure the program's success, which are reported regularly to senior management and the Board of Directors. The Bank considers learning an important component of its DEI Strategic Plan, so it offers a range of opportunities for its employees to connect and grow personally and professionally through its Diversity, Equity, and Inclusion Council, cultural awareness events, and employee resource groups.

**Available Information**

Our Annual, Quarterly and Current Reports on Forms 10-K, 10-Q, and 8-K, are filed with the SEC through the EDGAR filing system. A link to EDGAR is available through our public website at www.fhlbi.com by selecting "News" and then "Investor Relations."

We have a Code of Ethics for Senior Financial Officers ("Code of Ethics") that applies to our principal executive officer, principal financial officer, and principal accounting officer. We additionally have a Code of Conduct and Conflict of Interest Policy for Affordable Housing Advisory Council Members, a Code of Conduct and Conflict of Interest Policy for Directors, and a Code of Conduct and Conflict of Interest Policy for Employees and Contractors (collectively, the "Codes of Conduct"). The Code of Ethics and Codes of Conduct are available on our website by scrolling to the bottom of any web page on www.fhlbi.com and then selecting "Corporate Governance" in the navigation menu.

Our 2021 Targeted Community Lending Plan describes our plan to address the credit needs and market opportunities in our district states of Michigan and Indiana. It is available on our website at www.fhlbi.com/materials under "Bulletins, Publications, and Presentations."

The written charters adopted by the Board for its Audit, Executive/Governance, and Human Resources Committees are available on our website by scrolling to the bottom of any web page on www.fhlbi.com and then selecting "Corporate Governance" in the navigation menu. These charters were most recently amended by the board of directors as to the Audit Committee on March 19, 2020, as to the Executive/Governance Committee on January 7, 2020, and as to the Human Resources Committee on January 22, 2021.

We provide our website address and the SEC's website address solely for information. Except where expressly stated, information appearing on our website and the SEC's website is not incorporated into this Form 10-K.

Anyone may also request a copy of any of our public financial reports, our Code of Ethics, our Codes of Conduct, or our 2021 Targeted Community Lending Plan through our Corporate Secretary at FHLBank of Indianapolis, 8250 Woodfield Crossing Boulevard, Indianapolis, IN 46240, (317) 465-0200.

## ITEM 1A. RISK FACTORS

We use acronyms and terms throughout this Item that are defined herein or in the *Defined Terms*.

We have identified the following risk factors that could have a material adverse effect on our Bank. There may be other risks and uncertainties, including those discussed elsewhere in this Form 10-K that are not described in these risk factors.

### Business Risk - Economic

***The COVID-19 Pandemic and Related Developments Have Created Substantial Economic and Financial Disruptions and Uncertainties As Well As Significant Operational Challenges, Which Could Heighten Many of the Risks We Face and Could Adversely Affect Our Business, Financial Condition, Results of Operations, Ability to Pay Dividends and Redeem or Repurchase Capital Stock.***

The pandemic caused by the outbreak of COVID-19 and governmental and public actions taken in response, such as shelter-in-place, stay-at-home or similar orders, travel restrictions and business shutdowns, have reduced and may in the future significantly reduce economic activity and have created substantial uncertainty about the future economic environment. In addition, the pandemic and related developments have resulted in substantial disruptions in the financial markets, including dramatic increases in market volatility. There are no comparable recent events that provide guidance as to the effects that the COVID-19 pandemic and government actions may have. The ultimate effects of the pandemic, including its duration, speed and severity, the depth of the economic downturn and the timing and shape of the economic recovery, continue to evolve and are highly uncertain and difficult to predict. Although the economy improved in the second half of 2020, high levels of COVID-19 cases nationwide and new variants of the coronavirus have led to new governmental orders shutting down businesses. These circumstances could heighten many of the risks we face, and could adversely affect our business, financial condition, results of operations, ability to pay dividends and redeem or repurchase capital stock.

A prolonged economic downturn, or periods of significant economic and financial disruptions and uncertainties, resulting from the COVID-19 pandemic will lead to increased credit risk exposure (and possible increased risk of credit losses for us), in particular due to declines in the fair value of our assets or collateral securing our advances, due to member financial difficulties or failures, or from one or more members facing both circumstances together. Many businesses in our district and across the U.S. have been, and may in the future be, required by government orders to suspend or substantially curtail operations from time to time or for an indefinite time in an attempt to slow the spread of COVID-19, resulting in widespread employee layoffs and a dramatic increase in unemployment insurance claims. In turn, higher loan delinquencies stemming from rising unemployment, as well as the effects of mortgage forbearance and other debt relief, could reduce the fair value of our mortgage assets and mortgage-related collateral, and increase the Bank's exposure to credit losses in our MPP portfolio. Further, significant borrower defaults on loans made by our member institutions could occur as a result of the economic downturn, and these defaults could cause members to fail. We could be adversely impacted by the reduction in business volume that would arise from the failure of one or more of our members. Moreover, this significant slowdown in economic activity could reduce demand for our members' products and services (other than residential mortgage), which could negatively impact our members' demand for our products and services.

The disruptions to interest rates, credit spreads and the availability of funds in the capital markets in connection with the COVID-19 pandemic may adversely affect our access to funding as well as the valuation of and the market and book yields on our assets. Federal relief efforts designed to support the residential mortgage finance market have resulted in record-low mortgage rates and reduced member demand for our advances. These factors, coupled with variability in our members' demands for advances, have challenged and may continue to challenge our ability to effectively manage our assets and liabilities (including the pricing of advances and AMA) and could adversely affect our profitability and liquidity.

In addition, the shelter-in-place, stay-at-home or similar orders, travel restrictions and business shutdowns or limitations as a result of the COVID-19 pandemic have led to substantial changes in normal business practices, such as the implementation of work-from-home arrangements, for us as well as for many of our members, dealers, and other third-party service providers. Operational risk remains elevated due to these arrangements. Currently, most of our employees are working remotely. We have begun to plan for a return to the office, but cannot predict when such return will occur or that it will occur without increased risk to our workforce. In addition, more of our employees, management or board of directors could contract COVID-19, which, depending on the number and severity of such cases, could similarly affect our ability to conduct our business.

We expect the success of ongoing vaccination efforts and further COVID-19 relief legislation to affect pandemic recovery efforts nationwide. Federal, state, and local relief measures could adversely affect our business, financial results, and financial conditions, such as by expanding or extending our obligations to help borrowers, renters or counterparties affected by the pandemic; imposing new or expanded business shut-downs; further increasing alternative sources of liquidity for our members in competition with our products and services; and increased risk of mortgage fraud in our AMA portfolio and member collateral arising from CARES Act and similar borrower forbearance measures. For more information, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Accounting and Regulatory Developments – Legislative and Regulatory Developments.*

***Economic Conditions and Policy, Global Political or Economic Events, a Major Natural Disaster, or Widespread Health Crises Could Have an Adverse Effect on Our Business, Liquidity, Financial Condition, and Results of Operations.***

Our business, liquidity, financial condition, and results of operations are sensitive to general domestic and international business and economic conditions, such as changes in the money supply, inflation, volatility in both debt and equity capital markets, and the strength of the local economies in which we conduct business.

Our business and results of operations are significantly affected by the fiscal and monetary policies of the United States government and its agencies, including the Federal Reserve through its regulation of the supply of money and credit in the United States. The Federal Reserve's policies either directly or indirectly influence the yield on interest-earning assets, volatility of interest rates, prepayment speeds, the cost of interest-bearing liabilities and the demand for advances and for our debt. In addition, the FHLBanks currently play a predominant role as lenders in the federal funds market; therefore, any disruption in the federal funds market or any related regulatory or policy change may adversely affect our cash management activities, results of operations, and reputation.

Additionally, we are affected by the global economy through member ownership and investments, and through capital markets exposures. Global political, economic, and business uncertainty has led to increased volatility in capital markets and has the potential to drive volatility in the future. On January 31, 2020, the United Kingdom formally withdrew from membership in the European Union (the action commonly referred to as "Brexit"). The full effects of Brexit are not yet known, but it may cause greater global economic and business uncertainty. In addition, a major natural disaster or other catastrophic event, whether caused by climate change or otherwise, health crisis (such as the COVID-19 disease) or pandemic, as well as international responses to such events, could increase economic uncertainties and lead to further global capital market volatility, lower credit availability, and weaker economic growth. Our members, counterparties and vendors could experience similar negative effects. As a result, our business could be exposed to unfavorable market conditions, lower demand for mission-related assets, increased risk of credit losses, lower earnings, or reduced ability to pay dividends or redeem or repurchase capital stock.

The Federal Reserve's policies directly and indirectly influence the yield on our interest-bearing assets and the cost of our interest-bearing liabilities. In response to the COVID-19 pandemic, on March 15, 2020, the FOMC lowered the target range for federal funds from 1.50% to 1.75% to a target range of 0.00% to 0.25%. The Federal Reserve additionally increased its holdings of U.S. Treasuries and Agency MBS, thereby lowering Agency MBS yields and increasing GSE purchase prices for conforming mortgages. The FOMC continues to maintain the current low interest rate environment and could set negative interest rates if economic conditions warrant. The Federal Reserve's continuing substantial participation in both short-term and MBS markets could continue to adversely affect us through lower yields on our investments, higher costs of debt, and disruption of member demand for our products.

Our business and results of operations are sensitive to the condition of the housing and mortgage markets, as well as general business and economic conditions. Adverse trends in the mortgage lending sector, including declines in home prices or loan performance, could reduce the value of collateral securing our advances and the fair value of our MBS. Such reductions in value would increase the possibility of under-collateralization, thereby increasing the risk of loss in case of a member's failure. Also, deterioration in the residential mortgage markets could negatively affect the value of our MPP portfolio, resulting in an increase in the allowance for credit losses on mortgage loans and possible additional realized losses if we were forced to liquidate our MPP portfolio.

Our district is comprised of the states of Michigan and Indiana. Increases in unemployment and foreclosure rates or decreases in job or income growth rates in either state could result in less demand for mission-related assets and therefore lower earnings. For more information, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Executive Summary - Business Environment.*

**Business Risk - Legislative and Regulatory**

***Changes in the Legal and Regulatory Environment for FHLBanks, Other Housing GSEs or Our Members May Adversely Affect Our Business, Demand for Products, the Cost of Debt Issuance, and the Value of FHLBank Membership.***

We could be materially adversely affected by: the adoption of new or revised laws, policies, regulations or accounting guidance; new or revised interpretations or applications of laws, policies, or regulations by the Finance Agency, the SEC, the CFTC, the CFPB, the Financial Stability Oversight Council, the Comptroller General, the FASB or other federal or state financial regulatory bodies; or judicial decisions that alter the present regulatory environment. Likewise, whenever federal elections result in changes in the executive branch or in the balance of political parties' representation in Congress, there is increased uncertainty as to potential administrative, regulatory and legislative actions that may materially adversely affect our business.

Changes that restrict the growth or alter the risk profile of our current business or limit or prohibit the creation of new products or services could negatively impact our earnings and reduce the value of FHLBank membership. For example, our earnings could be negatively impacted by legislative or regulatory changes that (i) reduce demand for advances or limit advances we make to our members, (ii) further restrict the products and services we are able to provide to our members or how we do business with our members and counterparties, (iii) further restrict the types, characteristics or volume of mortgages that we may purchase through our MPP or otherwise reduce the economic value of MPP to our members, or (iv) otherwise require us to change the composition of our assets and liabilities. Our inability to adapt products and services to evolving industry standards and customer preferences in a highly competitive and regulated environment, while managing our expenses, could harm our business.

In addition, the regulatory environment in which our members provide financial products and services could be changed in a manner that negatively impacts their ability to take full advantage of our products and services, their desire to maintain membership in our Bank, or our ability to rely on their pledged collateral. Additionally, changes to the regulatory environment that affect our debt underwriters, particularly revised capital and liquidity requirements, could also adversely affect our cost of issuing debt in the capital markets.

Similarly, regulatory actions or public policy changes, including those that give preference to certain sectors, business models, regulated entities, assets, or activities, could negatively impact us. For example, changes in the status of Fannie Mae and Freddie Mac during the next phases of their conservatorships or as a result of legislative or regulatory changes, may impact funding costs for the FHLBanks, which could negatively affect our business and results of operations. In addition, negative news articles, industry reports, and other announcements pertaining to GSEs, including Fannie Mae, Freddie Mac or the FHLBanks, could cause an increase in interest rates on all GSE debt, as investors may perceive these issuers or their debt instruments as bearing increased risk.

The Finance Agency's Advisory Bulletin 2018-07 on liquidity became fully effective as of December 31, 2019. This advisory bulletin communicates the Finance Agency's expectations with respect to the maintenance of sufficient liquidity to enable the FHLBanks to provide advances and standby letters of credit ("SLOCs") for their members. Contemporaneously with the issuance of this advisory bulletin, the Finance Agency issued a supervisory letter that identifies initial thresholds for measures of liquidity within the established ranges set forth in the bulletin.

The advisory bulletin on liquidity not only provides direction on the level of on-balance sheet liquid assets related to base case liquidity, but as part of the base case liquidity measure, the advisory bulletin also includes a separate provision covering off-balance sheet commitments for SLOCs.

In addition, the advisory bulletin provides direction related to asset/liability maturity funding gap limits. Specifically, with respect to funding gaps and possible asset and liability mismatches, the advisory bulletin provides guidance on maintaining appropriate funding gaps for three-month and one-year maturity horizons. Initial percentages within prescribed ranges are identified in the supervisory letter. The advisory bulletin provides these limits to reduce the liquidity risks associated with a mismatch in asset and liability maturities.

The advisory bulletin has required us to hold an additional amount of liquid assets, which has reduced our ability to invest in higher-yielding assets. In certain circumstances we also need to fund shorter-term advances with short-term discount notes that have maturities beyond those of the related advances, thus increasing our short-term advance pricing or reducing net income through lower net interest spreads. To the extent these increased prices make our advances less competitive, advance levels and net interest income may be negatively affected.

The CFPB rules include standards for mortgage lenders to follow during the loan approval process to determine whether a borrower has the ability to repay the mortgage loan. The Dodd-Frank Act provides defenses to foreclosure and causes of action for damages if the mortgage lender does not meet the standards in the CFPB rules. A mortgage borrower can assert these defenses and causes of action against the original mortgage lender and against purchasers and other assignees of the mortgage loan, which would include us if we were to purchase a loan under our AMA programs or if we were to direct a servicer to foreclose on mortgage loan collateral. In addition, if we were to make advances secured by non-safe harbor qualified mortgages retained by a mortgage lender and subsequently were to liquidate such collateral, we could be subject to these defenses to foreclosure or causes of action for damages. This risk, in turn, could reduce the value of our advances collateral, potentially reducing our likelihood of full repayment on our advances if we were required to sell such collateral.

Regulatory reform since the most recent financial crisis has tended to increase the amount of margin collateral that we must provide to collateralize certain kinds of financial transactions, and has broadened the categories of transactions for which we are required to post margin. For example, the Dodd-Frank Act and related regulatory changes have increased the margin we must provide for cleared and uncleared derivative transactions and, effective in October 2021, Financial Industry Regulatory Authority ("FINRA") Rule 4210 will require us to exchange margin on certain MBS transactions. Materially greater margin requirements - due to Dodd-Frank Act derivatives regulatory requirements, FINRA Rule 4210, or otherwise - could adversely affect the availability and pricing of our derivative transactions, making such trades more costly and less attractive as risk management tools. New and expanded margin requirements on derivatives and MBS could also change our risk exposure to our counterparties and may require us to enhance further our systems and processes.

New and amended rules promulgated by our members' primary regulators may create unanticipated risks as well. At the same time, changes to SEC guidance pertaining to prime money market funds have resulted in a significant increase in demand for government funds and Agency debt, as well as FHLBank discount notes. These developments could influence regulatory guidance, particularly with respect to liquidity. We cannot predict what effects, if any, these developments will have on the FHLBank System as a whole or upon our Bank, nor can we predict what additional regulatory actions may be taken as a result.

For more information, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Accounting and Regulatory Developments - Legislative and Regulatory Developments*.

***A Failure to Meet Minimum Regulatory Capital Requirements Could Affect Our Ability to Pay Dividends, Redeem or Repurchase Capital Stock, Retain Existing Members and Attract New Members.***

We are required to maintain sufficient capital to meet specific minimum requirements established by the Finance Agency. If we violate any of these requirements or if our board or the Finance Agency determines that we have incurred, or are likely to incur, losses resulting, or expected to result, in a charge against capital, we would not be able to redeem or repurchase any capital stock while such charges are continuing or expected to continue, even if the statutory redemption period had expired for some or all of such stock. Violations of, or regulator-mandated adjustments to, our capital requirements could also restrict our ability to pay dividends, lend, invest, or purchase mortgage loans or participating interests in mortgage loans, or other business activities. Moreover, the Finance Agency could set varying expectations for FHLBanks' capital levels in ways that have potentially negative impacts on FHLBanks' business activities. Additionally, the Finance Agency could direct us to call upon our members to purchase additional capital stock to meet our minimum regulatory capital requirements. Members may be unable or unwilling to satisfy such calls for additional capital, thereby adversely affecting their ability to continue doing business with us and their desire to remain as members. Moreover, failure to pay dividends or redeem or repurchase stock at par, or a call upon our members to purchase additional stock to restore capital, could make it more difficult for us to attract new members.

The formula for calculating risk-based capital includes factors that depend on interest rates and other market metrics outside our control and could cause our minimum requirement to increase to a point exceeding our capital level. Further, if our retained earnings were to become inadequate, the Finance Agency could initiate restrictions consistent with those associated with a failure of a minimum capital requirement.

***Restrictions on the Redemption, Repurchase, or Transfer of the Bank's Capital Stock Could Result in an Illiquid Investment for the Holder.***

Under the GLB Act, Finance Agency regulations, and our capital plan, our capital stock may be redeemed upon the expiration of a five-year redemption period, subject to certain conditions. Capital stock may become subject to redemption following the redemption period after a member (i) provides a written redemption notice to the Bank; (ii) gives notice of intention to withdraw from membership; (iii) attains nonmember status by merger or acquisition, charter termination, or other involuntary membership termination; or (iv) has its Bank capital stock transferred by a receiver or other liquidating agent for that member to a nonmember entity. Only capital stock that is not required to meet a member's membership capital stock requirement or to support a member or nonmember shareholder's outstanding activity with the Bank (excess capital stock) may be redeemed at the end of the redemption period. In addition, we may elect to repurchase some or all of the excess capital stock of a shareholder at any time at our sole discretion.

There is no guarantee, however, that we will be able to redeem shareholders' capital stock, even at the end of the prescribed redemption period, or to repurchase their excess capital stock. If a redemption or repurchase of capital stock would cause us to fail to meet our minimum regulatory capital requirements, Finance Agency regulations and our capital plan would prohibit the redemption or repurchase. Restrictions on the redemption or repurchase of our capital stock could result in an illiquid investment for holders of our stock. In addition, because our capital stock may only be owned by our members (or, under certain circumstances, former members and certain successor institutions), and our capital plan requires our approval before a member or nonmember shareholder may transfer any of its capital stock to another member or nonmember shareholder, we cannot provide assurance that we would allow a member or nonmember shareholder to transfer any excess capital stock to another member or nonmember shareholder at any time.

**Business Risk - Strategic**

***A Loss of Significant Borrowers, PFIs, Acceptable Loan Servicers or Other Financial Counterparties Could Adversely Impact Our Profitability, Our Ability to Achieve Business Objectives, Our Ability to Pay Dividends or Redeem or Repurchase Capital Stock, and Our Risk Concentration.***

The loss of any large borrower or PFI could adversely impact our profitability and our ability to achieve business objectives. The loss of a large borrower or PFI could result from a variety of factors, including acquisition, consolidation of charters within a bank holding company, a member's loss of market share, resolution of a financially distressed member, or regulatory changes relating to FHLBank membership.

Our top borrower had advances outstanding at December 31, 2020 totaling $4.6 billion, or 15% of the Bank's total advances outstanding, at par. Our top-selling PFI sold us mortgage loans during 2020 totaling $138 million, or 7% of the total mortgage loans purchased by the Bank in 2020.

Our larger PFIs originate mortgages on properties in several states. We also purchase mortgage loans from many smaller PFIs that predominantly originate mortgage loans on properties in Michigan and Indiana. Our concentration of MPP loans on properties in Michigan and Indiana could continue to increase over time, as we do not currently limit such concentration.

We do not service the mortgage loans we purchase. PFIs may elect to retain servicing rights for the loans sold to us, or they may elect to sell servicing rights to an MPP-approved servicer. Federal banking regulations and Dodd-Frank Act capital requirements are causing some mortgage servicing rights to be transitioned to non-depository institutions and may reduce the availability of buyers of mortgage servicing rights. A scarcity of mortgage servicers could adversely affect our results of operations.

The number of counterparties that meet our internal and regulatory standards for derivative, repurchase, federal funds sold, TBA, and other financial transactions, such as broker-dealers and their affiliates, has decreased over time. In addition, since the Dodd-Frank Act, the requirements for posting margin or other collateral to financial counterparties has tended to increase, both in terms of the amount of collateral to be posted and the types of transactions for which margin is now required. These factors tend to increase the risk exposure that we have to any one counterparty, and as such may tend to increase our reliance upon each of our counterparties. A failure of any one of our major financial counterparties, or continuing market consolidation, could affect our profitability, results of operations, and ability to enter into additional transactions with existing counterparties without exceeding internal or regulatory risk limits.

***Competition Could Negatively Impact Advances, the Supply of Mortgage Loans for our MPP, Our Access to Funding and Our Earnings.***

We operate in a highly competitive environment. Demand for advances is affected by, among other factors, the cost and availability of other sources of liquidity for our members, including customer deposits, brokered deposits, reciprocal deposits and public funds. We compete with other suppliers of wholesale funding, both secured and unsecured. Such other suppliers may include the United States government, the Federal Reserve Banks, corporate credit unions, the Central Liquidity Facility, investment banks, commercial banks, and in certain circumstances other FHLBanks. Large institutions may also have independent access to the national and global credit markets. Also, the availability of alternative funding sources to members, such as growth in deposits from members' banking customers, can significantly influence the demand for advances and can vary as a result of several factors, including legislative or regulatory changes, market conditions, members' creditworthiness, and availability of collateral. Lower demand for advances will negatively impact our earnings.

Likewise, our MPP is subject to significant competition. Direct competition for purchases of mortgages comes from other buyers of conventional, conforming, fixed-rate mortgage loans, such as Fannie Mae and Freddie Mac. In response to the COVID-19 pandemic, the Federal Reserve materially increased their purchases of Agency MBS, thereby increasing GSE purchase prices for conforming mortgages and reducing demand for our MPP.

In addition, PFIs face increased origination competition from originators that are not members of our Bank. Increased competition can result in a smaller share of the mortgages available for purchase through our MPP and, therefore, lower earnings.

We also compete with Fannie Mae, Freddie Mac, and other GSEs as well as corporate, sovereign, and supranational entities for funds raised through the issuance of CO bonds and discount notes. Increases in the supply of competing debt products may, in the absence of increases in demand, result in higher debt costs to us or lesser amounts of debt issued at the same cost than otherwise would be the case. There can be no assurance that our supply of funds through issuance of consolidated obligations will be sufficient to meet our future operational needs.

***Downgrades of Our Credit Rating, the Credit Rating of One or More of the Other FHLBanks, or the Credit Rating of the Consolidated Obligations Could Adversely Impact Our Cost of Funds, Our Ability to Access the Capital Markets, and/or Our Ability to Enter Into Derivative Instrument Transactions on Acceptable Terms.***

The FHLBanks' consolidated obligations are rated Aaa/P-1 with a stable outlook by Moody's and AA+/A-1+ with a stable outlook by S&P. Rating agencies may from time to time lower a rating or issue negative reports. Because each FHLBank has joint and several liability for all FHLBank consolidated obligations, negative developments at any FHLBank may affect these credit ratings or result in the issuance of a negative report regardless of an individual FHLBank's financial condition and results of operations. In addition, because of the FHLBanks' GSE status, the credit ratings of the respective FHLBanks are generally influenced by the sovereign credit rating of the United States.

Based on the credit rating agencies' criteria, downgrades to the United States' sovereign credit rating and outlook may occur. As a result, similar downgrades in the credit ratings and outlook on the FHLBanks and the FHLBanks' consolidated obligations may also occur, even though they are not obligations of the United States.

Uncertainty remains regarding possible longer-term effects resulting from rating actions. Any future downgrades in the credit ratings and outlook, especially a downgrade to an S&P AA rating or equivalent, could result in higher funding costs, additional collateral posting requirements for certain derivative instrument transactions, or disruptions in our access to capital markets. To the extent that we cannot access funding when needed on acceptable terms to effectively manage our cost of funds, our financial condition and results of operations and the value of membership in our Bank may be negatively affected.

***The Inability to Identify Eligible Nominees for our Board of Directors and to Attract and Retain Key Personnel Could Adversely Affect the Bank's Operations.***

Under the Bank Act, at least 40% of our board of directors' seats must be held by independent directors, who must meet certain specialized and narrow eligibility requirements (including citizenship, residency and expertise) but are subject to specific term limits, as described in *Item 10. Directors, Executive Officers and Corporate Governance - Board of Directors*. We currently have eight independent directors on our board. Two of the independent directors will be term-limited as of December 31, 2021, and one other will be term-limited as of December 31, 2022; all three have served as directors of the Bank for 12 or more years. Our board has established a Succession Planning Committee to assist the board with respect to succession planning for directorships. As a result of the statutory limitations, however, we may be challenged in our ability to find prospective independent directors that meet the eligibility requirements.

We rely on key personnel for many of our functions and have a relatively small workforce, given the size and complexity of our business. Our ability to attract and retain personnel with the required technical expertise and specialized skills is important for us to manage our business and conduct our operations. Such ability could be challenged as employment in the United States improves.

**Credit Risk**

***An Increase in Our Exposure to Credit Losses Could Adversely Affect Our Financial Condition and Results of Operations.***

We are exposed to credit risk as part of our normal business operations through member products, investment securities and counterparty obligations. Periods of economic downturn, and periods of economic and financial disruptions and uncertainties, such as being experienced from the COVID-19 pandemic, may increase credit risk.

*Member Products.*

*Advances.* If a member fails and the appointed receiver or rehabilitator (or another applicable entity) does not either (i) promptly repay all of the failed institution's obligations to our Bank or (ii) properly assign or assume the outstanding advances, we may be required to liquidate the collateral pledged by the failed institution. The proceeds realized from the liquidation may not be sufficient to fully satisfy the amount of the failed institution's obligations plus the operational cost of liquidation, particularly if market price and interest-rate volatility adversely affect the value of the collateral. Price volatility could also adversely impact our determination of over-collateralization requirements, which could ultimately cause a collateral deficiency in a liquidation scenario. In some cases, we may not be able to liquidate the collateral for the value assigned to it or in a timely manner. Any of these scenarios could cause us to experience a credit loss, which in turn could adversely affect our financial condition and results of operations.

A deterioration of residential or commercial real estate property values could further affect the mortgages pledged as collateral for advances. In order to remain fully collateralized, we may require members to pledge additional collateral when we deem it necessary. If members are unable to fully collateralize their obligations with us, our advances could decrease further, negatively affecting our results of operations or ability to pay dividends or redeem or repurchase capital stock.

*Mortgage Loans.* If delinquencies in our fixed-rate mortgages increase and residential property values decline, we could experience reduced yields or losses exceeding the protection provided by the LRA and SMI credit enhancement and CE obligations, as applicable, on mortgage loans purchased through our MPP or the participating interests in MPF Program loans acquired from the FHLBank of Topeka or another MPF FHLBank.

We are the beneficiary of third-party PMI and SMI (where applicable) coverage on conventional mortgage loans that we acquire through our MPP, and we rely in part on such coverage to reduce the risk of losses on those loans. As a result of actions by their respective state insurance regulators, however, certain of our PMI providers may pay less than 100% of the claim amounts. The remaining amounts are deferred until the funds are available or the PMI provider is liquidated. It is possible that insurance regulators may impose restrictions on the ability of our other PMI/SMI providers to pay claims. If our PMI/SMI providers further reduce the portion of mortgage insurance claims they will pay to us or further delay or condition the payment of mortgage insurance claims, or if additional adverse actions are taken by their state insurance regulators, we could experience higher losses on mortgage loans.

We are also exposed to credit losses from servicers of mortgage loans purchased under our MPP or through participating interests in mortgage loans purchased from other FHLBanks under the MPF Program if they fail to perform their contractual obligations.

*Investment Securities.* The MBS market continues to face uncertainty over the potential changes in the Federal Reserve's holdings of MBS and the effect of any new or proposed actions. Additionally, future declines in housing prices, as well as other factors, such as increased loan default rates and loss severities and decreased prepayment speeds, may result in unrealized losses, which could adversely affect our financial condition.

We are also exposed to credit losses from third-party providers of credit enhancements on the MBS investments that we hold in our investment portfolios, including mortgage insurers, bond insurers and financial guarantors. Our results of operations could be adversely impacted if one or more of these providers fails to fulfill its contractual obligations to us.

*Counterparty Obligations.* We assume unsecured credit risk when entering into money market transactions and financial derivatives transactions with domestic and foreign counterparties or through derivatives clearing organizations. A counterparty default could result in losses if our credit exposure to that counterparty is not fully collateralized or if our credit obligations associated with derivative positions are over-collateralized. The insolvency or other inability of a significant counterparty, including a clearing organization, to perform its obligations under such transactions or other agreements could have an adverse effect on our financial condition and results of operations, as well as our ability to engage in routine derivative transactions. If we are unable to transact additional business with those counterparties, our ability to effectively use derivatives could be adversely affected, which could impair our ability to manage some aspects of our interest-rate risk.

Moreover, our ability to engage in routine derivatives, funding and other transactions could be adversely affected by the actions and commercial soundness of financial institutions that transact business with our counterparties. Financial services institutions are interrelated as a result of trading, clearing, counterparty and/or other relationships. Consequently, financial difficulties experienced by one or more financial services institutions could lead to market-wide disruptions that may impair our ability to find suitable counterparties for routine business transactions.

***Providing Financial Support to Other FHLBanks Could Negatively Impact the Bank's Liquidity, Earnings and Capital and Our Members.***

We are jointly and severally liable with the other FHLBanks for the consolidated obligations issued on behalf of the FHLBanks through the Office of Finance. If another FHLBank were to default on its obligation to pay principal and interest on any consolidated obligations, the Finance Agency may allocate the outstanding liability among one or more of the remaining FHLBanks on a pro-rata basis or on any other basis the Finance Agency may determine. In addition to possibly making payments due on consolidated obligations under our joint and several liability, we may voluntarily or involuntarily provide financial assistance to another FHLBank in order to resolve a condition of financial distress. Such assistance could negatively affect our financial condition, our results of operations and the value of membership in our Bank. Moreover, a Finance Agency regulation provides for an FHLBank System-wide annual minimum contribution to AHP of $100 million, and we could be liable for a pro-rata share of that amount (based on the FHLBanks' combined net earnings for the previous year), up to 100% of our net earnings for the previous year. Thus, our ability to pay dividends to our members or to redeem or repurchase capital stock could be affected by the financial condition of one or more of the other FHLBanks.

**Market Risk**

***Changes to or Replacement of the LIBOR Benchmark Interest Rate Could Adversely Affect Our Business, Financial Condition and Results of Operations.***

Many of our assets and liabilities are indexed to LIBOR. On July 27, 2017, the FCA, a regulator of financial services firms and financial markets in the United Kingdom, announced that it will plan for a phase-out of regulatory oversight of LIBOR interest rate indices. In March 2021, the FCA further announced that LIBOR will either cease to be provided by any administrator or no longer be representative immediately after December 31, 2021, or, in the case of some more frequently used U.S. dollar LIBOR settings, immediately after June 30, 2023. Although the FCA does not expect LIBOR to become unrepresentative before the applicable cessation date and intends to consult on requiring the administrator of LIBOR to continue publishing LIBOR of certain currencies and tenors on a non-representative, synthetic basis for a period after the applicable cessation date, there is no assurance that LIBOR, of any particular currency or tenor, will continue to be published or be representative through any particular date or that LIBOR will continue to be accepted or used by the markets generally or by any issuers, investors, or counterparties at any time, even if LIBOR continues to be available.

On September 27, 2019, the Finance Agency issued a supervisory letter to the FHLBanks ("Supervisory Letter") relating to their planning for the LIBOR phase-out. With respect to investments, the Supervisory Letter directed that, by December 31, 2019, the FHLBanks stop purchasing investments that reference LIBOR and mature after December 31, 2021. In addition, for all product types except investments, the FHLBanks should, by March 31, 2020, no longer enter into new financial assets, liabilities or derivatives that reference LIBOR and mature after December 31, 2021. Further, the Supervisory Letter directs that the FHLBanks update their pledged collateral certification reporting requirements by March 31, 2020 in an effort to encourage members to distinguish LIBOR-linked collateral maturing past December 31, 2021.

As a result of the limitations introduced by the Supervisory Letter, we have had to alter our hedging strategies and interest-rate risk management. Such activities may have a negative effect on our financial condition and results of operations. Additionally, we may experience less flexibility in our access to funding, higher funding costs, or lower overall demand or increased costs for advances, which in turn may negatively affect the future composition of our balance sheet, capital stock levels, primary mission assets ratios, and net income.

In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee ("ARRC") of the Federal Reserve and the Federal Reserve Bank of New York. The ARRC has proposed the SOFR as its recommended alternative to U.S. dollar LIBOR. SOFR is based on a broad segment of the overnight Treasury repurchase market and is intended to be a measure of the cost of borrowing cash overnight collateralized by Treasury securities. The Federal Reserve Bank of New York began publishing a SOFR in the second quarter of 2018. In January 2019, we began participating in the issuance of SOFR-indexed CO bonds.

The market transition away from LIBOR to SOFR is expected to be complicated, including the development of terms and credit adjustments to accommodate differences between LIBOR and SOFR. The introduction of an alternative rate also may introduce additional basis risk for market participants, as an alternative index is utilized along with LIBOR during a transition period. During the market transition, LIBOR may experience increased volatility or become less representative. In addition, the overnight Treasury repurchase market underlying SOFR may experience disruptions from time to time, which may result in unexpected fluctuations in SOFR.

In March 2021, the ICE Benchmark Administration announced it would delay the termination of the one-, three-, six-, and twelve-month U.S. Dollar LIBOR rates until June 30, 2023. This delay, and other delays, may tend to magnify the risks to the Bank and market participants for the LIBOR transition. Additionally, the delayed transition, coupled with the requirements of the Finance Agency's Supervisory Letter, could tend to increase our exposure to LIBOR-SOFR basis risk for the extended transition period.

There can be no guarantee that SOFR will become widely used or that alternative rates will not cause additional complications. The infrastructure necessary to manage hedging utilizing SOFR continues to develop, and the transition in the markets and adjustments in our systems could be disruptive, with disruptions potentially beginning before the currently-planned phase-out of FCA support of LIBOR. A mechanism is not yet well-established to convert the credit risk and tenor features of LIBOR into any proposed replacement rate because markets which could facilitate such conversion are new and currently lack depth or liquidity. We may face additional risk if we are unable to replace the credit risk and tenor features in SOFR (or other replacement rates), or if we are unable to appropriately factor these components into the prices of our products, services, and investments. Moreover, there is no guarantee that, if the market is fully functioning at the time of the transition, the transition will be successful. Similarly, the transition from one reference rate to another could have accounting effects. For example, such transition could have an effect on our hedge effectiveness, which could affect our results of operations. Additionally, our risk management measuring, monitoring and valuation tools utilize LIBOR as a reference rate. Disruptions in the market for LIBOR and its regulatory framework, therefore, could have unanticipated effects on our risk management activities as well.

Given the large volume of LIBOR-based mortgages and financial instruments, and the size of our Agency MBS portfolio that utilizes a LIBOR-rate index, the basis adjustment to the replacement floating rate may have a significant impact on our financial results, but whether the net impact is positive or negative cannot yet be ascertained. We believe that other market participants, including our member institutions, derivatives clearing organizations, and other financial counterparties are also monitoring the LIBOR transition, but we cannot predict how such institutions will react to the transition, or what effects such reactions will have on us. We are not able to predict at this time whether SOFR or another alternative rate will become the sole market benchmark in place of LIBOR, whether the transitions to new reference rates will be successful, or what the impact of such a transition will be on the Bank's business, financial condition or results of operations.

***Changes in Interest Rates or Changes in the Differences Between Short-Term Rates and Long-Term Rates Could Have an Adverse Effect on Our Earnings.***

Our ability to prepare for changes in interest rates, or to hedge related exposures such as basis risk, significantly affects the success of our asset and liability management activities and our level of net interest income.

The effect of interest rate changes can be exacerbated by prepayment and extension risks, which are the risks that mortgage-based investments will be refinanced by borrowers in low interest-rate environments or will remain outstanding longer than expected at below-market yields when interest rates increase. Decreases in interest rates typically cause mortgage prepayments to increase, which may result in increased premium amortization expense and a decrease in the yield of our mortgage assets as we experience a return of principal that we must re-invest in a lower rate environment. While these prepayments would reduce the asset balance, our balance of consolidated obligations may remain outstanding. Conversely, increases in interest rates typically cause mortgage prepayments to decrease or mortgage cash flows to slow, possibly resulting in the debt funding the portfolio to mature and the replacement debt to be issued at a higher cost, thus reducing our interest spread.

A flattening or inverted yield curve, in which the difference between short-term interest rates and long-term interest rates is lower or negative, respectively, relative to prior market conditions, will tend to reduce, and has reduced, the net interest margin on new loans added to the MPP portfolio. Until such time as the yield curve becomes steeper, we may continue to earn lower spread income from that portfolio.

Although derivatives are used to mitigate market risk, they also introduce the potential for short-term earnings volatility, principally due to basis risk because we must use the OIS curve instead of the LIBOR curve as the discount rate to estimate the fair values of collateralized LIBOR-based derivatives while substantially all of the hedged items currently on the balance sheet are still valued using the LIBOR curve. Additionally, our U.S. Treasury liquidity portfolio is economically hedged with OIS interest rate swaps and may introduce income volatility due to non-symmetrical changes in U.S. Treasury rates and OIS swap rates.

**Liquidity Risk**

***The Inability to Access Capital Markets on Acceptable Terms Could Adversely Affect Our Liquidity, Operations, Financial Condition and Results of Operations, and the Value of Membership in Our Bank.***

Our primary source of funds is the sale of consolidated obligations in the capital markets. Our ability to obtain funds through the sale of consolidated obligations depends in part on prevailing conditions in the capital markets, such as investor demand and liquidity, and on dealer commitment to inventory and support our debt. Severe financial and economic disruptions in the past, and the United States government's measures to mitigate their effects, including increased capital requirements on dealers' inventory and other regulatory changes affecting dealers, have changed the traditional bases on which market participants value GSE debt securities and consequently could affect our funding costs and practices, which could make it more difficult and more expensive to issue our debt. Any further disruption in the debt market could have an adverse impact on our interest spreads, opportunities to call and reissue existing debt or roll over maturing debt, or our ability to meet the Finance Agency's mandates on FHLBank liquidity.

**Operational Risk**

***A Cybersecurity Event; Interruption in Our Information Systems; Unavailability of, or an Interruption of Service at, Our Main Office or Our Backup Facilities; or Failure of or an Interruption in Information Systems of Third-Party Vendors or Service Providers Could Adversely Affect Our Business, Risk Management, Financial Condition, Results of Operations, and Reputation.***

*Cybersecurity.*

We rely heavily on our information systems and other technology to conduct and manage our business, which inherently involves large financial transactions with our members and other counterparties. Our operations rely on the secure processing, storage and transmission of confidential and other information, both in our and third parties' computer systems and networks, including those of backup service providers. These computer systems, software and networks are vulnerable to breaches, unauthorized access, damage, misuse, computer viruses or other malicious code and other events that could potentially jeopardize the confidentiality of such information or otherwise cause interruptions or malfunctions in our operations, either directly or through a third party. We have not experienced a disruption in our information systems that has had a material adverse effect on us. However, as malicious threat tactics continue to become more pervasive and more sophisticated, and as regulatory scrutiny of cybersecurity risk management increases, we are required to implement more advanced mitigating controls, which increases our mitigation costs. Moreover, if we experience a significant cybersecurity event, either directly or through a third party, we may suffer significant financial or data loss, we may be unable to conduct and manage our business functions effectively, we may incur significant expenses in remediating such incidents, and we may suffer reputational harm. Any such occurrence could result in increased regulatory scrutiny of our operations. There can be no assurance that our, or any third parties' cybersecurity controls will timely detect or prevent all cybersecurity incidents. Although we carry cybersecurity insurance, its coverage may not be broad enough or adequate to cover losses we may incur if a significant cybersecurity event occurs.

*Information Systems; Facilities; Unavailability or Interruption of Service.*

In addition, our operations rely on the availability and functioning of our main office, our business resumption center and other facilities. If we experience a significant failure or interruption in our business continuity, disaster recovery or certain information systems, we may be unable to conduct and manage our business functions effectively, we may incur significant expenses in remediating such incidents, and we may suffer reputational harm. Moreover, any of these occurrences could result in increased regulatory scrutiny of our operations.

*Office of Finance.*

The Office of Finance is a joint office of the FHLBanks established to facilitate the issuance and servicing of consolidated obligations, among other things. A failure or interruption of the Office of Finance's services as a result of breaches, cyber attacks, or technological outages (either in the Office of Finance or certain of its third party service providers, including those of backup service providers) could constrain or otherwise negatively affect the business operations of the FHLBanks, including disruptions to each FHLBank's access to funding through the sale of consolidated obligations. Moreover, any operational failure of the Office of Finance or of its third party providers could expose us to the risk of loss of data or confidential information, or other harm, including reputational damage.

*Other Third Parties.*

Despite our policies, procedures, controls and initiatives, some operational risks are beyond our control, and the failure of other parties to adequately address their performance standards and operational risks could adversely affect us. In addition to internal computer systems, we outsource certain communication and information systems and other services critical to our business infrastructure, and regulatory compliance to third-party vendors and service providers, including derivatives clearing organizations, loan servicers, and the Federal Reserve as to funds transfers.

Compromised security or operational errors at any third party with whom we conduct business, or at any third party's contractors, could expose us to cyber attacks, other breaches or service failures or interruptions. If one or more of these external parties were not able to perform their functions for a period of time, at an acceptable service level, or with increased volumes, our business operations could be constrained, disrupted, or otherwise negatively affected. In addition, any failure, interruption or breach in security of these systems, any disruption of service, or any external party's failure to perform its contractual obligations could result in failures or interruptions in our ability to conduct and manage our business effectively, including, without limitation, our advances, MPP, funding, hedging activities and regulatory compliance. There is no assurance that such failures or interruptions will not occur or, if they do occur, that they will be timely detected or adequately addressed by us or the third parties on which we rely. Any failure, interruption, or breach could significantly harm our customer relations and business operations, which could negatively affect our financial condition, results of operations, or ability to pay dividends or redeem or repurchase capital stock.

We are implementing processes to accept electronically created and executed electronic notes – "e-notes" – in our business both as an approved collateral type, and as a class of mortgage note we purchase in our MPP. We anticipate initiating the use of e-notes during 2021. This includes developing mortgage note custody arrangements with a third-party "e-vault" format and use of a mortgage note "e-registry" for certain classes of e-notes, which will affect both our MPP processes and our collateral management processes. Using e-notes will create additional operations risk, particularly with respect to the safekeeping, storage and security of mortgage-related records by third parties, as well as potential differences across multiple jurisdictions regarding (i) the validity, enforceability and transferability of security interests in e-notes, (ii) the recording, transferability, and priority of associated security instruments, and (iii) execution requirements for e-notes and other associated instruments. Laws governing e-notes also vary depending on the class of transaction at the time of issue, with potentially different legal regimes for consumer mortgage notes, open-ended or revolving HELOCs, and non-consumer mortgage lending, such as in commercial real estate and multifamily secured lending. Different requirements for the use of e-notes in different markets (e.g., consumer mortgage, HELOC, and commercial) increase operational risk. In addition, there are uncertainties surrounding how any such assets will be treated or valued in their respective markets, if liquidated. We cannot predict our members' appetites for using e-notes generally, or in any particular class of transaction. E-notes generally have not seen wide adoption, and we cannot predict market acceptance for e-notes for any asset types.

***A Failure of the Business and Financial Models and Related Processes Used to Evaluate Various Financial Risks and Derive Certain Estimates in Our Financial Statements Could Produce Unreliable Projections or Valuations, which Could Adversely Affect Our Business, Financial Condition, Results of Operations and Risk Management.***

We are exposed to market, business and operational risk, in part due to the significant use of business and financial models when evaluating various financial risks and deriving certain estimates in our financial statements. Our business could be adversely affected if these models fail to produce reliable projections or valuations. These models, which rely on various inputs including, but not limited to, loan volumes and pricing, market conditions for our consolidated obligations, interest-rate spreads and prepayment speeds, implied volatility of options contracts, and cash flows on mortgage-related assets, require management to make critical judgments about the appropriate assumptions that are used in the determinations of such risks and estimates and may overstate or understate the value of certain financial instruments, future performance expectations, or our level of risk exposure. Our models could produce unreliable results for a number of reasons, including, but not limited to, invalid or incorrect assumptions underlying the models, the need for manual adjustments in response to rapid changes in economic conditions, incorrect coding of the models, incorrect data being used by the models or inappropriate application of a model to products or events outside the model's intended use. In particular, models can be less dependable when the economic environment is outside of historical experience, as has been the case in recent years.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

We own an office building containing approximately 117,000 square feet of office and storage space at 8250 Woodfield Crossing Boulevard, Indianapolis, IN, of which we use approximately 108,200 square feet. We lease or hold for lease to various tenants the remaining 8,800 square feet. We also lease a secondary office space in Anderson, IN, which is used for business resumption activities in the event of a loss of or a disruption to the primary facility.

We also maintain two geographically dispersed, co-located data centers which are on electrical distribution grids that are separate from each other and from our office buildings. For more information, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Management - Operational Risk Management*.

In the opinion of management, our physical properties are suitable and adequate. All of our properties are insured to approximately replacement cost. In the event we were to need more space, our lease terms with tenants generally provide the ability to move tenants to comparable space at other locations at our cost for moving and outfitting any replacement space to meet our tenants' needs.

## ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we may from time to time become a party to lawsuits involving various business matters. We are unaware of any lawsuits presently pending which, individually or in the aggregate, could have a material effect on our financial condition or results of operations.

## ITEM 4. MINE SAFETY DISCLOSURES

None.

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

We use acronyms and terms throughout this Item that are defined herein or in the *Defined Terms*.

### No Trading Market

Our capital stock is not publicly traded, and there is no established market for such stock. Members may be required to purchase additional shares of stock from time to time to meet minimum stock purchase requirements under our capital plan.

Our Class B stock is registered under the Exchange Act and may be purchased, sold, redeemed and repurchased only at par. Because our shares of capital stock are "exempt securities" under the Securities Act, purchases and sales of stock by our members are not subject to registration under the Securities Act.

Depending on the class of capital stock, it may be redeemed either six months (Class A Common Stock) or five years (Class B Common Stock) after we receive a written request by a member, subject to regulatory limits and to the satisfaction of any ongoing stock investment requirements applying to the member under our capital plan. We may repurchase shares held by members in excess of their required holdings at our discretion at any time in accordance with our capital plan.

### Capital Structure

Our capital plan was amended and restated effective September 26, 2020. The amended plan continues to provide for two sub-series of Class B capital stock: Class B-1 and Class B-2. Under the amended plan, Class B-1 stock is held by our members to satisfy their membership stock requirements, while Class B-2 stock is held to satisfy members' activity-based stock requirements. Class B-1 stock is automatically reclassified as Class B-2 as needed to help fulfill the member's activity-based stock requirement, and the member may be required to purchase additional Class B-2 stock in order to fully meet that requirement. Excess Class B-2 stock is automatically reclassified as Class B-1. The amended plan does not require that stock under redemption be converted or reclassified from one class to another. By contrast, under our prior capital plan in effect through September 25, 2020, Class B-1 was stock held by our members that was not subject to a redemption request, and Class B-2 stock consisted solely of required stock that was subject to a redemption request.

Under the amended capital plan, PFIs may opt in to an activity-based stock requirement in connection with their sales of mortgage loans to us under Advantage MPP. PFIs may elect this stock requirement each time they enter into an MDC with us based on the outstanding principal balance of loans purchased under the designated MDC. As of December 31, 2020, such Class B-2 stock issued and outstanding totaled $4.8 million.

The amended capital plan also permits the board of directors to authorize the issuance of Class A stock. Under the plan, Class A stock may be used at the member's election, in lieu of Class B-2 stock, to satisfy the member's activity-based stock requirement. Class A stock is subject to the same redemption requirements and limitations as Class B stock, except the applicable redemption period for Class A stock is six months. As of December 31, 2020, the board of directors had not authorized the issuance of Class A stock.

### Number of Shareholders

As of February 28, 2021, we had 371 shareholders and $2.4 billion par value of regulatory capital stock, which includes Class B stock and MRCS issued and outstanding. As of February 28, 2021, we had no Class A stock outstanding.

**Dividends**

Because only member institutions and certain former members can own shares of our capital stock and, by statute and regulation, stock can be issued and repurchased only at par, there is no open market for our stock and no opportunity for stock price appreciation. As a result, return on equity can be received only in the form of dividends.

Dividends may, but are not required to, be paid on our capital stock. Our board of directors may declare and pay dividends in either cash or capital stock or a combination thereof, subject to Finance Agency regulations. Under these regulations, stock dividends cannot be paid if our excess stock is greater than 1% of our total assets. At December 31, 2020, our excess stock was 1.26% of our total assets.

Our board of directors seeks to reward our members with a competitive, risk-adjusted return on their investment, particularly those who actively utilize our products and services. Our board of directors' decision to declare dividends is influenced by our financial condition, overall financial performance and retained earnings, as well as actual and anticipated developments in the overall economic and financial environment including the level of interest rates and conditions in the mortgage and credit markets. In addition, our board of directors considers several other factors, including our risk profile, regulatory requirements, our relationship with our members and the stability of our current capital stock position and membership.

Our amended capital plan eliminated the prior plan's requirement that dividends on Class B-2 stock be calculated as 80% of the dividend rate on Class B-1 stock. Under the amended plan, the board of directors may declare a dividend rate on Class B-2 stock that equals or exceeds the rate on Class B-1 stock. Similarly, the board of directors may declare a dividend rate on Class A stock that equals or exceeds the rate on Class B-1 stock.

The amount of the dividend to be paid is based on the average number of shares of each sub-series held by a member during the dividend payment period (applicable quarter). For more information, see *Notes to Financial Statements - Note 12 - Capital* and *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Capital Resources*.

We are exempt from federal, state, and local taxation, except for employment and real estate taxes. Despite our tax-exempt status, any cash dividends paid by us to our members are taxable dividends to the members, and our members do not benefit from the exclusion for corporate dividends received. *The preceding statement is for general information only; it is not tax advice. Members should consult their own tax advisors regarding particular federal, state, and local tax consequences of purchasing, holding, and disposing of our capital stock, including the consequences of any proposed change in applicable law.*

We paid quarterly cash dividends as set forth in the following tables under our amended and prior capital plans ($ amounts in thousands).

| Amended Plan | Class B-1 | | | | Class B-2 | | | |
|---|---|---|---|---|---|---|---|---|
| Quarter Paid | Dividend on Capital Stock | Interest Expense on MRCS | Total | Annualized Dividend Rate [1] | Dividend on Capital Stock | Interest Expense on MRCS | Total | Annualized Dividend Rate [1] |
| **2021** | | | | | | | | |
| Quarter 1 | $ 3,946 | $ 972 | $ 4,918 | 1.75 % | $ 10,012 | $ 257 | $ 10,269 | 3.00 % |
| | | | | | | | | |
| **2020** | | | | | | | | |
| Quarter 4 [2] | $ 281 | $ 73 | $ 354 | 3.00 % | $ 448 | $ 13 | $ 461 | 3.00 % |

| Prior Plan | Class B-1 | | | | Class B-2 | | | |
|---|---|---|---|---|---|---|---|---|
| Quarter Paid | Dividend on Capital Stock | Interest Expense on MRCS | Total | Annualized Dividend Rate [1] | Dividend on Capital Stock | Interest Expense on MRCS | Total | Annualized Dividend Rate [1] |
| **2020** | | | | | | | | |
| Quarter 4 [2] | $ 15,963 | $ 1,822 | $ 17,785 | 3.00 % | $ 2 | $ 166 | $ 168 | 2.40 % |
| Quarter 3 | 18,822 | 2,439 | 21,261 | 3.50 % | 3 | 194 | 197 | 2.80 % |
| Quarter 2 | 19,944 | 2,947 | 22,891 | 4.00 % | 2 | 184 | 186 | 3.20 % |
| Quarter 1 | 20,947 | 2,906 | 23,853 | 4.25 % | 3 | 443 | 446 | 3.40 % |

(1) Reflects the annualized dividend rate on all of our average capital stock outstanding in Class B-1 and Class B-2, respectively, regardless of its classification for financial reporting purposes as either capital stock or MRCS. The prior capital plan required that dividends on Class B-2 stock be calculated as 80% of the dividends declared on Class B-1 stock, while the amended capital plan permits the dividends on Class B-2 (activity-based) stock to be greater than or equal to the dividends on Class B-1 (non-activity-based) stock.

(2) As a result of implementing the amended capital plan effective September 26, 2020, the Bank paid dividends under our prior plan for the period ended September 25, 2020 and under the amended plan for the remaining five-day period. Given the short period of time that the amended capital plan was in effect during the quarter, the board declared the same rate on the Class B-1 stock as on the Class B-2 stock.

## ITEM 6. SELECTED FINANCIAL DATA

We use acronyms and terms throughout this Item that are defined herein or in the *Defined Terms*. The following table should be read in conjunction with the financial statements and related notes and the discussion set forth in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*. The table presents a summary of selected financial information derived from audited financial statements as of and for the years ended as indicated ($ amounts in millions).

| | As of and for the Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **2017** | **2016** |
| **Statement of Condition**: | | | | | |
| Advances | $ 31,347 | $ 32,480 | $ 32,728 | $ 34,055 | $ 28,096 |
| Mortgage loans held for portfolio, net | 8,516 | 10,815 | 11,385 | 10,356 | 9,501 |
| Cash and short-term investments | 5,627 | 5,079 | 7,610 | 4,601 | 4,128 |
| Investment securities | 19,941 | 18,718 | 13,378 | 13,027 | 11,880 |
| Total assets | 65,925 | 67,511 | 65,412 | 62,349 | 53,907 |
| | | | | | |
| Discount notes | 16,617 | 17,677 | 20,895 | 20,358 | 16,802 |
| CO bonds | 43,333 | 44,715 | 40,266 | 37,896 | 33,467 |
| Total consolidated obligations | 59,950 | 62,392 | 61,161 | 58,254 | 50,269 |
| | | | | | |
| MRCS | 251 | 323 | 169 | 164 | 170 |
| | | | | | |
| Capital stock | 2,208 | 1,974 | 1,931 | 1,858 | 1,493 |
| Retained earnings | 1,137 | 1,115 | 1,078 | 976 | 887 |
| AOCI | 105 | 68 | 42 | 112 | 56 |
| Total capital | 3,450 | 3,157 | 3,051 | 2,946 | 2,436 |
| | | | | | |
| **Statement of Income**: | | | | | |
| Net interest income | $ 263 | $ 238 | $ 288 | $ 262 | $ 198 |
| Provision for (reversal of) credit losses | — | — | — | — | — |
| Other income (loss) | (55) | 20 | 21 | (6) | 6 |
| Other expenses | 109 | 99 | 92 | 82 | 78 |
| AHP assessments | 11 | 17 | 22 | 18 | 13 |
| Net income | $ 88 | $ 142 | $ 195 | $ 156 | $ 113 |
| | | | | | |
| **Selected Financial Ratios**: | | | | | |
| Net interest margin [1] | 0.38 % | 0.35 % | 0.45 % | 0.45 % | 0.39 % |
| Return on average equity | 2.67 % | 4.55 % | 6.43 % | 5.88 % | 4.92 % |
| Return on average assets | 0.13 % | 0.21 % | 0.30 % | 0.26 % | 0.22 % |
| | | | | | |
| Weighted average dividend rate [2] | 3.66 % | 5.31 % | 5.00 % | 4.25 % | 4.25 % |
| Dividend payout ratio [3] | 86.97 % | 73.13 % | 47.87 % | 43.05 % | 53.87 % |
| | | | | | |
| Average equity to average assets | 4.71 % | 4.64 % | 4.72 % | 4.47 % | 4.46 % |
| Total capital ratio [4] | 5.23 % | 4.68 % | 4.66 % | 4.72 % | 4.52 % |
| Total regulatory capital ratio [5] | 5.45 % | 5.05 % | 4.86 % | 4.81 % | 4.73 % |

(1) Net interest income expressed as a percentage of average interest-earning assets.
(2) Dividends paid in cash during the year divided by the average amount of Class B capital stock eligible for dividends under our capital plan, excluding MRCS.
(3) Dividends paid in cash during the year divided by net income for the year.
(4) Capital stock plus retained earnings and AOCI expressed as a percentage of total assets.
(5) Capital stock plus retained earnings and MRCS expressed as a percentage of total assets.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Presentation

This discussion and analysis by management of the Bank's financial condition and results of operations should be read in conjunction with the *Financial Statements* and related *Notes to Financial Statements* contained in this Form 10-K.

As used in this Item, unless the context otherwise requires, the terms "we," "us," "our," and "Bank" refer to the Federal Home Loan Bank of Indianapolis or its management. We use acronyms and terms throughout this Item that are defined herein or in the *Defined Terms*.

Unless otherwise stated, amounts disclosed in this Item are rounded to the nearest million; therefore, dollar amounts of less than one million may not be reflected or, due to rounding, may not appear to agree to the amounts presented in thousands in the *Financial Statements* and related *Notes to Financial Statements*. Amounts used to calculate dollar and percentage changes are based on numbers in the thousands. Accordingly, calculations based upon the disclosed amounts (millions) may not produce the same results.

### Executive Summary

***Overview.*** As an FHLBank, we are a regional wholesale bank that serves as a financial intermediary between the capital markets and our members. The Bank is structured as a financial cooperative. Therefore, it is designed to expand and contract in asset size as the needs of our members and their communities change. We primarily make secured loans in the form of advances to our members and purchase whole mortgage loans from our members. Additionally, we purchase other investments and provide other financial services to our members.

Our principal source of funding is the proceeds from the sale to the public of FHLBank debt instruments, called consolidated obligations, which are the joint and several obligation of all FHLBanks. We obtain additional funds from deposits, other borrowings, and by issuing capital stock to our members.

Our primary source of revenue is interest earned on advances, mortgage loans, and investments, including MBS.

Our net interest income is primarily determined by the spread between the interest rate earned on our assets and the interest rate paid on our share of the consolidated obligations. A substantial portion of net interest income is also derived from deploying our interest-free capital. We use funding and hedging strategies to manage the related interest-rate risk.

Due to our cooperative structure and wholesale nature, we typically earn a narrow interest spread. Accordingly, our net income is relatively low compared to our total assets and capital.

We group our products and services within two operating segments: *traditional* and *mortgage loans*.

For more background information on the Bank, see *Item 1. Business.*

***Business Environment.***

The Bank's financial performance is influenced by several key regional and national economic and market factors, including fiscal and monetary policies, the strength of the housing markets and the level and volatility of market interest rates.

Economy and Financial Markets. Due to the emergence of the COVID-19 pandemic, conditions in the financial markets deteriorated significantly in the first quarter of 2020. In response, the Federal Reserve undertook a number of emergency actions in March 2020 to help facilitate liquidity and support stability in the fixed-income markets while volatility across global capital markets dramatically increased. Notably, the Federal Reserve substantially increased its provision of liquidity to the U.S. Treasury and repurchase markets via open market operations while also providing liquidity to related markets, such as the commercial paper market, via an array of new programs, as part of its commitment to using its full range of tools to support households, businesses, and the U.S. economy overall in this challenging time. Many of the Federal Reserve’s emergency lending facilities expired by December 31, 2020. In addition, as individuals and businesses sought safety during the uncertain economic environment following the COVID-19 outbreak, depository institutions experienced extraordinary deposit growth.

The Bureau of Labor Statistics reported that the U.S. unemployment rate in December 2020 was 6.7%, after declining from a high of 14.8% in April 2020. Due to the effects of the COVID-19 pandemic on the economy, the unemployment rate is expected to remain elevated. However, if COVID-19 vaccines are successfully administered in the U.S. and globally, then business conditions may improve and unemployment could continue to decrease.

U.S. real gross domestic product ("GDP") increased at an annual rate of 4.0% in the fourth quarter of 2020, according to the advance estimate reported by the Bureau of Economic Analysis, compared to the revised annual rate of 33% in the third quarter of 2020. Changes in unemployment and GDP during 2020 were attributed largely to the effects of the COVID-19 pandemic on the U.S. economy, including the efforts to reopen businesses and resume activities that were postponed or restricted due to the pandemic. The effects of the pandemic, and governmental and public actions taken in response, on the global and U.S. economy continue to evolve, with the full duration and impact uncertain.

The COVID-19 pandemic hit Indiana at a time when its economy was already slowing. Moody's Analytics forecast that the state's 2019 pre-pandemic Gross State Product ("GSP") will not be reached until sometime in early 2022. Over the longer-term, Moody's believes that slowing population growth and weaknesses in manufacturing will hold job growth back, causing Indiana to likely lag the rest of the country in economic growth. However, the most recent forecast from the Indiana University School of Business offers a glimmer of hope of stronger, positive economic growth in Indiana in the second half of 2021, setting up 2022 for positive economic growth.

The COVID-19 pandemic pushed Michigan's weak economy into a recession. Moody's forecasts that Michigan's GSP will not recover to 2019 levels until late 2022. All together, Michigan faces an uphill battle to achieve pre-pandemic economic growth. Michigan's strained state and local government finances, a labor market reliant on the service sector, and a persistent out-migration trend present significant economic headwinds. However, the most recent forecast from the University of Michigan Research Seminar in Quantitative Economics expects positive job growth in every quarter from the second quarter of 2021 to the fourth quarter of 2022.

The Bank's flexibility in utilizing various funding tools, in combination with its diverse investor base and its status as a GSE, has helped ensure reliable market access and demand for its consolidated obligations throughout fluctuating market environments.

Conditions in U.S. Housing Markets. The seasonally adjusted annual rate of U.S. home sales increased in 2020, compared to 2019, driven by low mortgage interest rates. However, low housing inventory levels and higher home prices in 2020 continued to constrain sales growth. In 2020, the impact of the COVID-19 pandemic significantly affected the U.S. housing markets and is likely to result in further declines in home inventory and further increases in average home prices in the near term. Business closures and the resulting unemployment have caused many homeowners to seek relief from their mortgage payments. The federal government has enacted several financial relief programs to help offset declines in business and family incomes, and certain of these were extended to March 14, 2021 with passage by the U.S. Congress of another COVID-19 relief act. Delinquencies of mortgage loans have risen significantly and may continue to rise due to high unemployment and the expiration of the relief programs implemented in response to the COVID-19 pandemic.

Interest Rate Levels and Volatility. The level and volatility of interest rates and credit spreads were affected by several factors during the year ended December 31, 2020, principally the COVID-19 pandemic and efforts in response by the Federal Reserve to lower interest rates and facilitate liquidity.

In early March 2020, the Federal Reserve stated that the COVID-19 outbreak posed evolving risks to economic activity and, in an unscheduled meeting, decided to lower the federal funds target rate by 50 bps, to a target range of 1.00% to 1.25%, noting that it would closely monitor developments and their implications for the economic outlook and act as appropriate to support the economy. On March 15, 2020, the Federal Reserve again lowered the federal funds rate in an unscheduled meeting, to a target range of 0.0% to 0.25%, noting that the COVID-19 outbreak had harmed communities and disrupted economic activity in many countries, including the U.S., and had significantly affected global financial conditions. In the weeks before and after the Federal Reserve's March reductions in the federal funds target rate, interest rates decreased significantly, and have remained low.

In late March 2020, the Federal Reserve stated that it would take further actions to support the flow of credit to households and businesses by addressing strains in the markets for Treasury securities and Agency MBS. In addition, the Federal Reserve stated that it will continue to purchase Treasury securities and Agency MBS in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions. In its January 2021 meeting, the Federal Reserve stated that the path of the U.S. economy will depend significantly on the course of the COVID-19 pandemic, including progress on vaccinations, and that it is committed to using its full range of tools to support the U.S. economy in this challenging time. As a result, it voted to maintain the target range of the federal funds rate at 0.0% to 0.25%. The Federal Reserve also indicated that it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with their assessments of maximum employment and inflation of at least two percent for some time.

The following table presents certain key interest rates for both the twelve-month averages for 2020 and 2019 and the respective year ends.

| | Twelve-Month Average | | December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Federal Funds Effective | 0.36 % | 2.16 % | 0.09 % | 1.55 % |
| SOFR | 0.36 % | 2.20 % | 0.07 % | 1.55 % |
| Overnight LIBOR | 0.37 % | 2.14 % | 0.08 % | 1.54 % |
| 1-week OIS | 0.36 % | 2.14 % | 0.09 % | 1.55 % |
| 3-month LIBOR | 0.65 % | 2.33 % | 0.24 % | 1.91 % |
| 3-month U.S. Treasury yield | 0.35 % | 2.09 % | 0.07 % | 1.55 % |
| 2-year U.S Treasury yield | 0.39 % | 1.97 % | 0.12 % | 1.57 % |
| 10-year U.S. Treasury yield | 0.89 % | 2.14 % | 0.92 % | 1.92 % |

The twelve-month averages of short- term interest rates were significantly lower during 2020, compared to 2019, impacting the Bank's results of operations, primarily by decreasing both interest income and interest expense. In addition, at December 31, 2020, both short- and long-term interest rates were lower than at December 31, 2019, which affected the fair values of certain assets and liabilities. The prevailing expectation of prolonged low interest rates will likely continue to be a significant factor driving the Bank's results of operations and financial condition.

***Impact on Operating Results.*** Market interest rates and trends affect yields and margins on earning assets, including advances, purchased mortgage loans, and our investment portfolio, which contribute to our overall profitability. Additionally, market interest rates drive mortgage origination and prepayment activity, which can lead to net interest margin volatility in our MPP and MBS portfolios. A flat or inverted yield curve, in which the difference between short-term interest rates and long-term interest rates is low, or negative, respectively, can have an unfavorable impact on our net interest margins. A steep yield curve, in which the difference between short-term and long-term interest rates is high, can have a favorable impact on our net interest margins. The level of interest rates also directly affects our earnings on assets funded by our interest-free capital.

Lending and investing activity by our member institutions is a key driver for our balance sheet and income growth. Such activity is a function of both prevailing interest rates and economic activity, including local economic factors, particularly relating to the housing and mortgage markets. Positive economic trends could drive interest rates higher, which could impair growth of the mortgage market. A less active mortgage market could affect demand for advances and activity levels in our Advantage MPP. However, borrowing patterns between our insurance company and depository members can differ during various economic and market conditions, thereby easing the potential magnitude of core business fluctuations during business cycles. Member demand for liquidity during stressed market conditions can lead to advances growth.

**Results of Operations and Changes in Financial Condition**

***Results of Operations for the Years Ended December 31, 2020 and 2019.*** The following table presents the comparative highlights of our results of operations ($ amounts in millions).

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| **Condensed Statements of Comprehensive Income** | **2020** | **2019** | **$ Change** | **% Change** |
| Net interest income | $ 263 | $ 238 | $ 25 | 11 % |
| Provision for (reversal of) credit losses | — | — | — | |
| Net interest income after provision for credit losses | 263 | 238 | 25 | 11 % |
| Other income (loss) | (55) | 20 | (75) | |
| Other expenses | 109 | 99 | 10 | |
| Income before assessments | 99 | 159 | (60) | (38)% |
| AHP assessments | 11 | 17 | (6) | |
| Net income | 88 | 142 | (54) | (38)% |
| Total other comprehensive income (loss) | 38 | 25 | 13 | |
| Total comprehensive income | $ 126 | $ 167 | $ (41) | (25)% |

The decrease in net income for the year ended December 31, 2020 compared to 2019 was substantially due to accelerated amortization of purchase premium resulting from higher prepayments on mortgage loans and lower earnings on the portion of the Bank's assets funded by its capital, each driven by the decline in market interest rates. Because of the Bank's relatively low net interest-rate spread, it has historically derived a substantial portion of its net interest income from deploying its interest-free capital in floating-rate assets, a portion of which is short-term. These decreases were partially offset by additional net interest income resulting from the Bank's growth in average asset balances.

The increase in total OCI for the year ended December 31, 2020 compared to 2019 was primarily due to higher unrealized gains on AFS securities.

***Results of Operations for the Years Ended December 31, 2019 and 2018.*** A comparison of our results of operations for the years ended December 31, 2019 and 2018 is contained in the corresponding Item 7 in our 2019 Form 10-K, filed with the SEC on March 10, 2020.

***Changes in Financial Condition for the Year Ended December 31, 2020.*** The following table presents the highlights of our changes in financial condition ($ amounts in millions).

| Condensed Statements of Condition | December 31, 2020 | December 31, 2019 | $ Change | % Change |
|---|---|---|---|---|
| Advances | $ 31,347 | $ 32,480 | $ (1,133) | (3)% |
| Mortgage loans held for portfolio, net | 8,516 | 10,815 | (2,299) | (21)% |
| Cash and short-term investments [1] | 5,627 | 5,079 | 548 | 11 % |
| Investment securities and other assets [2] | 20,435 | 19,137 | 1,298 | 7 % |
| Total assets | $ 65,925 | $ 67,511 | $ (1,586) | (2)% |
| | | | | |
| Consolidated obligations | $ 59,950 | $ 62,392 | $ (2,442) | (4)% |
| MRCS | 251 | 323 | (72) | (22)% |
| Other liabilities | 2,274 | 1,639 | 635 | 39 % |
| Total liabilities | 62,475 | 64,354 | (1,879) | (3)% |
| | | | | |
| Capital stock | 2,208 | 1,974 | 234 | 12 % |
| Retained earnings [3] | 1,137 | 1,115 | 22 | 2 % |
| AOCI | 105 | 68 | 37 | 56 % |
| Total capital | 3,450 | 3,157 | 293 | 9 % |
| | | | | |
| Total liabilities and capital | $ 65,925 | $ 67,511 | $ (1,586) | (2)% |
| | | | | |
| Total regulatory capital [4] | $ 3,596 | $ 3,412 | $ 184 | 5 % |

(1) Includes cash, interest-bearing deposits, securities purchased under agreements to resell, and federal funds sold.
(2) Includes trading, AFS and HTM securities.
(3) Includes restricted retained earnings at December 31, 2020 and 2019 of $268 million and $251 million, respectively.
(4) Total capital less AOCI plus MRCS.

The decrease in total assets at December 31, 2020 compared to December 31, 2019 was driven by net decreases in mortgage loans held for portfolio and advances outstanding to members, partially offset by a net increase in MBS issued by GSEs.

The decrease in total liabilities was attributable to a decrease in consolidated obligations which reflected the net decrease in the Bank's total assets.

In addition to net income, the increase in total capital includes proceeds from the issuance of capital stock in connection with member advance activity, partially offset by shares reclassified to MRCS and dividends to members. The reclassification of shares to MRCS did not have a corresponding impact on regulatory capital because MRCS is included in regulatory capital.

***Outlook.*** The COVID-19 pandemic has brought severe disruptions to the national economy and financial markets, However, we believe that our financial performance will continue to provide reasonable, risk-adjusted returns for our members across a wide range of business, financial, and economic environments.

During 2020, advances balances expanded to address increased member demand for advances in the first half of the year, and contracted as demand for advances declined over the balance of the year. The high levels of liquidity injected by the Federal Reserve and held by our members as deposits accompanied by their low loan demand, alternative sources of wholesale funds available to our members, continued consolidation in the financial services industry involving our members, and governmental relief efforts continue to pressure overall advances levels. As a result, we expect total advances outstanding to slightly decline in 2021.

In spite of the continuing strong demand by our members to participate in our Advantage MPP, we expect our mortgage loan balance outstanding to slightly decline in 2021 in light of the still low, but recently increasing, level of longer-term mortgage rates and continuing Federal Reserve purchases of Fannie Mae and Freddie Mac MBS, which encourage continuing refinancing activity by borrowers and MPP pricing disadvantages to us relative to those GSEs.

We expect to continue to maintain relatively high levels of liquidity to be able to timely support our members' needs in light of the ongoing uncertainties they face.

We continue to seek to maintain investments in MBS up to 300% of total regulatory capital. Other long-term investments, such as Agency debentures, are likely to decline.

Embedded mortgage prepayment options and basis risk exposure increase both our market risk and earnings volatility. Because market mortgage rates remain low, higher levels of prepayment activity may continue, barring a large increase in market interest rates. As a result, the amortization of purchased premiums on mortgage assets could continue to cause our earnings to decline.

Access to debt markets has been reliable, while the cost of our consolidated obligations has decreased. Going forward, the cost will continue to depend on several factors, including the direction and level of market interest rates, competition from other issuers of Agency debt, changes in the investment preferences of potential buyers of Agency debt securities, global demand, pricing in the interest-rate swap market, and other technical market factors. As LIBOR phases out, a portion of our adjustable-rate funding is expected to be replaced by SOFR-indexed CO bonds as we plan to continue to participate in the issuance of SOFR-indexed CO bonds in 2021.

Interest spreads have been mixed across asset categories on our balance sheet in the past year. Although debt costs remain low relative to historic norms, advance spreads are expected to compress further before leveling out while mortgage-related spreads are expected to widen. We will continue to engage in various hedging strategies and use derivatives to assist in mitigating the volatility of earnings and the MVE that arises from the maturity structure of our financial assets and liabilities. Although derivatives are used to mitigate market risk, they also introduce the potential for short-term earnings volatility, in part due to basis risk. We must use the OIS curve in place of the LIBOR curve as the discount rate to estimate the fair values of collateralized LIBOR-based derivatives while substantially all of the hedged items currently on our balance sheet are still valued using the LIBOR curve. Such volatility may be greater in 2021.

In light of our compressed interest margins, we continue to strive to keep our operating expense ratios relatively low while we continue to invest in technology to enhance our operating systems and member service capabilities. As a result, we expect operating expenses to slightly increase.

As a result of all of the foregoing factors, we have forecasted net income in 2021 to be lower than net income in 2020.

Our board of directors seeks to reward our members with a competitive, risk-adjusted return on their investment, particularly those who actively utilize our products and services. Our board of directors' decision to declare dividends is influenced by our financial condition, overall financial performance and retained earnings, as well as actual and anticipated developments in the overall economic and financial environment, including the level of interest rates and conditions in the mortgage and credit markets. In addition, our board of directors considers several other factors, including our risk profile, regulatory requirements, our relationship with our members, and the stability of our current capital stock position and membership.

The ultimate effects of the pandemic and the timing and shape of the economic recovery continue to evolve and are highly uncertain and therefore the future impact on our business is difficult to predict.

***Analysis of Results of Operations for the Years Ended December 31, 2020 and 2019.***

*Net Interest Income.* Net interest income, which is primarily the interest income on advances, mortgage loans held for portfolio, short-term investments, and investment securities less the interest expense on consolidated obligations and interest-bearing deposits, is our primary source of earnings. The following table presents average daily balances, interest income/expense, and average yields/cost of funds of our major categories of interest-earning assets and their funding sources ($ amounts in millions).

| | Years Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | | 2018 | | |
| | Average Balance | Interest Income/ Expense [1] | Average Yield/ Cost of Funds [1] | Average Balance | Interest Income/ Expense [1] | Average Yield/ Cost of Funds [1] | Average Balance | Interest Income/ Expense | Average Yield/ Cost of Funds |
| **Assets:** | | | | | | | | | |
| Federal funds sold and securities purchased under agreements to resell | $ 5,716 | $ 23 | 0.39 % | $ 6,246 | $ 141 | 2.26 % | $ 5,938 | $ 114 | 1.91 % |
| Investment securities [2] | 19,984 | 265 | 1.32 % | 16,465 | 419 | 2.54 % | 13,038 | 350 | 2.69 % |
| Advances [3] | 32,919 | 329 | 1.00 % | 31,969 | 813 | 2.54 % | 32,683 | 726 | 2.22 % |
| Mortgage loans held for portfolio [3][4] | 9,927 | 231 | 2.33 % | 11,252 | 358 | 3.17 % | 10,902 | 354 | 3.25 % |
| Other assets (interest-earning) [5] | 1,470 | 5 | 0.38 % | 1,091 | 22 | 2.02 % | 1,151 | 21 | 1.83 % |
| Total interest-earning assets | 70,016 | 853 | 1.22 % | 67,023 | 1,753 | 2.62 % | 63,712 | 1,565 | 2.46 % |
| Other assets [6] | (22) | | | 179 | | | 440 | | |
| Total assets | $ 69,994 | | | $ 67,202 | | | $ 64,152 | | |
| **Liabilities and Capital:** | | | | | | | | | |
| Interest-bearing deposits | $ 1,384 | 2 | 0.21 % | $ 673 | 13 | 1.92 % | $ 641 | 11 | 1.72 % |
| Discount notes | 22,868 | 117 | 0.51 % | 19,392 | 440 | 2.27 % | 21,265 | 392 | 1.84 % |
| CO bonds [3] | 41,105 | 462 | 1.12 % | 42,994 | 1,050 | 2.44 % | 38,518 | 866 | 2.25 % |
| MRCS | 290 | 9 | 2.96 % | 236 | 12 | 5.02 % | 168 | 8 | 4.99 % |
| Other borrowings | — | — | — % | 2 | — | 2.28 % | — | — | — % |
| Total interest-bearing liabilities | 65,647 | 590 | 0.90 % | 63,297 | 1,515 | 2.39 % | 60,592 | 1,277 | 2.11 % |
| Other liabilities | 1,052 | | | 790 | | | 531 | | |
| Total capital | 3,295 | | | 3,115 | | | 3,029 | | |
| Total liabilities and capital | $ 69,994 | | | $ 67,202 | | | $ 64,152 | | |
| Net interest income | | $ 263 | | | $ 238 | | | $ 288 | |
| Net spread on interest-earning assets less interest-bearing liabilities | | | 0.32 % | | | 0.23 % | | | 0.35 % |
| Net interest margin [7] | | | 0.38 % | | | 0.35 % | | | 0.45 % |
| Average interest-earning assets to interest-bearing liabilities | 1.07 | | | 1.06 | | | 1.05 | | |

(1) In accordance with an amendment to accounting guidance effective January 1, 2019, hedging gains (losses) on qualifying fair-value hedging relationships are reported prospectively in net interest income instead of other income.

(2) Consists of trading, AFS and HTM securities. The average balances of AFS securities are based on amortized cost; therefore, the resulting yields do not reflect changes in the estimated fair value that are a component of OCI. Interest income/expense and average yield/cost of funds include all other components of interest, including the impact of net interest payments or receipts on derivatives in qualifying hedging relationships and amortization of hedge accounting basis adjustments. Excluded are net interest payments or receipts on derivatives in economic hedging relationships.

(3) Interest income/expense and average yield/cost of funds include all other components of interest, including the impact of net interest payments or receipts on derivatives in qualifying hedge relationships, amortization of hedge accounting basis adjustments, and prepayment fees on advances. Excluded are net interest payments or receipts on derivatives in economic hedging relationships.

(4) Includes non-accrual loans.

(5) Consists of interest-bearing deposits and loans to other FHLBanks (if applicable). Includes the rights or obligations to cash collateral, except for variation margin payments characterized as daily settled contracts.

(6) Includes changes in the estimated fair value of AFS securities, grantor trust assets, and the effect of OTTI-related non-credit losses on AFS and HTM securities in 2018.

(7) Net interest income expressed as a percentage of the average balance of interest-earning assets.

Changes in both volume and interest rates determine 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 are 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 presents the changes in interest income and interest expense by volume and rate ($ amounts in millions).

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2020 vs. 2019 | | |
| **Components** | **Volume** | **Rate** | **Total** |
| Increase (decrease) in interest income: | | | |
| Federal funds sold and securities purchased under agreements to resell | $ (10) | $ (108) | $ (118) |
| Investment securities | 67 | (221) | (154) |
| Advances | 23 | (507) | (484) |
| Mortgage loans held for portfolio | (40) | (87) | (127) |
| Other assets (interest-earning) | 5 | (22) | (17) |
| Total | 45 | (945) | (900) |
| Increase (decrease) in interest expense: | | | |
| Interest-bearing deposits | 7 | (18) | (11) |
| Discount notes | 67 | (390) | (323) |
| CO bonds | (44) | (544) | (588) |
| MRCS | 2 | (5) | (3) |
| Total | 32 | (957) | (925) |
| Increase in net interest income | $ 13 | $ 12 | $ 25 |

The increase in net interest income for the year ended December 31, 2020 compared to 2019 was primarily due to an increase in interest income on trading securities, in which the associated increase in net interest settlements on derivatives is recorded in other income, and the Bank's growth in average asset balances. These increases were substantially offset by accelerated amortization of purchase premium resulting from higher prepayments on mortgage loans and lower earnings on the portion of the Bank's assets funded by interest-free capital, each driven by the decline in market interest rates. Net interest income included net hedging losses of $12 million for the year ended December 31, 2020, compared to net hedging losses of $24 million for the year ended December 31, 2019.

*Yields/Cost of Funds.* The average yield on total interest-earning assets for the year ended December 31, 2020, including the impact of net hedging losses, was 1.22%, a decrease of 140 bps compared to 2019, resulting primarily from decreases in market interest rates that led to lower yields on all of our interest-earning assets. The average cost of funds of total interest-bearing liabilities for the year ended December 31, 2020, including the impact of net hedging gains, was 0.90%, a decrease of 149 bps due to lower funding costs on all of our interest-bearing liabilities. The net effect was an increase in the net interest spread of 9 bps to 0.32% for the year ended December 31, 2020 from 0.23% for the year ended December 31, 2019.

*Average Balances.* The average balances outstanding of interest-earning assets for the year ended December 31, 2020 increased by 4% compared to 2019. The average balance of investment securities increased by 21% due to purchases of AFS securities and, to a lesser extent, trading securities to enhance liquidity. This increase was partially offset by a decrease in the average amount of mortgage loans held for portfolio outstanding of 12% due to higher aggregate principal prepayments. The increase in average interest-bearing liabilities for the year ended December 31, 2020, compared to 2019, was due to an increase in discount notes outstanding to fund the increases in average interest-earning assets. The average balances of total interest-earning assets, net of interest-bearing liabilities, increased by 17%.

*Provision for Credit Losses.* In spite of the requirement to measure expected credit losses over the estimated life of our financial instruments under new accounting guidance effective January 1, 2020, the change in the provisions for (reversal of) credit losses for the year ended December 31, 2020 compared to 2019 was insignificant. For more information, see *Notes to Financial Statements - Note 2 - Recently Adopted and Issued Accounting Guidance.*

*Other Income.* The following table presents a comparison of the components of other income ($ amounts in millions).

| Components | Years Ended December 31, 2020 | Years Ended December 31, 2019 |
|---|---|---|
| Net realized gains (losses) on trading securities [1] | $ 23 | $ 2 |
| Net unrealized gains (losses) on trading securities [1] | (37) | 31 |
| Net gains (losses) on derivatives hedging trading securities | 3 | (12) |
| Net gains (losses) on trading securities, net of associated derivatives | (11) | 21 |
| Net interest settlements on derivatives | (47) | (10) |
| Net gains (losses) on all other derivatives not designated as hedging instruments | (4) | 3 |
| Net realized gains from sale of available-for-sale securities | 1 | — |
| Change in fair value of investments indirectly funding our SERP | 3 | 3 |
| Other, net | 3 | 3 |
| Total other income (loss) | $ (55) | $ 20 |

[1] Before impact of associated derivatives.

The decrease in total other income for the year ended December 31, 2020 compared to 2019 was due to net losses on trading securities, net of associated derivatives, and higher net interest settlements on the trading securities' economic hedging relationships. The generally offsetting interest income on trading securities is included in interest income.

*Net Gains (Losses) on Trading Securities.* We purchase fixed-rate U.S. Treasury securities to enhance our liquidity. These securities are classified as trading securities and are recorded at fair value, with changes in fair value reported in other income. Such changes include the impact of purchase discount (premium) recorded through mark-to-market gains (losses) on these securities. There are a number of factors that affect the fair value of these securities, including changes in interest rates, the passage of time, and volatility, which were magnified by the disruptions in the financial markets in 2020. These trading securities are economically hedged, so that over time the gains (losses) on these securities will be generally offset by the change in fair value of the associated derivatives.

*Net Gains (Losses) on Derivatives and Hedging Activities.* Our net gains (losses) on derivatives and hedging activities fluctuate due to volatility in the overall interest-rate environment as we hedge our asset or liability risk exposures. In general, we hold derivatives and associated hedged items to the maturity, call, or put date. Therefore, due to timing, nearly all of the cumulative net gains and losses for these financial instruments will generally reverse over the remaining contractual terms of the hedged item. However, there may be instances when we terminate these instruments prior to the maturity, call or put date. Terminating the financial instrument or hedging relationship may result in a realized gain or loss. For more information, see *Notes to Financial Statements - Note 8 - Derivatives and Hedging Activities*.

The Bank uses interest-rate swaps to hedge the risk of changes in the fair value of certain of its advances, consolidated obligations and AFS securities due to changes in market interest rates. These hedging relationships are designated as fair-value hedges. Changes in the estimated fair value of the derivative and, to the extent these relationships qualify for hedge accounting, changes in the fair value of the hedged item that are attributable to the hedged risk are recorded in earnings.

For the hedging relationships that qualified for hedge accounting, the differences between those changes in fair value (i.e. hedge ineffectiveness) are recorded in net interest income and resulted in net hedging losses of $12 million for the year ended December 31, 2020, compared to net hedging losses of $24 million for the year ended December 31, 2019. The losses for the years ended December 31, 2020 and 2019 were primarily due to marginal mismatches in durations on, and the increase in volume of, swapped GSE MBS, particularly Fannie Mae Delegated Underwriting and Servicing (DUS). As a result of issuing floating-rate consolidated obligations to fund these MBS purchases instead of swapped fixed-rate consolidated obligations, the funding and operational costs have been reduced but there is less offsetting hedge ineffectiveness, resulting in higher unrealized hedging gains or losses. However, to mitigate the volatility, during 2020 the Bank began implementing a new strategy of terminating interest-rate swaps associated with the MBS DUS and entering into short-cut hedging relationships with new interest-rate swaps.

To the extent those hedges did not qualify for hedge accounting, or ceased to qualify for hedge accounting, only the change in the fair value of the derivative was recorded in earnings with no offsetting change in the fair value of the hedged item.

For derivatives not qualifying for hedge accounting (economic hedges), the net interest settlements and the changes in the estimated fair value of the derivatives are recorded in other income as net gains (losses) on derivatives and hedging activities.

*Other Expenses.* The following table presents a comparison of the components of other expenses ($ amounts in millions).

| | Years Ended December 31, | |
|---|---|---|
| **Components** | **2020** | **2019** |
| Compensation and benefits | $ 61 | $ 55 |
| Other operating expenses | 32 | 30 |
| Finance Agency and Office of Finance | 10 | 9 |
| Other | 6 | 5 |
| Total other expenses | $ 109 | $ 99 |

The increase in total other expenses for the year ended December 31, 2020 compared to 2019 was due to increases in compensation, primarily driven by increased salaries and headcount, and post-retirement benefits, primarily due to the reduction in discount rates. The increase in other operating expenses is primarily due to various software-related expenses and various consulting and professional services engagements.

*Office of Finance Expenses*. The FHLBanks fund the costs of the Office of Finance as a joint office that facilitates issuing and servicing consolidated obligations, prepares the FHLBanks' combined quarterly and annual financial reports, and performs certain other functions. For each of the years ended December 31, 2020 and 2019, our assessments to fund the Office of Finance totaled $5 million.

*Finance Agency Expenses*. Each FHLBank is assessed a portion of the operating costs of our regulator, the Finance Agency. We have no direct control over these costs. For the years ended December 31, 2020 and 2019, our Finance Agency assessments totaled $5 million and $4 million, respectively.

*AHP Assessments.* The FHLBanks are required to set aside annually, in the aggregate, the greater of $100 million or 10% of their net earnings to fund the AHP. For purposes of the AHP calculation, net earnings is defined as income before assessments, plus interest expense related to MRCS, if applicable. For the years ended December 31, 2020 and 2019, our AHP expense was $11 million and $17 million, respectively. Our AHP expense fluctuates in accordance with our net earnings.

If we experienced a net loss during a quarter but still had net earnings for the year to date, our obligation to the AHP would be calculated based on our year-to-date net earnings. If we experienced a net loss for a full year, we would have no obligation to the AHP for the year, since our required annual contribution is limited to annual net earnings.

If the FHLBanks' aggregate 10% contribution were less than $100 million, each FHLBank would be required to contribute an additional pro-rata amount. The proration would be based on the net earnings of each FHLBank in relation to the net earnings of all FHLBanks for the previous year, up to the Bank's annual net earnings. There was no shortfall in 2020 or 2019.

If we determine that our required AHP contributions are adversely affecting our financial stability, we may apply to the Finance Agency for a temporary suspension of our contributions. We did not make such an application in 2020 or 2019.

*Total Other Comprehensive Income (Loss).* Total OCI for the year ended December 31, 2020 was $38 million compared to the year ended December 31, 2019 of $25 million. Total OCI for both the year ended December 31, 2020 and 2019 consisted of unrealized gains on AFS securities, particularly MBS. These amounts were primarily impacted by changes in interest rates, credit spreads and volatility, which were magnified by the disruptions in the financial markets during 2020. Partially offsetting the increases in OCI were actuarial losses under the Bank's SERP.

**Operating Segments**

Our products and services are grouped within two operating segments: traditional and mortgage loans.

***Traditional.*** The traditional segment consists of (i) credit products (including advances, standby letters of credit, and lines of credit), (ii) investments (including federal funds sold, securities purchased under agreements to resell, interest-bearing demand deposit accounts, and investment securities), and (iii) correspondent services and deposits. The following table presents the financial performance of our traditional segment ($ amounts in millions).

| | Years Ended December 31, | |
|---|---|---|
| **Traditional** | **2020** | **2019** |
| Net interest income | $ 254 | $ 182 |
| Provision for (reversal of) credit losses | — | — |
| Other income (loss) | (52) | 20 |
| Other expenses | 93 | 85 |
| Income before assessments | 109 | 117 |
| AHP assessments | 12 | 13 |
| Net income | $ 97 | $ 104 |

The decrease in net income for the traditional segment for the year ended December 31, 2020 compared to 2019 was substantially due to lower earnings on the portion of the Bank's assets funded by its interest-free capital, driven by the decline in market interest rates, partially offset by additional net interest income resulting from the Bank's growth in average asset balances.

***Mortgage Loans.*** The mortgage loans segment includes (i) mortgage loans purchased from our members through our MPP and (ii) participating interests purchased in 2012 - 2014 from the FHLBank of Topeka in mortgage loans originated by certain of its PFIs under the MPF Program. The following table presents the financial performance of our mortgage loans segment ($ amounts in millions).

| | Years Ended December 31, | |
|---|---|---|
| **Mortgage Loans** | **2020** | **2019** |
| Net interest income | $ 9 | $ 56 |
| Provision for (reversal of) credit losses | — | — |
| Other income (loss) | (3) | — |
| Other expenses | 16 | 14 |
| Income before assessments | (10) | 42 |
| AHP assessments | (1) | 4 |
| Net income | $ (9) | $ 38 |

The decrease in net income for the mortgage loans segment for the year ended December 31, 2020 compared to 2019 was due substantially to accelerated amortization of purchase premium resulting from higher MPP loan prepayments and accelerated amortization of concession fees resulting from called CO bonds. Such decreases were partially offset by reductions in funding costs, partially resulting from calls of higher-yielding CO bonds in 2019 and 2020.

**Analysis of Financial Condition**

***Total Assets.*** The table below presents the comparative highlights of our major asset categories ($ amounts in millions).

| Major Asset Categories | December 31, 2020 Carrying Value | December 31, 2020 % of Total | December 31, 2019 Carrying Value | December 31, 2019 % of Total |
|---|---|---|---|---|
| Advances | $ 31,347 | 48 % | $ 32,480 | 48 % |
| Mortgage loans held for portfolio, net | 8,516 | 13 % | 10,815 | 16 % |
| Cash and short-term investments | 5,627 | 9 % | 5,079 | 8 % |
| Trading securities | 5,095 | 8 % | 5,017 | 7 % |
| Other investment securities | 14,846 | 22 % | 13,701 | 20 % |
| Other assets [1] | 494 | — % | 419 | 1 % |
| Total assets | $ 65,925 | 100 % | $ 67,511 | 100 % |

[1] Includes accrued interest receivable, premises, software and equipment, derivative assets and other miscellaneous assets.

Total assets as of December 31, 2020 were $65.9 billion, a decrease of $1.6 billion, or 2%, compared to December 31, 2019, primarily driven by net decreases in mortgage loans held for portfolio and advances outstanding to members, partially offset by a net increase in GSE MBS.

Under the Finance Agency's Prudential Management and Operations Standards, if our non-advance assets were to grow by more than 30% over the six calendar quarters preceding a Finance Agency determination that we have failed to meet any of these standards, the Finance Agency would be required to impose one or more sanctions on us, which could include, among others, a limit on asset growth, an increase in the level of retained earnings, and a prohibition on dividends or the redemption or repurchase of capital stock. Through the six-quarter period ended December 31, 2020, our growth in non-advance assets did not exceed 30%.

*Advances.* In general, advances fluctuate in accordance with our members' funding needs, primarily determined by their deposit levels, mortgage pipelines, loan growth, investment opportunities, available collateral, other balance sheet strategies, and the cost of alternative funding options.

Advances at December 31, 2020 at carrying value totaled $31.3 billion, a net decrease of $1.1 billion, or 3%, compared to December 31, 2019. However, the average daily balance of outstanding advances for the year ended December 31, 2020 totaled $32.9 billion, an increase of 3% compared to 2019.

The par value of advances to depository institutions - comprising commercial banks, savings institutions and credit unions - and insurance companies increased by 3% and decreased by 14%, respectively. The decrease was due to repayments by our captive insurance borrowers whose memberships terminated as required by February 19, 2021. Excluding those repayments, advances to non-captive insurance companies increased by 2%. Advances to depository institutions, as a percent of total advances outstanding at par value, were 57% at December 31, 2020, while advances to insurance companies were 43%.

The table below presents advances outstanding by type of financial institution ($ amounts in millions).

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **Borrower Type** | **Par Value** | **% of Total** | **Par Value** | **% of Total** |
| Depository institutions: | | | | |
| Commercial banks and saving institutions | $ 14,749 | 48 % | $ 13,663 | 42 % |
| Credit unions | 2,548 | 8 % | 2,798 | 9 % |
| Former members - depositories | 268 | 1 % | 540 | 2 % |
| Total depository institutions | 17,565 | 57 % | 17,001 | 53 % |
| Insurance companies: | | | | |
| Captive insurance companies [1] | 288 | 1 % | 2,724 | 8 % |
| Other insurance companies | 12,832 | 42 % | 12,541 | 39 % |
| Former members - insurance | 6 | — % | 6 | — % |
| Total insurance companies | 13,126 | 43 % | 15,271 | 47 % |
| CDFIs | — | — % | — | — % |
| Total advances | $ 30,691 | 100 % | $ 32,272 | 100 % |

[1] Membership must terminate by February 19, 2021. See certain restrictions on and maturities of advances in *Notes to Financial Statements - Note 5 - Advances*. These advances mature on various dates through 2024.

Our advance portfolio is well-diversified with advances to commercial banks and savings institutions, credit unions, and insurance companies. Borrowing patterns between our insurance company and depository members can differ during various economic and market conditions, thereby easing the potential magnitude of core business fluctuations during business cycles.

Our advance portfolio includes fixed- and variable-rate advances, as well as callable or prepayable and putable advances. Prepayable advances may be prepaid on specified dates without incurring repayment or termination fees. All other advances may only be prepaid by the borrower paying a fee that is sufficient to make us financially indifferent to the prepayment of the advance.

The following table presents the par value of advances outstanding by product type and redemption term, some of which contain call or put options ($ amounts in millions).

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **Product Type and Redemption Term** | **Par Value** | **% of Total** | **Par Value** | **% of Total** |
| Fixed-rate: | | | | |
| Fixed-rate [1] | | | | |
| Due in 1 year or less | $ 10,023 | 33 % | $ 11,167 | 35 % |
| Due after 1 year | 7,998 | 26 % | 7,479 | 23 % |
| Total | 18,021 | 59 % | 18,646 | 58 % |
| | | | | |
| Callable or prepayable | | | | |
| Due in 1 year or less | — | — % | — | — % |
| Due after 1 year | 7 | — % | 34 | — % |
| Total | 7 | — % | 34 | — % |
| | | | | |
| Putable | | | | |
| Due in 1 year or less | — | — % | — | — % |
| Due after 1 year | 7,252 | 24 % | 6,094 | 19 % |
| Total | 7,252 | 24 % | 6,094 | 19 % |
| | | | | |
| Other [2] | | | | |
| Due in 1 year or less | 32 | — % | 50 | — % |
| Due after 1 year | 140 | — % | 175 | 1 % |
| Total | 172 | — % | 225 | 1 % |
| | | | | |
| Total fixed-rate | 25,452 | 83 % | 24,999 | 78 % |
| | | | | |
| Variable-rate: | | | | |
| Variable-rate [1] | | | | |
| Due in 1 year or less | 24 | — % | 442 | 1 % |
| Due after 1 year | — | — % | — | — % |
| Total | 24 | — % | 442 | 1 % |
| | | | | |
| Callable or prepayable | | | | |
| Due in 1 year or less | 36 | — % | 133 | — % |
| Due after 1 year | 5,179 | 17 % | 6,698 | 21 % |
| Total | 5,215 | 17 % | 6,831 | 21 % |
| | | | | |
| Total variable-rate | 5,239 | 17 % | 7,273 | 22 % |
| | | | | |
| Overdrawn demand and overnight deposit accounts | — | — % | — | — % |
| | | | | |
| Total advances | $ 30,691 | 100 % | $ 32,272 | 100 % |

(1) Includes advances without call or put options.
(2) Includes hybrid, fixed-rate amortizing/mortgage matched advances.

Advances due in one year or less, as a percentage of the total outstanding at par, decreased from 36% at December 31, 2019 to 33% at December 31, 2020. See *Notes to Financial Statements - Note 5 - Advances.*

*Mortgage Loans Held for Portfolio.* We purchase mortgage loans from our members to support our housing mission, provide an additional source of liquidity to our members, diversify our assets, and generate additional earnings. In general, our volume of mortgage loans purchased is affected by several factors, including interest rates, competition, the general level of housing and refinancing activity in the United States, consumer product preferences, our balance sheet capacity and risk appetite, and regulatory considerations.

In 2010, we began offering Advantage MPP for new conventional MPP loans, which utilizes an enhanced fixed LRA account for credit enhancement consistent with Finance Agency regulations, instead of utilizing a spread LRA with coverage from SMI providers. The only substantive difference between our original MPP and Advantage MPP for conventional mortgage loans is the credit enhancement structure. Upon implementation of Advantage MPP, the original MPP was phased out and is no longer being used for acquisitions of new conventional loans. For more detailed information about the credit enhancement structures for our original MPP and Advantage MPP, see *Item 1. Business - Operating Segments - Mortgage Loans*.

In 2012 - 2014, we purchased participating interests from the FHLBank of Topeka in mortgage loans originated by certain of its PFIs through their participation in the MPF Program.

A breakdown of mortgage loans held for portfolio by primary product type is presented below ($ amounts in millions).

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **Product Type** | **UPB** | **% of Total** | **UPB** | **% of Total** |
| MPP: | | | | |
| Conventional Advantage | $ 7,529 | 90 % | $ 9,526 | 90 % |
| Conventional Original | 417 | 5 % | 561 | 5 % |
| FHA | 218 | 3 % | 276 | 3 % |
| Total MPP | 8,164 | 98 % | 10,363 | 98 % |
| | | | | |
| MPF Program: | | | | |
| Conventional | 123 | 2 % | 176 | 2 % |
| Government | 36 | — % | 47 | — % |
| Total MPF Program | 159 | 2 % | 223 | 2 % |
| | | | | |
| Total mortgage loans held for portfolio | $ 8,323 | 100 % | $ 10,586 | 100 % |

The decrease in the UPB of mortgage loans held for portfolio was due to repayments of MPP and MPF Program loans outstanding exceeding purchases under Advantage MPP. Because we no longer purchase mortgage loans under our original MPP or the MPF Program, the aggregate balance of loans purchased outstanding under those programs will continue to decrease.

As disclosed in the *Notes to Financial Statements - Note 2 - Recently Adopted and Issued Accounting Guidance*, we adopted ASU 2016-13, *Measurement of Expected Credit Losses on Financial Instruments*, beginning January, 1, 2020. As a result, we maintain an allowance for credit losses based on our best estimate of expected losses over the remaining life of each loan. Previously, our allowance was based on our best estimate of probable losses over a loss emergence period of 24 months. Our estimate of MPP losses remaining after borrower's equity, but before credit enhancements, was $10 million and $4 million at December 31, 2020 and 2019, respectively. After consideration of the portion recoverable under the associated credit enhancements, the resulting allowance for credit losses was less than $1 million at December 31, 2020 and 2019. For more information, see *Notes to Financial Statements - Note 6 - Mortgage Loans Held for Portfolio*.

Consistent with other lenders in the mortgage loan industry, we developed a loan forbearance program for our MPP in response to the COVID-19 pandemic. Under the forbearance program, our servicers can agree to reduce or suspend the borrower's monthly payments for a specified period. The forbearance may be granted up to 90 days from the date of the first reduced or suspended payment. Initially, written approval from us was required for longer periods. However, effective May 11, 2020, we issued additional guidelines to provide delegated authority to our servicers so they may extend forbearance periods and establish qualified forbearance resolution plans within our established parameters. In addition, we have authorized the suspension of foreclosure sales and evictions (with certain exceptions) through March 31, 2021 and, for borrowers under loss mitigation agreements related to the COVID-19 pandemic, the suspension of any negative credit reporting and the waiver of late fees.

In the second quarter of 2020, the UPB of our conventional mortgage loans in COVID-19-related informal forbearance programs peaked at $273 million and have since declined by 59% to $112 million at December 31, 2020. The UPB of loans in COVID-19-related formal forbearance programs at December 31, 2020 was $12 million.

*Cash and Investments.* We maintain our investment portfolio for liquidity purposes, to use balance sheet capacity and to supplement our earnings. The earnings on our investments bolster our capacity to meet our commitments to affordable housing and community investments and to cover operating expenses. The following table presents a comparison of the components of our cash and investments at carrying value ($ amounts in millions).

| | December 31, | | |
|---|---|---|---|
| **Components** | **2020** | **2019** | **2018** |
| Cash and short-term investments: | | | |
| Cash and due from banks | $ 1,812 | $ 220 | $ 101 |
| Interest-bearing deposits | 100 | 809 | 1,211 |
| Securities purchased under agreements to resell | 2,500 | 1,500 | 3,213 |
| Federal funds sold | 1,215 | 2,550 | 3,085 |
| Total cash and short-term investments | 5,627 | 5,079 | 7,610 |
| | | | |
| Trading securities: | | | |
| U.S. Treasury obligations | 5,095 | 5,017 | — |
| Total trading securities | 5,095 | 5,017 | — |
| | | | |
| Other investment securities: | | | |
| AFS securities: | | | |
| GSE and TVA debentures | 3,503 | 3,927 | 4,277 |
| GSE MBS | 6,642 | 4,558 | 3,427 |
| Total AFS securities | 10,145 | 8,485 | 7,704 |
| | | | |
| HTM securities: | | | |
| Other U.S. obligations - guaranteed MBS | 2,623 | 3,060 | 3,469 |
| GSE MBS | 2,078 | 2,156 | 2,205 |
| Total HTM securities | 4,701 | 5,216 | 5,674 |
| | | | |
| Total investment securities | 19,941 | 18,718 | 13,378 |
| | | | |
| Total cash and investments, carrying value | $ 25,568 | $ 23,797 | $ 20,988 |

*Cash and Short-Term Investments.* The total outstanding balance and composition of our short-term investments are influenced by our liquidity needs, regulatory requirements, member advance activity, market conditions and the availability of short-term investments at attractive interest rates, relative to our cost of funds. For more information, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Liquidity*.

Cash and short-term investments at December 31, 2020 totaled $5.6 billion, an increase of $548 million, or 11%, from December 31, 2019. Cash and short-term investments as a percent of total assets at December 31, 2020 and 2019 totaled 9% and 8%, respectively.

*Trading Securities*. The Bank purchases U.S. Treasury securities as trading securities to enhance its liquidity. Such securities outstanding at December 31, 2020 totaled $5.1 billion, an increase of $78 million, or 2%, from December 31, 2019. As a result, the liquidity portfolio at December 31, 2020 totaled $10.7 billion, an increase of $626 million, or 6%, from December 31, 2019. Cash and short-term investments represented 52% of the liquidity portfolio at December 31, 2020, while U.S. Treasury securities represented 48%.

*Other Investment Securities.* AFS securities at December 31, 2020 totaled $10.1 billion, a net increase of $1.7 billion, or 20%, from December 31, 2019. The increase resulted primarily from purchases of GSE MBS to maintain a ratio of MBS and ABS to total regulatory capital of up to 300%.

Net unrealized gains on AFS securities at December 31, 2020 totaled $137 million, a net increase of $47 million compared to December 31, 2019, primarily due to changes in interest rates, credit spreads and volatility.

HTM securities at December 31, 2020 totaled $4.7 billion, a net decrease of $515 million, or 10%, from December 31, 2019. The decrease was due to repayments of HTM securities exceeding purchases during the year ended December 31, 2020.

Interest-Rate Payment Terms. Our investment securities are presented below by interest-rate payment terms ($ amounts in millions).

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **Interest-Rate Payment Terms** | **Estimated Fair Value** | **% of Total** | **Estimated Fair Value** | **% of Total** |
| Trading Securities: | | | | |
| U.S. Treasury obligations fixed-rate | $ 5,095 | 100 % | $ 5,017 | 100 % |
| Total trading securities | $ 5,095 | 100 % | $ 5,017 | 100 % |
| | **Amortized Cost** | **% of Total** | **Amortized Cost** | **% of Total** |
| AFS Securities: | | | | |
| Total non-MBS fixed-rate | $ 3,463 | 35 % | $ 3,885 | 46 % |
| Total MBS fixed-rate | 6,545 | 65 % | 4,510 | 54 % |
| Total AFS securities | $ 10,008 | 100 % | $ 8,395 | 100 % |
| HTM Securities: | | | | |
| MBS: | | | | |
| Fixed-rate | $ 283 | 6 % | $ 760 | 15 % |
| Variable-rate | 4,418 | 94 % | 4,456 | 85 % |
| Total MBS | 4,701 | 100 % | 5,216 | 100 % |
| Total HTM securities | $ 4,701 | 100 % | $ 5,216 | 100 % |
| Total AFS and HTM securities: | | | | |
| Total fixed-rate | $ 10,291 | 70 % | $ 9,155 | 67 % |
| Total variable-rate | 4,418 | 30 % | 4,456 | 33 % |
| Total AFS and HTM securities | $ 14,709 | 100 % | $ 13,611 | 100 % |

The mix of fixed- vs. variable-rate AFS and HTM securities at December 31, 2020 changed slightly compared to December 31, 2019, primarily due to purchases of fixed-rate MBS. However, all of the fixed-rate AFS securities are swapped to effectively create variable-rate securities, consistent with our balance sheet strategies to manage interest-rate risk.

Issuer Concentration. As of December 31, 2020, we held securities classified as trading, AFS and HTM from the following issuers with a carrying value greater than 10% of our total capital. The MBS issuers listed below include one or more trusts established as separate legal entities by the issuer. Therefore, the associated carrying and estimated fair values are not necessarily indicative of our exposure to that issuer ($ amounts in millions).

| | December 31, 2020 | |
|---|---|---|
| **Name of Issuer** | **Carrying Value** | **Estimated Fair Value** |
| **Non-MBS:** | | |
| United States Department of the Treasury | $ 5,095 | $ 5,095 |
| Fannie Mae | 1,208 | 1,208 |
| Federal Farm Credit Banks | 1,849 | 1,849 |
| Freddie Mac | 256 | 256 |
| **MBS:** | | |
| Freddie Mac | 473 | 482 |
| Fannie Mae | 8,247 | 8,259 |
| Ginnie Mae | 2,623 | 2,625 |
| Subtotal issuer concentration | 19,751 | 19,774 |
| All other issuers | 190 | 190 |
| Total investment securities | $ 19,941 | $ 19,964 |

Investments by Year of Redemption. The following table provides, by year of redemption, carrying values for short-term investments as well as carrying values and yields for trading, AFS and HTM securities as of December 31, 2020 ($ amounts in millions).

| Investments | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years | Total |
|---|---|---|---|---|---|
| **Short-term investments:** | | | | | |
| Interest-bearing deposits | $ 100 | $ — | $ — | $ — | $ 100 |
| Securities purchased under agreements to resell | 2,500 | — | — | — | 2,500 |
| Federal funds sold | 1,215 | — | — | — | 1,215 |
| Total short-term investments | 3,815 | — | — | — | 3,815 |
| **Trading Securities:** | | | | | |
| U.S. Treasury obligations | 2,980 | 2,115 | — | — | 5,095 |
| Total trading securities | 2,980 | 2,115 | — | — | 5,095 |
| **AFS Securities:** | | | | | |
| GSE and TVA debentures | 705 | 1,225 | 1,573 | — | 3,503 |
| GSE MBS [1] | — | 284 | 6,206 | 152 | 6,642 |
| Total AFS securities | 705 | 1,509 | 7,779 | 152 | 10,145 |
| **HTM Securities:** | | | | | |
| Other U.S. obligations - guaranteed MBS [1] | — | — | — | 2,623 | 2,623 |
| GSE MBS [1] | 14 | 68 | 290 | 1,706 | 2,078 |
| Total HTM securities | 14 | 68 | 290 | 4,329 | 4,701 |
| Total investment securities | 3,699 | 3,692 | 8,069 | 4,481 | 19,941 |
| Total investments, carrying value | $ 7,514 | $ 3,692 | $ 8,069 | $ 4,481 | $ 23,756 |
| Yield on trading securities | 0.90 % | 0.15 % | — % | — % | |
| Yield on AFS securities | 1.46 % | 2.26 % | 2.60 % | 1.37 % | |
| Yield on HTM securities | 3.21 % | 0.72 % | 0.46 % | 1.13 % | |
| Yield on total investment securities | 1.01 % | 1.02 % | 2.52 % | 1.14 % | |

(1) Year of redemption on our MBS is based on contractual maturity. Their actual maturities will likely differ from contractual maturities as borrowers have the right to prepay their obligations with or without prepayment fees.

At December 31, 2020, based on contractual maturities, investment securities due in one year or less were 19%, due after one year through five years were 19%, due after 5 years through 10 years were 40%, and due after 10 years were 22%.

For more information about our investments, see *Notes to Financial Statements - Note 4 - Investments*. For more information on the credit quality of our investments, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Management - Credit Risk Management - Investments*.

***Total Liabilities.*** Total liabilities at December 31, 2020 were $62.5 billion, a net decrease of $1.9 billion, or 3%, from December 31, 2019, substantially due to a decrease in consolidated obligations.

*Deposits (Liabilities).* Total deposits at December 31, 2020 were $1.4 billion, a net increase of $415 million, or 43%, from December 31, 2019. These deposits represent a relatively small portion of our funding. The balances of these accounts can fluctuate from period to period and vary depending upon such factors as the attractiveness of our deposit pricing relative to the rates available on alternative money market instruments, members' preferences with respect to the maturity of their investments, and members' liquidity.

The following table presents the average amount of, and the average rate paid on, each category of deposits that exceeds 10% of average total deposits ($ amounts in millions).

| Category of Deposit | Years Ended December 31, 2020 | 2019 | 2018 |
|---|---|---|---|
| Non-interest-bearing deposits: | | | |
| Average balance | $ 14 | $ 47 | $ 57 |
| | | | |
| Interest-bearing deposits - demand and overnight | | | |
| Average balance | $ 1,367 | $ 656 | $ 465 |
| Average rate paid | 0.20 % | 1.90 % | 1.64 % |

We had no individual time deposits in amounts of $100 thousand or more at December 31, 2020 or 2019.

*Consolidated Obligations.* The overall balance of our consolidated obligations fluctuates in relation to our total assets and the availability of alternative sources of funds. The carrying value of consolidated obligations outstanding at December 31, 2020 totaled $60.0 billion, a net decrease of $2.4 billion, or 4%, from December 31, 2019. This decrease reflected the Bank's decrease in total assets.

The composition of our consolidated obligations can fluctuate significantly based on comparative changes in their cost levels, supply and demand conditions, demand for advances, and our overall balance sheet management strategy. Discount notes are issued to provide short-term funds, while CO bonds are generally issued to provide a longer-term mix of funding. Some CO bonds are issued with terms which permit us to repay them when more favorable funding opportunities emerge. During 2020, the Bank applied a variety of strategies to effectively manage the balance and structure of its consolidated obligations as market conditions and our asset levels changed.

The following table presents a breakdown by term of our consolidated obligations outstanding ($ amounts in millions).

| By Term | December 31, 2020 Par Value | December 31, 2020 % of Total | December 31, 2019 Par Value | December 31, 2019 % of Total |
|---|---|---|---|---|
| Consolidated obligations due in 1 year or less: | | | | |
| Discount notes | $ 16,620 | 28 % | $ 17,713 | 28 % |
| CO bonds | 31,127 | 52 % | 23,405 | 38 % |
| Total due in 1 year or less | 47,747 | 80 % | 41,118 | 66 % |
| Long-term CO bonds | 12,119 | 20 % | 21,258 | 34 % |
| | | | | |
| Total consolidated obligations | $ 59,866 | 100 % | $ 62,376 | 100 % |

The percentage of consolidated obligations due in 1 year or less increased from 66% at December 31, 2019 to 80% at December 31, 2020 as a result of seeking to maintain a sufficient liquidity and funding balance between our financial assets and financial liabilities.

Additionally, the FHLBanks work collectively to manage FHLB System-wide liquidity and funding and jointly monitor System-wide refinancing risk. In managing and monitoring the amounts of assets that require refunding, the FHLBanks may consider contractual maturities of the financial assets, as well as certain assumptions regarding expected cash flows (i.e., estimated prepayments and scheduled amortizations). For more detailed information regarding contractual maturities of certain of our financial assets and liabilities, see *Notes to Financial Statements - Note 4 - Investments*, *Note 5 - Advances*, and *Note 10 - Consolidated Obligations.*

The table below presents certain information for each category of our short-term borrowings for which the average balance outstanding during 2020, 2019 or 2018 exceeded 30% of capital at the respective year end ($ amounts in millions).

| | CO Bonds With Original Maturities of One Year or Less | | |
|---|---|---|---|
| **Short-term Borrowings** | **2020** | **2019** | **2018** |
| Outstanding at year end | $17,842 | $ 9,234 | $ 8,001 |
| Weighted average rate at year end | 0.11 % | 1.22 % | 2.38 % |
| | | | |
| Daily average outstanding for the year | $13,257 | $ 9,683 | $ 6,809 |
| Weighted average rate for the year | 0.39 % | 1.90 % | 1.88 % |
| | | | |
| Highest outstanding at any month end | $19,141 | $12,237 | $ 8,001 |

*Derivatives.* We classify interest-rate swaps as derivative assets or liabilities according to the net estimated fair value of the interest-rate swaps with each counterparty. As of December 31, 2020 and 2019, we had derivative assets, net of collateral held or posted, including accrued interest, with estimated fair values of $283 million and $208 million, respectively, and derivative liabilities, net of collateral held or posted, including accrued interest, with estimated fair values of $23 million and $3 million, respectively. The estimated fair values are based on a wide range of factors, including current and projected levels of interest rates, credit spreads and volatility. Increases and decreases in the fair value of derivatives are primarily caused by changes in the derivatives' respective underlying interest-rate indices.

The volume of derivative hedges is often expressed in terms of notional amounts, which is the amount upon which interest payments are calculated. The following table presents the notional amounts by type of hedged item whether or not it is in a qualifying hedge relationship ($ amounts in millions).

| **Hedged Item** | **December 31, 2020** | **December 31, 2019** |
|---|---|---|
| Advances | $ 16,573 | $ 17,113 |
| Investments | 15,035 | 13,917 |
| Mortgage loans | 361 | 991 |
| CO bonds | 17,473 | 17,031 |
| Discount notes | 950 | 1,350 |
| | | |
| Total notional | $ 50,392 | $ 50,402 |

The following table presents the cumulative impact of fair-value hedging basis adjustments on our statement of condition ($ amounts in millions).

| **December 31, 2020** | **Advances** | **Investments** | **CO Bonds** | **Total** |
|---|---|---|---|---|
| Cumulative fair-value hedging basis adjustments on hedged items | $ 646 | $ 628 | $ (22) | $ 1,252 |
| Estimated fair value of associated derivatives, net | (642) | (550) | 24 | (1,168) |
| | | | | |
| Net cumulative fair-value hedging basis adjustments | $ 4 | $ 78 | $ 2 | $ 84 |

***Total Capital.*** Total capital at December 31, 2020 was $3.5 billion, a net increase of $293 million, or 9%, from December 31, 2019, substantially due to proceeds from the issuance of capital stock in connection with member advance activity.

The following table presents a percentage breakdown of the components of GAAP capital.

| Components | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Capital stock | 64 % | 63 % |
| Retained earnings | 33 % | 35 % |
| AOCI | 3 % | 2 % |
| Total GAAP capital | 100 % | 100 % |

The changes in the components of GAAP capital at December 31, 2020 compared to December 31, 2019 were substantially due to capital stock issued and outstanding in connection with member advance activity.

The following table presents a reconciliation of GAAP capital to regulatory capital ($ amounts in millions).

| Reconciliation | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Total GAAP capital | $ 3,450 | $ 3,157 |
| Exclude: AOCI | (105) | (68) |
| Add: MRCS | 251 | 323 |
| Total regulatory capital | $ 3,596 | $ 3,412 |

**Liquidity and Capital Resources**

***Liquidity.*** We manage our liquidity in order to be able to satisfy our members' needs for short- and long-term funds, repay maturing consolidated obligations, redeem or repurchase excess stock and meet other financial obligations. We are required to maintain liquidity in accordance with the Bank Act, certain Finance Agency regulations and related policies established by our management and board of directors.

Our primary sources of liquidity are holdings of liquid assets, comprised of cash, short-term investments, and trading securities, as well as the issuance of consolidated obligations.

Our cash and short-term investments at December 31, 2020 totaled $5.6 billion. Our short-term investments generally consist of high-quality financial instruments, many of which mature overnight. Our trading securities at December 31, 2020 totaled $5.1 billion and consisted solely of U.S. Treasury securities. As a result, our liquidity portfolio at December 31, 2020 totaled $10.7 billion, or 17% of total assets.

Historically, our status as a GSE and favorable credit ratings have provided us with excellent access to capital markets. Our consolidated obligations are not obligations of, and they are not guaranteed by, the United States government, although they have historically received the same credit rating as the United States government bond credit rating. The rating has not been affected by rating actions taken with respect to individual FHLBanks. During the year ended December 31, 2020, we maintained sufficient access to funding; our net proceeds from the issuance of consolidated obligations totaled $404.0 billion.

In addition, by statute, the United States Secretary of the Treasury may acquire our consolidated obligations up to an aggregate principal amount outstanding of $4.0 billion. This statutory authority may be exercised only if alternative means cannot be effectively employed to permit us to continue to supply reasonable amounts of funds to the mortgage market, and the ability to supply such funds is substantially impaired because of monetary stringency and a high level of interest rates. Any funds borrowed would be repaid at the earliest practicable date. As of this date, this authority has never been exercised.

However, to protect us against temporary disruptions in access to the debt markets, the Finance Agency currently requires us to: (i) maintain contingent liquidity sufficient to cover, at a minimum, 10 calendar days of inability to issue consolidated obligations; (ii) have available at all times an amount greater than or equal to our members' current deposits invested in specific assets; (iii) maintain, in the aggregate, unpledged qualifying assets in an amount at least equal to our participation in total consolidated obligations outstanding; and (iv) maintain, through short-term investments, an amount at least equal to our anticipated cash outflows under hypothetical adverse scenarios.

In 2018, the Finance Agency issued Advisory Bulletin 2018-07 that communicates the Finance Agency's expectations with respect to the maintenance of sufficient liquidity. The Bank has fully implemented such liquidity guidance on a timely basis. After December 31, 2019, the standard increased from 10 to 20 calendar days of liquidity sufficient to cover a temporary inability to issue consolidated obligations. In March 2020, as a result of a change in market conditions, the Finance Agency indicated that the FHLBanks could revert to 10 days of liquidity through April 30, 2020. In May 2020, however, as a result of continuing market conditions, the Finance Agency indicated that an FHLBank would be considered to have adequate reserves of liquid assets if, by August 31, 2020, it maintains 15 days of positive liquidity and, by December 31, 2020, it maintains 20 days of positive liquidity. We anticipate our liquidity will continue to meet or exceed the Finance Agency's standards going forward.

To support deposits, the Bank Act requires us to have at all times a liquidity deposit reserve in an amount equal to the current deposits received from our members invested in (i) obligations of the United States, (ii) deposits in eligible banks or trust companies, or (iii) advances with a maturity not exceeding five years. The following table presents our excess liquidity deposit reserves ($ amounts in millions).

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Liquidity deposit reserves | $ 33,574 | $ 35,218 |
| Less: total deposits | 1,375 | 960 |
| Excess liquidity deposit reserves | $ 32,199 | $ 34,258 |

We must maintain assets that are free from any lien or pledge in an amount at least equal to the amount of our consolidated obligations outstanding from among the following types of qualifying assets:

- cash;
- obligations of, or fully guaranteed by, the United States;
- advances;
- mortgages that have any guaranty, insurance, or commitment from the United States or any agency of the United States; and
- investments described in Section 16(a) of the Bank Act, which include, among others, securities that a fiduciary or trustee may purchase under the laws of the state in which the FHLBank is located.

The following table presents the aggregate amount of our qualifying assets to the total amount of our consolidated obligations outstanding ($ amounts in millions).

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Aggregate qualifying assets | $ 65,532 | $ 67,170 |
| Less: total consolidated obligations outstanding | 59,950 | 62,392 |
| Aggregate qualifying assets in excess of consolidated obligations | $ 5,582 | $ 4,778 |
| Ratio of aggregate qualifying assets to consolidated obligations | 1.09 | 1.08 |

We also maintain a contingency liquidity plan designed to enable us to meet our obligations and the liquidity needs of our members in the event of short-term capital market disruptions, or operational disruptions at our Bank and/or the Office of Finance.

New or revised regulatory guidance from the Finance Agency could continue to increase the amount and change the characteristics of liquidity that we are required to maintain. We have not identified any other trends, demands, commitments, or events that are likely to materially increase or decrease our liquidity.

***Changes in Cash Flow.*** The cash flows from our assets and liabilities support our mission to provide our members with competitively priced funding, a reasonable return on their investment in our capital stock, and support for community investment activities. The balances of our assets and liabilities can vary significantly in the normal course of business due to the amount and timing of cash flows, which are affected by member-driven activities and market conditions. Net cash used in operating activities for the year ended December 31, 2020 was $318 million, compared to net cash used in operating activities of $129 million for the year ended December 31, 2019. The net increase in cash used of $189 million was substantially due to the fluctuation in variation margin payments on cleared derivatives. Such payments are treated by the clearinghouses as daily settled contracts.

***Capital Resources.***

*Total Regulatory Capital.* The following table provides a breakdown of our outstanding capital stock and MRCS ($ amounts in millions).

| By Type of Member Institution | December 31, 2020 Amount | December 31, 2020 % of Total | December 31, 2019 Amount | December 31, 2019 % of Total |
|---|---|---|---|---|
| Capital Stock: | | | | |
| Depository institutions: | | | | |
| Commercial banks and savings institutions | $ 1,108 | 45 % | $ 955 | 42 % |
| Credit unions | 298 | 12 % | 277 | 12 % |
| Total depository institutions | 1,406 | 57 % | 1,232 | 54 % |
| Insurance companies | 802 | 33 % | 742 | 32 % |
| CDFIs | — | — % | — | — % |
| Total capital stock, putable at par value | 2,208 | 90 % | 1,974 | 86 % |
| MRCS: | | | | |
| Captive insurance companies | 31 | 1 % | 136 | 6 % |
| Former members [1] | 220 | 9 % | 187 | 8 % |
| Total MRCS | 251 | 10 % | 323 | 14 % |
| Total regulatory capital stock | $ 2,459 | 100 % | $ 2,297 | 100 % |

[1] Balances at both December 31, 2020 and 2019 include less than $1 million of MRCS that had reached the end of the five-year redemption period but will not be redeemed until the associated credit products and other obligations are no longer outstanding.

On August 26, 2020, our board of directors approved the involuntary termination of a captive insurance company member that had repaid all of its outstanding advances and directed the repurchase of all of that member's Class B stock totaling $18.3 million. This stock was repurchased on August 28, 2020. On February 19, 2021, the Bank terminated the memberships of its two remaining captive insurance company members and repurchased their excess stock of $18.1 million.

We amended and restated our capital plan effective September 26, 2020. For more information, see *Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

*Excess Capital Stock.* Capital stock that is not required as a condition of membership or to support outstanding obligations of members or former members to us is considered excess capital stock under our capital plan. In general, the level of excess capital stock fluctuates with our members' level of advances and, to the extent members have opted-in to AMA activity-based stock requirements, principal amounts of MDCs.

The following table presents the composition of our excess capital stock ($ amounts in millions).

| Components | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Member capital stock not subject to outstanding redemption requests | $ 605 | $ 441 |
| Member capital stock subject to outstanding redemption requests | — | 1 |
| MRCS | 225 | 175 |
| Total excess capital stock | $ 830 | $ 617 |
| Excess stock as a percentage of regulatory capital stock | 34 % | 27 % |

The increase in excess stock during the year ended December 31, 2020 resulted from significant changes in advance activity during 2020 and, to a lesser extent, mergers involving our members.

Finance Agency rules limit the ability of an FHLBank to pay dividends in the form of additional shares of capital stock or otherwise issue excess stock under certain circumstances, including when its total excess stock exceeds 1% of total assets or if the issuance of excess stock would cause total excess stock to exceed 1% of total assets. Our excess stock at December 31, 2020 was 1.26% of our total assets. Therefore, as a result of these regulatory limitations, we are currently not permitted to distribute stock dividends or issue excess stock to our members, should we choose to do so.

Under the amended capital plan, the Bank is required to repurchase excess stock if its regulatory capital ratio as of the last day of any month exceeds a specific ratio established by the board of directors from time to time, currently 5.75%, by at least 25 bps. As a result, the current threshold for repurchase is a regulatory capital ratio of 6.0%. Our regulatory capital ratio at December 31, 2020 was 5.45%. Excess stock shall be repurchased under these circumstances only to the extent required to reduce the Bank's regulatory capital ratio to the specific ratio which was initially used to calculate the repurchase obligation. Otherwise, we are not required to redeem excess stock from a member until five years (or, in the case of Class A stock, six months) after the earliest of (i) termination of the membership, (ii) our receipt of notice of voluntary withdrawal from membership, or (iii) the member's request for redemption of its excess stock. At our discretion, we may also voluntarily repurchase, and have repurchased from time to time, excess stock upon approval of our board of directors and with 15 days' notice to the member in accordance with our capital plan.

*Statutory and Regulatory Restrictions on Capital Stock Redemption.* In accordance with the Bank Act, each class of FHLBank stock is considered putable by the member. However, there are significant statutory and regulatory restrictions on our obligation to redeem, or right to repurchase, the outstanding stock, including the following:

- We may not redeem or repurchase any capital stock if, following such action, we would fail to satisfy any of our minimum capital requirements. By law, no capital stock may be redeemed or repurchased at any time at which we are undercapitalized.
- We may not redeem or repurchase any capital stock without approval of the Finance Agency if either our board of directors or the Finance Agency determines that we have incurred, or are likely to incur, losses resulting, or expected to result, in a charge against capital while such charges are continuing or expected to continue.

Additionally, we may not redeem or repurchase shares of capital stock from any member if (i) the principal or interest due on any consolidated obligation has not been paid in full when due; (ii) we fail to certify in writing to the Finance Agency that we will remain in compliance with our liquidity requirements and will remain capable of making full and timely payment of all of our current obligations; (iii) we notify the Finance Agency that we cannot provide the foregoing certification, project that we will fail to comply with statutory or regulatory liquidity requirements or will be unable to timely and fully meet all of our obligations; (iv) we actually fail to comply with statutory or regulatory liquidity requirements or to timely and fully meet all of our current obligations; or (v) we enter or negotiate to enter into an agreement with one or more FHLBanks to obtain financial assistance to meet our current obligations.

If, during the period between receipt of a stock redemption notification from a member and the actual redemption (which may last indefinitely if any of the restrictions on capital stock redemption discussed above have occurred), the Bank is liquidated, merged involuntarily, or merges upon our board of directors' approval or consent with one or more other FHLBanks, the consideration for the stock or the redemption value of the stock will be established after the settlement of all senior claims. Generally, no claims would be subordinated to the rights of our shareholders.

Our capital plan permits us, at our discretion, to retain the proceeds of redeemed or repurchased stock if we determine that there is an existing or anticipated collateral deficiency related to any obligations of the member to us until the member delivers other collateral to us, such obligations have been satisfied or the anticipated collateral deficiency is otherwise resolved to our satisfaction.

If the Bank were to be liquidated, after payment in full to our creditors, our shareholders would be entitled to receive the par value of their capital stock as well as retained earnings, if any, in an amount proportional to the shareholder's allocation of total shares of capital stock at the time of liquidation. In the event of a merger or consolidation, our board of directors must determine the rights and preferences of our shareholders, subject to any terms and conditions imposed by the Finance Agency.

*Capital Distributions.* Our board of directors seeks to reward our members with a competitive, risk-adjusted return on their investment, particularly those who actively utilize our products and services. Our board of directors' decision to declare dividends is influenced by our financial condition, overall financial performance and retained earnings, as well as actual and anticipated developments in the overall economic and financial environment including the level of interest rates and conditions in the mortgage and credit markets. In addition, our board of directors considers several other factors, including our risk profile, regulatory requirements, our relationship with our members and the stability of our current capital stock position and membership.

We may, but are not required to, pay dividends on our capital stock. Dividends are non-cumulative and may be paid in cash or capital stock out of current net earnings or from unrestricted retained earnings, as authorized by our board of directors and subject to Finance Agency regulations. No dividend may be declared or paid if we are or would be, as a result of such payment, in violation of our minimum capital requirements. Moreover, we may not pay dividends if any principal or interest due on any consolidated obligation issued on behalf of any of the FHLBanks has not been paid in full or, under certain circumstances, if we fail to satisfy liquidity requirements under applicable Finance Agency regulations. For more information, see *Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*.

On February 22, 2021, our board of directors declared a cash dividend on Class B-2 activity-based stock at an annualized rate of 3.00% and on Class B-1 non-activity-based stock at an annualized rate of 1.75%. The dividends were paid in cash on February 24, 2021.

*Restricted Retained Earnings.* In accordance with the JCE agreement, we allocate 20% of our net income each quarter to a restricted retained earnings account until the balance of that account equals at least 1% of the average balance of outstanding consolidated obligations for the previous quarter. These restricted retained earnings will not be available from which to pay dividends except to the extent the restricted retained earnings balance exceeds 1.5% of our average balance of outstanding consolidated obligations for the previous quarter. We do not expect either level to be reached for several years.

*Adequacy of Capital.* In addition to possessing the authority to prohibit stock redemptions, our board of directors has the right to require our members to make additional capital stock purchases as needed to satisfy statutory and regulatory capital requirements.

Our board of directors has a statutory obligation to review and adjust member capital stock requirements in order to comply with our minimum capital requirements, and each member must comply promptly with any such requirement. However, a member could reduce its outstanding business with us as an alternative to purchasing stock.

Our board of directors assesses the adequacy of our capital every quarter, prior to the declaration of our quarterly dividend, by reviewing various measures set forth in our Capital Markets Policy. We developed our Capital Markets Policy based on guidance from the Finance Agency.

We must maintain sufficient permanent capital to meet the combined credit risk, market risk and operations risk components of the risk-based capital requirement.

- **Permanent capital** is defined as the amount of our Class B stock (including MRCS) plus our retained earnings. We are required to maintain permanent capital at all times in an amount equal to our risk-based capital requirement, which includes the following components:
    - **Credit risk**, which represents the sum of our credit risk charges for all assets, off-balance sheet items and derivative contracts, calculated using the methodologies and risk weights assigned to each classification in the regulations;
    - **Market risk**, which represents the sum of the market value of our portfolio at risk from movements in interest rates, foreign exchange rates, commodity prices, and equity prices that could occur during periods of market stress, and the amount by which the market value of total capital is less than 85% of the book value of total capital; and
    - **Operations risk**, which represents 30% of the sum of our credit risk and market risk capital requirements.

As presented in the following table, we were in compliance with the risk-based capital requirement at December 31, 2020 and 2019 ($ amounts in millions).

| Risk-Based Capital Components | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Credit risk | $ 158 | $ 294 |
| Market risk | 327 | 198 |
| Operations risk | 146 | 147 |
| Total risk-based capital requirement | $ 631 | $ 639 |
| Permanent capital | $ 3,596 | $ 3,412 |

The decrease in our total risk-based capital requirement was primarily caused by a decrease in the credit risk component, primarily for mortgage loans held for portfolio, based on changes in the requirements outlined in the Finance Agency Final Rule on FHLBank Capital Requirements, which took effect on January 1, 2020. This decrease was partially offset by an increase in market risk components due to changes in the market environment, including interest rates, spreads, and volatility, and changes in balance sheet composition. The operations risk component is calculated as 30% of the credit and market risk components. Our permanent capital at December 31, 2020 remained well in excess of our total risk-based capital requirement.

In August 2019, the Finance Agency issued Advisory Bulletin 2019-03 requiring that, beginning in February 2020, we maintain a ratio of total regulatory capital stock to total assets, measured on a daily average basis at month end, of at least two percent. At December 31, 2020, our ratio exceeded this requirement.

By regulation, the Finance Agency may mandate us to maintain a greater amount of permanent capital than is generally required by the risk-based capital requirements as defined, in order to promote safe and sound operations. In addition, a Finance Agency rule authorizes the Director to issue an order temporarily increasing the minimum capital level for an FHLBank if the Director determines that the current level is insufficient to address such FHLBank's risks. The rule sets forth several factors that the Director may consider in making this determination.

The Finance Agency has established four capital classifications for the FHLBanks - adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized - and implemented the prompt corrective action provisions of HERA that apply to FHLBanks that are not deemed to be adequately capitalized. The Finance Agency determines our capital classification on at least a quarterly basis. If we are determined to be other than adequately capitalized, we would become subject to additional supervisory authority by the Finance Agency. Before implementing a reclassification, the Finance Agency Director would be required to provide us with written notice of the proposed action and an opportunity to respond. The Finance Agency's most recent determination is that we hold sufficient capital to be adequately capitalized and meet both our minimum capital and risk-based capital requirements. For more information, see *Notes to Financial Statements - Note 12 - Capital*.

**Off-Balance Sheet Arrangements**

The following table summarizes our off-balance-sheet arrangements (notional $ amounts in millions).

| Types | December 31, 2020 |
|---|---|
| Standby letters of credit outstanding | $ 356 |
| Unused lines of credit [(1)] | 998 |
| Commitments to fund or purchase mortgage loans, net [(2)] | 180 |
| Unsettled CO bonds, at par | 150 |
| Unsettled discount notes, at par | 250 |

(1) Maximum line of credit amount for any member is $50.
(2) Generally for periods up to 91 days.

A standby letter of credit is a financing arrangement between us and one of our members for which we charge a fee. If we are required to make payment on a beneficiary's draw, the payment amount is converted into a collateralized advance to the member. The original terms of these standby letters of credit, including related commitments, range from 1 month to 20 years. Lines of credit allow members to fund short-term cash needs (up to one year) without submitting a new application for each request for funds.

Our MPP was designed to require loan servicers to foreclose loans and liquidate properties in the servicer's name rather than in the Bank's name. As the servicer progresses through the process from foreclosure to liquidation, the Bank is paid in full for all unpaid principal and accrued interest on the loan through the normal remittance process and the servicer files a claim against the various credit enhancements for reimbursement of losses incurred. The claim is then reviewed and paid as appropriate under the various credit enhancement policies or guidelines. Subsequently, the servicer may submit claims to us for any remaining losses. At December 31, 2020, principal previously paid in full by our MPP servicers totaling $1 million remains subject to potential claims by those servicers for any losses resulting from past or future liquidations of the underlying properties. An estimate of the losses is included in the MPP allowance for loan losses. For more information, see *Notes to Financial Statements - Note 1 - Summary of Significant Accounting Policies* and *Note 6 - Mortgage Loans Held for Portfolio*. For more information on additional commitments and contingencies, see *Notes to Financial Statements - Note 17 - Commitments and Contingencies*.

**Contractual Obligations**

The following table presents the payments due or expiration terms by specified contractual obligation type ($ amounts in millions).

| December 31, 2020 | 1 year or less | 1 to 3 years | 3 to 5 years | After 5 years | Total |
|---|---|---|---|---|---|
| Contractual obligations: | | | | | |
| Long-term debt [1] | $ 31,126 | $ 5,863 | $ 1,605 | $ 4,652 | $ 43,246 |
| Operating leases | — | — | — | 1 | 1 |
| Benefit payments [2] | 6 | 25 | 5 | 16 | 52 |
| MRCS [3] | 9 | 27 | 184 | 31 | 251 |
| Total | $ 31,141 | $ 5,915 | $ 1,794 | $ 4,700 | $ 43,550 |

(1) Includes CO bonds reported at par and based on contractual maturities but excludes discount notes due to their short-term nature. For more information on consolidated obligations, see *Notes to Financial Statements - Note 10 - Consolidated Obligations*.

(2) Amounts represent actuarial estimates of future benefit payments in accordance with the provisions of our SERP. For more information, see *Notes to Financial Statements - Note 14 - Employee and Director Retirement and Deferred Compensation Plans*.

(3) The year of redemption is the later of: (i) the final year of the five-year redemption period, or (ii) the first year in which a non-member no longer has an activity-based stock requirement. For more information, see *Notes to Financial Statements - Note 12 - Capital*.

**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 reporting period. We review these estimates and assumptions based on historical experience, changes in business conditions and other relevant factors that we believe to be reasonable under the circumstances. Changes in estimates and assumptions have the potential to significantly affect our financial position and results of operations. In any given reporting period, our actual results may differ from the estimates and assumptions used in preparing our financial statements.

We determined that two of our accounting policies and estimates are critical because they require management to make particularly difficult, subjective, and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. These accounting policies pertain to:

- Derivatives and hedging activities (for more information, see *Notes to Financial Statements - Note 8 - Derivatives and Hedging Activities*); and
- Fair value estimates (for more information, see *Notes to Financial Statements - Note 16 - Estimated Fair Values*).

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 results of operations, financial position and cash flows.

***Accounting for Derivatives and Hedging Activities.*** All derivatives are recorded in the statement of condition at their estimated fair values. Changes in the estimated fair value of our derivatives are recorded in current period earnings regardless of how changes in the estimated fair value of assets or liabilities being hedged may be treated. Therefore, even though derivatives are used to mitigate market risk, derivatives introduce the potential for earnings volatility. Specifically, a mismatch can exist between the timing of income and expense recognition from assets or liabilities and the income effects of derivative instruments positioned to mitigate the market risk associated with those assets or liabilities. Therefore, during periods of significant changes in interest rates and other market factors, our earnings may experience greater volatility.

The accounting guidance related to derivative accounting is complex and contains strict documentation requirements. The details of each designated hedging relationship must be formally documented at the inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risk being hedged, the derivative instrument and how effectiveness is being assessed. In all cases involving a recognized asset, liability or firm commitment, the designated risk being hedged is the risk of changes in the fair value of the hedged item attributable to changes in the designated benchmark interest rate.

Generally, we endeavor to use derivatives that effectively hedge specific assets or liabilities and qualify for fair-value hedge accounting. For hedging relationships that qualify for hedge accounting and are designated as fair-value hedges, the change in the fair value of the hedged item attributable to the hedged risk is recorded in current period earnings, thereby providing an offset to the change in fair value of the derivative. Any difference in the change in fair value of the derivative and the change in the fair value of the hedged item attributable to the hedged risk represents "hedge ineffectiveness". If a fair-value hedging relationship qualifies for the shortcut method of hedge accounting, we can assume the change in the fair value of the derivative is perfectly offsetting the change in the fair value of the hedged item attributable to the hedged risk and, as a result, no ineffectiveness is recorded in earnings. To qualify for shortcut accounting treatment, a number of conditions must be met, including, but not limited to, the following:

- the notional amount of the interest-rate swap matches the principal amount of the interest-bearing financial instrument being hedged;
- the fair value of the interest-rate swap at the inception of the hedging relationship is zero;
- the formula for computing net settlements under the interest-rate swap is the same for each net settlement; and
- the interest-bearing financial instrument is not prepayable.

When applying the shortcut method, we document at hedge inception a quantitative method to assess hedge effectiveness if we would later determine that the use of the shortcut method was not or is no longer appropriate. By documenting a quantitative method at inception of the relationship, the risk associated with inappropriately applying the method is reduced as the quantitative method can be applied, if certain qualifying criteria are met, without having to dedesignate the hedge relationship as of the date it was determined the hedge no longer qualified for the shortcut method.

Derivatives that are in fair-value hedging relationships but do not qualify for the shortcut method are accounted for under the long-haul method. Regression analysis is performed at the inception of each hedging relationship to determine whether the hedge is expected to be highly effective in offsetting the hedged risk, and at each month-end thereafter to ensure that the hedge relationship has been effective historically and is expected to be highly effective in the future. Hedging relationships accounted for under the shortcut method are not tested for hedge effectiveness.

A fair-value hedge relationship is considered highly effective only if certain specified criteria are met. If a hedge fails the effectiveness test at inception, we do not apply hedge accounting. If the hedge fails the effectiveness test during the life of the relationship, we discontinue hedge accounting prospectively. In that case, we continue to carry the derivative on the statement of condition at fair value, recognize the changes in fair value of that derivative in current earnings, cease adjusting the hedged item for changes in its fair value and amortize the cumulative basis adjustment on the hedged item into earnings over its remaining life. Unless and until the derivative is redesignated in a qualifying fair-value hedging relationship for accounting purposes, changes in its fair value are recorded in current earnings without an offsetting change in the fair value of the hedged item.

Although substantially all of our derivatives qualify for fair-value hedge accounting, we treat all derivatives that do not qualify as economic hedges for asset/liability management purposes. The changes in the estimated fair value of these economic hedges are recorded in other income as net gains (losses) on derivatives and hedging activities with no offsetting fair-value adjustments for the hedged assets, liabilities, or firm commitments.

The fair values of our interest-rate related derivatives and hedged items are determined using standard valuation techniques such as discounted cash-flow analysis, which utilizes market estimates of interest rates and volatility, and comparisons to similar instruments. As such, the use of these estimates can have a significant impact on current period earnings. Although changes in estimated fair value can cause earnings volatility during the periods the derivative instruments are held, for hedges that qualify for fair-value hedge accounting, such changes do not have any net long-term economic effect or result in any net cash flows if the derivative and the hedged item are held to maturity. Since these estimated fair values eventually return to zero (or par value) on the maturity date, the effect of such fluctuations throughout the life of the hedging relationship is usually only a timing issue.

As of December 31, 2020, the Bank’s derivatives portfolio included $36.9 billion (notional amount) that was accounted for using the long-haul method, $3.3 billion (notional amount) that was accounted for using the shortcut method, and $10.2 billion (notional amount) that did not qualify for hedge accounting. By comparison, at December 31, 2019, the Bank’s derivatives portfolio included $40.9 billion (notional amount) that was accounted for using the long-haul method, $506 million (notional amount) that was accounted for using the shortcut method, and $9.0 billion (notional amount) that did not qualify for hedge accounting.

***Fair Value Estimates.*** We report certain assets and liabilities on the statement of condition at estimated fair value, including investments classified as trading, AFS, grantor trust assets, and all derivatives. "Fair value" is 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. We are required to consider factors specific to the asset or liability, the principal or most advantageous market for the asset or liability, and the participants with whom we would transact in that market. In general, the transaction price will equal the exit price and, therefore, represents the fair value of the asset or liability at initial recognition.

Estimated 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, estimated 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 on similar instruments.

For external valuation models, we review the vendors' valuation processes, methodologies, and control procedures for reasonableness. For internal valuation models, the underlying assumptions are based on management's best estimates for:

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

The assumptions used in both external and internal valuation models could have a significant effect on the reported fair values of assets and liabilities, including the related income and expense. The use of different assumptions, as well as changes in market conditions, could result in materially different values. We continue to refine our valuation methodologies as markets and products develop and the pricing for certain products becomes more or less transparent.

We categorize our financial instruments reported at estimated fair value into a three-level hierarchy. 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 our market assumptions. Level 1 instruments are those for which inputs to the valuation methodology are observable and are derived from quoted prices (unadjusted) for identical assets or liabilities in active markets that we can access on the measurement date. Level 2 instruments are those for which inputs are observable, either directly or indirectly, and include quoted prices for similar assets and liabilities. Finally, level 3 instruments are those for which inputs are unobservable or are unable to be corroborated by external market data.

**Recent Accounting and Regulatory Developments**

***Accounting Developments.*** For a description of how recent accounting developments may impact our financial condition, results of operations or cash flows, see *Notes to Financial Statements - Note 2 - Recently Adopted and Issued Accounting Guidance*.

***Legislative and Regulatory Developments.***

*Final Rules.*

*Finance Agency Final Rule on FHLBank Housing Goals Amendments.* On June 25, 2020, the Finance Agency published a final rule, effective August 24, 2020, amending the FHLBank housing goals regulation. Enforcement of the final rule will phase in over three years. The final rule replaces the four existing retrospective housing goals with a single prospective mortgage purchase housing goal target in which 20% of AMA mortgages purchased in a year must be comprised of loans to low-income or very low-income families, or to families in low-income areas. The final rule also establishes a separate small member participation housing goal with a target level in which 50% of the members selling AMA loans in a calendar year must be small members. The final rule provides that an FHLBank may request Finance Agency approval of alternative target levels for either or both of the goals. The final rule also establishes that housing goals apply to each FHLBank that acquires any AMA mortgages during a year, eliminating the existing $2.5 billion volume threshold that previously triggered the application of housing goals for each FHLBank. We do not believe these changes will have a material effect on our financial condition or results of operations.

*Finance Agency Final Rule on Stress Testing.* On March 24, 2020, the Finance Agency published a final rule, effective upon issuance, to amend its stress testing rule, consistent with section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 ("EGRRCPA"). The final rule (i) raises the minimum threshold for entities regulated by the Finance Agency to conduct periodic stress tests from $10 billion to $250 billion or more in total consolidated assets; (ii) removes the requirements for FHLBanks to conduct stress testing; and (iii) removes the adverse scenario from the list of required scenarios. FHLBanks are currently excluded from this regulation because no FHLBank has total consolidated assets over $250 billion, but the Finance Agency reserved its discretion to require an FHLBank with total consolidated assets below the $250 billion threshold to conduct stress testing. These amendments align the Finance Agency's stress testing rule with rules adopted by other financial institution regulators that implement the Dodd-Frank Act stress testing requirements, as amended by EGRRCPA. This rule eliminates these stress testing requirements for the Bank, unless the Finance Agency exercises its discretion to require stress testing in the future. We do not expect this rule to have a material effect on our financial condition or results of operations.

*Margin and Capital Requirements for Covered Swap Entities.* On July 1, 2020, the OCC, the Federal Reserve Board ("Federal Reserve"), the FDIC, the Farm Credit Administration, and the Finance Agency (collectively, "Prudential Banking Regulators") jointly published a final rule, effective August 31, 2020, amending regulations that established minimum margin and capital requirements for uncleared swaps for covered swap entities under the jurisdiction of the Prudential Banking Regulators ("Prudential Margin Rules"). In addition to other changes, the final rule: (1) allows swaps entered into by a covered swap entity prior to an applicable compliance date to retain their legacy status and not become subject to the Prudential Margin Rules in the event that the legacy swaps are amended to replace an interbank offered rate (such as LIBOR) or other discontinued rate, or due to other technical amendments, notional reductions or portfolio compression exercises; (2) introduces a new Phase 6 compliance date for initial margin requirements for covered swap entities and their counterparties with an average daily aggregate notional amount ("AANA") of uncleared swaps of at least $8 billion, and limits Phase 5 to counterparties with an AANA of uncleared swaps from $50 billion to $750 billion; and (3) clarifies that initial margin ("IM") trading documentation does not need to be executed prior to the parties becoming obligated to exchange IM.

On the same date, the Prudential Banking Regulators published an interim final rule, effective September 1, 2020, extending the IM compliance date for Phase 6 counterparties to September 1, 2022. On November 9, 2020, the CFTC issued a final rule extending the IM compliance date for Phase 6 counterparties to September 1, 2022, thereby aligning with the Prudential Banking Regulators.

Further, on January 5, 2021, the CFTC published a final rule, effective February 4, 2021, that primarily amends the minimum margin and capital requirements for uncleared swaps under the jurisdiction of the CFTC ("CFTC Margin Rules") by requiring covered entities to use a revised AANA calculation starting on September 1, 2022. The amendments, among other things, require entities subject to the CFTC's jurisdiction to calculate the AANA for uncleared swaps during March, April and May of the current year, based on an average of month-end dates, as opposed to the previous requirement which required the calculation of AANA during June, July and August of the prior year, based on daily calculations. Parties would continue to be expected to exchange IM based on the AANA totals as of September 1 of the current year. These amendments align with the recommendation of the Basel Committee on Banking Supervision and Board of the International Organization of Securities Commissions. Separately, on January 25, 2021, the CFTC published a final rule, effective February 24, 2021, that amends the CFTC Margin Rules to permit, among other changes, covered swap entities to maintain separate minimum transfer amounts ("MTA") for IM and variation margin for each swap counterparty, provided the combined MTA does not exceed $500,000.

We do not expect these rules to have a material effect on our financial condition or results of operations.

*FDIC Brokered Deposits Restrictions.* On January 22, 2021, the FDIC published a final rule, effective April 1, 2021, that amends its brokered deposits regulations that apply to less than well-capitalized insured depository institutions. The FDIC stated the amendments are intended to modernize and clarify the FDIC's brokered deposit regulations and they establish a new framework for analyzing the deposit broker definition, which determines whether deposits placed through deposit placement arrangements qualify as brokered deposits. These deposit placement arrangements include those between insured depository institutions and third parties, such as financial technology companies, for a variety of business purposes, including access to deposits. The amendments to the FDIC's brokered deposit regulations, among other things, clarify what it means to be engaged in the business of facilitating the placement of deposits and expand the scope of the primary purpose exception. The rule amendments are expected to have the effect of narrowing the definition of deposit broker and excluding more deposits from treatment as brokered deposits. The amendments also establish an application and reporting process with respect to the primary purpose exception for businesses that do not meet one of several bright-line tests, and they affirm the FDIC's position that the brokering of certificates of deposit constitutes deposit brokering. This rule may have an effect on member demand for certain advances, but we cannot predict the extent of the impact. We do not expect this rule to materially affect our financial condition or results of operations.

*Advisory Bulletins.*

*Finance Agency Advisory Bulletin 2020-01 Federal Home Loan Bank Risk Management of AMA Risk Management.* On January 31, 2020, the Finance Agency released guidance on risk management of AMA. The guidance communicates the Finance Agency's expectations with respect to an FHLBank's funding of its members through the purchase of eligible mortgage loans and includes expectations that an FHLBank will have board-established limits on AMA portfolios and management-established thresholds to serve as monitoring tools to manage AMA-related risk exposure. The guidance provides that the board of an FHLBank should ensure that the FHLBank serves as a liquidity source for members, and the FHLBank should ensure that its portfolio limits do not result in the FHLBank's acquisition of mortgages from smaller members being "crowded out" by the acquisition of mortgages from larger members. The advisory bulletin contains the expectation that the board of an FHLBank should set limits on the size and growth of AMA portfolios and on AMA acquisitions from a single PFI. In addition, the guidance provides that the board of an FHLBank should consider concentration risk in the areas of geographic area, high-balance loans, and in third-party loan originations. We do not expect this advisory bulletin to materially affect our financial condition or results of operations.

*LIBOR Transition.*

*Finance Agency Supervisory Letter - Planning for LIBOR Phase-Out.* On September 27, 2019, the Finance Agency issued a Supervisory Letter ("LIBOR Supervisory Letter") to the FHLBanks that the Finance Agency stated is designed to ensure the FHLBanks will be able to identify and prudently manage the risks associated with the termination of LIBOR in a safe and sound manner. The LIBOR Supervisory Letter provided that the FHLBanks should, by March 31, 2020, cease entering into new LIBOR-referenced financial assets, liabilities, and derivatives with maturities beyond December 31, 2021 for all product types except investments. With respect to investments, the FHLBanks were required, by December 31, 2019, to stop purchasing investments that reference LIBOR and mature after December 31, 2021. These phase-out dates did not apply to collateral accepted by the FHLBanks. The LIBOR Supervisory Letter also directed the FHLBanks to update their pledged collateral certification reporting requirements by March 31, 2020, in an effort to encourage members to distinguish LIBOR-linked collateral maturing after December 31, 2021. The FHLBanks were expected to cease entering into LIBOR-indexed financial instruments maturing after December 31, 2021, by the deadlines specified in the LIBOR Supervisory Letter, subject to limited exceptions granted by the FHFA for LIBOR-linked products serving compelling mission, risk mitigating, and/or hedging purposes that do not currently have readily available alternatives. We have already ceased purchasing investments that reference LIBOR and mature after December 31, 2021.

As a result of the market volatility experienced during 2020 due in part by the COVID-19 pandemic, the Finance Agency extended the FHLBanks' authority to enter into LIBOR-based instruments that mature after December 31, 2021 from March 31, 2020 to June 30, 2020, except for investments and option embedded products. In addition, the Finance Agency extended the requirement to update pledged collateral certification reporting requirements from March 31, 2020 to September 30, 2020.

We do not expect the LIBOR Supervisory Letter and the related subsequent guidance will have a material effect on our financial condition or results of operations.

*LIBOR Transition – ISDA 2020 IBOR Fallbacks Protocol and Supplement to the 2006 ISDA Definitions.* On October 23, 2020, the International Swaps and Derivatives Association, Inc. ("ISDA"), published a Supplement to the 2006 ISDA Definitions ("Supplement") and the ISDA 2020 IBOR Fallbacks Protocol ("Protocol"). Both the Supplement and the Protocol took effect on January 25, 2021. On that date, all legacy bilateral derivative transactions subject to Protocol-covered agreements (including ISDA agreements) that incorporate certain covered ISDA definitional booklets and reference a covered Interbank Offered Rate ("IBOR"), including U.S. Dollar LIBOR, were effectively amended to apply the new ISDA-recommended IBOR fallbacks in the event of the relevant IBOR's cessation. Both the Bank and our counterparty must have adhered to the Protocol in order to effectively amend legacy derivatives contracts, otherwise the parties must bilaterally amend legacy covered agreements (including ISDA agreements) to address LIBOR fallbacks. The Protocol will remain open for adherence after the effective date. As of January 25, 2021, all new derivative contracts are subject to the relevant IBOR fallbacks set forth in the Supplement.

On October 21, 2020, the Finance Agency issued a Supervisory Letter to the FHLBanks that required each FHLBank to adhere to the Protocol by December 31, 2020, and to the extent necessary, to amend any bilateral agreements regarding the adoption of the Protocol by December 15, 2020.

We adhered to the Protocol effective as of October 22, 2020, and all of our counterparties have adhered to the Protocol.

*LIBOR Transition – Announcement of Future Cessation and Loss of Representativeness of the LIBOR Benchmarks.* On March 5, 2021, the FCA, a regulator of financial services firms and financial markets in the UK, announced U.S. dollar LIBOR will either cease to be provided by any administrator or no longer be representative immediately after December 31, 2021, or, in the case of some more frequently used U.S. dollar LIBOR settings, immediately after June 30, 2023. We continue to evaluate the potential impact of the FCA's announcement on our financial condition and results of operations. For a discussion of the potential impact of the LIBOR transition, see *Item 1A. Risk Factors*.

*COVID-19 Developments.*

*Finance Agency Supervisory Letter – Paycheck Protection Program ("PPP") Loans as Collateral for FHLBank Advances.* On April 23, 2020, the Finance Agency issued a Supervisory Letter ("PPP Supervisory Letter") permitting the FHLBanks to accept PPP loans as collateral for advances as "Agency Securities," given the SBA's 100 percent guarantee of the UPB. On April 20, 2020, the SBA published its third interim final rule related to PPP loans, which explicitly waived certain regulatory requirements that must be satisfied before a member could pledge PPP loans to the FHLBanks as collateral. The PPP Supervisory Letter establishes a series of conditions under which the FHLBanks may accept PPP loans as collateral, which conditions focus on the financial condition of members, collateral discounts, and pledge dollar limits. On December 27, 2020, the President signed into law an extension of the PPP until March 31, 2021. The April 23, 2020 Supervisory Letter from the Finance Agency allowing FHLBanks to accept PPP loans as collateral remains in effect.

*CARES Act.* The CARES Act was signed into law on March 27, 2020. The $2.2 trillion package was the largest stimulus bill in U.S. history. The CARES Act is in addition to previous relief legislation passed by Congress in March 2020. The legislation provides the following:

- Assistance to businesses, states, and municipalities;
- A loan program for small businesses, non-profits and physician practices that can be forgiven through employee retention incentives;
- Treasury Secretary authority to make loans or loan guarantees to states, municipalities, and eligible businesses and loosening some regulations imposed through the Dodd-Frank Act;
- Direct payments to eligible taxpayers and their families;
- Expanded eligibility for unemployment insurance and payment amounts; and
- Mortgage forbearance provisions and a foreclosure moratorium.

Funding for the PPP, which was created by the CARES Act, was increased with the enactment of subsequent laws, most recently by the Consolidated Appropriations Act, 2021, on December 27, 2020. While some provisions of the CARES Act have expired, others have been extended by regulatory and legislative action. Additional phases of the CARES Act or other COVID-19 pandemic relief legislation may be enacted by Congress. We continue to evaluate the potential impact of such legislation on our business, including its continued impact to the U.S. economy; impacts to mortgages held or serviced by our members and that we accept as collateral; and the impacts on our MPP.

*Additional COVD-19 Presidential, Legislative and Regulatory Developments.* In light of the COVID-19 pandemic, President Biden (and previously, President Trump), through executive orders, governmental agencies, including the SEC, OCC, Federal Reserve, FDIC, National Credit Union Administration, CFTC and the Finance Agency, as well as state governments and agencies, have taken, and may continue to take, actions to provide various forms of relief from, and guidance regarding, the financial, operational, credit, market, and other effects of the pandemic, some of which may have a direct or indirect impact on us or our members. Many of these actions are temporary in nature. We continue to monitor these actions and guidance as they evolve and to evaluate their potential impact on us.

**Risk Management**

We have exposure to a number of risks in pursuing our business objectives. These risks may be broadly classified as market, credit, liquidity, operational, and business. Market risk is discussed in *Item 7A. Quantitative and Qualitative Disclosures about Market Risk*.

Active risk management is an integral part of our operations because these risks are an inherent part of our business activities. We manage these risks by, among other actions, setting and enforcing appropriate limits and developing and maintaining internal policies and processes to ensure an appropriate risk profile. In order to enhance our ability to manage Bank-wide risk, our risk management function is structured to segregate risk measurement, monitoring, and evaluation from our business units where risk-taking occurs through financial transactions and positions.

The Finance Agency has established certain risk-related compliance requirements. In addition, our board of directors has established a Risk Appetite Statement that summarizes the amounts, levels and types of enterprise-wide risk that our management is authorized to undertake in pursuit of achieving our mission and executing our strategic plans. The Risk Appetite Statement incorporates high level qualitative and quantitative risk limits and tolerances from our Enterprise Risk Management Policy, which serves as a key policy to address our exposures to market, credit, liquidity, operational and business risks, and from various other key risk-related policies approved by our board of directors, including the Operational Risk Management Policy, the Model Risk Management Policy, the Credit Policy, the Capital Markets Policy, and the Enterprise Information Security Policy.

Effective risk management programs include not only conformance of specific risk management practices to the Enterprise Risk Management Policy and other key risk-related policy requirements, but also the active involvement of our board of directors. Our board of directors has established a Risk Oversight Committee that provides focus, direction and accountability for our risk management process. Further, pursuant to the Enterprise Risk Management Policy, the following internal management committees focus on risk management, among other duties:

- Executive Management Committee
    - Facilitates planning, coordination and communication among our operating divisions and the other committees;
    - Focuses on leadership, teamwork and our resources to best serve organizational priorities; and
    - Generally oversees the following committees' activities.
        - Member Services Committee
            - Focuses on new and existing member services and products and oversees the effectiveness of the risk mitigation framework for member services and products; and
            - Promotes cross-functional communication and exchange of ideas pertaining to member products offered to achieve financial objectives established by the board of directors and senior management while remaining within prescribed risk parameters.
        - Capital Markets Committee
            - Focuses on the Bank's investment and funding activities as they relate to financial performance, risk profile and the Bank's strategic direction; and
            - Deliberates proposed strategies to meet funding needs and achieve financial performance objectives established by the board of directors and senior management, while remaining within established risk control parameters.
        - IT Steering Committee
            - Monitors our technology-related activities, strategies, risk positions and issues; and
            - Promotes cross-functional communication and exchange of ideas pertaining to the technology directions and actions undertaken to achieve our strategic and financial objectives.
- Risk Committee
    - Oversees the identification, monitoring, measurement, evaluation and reporting of risks; and
    - Promotes cross-functional communication and exchange of ideas pertaining to oversight of our risk profile in accordance with guidelines and objectives established by our board of directors and senior management.
    - Oversees the actions of the following committee.
        - Information Security Steering Committee
            - Oversees the Bank's Information Security Program, which includes enterprise information security, cybersecurity, and physical security.

- Asset Liability Committee
    - Evaluates the impact of macro-economic, interest rate and financial market conditions on the Bank's financial performance and capital levels; and
    - Determines enterprise-level asset-liability management strategies.

Each of the committees is responsible for overseeing its respective business activities in accordance with specified policies, in addition to ongoing consideration of pertinent risk-related issues.

We have a formal process for the assessment of Bank-wide risk and risk-related issues. Our risk assessment process is designed to identify and evaluate material risks, including both quantitative and qualitative aspects, which could adversely affect achievement of our financial performance objectives and compliance with applicable requirements. Business unit managers play a significant role in this process, as they are best positioned to identify and understand the risks inherent in their respective operations. These assessments evaluate the inherent risks within each of the key processes as well as the controls and strategies in place to manage those risks, identify primary weaknesses, and recommend actions that should be undertaken to address the identified weaknesses. The results of these assessments are summarized in an annual risk assessment report, which is reviewed by senior management and our board of directors.

***Credit Risk Management.*** Credit risk is the risk that members or other counterparties may be unable to meet their contractual obligations to us, or that the values of those obligations will decline as a result of deterioration in the members' or other counterparties' creditworthiness. Credit risk arises when our funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements. 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 whenever we are exposed to credit risk.

*Advances and Other Credit Products.* We manage our exposure to credit risk on advances primarily through a combination of our security interests in assets pledged by our borrowers and ongoing reviews of our borrowers' financial strength. Credit analyses are performed on existing borrowers, with the frequency and scope determined by the financial strength of the borrower and/or the amount of our credit products outstanding to that borrower. We establish limits and other requirements for advances and other credit products.

Section 10(a) of the Bank Act prohibits us from making an advance without sufficient collateral to fully secure the advance. Security is provided via thorough underwriting and establishing a perfected position in eligible assets pledged by the borrower as collateral before an advance is made by filing Uniform Commercial Code financing statements in the appropriate jurisdictions. Each member's collateral reporting requirement is based on its collateral status, which reflects its financial condition and type of institution, and our review of conflicting liens, with our level of control increasing when a borrower's financial performance deteriorates. We continually evaluate the quality and value of collateral pledged to support advances and work with members to improve the accuracy of valuations.

At December 31, 2020 and 2019, advances outstanding to our insurance company members represented 43% and 47%, respectively, of our total advances outstanding, at par. We believe that advances outstanding to our insurance company members and the relative percentage of their advances to the total could increase, based upon the significant portion of total financial assets held by insurance companies in our district. Although insurance companies represent growth opportunities for our credit products, they have different risk characteristics than our depository members. Some of the ways we mitigate this risk include requiring insurance companies to deliver collateral to us or our custodian and using industry-specific underwriting approaches as part of our ongoing evaluation of our insurance company members' financial strength.

A captive insurance company insures risks of its parent, affiliated companies and/or other entities under common control. While our captive insurance companies were members, we generally required them to, among other requirements: (i) pledge the collateral free of other encumbrances, (ii) collateralize all obligations to us, including prepayment fees, accrued interest and any outstanding AHP or MPP obligations, (iii) obtain our prior approval before pledging whole loan collateral, and (iv) provide annual audit reports of the member entity and its ultimate parent, as well as quarterly unaudited financial statements.

On February 19, 2021, the Bank terminated the memberships of its two remaining captive insurance company members. Both companies were admitted as FHLBank members prior to September 12, 2014, and did not meet the definition of "insurance company" or fall within another category of institution that is eligible for FHLBank membership under the Final Membership Rule.

*Borrowing Limits.* Generally, we maintain a credit products borrowing limit of 40% of a depository member's total assets. As of December 31, 2020, we had no advances outstanding to a depository member whose total credit products exceeded 40% of its total assets.

The borrowing limit for our insurance company members (excluding captive insurance companies) is 25% of their total general account assets (net admitted assets less separate accounts). Credit extensions to insurance company members whose total credit products exceed this threshold require an additional approval by our Bank as provided in our credit policy. The approval is based upon a number of factors that may include the member's financial condition, collateral quality, business plan and earnings stability. We also monitor these members more closely on an ongoing basis. As of December 31, 2020, we had no advances outstanding to an insurance company member whose total credit products exceeded 25% of their general account assets.

New or renewed credit extensions to captive insurance companies that became members prior to September 12, 2014 were subject to certain regulatory restrictions relating to maturity dates and could not exceed 40% of the member's total assets. As of December 31, 2020, no such captive insurance company member's total balance outstanding of credit products exceeded the percentage limit.

The credit products borrowing limit for our non-depository CDFI members is 25% of their total restricted assets. As of December 31, 2020, we had no advances outstanding to a non-depository CDFI member whose total credit products exceeded 25% of their total unrestricted assets. We may impose additional restrictions on extensions of credit to our members at our discretion.

*Concentration.* Our credit risk is magnified due to the concentration of advances in a few borrowers. As of December 31, 2020, our top borrower held 15% of total advances outstanding, at par, and our top five borrowers held 44% of total advances outstanding, at par. As a result of this concentration, 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.

*Collateral Requirements.* We generally require all borrowers to execute a security agreement that grants us a blanket lien on substantially all assets of the member. Our agreements with borrowers require each borrowing entity to fully secure all outstanding extensions of credit at all times, including advances, accrued interest receivable, standby letters of credit, correspondent services, certain AHP transactions, and all indebtedness, liabilities or obligations arising or incurred as a result of a member transacting business with our Bank. We may also require a member to pledge additional collateral to cover exposure resulting from any applicable prepayment fees on advances.

The assets that constitute eligible collateral to secure extensions of credit are set forth in Section 10(a) of the Bank Act. In accordance with the Bank Act, we accept the following assets as collateral:

- fully disbursed, whole first mortgages on improved residential property, or securities representing a whole interest in such mortgages;
- securities issued, insured, or guaranteed by the United States government or any Agency thereof (including, without limitation, MBS issued or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae);
- cash or deposits in an FHLBank; and
- ORERC acceptable to us if such collateral has a readily ascertainable value and we can perfect our interest in the collateral.

Additionally, for any CFI, as defined in accordance with the Bank Act, we may also accept secured loans for small business, agricultural and community development activities.

In addition to our internal credit risk management policies and procedures, Section 10(e) of the Bank Act affords priority of any security interest granted to us, by a member or such member's affiliate, over the claims or rights of any other party, including any receiver, conservator, trustee, or similar entity that has the rights of a lien creditor, except for claims held by bona fide purchasers for value or by parties that are secured by prior perfected security interests, provided that such claims would otherwise be entitled to priority under applicable law. Moreover, with respect to federally-insured depository institution borrowers, our claims are given certain preferences pursuant to the receivership provisions of the Federal Deposit Insurance Act. With respect to insurance company members, however, Congress provided in the McCarran-Ferguson Act of 1945 that state law generally governs the regulation of insurance and shall not be preempted by federal law unless the federal law expressly regulates the business of insurance. Thus, if a court were to determine that the priority provision of Section 10(e) of the Bank Act conflicts with state insurance law applicable to our insurance company members, the court might then determine that the priority of our security interest would be governed by state law, not Section 10(e). Under these circumstances, the "super lien" priority protection afforded to our security interest under Section 10(e) may not fully apply when we lend to such insurance company members. However, we monitor applicable states' laws, and our security interests in collateral posted by insurance company members have express statutory protections in the jurisdictions where our members are domiciled. In addition, we take all necessary action under applicable state law to obtain and maintain a prior perfected security interest in the collateral, including by taking possession or control of the collateral as appropriate.

*Collateral Status.* When an institution becomes a member of our Bank, we assign the member to a collateral status after the initial underwriting review. The assignment of a member to a collateral status category reflects, in part, our philosophy of increasing our level of control over the collateral pledged by the member, when warranted, based on our underwriting conclusions and a review of our lien priority. Some members pledge and report collateral under a blanket lien established through the security agreement, while others are placed on specific listings or possession status or a combination of the three via a hybrid status. We take possession of all collateral posted by insurance companies to further ensure our position as a first-priority secured creditor. A depository institution member may elect a more restrictive collateral status to receive a higher lendable value for their collateral.

The primary features of these three collateral status categories are:

Blanket:

- only certain financially sound depository institutions are eligible;
- institutions that have granted a blanket lien to another creditor may be eligible if an inter-creditor or subordination agreement is executed;
- review and approval by credit services management is required;
- member retains possession of eligible whole loan collateral pledged to us;
- member executes a written security agreement and agrees to hold such collateral for our benefit; and
- member provides periodic reports of all eligible collateral.

Specific Listings:

- applicable to depository institutions that demonstrate potential weakness in their financial condition or seek lower over-collateralization requirements;
- may be available to institutions that have granted a blanket lien to another creditor if an inter-creditor or subordination agreement is executed;
- member retains possession of eligible whole loan collateral pledged to us;
- member executes a written security agreement and agrees to hold such collateral for our benefit; and
- member provides loan level detail on the pledged collateral on at least a monthly basis.

Possession:

- applicable to all insurance companies, non-depository CDFI's, Housing Associates, and those depository institutions demonstrating less financial strength than those approved for specific listings;
- required for all de novo institutions and institutions that have granted a blanket lien to another creditor but have not executed an inter-creditor or subordination agreement;
- safekeeping for securities pledged as collateral can be with us or a third-party custodian that we have pre-approved;
- original notes and other documents related to whole loans pledged as collateral are held with a third-party custodian that we have pre-approved;
- member executes a written security agreement; and
- member provides loan level detail on the pledged collateral on at least a monthly basis.

*Collateral Valuation.* In order to mitigate the market, credit, liquidity, operational and business risk associated with collateral, we apply an over-collateralization requirement to the book value or market value of pledged collateral to establish its lendable value. Collateral that we have determined to contain a low level of risk, such as United States government obligations, is over-collateralized at a lower rate than collateral that carries a higher level of risk, such as small business loans. The over-collateralization requirement applied to asset classes may vary depending on collateral status, because lower requirements are applied as our levels of information and control over the assets increase.

We have made changes to, and continue to update, our internal valuation model to gain greater consistency between model-generated valuations and observed market prices, resulting in adjustments to lendable values on whole loan collateral. We routinely engage outside pricing vendors to benchmark our modeled pricing on residential and commercial real estate collateral, and we modify valuations where appropriate.

The following table provides information regarding credit products outstanding with borrowers based on their reporting status at December 31, 2020, along with their corresponding collateral balances. The table only lists collateral that was identified and pledged by borrowers with outstanding credit products at December 31, 2020, and therefore does not include all assets against which we have liens via our security agreements and Uniform Commercial Code filings ($ amounts in millions).

| | | Collateral Types | | | | | |
|---|---|---|---|---|---|---|---|
| **Collateral Status** | **# of Borrowers** | **1st lien Residential** | **ORERC/ CFI** | **Securities/ Delivery** | **Total Collateral** | **Lendable Value [1]** | **Credit Outstanding [2]** |
| Blanket | 59 | $ 6,445 | $ 4,400 | $ — | $ 10,845 | $ 6,924 | $ 2,542 |
| Specific listings | 68 | 23,722 | 4,145 | 1,748 | 29,615 | 21,987 | 9,470 |
| Possession | 26 | 5,529 | 13,052 | 7,423 | 26,004 | 18,730 | 13,245 |
| Hybrid [3] | 24 | 7,261 | 5,468 | 2,045 | 14,774 | 10,259 | 5,789 |
| Total | 177 | $ 42,957 | $ 27,065 | $ 11,216 | $ 81,238 | $ 57,900 | $ 31,046 |

(1) Lendable Value is the borrowing capacity, based upon collateral pledged after a market value has been estimated (excluding blanket-pledged collateral) and an over-collateralization requirement has been applied.
(2) Credit outstanding includes advances (at par value), lines of credit used, and standby letters of credit.
(3) Hybrid collateral status is a combination of any of the others: blanket, specific listings and possession.

*Collateral Review and Monitoring.* Our agreements with borrowers allow us, at any time and in our sole discretion, to require substitution of collateral, adjust the over-collateralization requirements applied to collateral, or refuse to make extensions of credit against any collateral. We also may require borrowers to pledge additional collateral regardless of whether the collateral would be eligible to originate a new extension of credit. Our agreements with our borrowers also afford us the right, in our sole discretion, to declare any borrower to be in default if we deem our Bank to be inadequately secured.

Credit services management continually monitors members' collateral status and may require a member to change its collateral status based upon deteriorating financial performance, results of collateral verification reviews, or a high level of borrowings as a percentage of its assets. The blanket lien created by the security agreement remains in place regardless of a member's collateral status.

The Bank conducts regular collateral verification reviews of loan collateral pledged by members to confirm the existence of the pledged collateral, confirm that the collateral conforms to our eligibility requirements, and score the collateral for concentration and credit risk. Based on the results of such collateral verification reviews, a member may have its over-collateralization requirements adjusted, limitations may be placed on the amount of certain asset types accepted as collateral or, in some cases, the member may be changed to a more stringent collateral status. We may conduct a review of any borrower's collateral at any time.

*Credit Review and Monitoring.* We monitor the financial condition of all member and non-member borrowers by reviewing certain available financial data, such as regulatory call reports filed by depository institution borrowers, regulatory financial statements filed with the appropriate state insurance department by insurance company borrowers, SEC filings, and rating agency reports, to ensure that potentially troubled institutions are identified as soon as possible. In addition, we have the ability to obtain borrowers' regulatory examination reports and, when appropriate, may contact borrowers' management teams to discuss performance and business strategies. We analyze this information on a regular basis and use it to determine the appropriate collateral status for a borrower.

We use models to assign a quarterly financial performance measure for all depository institution borrowers. This measure, combined with other credit monitoring tools and the level of a member's usage of credit products, determines the frequency and depth of underwriting analysis for these institutions.

*Investments.* We are also exposed to credit risk through our investment portfolio. Our policies restrict the acquisition of investments to high-quality, short-term money market instruments and high-quality long-term securities.

*Short-Term Investments*. Our short-term investments typically include securities purchased under agreements to resell, which are secured by United States Treasuries. Although we are permitted to purchase these securities for terms of up to 275 days, most mature overnight. Our short-term investments can also include federal funds sold, which can be overnight or term placements of our funds. We place these funds with large, high-quality financial institutions with investment-grade long-term credit ratings on an unsecured basis for terms of up to 275 days. Our short-term investments also include interest-bearing demand deposit accounts which are commercial deposit accounts generally opened with large, high-quality domestic financial institutions. The funds within these accounts are available for withdrawal at any time during business hours.

We monitor counterparty creditworthiness, ratings, performance, and capital adequacy in an effort to mitigate unsecured credit risk on the short-term investments, with an emphasis on the potential impacts of changes in global economic conditions. As a result, we may limit or suspend exposure to certain counterparties.

Finance Agency regulations include limits on the amount of unsecured credit we may extend to a private counterparty or to a group of affiliated counterparties. As of December 31, 2019, this limit was based on a percentage of eligible regulatory capital and the counterparty's long-term NRSRO credit rating. Under those regulations, (i) the level of eligible regulatory capital is determined as the lesser of our total regulatory capital or the eligible amount of regulatory capital of the counterparty; (ii) the eligible amount of regulatory capital is then multiplied by a stated percentage; and (iii) the percentage that we may offer for term extensions of unsecured credit ranges from 1% to 15% based on the counterparty's NRSRO credit rating. The calculation of term extensions of unsecured credit includes on-balance sheet transactions, off-balance sheet commitments and derivative transactions.

The regulations were amended effective January 1, 2020 and now require, among other things, that we calculate credit risk capital charges and unsecured credit limits based on our own internal rating methodology, rather than on NRSRO ratings.

The Finance Agency regulation also permits us to extend additional unsecured credit for overnight federal funds sold up to a total unsecured exposure to a single counterparty of 2% to 30% of the eligible amount of regulatory capital, based on the counterparty's credit rating.

Additionally, we are prohibited by Finance Agency regulation from investing in financial instruments issued by non-United States entities other than those issued by United States branches and agency offices of foreign commercial banks. Our unsecured credit exposures to United States branches and agency offices of foreign commercial banks include the risk that, as a result of political or economic conditions in a country, the counterparty may be unable to meet its contractual repayment obligations. During the year ended December 31, 2020, our unsecured investment credit exposure to United States branches and agency offices of foreign commercial banks was limited to federal funds sold. Our unsecured credit exposures to domestic counterparties and United States subsidiaries of foreign commercial banks include the risk that these counterparties have extended credit to foreign counterparties.

The following table presents the unsecured investment credit exposure to private counterparties, categorized by the domicile of the counterparty's ultimate parent, based on the lowest of the counterparty's NRSRO long-term credit ratings, stated in terms of the S&P equivalent. The table does not reflect the foreign sovereign government's credit rating ($ amounts in millions).

| December 31, 2020 | AA | A | Total |
|---|---|---|---|
| Domestic | $ — | $ 100 | $ 100 |
| Australia | 100 | 615 | 715 |
| Netherlands | — | 500 | 500 |
| Total unsecured credit exposure | $ 100 | $ 1,215 | $ 1,315 |

*Trading Securities.* Our liquidity portfolio includes U.S. Treasury securities, which are direct obligations of the U.S. government and are classified as trading securities.

*Other Investment Securities*. Our long-term investments include MBS guaranteed by the housing GSEs (Fannie Mae and Freddie Mac), other U.S. obligations - guaranteed MBS (Ginnie Mae), and debentures issued by Fannie Mae, Freddie Mac, the TVA and the Federal Farm Credit Banks.

A Finance Agency regulation provides that the total amount of our investments in MBS and ABS, calculated using amortized historical cost, must not exceed 300% of our total regulatory capital, as of the day we purchase the securities, based on the capital amount most recently reported to the Finance Agency. At December 31, 2020, these investments totaled 299.99% of total regulatory capital. Generally, our goal is to maintain these investments near the 300% limit in order to enhance earnings and capital for our members and diversify our revenue stream.

The following table presents the carrying values of our investments, excluding accrued interest, grouped by credit rating and investment category. Applicable rating levels are determined using the lowest relevant long-term rating from S&P and Moody's, each stated in terms of the S&P equivalent. Rating modifiers are ignored when determining the applicable rating level for a given counterparty or investment. Amounts reported do not reflect any subsequent changes in ratings, outlook, or watch status ($ amounts in millions).

| December 31, 2020 | AAA | AA | A | BBB | Below Investment Grade | Total |
|---|---|---|---|---|---|---|
| Short-term investments: | | | | | | |
| Interest-bearing deposits | $ — | $ — | $ 100 | $ — | $ — | $ 100 |
| Securities purchased under agreements to resell | — | 2,500 | — | — | — | 2,500 |
| Federal funds sold | — | 100 | 1,115 | — | — | 1,215 |
| Total short-term investments | — | 2,600 | 1,215 | — | — | 3,815 |
| | | | | | | |
| Trading securities: | | | | | | |
| U.S. Treasury obligations | — | 5,095 | — | — | — | 5,095 |
| Total trading securities | — | 5,095 | — | — | — | 5,095 |
| | | | | | | |
| Other investment securities: | | | | | | |
| GSE and TVA debentures | — | 3,503 | — | — | — | 3,503 |
| GSE MBS | — | 8,720 | — | — | — | 8,720 |
| Other U.S. obligations - guaranteed RMBS | — | 2,623 | — | — | — | 2,623 |
| Total other investment securities | — | 14,846 | — | — | — | 14,846 |
| | | | | | | |
| Total investments, carrying value | $ — | $ 22,541 | $ 1,215 | $ — | $ — | $ 23,756 |
| | | | | | | |
| Percentage of total | — % | 95 % | 5 % | — % | — % | 100 % |
| | | | | | | |
| **December 31, 2019** | | | | | | |
| Short-term investments: | | | | | | |
| Interest-bearing deposits | $ — | $ — | $ 809 | $ — | $ — | $ 809 |
| Securities purchased under agreements to resell | — | 1,500 | — | — | — | 1,500 |
| Federal funds sold | — | 1,090 | 1,460 | — | — | 2,550 |
| Total short-term investments | — | 2,590 | 2,269 | — | — | 4,859 |
| | | | | | | |
| Trading securities: | | | | | | |
| U.S. Treasury obligations | — | 5,017 | — | — | — | 5,017 |
| Total trading securities | — | 5,017 | — | — | — | 5,017 |
| | | | | | | |
| Investment securities | | | | | | |
| GSE and TVA debentures | — | 3,927 | — | — | — | 3,927 |
| GSE MBS | — | 6,714 | — | — | — | 6,714 |
| Other U.S. obligations - guaranteed RMBS | — | 3,060 | — | — | — | 3,060 |
| Total investment securities | — | 13,701 | — | — | — | 13,701 |
| | | | | | | |
| Total investments, carrying value | $ — | $ 21,308 | $ 2,269 | $ — | $ — | $ 23,577 |
| | | | | | | |
| Percentage of total | — % | 90 % | 10 % | — % | — % | 100 % |

*Mortgage Loans Held for Portfolio.*

*MPP.* We are exposed to credit risk on the loans purchased from our PFIs through the MPP. Each loan we purchase must meet the guidelines for our MPP or be specifically approved as an exception based on compensating factors. For example, the maximum LTV ratio for any conventional mortgage loan purchased is 95%, and the borrowers must meet certain minimum credit scores depending upon the type of loan or property.

Credit Enhancements. Credit enhancements for conventional loans include (in order of priority):

- PMI (when applicable);
- LRA; and
- SMI (as applicable) purchased by the seller from a third-party provider naming us as the beneficiary.

*PMI.* For a conventional loan, PMI, if applicable, covers losses or exposure down to approximately an LTV ratio between 65% and 80% based upon the original appraisal, original LTV ratio, term, and amount of PMI coverage. As of December 31, 2020, we had PMI coverage on $525 million or 7% of our conventional MPP mortgage loans, which included coverage of $3.8 million on seriously delinquent loans, i.e., 90 days or more past due or in the process of foreclosure, of $13.7 million.

*LRA.* We use either a "spread LRA" or a "fixed LRA" for credit enhancement. The spread LRA was used in combination with SMI for credit enhancement of conventional mortgage loans purchased under our original MPP, and the fixed LRA is used for credit enhancement of conventional mortgage loans purchased under Advantage MPP. At this time, substantially all of the additions are from Advantage MPP , and substantially all of the claims paid are from the original MPP.

The following table presents the changes in the LRA for original MPP and Advantage MPP ($ amounts in millions).

| | 2020 | | |
|---|---|---|---|
| **LRA Activity** | **Original** | **Advantage** | **Total** |
| Liability, beginning of year | $ 7 | $ 180 | $ 187 |
| Additions | — | 24 | 24 |
| Claims paid | — | — | — |
| Distributions to PFIs | (3) | (1) | (4) |
| Liability, end of year | $ 4 | $ 203 | $ 207 |

*SMI.* Losses that exceed available LRA funds are covered by SMI (for original MPP loans) up to a severity of approximately 50% of the original property value of the loan, depending on the SMI contract terms. We absorb any losses in excess of available LRA funds and SMI.

Our current SMI providers are Mortgage Guaranty Insurance Corporation and Genworth Mortgage Insurance Corporation. For pools of loans acquired under the original MPP, we entered into the insurance contracts directly with the SMI providers, including a contract for each pool or aggregate pool. Pursuant to Finance Agency regulation, the PFI must be responsible for all expected credit losses on the mortgages sold to us. Therefore, the PFI was the purchaser of the SMI policy, and we are designated as the beneficiary. The premiums are the PFI's obligation. As an administrative convenience, we collect the SMI premiums from the monthly mortgage remittances received from the PFIs or their designated servicer and remit them to the SMI provider.

*Credit Risk Exposure to SMI Providers.* As of December 31, 2020, we were the beneficiary of SMI coverage, under our original MPP, on conventional mortgage pools with a total UPB of $418 million. The lowest credit rating from S&P and Moody's stated in terms of the S&P equivalent, for each of our SMI companies is BBB+ for Mortgage Guaranty Insurance Corporation and BB+ for Genworth Mortgage Insurance Corporation. We evaluate the recoverability related to PMI and SMI for mortgage loans that we hold, including insurance companies placed under enhanced supervision of state regulators. We also evaluate the recoverability of outstanding receivables from our PMI and SMI providers related to outstanding and unpaid claims.

See *Notes to Financial Statements - Note 6 - Mortgage Loans Held for Portfolio* for our estimates of recovery associated with the expected amount of our claims for all providers of these policies in determining our allowance for credit losses.

*MPF Program.* Credit risk arising from AMA activities under our participation in mortgage loans originated under the MPF Program falls into three categories: (i) the risk of credit losses arising from our FLA and last loss positions; (ii) the risk that a PFI will not perform as promised with respect to its loss position provided through its CE Obligations on mortgage loan pools; and (iii) the risk that a third-party insurer (obligated under PMI arrangements) will fail to perform as expected. Should a PMI third-party insurer fail to perform, our credit risk exposure would increase because our FLA is the next layer to absorb credit losses on mortgage loan pools.

Credit Enhancements. Our management of credit risk in the MPF Program considers the several layers of loss protection that are defined in agreements among the FHLBank of Topeka and its PFIs. The availability of loss protection may differ slightly among MPF products. Our loss protection consists of the following loss layers, in order of priority:

(i) Borrower equity;
(ii) PMI (when applicable);
(iii) FLA, which functions as a tracking mechanism for determining our potential loss exposure under each pool prior to the PFI's CE Obligation; and
(iv) CE Obligation, which absorbs losses in excess of the FLA in order to limit our loss exposure to that of an investor in an MBS deemed to be investment-grade.

*PMI.* For a conventional loan, PMI, if applicable, covers losses or exposure down to approximately an LTV ratio between 65% and 80% based upon the original appraisal, original LTV ratio, term, and amount of PMI coverage. As of December 31, 2020, we had PMI coverage on $14 million or 11% of our conventional MPF Program mortgage loans.

*FLA and CE Obligation.* If losses occur in a pool, these losses will either be: (i) recovered through the withholding of future performance-based CE fees from the PFI or (ii) absorbed by us in the FLA. As of December 31, 2020, our exposure under the FLA totaled $4 million, and CE obligations available to cover losses in excess of the FLA were $2 million. PFIs must fully collateralize their CE Obligation with assets considered acceptable by the FHLBank of Topeka.

*MPP and MPF Program Loan Characteristics.* Two indicators of credit quality at origination are LTV ratios and credit scores provided by FICO®. FICO® provides a commonly used measure to assess a borrower's credit quality, with scores ranging from a low of 300 to a high of 850. The combination of a lower FICO® score and a higher LTV ratio is a key driver of potential mortgage delinquencies and defaults.

The following tables present these two characteristics at origination of our MPP and MPF Program conventional loan portfolios as a percentage of the UPB outstanding ($ amounts in millions).

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | | % of UPB Outstanding | | | |
| FICO® SCORE [1] | UPB | Current | Past Due 30-59 Days | Past Due 60-89 Days | Past Due 90 Days or More |
| 619 or less | $ 2 | 83.2 % | 15.9 % | 0.9 % | — % |
| 620-659 | 43 | 88.6 % | 4.2 % | 1.2 % | 6.0 % |
| 660-699 | 602 | 95.4 % | 0.5 % | 0.9 % | 3.2 % |
| 700-739 | 1,657 | 97.6 % | 0.4 % | 0.3 % | 1.7 % |
| 740 or higher | 5,765 | 99.0 % | 0.1 % | 0.1 % | 0.8 % |
| Total | $ 8,069 | 98.4 % | 0.2 % | 0.2 % | 1.2 % |

(1) Represents the FICO® score at origination of the lowest scoring borrower for the related loan.

For borrowers in our conventional loan portfolio at December 31, 2020, 99% of the borrowers had FICO® scores greater than 660 at origination and the weighted average FICO® score at origination was 761.

| LTV Ratio [1] | December 31, 2020 |
|---|---|
| < = 60% | 16 % |
| > 60% to 70% | 16 % |
| > 70% to 80% | 52 % |
| > 80% to 90% [2] | 11 % |
| > 90% [2] | 5 % |
| Total | 100 % |

(1) At origination.
(2) These conventional loans were required to have PMI at origination.

For borrowers in our conventional loan portfolio at December 31, 2020, 84% of the borrowers had an LTV ratio of 80% or lower at origination and the weighted average LTV ratio at origination was 73%.

We believe these two measures indicate that these loans have a low risk of default.

We do not knowingly purchase any loan that violates the terms of our Anti-Predatory Lending Policy. In addition, we require our members to warrant to us that all of the loans sold to us are in compliance with all applicable laws, including prohibitions on anti-predatory lending.

*MPP and MPF Program Loan Concentration.* The following table presents the percentage of UPB of MPP and MPF Program conventional loans outstanding at December 31, 2020 for the five largest state concentrations.

| By State | December 31, 2020 |
|---|---|
| Indiana | 40 % |
| Michigan | 31 % |
| California | 7 % |
| Virginia | 2 % |
| Colorado | 2 % |
| All others | 18 % |
| Total | 100 % |

*MPP and MPF Program Credit Performance*. The UPB of our MPP and MPF Program conventional and FHA loans 90 days or more past due and accruing interest, non-accrual loans and TDRs, along with the allowance for loan losses, are presented in the table below ($ amounts in millions).

| | As of and for the Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| **Past Due, Non-Accrual and Restructured Loans** | | | | | |
| Past due 90 days or more and still accruing interest [1] | $ 44 | $ 13 | $ 14 | $ 19 | $ 27 |
| Non-accrual loans [1][2][3] | 86 | 1 | 2 | 3 | 5 |
| TDRs [4][5] | 11 | 12 | 12 | 14 | 14 |
| | | | | | |
| **Allowance for Credit Losses on Mortgage Loans** [6] | | | | | |
| Allowance for credit losses, beginning of the year | $ — | $ 1 | $ 1 | $ 1 | $ 1 |
| Charge-offs | — | — | — | — | — |
| Provision for (reversal of) credit losses | — | (1) | — | — | — |
| Allowance for credit losses, end of the year | $ — | $ — | $ 1 | $ 1 | $ 1 |

(1) The Bank continues to apply its existing accounting policies for past due, non-accrual, and charge-offs for COVID-19-related loan modifications considered to be informal, i.e. the legal terms of the loan were not changed. As of December 31, 2020, the total UPB of our conventional mortgage loans in informal, COVID-19-related forbearance past due 90 days or more and still accruing interest was $26 million.

(2) Non-accrual loans are defined as conventional mortgage loans where either (i) the collection of interest or principal is doubtful, or (ii) interest or principal is past due for 90 days or more, except when the loan is well secured and in the process of collection (e.g., through credit enhancements and monthly servicer remittances on a scheduled/scheduled basis). At December 31, 2020, the total UPB of our non-accrual loans in informal, COVID-19-related forbearance was $59 million.

(3) The interest income shortfall on non-accrual loans was $3 million for the year ended December 31, 2020, and less than $1 million for the years ended December 31, 2019, 2018, 2017, and 2016.

(4) Represents TDRs that are still performing. TDRs related to mortgage loans are considered to have occurred when a concession is granted to the debtor related to the debtor's financial difficulties that would not otherwise be considered for economic or legal reasons. We do not participate in government-sponsored loan modification programs.

(5) Due to the temporary relief from the accounting and reporting requirements for TDRs provided by the CARES Act and further clarified by the Interagency Statement, we have excluded all qualifying COVID-19-related loan modifications considered to be formal, i.e., the legal terms of the loan were changed, from TDR classification and accounting. As of December 31, 2020, we had $12 million of conventional mortgage loans outstanding that were formally modified due to COVID-19 hardships that were not reported as TDRs. In addition, as of December 31, 2020, we had $112 million of conventional mortgage loans outstanding that were informally modified due to COVID-19 hardships, none of which were determined to be TDRs.

(6) At December 31, 2020, 2019, 2018, 2017, and 2016, our allowance for credit losses included an expected loss on $1 million, $1 million, $2 million, $2 million, and $3 million, respectively, of principal previously paid in full by the servicers that remained subject to potential claims by those servicers for any losses resulting from past or future liquidations of the underlying properties.

The serious delinquency rate for government-guaranteed or -insured mortgages was 3.36% at December 31, 2020, compared to 0.94% at December 31, 2019. We rely on insurance provided by the FHA, which generally provides coverage for 100% of the principal balance of the underlying mortgage loan and defaulted interest at the debenture rate. However, we would receive defaulted interest at the contractual rate from the servicer. The serious delinquency rate for conventional mortgages was 1.14% at December 31, 2020, compared to 0.10% at December 31, 2019. Both rates were below the national serious delinquency rate.

Although we establish credit enhancements in each mortgage pool purchased under our original MPP at the time of the pool's origination that are sufficient to absorb loan losses up to approximately 50% of the property's original value (subject, in certain cases, to an aggregate stop-loss provision in the SMI policy), the magnitude of the declines in home prices and increases in the time to complete foreclosures in past years resulted in losses in some of the mortgage pools that have exhausted the LRA; however, credit enhancement support is still available through the SMI coverage.

Due to the COVID-19 pandemic, we authorized the suspension of foreclosures and evictions (with certain exceptions) through March 31, 2021 which will extend the time to complete foreclosures across the portfolio.

Overall, the trends in the credit performance of our mortgage loans held for portfolio over the last five years have been positive. There has been an increase in the overall delinquency rate due to payment forbearances as a result of the COVID-19 pandemic. Absent the forbearance loans, the delinquency rate and loan performance has remained strong.

*Derivatives.* The Dodd-Frank Act provides statutory and regulatory requirements for derivatives transactions, including those we use to hedge our interest rate and other risks. We are required to clear certain interest-rate swaps that fall within the scope of the first mandatory clearing determination. Certain derivatives designated by the CFTC as "made available to trade" are required to be executed on a swap execution facility.

Our over-the-counter derivative transactions are either (i) held with a counterparty (uncleared derivatives) or (ii) cleared through a Futures Commission Merchant (i.e., clearing agent) with a clearinghouse (cleared derivatives).

- *Uncleared Derivatives.* We are subject to credit risk due to the potential non-performance by the counterparties to our uncleared derivative transactions. We require collateral agreements with our uncleared derivative counterparties. The exposure thresholds above which collateral must be delivered vary; the threshold is zero in some cases.

- *Cleared Derivatives.* We are subject to credit risk due to the potential non-performance by the clearinghouse and clearing agent because we are required to post initial and variation margin through the clearing agent, on behalf of the clearinghouse, which exposes us to institutional credit risk if either the clearing agent or the clearinghouse fails to meet its obligations. Collateral is required to be posted daily for changes in the value of cleared derivatives to mitigate each counterparty's credit risk. In addition, all derivative transactions are subject to mandatory reporting and record-keeping requirements.

The contractual or notional amount of derivative transactions reflects the extent of our participation in the various classes of financial instruments. Our credit risk with respect to derivative transactions is the estimated cost of replacing the derivative positions if there is a default, minus the value of any related collateral. In determining credit risk, we consider accrued interest receivables and payables as well as the requirements to net assets and liabilities. For more information, see *Notes to Financial Statements - Note 8 - Derivatives and Hedging Activities*.

The following table presents key information on derivative positions with counterparties on a settlement date basis using the lower credit rating from S&P and Moody's, stated in terms of the S&P equivalent ($ amounts in millions).

| December 31, 2020 | Notional Amount | Net Estimated Fair Value Before Collateral | Cash Collateral Pledged To (From) Counterparty | Net Credit Exposure |
|---|---|---|---|---|
| Non-member counterparties: | | | | |
| Asset positions with credit exposure | | | | |
| Cleared derivatives [1] | $ 15,028 | $ 1 | $ 171 | $ 172 |
| Liability positions with credit exposure | | | | |
| Cleared derivatives [1] | 18,962 | (2) | 112 | 110 |
| Total derivative positions with credit exposure to non-member counterparties | 33,990 | (1) | 283 | 282 |
| Total derivative positions with credit exposure to member institutions [2] | 178 | 1 | — | 1 |
| Subtotal - derivative positions with credit exposure | 34,168 | $ — | $ 283 | $ 283 |
| Derivative positions without credit exposure | 16,224 | | | |
| Total derivative positions | $ 50,392 | | | |

(1) Represents derivative transactions cleared by two clearinghouses (one rated AA- and the other unrated).
(2) Includes MDCs from member institutions under our MPP.

*AHP.* Our AHP requires 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 an obligation to recapture these funds from the member or project sponsor to replenish the AHP fund. This credit exposure is addressed in part by evaluating project feasibility at the time of an award and the member's ongoing monitoring of AHP projects.

***Liquidity Risk Management.*** The primary objectives of liquidity risk management are to maintain the ability to meet obligations as they come due and to meet the credit needs of our member borrowers in a timely and cost-efficient manner. We routinely monitor the sources of cash available to meet liquidity needs and use various tests and guidelines to manage our liquidity risk.

Daily projections of required liquidity are prepared to help us maintain adequate funding for our operations. Operational liquidity levels are determined assuming sources of cash from both the FHLBank System's ongoing access to the capital markets and our holding of liquid assets to meet operational requirements in the normal course of business. Contingent liquidity levels are determined based upon the assumption of an inability to readily access the capital markets for a period of 20 business days. These analyses include projections of cash flows and funding needs, targeted funding terms, and various funding alternatives for achieving those terms. A contingency plan allows us to maintain sufficient liquidity in the event of operational disruptions at our Bank, at the Office of Finance, or in the capital markets.

For more information on liquidity management, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Liquidity*.

***Operational Risk Management.*** Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. Our management has established policies, procedures, and controls and acquired insurance coverage to mitigate operational risk. Our Internal Audit department, which reports directly to the Audit Committee of the board of directors, regularly monitors our adherence to established policies, procedures, applicable regulatory requirements and best practices.

Our enterprise risk management function and business units complete a comprehensive annual risk and control self-assessment that reinforces our focus on maintaining strong internal controls by identifying significant inherent risks and the mitigating internal controls in order for the residual risks to be assessed and the appropriate strategy designed to accept, transfer, avoid or mitigate such risks. The risk assessment process provides management and the board of directors with a detailed and transparent view of our identified risks and related internal control structure.

We use various financial models to quantify financial risks and analyze potential strategies. We maintain a model risk management program that includes a validation program intended to mitigate the risk of loss resulting from model errors or the incorrect use or application of model output, which could potentially lead to inappropriate business or operational decisions.

Our operations rely on the secure processing, storage and transmission of sensitive/confidential and other information in our computer systems, software and networks. As a result, our Information Security Program is designed to protect our information assets, information systems and sensitive data from internal, external, vendor and third party cyber risks, including due diligence, risk assessments, and ongoing monitoring of critical vendors by our Vendor Management Office. The Information Security Program includes processes for monitoring existing, emerging and imminent threats as well as cyber attacks impacting our industry in order to develop appropriate risk management strategies. Information Security controls designed to protect and detect are in place, including procedures to respond to and mitigate the consequences of security incidents. Periodically, we engage external third parties to assess our Information Security Program and perform testing to validate the effectiveness of the controls.

In order to ensure our ongoing ability to provide liquidity and service to our members, we have business continuity plans designed to restore critical business processes and systems in the event of a business interruption. We operate both a business resumption center and a disaster recovery data center, at separate locations, with the objective of being able to fully recover all critical activities in a timely manner. Both facilities are subject to periodic testing to demonstrate the Bank's resiliency in the event of a disaster. In addition, all Bank staff now have the capabilities to work remotely. We also have a back-up agreement in place with the FHLBank of Cincinnati in the event critical business operations at the Bank's primary and back-up facilities are inoperable.

We have insurance coverage for cybersecurity, employee fraud, forgery and wrongdoing, as well as Directors' and Officers' liability coverage that provides protection for claims alleging breach of duty, misappropriation of funds, neglect, acts of omission, employment practices, and fiduciary liability. We also have property, casualty, computer equipment, automobile, and other various types of insurance coverage. We complete periodic reviews to ensure the Bank maintains all insurance coverages at commercially appropriate levels.

***Business Risk Management.*** Business risk is the risk of an adverse impact on profitability resulting from external factors that may occur in both the short and long term. Business risk includes economic, political, strategic, reputation, legislative and regulatory developments or events that are beyond our control. Our board of directors and management seek to mitigate these risks by, among other actions, maintaining an open and constructive dialogue with regulators, providing input on potential legislation, conducting long-term strategic planning and continually monitoring general economic conditions and the external environment.

Our financial strategies are generally designed to enable us to safely expand and contract our assets, liabilities, and capital in response to changes in our member base and in our members' credit needs. Our capital generally grows when members are required to purchase additional capital stock as they increase their advances borrowings or other business activities with us. We may also repurchase excess capital stock from our members as business activities with them decline. In addition, in order to meet internally established thresholds or to meet our regulatory capital requirement, we, at the discretion of our board of directors, could undertake capital preservation initiatives such as: (i) voluntarily reducing or eliminating dividend payments; (ii) suspending excess capital stock repurchases; or (iii) raising capital stock holding requirements for our members.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As used in this Item, unless the context otherwise requires, the terms "we," "us," "our", and "Bank" refer to the Federal Home Loan Bank of Indianapolis or its management. We use acronyms and terms throughout this Item that are defined herein or in the *Defined Terms*.

Market risk is the risk that the market value or estimated fair value of our overall portfolio of assets and liabilities, including derivatives, or our net earnings will decline as a result of changes in interest rates or financial market volatility. Market risk includes the risks related to:

- movements in interest rates over time;
- changes in mortgage prepayment speeds over time;
- advance prepayments;
- actual and implied interest-rate volatility;
- the change in the relationship between short-term and long-term interest rates (i.e., the slope of the consolidated obligation and LIBOR yield curves);
- the change in the relationship of FHLBank System debt spreads to relevant indices (commonly referred to as "basis" risk); and
- the change in the relationship between fixed rates and variable rates.

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 scenarios. 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 our risk management objectives.

Our general approach toward managing interest-rate risk is to acquire and maintain a portfolio of assets and liabilities that, together with their associated hedges, limit our expected interest-rate sensitivity to within our specified tolerances. Additionally, in order to manage the exposure to mortgage contraction (prepayment) and extension risk, the outstanding balance of mortgage loans is limited to a proportion of total assets and the total amount of our investments in MBS must not exceed 300% of our total regulatory capital on the day of purchase. Derivative financial instruments, primarily interest-rate swaps, are frequently employed to hedge the interest-rate risk and/or embedded option risk on advances, debt, GSE debentures and Agency MBS held as investments.

The prepayment option on an advance can create interest-rate risk. If a member prepays an advance, we could suffer lower future income if the principal portion of the prepaid advance is reinvested in lower yielding assets that continue to be funded by higher cost debt. To protect against this risk, we charge a prepayment fee, thereby substantially reducing market risk associated with the prepayment of an advance.

We have significant investments in mortgage loans and MBS. The prepayment options embedded in mortgages can result in extensions or contractions in the expected weighted average life of these investments, depending on changes in interest rates and other economic factors. We primarily manage the interest-rate and prepayment risk associated with mortgages through debt issuance, which includes both callable and non-callable debt, to achieve cash-flow patterns and liability durations similar to those expected on the mortgage portfolios. Due to the use of call options and lockouts, and by selecting appropriate maturity sectors, callable debt provides an element of protection for the prepayment risk in the mortgage portfolios. The average life of callable debt, like that of a mortgage, shortens when interest rates decrease and lengthens when interest rates increase.

Significant resources, including analytical computer models and an experienced professional staff, are devoted to properly measuring the level of interest-rate risk in the balance sheet, thus allowing us to monitor the risk against policy and regulatory limits. We use asset and liability models to calculate market values under alternative interest-rate scenarios. The models analyze our financial instruments, including derivatives, using broadly accepted algorithms with consistent and appropriate behavioral assumptions, market prices, market data (such as rates, volatility, etc.) and current position data. On at least an annual basis, we review the major assumptions and methodologies used in the models, including discounting curves, spreads for discounting, and prepayment assumptions.

**Types of Key Market Risks**

Our market risk results from various factors, such as:

- **Interest Rates** - level of interest rates and parallel and non-parallel shifts in the yield curve;
- **Basis Risk** - the risk that changes to one interest-rate index will not perfectly offset changes to another interest-rate index;
- **Volatility** - varying values of assets or liabilities created by the changing expectations of the magnitude or frequency of changes in interest rates;
- **Embedded Options** - includes consideration of potential variability in the cash flows of financial instruments (i.e., advance, investment or derivative) resulting from any options embedded in the instruments, such as prepayment options in mortgages and callable bonds; and
- **Prepayment Speeds** - expected levels of principal payments on mortgage loans held in a portfolio or supporting an MBS, variations from which alter their cash flows, yields, and values, particularly in cases where the loans or MBS are acquired at a premium or discount.

**Measuring Market Risks**

To evaluate market risk, we utilize multiple risk measurements, including duration of equity, duration gap, convexity, VaR, earnings at risk, and changes in MVE. Periodically, we conduct stress tests to measure and analyze the effects that extreme movements in the level of interest rates and the shape of the yield curve would have on our risk position.

***Market Risk-Based Capital Requirement.*** We are subject to the Finance Agency'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 components. The market risk-based capital component is the sum of two factors. The first factor 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 VaR-based modeling approach that was approved by the Finance Board before the implementation of our capital plan.

The VaR approach used for calculating the first factor 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. Beginning in 2020, these observations are based on historical information from 1992 to the present. Previously, these observations were based on historical information from 1978 to the present. Beginning in 2020, when calculating the risk-based capital requirement, the VaR comprising the first factor of the market risk component is defined as the average of the five worst-case scenarios. Previously, it was calculated using the potential dollar loss from adverse market movements, for a holding period of 120 business days, with a 99% confidence interval, based on those historical prices and market rates. The table below presents the VaR ($ amounts in millions).

| Years Ended | VaR | High | Low | Average |
|---|---|---|---|---|
| December 31, 2020 | $ 327 | $ 327 | $ 230 | $ 279 |
| December 31, 2019 | 198 | 326 | 176 | 249 |

The second factor is the amount, if any, by which the current market value of total regulatory capital is less than 85% of the book value of total regulatory capital.

***Duration of Equity.*** Duration of equity is a measure of interest-rate risk and is one of the primary metrics used to manage our market risk exposure. It is a linear estimate of the percentage change in our MVE that could be caused by a 100 bps parallel upward or downward shift in the interest-rate curves. We value our portfolios using the LIBOR curve, the OIS curve or external prices. The market value and interest-rate sensitivity of each asset, liability, and off-balance sheet position is determined to compute our duration of equity. We calculate duration of equity using the interest-rate curve as of the date of calculation and for defined interest rate shock scenarios, including scenarios for which the interest-rate curve is 100 bps and 200 bps higher or lower than the base level. Our board of directors determines acceptable ranges for duration of equity for the base scenario. A negative duration of equity suggests adverse exposure to falling rates and a favorable response to rising rates, while a positive duration suggests adverse exposure to rising rates and a favorable response to falling rates.

The Bank's duration of equity is impacted by the convexity of its financial instruments. Convexity measures the rate of change of duration, or curvature, as a function of interest-rate changes. Measurement of convexity is important because of the optionality embedded in the mortgage assets and callable debt liabilities. The mortgage assets exhibit negative convexity due to embedded prepayment options. Callable debt liabilities exhibit positive convexity due to embedded options that we can exercise to redeem the debt prior to maturity. Management routinely reviews the net convexity exposure and considers it when developing funding and hedging strategies for the acquisition of mortgage-based assets. A primary strategy for managing convexity risk arising from our mortgage portfolio is the issuance of callable debt. The negative convexity of the mortgage assets tends to be partially offset by the positive convexity contributed by underlying callable debt liabilities.

***Market Value of Equity.*** MVE represents the difference between the estimated market value of total assets and the estimated market value of total liabilities, including any off-balance sheet positions. It measures, in present value terms, the long-term economic value of current capital and the long-term level and volatility of net interest income.

We also monitor the sensitivities of MVE to potential interest-rate scenarios. We measure potential changes in the market value to book value of equity based on the current month-end level of rates versus large parallel rate shifts in rates. Our board of directors determines acceptable ranges for the change in MVE for 100 bps parallel upward or downward shift in the interest-rate curves.

***Key Metrics.*** The following table presents certain market and interest-rate metrics under different interest-rate scenarios ($ amounts in millions).

| December 31, 2020 | Down 200 [1] | Down 100 [1] | Base | Up 100 | Up 200 |
|---|---|---|---|---|---|
| MVE | $ 3,621 | $ 3,605 | $ 3,559 | $ 3,579 | $ 3,590 |
| Percent change in MVE from base | 1.8 % | 1.3 % | 0 % | 0.6 % | 0.9 % |
| MVE/book value of equity | 97.8 % | 97.4 % | 96.2 % | 96.7 % | 97.0 % |
| Duration of equity | — | 0.8 | 0.7 | (0.7) | 0.4 |

| December 31, 2019 | Down 200 [2] | Down 100 [1] | Base | Up 100 | Up 200 |
|---|---|---|---|---|---|
| MVE | $ 3,353 | $ 3,285 | $ 3,237 | $ 3,175 | $ 3,171 |
| Percent change in MVE from base | 3.6 % | 1.5 % | 0 % | (1.9)% | (2.0)% |
| MVE/book value of equity | 96.4 % | 94.4 % | 93.0 % | 91.2 % | 91.1 % |
| Duration of equity | 2.0 | 0.5 | 2.4 | 0.5 | 0.5 |

(1) Given the low interest rates in the short-to-medium term points of the yield curves, downward rate shocks are constrained to prevent rates from becoming negative.

The changes in those key metrics from December 31, 2019 resulted primarily from the change in market value of the Bank's assets and liabilities in response to changes in the market environment, changes in portfolio composition, and our hedging strategies.

During 2020, we refined certain methodologies underlying the calculations of our key risk metrics and the net impact of the changes on our metrics was slightly favorable.

***Duration Gap.*** A related measure of interest-rate risk is duration gap, which is the difference between the estimated durations (market value sensitivity) of assets and liabilities. Duration gap measures the sensitivity of assets and liabilities to interest-rate changes. Duration generally indicates the expected change in an instrument's market value resulting from an increase or a decrease in interest rates. Higher duration numbers, whether positive or negative, indicate greater volatility of market value in response to changing interest rates. The base case duration gap was 0.01% and 0.08% at December 31, 2020 and 2019, respectively.

As part of our overall interest-rate risk management process, we continue to evaluate strategies to manage interest-rate risk. Certain strategies, if implemented, could have an adverse impact on future earnings.

**Use of Derivative Hedges**

We use derivatives to hedge our market risk exposures. The primary types of derivatives used are interest-rate swaps and caps. Derivatives 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 do not speculate using derivatives and do not engage in derivatives trading.

***Hedging Debt Issuance.*** When CO bonds are issued, we often use the derivatives market to create funding that is more attractively priced than the funding available in the consolidated obligations market. A typical hedge of this type occurs when a CO bond is issued, while we simultaneously execute a matching interest rate swap. The counterparty pays a rate on the swap to us, which is designed to mirror the interest rate we pay on the CO bond. In this transaction we typically pay a variable interest rate which closely matches the interest payments we receive on short-term or variable-rate advances or investments. This intermediation between the capital and swap markets permits the acquisition of funds by us at lower all-in costs than would otherwise be available through the issuance of simple fixed- or floating-rate consolidated obligations in the capital markets. The continued attractiveness of such debt depends on yield relationships between the debt and derivative markets. If conditions in these markets change, we may alter the types or terms of the CO bonds that we issue. Occasionally, interest rate swaps are executed to hedge discount notes.

***Hedging Advances.*** Interest-rate swaps are also used to increase the flexibility of advance offerings by effectively converting the specific cash flows or characteristics that the borrower prefers into cash flows or characteristics that may be more readily or cost effectively funded in the debt markets.

***Hedging Mortgage Loans.*** We use Agency TBAs to hedge MDC positions.

***Hedging Investments.*** Some interest-rate swaps are executed to hedge investments. In addition, interest-rate caps are purchased to reduce the risk inherent in floating-rate instruments that include caps as part of the structure.

***Other Hedges.*** We occasionally use derivatives, such as swaptions, to maintain our risk profile within the approved risk limits set forth in our risk management policies. On an infrequent basis, we may act as an intermediary between certain smaller member institutions and the capital markets by executing interest-rate swaps with members.

The volume of derivative hedges is often expressed in terms of notional amount, which is the amount upon which interest payments are calculated. The following table highlights the notional amounts by type of hedged item, hedging instrument, and hedging objective ($ amounts in millions).

| Hedged Item/Hedging Instrument | Hedging Objective | Hedge Accounting Designation | December 31, 2020 | December 31, 2019 |
|---|---|---|---|---|
| Advances: | | | | |
| Pay fixed, receive floating interest-rate swap (without options) | Converts the advance's fixed rate to a variable-rate index. | Fair-value | $ 9,315 | $ 10,961 |
| | | Economic | — | 22 |
| Pay fixed, receive floating interest-rate swap (with options) | Converts the advance's fixed rate to a variable-rate index and offsets option risk in the advance. | Fair-value | 7,258 | 6,128 |
| Pay floating with embedded features, receive floating interest-rate swap (non-callable) | Reduces interest-rate sensitivity and repricing gaps by converting the advance's variable rate to a different variable-rate index and/or offsets embedded option risk in the advance. | Economic | — | 2 |
| Sub-total advances | | | 16,573 | 17,113 |
| Investments: | | | | |
| Pay fixed, receive floating interest-rate swap | Converts the investment's fixed rate to a variable-rate index. | Fair-value | 4,992 | 4,072 |
| | | Economic | 5,050 | 5,010 |
| Pay fixed, receive floating interest-rate swap (with options) | Converts the investment's fixed rate to a variable-rate index and offsets option risk in the investment. | Fair-value | 4,367 | 4,166 |
| Interest-rate cap | Offsets the interest-rate cap embedded in a variable-rate investment. | Economic | 626 | 669 |
| Sub-total investments | | | 15,035 | 13,917 |
| Mortgage loans: | | | | |
| Interest-rate swaption | Provides the option to enter into an interest-rate swap to offset interest-rate or prepayment risk in a pooled mortgage portfolio hedge. | Economic | — | 850 |
| Forward settlement agreement | Protects against changes in market value of fixed-rate MDCs resulting from changes in interest rates. | Economic | 181 | 70 |
| Sub-total mortgage loans | | | 181 | 920 |
| CO bonds: | | | | |
| Receive fixed, pay floating interest-rate swap (without options) | Converts the bond's fixed rate to a variable-rate index. | Fair-value | 11,018 | 4,353 |
| | | Economic | — | 250 |
| Receive fixed or structured, pay floating interest-rate swap (with options) | Converts the bond's fixed rate to a variable-rate index and offsets option risk in the bond. | Fair-value | 3,278 | 11,428 |
| | | Economic | — | — |
| Receive float, pay float basis swap | Reduces interest-rate sensitivity and repricing gaps by converting the bond's variable rate to a different variable-rate index. | Economic | 3,177 | 1,000 |
| Sub-total CO bonds | | | 17,473 | 17,031 |
| Discount notes: | | | | |
| Receive fixed, pay floating interest-rate swap | Converts the discount note's fixed rate to a variable-rate index. | Economic | 950 | 1,350 |
| Sub-total discount notes | | | 950 | 1,350 |
| Stand-alone derivatives: | | | | |
| MDCs | Protects against fair-value risk associated with fixed-rate mortgage purchase commitments. | Economic | 180 | 71 |
| Sub-total stand-alone derivatives | | | 180 | 71 |
| Total notional | | | $ 50,392 | $ 50,402 |

The use of different types of derivatives varies based on our balance sheet size, our members' demand for advances, mortgage loan purchase activity, and consolidated obligation issuance levels.

***Interest-Rate Swaps.*** The following table presents the amount swapped by interest-rate payment terms for trading and AFS securities, advances, CO bonds, and discount notes ($ amounts in millions).

| | December 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| **Interest-Rate Payment Terms** | **Total Outstanding** | **Amount Swapped** | **% Swapped** | **Total Outstanding** | **Amount Swapped** | **% Swapped** |
| Trading securities: | | | | | | |
| Total fixed-rate | $ 5,095 | $ 5,095 | 100 % | $ 5,017 | $ 5,017 | 100 % |
| Total trading securities, fair value | $ 5,095 | $ 5,095 | 100 % | $ 5,017 | $ 5,017 | 100 % |
| AFS securities: | | | | | | |
| Total fixed-rate | $ 10,008 | $ 10,008 | 100 % | $ 8,395 | $ 8,395 | 100 % |
| Total AFS securities, amortized cost | $ 10,008 | $ 10,008 | 100 % | $ 8,395 | $ 8,395 | 100 % |
| Advances: | | | | | | |
| Total fixed-rate | $ 25,452 | $ 16,573 | 65 % | $ 24,999 | $ 17,111 | 68 % |
| Total variable-rate | 5,239 | — | — % | 7,273 | 2 | — % |
| Total advances, par value | $ 30,691 | $ 16,573 | 54 % | $ 32,272 | $ 17,113 | 53 % |
| CO bonds: | | | | | | |
| Total fixed-rate | $ 24,766 | $ 14,296 | 58 % | $ 27,596 | $ 16,031 | 58 % |
| Total variable-rate | 18,480 | 3,177 | 17 % | 17,067 | 1,000 | 6 % |
| Total CO bonds, par value | $ 43,246 | $ 17,473 | 40 % | $ 44,663 | $ 17,031 | 38 % |
| Discount notes: | | | | | | |
| Total fixed-rate | $ 16,620 | $ 950 | 6 % | $ 17,713 | $ 1,350 | 8 % |
| Total discount notes, par value | $ 16,620 | $ 950 | 6 % | $ 17,713 | $ 1,350 | 8 % |

For information on credit risk related to derivatives, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Management - Credit Risk Management - Derivatives*.

**Replacement of the LIBOR Benchmark Interest Rate**

In July 2017, the FCA, a regulator of financial services firms and financial markets in the UK, announced that it will plan for a phase-out of regulatory oversight responsibilities for LIBOR interest rate indices. The FCA indicated that it will cease persuading or compelling banks to submit rates for the calculation of LIBOR after 2021 and that the continuation of LIBOR on the current basis will not be guaranteed after 2021. The Alternative Reference Rates Committee has proposed SOFR as its recommended alternative to LIBOR, and the Federal Reserve Bank of New York began publishing SOFR rates in April 2018.

In March 2021, the FCA further announced that LIBOR will either cease to be provided by any administrator or no longer be representative immediately after December 31, 2021, or, in the case of some more frequently used U.S. dollar LIBOR settings, immediately after June 30, 2023.

Most of our advances, investments, CO bonds, derivative assets, derivative liabilities, and related collateral are indexed to LIBOR. Some of these assets and liabilities and related collateral have maturity dates that extend beyond the date in which the applicable LIBOR setting ceases to be provided or to be representative. As a result, we are continuing to evaluate the potential impact of the replacement of the LIBOR benchmark interest rate, including the likelihood of SOFR as the dominant replacement on an ongoing basis.

We continue to implement our transition plan that has the flexibility to evolve with market developments and standards, member needs, and guidance provided by the issuers of Agency securities. The key components of our LIBOR replacement plan are: exposure, fallback language, information technology systems preparation, and balance sheet strategy. We have evaluated our current exposure to LIBOR including completing an inventory of all financial instruments impacted and identifying financial instruments and contracts that may require adding or adjusting fallback language. We have assessed our operational readiness and, as a result, are configuring our core Bank systems and replacing LIBOR references in policies and procedures. From a balance-sheet management perspective, we participate in the issuance of SOFR-indexed debt. In addition, in accordance with the Supervisory Letter issued by the Finance Agency to the FHLBanks on September 27, 2019, we have ceased purchasing investments that reference LIBOR and mature after December 31, 2021. We have also ceased the issuance of LIBOR-indexed debt with maturities beyond 2021. Further, beginning March 31, 2020, we have ceased entering into transactions in certain structured advances and advances with terms directly linked to LIBOR that mature after December 31, 2021. Beginning June 30, 2020, we are no longer authorized to enter into derivatives with swaps, caps, or floors indexed to LIBOR that terminate after December 31, 2021.

We have revised our members' collateral reporting requirements to distinguish LIBOR-linked collateral that matures after December 31, 2021. Finally, we have implemented OIS as an alternative interest rate hedging strategy for certain financial instruments.

The following table presents our LIBOR-rate indexed financial instruments outstanding at December 31, 2020 and 2019 by year of maturity ($ amounts in millions).

| LIBOR-Indexed Financial Instruments | Year of Maturity | | |
|---|---|---|---|
| **December 31, 2020** | **2021** | **2022 and thereafter** | **Total** |
| Assets: | | | |
| Advances, par value [1] | $ 40 | $ 3,453 | $ 3,493 |
| Mortgage-backed securities, par value [2] | — | 3,587 | 3,587 |
| Total | $ 40 | $ 7,040 | $ 7,080 |
| | | | |
| Interest-rate swaps - receive leg, notional [2]: | | | |
| Cleared | $ 2,037 | $ 6,468 | $ 8,505 |
| Uncleared | 105 | 10,550 | 10,655 |
| Total | $ 2,142 | $ 17,018 | $ 19,160 |
| | | | |
| Liabilities: | | | |
| CO bonds, par value [2] | $ 6,675 | $ — | $ 6,675 |
| | | | |
| Interest-rate swaps - pay leg, notional [2]: | | | |
| Cleared | $ 12,711 | $ 434 | $ 13,145 |
| Uncleared | 2,950 | 204 | 3,154 |
| Total | $ 15,661 | $ 638 | $ 16,299 |
| | | | |
| Other derivatives, notional: | | | |
| Interest-rate caps held [2] | $ — | $ 626 | $ 626 |

| | Year of Maturity | | | |
|---|---|---|---|---|
| **December 31, 2019** | **2020** | **2021** | **2022 and thereafter** | **Total** |
| Assets: | | | | |
| Advances, par value [1] | $ 178 | $ 311 | $ 3,841 | $ 4,330 |
| Mortgage-backed securities, par value [2] | 12 | — | 4,437 | 4,449 |
| Total | $ 190 | $ 311 | $ 8,278 | $ 8,779 |
| | | | | |
| Interest-rate swaps - receive leg, notional [2]: | | | | |
| Cleared | $ 4,364 | $ 1,871 | $ 7,087 | $ 13,322 |
| Uncleared | 279 | 117 | 10,814 | 11,210 |
| Total | $ 4,643 | $ 1,988 | $ 17,901 | $ 24,532 |
| | | | | |
| Liabilities: | | | | |
| CO bonds, par value [2] | $ 10,235 | $ 1,050 | $ — | $ 11,285 |
| | | | | |
| Interest-rate swaps - pay leg, notional [2]: | | | | |
| Cleared | $ 4,520 | $ 849 | $ 234 | $ 5,603 |
| Uncleared | 2,737 | 2,445 | 6,248 | 11,430 |
| Total | $ 7,257 | $ 3,294 | $ 6,482 | $ 17,033 |
| | | | | |
| Other derivatives, notional: | | | | |
| Interest-rate caps held [2] | $ 43 | $ — | $ 626 | $ 669 |

(1) Year of maturity on our advances is based on redemption term.

(2) Year of maturity on our MBS, interest-rate swaps, CO bonds and interest-rate caps is based on contractual maturity. The actual maturities on MBS will likely differ from contractual maturities as borrowers have the right to prepay their obligations with or without prepayment fees.

For more information, see *Item 1A. Risk Factors - Changes to or Replacement of the LIBOR Benchmark Interest Rate Could Adversely Affect Our Business, Financial Condition and Results of Operations*.

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**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting ("ICFR"), as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our ICFR is a process designed 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 and includes those policies and procedures that:

- pertain to the maintenance of our records that, in reasonable detail, accurately and fairly reflect our transactions and asset dispositions;
- provide reasonable assurance that our transactions are recorded as necessary to permit the preparation of our financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and board of directors; and
- provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Reasonable assurance, as defined in Section 13(b)(7) of the Exchange Act, is the level of detail and degree of assurance that would satisfy prudent officials in the conduct of their own affairs in devising and maintaining a system of internal accounting controls.

Because of its inherent limitations, ICFR may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer, principal financial officer and principal accounting officer, we assessed the effectiveness of our ICFR as of December 31, 2020. Our assessment included extensive documentation, evaluation, and testing of the design and operating effectiveness of our ICFR. In making this assessment, our management used the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. These criteria include the areas of control environment, risk assessment, control activities, information and communication, and monitoring. Based on our assessment using these criteria, our management concluded that we maintained effective ICFR as of December 31, 2020.

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of the
Federal Home Loan Bank of Indianapolis

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying statements of condition of the Federal Home Loan Bank of Indianapolis (the "Bank") as of December 31, 2020 and 2019, and the related statements of income, comprehensive income, capital and cash flows for each of the three years in the period ended December 31, 2020, including the related notes (collectively referred to as the "financial statements"). We also have audited the Bank's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

***Basis for Opinions***

The Bank's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Bank's financial statements and on the Bank's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Bank in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Valuation of Interest-Rate Related Derivatives and Hedged Items*

As described in Notes 8 and 16 to the financial statements, the Bank uses derivatives to reduce funding costs and to manage its exposure to interest-rate risks, among other objectives. The total notional amount of derivatives as of December 31, 2020 was $50 billion, of which 80% were designated as hedging instruments, and the net fair value of derivative assets and liabilities as of December 31, 2020 was $283 million and $23 million, respectively. The fair values of interest-rate related derivatives and hedged items are generally estimated using standard valuation techniques such as discounted cash-flow analysis and comparisons to similar instruments. The discounted cash-flow analysis uses market-observable inputs, such as interest rate curves and volatility assumptions.

The principal considerations for our determination that performing procedures relating to the valuation of interest-rate related derivatives and hedged items is a critical audit matter are the significant audit effort in evaluating the interest rate curves and volatility assumptions used to fair value these derivatives and hedged items, and the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included testing the effectiveness of controls relating to the valuation of interest-rate related derivatives and hedged items, including controls over the method, data and assumptions. These procedures also included, among others, the involvement of professionals with specialized skill and knowledge to assist in developing an independent range of prices for a sample of interest-rate related derivatives and hedged items and comparison of management’s estimate to the independently developed ranges. Developing the independent range of prices involved testing the completeness and accuracy of data provided by management and independently developing the interest rate curves and volatility assumptions.

/s/ PricewaterhouseCoopers LLP
Indianapolis, Indiana
March 10, 2021

We have served as the Bank's auditor since 1990.

**Federal Home Loan Bank of Indianapolis**
**Statements of Condition**
($ amounts in thousands, except par value)

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| **Assets**: | | |
| Cash and due from banks (Note 3) | $ 1,811,544 | $ 220,294 |
| Interest-bearing deposits (Note 4) | 100,026 | 809,141 |
| Securities purchased under agreements to resell (Note 4) | 2,500,000 | 1,500,000 |
| Federal funds sold (Note 4) | 1,215,000 | 2,550,000 |
| Trading securities (Note 4) | 5,094,703 | 5,016,649 |
| Available-for-sale securities (amortized cost of $10,007,978 and $8,394,665, respectively) (Note 4) | 10,144,899 | 8,484,478 |
| Held-to-maturity securities (estimated fair values of $4,723,796 and $5,216,206, respectively) (Note 4) | 4,701,302 | 5,216,401 |
| Advances (Note 5) | 31,347,486 | 32,480,108 |
| Mortgage loans held for portfolio, net (Note 6) | 8,515,645 | 10,815,037 |
| Accrued interest receivable | 103,076 | 131,822 |
| Premises, software, and equipment, net (Note 7) | 33,993 | 36,549 |
| Derivative assets, net (Note 8) | 283,082 | 208,008 |
| Other assets | 74,000 | 42,288 |
| **Total assets** | $ 65,924,756 | $ 67,510,775 |
| **Liabilities**: | | |
| Deposits (Note 9) | $ 1,375,206 | $ 960,304 |
| Consolidated obligations (Note 10): | | |
| Discount notes | 16,617,079 | 17,676,793 |
| Bonds | 43,332,946 | 44,715,224 |
| Total consolidated obligations, net | 59,950,025 | 62,392,017 |
| Accrued interest payable | 63,581 | 178,981 |
| Affordable Housing Program payable (Note 11) | 34,402 | 38,084 |
| Derivative liabilities, net (Note 8) | 22,979 | 3,206 |
| Mandatorily redeemable capital stock (Note 12) | 250,768 | 322,902 |
| Other liabilities | 777,493 | 458,521 |
| **Total liabilities** | 62,474,454 | 64,354,015 |
| Commitments and contingencies (Note 17) | | |
| **Capital** (Note 12): | | |
| Capital stock (putable at par value of $100 per share): | | |
| Class B issued and outstanding shares: 22,075,696 and 19,740,755, respectively | 2,207,570 | 1,974,076 |
| Retained earnings: | | |
| Unrestricted | 868,904 | 864,454 |
| Restricted | 268,426 | 250,854 |
| Total retained earnings | 1,137,330 | 1,115,308 |
| Total accumulated other comprehensive income | 105,402 | 67,376 |
| **Total capital** | 3,450,302 | 3,156,760 |
| **Total liabilities and capital** | $ 65,924,756 | $ 67,510,775 |

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

**Federal Home Loan Bank of Indianapolis**
**Statements of Income**
($ amounts in thousands)

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| **Interest Income:** | | | |
| Advances | $ 329,675 | $ 813,152 | $ 726,243 |
| Interest-bearing deposits | 5,652 | 22,050 | 21,004 |
| Securities purchased under agreements to resell | 11,644 | 79,100 | 58,940 |
| Federal funds sold | 10,793 | 62,235 | 54,602 |
| Trading securities | 90,860 | 53,213 | — |
| Available-for-sale securities | 103,658 | 214,558 | 197,600 |
| Held-to-maturity securities | 70,019 | 150,822 | 152,581 |
| Mortgage loans held for portfolio | 231,152 | 357,231 | 354,091 |
| Other interest income, net | — | — | 17 |
| Total interest income | 853,453 | 1,752,361 | 1,565,078 |
| **Interest Expense:** | | | |
| Consolidated obligation discount notes | 116,680 | 440,305 | 392,281 |
| Consolidated obligation bonds | 461,953 | 1,050,015 | 865,298 |
| Deposits | 2,856 | 12,899 | 11,021 |
| Mandatorily redeemable capital stock | 8,594 | 11,863 | 8,391 |
| Other interest expense | — | 37 | — |
| Total interest expense | 590,083 | 1,515,119 | 1,276,991 |
| **Net interest income** | 263,370 | 237,242 | 288,087 |
| Provision for (reversal of) credit losses | 140 | (289) | (231) |
| **Net interest income after provision for credit losses** | 263,230 | 237,531 | 288,318 |
| **Other Income:** | | | |
| Net realized gains from sale of available-for-sale securities | 504 | — | 32,407 |
| Net realized losses from sale of held-to-maturity securities | — | — | (45) |
| Net gains (losses) on trading securities | (14,484) | 32,996 | — |
| Net losses on derivatives and hedging activities | (48,362) | (18,983) | (13,350) |
| Service fees | 559 | 776 | 995 |
| Standby letters of credit fees | 690 | 703 | 609 |
| Other, net | 5,577 | 4,817 | (107) |
| Total other income (loss) | (55,516) | 20,309 | 20,509 |
| **Other Expenses:** | | | |
| Compensation and benefits | 60,789 | 55,494 | 49,938 |
| Other operating expenses | 31,609 | 29,526 | 28,476 |
| Federal Housing Finance Agency | 4,989 | 4,189 | 3,633 |
| Office of Finance | 5,005 | 4,907 | 4,503 |
| Other | 6,742 | 4,878 | 4,971 |
| Total other expenses | 109,134 | 98,994 | 91,521 |
| **Income before assessments** | 98,580 | 158,846 | 217,306 |
| Affordable Housing Program assessments | 10,717 | 17,071 | 22,570 |
| **Net income** | $ 87,863 | $ 141,775 | $ 194,736 |

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

**Federal Home Loan Bank of Indianapolis**
**Statements of Comprehensive Income**
($ amounts in thousands)

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| **Net income** | $ 87,863 | $ 141,775 | $ 194,736 |
| **Other Comprehensive Income:** | | | |
| Net change in unrealized gains (losses) on available-for-sale securities | 47,108 | 36,827 | (39,533) |
| Net non-credit portion of other-than-temporary impairment losses | — | — | (29,271) |
| Pension benefits, net (Note 14) | (9,082) | (11,138) | (915) |
| Total other comprehensive income (loss) | 38,026 | 25,689 | (69,719) |
| **Total comprehensive income** | $ 125,889 | $ 167,464 | $ 125,017 |

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

**Federal Home Loan Bank of Indianapolis**
**Statements of Capital**
**Years Ended December 31, 2018, 2019, and 2020**
($ amounts and shares in thousands)

| | Capital Stock | | Retained Earnings | | | Accumulated Other Comprehensive Income (Loss) | Total Capital |
|---|---|---|---|---|---|---|---|
| | Shares | Par Value | Unrestricted | Restricted | Total | | |
| **Balance, December 31, 2017** | 18,578 | $ 1,857,766 | $ 792,783 | $ 183,551 | $ 976,334 | $ 111,406 | $ 2,945,506 |
| Total comprehensive income | | | 155,788 | 38,948 | 194,736 | (69,719) | 125,017 |
| Proceeds from issuance of capital stock | 1,044 | 104,432 | | | | | 104,432 |
| Redemption/repurchase of capital stock | — | (32) | | | | | (32) |
| Shares reclassified to mandatorily redeemable capital stock, net | (312) | (31,214) | | | | | (31,214) |
| Cash dividends on capital stock (5.00%) | | | (93,260) | — | (93,260) | | (93,260) |
| **Balance, December 31, 2018** | 19,310 | $ 1,930,952 | $ 855,311 | $ 222,499 | $ 1,077,810 | $ 41,687 | $ 3,050,449 |
| Total comprehensive income | | | 113,420 | 28,355 | 141,775 | 25,689 | 167,464 |
| Proceeds from issuance of capital stock | 1,941 | 194,102 | | | | | 194,102 |
| Shares reclassified to mandatorily redeemable capital stock, net | (1,510) | (150,978) | | | | | (150,978) |
| Cash dividends on capital stock (5.31%) | | | (104,277) | — | (104,277) | | (104,277) |
| **Balance, December 31, 2019** | 19,741 | $ 1,974,076 | $ 864,454 | $ 250,854 | $ 1,115,308 | $ 67,376 | $ 3,156,760 |
| Total comprehensive income | | | 70,291 | 17,572 | 87,863 | 38,026 | 125,889 |
| Proceeds from issuance of capital stock | 2,669 | 266,906 | | | | | 266,906 |
| Redemption/repurchase of capital stock | (6) | (621) | | | | | (621) |
| Shares reclassified to mandatorily redeemable capital stock, net | (328) | (32,791) | | | | | (32,791) |
| Partial recovery of prior capital distribution to Financing Corporation | | | 10,574 | — | 10,574 | | 10,574 |
| Cash dividends on capital stock (3.66%) | | | (76,415) | — | (76,415) | | (76,415) |
| **Balance, December 31, 2020** | 22,076 | $ 2,207,570 | $ 868,904 | $ 268,426 | $ 1,137,330 | $ 105,402 | $ 3,450,302 |

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

**Federal Home Loan Bank of Indianapolis**
**Statements of Cash Flows**
($ amounts in thousands)

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| **Operating Activities**: | | | |
| Net income | $ 87,863 | $ 141,775 | $ 194,736 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Amortization and depreciation | 74,130 | 44,492 | 74,366 |
| Changes in net derivative and hedging activities | (420,090) | (287,098) | 45,201 |
| Loss on disposition of equipment | — | — | 37 |
| Provision for (reversal of) credit losses | 140 | (289) | (231) |
| Net losses (gains) on trading securities | 14,484 | (32,996) | — |
| Net realized gains from sale of available-for-sale securities | (504) | — | (32,407) |
| Net realized losses from sale of held-to-maturity securities | — | — | 45 |
| Changes in: | | | |
| Accrued interest receivable | 28,855 | (7,660) | (19,387) |
| Other assets | (28,853) | (6,538) | 541 |
| Accrued interest payable | (115,401) | (986) | 44,192 |
| Other liabilities | 41,255 | 20,684 | 46,224 |
| Total adjustments, net | (405,984) | (270,391) | 158,581 |
| Net cash provided by (used in) operating activities | (318,121) | (128,616) | 353,317 |
| **Investing Activities**: | | | |
| Net change in: | | | |
| Interest-bearing deposits | 169,514 | 65,727 | (547,189) |
| Securities purchased under agreements to resell | (1,000,000) | 1,712,726 | (607,266) |
| Federal funds sold | 1,335,000 | 535,000 | (1,805,000) |
| Trading securities: | | | |
| Proceeds from maturities | 4,160,000 | — | — |
| Proceeds from sales | — | 249,844 | — |
| Purchases | (4,252,538) | (5,233,497) | — |
| Available-for-sale securities: | | | |
| Proceeds from maturities | 593,550 | 510,500 | 102,522 |
| Proceeds from sales | 96,779 | — | 203,841 |
| Purchases | (1,851,436) | (785,129) | (972,799) |
| Held-to-maturity securities: | | | |
| Proceeds from maturities | 1,428,899 | 1,114,938 | 961,778 |
| Proceeds from sales | — | — | 41,226 |
| Purchases | (744,501) | (663,607) | (780,272) |
| Advances: | | | |
| Principal repayments | 255,014,417 | 351,631,834 | 343,131,228 |
| Disbursements to members | (253,433,610) | (351,074,140) | (341,791,120) |
| Mortgage loans held for portfolio: | | | |
| Principal collections | 4,398,392 | 1,879,313 | 1,191,873 |
| Purchases from members | (2,082,767) | (1,307,159) | (2,255,741) |
| Purchases of premises, software, and equipment | (4,641) | (6,230) | (6,765) |
| Loans to other Federal Home Loan Banks: | | | |
| Principal repayments | 90,000 | — | 400,000 |
| Disbursements | (90,000) | — | (400,000) |
| Net cash provided by (used in) investing activities | 3,827,058 | (1,369,880) | (3,133,684) |

(continued)

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

**Federal Home Loan Bank of Indianapolis**
**Statements of Cash Flows**, continued
($ amounts in thousands)

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| **Financing Activities**: | | | |
| Changes in deposits | 414,531 | 375,975 | (68,140) |
| Net payments on derivative contracts with financing elements | (3,694) | 1,824 | (340) |
| Net proceeds from issuance of consolidated obligations: | | | |
| Discount notes | 355,337,396 | 342,745,604 | 352,096,048 |
| Bonds | 48,663,468 | 40,241,691 | 17,386,007 |
| Payments for matured and retired consolidated obligations: | | | |
| Discount notes | (356,372,123) | (345,937,042) | (351,576,032) |
| Bonds | (50,052,784) | (35,902,870) | (14,996,190) |
| Loans from other Federal Home Loan Banks: | | | |
| Proceeds from borrowings | — | 250,000 | — |
| Principal repayments | — | (250,000) | — |
| Proceeds from issuance of capital stock | 266,906 | 194,102 | 104,432 |
| Proceeds from issuance of mandatorily redeemable capital stock | — | 3,704 | — |
| Payments for redemption/repurchase of capital stock | (621) | — | (32) |
| Payments for redemption/repurchase of mandatorily redeemable capital stock | (104,925) | (656) | (26,660) |
| Partial recovery of prior capital distribution to Financing Corporation | 10,574 | — | — |
| Dividend payments on capital stock | (76,415) | (104,277) | (93,260) |
| Net cash provided by (used in) financing activities | (1,917,687) | 1,618,055 | 2,825,833 |
| Net increase in cash and due from banks | 1,591,250 | 119,559 | 45,466 |
| Cash and due from banks at beginning of year | 220,294 | 100,735 | 55,269 |
| Cash and due from banks at end of year | $ 1,811,544 | $ 220,294 | $ 100,735 |
| **Supplemental Disclosures**: | | | |
| Cash activities: | | | |
| Interest payments | $ 804,173 | $ 1,501,471 | $ 1,193,500 |
| Affordable Housing Program payments | 14,399 | 19,734 | 13,989 |
| Non-cash activities: | | | |
| Purchases of investment securities, traded but not yet settled | 236,507 | 84,086 | — |
| Capitalized interest on certain held-to-maturity securities | 1,412 | 4,624 | 4,984 |
| Par value of shares reclassified to mandatorily redeemable capital stock, net | 32,791 | 150,978 | 31,214 |

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

These Notes to Financial Statements should be read in conjunction with the Statements of Condition as of December 31, 2020 and 2019, and the Statements of Income, Comprehensive Income, Capital, and Cash Flows for the years ended December 31, 2020, 2019, and 2018. We use acronyms and terms throughout these Notes to Financial Statements that are defined herein or in the *Defined Terms*. Unless the context otherwise requires, the terms "Bank," "we," "us," and "our" refer to the Federal Home Loan Bank of Indianapolis or its management.

**Background Information**

The Federal Home Loan Bank of Indianapolis, a federally chartered corporation, is one of 11 regional wholesale FHLBanks in the United States. The FHLBanks are GSEs that were organized under the Bank Act to serve the public by enhancing the availability of credit for residential mortgages and targeted community development. Even though we are part of the FHLBank System, we operate as a separate entity with our own management, employees and board of directors.

Each FHLBank is a financial cooperative that provides a readily available, competitively-priced source of funds to its member institutions. Regulated financial depositories and non-captive insurance companies engaged in residential housing finance that have their principal place of business located in, or are domiciled in, our district states of Michigan or Indiana are eligible for membership in our Bank. Additionally, qualified CDFIs are eligible to be members. Housing Associates, including state and local housing authorities, that meet certain statutory and regulatory criteria may also borrow from us. While eligible to borrow, Housing Associates are not members and, as such, are not allowed to hold our capital stock.

Each member must purchase a minimum amount of our capital stock based on the amount of its total assets. A member may be required to purchase additional activity-based capital stock as it engages in certain business activities with us. Members and former members own all of our capital stock. Former members (including certain non-member institutions that own our capital stock as a result of a merger with or acquisition of a member) hold our capital stock solely to support credit products or mortgage loans still outstanding on our statement of condition. All owners of our capital stock, to the extent declared by our board of directors, receive dividends on their capital stock, subject to the applicable regulations as discussed in *Note 12 - Capital*. For more information about transactions with related parties, see *Note 18 - Related Party and Other Transactions*.

The FHLBanks' Office of Finance was established to facilitate the issuance and servicing of the debt instruments of the FHLBanks, known as consolidated obligations, consisting of bonds and discount notes, and to prepare and publish the FHLBanks' combined quarterly and annual financial reports.

Proceeds from the issuance of consolidated obligations are the primary source of funds for the FHLBanks. Deposits, other borrowings and capital stock issued to members provide additional funds. We primarily use these funds to:

- disburse advances to members;
- acquire mortgage loans from PFIs through our MPP;
- maintain liquidity; and
- invest in other opportunities to support the residential housing market.

We also provide correspondent services, such as wire transfer, security safekeeping, and settlement services, to our members.

The Finance Agency is the independent federal regulator of the FHLBanks, Freddie Mac, and Fannie Mae. The Finance Agency's stated mission is to ensure that the housing GSEs operate in a safe and sound manner so that they serve as a reliable source of liquidity and funding for housing finance and community investment.

**Note 1 - Summary of Significant Accounting Policies**

***Basis of Presentation.*** The accompanying financial statements have been prepared in accordance with GAAP and SEC requirements.

The financial statements contain all adjustments that are, in the opinion of management, necessary for a fair statement of the Bank's financial position, results of operations and cash flows for the periods presented. All such adjustments were of a normal recurring nature.

***Use of Estimates.*** When preparing financial statements in accordance with GAAP, we are required to make subjective assumptions and estimates that may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expense. Although the reported amounts and disclosures reflect our best estimates, actual results could differ significantly from these estimates. The most significant estimates pertain to derivatives and hedging activities, as discussed in *Note 8 - Derivatives and Hedging Activities,* and the fair values of financial instruments.

*Estimated Fair Value.* The estimated fair value amounts, recorded on the statement of condition and presented in the accompanying disclosures, reflect appropriate valuation methods and have been determined based on the assumptions that we believe market participants would use in pricing the asset or liability. Although we use our best judgment in estimating fair value, there are inherent limitations in any valuation technique. Therefore, these estimated fair values may not be indicative of the amounts that would have been realized in market transactions on the reporting dates. For more information, see *Note 16 - Estimated Fair Values*.

***Reclassifications.*** We have reclassified certain amounts reported in prior periods to conform to the current period presentation. These reclassifications had no effect on total assets, total liabilities, total capital, net income, total comprehensive income or net cash flows.

***Interest-Bearing Deposits, Securities Purchased under Agreements to Resell, and Federal Funds Sold.*** These investments provide short-term liquidity and are carried at cost. Securities purchased under agreements to resell are treated as short-term, collateralized financings. These securities are held in safekeeping in the Bank's name by third-party custodians approved by us. If the market value of the underlying assets declines below the market value required as collateral, the counterparty must (i) place an equivalent amount of additional securities in safekeeping in the Bank's name, and/or (ii) remit an equivalent amount of cash, or the dollar value of the resale agreement will be reduced accordingly. Federal funds sold are treated as short-term, unsecured loans.

*Allowance for Credit Losses.* As a result of adopting new accounting guidance on January 1, 2020, these investments are evaluated quarterly for expected credit losses. If necessary, an allowance for credit losses is recorded with a corresponding adjustment to the provision for credit losses. We use the collateral maintenance provision practical expedient for securities purchased under agreements to resell whereby a credit loss is recognized only if there is a collateral shortfall which we do not believe the counterparty is willing or able to replenish in accordance with the contractual terms. The credit loss would be limited to the difference between the estimated fair value of the collateral and the investment’s amortized cost.

Prior to January 1, 2020, we recorded an allowance for credit losses on these investments only if it was probable a loss had been incurred as of the statement of condition date and the amount of loss could be reasonably estimated. For more information on the allowance methodology related to these investments, see *Note 4 - Investments.*

***Investment Securities.*** Purchases and sales of securities are recorded on a trade date basis. We classify investments as trading, HTM or AFS at the date of acquisition.

*Trading Securities.* Securities classified as trading are held for liquidity purposes and carried at fair value. We record changes in the fair value of these securities through other income as net gains (losses) on trading securities. Finance Agency regulation and our risk management policies prohibit the speculative use of these instruments and limit the credit risk arising from these securities.

*HTM Securities.* Securities for which we have both the positive intent and ability to hold to maturity are classified as HTM. The carrying value includes adjustments made to the cost basis of the security for purchase discount and related accretion, purchase premium and related amortization, and collection of principal.

Certain changes in circumstances may cause us to change our intent to hold a particular security to maturity without necessarily calling into question our intent to hold other debt securities to maturity. Thus, the sale or transfer of an HTM security due to certain changes in circumstances, such as evidence of significant deterioration in the issuer's creditworthiness or changes in regulatory requirements, is not considered to be inconsistent with its original classification. Other events may also cause us to sell or transfer an HTM security without necessarily calling into question our intent to hold other debt securities to maturity, but such events must be isolated, non-recurring, unusual, and could not have been reasonably anticipated. In addition, sales of HTM debt securities that meet either of the following two conditions may be considered as maturities for purposes of the classification of securities: (i) the sale occurs near enough to its maturity date (or call date, if exercise of the call is probable) that interest-rate risk is substantially eliminated as a pricing factor and any changes in market interest rates would not have a significant effect on the security's fair value, or (ii) the sale occurs after we have already collected a substantial portion (at least 85%) of the principal outstanding at acquisition due either to prepayments or to scheduled payments payable in equal installments (both principal and interest) over its term.

*AFS Securities.* Securities that are not classified as trading or HTM are classified as AFS and carried at estimated fair value. We record changes in the fair value of these securities in OCI as net change in unrealized gains (losses) on AFS securities, except for AFS securities in hedge relationships that qualify as fair-value hedges. For those securities, beginning January 1, 2019, we record the portion of the change in fair value attributable to the risk being hedged in interest income together with the related change in the fair value of the derivative, and record the remainder of the change in the fair value in OCI as net unrealized gains (losses) on AFS securities.

Prior to January 1, 2019, we recorded the portion of the change in the fair value of the investment related to the risk being hedged in other income as net gains (losses) on derivatives and hedging activities together with the related change in the fair value of the derivative.

*Allowance for Credit Losses.* Our HTM securities are evaluated quarterly for expected credit losses on a collective, or pooled, basis unless an individual assessment is deemed necessary, e.g. the securities do not possess similar risk characteristics. If deemed necessary, an allowance for credit losses is recorded with a corresponding adjustment to the provision for credit losses. The allowance for credit losses excludes uncollectible accrued interest receivable, which is measured separately.

We individually evaluate our AFS securities for impairment on a quarterly basis. Impairment exists when the estimated fair value of the investment is less than its amortized cost (i.e., in an unrealized loss position). In assessing whether a credit loss exists on an impaired security, we consider whether there could be a shortfall in receiving all cash flows contractually due. In those instances where we determine a shortfall could exist, we compare the present value of cash flows to be collected from the security with its amortized cost. If the present value of cash flows is less than amortized cost, an allowance for credit losses is recorded with a corresponding adjustment to the provision for credit losses. The allowance is limited by the amount of the unrealized loss and excludes any uncollectible accrued interest receivable, which is measured separately.

If we do not intend to sell an impaired AFS security and it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis, any remaining difference between the security’s estimated fair value and amortized cost is recorded to net unrealized gains (losses) on AFS securities within OCI. If we intend to sell an impaired AFS security, or more likely than not will be required to sell the security before recovery of its amortized cost basis, any allowance for credit losses is reversed and the amortized cost basis is written down to the security’s estimated fair value at the reporting date with any such impairment reported in earnings as net gains (losses) on investment securities. For more information on the allowance methodology related to our HTM and AFS securities, see *Note 4 - Investments.*

*Amortization of Purchase Premiums and Discounts.* Since we hold a large number of similar loans underlying our MBS and ABS, for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated, we amortize or accrete premiums and discounts on MBS and ABS to interest income over the estimated cash flows of each security using a level-yield under the retrospective interest method. This method requires that we estimate prepayments over the estimated life of the securities and retrospectively adjust the effective yield each time the estimated remaining cash flows change as if the new estimate had been used since the original acquisition date. Changes in interest rates are a significant assumption used in estimating the timing and amount of prepayments.

We amortize the purchased premium on callable non-MBS debt securities at an individual security level using a level-yield methodology to the earliest call date. For all other non-MBS investments, we amortize or accrete premiums and discounts at an individual security level using a level-yield methodology over the contractual life of the securities. Prepayments on all non-MBS investments are not estimated but only taken into account as they actually occur.

*Gains and Losses on Sales.* We compute gains and losses on sales of investment securities using the specific identification method and include these gains and losses in other income as net realized gains (losses) from sale of securities.

***Investment Securities - Other-Than-Temporary Impairment.*** On January 1, 2020, the accounting guidance related to OTTI for investments was superseded. Under prior guidance, on a quarterly basis, we evaluated our individual AFS and HTM securities that had been previously OTTI or were in an unrealized loss position to determine if any such securities were OTTI. A security was in an unrealized loss position (i.e., impaired) when its estimated fair value was less than its amortized cost. We considered an impaired debt security to be OTTI under any of the following conditions:

- we intended to sell the debt security;
- based on available evidence, we believed it was more likely than not that we will be required to sell the debt security before the anticipated recovery of its remaining amortized cost; or
- we did not expect to recover the entire amortized cost of the debt security.

*Recognition of OTTI.* If either of the first two conditions above were met, we recognized an OTTI loss in earnings equal to the entire difference between the debt security's amortized cost and its estimated fair value as of the statement of condition date. For those impaired securities that met neither of these two conditions, we performed a cash flow analysis to determine whether we expected to recover the entire amortized cost of each security.

If the present value of the cash flows expected to be collected was less than the amortized cost of the debt security, a credit loss equal to that difference was recorded, and the carrying value of the debt security was adjusted to its estimated fair value. However, rather than recognizing the entire difference between the amortized cost and estimated fair value in earnings, only the amount of the impairment representing the credit loss (i.e., the credit component) was recognized in earnings, while the remaining amount, if any, related to all other factors (i.e., the non-credit component) was recognized in OCI. The credit loss on a debt security was capped at the amount of that security's unrealized loss. The new amortized cost basis of the OTTI security, which reflected the credit loss, would not be adjusted for any subsequent recoveries of fair value.

The total OTTI loss was included in other income with an offset for the portion recognized in OCI. The remaining amount represented the credit loss.

*Additional OTTI.* Subsequent to any recognition of OTTI, if the present value of cash flows expected to be collected was less than the amortized cost basis (which reflected previous credit losses), we recorded an additional credit loss equal to that difference as additional OTTI. The total amount of additional OTTI (both credit and non-credit component, if any) was determined as the difference between the security's amortized cost, less the amount of OTTI recognized in AOCI prior to the determination of this additional OTTI, and its fair value. For certain AFS or HTM securities that were previously impaired and subsequently incurred additional credit losses, an amount equal to the additional credit losses, up to the amount of non-credit losses remaining in AOCI, was reclassified out of AOCI and into other income.

Subsequent increases and decreases (if not an additional OTTI) in the estimated fair value of OTTI AFS securities were netted against the non-credit component of OTTI recognized previously in AOCI. For HTM securities, the OTTI in AOCI was accreted to the carrying value of each security on a prospective basis, based on the amount and timing of future projected cash flows (with no effect on earnings unless the security was subsequently sold, matured or additional OTTI was recognized). For debt securities classified as AFS, we did not accrete the OTTI in AOCI to the carrying value because the subsequent measurement basis for these securities was the estimated fair value.

*Interest Income Recognition.* As of the initial OTTI measurement date, a new accretable yield was calculated for the OTTI debt security. This yield was then used to calculate the portion of the credit losses included in the amortized cost of the security to be recognized into interest income each period over the remaining life of the security so as to match the amount and timing of future cash flows expected to be collected.

On a quarterly basis, we re-evaluated the estimated cash flows and accretable yield. If there was no additional OTTI and there was either (i) a significant increase in the security's expected cash flows or (ii) a favorable change in the timing and amount of the security's expected cash flows, we adjusted the accretable yield on a prospective basis.

***Advances.*** We record advances at amortized cost, adjusted to include swap termination fees associated with modified advances, net of deferred prepayment fees, and fair-value hedging basis adjustments. We amortize such fees and hedging basis adjustments to interest income using a level-yield methodology over the contractual life of the advance. When an advance is prepaid, we amortize to interest income a proportionate share of the remaining balance of those adjustments to amortized cost. We record interest on advances to interest income as earned.

*Prepayment Fees.* We charge a borrower a prepayment fee when the borrower repays certain advances prior to maturity. We report prepayment fees, net of any associated swap termination fees and hedging basis adjustments, in interest income on advances.

*Advance Modifications.* When we fund a new advance concurrent with, or within a short period of time after, the prepayment of an original advance, we determine whether the transaction is effectively either (i) two separate transactions (the prepayment of the original advance and the disbursement of a new advance), defined as an advance extinguishment, or (ii) the continuation of the original advance as modified, defined as an advance modification.

We account for the transaction as an extinguishment if both of the following criteria are met: (i) the effective yield of the new advance is at least equal to the effective yield for a comparable advance to a member with similar collection risks who is not prepaying, and (ii) modifications of the original advance are determined to be more than minor, i.e., if the present value of the cash flows under the terms of the new advance is at least 10% different from the present value of the remaining cash flows under the original advance or through an evaluation of qualitative factors, which may include changes in the interest-rate exposure to the member by moving from a fixed to an adjustable-rate advance. In all other instances, the transaction is accounted for as an advance modification.

If the transaction is determined to be an advance extinguishment, we recognize income from nonrefundable prepayment fees, net of associated swap termination fees, in the period that the extinguishment occurs. Alternatively, if no prepayment fees are received (e.g., the member requests that we embed the prepayment fee into the rate of the new advance), the excess of the present value of the cash flows of the new advance over those of an advance with a current market rate and otherwise comparable terms is immediately recognized in income, and the basis of the new advance is adjusted accordingly.

If the transaction is determined to be an advance modification, the nonrefundable prepayment fees, net of swap termination fees, associated with the modification of the original advance are not immediately recognized in income but are (i) included in the carrying value of the modified advance and amortized into interest income over the life of the new advance using a level-yield methodology or (ii) embedded into the rate of the modified advance and recorded as an adjustment to the interest accrual.

*Allowance for Credit Losses.* As a result of adopting new accounting guidance on January 1, 2020, our advances are evaluated quarterly for expected credit losses on a collective, or pooled, basis unless an individual assessment is deemed necessary, e.g. the advances do not possess similar risk characteristics. If any credit losses are expected, an allowance for credit losses is recorded with a corresponding adjustment to the provision for credit losses. The allowance for credit losses excludes uncollectible accrued interest receivable, which is measured separately.

Prior to January 1, 2020, we recorded an allowance for credit losses on advances only if it was probable a loss had been incurred as of the statement of condition date and the amount of loss could be reasonably estimated. For more information on the allowance methodology related to advances, see *Note 5 - Advances.*

***Mortgage Loans Held for Portfolio.*** We classify mortgage loans, for which we have the positive intent and ability to hold for the foreseeable future or until maturity or payoff, as held for portfolio. Accordingly, these mortgage loans are reported at cost, adjusted to include premiums paid to and discounts received from PFIs, hedging basis adjustments, and the allowance for credit losses.

We amortize or accrete premiums and discounts, certain loan fees or costs, and hedging basis adjustments to interest income using a level-yield methodology over the contractual life of the loans. When a loan is prepaid, we amortize to interest income a proportionate share of the remaining balance of those adjustments to the loan's amortized cost.

*Non-accrual Loans.* We place a conventional mortgage loan on non-accrual status if it is determined that either (i) the collection of interest or principal is doubtful, or (ii) interest or principal is past due for 90 days or more, except when the loan is well secured and in the process of collection (e.g., through credit enhancements and monthly servicer remittances on a scheduled/scheduled basis). On loans with remittances on a scheduled/scheduled basis, we receive monthly principal and interest payments from the servicer regardless of whether the borrower has made payments to the servicer. Monthly servicer remittances on loans on an actual/actual basis may also be well secured; however, servicers on actual/actual remittance do not advance principal and interest due, regardless of borrower creditworthiness, until the payments are received from the borrower or when the loan is repaid. As a result, these loans are placed on non-accrual status once they become 90 days delinquent.

A government-guaranteed or -insured mortgage loan is not placed on non-accrual status when the collection of the contractual principal or interest is 90 days or more past due because of the contractual obligation of the loan servicer to pay defaulted interest at the contractual rate.

For those mortgage loans placed on non-accrual status, accrued but uncollected interest is reversed against interest income (for any interest accrued in the current year) and/or the allowance for credit losses (for any interest accrued in the previous year). A loan on non-accrual status may be restored to accrual status when it becomes current (zero days past due) and three consecutive and timely monthly payments have been received. Otherwise, we record cash payments received on non-accrual loans as a direct reduction of the amortized cost of the loan. When the amortized cost has been fully collected, any additional amounts collected are recognized as interest income.

*REO.* Our MPP was designed to require loan servicers to foreclose and liquidate in the servicer's name rather than in the Bank's name. Therefore, we do not take title to any foreclosed property or enter into any other legal agreement under which the borrower conveys all interest in the property to the Bank to satisfy the loan. Upon completion of a triggering event (short sale, deed in lieu of foreclosure, foreclosure sale or post-sale confirmation or ratification, as applicable), the servicer is required to remit to us the full UPB and accrued interest at the next feasible remittance. Upon full receipt, the mortgage loan is derecognized from the statement of condition. As a result of these factors, we do not classify as REO any foreclosed properties collateralizing MPP loans that were previously recorded on our statement of condition.

In the case of a delay in receiving final payoff from the servicer beyond the second remittance cycle after a triggering event, we reclassify the amount owed from mortgage loans to a separate amount receivable from the servicer. The receivable is then evaluated for the amount expected to be recovered.

Under the MPF Program, REO is recorded in other assets and includes assets that have been received in satisfaction of debt through foreclosures. REO is recorded at the lower of cost or fair value less estimated selling costs. We recognize a charge-off to the allowance for credit losses if the fair value of the REO less estimated selling costs is less than the amortized cost of the loan at the date of the transfer from mortgage loans to REO. Any subsequent gains, losses, and carrying costs are included in other expense.

*Loan Participations.* We may sell participating interests in MPP loans acquired from our PFIs to other FHLBanks. The terms of the sale of these participating interests meet the accounting requirements for a sale and, therefore, the participating interests are derecognized from our reported mortgage loan balances and a pro-rata portion of the fixed LRA is assumed by the participating FHLBank for its use in loss mitigation. As a result, available funds remaining in our LRA are limited to our pro-rata portion of the fixed LRA that is associated with the participating interests retained by us. The portion of the participation fees received related to our upfront costs is recognized immediately into income, while the remaining portion related to our ongoing costs is deferred and amortized to income over the remaining life of the participated loans.

*Allowance for Credit Losses.* As a result of adopting new accounting guidance on January 1, 2020, on a quarterly basis, we apply a systematic approach for estimating expected credit losses on our conventional mortgage loans over their estimated remaining lives through analyses that include, among other considerations, various loan portfolio and collateral-related characteristics, past loan performance, current and historical economic conditions, and reasonable and supportable forecasts of expected economic conditions. An allowance for credit losses is recorded with a corresponding adjustment to the provision for credit losses.

We estimate expected losses on our conventional mortgage loans on a collective basis, pooling loans with similar risk characteristics. If a mortgage loan no longer shares risk characteristics with other loans, it is removed from the pool and evaluated for expected losses on an individual basis. In addition, we individually evaluate all TDRs, any remaining exposure to delinquent conventional MPP loans paid in full by servicers, and collateral-dependent loans. Loans are considered collateral-dependent if repayment is expected to be provided solely by the sale of the underlying property, i.e., there is no other available and reliable source of repayment (including LRA and SMI). We estimate expected losses on collateral-dependent loans by applying a practical expedient that considers the expected loss of a collateral-dependent loan to be equal to the difference between the amortized cost of the loan and the estimated fair value of the collateral, less estimated selling costs.

When determining the allowance for credit losses, we consider how credit enhancements are expected to mitigate credit losses and reduce the allowance accordingly.

If a loan is purchased at a discount, the discount does not offset the allowance for credit losses.

The allowance excludes uncollectible accrued interest receivable, as we charge off accrued interest receivable by reversing interest income if a mortgage loan is placed on non-accrual status.

Prior to January 1, 2020, we recorded an allowance for credit losses on mortgage loans only if it was probable a loss had been incurred as of the statement of condition date and the amount of loss over a loss emergence period of 24 months could be reasonably estimated.

For more information on the allowance methodology related to mortgage loans, see *Note 6 - Mortgage Loans Held for Portfolio.*

*Troubled Debt Restructuring.* A TDR related to MPP loans typically occurs when a concession is granted to a borrower for economic or legal reasons related to the borrower's financial difficulties that would not have been otherwise considered. Although we do not participate in government-sponsored loan modification programs, we do consider certain conventional loan modifications to be TDRs when the modification agreement permits the recapitalization of past due amounts, generally up to the original loan amount. If a borrower is having financial difficulty and a significant concession has been granted by the PFI with our approval, the loan modification is considered a TDR. No other terms of the original loan are modified, except for the possible extension of the contractual maturity date on a case-by-case basis. In no event does the borrower's original interest rate change.

As a result of new accounting guidance effective in March 2020, we are currently excluding all qualifying COVID-19-related loan modifications considered to be formal, i.e. the legal terms of the loan were changed, from TDR classification and accounting. We do not consider any short-term, informal, i.e. the legal terms of the loan have not changed, modifications or payment deferrals alone to be a TDR. For more information on the impact of this guidance, see *Note 2 - Recently Adopted and Issued Accounting Guidance.*

MPP loans discharged in Chapter 7 bankruptcy proceedings without a reaffirmation of the debt are considered TDRs unless they are covered by SMI policies. Loans discharged in Chapter 7 bankruptcy proceedings with SMI policies are also considered to be TDRs unless (i) we will not suffer more than an insignificant delay in receiving all principal and interest due or (ii) we are not relinquishing a legal right to pursue the borrower for deficiencies for those loans not affirmed.

TDRs related to MPF Program loans occur when a concession is granted to a borrower for economic or legal reasons related to the borrower's financial difficulties that would not have been otherwise considered. Such TDRs generally involve modifying the borrower's monthly payment for a period of up to 36 months. MPF Program loans discharged in Chapter 7 bankruptcy proceedings without a reaffirmation of the debt are also considered TDRs.

For both the MPP and the MPF Program, modifications of government loans are not considered or accounted for as TDRs because we anticipate no loss of principal or interest accrued at the original contract rate, or significant delay, due to the government guarantee or insurance.

*Charge-Offs.* A charge-off is recorded to the extent that the amortized cost (including UPB, unamortized premiums or discounts, and hedging basis adjustments) in a loan will not be fully recovered. We record a charge-off on a conventional mortgage loan against the credit loss allowance upon the occurrence of a confirming event. Confirming events include, but are not limited to, the settlement of a claim against any of the credit enhancements, delinquency in excess of 180 days unless we can clearly document that the delinquent loan is well-secured and in-process of collection, and filing for bankruptcy protection. We charge off the portion of the outstanding conventional mortgage loan balance in excess of the fair value of the underlying property, less costs to sell and adjusted for any available credit enhancements.

***Derivatives and Hedging Activities.*** We record derivative instruments, related cash collateral (including initial margin received or pledged/posted), variation margin received or pledged/posted, and associated accrued interest on a net basis, by clearing agent and/or by counterparty when the netting requirements have been met, as either derivative assets or derivative liabilities at their estimated fair values.

*Designations.* Derivatives are recorded beginning on the trade date and typically executed and designated in a qualifying hedging relationship at the same time as the acquisition of the hedged item. We may also designate the hedging relationship upon the Bank's commitment to disburse an advance, purchase financial instruments, or trade a consolidated obligation in which settlement occurs within the shortest period of time possible for the type of instrument based on market settlement conventions. Each derivative is designated as one of the following:

(i) a qualifying fair-value hedge of the change in fair value of a recognized asset or liability, an unrecognized firm commitment, or a forecasted transaction (a fair-value hedge); or
(ii) a non-qualifying hedge (economic hedge) for asset/liability management purposes.

*Accounting for Qualifying Hedges.* Hedging relationships must meet certain criteria including, but not limited to, formal documentation of the hedging relationship and an expectation to be highly effective to qualify for hedge accounting. Two approaches to hedge accounting include:

(i) Shortcut hedge accounting - Transactions that meet certain criteria qualify for the shortcut method of hedge accounting. Under the shortcut method, an assumption can be made that the entire change in fair value of a hedged item, due to changes in the benchmark rate, equates to the entire change in fair value of the related derivative. Therefore, the derivative is considered to be perfectly effective in achieving offsetting changes in the fair value of the hedged asset or liability attributable to the hedged risk. When applying the shortcut method, we document, at hedge inception, a quantitative long-haul method that we can apply should we subsequently determine a derivative relationship no longer qualifies for shortcut hedge accounting; or

(ii) Long-haul hedge accounting - The application of long-haul hedge accounting requires us to assess (both at the hedge's inception and at least quarterly) whether the derivatives used in hedging transactions are highly effective in offsetting changes in the fair value of hedged items or forecasted transactions attributable to the hedged risk and whether those derivatives may be expected to remain highly effective in future periods.

Beginning January 1, 2019, changes in the fair value of a derivative that is designated and qualifies as a fair-value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk, are recorded in net interest income in the same line as the earnings effect of the hedged item.

Prior to January 1, 2019, any hedge ineffectiveness (which represented the amount by which the change in the fair value of the derivative differed from the change in the fair value of the hedged item attributable to the hedged risk) was recorded in other income as net gains (losses) on derivatives and hedging activities.

*Accounting for Non-Qualifying Hedges.* An economic hedge is defined as a derivative that hedges specific or non-specific underlying assets, liabilities, or firm commitments and does not qualify, or was not designated, for hedge accounting. As a result, we recognize only the net interest settlements and the change in fair value of these derivatives in other income as net gains (losses) on derivatives and hedging activities with no offsetting fair-value adjustments in earnings for the hedged assets, liabilities, or firm commitments. An economic hedge by definition, therefore, introduces the potential for earnings variability.

*Accrued Interest Receivables and Payables.* The difference between the interest receivable and payable on a derivative designated as a qualifying hedge is recognized as an adjustment to the income or expense of the designated hedged item. The difference between the interest receivable and payable on economic hedges are recognized in other income as net gains (losses) on derivatives and hedging activities.

*Discontinuance of Hedge Accounting.* We discontinue hedge accounting prospectively when: (i) the hedging relationship ceases to be highly effective; (ii) the derivative and/or the hedged item expires or is sold, terminated, or exercised; (iii) a hedged firm commitment no longer meets the definition of a firm commitment; or (iv) we elect to discontinue hedge accounting.

When hedge accounting is discontinued, we either terminate the derivative or continue to carry the derivative at its fair value, cease to adjust the hedged asset or liability for changes in fair value and amortize the cumulative basis adjustment on the hedged item into interest income over the remaining life of the hedged item using a level-yield methodology.

*Embedded Derivatives.* We may issue consolidated obligations, disburse advances, or purchase financial instruments in which a derivative instrument is embedded. In order to determine whether an embedded derivative must be bifurcated from the host instrument and separately valued, we must assess, upon execution of the transaction, whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the consolidated obligation, advance or purchased financial instrument (the host contract) and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument.

If we determine that (i) the embedded derivative has economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (ii) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and designated as a stand-alone derivative instrument pursuant to an economic hedge, and the host contract is accounted for based on the guidance applicable to instruments of that type that are not hedged. However, if (i) the entire contract (the host contract and the embedded derivative) is required to be measured at fair value, with changes in fair value reported in earnings (such as an investment security classified as trading), or (ii) we cannot reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract is carried at fair value, and no portion of the contract is designated as a hedging instrument.

***Financial Instruments Meeting Netting Requirements.*** We present certain financial instruments, including our derivative asset and liability positions as well as cash collateral received or pledged, on a net basis when we have a legal right of offset and all other requirements for netting are met (collectively referred to as the netting requirements).

The net exposure for these financial instruments can change on a daily basis; therefore, there may be a delay between the time a change in the exposure is identified and additional collateral is requested, and the time the additional collateral is received or pledged. Likewise, there may be a delay before excess collateral is returned. For derivative instruments that meet the netting requirements, any excess cash collateral received or pledged is recognized as a derivative liability or derivative asset, respectively. For derivative instruments that do not meet the netting requirements, cash collateral is recognized as an interest-bearing asset or liability, as appropriate. Additional information regarding these transactions is provided in *Note 8 - Derivatives and Hedging Activities.*

***Premises, Software, and Equipment.*** We record premises, software, and equipment at cost, less accumulated depreciation and amortization, and compute depreciation and amortization using the straight-line method over their respective estimated useful lives, which range from 3 to 40 years. We capitalize improvements and major renewals, but expense maintenance and repairs when incurred. We depreciate building improvements using the straight-line method over the estimated useful life of the improvement. In addition, we capitalize software development costs for internal use software with an estimated economic useful life of at least one year. If capitalized, we use the straight-line method for computing amortization. We include any gain or loss on disposal (other than abandonment) of premises, software, and equipment in other income. Any loss on abandonment is included in other operating expenses.

***Consolidated Obligations.*** Consolidated obligations are recorded at amortized cost, adjusted to include concessions, discounts, premiums, principal payments, and fair-value hedging basis adjustments.

*Discounts and Premiums.* We accrete or amortize the discounts and premiums as well as hedging basis adjustments to interest expense using a level-yield methodology over the term to contractual maturity of the corresponding CO bonds. When we prepay a CO bond, a proportionate share of any remaining balance of premium or discount is recognized immediately.

*Concessions.* Concessions are paid to dealers in connection with the issuance of certain consolidated obligations. The Office of Finance prorates the amount of our concession based upon the percentage of the debt issued on the Bank's behalf. We record concessions paid on consolidated obligations as a direct deduction from their carrying amounts, consistent with the presentation of discounts on consolidated obligations. The concessions are deferred and amortized, using a level-yield methodology, to interest expense over the term to contractual maturity of the corresponding consolidated obligations. When we prepay a CO bond, a proportionate share of any remaining balance of concessions is recognized as interest expense.

***Off-Balance Sheet Credit Exposures.*** As a result of adopting new accounting guidance on January 1, 2020, we evaluate the Bank's off-balance sheet credit exposures on a quarterly basis for expected credit losses. If deemed necessary, an allowance for expected credit losses is recorded in other liabilities with a corresponding adjustment to the provision for credit losses.

Prior to January 1, 2020, we recorded an allowance for credit losses in other liabilities for our off-balance sheet credit exposures only if it was probable a loss had been incurred as of the statement of condition date and the amount of loss could be reasonably estimated. For more information on the allowance methodology applied to our off-balance sheet credit exposures, see *Note 17 - Commitments and Contingencies.*

***Mandatorily Redeemable Capital Stock.*** When a member withdraws or attains non-member status by merger or acquisition, charter termination, relocation or other involuntary termination from membership, the member's shares are then subject to redemption, at which time a five-year redemption period commences for Class B stock. Since the shares meet the definition of a mandatorily redeemable financial instrument, the shares are reclassified from capital to liabilities as MRCS at estimated fair value, which is equal to par value. Dividends declared on shares classified as a liability are accrued at the expected dividend rate and reported as interest expense.

We reclassify MRCS from liabilities to capital when non-members subsequently become members through either acquisition, merger, or election. After the reclassification, dividends declared on that capital stock are no longer classified as interest expense.

***Restricted Retained Earnings.*** In accordance with our JCE Agreement, we allocate 20% of the Bank's net income each quarter to a separate restricted retained earnings account until the balance of that account, calculated as of the last day of each calendar quarter, equals at least 1% of the average balance of the Bank's outstanding consolidated obligations for the current quarter.

***Employee Retirement and Deferred Compensation Plans.*** We recognize the required contribution to the DB Plan ratably over the plan year to which it relates. Without a prefunding election, any contribution made in excess of the minimum required contribution is recorded as an expense in the quarterly reporting period in which the contribution is made; with a prefunding election, such excess contribution is recorded as a prepaid asset.

***Gains on Litigation Settlements.*** Litigation settlement gains, net of related legal fees and litigation expenses, are recorded in other income when realized. A litigation settlement gain is considered realized when we receive cash or assets that are readily convertible to known amounts of cash or claims to cash. In addition, a settlement gain is considered realized when we enter into a signed agreement not subject to appeal, the counterparty has the ability to pay, and the amount to be received can be reasonably estimated. Prior to being realized, we consider potential litigation settlement gains to be gain contingencies and, therefore, they are not recorded in the statement of income.

***Finance Agency Expenses.*** The portion of the Finance Agency's expenses and working capital fund not allocated to Freddie Mac and Fannie Mae is allocated among the FHLBanks as assessments, which are based on the ratio of each FHLBank's minimum required regulatory capital to the aggregate minimum required regulatory capital of every FHLBank. We record our share of these assessments in other expenses.

***Office of Finance Expenses.*** Our proportionate share of the Office of Finance's operating and capital expenditures is calculated based upon two components as follows: (i) two-thirds based on our share of total consolidated obligations outstanding and (ii) one-third based on equal pro-rata allocation. We record our share of these expenditures in other expenses.

***Cash Flows.*** We consider cash and due from banks on the statement of condition as cash and cash equivalents within the statement of cash flows because of their highly liquid nature. Federal funds sold, securities purchased under agreements to resell, and interest-bearing deposits are not treated as cash and cash equivalents, but instead are treated as short-term investments. Accordingly, their associated cash flows are reported in the investing activities section of the statement of cash flows.

Cash flows associated with derivatives are reported as cash flows from operating activities in the statement of cash flows unless the derivatives contain financing elements, in which case they are reflected as cash flows from financing activities. Derivative instruments that include non-standard terms, or require an upfront cash payment, or both, often contain a financing element.

**Note 2 - Recently Adopted and Issued Accounting Guidance**

***Recently Adopted Accounting Guidance.***

*Measurement of Credit Losses on Financial Instruments (ASU 2016-13).* On June 16, 2016, the FASB issued guidance replacing the current incurred loss model. The guidance requires entities to measure expected credit losses based on consideration of a broad range of relevant information, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount of the financial instrument. Prior to the adoption of this guidance, we recorded an allowance for credit losses (or OTTI for investment securities) if it was probable that a loss had been incurred as of the statement of condition date and the amount of the loss could be reasonably estimated.

This guidance was effective for the interim and annual periods beginning on January 1, 2020 and was applied using a modified-retrospective method. In spite of the requirement to measure expected credit losses over the estimated life of our financial instruments, i.e. interest-bearing deposits, securities purchased under agreements to resell, federal funds sold, investment securities, advances, and mortgage loans held for portfolio, the adoption of this guidance had no effect on our allowance for credit losses given the specific terms, issuer guarantees, and/or collateralized/secured nature of the instruments, and therefore no cumulative-effect adjustment was recorded to retained earnings as of January 1, 2020.

*Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13).* On August 28, 2018, the FASB issued guidance to update the disclosure requirements for fair value measurement. This guidance was issued as part of the FASB's disclosure framework project and is intended to improve disclosure effectiveness.

The guidance was effective for the interim and annual periods beginning on January 1, 2020. The adoption of this guidance affected our fair-value disclosures, but had no effect on our financial condition, results of operations or cash flows.

*Changes to the Disclosure Requirements for Defined Benefit Plans (ASU 2018-14).* On August 28, 2018, the FASB issued guidance to modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance was issued as part of the FASB's disclosure framework project and is intended to improve disclosure effectiveness.

The guidance was effective for the annual period ended December 31, 2020. The adoption of this guidance required us to add a disclosure to describe the reasons for any significant gains and losses related to changes in our benefit obligation and remove an existing disclosure regarding amounts in AOCI expected to be recognized as components of net periodic benefit cost over the next fiscal year. The guidance had no effect on our financial condition, results of operations or cash flows.

*Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract (ASU 2018-15).* On August 29, 2018, the FASB issued guidance on implementation costs incurred in a hosting arrangement that is a service contract. The guidance aligns the requirements for capitalizing such costs with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license.

This guidance was effective for the interim and annual periods beginning on January 1, 2020. The adoption of this guidance on a prospective basis had no effect on our financial condition, results of operations, or cash flows.

*The CARES Act and Interagency Statement.* On March 27, 2020, Section 4013 of the CARES Act was signed into law and provides optional, temporary relief from the accounting and reporting requirements for TDRs on certain conventional loan modifications related to COVID-19 that are offered by financial institutions, including a forbearance arrangement, an interest rate modification, a repayment plan, or any similar arrangement that defers or delays payment of principal or interest. To qualify for such relief, a loan must have been current as of December 31, 2019 and the modification must occur between March 1, 2020 and the earlier of December 31, 2020 or 60 days following the termination of the national emergency declared by the President of the United States. On December 27, 2020, the Consolidated Appropriations Act, 2021, was signed into law, extending the applicable period to the earlier of January 1, 2022, or 60 days following the termination of the national emergency declared on March 13, 2020.

In addition to the CARES Act, the Board of Governors of the Federal Reserve System, the FDIC, National Credit Union Administration, OCC, CFPB and the state banking regulators (collectively, the "Banking Agencies") issued a Revised Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (the "Interagency Statement") in April 2020. The Interagency Statement primarily offers certain interpretations of existing GAAP relative to conventional loan modifications that occur in response to the COVID-19 pandemic.

In the second quarter of 2020, we elected to apply the TDR relief that is provided by the CARES Act and further clarified by the Interagency Statement. As such, all qualifying COVID-19-related loan modifications considered to be formal, i.e. the legal terms of the loan were changed, are excluded from TDR classification and accounting and the payment status of the loan is returned to current. As of December 31, 2020, we had $12,309 of loans outstanding with such formal modifications. For all informal COVID-19-related loan modifications, i.e. the legal terms of the loan were not changed, we continue to follow our existing past-due, non-accrual, TDR and charge-off accounting policies as disclosed in *Note 1 - Summary of Significant Accounting Policies*.

*Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASU 2020-04).* On March 12, 2020, the FASB issued optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. Specifically, the guidance provides accounting relief related to the following:

> *Contract modifications.* Entities can elect not to apply certain modification accounting requirements to contracts affected by reference rate reform, if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination.
>
> *Hedging relationships.* Entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met.
>
> *Sales or transfers of debt securities classified as HTM*. Entities can make a one-time election to sell and/or reclassify HTM securities that reference an interest rate affected by reference rate reform and were classified as HTM prior to January 1, 2020.

The guidance is effective from March 12, 2020 through December 31, 2022. We may elect to adopt the guidance for eligible contract modifications and hedging relationships existing as of January 1, 2020 and prospectively thereafter until the expiration date of the guidance.

To date, we have not applied any of the optional expedients and exceptions provided by this guidance. On January 7, 2021, the FASB issued ASU 2021-01 which further clarified and broadened the scope of this guidance.

*Reference Rate Reform: Scope (ASU 2021-01).* On October 16, 2020, CME and LCH, i.e., the clearinghouses used for all of our cleared derivative transactions, revised their rulebooks to change the discounting and price alignment interest for cleared U.S. dollar interest-rate derivatives from the EFFR to SOFR. On January 7, 2021, the FASB issued guidance, which among other changes, amended the scope of the guidance previously introduced by ASU 2020-04 to allow derivative instruments impacted by changes in the interest rate used for margining, discounting, or price alignment to qualify for the optional relief.

The guidance was effective upon issuance and allows for retrospective or prospective application using the same date parameters as established by the ASU 2020-04 guidance. Upon issuance, we retrospectively adopted this guidance to support our reporting that, on the transition date, the discounting change from EFFR to SOFR did not result in the discontinuance of any impacted hedge relationship.

The mechanisms received from CME and LCH to compensate us for the changes in valuation and risk resulting from their rulebook revisions were not material to our financial condition, results of operations, or cash flows.

**Note 3 - Cash and Due from Banks**

***Compensating Balances.*** Periodically, we maintain cash balances with commercial banks in return for certain services. These agreements contain no legal restrictions on the withdrawal of funds. The average cash balances for the years ended December 31, 2020, 2019, and 2018, were $65,945, $19,420, and $22,300, respectively.

***Pass-through Deposit Reserves.*** We act as a pass-through correspondent for member institutions required to deposit reserves with the Federal Reserve Banks. The amounts reported as cash and due from banks at December 31, 2020 and 2019 include pass-through reserves of $1,506 and $54,264, respectively.

## Note 4 - Investments

***Short-term Investments.***

We invest in interest-bearing deposits, securities purchased under agreements to resell, and federal funds sold to provide short-term liquidity. These investments are generally transacted with counterparties that maintain a credit rating of triple-B or higher (investment grade) by an NRSRO. At December 31, 2020, none of these investments were with counterparties rated below single-A and none were with unrated counterparties. The NRSRO ratings may differ from our internal ratings of the investments, if applicable.

*Allowance for Credit Losses.*

*Interest-Bearing Deposits*. Interest-bearing deposits are considered overnight investments given our ability to withdraw funds from these accounts at any time. As such, no allowance for credit losses was recorded for these investments at December 31, 2020 and 2019.

The carrying values of interest-bearing deposits at December 31, 2020 and 2019 exclude accrued interest receivable of $13 and $1,080, respectively.

*Securities Purchased Under Agreements to Resell.* Securities purchased under agreements to resell are structured such that they are evaluated regularly to determine if the market value of the underlying securities decreases below the market value required as collateral (i.e. subject to collateral maintenance provisions). If so, the counterparty must place an equivalent amount of additional securities as collateral or remit an equivalent amount of cash, generally by the next business day. Based upon the collateral held as security and collateral maintenance provisions with our counterparties, no allowance for credit losses was recorded for securities purchased under agreements to resell at December 31, 2020 and 2019.

The carrying values of securities purchased under agreements to resell as of December 31, 2020 and 2019 exclude accrued interest receivable of $5 and $65, respectively.

*Federal Funds Sold*. Federal funds sold are unsecured loans that are generally transacted on an overnight term. Finance Agency regulations include a limit on the amount of unsecured credit an individual FHLBank may extend to a counterparty. All investments in federal funds sold at December 31, 2020 and 2019 were repaid according to the contractual terms and, therefore, no allowance for credit losses was recorded.

The carrying values of federal funds sold at December 31, 2020 and 2019 exclude accrued interest receivable of $3 and $111, respectively.

***Investment Securities.***

*Trading Securities.*

*Major Security Types.* The following table presents our trading securities by type of security.

| Security Type | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Non-mortgage-backed securities: | | |
| U.S. Treasury obligations | $ 5,094,703 | $ 5,016,649 |
| Total trading securities at estimated fair value | $ 5,094,703 | $ 5,016,649 |

*Net Gains (Losses) on Trading Securities.* The following table presents net gains (losses) on trading securities, excluding any offsetting effect of gains (losses) on the associated derivatives.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| Net unrealized gains (losses) on trading securities held at year end | $ (36,994) | $ 30,705 | $ — |
| Net realized gains on trading securities that matured/sold during the year | 22,510 | 2,291 | — |
| Net gains (losses) on trading securities | $ (14,484) | $ 32,996 | $ — |

*Available-for-Sale Securities.*

*Major Security Types.* The following table presents our AFS securities by type of security.

| December 31, 2020 | Amortized Cost [1] | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| GSE and TVA debentures | $ 3,462,885 | $ 40,252 | $ — | $ 3,503,137 |
| GSE MBS | 6,545,093 | 98,263 | (1,594) | 6,641,762 |
| Total AFS securities | $10,007,978 | $ 138,515 | $ (1,594) | $10,144,899 |
| **December 31, 2019** | | | | |
| GSE and TVA debentures | $ 3,885,012 | $ 41,840 | $ — | $ 3,926,852 |
| GSE MBS | 4,509,653 | 51,200 | (3,227) | 4,557,626 |
| Total AFS securities | $ 8,394,665 | $ 93,040 | $ (3,227) | $ 8,484,478 |

[1] Includes adjustments made to the cost basis for purchase discount or premium and related accretion or amortization, and, if applicable, fair-value hedging basis adjustments. Net unamortized premium at December 31, 2020 and 2019 totaled $16,300 and $5,773, respectively. The applicable fair-value hedging basis adjustments at December 31, 2020 and 2019 totaled $627,619 and $150,372, respectively. Excludes accrued interest receivable at December 31, 2020 and 2019 of $34,616 and $32,963, respectively. Carrying value equals estimated fair value.

*Unrealized Loss Positions.* The following table presents impaired AFS securities (i.e., in an unrealized loss position), aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position.

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2020 | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| GSE MBS | $ 132,054 | $ (179) | $ 179,387 | $ (1,415) | $ 311,441 | $ (1,594) |
| Total impaired AFS securities | $ 132,054 | $ (179) | $ 179,387 | $ (1,415) | $ 311,441 | $ (1,594) |
| **December 31, 2019** | | | | | | |
| GSE MBS | $ 339,981 | $ (1,134) | $ 519,446 | $ (2,093) | $ 859,427 | $ (3,227) |
| Total impaired AFS securities | $ 339,981 | $ (1,134) | $ 519,446 | $ (2,093) | $ 859,427 | $ (3,227) |

*Realized Gains and Losses.* During the year ended December 31, 2020, for strategic, economic and operational reasons, we sold certain of our GSE MBS. Proceeds from the AFS sales totaled $96,779, resulting in net realized gains of $504, comprised of realized gains of $715 and realized losses of $211 determined by the specific identification method.

There were no sales during the year ended December 31, 2019.

During the year ended December 31, 2018, for strategic, economic and operational reasons, we sold all of our AFS investments in private-label RMBS and ABS. None of the OTTI AFS securities sold in 2018 were in an unrealized loss position. Proceeds from the AFS sales totaled $203,841, resulting in realized gains of $32,407 determined by the specific identification method.

*Contractual Maturity.* The amortized cost and estimated fair value of non-MBS AFS securities are presented below by contractual maturity. MBS are not presented by contractual maturity because their actual maturities will likely differ from their contractual maturities as borrowers have the right to prepay their obligations with or without prepayment fees.

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **Year of Contractual Maturity** | **Amortized Cost** | **Estimated Fair Value** | **Amortized Cost** | **Estimated Fair Value** |
| Due in 1 year or less | $ 705,134 | $ 705,442 | $ 570,209 | $ 571,588 |
| Due after 1 year through 5 years | 1,215,038 | 1,225,187 | 1,729,664 | 1,742,681 |
| Due after 5 years through 10 years | 1,542,713 | 1,572,508 | 1,489,144 | 1,514,978 |
| Due after 10 years | — | — | 95,995 | 97,605 |
| Total non-MBS | 3,462,885 | 3,503,137 | 3,885,012 | 3,926,852 |
| Total MBS | 6,545,093 | 6,641,762 | 4,509,653 | 4,557,626 |
| Total AFS securities | $10,007,978 | $10,144,899 | $ 8,394,665 | $ 8,484,478 |

*Held-to-Maturity Securities.*

*Major Security Types.* The following table presents our HTM securities by type of security.

| **December 31, 2020** | **Amortized Cost** [1] | **Gross Unrecognized Holding Gains** [2] | **Gross Unrecognized Holding Losses** [2] | **Estimated Fair Value** |
|---|---|---|---|---|
| MBS: | | | | |
| Other U.S. obligations - guaranteed MBS | $ 2,622,677 | $ 6,920 | $ (4,590) | $ 2,625,007 |
| GSE MBS | 2,078,625 | 21,640 | (1,476) | 2,098,789 |
| Total HTM securities | $ 4,701,302 | $ 28,560 | $ (6,066) | $ 4,723,796 |
| **December 31, 2019** | | | | |
| MBS: | | | | |
| Other U.S. obligations - guaranteed MBS | $ 3,059,875 | $ 6,948 | $ (13,217) | $ 3,053,606 |
| GSE MBS | 2,156,526 | 10,117 | (4,043) | 2,162,600 |
| Total HTM securities [3] | $ 5,216,401 | $ 17,065 | $ (17,260) | $ 5,216,206 |

(1) Carrying value equals amortized cost, which includes adjustments made to the cost basis for purchase discount or premium and related accretion or amortization. Net unamortized premium at December 31, 2020 and 2019 totaled $7,101 and $8,418, respectively. Excludes accrued interest receivable at December 31, 2020 and 2019 of $2,689 and $7,156, respectively.

(2) Gross unrecognized holding gains (losses) represent the cumulative increases (decreases) in estimated fair value.

(3) Total HTM securities as of December 31, 2019 in an unrealized loss position for less than 12 months had an estimated fair value of $1,494,740 and unrealized losses of $8,923, while those in an unrealized loss position for 12 months or more had an estimated fair value of $1,298,228 and unrealized losses of $8,337.

*Realized Gains and Losses.* There were no sales of HTM securities during the years ended December 31, 2020 or 2019. During the year ended December 31, 2018, for strategic, economic and operational reasons, we sold all of our HTM investments in private-label RMBS and ABS. The amortized cost of the HTM securities sold totaled $41,271. Proceeds from the HTM sales totaled $41,226, resulting in realized losses of $45 determined by the specific identification method. For each of these HTM securities, we had previously collected at least 85% of the principal outstanding at the time of acquisition due to prepayments or scheduled payments over the term. As such, the sales were considered maturities for purposes of security classification.

*Contractual Maturity.* MBS are not presented by contractual maturity because their actual maturities will likely differ from contractual maturities as borrowers have the right to prepay their obligations with or without prepayment fees.

*Allowance for Credit Losses on Investment Securities.* At December 31, 2020, 100% of our AFS and HTM securities were rated single-A, or above, by an NRSRO, based on the lowest long-term credit rating for each security. These may differ for any internal ratings of the securities, if applicable.

*AFS Securities.* At December 31, 2020, certain of our AFS securities were in an unrealized loss position; however, we did not record an allowance for credit losses because these losses are considered temporary and we expect to recover the entire amortized cost basis on these securities based upon the following factors: (i) all securities were highly-rated, (ii) we have not experienced, nor do we expect, any payment defaults on the securities, (iii) the U.S., GSE, and other agency obligations carry an explicit or implicit government guarantee such that the we consider the risk of nonpayment to be zero, and (iv) we had no intention of selling any of these securities nor did we consider it more likely than not that we will be required to sell any of these securities before recovery of each security's remaining amortized cost basis.

*HTM Securities.* At December 31, 2020, we did not establish an allowance for credit losses on any of our HTM securities based on the following factors: (i) all securities were highly-rated, (ii) we have not experienced, nor do we expect, any payment defaults on the securities, (iii) the U.S., GSE, and other agency obligations carry an explicit or implicit government guarantee such that we consider the risk of nonpayment to be zero, and (iv) we had no intention of selling any of these securities nor did we consider it more likely than not that we will be required to sell any of these securities.

Under the previous security impairment methodology for AFS and HTM securities, the Bank did not recognize any OTTI during the years ended December 31, 2019 or 2018.

The following table presents a rollforward of the amounts related to credit losses recognized in earnings.

| **Credit Loss Rollforward** | **2018** |
|---|---|
| Balance at beginning of year | $ 44,935 |
| Reductions: | |
| Credit losses on securities sold, matured, paid down or prepaid | (43,049) |
| Increases in cash flows expected to be collected (accreted as interest income over the remaining lives of the applicable securities) | (1,886) |
| Balance at end of year | $ — |

**Note 5 - Advances**

We offer a wide range of fixed- and adjustable-rate advance products with various maturities, interest rates, payment characteristics and optionality. Adjustable-rate advances have interest rates that reset periodically at a fixed spread to LIBOR or another specified index, including SOFR. Longer-term advances may be available subject to market conditions for both fixed-rate and adjustable-rate products.

The following table presents advances outstanding by redemption term.

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **Redemption Term** | **Amount** | **WAIR %** | **Amount** | **WAIR %** |
| Overdrawn demand and overnight deposit accounts | $ — | — | $ 37 | 3.99 |
| Due in 1 year or less | 10,115,576 | 0.51 | 11,791,716 | 1.85 |
| Due after 1 year through 2 years | 2,149,839 | 1.57 | 2,106,315 | 2.12 |
| Due after 2 years through 3 years | 2,760,624 | 2.02 | 2,505,693 | 2.16 |
| Due after 3 years through 4 years | 3,725,103 | 1.36 | 2,625,446 | 2.44 |
| Due after 4 years through 5 years | 3,020,039 | 1.29 | 4,076,103 | 2.08 |
| Thereafter | 8,919,678 | 1.05 | 9,166,357 | 1.89 |
| Total advances, par value | 30,690,859 | 1.06 | 32,271,667 | 1.98 |
| Fair-value hedging basis adjustments, net | 645,946 | | 207,111 | |
| Unamortized swap termination fees associated with modified advances, net of deferred prepayment fees | 10,681 | | 1,330 | |
| Total advances [1] | $ 31,347,486 | | $ 32,480,108 | |

[1] Carrying value equals amortized cost, which includes adjustments made to the cost basis for purchase discount or premium and related accretion or amortization, and net charge-offs, and excludes accrued interest receivable at December 31, 2020 and 2019 of $14,961 and $27,019, respectively.

We offer our members certain advances that provide them the right, at predetermined future dates, to call (i.e., prepay) the advance prior to maturity without incurring prepayment or termination fees. Borrowers typically exercise their call options for fixed-rate advances when interest rates decline. We also offer certain adjustable-rate advances that may be contractually prepaid by the borrower at the interest-rate reset date without incurring prepayment or termination fees. All other advances may only be prepaid by paying a fee that is sufficient to make us financially indifferent to the prepayment of the advance. We also offer putable advances. Under the terms of a putable advance, we retain the right to extinguish or put the fixed-rate advance to the member on predetermined future dates and offer replacement funding at current market rates, subject to certain conditions.

The following table presents advances outstanding by the earlier of the redemption date or the next call date and next put date.

| | Earlier of Redemption or Next Call Date | | Earlier of Redemption or Next Put Date | |
|---|---|---|---|---|
| | **December 31, 2020** | **December 31, 2019** | **December 31, 2020** | **December 31, 2019** |
| Overdrawn demand and overnight deposit accounts | $ — | $ 37 | $ — | $ 37 |
| Due in 1 year or less | 15,296,034 | 18,497,813 | 14,645,076 | 14,560,066 |
| Due after 1 year through 2 years | 1,797,049 | 1,514,015 | 3,107,339 | 3,329,315 |
| Due after 2 years through 3 years | 2,440,024 | 2,127,903 | 3,160,729 | 3,254,093 |
| Due after 3 years through 4 years | 2,246,102 | 2,117,546 | 3,824,603 | 3,025,551 |
| Due after 4 years through 5 years | 2,076,839 | 2,454,103 | 2,585,439 | 3,481,353 |
| Thereafter | 6,834,811 | 5,560,250 | 3,367,673 | 4,621,252 |
| Total advances, par value | $ 30,690,859 | $ 32,271,667 | $ 30,690,859 | $ 32,271,667 |

Captive insurance companies that were admitted as FHLBank members prior to September 12, 2014, and did not meet the definition of "insurance company" or fall within another category of institution that is eligible for FHLBank membership under the Final Membership Rule, had their memberships terminated by February 19, 2021. However, the outstanding advances to these captive insurers totaling $288,000 are not required to be repaid prior to their various maturity dates through 2024.

***Advance Concentrations***. At December 31, 2020 and 2019, our top five borrowers held 44% and 42%, respectively, of total advances outstanding at par.

***Allowance for Credit Losses on Advances.*** We manage our exposure to advances outstanding through an integrated approach that generally includes establishing a credit limit for each borrower, and an ongoing review of each borrower's financial condition, coupled with conservative collateral/lending policies to limit the risk of loss while balancing the borrower's needs for a reliable source of funding. In addition, we lend to eligible borrowers in accordance with federal statutes and Finance Agency regulations. Specifically, we comply with the Bank Act, which requires us to obtain sufficient collateral to fully secure credit products. We evaluate and update our collateral guidelines, as necessary, based on current market conditions.

We accept certain investment securities, residential mortgage loans, deposits, and other real estate-related assets as collateral. In addition, certain members that qualify as CFIs are eligible to utilize expanded statutory collateral provisions for small business and agriculture loans. Under the Bank Act, our members' capital stock in our Bank serves as additional security. Collateral arrangements may vary depending upon borrower credit quality, financial condition and performance; borrowing capacity; and overall credit exposure to the borrower. To ensure that we are sufficiently protected, we evaluate and determine whether a member may retain physical possession of its collateral that is pledged to us or must specifically deliver the collateral to us or our safekeeping agent.

Our evaluation of credit losses on advances utilizes a basic framework that considers the adequacy of the advances' associated collateral and the associated members' willingness and ability to pledge additional collateral to satisfy any current or anticipated future deficiency. Our agreements with borrowers allow us, at any time and in our sole discretion, to require substitution of collateral, adjust the over-collateralization requirements applied to collateral, or refuse to make extensions of credit against any collateral. We also may require borrowers to pledge additional collateral regardless of whether the collateral would be eligible to originate a new extension of credit. Our agreements with our borrowers also afford us the right, in our sole discretion, to declare any borrower to be in default if we deem our Bank to be inadequately secured.

We determine the estimated value of the collateral required to secure each member's advances by applying collateral discounts, or haircuts, to the market value or UPB of the collateral, as applicable. Using a risk-based approach, we consider the amount and quality of the collateral pledged and the borrower's financial condition to be the primary indicators of an advance's credit quality. At December 31, 2020 and 2019, we had rights to collateral on a borrower-by-borrower basis with an estimated lendable value equal to or in excess of our advances outstanding.

At December 31, 2020 and 2019, we did not have any advances that were past due, on non-accrual status, or considered impaired. In addition, there were no TDRs related to advances during the years ended December 31, 2020, 2019, or 2018.

Based upon the collateral held as security, our credit extension and collateral policies, our credit analysis and the repayment history on advances, we have not recorded an allowance for credit losses on advances.

**Note 6 - Mortgage Loans Held for Portfolio**

Mortgage loans held for portfolio consist substantially of residential loans acquired from our members through the MPP. Participating interests were purchased in 2012 - 2014 from the FHLBank of Topeka in residential loans that were originated by certain of its PFIs through their participation in the MPF Program offered by the FHLBank of Chicago. The balances also reflect the sale of a 90% participating interest in a $100 million MCC of certain newly acquired MPP loans to another FHLBank in 2016. The MPP and MPF Program loans are fixed rate and either credit enhanced by PFIs, if conventional, or guaranteed or insured by government agencies.

The following tables present information on mortgage loans held for portfolio by term, type and product.

| Term | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Fixed-rate long-term mortgages | $ 7,257,237 | $ 9,677,008 |
| Fixed-rate medium-term [1] mortgages | 1,065,329 | 908,526 |
| Total mortgage loans held for portfolio, UPB | 8,322,566 | 10,585,534 |
| Unamortized premiums | 187,425 | 231,807 |
| Unamortized discounts | (1,638) | (2,158) |
| Hedging basis adjustments, net | 7,642 | 154 |
| Total mortgage loans held for portfolio | 8,515,995 | 10,815,337 |
| Allowance for credit losses | (350) | (300) |
| Total mortgage loans held for portfolio, net [2] | $ 8,515,645 | $ 10,815,037 |

[1] Defined as a term of 15 years or less at origination.
[2] Excludes accrued interest receivable at December 31, 2020 and 2019 of $34,151 and $47,722, respectively.

| Type | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Conventional | $ 8,069,274 | $ 10,263,249 |
| Government-guaranteed or -insured | 253,292 | 322,285 |
| Total mortgage loans held for portfolio, UPB | $ 8,322,566 | $ 10,585,534 |

| Product | December 31, 2020 | December 31, 2019 |
|---|---|---|
| MPP | $ 8,163,902 | $ 10,363,081 |
| MPF Program | 158,664 | 222,453 |
| Total mortgage loans held for portfolio, UPB | $ 8,322,566 | $ 10,585,534 |

*Conventional MPP.* Our management of credit risk considers the several layers of loss protection that are defined in our agreements with the PFIs. Our loss protection consists of the following loss layers, in order of priority, (i) borrower equity; (ii) PMI up to coverage limits (when applicable for the acquisition of mortgages with an initial LTV ratio of over 80% at the time of purchase); (iii) available funds remaining in the LRA; and (iv) SMI coverage (as applicable) purchased by the seller from a third-party provider naming the Bank as the beneficiary, up to the policy limits. Any losses not absorbed by the loss protection are borne by the Bank.

For conventional mortgage loans under our original MPP, credit enhancement is provided through allocating a portion of the periodic interest payments on the loans into an LRA. In addition, the PFI selling conventional loans to us is required to purchase SMI, paid through periodic interest payments, as an enhancement to cover credit losses over and above those covered by the LRA, but the covered losses are limited to the terms of the policy.

Beginning with Advantage MPP, we discontinued the use of SMI for all loan purchases and replaced it with a fixed LRA. The fixed LRA is funded with a portion of each loan's purchase proceeds.

The LRA is segregated by pools of loans and used to cover losses in a pool beyond those covered by an individual loan's PMI (as applicable), but is limited to covering losses of that specific pool only. Any excess funds are ultimately distributed to the member in accordance with a step-down schedule that is established upon execution of an MCC, subject to performance of the related pool.

The following table presents the activity in the LRA, which is reported in other liabilities.

| LRA Activity | 2020 | 2019 | 2018 |
|---|---|---|---|
| Liability, beginning of year | $ 186,585 | $ 174,096 | $ 148,715 |
| Additions | 24,298 | 15,435 | 26,662 |
| Claims paid | (329) | (302) | (508) |
| Distributions to PFIs | (3,249) | (2,644) | (773) |
| Liability, end of year | $ 207,305 | $ 186,585 | $ 174,096 |

*Conventional MPF Program.* Our management of credit risk in the MPF Program considers the several layers of loss protection that are defined in agreements among the FHLBank of Topeka and its PFIs. The availability of loss protection may differ slightly among MPF products. The loss layers, in order of priority, are (i) borrower equity; (ii) PMI up to coverage limits (when applicable for the purchase of mortgages with an initial LTV ratio of over 80% at the time of purchase); (iii) FLA, which represents the first layer or portion of credit losses that we absorb after the borrower's equity, PMI, and any recoverable CE fees; and (iv) the CE Obligation of a PFI, which absorbs losses in excess of the FLA in order to limit our loss exposure to that of an investor in an MBS deemed to be investment-grade. Any losses not absorbed by the loss protection are shared among the participating FHLBanks based upon the applicable percentage of participation.

PFIs retain a portion of the credit risk on the loans they sell by providing credit enhancement through a direct liability to pay credit losses up to a specified amount. PFIs are paid a CE fee for assuming credit risk and, in some instances, all or a portion of the CE fee may be performance-based. To the extent the Bank is responsible for losses in a pool, it may be able to recapture CE fees paid to that PFI to offset those losses. All CE fees are paid monthly based on the remaining UPB of the loans in a pool.

*Government-Guaranteed or -Insured Mortgage Loans.* These fixed-rate mortgage loans are guaranteed or insured by the FHA, Department of Veterans Affairs, Rural Housing Service of the Department of Agriculture, or HUD. The servicer provides and maintains a guaranty or insurance from the applicable government agency. The servicer is responsible for compliance with all government agency requirements and for obtaining the benefit of the applicable guaranty or insurance with respect to defaulted government-guaranteed or -insured mortgage loans. Any losses incurred on these loans that are not recovered from the insurer or guarantor are absorbed by the servicers.

*Credit Quality Indicators for Conventional Mortgage Loans and Other Delinquency Statistics.* Payment status is the key credit quality indicator for conventional mortgage loans and allows us to monitor the migration of past due loans. Past due loans are those where the borrower has failed to make timely payments of principal and/or interest in accordance with the terms of the loan. Other delinquency statistics include non-accrual loans and loans in process of foreclosure. The tables below present the key credit quality indicators for our mortgage loans held for portfolio.

| | Origination Year | | |
|---|---|---|---|
| Payment Status as of December 31, 2020 | Prior to 2016 | 2016 to 2020 | Total |
| Past due: | | | |
| 30-59 days | $ 19,893 | $ 22,130 | $ 42,023 |
| 60-89 days | 6,980 | 12,078 | 19,058 |
| 90 days or more | 27,467 | 67,075 | 94,542 |
| Total past due | 54,340 | 101,283 | 155,623 |
| Total current | 2,468,908 | 5,635,070 | 8,103,978 |
| Total conventional mortgage loans, amortized cost [1] | $ 2,523,248 | $ 5,736,353 | $ 8,259,601 |

We have continued to apply our existing accounting policies for past due, non-accrual, and charge-offs for COVID-19-related loan modifications considered to be informal, i.e. the legal terms of the loan were not changed. Based on the most recent information received from our mortgage servicers, as of December 31, 2020, the UPB of conventional loans in an informal forbearance arrangement totaled $111,516, or 1.4% of our total conventional loans outstanding. The payment status as of December 31, 2020 includes such loans 30 to 59 days past due of $10,214, 60-89 days past due of $12,661, and 90 days or more past due of $79,011, for total past due of $101,886. Such loans with a current payment status totaled $9,630.

As of December 31, 2020, no formal or informal COVID-19-related loan modifications were classified as TDRs. For more information, see *Note 2 - Recently Adopted and Issued Accounting Guidance*.

| **Payment Status as of December 31, 2019** | **Total** |
|---|---|
| Past due: | |
| 30-59 days | $ 44,479 |
| 60-89 days | 9,868 |
| 90 days or more | 10,668 |
| Total past due | 65,015 |
| Total current | 10,470,495 |
| Total conventional mortgage loans, recorded investment [1][2] | $ 10,535,510 |

| **Other Delinquency Statistics as of December 31, 2020** | **Conventional** | **Government** | **Total** |
|---|---|---|---|
| In process of foreclosure [3] | $ 2,689 | $ — | $ 2,689 |
| Serious delinquency rate [1][4] | 1.14 % | 3.36 % | 1.21 % |
| Past due 90 days or more still accruing interest [1][5] | $ 36,585 | $ 7,933 | $ 44,518 |
| On non-accrual status [6] | $ 87,763 | $ — | $ 87,763 |
| **Other Delinquency Statistics as of December 31, 2019** | | | |
| In process of foreclosure [3] | $ 2,071 | $ — | $ 2,071 |
| Serious delinquency rate [1][4] | 0.10 % | 0.94 % | 0.13 % |
| Past due 90 days or more still accruing interest [1][5] | $ 10,127 | $ 3,069 | $ 13,196 |
| On non-accrual status | $ 1,063 | $ — | $ 1,063 |

(1) Based on the amortized cost at December 31, 2020, which excludes accrued interest receivable. Based on the recorded investment at December 31, 2019, which includes accrued interest receivable.

(2) The recorded investment in a loan is the UPB of the loan, adjusted for accrued interest, net of any unamortized premiums or discounts (which may include the basis adjustment related to any gain or loss on a delivery commitment prior to being funded) and direct charge-offs. The recorded investment is not net of any valuation allowance.

(3) Includes loans for which the decision of foreclosure or similar alternative, such as pursuit of deed-in-lieu of foreclosure, has been reported. Loans in process of foreclosure are included in past due categories depending on their delinquency status, but are not necessarily considered to be on non-accrual status.

(4) Represents loans 90 days or more past due (including loans in process of foreclosure) expressed as a percentage of the total mortgage loans. The percentage excludes principal and interest amounts previously paid in full by the servicers on conventional loans that are pending resolution of potential loss claims. Our servicers repurchase seriously delinquent government loans, including FHA loans, when certain criteria are met.

(5) Although our past due scheduled/scheduled MPP loans are classified as loans past due 90 days or more based on the loan's delinquency status, we do not consider these loans to be on non-accrual status.

(6) As of December 31, 2020, $87,708 of UPB of these conventional mortgage loans on non-accrual status did not have a specifically assigned allowance for credit losses and $59,306 of UPB of these conventional mortgage loans were in informal forbearance related to the COVID-19 pandemic.

***Allowance for Credit Losses.***

*Collectively Evaluated Mortgage Loans.* Conventional loans current to 179 days past due are collectively evaluated at the pool level using a recognized third-party credit and prepayment model, which considers both current and historical information and events and reasonable and supportable forecasts that rely upon certain key inputs and assumptions, to estimate potential ranges of credit loss exposure over the estimated life of the loans. One such key input is a 3-year forecast of housing prices before full reversion to historical inputs over 5 years. Additionally, the evaluation is based upon distinct underlying loan characteristics, including loan vintage (year of origination), geographic location, credit support features and other factors, and a projected migration of loans through the various stages of delinquency.

Seriously delinquent conventional loans 180 days or more past due and not charged-off are also collectively evaluated at the pool level based on loan-specific attribution data, including the use of loan-level property values from a third-party.

Prior to January 1, 2020, our allowance was based on our best estimate of probable losses over a loss emergence period of 24 months.

*Individually Evaluated Mortgage Loans.* Certain conventional mortgage loans, primarily TDRs, are specifically identified for purposes of calculating the allowance for credit losses. The measurement of our allowance for individually evaluated loans considers loan-specific attribution data similar to homogeneous pools of delinquent loans evaluated on a collective basis, including the use of loan-level property values from a third-party.

We also individually evaluate any remaining exposure to delinquent MPP conventional loans paid in full by the servicers. An estimate of the loss, if any, is equal to the estimated cost associated with maintaining and disposing of the property (which includes the UPB, interest owed on the delinquent loan to date, and estimated costs associated with disposing of the collateral) less the estimated fair value of the collateral (net of estimated selling costs) and the amount of credit enhancements including the PMI, LRA and SMI. The estimated fair value of the collateral is obtained from HUD statements, sales listings or other evidence of current expected liquidation amounts.

*Qualitative Factors.* We also assess qualitative factors in our estimation of credit losses. These factors represent a subjective management judgment based on facts and circumstances that exist as of the reporting date that are not ascribed to any specific measurable economic or credit event and therefore may not otherwise be captured in our methodology.

*Components and Rollforward of Allowance for Credit Losses.* The following table presents the components of the allowance for credit losses, including the credit enhancement waterfall for MPP.

| Components of Allowance | December 31, 2020 | December 31, 2019 |
|---|---|---|
| MPP expected losses remaining after borrower's equity, before credit enhancements | $ 10,305 | $ 4,410 |
| Portion of expected losses recoverable from credit enhancements: | | |
| PMI | (2,277) | (667) |
| LRA [1] | (6,847) | (2,581) |
| SMI | (963) | (927) |
| Total portion recoverable from credit enhancements | (10,087) | (4,175) |
| Allowance for unrecoverable PMI/SMI | 32 | 15 |
| Allowance for MPP credit losses | 250 | 250 |
| Allowance for MPF Program credit losses | 100 | 50 |
| Allowance for credit losses | $ 350 | $ 300 |

[1] Amounts recoverable are limited to (i) the expected losses remaining after borrower's equity and PMI and (ii) the remaining balance in each pool's portion of the LRA. The remainder of the total LRA balance is available to cover any losses not yet expected and to distribute any excess funds to the PFIs.

The table below presents a rollforward of our allowance for credit losses.

| Rollforward of Allowance | 2020 | 2019 | 2018 |
|---|---|---|---|
| Balance, beginning of year | $ 300 | $ 600 | $ 850 |
| Charge-offs | (140) | (137) | (444) |
| Recoveries | 50 | 126 | 425 |
| Provision for (reversal of) credit losses | 140 | (289) | (231) |
| Balance, end of year | $ 350 | $ 300 | $ 600 |

*Government-Guaranteed or -Insured Mortgage Loans.* Based on the U.S. government guarantee or insurance on these loans, our assessment of our servicers, and the collateral backing the loans, we did not establish an allowance for credit losses for government-guaranteed or -insured mortgage loans at December 31, 2020 or 2019. Furthermore, none of these mortgage loans have been placed on non-accrual status due to the U.S. government guarantee or insurance on these loans and the contractual obligation of the loan servicer to repurchase the loans when certain criteria are met.

**Note 7 - Premises, Software and Equipment**

The following table presents the types of our premises, software and equipment.

| Type | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Premises | $ 15,769 | $ 15,828 |
| Computer software | 48,952 | 45,049 |
| Data processing equipment | 6,048 | 4,975 |
| Furniture and equipment | 6,365 | 6,294 |
| Other | 756 | 703 |
| Premises, software and equipment, in service | 77,890 | 72,849 |
| Accumulated depreciation and amortization | (46,681) | (41,133) |
| Premises, software and equipment, in service, net | 31,209 | 31,716 |
| Capitalized assets in progress | 2,784 | 4,833 |
| Premises, software and equipment, net | $ 33,993 | $ 36,549 |

The depreciation and amortization expense for premises, software and equipment for the years ended December 31, 2020, 2019, and 2018 was $7,198, $6,879, and $6,230, respectively, including amortization of computer software costs of $5,315, $4,983, and $4,237, respectively.

**Note 8 - Derivatives and Hedging Activities**

***Nature of Business Activity.*** We are exposed to interest-rate risk primarily from the effect of changes in market interest rates on our interest-earning assets and our interest-bearing liabilities that finance those assets. The goal of our interest-rate risk management strategies is not to eliminate interest-rate risk, but to manage it within appropriate limits. To mitigate the risk of loss, we have established policies and procedures, which include guidelines on the amount of exposure to interest rate changes that we are willing to accept. In addition, we monitor the risk to our interest income, net interest margin and average maturity of interest-earning assets and interest-bearing liabilities.

Consistent with Finance Agency regulation, we enter into derivatives to (i) manage the interest-rate risk exposures inherent in our otherwise unhedged assets and funding positions, (ii) achieve our risk management objectives, and (iii) act as an intermediary between our members and counterparties. Finance Agency regulation and our risk management policies prohibit trading in, or the speculative use of, these derivative instruments and limit credit risk arising from these instruments. However, the use of derivatives is an integral part of our financial management strategy.

We use derivative financial instruments when they are considered to be the most cost-effective alternative to achieve our financial and risk management objectives. The most common ways in which we use derivatives are to:

- reduce the interest-rate sensitivity and repricing gaps of assets and liabilities;
- protect the value of existing asset and liability positions or of commitments and forecasted transactions;
- mitigate the adverse earnings effects of the shortening or extension of the duration of certain assets (e.g., advances or mortgage assets) and liabilities;
- reduce funding costs by executing a derivative concurrently with the issuance of a consolidated obligation as the cost of a combined funding structure can be lower than the cost of a comparable CO bond;
- preserve a favorable interest-rate spread between the yield of an asset (e.g., an advance) and the cost of the related liability (e.g., CO bond used to fund advance);
- manage embedded options in assets and liabilities; and
- manage our overall asset/liability structure.

We reevaluate our hedging strategies from time to time and, consequently, we may adopt new strategies or change our hedging techniques.

We transact most of our derivatives with large banks and major broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell, and distribute consolidated obligations. We are not a derivatives dealer and thus do not trade derivatives for short-term profit. Over-the-counter derivative transactions may be either executed with a counterparty (uncleared derivatives) or cleared through a Futures Commission Merchant (i.e., clearing agent) with a clearinghouse (cleared derivatives). Once a derivative transaction has been accepted for clearing by a clearinghouse, the derivative transaction is novated, and the executing counterparty is replaced with the clearinghouse.

***Types of Derivatives.*** We use the following derivative instruments to reduce funding costs and to manage our exposure to interest-rate risks inherent in the normal course of business.

*Interest-Rate Swaps.* The variable rate we receive or pay in most interest-rate swaps is currently indexed to LIBOR, EFFR, or SOFR.

*Interest-Rate Cap and Floor Agreements.* Caps and floors are used to protect against the interest rate on a variable-rate asset or liability falling below or rising above a certain level.

*Interest-Rate Swaptions.* To protect against the adverse effects of sudden increases or decreases in interest rates, we utilize payer or receiver swaptions, respectively.

*Forward Contracts.* Certain MDCs entered into by us are considered derivatives. We may hedge these MDCs by selling TBAs for forward settlement.

***Types of Hedged Items.*** We document at inception all relationships between the derivatives designated as hedging instruments and the hedged items, our risk management objectives and strategies for undertaking various hedge transactions, and our method of assessing effectiveness. For derivatives in shortcut hedge accounting relationships, we can assume the change in the fair value of the derivative is perfectly effective in offsetting the change in the fair value of the hedged item attributable to the hedged risk without performing a formal effectiveness assessment at the hedge's inception or on an on-going basis. For derivatives in long-haul hedge accounting relationships, we formally assess (both at the hedge's inception and at least quarterly), using regression analyses, whether the derivatives have been highly effective in offsetting changes in the fair value of the hedged items attributable to the hedged risk and whether those derivatives may be expected to remain highly effective in future periods. We have the following types of hedged items:

*Investments.* We primarily invest in MBS, U.S. Treasury securities, and GSE and TVA debentures, which may be classified as trading, HTM or AFS securities. The interest-rate, prepayment and duration risks associated with these investment securities are managed through a combination of debt issuance and derivatives. We may manage those risks by funding investment securities with consolidated obligations that contain call features. We may also hedge the prepayment risk with caps or floors, callable swaps or swaptions. We may manage the risk and volatility arising from changing market prices of investment securities by matching the cash outflow on the derivatives with the cash inflow on the investment securities. Certain of these derivatives qualify as fair-value hedges while others are designated as economic hedges.

*Advances.* We offer a wide range of fixed- and variable-rate advance products with different maturities, interest rates, payment characteristics, and optionality. We may use derivatives to manage the repricing and/or options characteristics of advances in order to more closely match the characteristics of our funding liabilities. In general, whenever a member executes a fixed-rate advance or an adjustable-rate advance with embedded options, we may simultaneously execute a derivative with terms that offset the terms and embedded options in the advance. For example, we may hedge a fixed-rate advance with an interest-rate swap where we pay a fixed-rate and receive a variable-rate, effectively converting the fixed-rate advance to an adjustable-rate advance. This type of hedge is typically treated as a fair-value hedge. In addition, we may hedge a callable, prepayable or putable advance by entering into a cancellable interest-rate swap.

*Mortgage Loans.* We invest in fixed-rate mortgage loans. The prepayment options embedded in these mortgage loans can result in extensions or contractions in the expected repayment of these loans, depending on changes in prepayment speeds. We manage the interest-rate and prepayment risks associated with mortgage loans through a combination of debt issuance and derivatives. We issue both callable and noncallable consolidated obligations to achieve cash flow patterns and liability durations similar to those expected on the mortgage loans.

We may also purchase interest-rate caps and floors, swaptions, callable swaps, calls, and puts to minimize the prepayment risk embedded in the loans. Although these derivatives are effective economic hedges against the prepayment risk of the loans, they are not specifically linked to individual loans and, therefore, do not qualify for fair-value hedge accounting. These derivatives are marked to fair value through earnings.

*Consolidated Obligations.* We may enter into derivatives to hedge the interest-rate risk associated with our debt issuances. We manage the risk and volatility arising from changing market prices of a consolidated obligation by matching the cash inflow on the derivative with the cash outflow on the consolidated obligation.

In a typical transaction, we issue a fixed-rate consolidated obligation and simultaneously enter into a matching derivative in which the counterparty pays fixed cash flows to us designed to match in timing and amount the cash outflows we pay on the consolidated obligation. In turn, we pay a variable cash flow to the counterparty that closely matches the interest payments we receive on short-term or variable-rate advances (typically one- or three-month LIBOR or EFFR). These transactions are typically treated as fair-value hedges. Additionally, we may issue variable-rate CO bonds indexed to LIBOR, SOFR, or the United States prime rate and simultaneously execute interest-rate swaps to hedge the basis risk of the variable-rate debt.

*Firm Commitments.* Certain MDCs are considered derivatives. We normally hedge these commitments by selling TBA MBS or other derivatives for forward settlement. The MDC and the TBA used in the firm commitment hedging strategy are treated as an economic hedge and are marked to fair value through earnings. When the MDC settles, the current fair value of the commitment is included with the basis of the mortgage loan and amortized accordingly.

***Managing Credit Risk on Derivatives.*** We are subject to credit risk due to the risk of nonperformance by the counterparties to our derivative transactions. We manage counterparty credit risk through credit analysis, collateral requirements and adherence to the requirements set forth in our policies, CFTC regulations, and Finance Agency regulations.

*Uncleared Derivatives.* For uncleared derivatives, the degree of credit risk depends on the extent to which master netting arrangements are included in such contracts to mitigate the risk. We require collateral agreements with our uncleared derivatives. The exposure thresholds above which collateral must be delivered vary; the threshold is zero in some cases. Additionally, collateral related to derivatives with member institutions includes collateral assigned to us as evidenced by a written security agreement and held by the member institution for our benefit.

For certain of our uncleared derivatives, we have credit support agreements that contain provisions requiring us to post additional collateral with our counterparties if there is deterioration in our credit rating. If our credit rating is lowered by an NRSRO, we could be required to deliver additional collateral on uncleared derivative instruments in net liability positions. The aggregate estimated fair value of all uncleared derivative instruments with credit-risk-related contingent features that were in a net liability position (before cash collateral and related accrued interest on cash collateral) at December 31, 2020 was $1,177, for which we have posted collateral in cash, including accrued interest, of $894 in the normal course of business. If our credit rating had been lowered by an NRSRO (from an S&P equivalent of AA+ to AA), we would not have been required to deliver additional collateral to our uncleared derivative counterparties at December 31, 2020.

*Cleared Derivatives.* For cleared derivatives, the clearinghouse is our counterparty. We use LCH and CME as clearinghouses for all cleared derivative transactions. Collateral is required to be posted daily for changes in the value of cleared derivatives to mitigate each counterparty's credit risk. The clearinghouse notifies the clearing agent of the required initial and variation margin, and the clearing agent notifies us. The requirement that we post initial and variation margin through the clearing agent for the benefit of the clearinghouse exposes us to institutional credit risk in the event that the clearing agent or clearinghouse fails to meet its obligations.

At both clearinghouses, initial margin is considered cash collateral and variation margin is characterized as daily settlement payments.

The clearinghouse determines margin requirements which are generally not based on credit ratings. However, clearing agents may require additional margin to be posted by us based on credit considerations, including but not limited to any credit rating downgrades. At December 31, 2020, we were not required by our clearing agents to post any additional margin.

***Financial Statement Effect and Additional Financial Information.***

The notional amount of derivatives serves as a factor in determining periodic interest payments, or cash flows received and paid. The notional amount of derivatives also reflects the extent of our involvement in the various classes of financial instruments but represents neither the actual amounts exchanged nor our overall exposure to credit and market risk; the overall risk is much smaller. The risks of derivatives can be measured meaningfully on a portfolio basis that takes into account the counterparties, the types of derivatives, the items being hedged and any offsets between the derivatives and the items being hedged. We record derivative instruments, related cash collateral received or pledged/posted and associated accrued interest on a net basis, by clearing agent and/or by counterparty when the netting requirements have been met.

The following table presents the notional amount and estimated fair value of derivative assets and liabilities.

| | | Estimated Fair Value | |
|---|---|---|---|
| **December 31, 2020** | **Notional Amount** | **Derivative Assets** | **Derivative Liabilities** |
| Derivatives designated as hedging instruments: | | | |
| Interest-rate swaps | $ 40,227,966 | $ 13,018 | $ 761,330 |
| Total derivatives designated as hedging instruments | 40,227,966 | 13,018 | 761,330 |
| Derivatives not designated as hedging instruments: | | | |
| Economic hedges: | | | |
| Interest-rate swaps | 9,177,000 | 5,404 | 181 |
| Swaptions | — | — | — |
| Interest-rate caps/floors | 625,500 | 1,113 | — |
| Interest-rate forwards | 180,900 | — | 1,486 |
| MDCs | 180,152 | 1,022 | — |
| Total derivatives not designated as hedging instruments | 10,163,552 | 7,539 | 1,667 |
| Total derivatives before adjustments | $ 50,391,518 | 20,557 | 762,997 |
| Netting adjustments and cash collateral [1] | | 262,525 | (740,018) |
| Total derivatives, net | | $ 283,082 | $ 22,979 |
| **December 31, 2019** | | | |
| Derivatives designated as hedging instruments: | | | |
| Interest-rate swaps | $ 41,108,749 | $ 60,155 | $ 318,815 |
| Total derivatives designated as hedging instruments | 41,108,749 | 60,155 | 318,815 |
| Derivatives not designated as hedging instruments: | | | |
| Economic hedges: | | | |
| Interest-rate swaps | 7,634,000 | 450 | 27 |
| Swaptions | 850,000 | 16 | — |
| Interest-rate caps/floors | 668,500 | 215 | — |
| Interest-rate forwards | 70,200 | — | 216 |
| MDCs | 70,693 | 105 | 3 |
| Total derivatives not designated as hedging instruments | 9,293,393 | 786 | 246 |
| Total derivatives before adjustments | $ 50,402,142 | 60,941 | 319,061 |
| Netting adjustments and cash collateral [1] | | 147,067 | (315,855) |
| Total derivatives, net | | $ 208,008 | $ 3,206 |

[1] Represents the application of the netting requirements that allow us to settle (i) positive and negative positions and (ii) cash collateral and related accrued interest held or placed, with the same clearing agent and/or counterparty. Cash collateral pledged to counterparties at December 31, 2020 and 2019, including accrued interest, totaled $1,003,437 and $464,187, respectively. Cash collateral received from counterparties and held at December 31, 2020 and 2019, including accrued interest, totaled $894 and $1,265, respectively. At December 31, 2020 and 2019, no securities were pledged as collateral.

The following table presents separately the estimated fair value of derivative instruments meeting and not meeting netting requirements, including the effect of the related collateral.

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Derivative Assets | Derivative Liabilities | Derivative Assets | Derivative Liabilities |
| Derivative instruments meeting netting requirements: | | | | |
| Gross recognized amount | | | | |
| Uncleared | $ 13,793 | $ 755,118 | $ 51,955 | $ 318,023 |
| Cleared | 5,742 | 6,393 | 8,881 | 819 |
| Total gross recognized amount | 19,535 | 761,511 | 60,836 | 318,842 |
| Gross amounts of netting adjustments and cash collateral | | | | |
| Uncleared | (13,793) | (733,625) | (36,954) | (315,036) |
| Cleared | 276,318 | (6,393) | 184,021 | (819) |
| Total gross amounts of netting adjustments and cash collateral | 262,525 | (740,018) | 147,067 | (315,855) |
| Net amounts after netting adjustments and cash collateral | | | | |
| Uncleared | — | 21,493 | 15,001 | 2,987 |
| Cleared | 282,060 | — | 192,902 | — |
| Total net amounts after netting adjustments and cash collateral | 282,060 | 21,493 | 207,903 | 2,987 |
| Derivative instruments not meeting netting requirements [1] | 1,022 | 1,486 | 105 | 219 |
| Total derivatives, at estimated fair value | $ 283,082 | $ 22,979 | $ 208,008 | $ 3,206 |

[1] Includes MDCs and certain interest-rate forwards.

The following table presents, by type of hedged item, the net gains (losses) on the derivatives and the related hedged items in qualifying fair-value hedging relationships and the impact on net interest income.

| Year Ended December 31, 2020 | Advances | Investments | CO Bonds | Total |
|---|---|---|---|---|
| Changes in estimated fair value: | | | | |
| Hedged items (attributable to risk being hedged) | $ 382,311 | $ 493,613 | $ (16,334) | $ 859,590 |
| Derivatives | (385,680) | (507,927) | 21,632 | (871,975) |
| Net changes in estimated fair value before price alignment interest | (3,369) | (14,314) | 5,298 | (12,385) |
| Price alignment interest [1] | 800 | 524 | (165) | 1,159 |
| Net interest settlements on derivatives [2] | (135,342) | (109,907) | 51,091 | (194,158) |
| Amortization/accretion of gains (losses) on active hedging relationships | (2) | 3,229 | 2,753 | 5,980 |
| Net gains (losses) on qualifying fair-value hedging relationships | (137,913) | (120,468) | 58,977 | (199,404) |
| Amortization/accretion of gains (losses) on discontinued fair-value hedging relationships | (142) | (2,361) | (36) | (2,539) |
| Net gains (losses) on derivatives and hedging activities in net interest income [3] | $ (138,055) | $ (122,829) | $ 58,941 | $ (201,943) |
| **Year Ended December 31, 2019** | | | | |
| Changes in estimated fair value: | | | | |
| Hedged items (attributable to risk being hedged) | $ 318,284 | $ 385,821 | $ (104,226) | $ 599,879 |
| Derivatives | (317,351) | (405,391) | 99,348 | (623,394) |
| Net changes in estimated fair value before price alignment interest | 933 | (19,570) | (4,878) | (23,515) |
| Price alignment interest [1] | 1,047 | (729) | (244) | 74 |
| Net interest settlements on derivatives [2] | 61,614 | 31,242 | (31,949) | 60,907 |
| Amortization/accretion of gains (losses) on active hedging relationships | (5) | 426 | (5,727) | (5,306) |
| Net gains (losses) on qualifying fair-value hedging relationships | 63,589 | 11,369 | (42,798) | 32,160 |
| Amortization/accretion of gains (losses) on discontinued fair-value hedging relationships | — | — | (141) | (141) |
| Net gains (losses) on derivatives and hedging activities in net interest income [3] | $ 63,589 | $ 11,369 | $ (42,939) | $ 32,019 |
| **Year Ended December 31, 2018** | | | | |
| Changes in estimated fair value: | | | | |
| Hedged items (attributable to risk being hedged) | $ 22,557 | $ (55,842) | $ 24,419 | $ (8,866) |
| Derivatives | (18,331) | 47,268 | (25,394) | 3,543 |
| Net changes in estimated fair value | 4,226 | (8,574) | (975) | (5,323) |
| Net interest settlements on derivatives [2] | 48,555 | 18,391 | (40,907) | 26,039 |
| Amortization/accretion of gains (losses) on active hedging relationships | (47) | 276 | (7,449) | (7,220) |
| Net gains (losses) on qualifying fair-value hedging relationships | 52,734 | 10,093 | (49,331) | 13,496 |
| Amortization/accretion of gains (losses) on discontinued fair-value hedging relationships | — | — | (137) | (137) |
| Less: net changes in fair value [4] | (4,226) | 8,574 | 975 | 5,323 |
| Net gains (losses) on derivatives and hedging activities in net interest income [3] | $ 48,508 | $ 18,667 | $ (48,493) | $ 18,682 |

(1) Relates to derivatives for which variation margin payments are characterized as daily settled contracts.
(2) Represents interest income/expense on derivatives in qualifying fair-value hedging relationships. Net interest settlements on derivatives that are not in qualifying fair-value hedging relationships are reported in other income.
(3) Excludes interest income/expense of the respective hedged items recorded in net interest income.
(4) Net changes in fair value were not reported in net interest income for the year ended December 31, 2018, but are presented herein to conform and provide comparability to the presentation of the current period amounts.

As a result of hedge accounting guidance effective January 1, 2019, net gains (losses) related to fair-value hedge ineffectiveness previously presented in other income is presented in net interest income for the years ended December 31, 2020 and 2019. Amounts for the year ended December 31, 2018 have not been reclassified.

The following table presents the components of net gains (losses) on derivatives and hedging activities reported in other income.

| | Years Ended December 31, | | |
|---|---|---|---|
| **Type of Hedge** | **2020** | **2019** | **2018** |
| Net gains (losses) related to fair-value hedge ineffectiveness: | | | |
| Interest-rate swaps | $ — | $ — | $ (5,323) |
| Total net gains (losses) related to fair-value hedge ineffectiveness | — | — | (5,323) |
| Net gain (loss) on derivatives not designated as hedging instruments: | | | |
| Economic hedges: | | | |
| Interest-rate swaps | 1,488 | (6,950) | 7,071 |
| Swaptions | (324) | (1,308) | (892) |
| Interest-rate caps/floors | 898 | (784) | (60) |
| Interest-rate forwards | (13,377) | (1,647) | 1,460 |
| Net interest settlements | (46,927) | (9,856) | (7,834) |
| MDCs | 9,880 | 1,562 | (2,390) |
| Total net gains (losses) on derivatives not designated as hedging instruments | (48,362) | (18,983) | (2,645) |
| Price alignment interest [1] | — | — | (5,382) |
| Net gains (losses) on derivatives and hedging activities in other income | $ (48,362) | $ (18,983) | $ (13,350) |

(1) Relates to derivatives for which variation margin payments are characterized as daily settled contracts. For the years ended December 31, 2020 and 2019, the portion related to derivatives not designated as hedging instruments is allocated to the applicable type of derivative.

The following table presents the amortized cost of, and the related cumulative basis adjustments on, hedged items in qualifying fair-value hedging relationships.

| December 31, 2020 | Advances | Investments | CO Bonds |
|---|---|---|---|
| Amortized cost of hedged items [1] | $ 17,219,312 | $ 9,882,225 | $ 17,406,679 |
| Cumulative basis adjustments included in amortized cost: | | | |
| For active fair-value hedging relationships [2] | $ 645,146 | $ 501,865 | $ 21,605 |
| For discontinued fair-value hedging relationships | 799 | 125,754 | — |
| Total cumulative fair-value hedging basis adjustments on hedged items | $ 645,945 | $ 627,619 | $ 21,605 |

| December 31, 2019 | Advances | Investments | CO Bonds |
|---|---|---|---|
| Amortized cost of hedged items [1] | $ 17,320,223 | $ 8,394,665 | $ 17,039,657 |
| Cumulative basis adjustments included in amortized cost: | | | |
| For active fair-value hedging relationships [2] | $ 207,111 | $ 150,372 | $ 7,855 |
| For discontinued fair-value hedging relationships | — | — | (36) |
| Total cumulative fair-value hedging basis adjustments on hedged items | $ 207,111 | $ 150,372 | $ 7,819 |

(1) Includes only the portion of the amortized cost of the hedged items in qualifying fair-value hedging relationships.
(2) Excludes any offsetting effect of the net estimated fair value of the associated derivatives.

**Note 9 - Deposit Liabilities**

We offer demand and overnight deposits to members and qualifying non-members. In addition, we offer short-term interest-bearing deposit programs to members. A member that services mortgage loans may deposit funds collected in connection with the mortgage loans, pending disbursement of such funds to the owners of the mortgage loans. We classify these items as other deposits.

Demand, overnight, and other deposits pay interest based on a daily interest rate. Time deposits pay interest based on a fixed rate determined at the origination of the deposit.

The following table presents the types of our interest-bearing and non-interest-bearing deposits.

| Type | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Interest-bearing: | | |
| Demand and overnight | $ 1,372,863 | $ 905,382 |
| Other | 579 | 658 |
| Total interest-bearing | 1,373,442 | 906,040 |
| Non-interest-bearing: | | |
| Demand | 258 | — |
| Other [1] | 1,506 | 54,264 |
| Total non-interest-bearing | 1,764 | 54,264 |
| Total deposits | $ 1,375,206 | $ 960,304 |

(1) Includes pass-through deposit reserves from members.

**Note 10 - Consolidated Obligations**

Consolidated obligations consist of CO bonds and discount notes. CO bonds may be issued to raise short-, intermediate- and long-term funds for the FHLBanks and are not subject to any statutory or regulatory limits on maturity. Discount notes are issued primarily to raise short-term funds and have original maturities of up to one year. These notes generally sell at less than their face amount and are redeemed at par value when they mature.

The FHLBanks issue consolidated obligations through the Office of Finance as their agent under the oversight of the Finance Agency and the United States Secretary of the Treasury. In connection with each debt issuance, each FHLBank specifies the amount of debt to be issued on its behalf. Each FHLBank records as a liability the specific portion of consolidated obligations issued on its behalf and for which it is the primary obligor.

In addition to being the primary obligor for all consolidated obligations issued on our behalf, we are jointly and severally liable with each of the other FHLBanks for the payment of the principal and interest on all of the FHLBanks' consolidated obligations outstanding. The par values of the FHLBanks' consolidated obligations outstanding at December 31, 2020 and 2019 totaled $746.8 billion and $1.0 trillion, respectively. As provided by the Bank Act and Finance Agency regulations, consolidated obligations are backed only by the financial resources of all FHLBanks.

The Finance Agency, in its discretion, may require any FHLBank to make principal or interest payments due on any consolidated obligation whether or not the consolidated obligation represents a primary liability of that FHLBank. Although an FHLBank has never paid the principal or interest payments due on a consolidated obligation on behalf of another FHLBank, if that event should occur, Finance Agency regulations provide that the paying FHLBank is entitled to reimbursement for any payments made on behalf of another FHLBank and other associated costs, including interest to be determined by the Finance Agency. If, however, the Finance Agency determines that such other FHLBank is unable to satisfy its repayment obligations to the paying FHLBank, then the Finance Agency may allocate the outstanding liability of such other FHLBank among the remaining FHLBanks on a pro-rata basis in proportion to their participation in all outstanding consolidated obligations, or in any other manner it may determine to ensure that the FHLBanks operate in a safe and sound manner. We do not believe that it is probable that we will be asked or required to make principal or interest payments on behalf of another FHLBank.

***Discount Notes.*** The following table presents our discount notes outstanding, all of which are due within one year of issuance.

| Discount Notes | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Book value | $ 16,617,079 | $ 17,676,793 |
| Par value | $ 16,620,486 | $ 17,713,204 |
| | | |
| Weighted average effective interest rate | 0.12 % | 1.59 % |

***CO Bonds.*** The following table presents our CO bonds outstanding by contractual maturity.

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **Year of Contractual Maturity** | **Amount** | **WAIR%** | **Amount** | **WAIR%** |
| Due in 1 year or less | $ 31,126,310 | 0.29 | $ 23,404,785 | 1.88 |
| Due after 1 year through 2 years | 4,109,700 | 0.70 | 6,881,120 | 1.93 |
| Due after 2 years through 3 years | 1,753,010 | 1.34 | 4,020,790 | 2.10 |
| Due after 3 years through 4 years | 767,250 | 1.93 | 1,234,375 | 2.18 |
| Due after 4 years through 5 years | 837,300 | 1.13 | 3,471,250 | 2.11 |
| Thereafter | 4,652,000 | 2.91 | 5,650,600 | 3.11 |
| Total CO bonds, par value | 43,245,570 | 0.70 | 44,662,920 | 2.09 |
| Unamortized premiums | 87,133 | | 67,708 | |
| Unamortized discounts | (12,703) | | (13,321) | |
| Unamortized concessions | (8,659) | | (9,902) | |
| Fair-value hedging basis adjustments, net | 21,605 | | 7,819 | |
| Total CO bonds | $ 43,332,946 | | $ 44,715,224 | |

Consolidated obligations are issued with either fixed-rate or variable-rate coupon payment terms that may use a variety of indices for interest-rate resets, such as LIBOR or SOFR. To meet the specific needs of certain investors in CO bonds, both fixed-rate and variable-rate CO bonds may contain features that result in complex coupon payment terms and call options. When these CO bonds are issued, we may enter into derivatives containing features that offset the terms and embedded options, if any, of the CO bonds.

CO bonds may also be callable. Such bonds may be redeemed in whole or in part, at our discretion, on predetermined call dates according to the terms of the offerings.

The following tables present the par value of our CO bonds outstanding by redemption feature and the earlier of the year of contractual maturity or next call date.

| Redemption Feature | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Non-callable / non-putable | $ 36,809,070 | $ 28,829,420 |
| Callable | 6,436,500 | 15,833,500 |
| Total CO bonds, par value | $ 43,245,570 | $ 44,662,920 |

| Year of Contractual Maturity or Next Call Date | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Due in 1 year or less | $ 34,272,810 | $ 36,243,785 |
| Due after 1 year through 2 years | 4,159,700 | 4,484,620 |
| Due after 2 years through 3 years | 1,608,010 | 742,790 |
| Due after 3 years through 4 years | 443,750 | 516,375 |
| Due after 4 years through 5 years | 563,300 | 380,750 |
| Thereafter | 2,198,000 | 2,294,600 |
| Total CO bonds, par value | $ 43,245,570 | $ 44,662,920 |

*Interest-Rate Payment Types.* In addition to CO bonds with fixed-rate or simple variable-rate interest payment terms, step-up CO bonds pay interest at increasing fixed rates for specified intervals over their lives and generally contain provisions enabling us to call them at our option on the step-up dates.

The following table presents the par value of our CO bonds outstanding by interest-rate payment type.

| Interest-Rate Payment Type | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Fixed-rate | $ 24,750,570 | $ 27,565,920 |
| Step-up | 15,000 | 30,000 |
| Simple variable-rate | 18,480,000 | 17,067,000 |
| Total CO bonds, par value | $ 43,245,570 | $ 44,662,920 |

**Note 11 - Affordable Housing Program**

The Bank Act requires each FHLBank to establish an AHP, in which the FHLBank provides subsidies in the form of direct grants to members that use the funds to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. Annually, the FHLBanks must set aside for the AHP the greater of the aggregate of $100 million or 10% of each FHLBank's net earnings. For purposes of the AHP calculation, net earnings is defined in a Finance Agency Advisory Bulletin as income before assessments, plus interest expense related to MRCS.

The following table summarizes the activity in our AHP funding obligation.

| AHP Activity | 2020 | 2019 | 2018 |
|---|---|---|---|
| Liability at beginning of year | $ 38,084 | $ 40,747 | $ 32,166 |
| Assessment (expense) | 10,717 | 17,071 | 22,570 |
| Subsidy usage, net [1] | (14,399) | (19,734) | (13,989) |
| Liability at end of year | $ 34,402 | $ 38,084 | $ 40,747 |

[1] Subsidies disbursed are reported net of returns/recaptures of previously disbursed subsidies.

As a part of the AHP, each FHLBank may also provide advances to members at interest rates below then current market rates.

**Note 12 - Capital**

We are a cooperative whose member and former member institutions own all of our capital stock. Former members (including certain non-member institutions that own our capital stock as a result of a merger with or acquisition of a member) own our capital stock solely to support credit products or mortgage loans still outstanding on our statement of condition. Member shares cannot be purchased or sold except between us and our members or, with our written approval, among our members, at the par value of one hundred dollars per share, as mandated by our capital plan and Finance Agency regulation.

***Classes of Capital Stock***. We amended and restated our capital plan effective September 26, 2020. The amended plan, like the prior plan, divides our Class B stock into two sub-series: Class B-1 and Class B-2. However, under the amended plan, any Class B stock supporting activity requirements is classified as B-2, while all other Class B stock is classified as B-1. A member's Class B-1 stock is reclassified as B-2 as needed to help fulfill the member's activity-based stock requirement, and the member may be required to purchase additional Class B-2 stock to fully meet that requirement. Any excess stock is automatically classified as Class B-1.

Under the amended capital plan, PFIs may opt in to an activity-based stock requirement in connection with their sales of mortgage loans to us under Advantage MPP. PFIs may elect this stock requirement each time they enter into an MDC with us based on the outstanding principal balance of loans purchased under the designated MDC. As of December 31, 2020, such Class B-2 stock issued and outstanding totaled $4,784.

The amended capital plan also permits the board of directors to authorize the issuance of Class A stock although, as of December 31, 2020, the board of directors had not authorized such issuance. If authorized, a member may elect to purchase Class A stock, rather than Class B-2 stock, to satisfy the member’s activity-based stock requirement, subject to certain restrictions.

Under our prior capital plan, Class B-1 was stock held by our members that was not subject to a redemption request. Class B-2 stock consisted solely of required stock that was subject to a redemption request.

The following table presents the capital stock outstanding by sub-series under the prior and amended capital plans.

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Prior capital plan | | |
| Class B-1 issued and outstanding shares: 19,737,727 | $ — | $ 1,973,773 |
| Class B-2 issued and outstanding shares: 3,028 | — | 303 |
| Amended capital plan | | |
| Class B-1 issued and outstanding shares: 7,971,952 | 797,196 | — |
| Class B-2 issued and outstanding shares: 14,103,744 | 1,410,374 | — |
| Total Class B issued and outstanding shares: 22,075,696 and 19,740,755, respectively | $ 2,207,570 | $ 1,974,076 |

***Dividends.*** Our board of directors may, but is not required to, declare and pay dividends on our Class B stock in either cash or capital stock or a combination thereof, as long as we are in compliance with Finance Agency regulations. The amount of the dividend to be paid is based on the average number of shares of each sub-series held by the member during the dividend payment period (applicable quarter).

Under our prior capital plan (which was in effect through September 25, 2020), the Class B-2 dividend was calculated at 80% of the amount of the Class B-1 dividend. The amended plan, however, does not mandate a specific difference between Class B-1 and Class B-2 dividend rates. Rather, the board of directors may declare a dividend rate on Class B-2 stock that is equal to or greater than the rate on Class B-1 stock. The plan also authorizes the board of directors to declare a dividend rate on Class A stock (if issued and outstanding) that is equal to or greater than the rate on Class B-1 stock.

***Stock Redemption and Repurchase.*** In accordance with the Bank Act, our capital stock is considered putable by the member. Members can redeem Class B stock, subject to certain restrictions, by giving five years' written notice. Our amended capital plan does not reclassify Class B-1 stock under redemption as Class B-2. Members can redeem Class A stock, subject to certain restrictions, by giving six months written notice. Any member that withdraws from membership or otherwise has had its membership terminated may not be readmitted as a member for a period of five years from the divestiture date for all capital stock that was held as a condition of membership, as set forth in our capital plan and Finance Agency regulations, unless the member has canceled or revoked its notice of withdrawal prior to the end of the applicable redemption period. This restriction does not apply if the member is transferring its membership from one FHLBank to another on an uninterrupted basis.

We may repurchase, at our sole discretion, any member's capital stock that exceeds the required minimum amount, subject to significant statutory and regulatory restrictions on our right to repurchase, or obligation to redeem, the outstanding stock. As a result, whether or not a member may have its capital stock repurchased or redeemed will depend, in part, on whether we are in compliance with those restrictions.

Consistent with our amended capital plan, we are not required to redeem required stock until the expiration of the notice of redemption, or until the activity to which the capital stock relates no longer remains outstanding, whichever is later. If activity-based stock becomes excess stock (i.e., the amount of stock held by a member or former member in excess of the stock ownership requirement for that institution) as a result of an activity no longer remaining outstanding, we may repurchase the excess stock at our discretion, subject to the statutory and regulatory restrictions.

A member may cancel or revoke its written notice of redemption or its notice of withdrawal from membership prior to the conclusion of the applicable redemption period. However, our capital plan provides that we may charge a cancellation fee to a member that cancels or revokes its withdrawal notice.

Through December 31, 2020, certain members had requested redemptions of their Class B stock, but the related stock outstanding at December 31, 2020 and 2019 totaling $314 and $935, respectively, was not considered mandatorily redeemable and reclassified to MRCS because the requesting members may revoke their requests, without substantial penalty, throughout the five-year waiting period. Therefore, these requests are not considered sufficiently substantive in nature. However, we consider redemption requests related to mergers, acquisitions or charter terminations, as well as involuntary terminations from membership, to be sufficiently substantive when made and, therefore, the related stock is considered mandatorily redeemable and reclassified to MRCS.

***Mandatorily Redeemable Capital Stock.*** The following table presents the activity in our MRCS.

| MRCS Activity | 2020 | 2019 | 2018 |
|---|---|---|---|
| Liability at beginning of year | $ 322,902 | $ 168,876 | $ 164,322 |
| Reclassification from capital stock | 32,791 | 150,978 | 31,214 |
| Proceeds from issuance [1] | — | 3,704 | — |
| Redemptions/repurchases | (104,965) | (1,255) | (26,698) |
| Accrued distributions | 40 | 599 | 38 |
| Liability at end of year | $ 250,768 | $ 322,902 | $ 168,876 |

(1) Represents a purchase of capital stock by a captive insurance company member, which is considered mandatorily redeemable as a result of the Final Membership Rule.

Captive insurance companies that were admitted as FHLBank members prior to September 12, 2014, and did not meet the definition of "insurance company" or fall within another category of institution that is eligible for FHLBank membership under the Final Membership Rule, had their memberships terminated by February 19, 2021. Upon termination, their outstanding excess Class B stock was repurchased or redeemed in accordance with the Final Membership Rule.

The following table presents MRCS by contractual year of redemption. The year of redemption is the later of: (i) the final year of the five-year redemption period, or (ii) the first year in which a non-member no longer has an activity-based stock requirement.

| MRCS Contractual Year of Redemption | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Year 1 [1] | $ 9,274 | $ 680 |
| Year 2 | — | 8,649 |
| Year 3 | 26,723 | — |
| Year 4 | 150,957 | 26,723 |
| Year 5 | 32,791 | 150,958 |
| Thereafter [2] | 31,023 | 135,892 |
| Total MRCS | $ 250,768 | $ 322,902 |

(1) Balances at December 31, 2020 and 2019 include $624 and $680, respectively, of Class B stock that had reached the end of the five-year redemption period but will not be redeemed until the associated credit products and other obligations are no longer outstanding.

(2) Represents the five-year redemption period of Class B stock held by certain captive insurance companies which began immediately upon their respective terminations of membership on February 19, 2021. However, upon their respective terminations, we repurchased their excess stock, the balance of which at December 31, 2020 totaled $18,059.

When a member's membership status changes to a non-member, the member's capital stock is reclassified to MRCS. If such change occurs during a quarterly dividend period, but not at the beginning or the end of a quarterly period, any dividends for that quarterly period are allocated between distributions from retained earnings for the shares held as capital stock during that period and interest expense for the shares held as MRCS during that period. Therefore, the distributions from retained earnings represent dividends to former members for only the portion of the period that they were members. The amounts recorded to interest expense represent dividends to former members for the portion of that period and subsequent periods that they were not members.

The following table presents the distributions related to MRCS.

| | Years Ended December 31, | | |
|---|---|---|---|
| **MRCS Distributions** | **2020** | **2019** | **2018** |
| Recorded as interest expense | $ 8,594 | $ 11,863 | $ 8,391 |
| Recorded as distributions from retained earnings | 40 | 599 | 38 |
| Total | $ 8,634 | $ 12,462 | $ 8,429 |

***Restricted Retained Earnings.*** In 2011, we entered into a JCE Agreement with all of the other FHLBanks to enhance the capital position of each FHLBank. In accordance with the JCE Agreement, we allocate 20% of our net income to a separate restricted retained earnings account until the balance of that account, calculated as of the last day of each calendar quarter, equals at least 1% of the average balance of our outstanding consolidated obligations for the previous quarter. These restricted retained earnings are not available from which to pay dividends except to the extent the restricted retained earnings balance exceeds 1.5% of the average balance of our outstanding consolidated obligations for the previous quarter.

***Capital Requirements.*** We are subject to three capital requirements under our capital plan and Finance Agency regulations:

(i) Risk-based capital. We must maintain at all times permanent capital, defined as Class B stock (including MRCS) and retained earnings, in an amount at least equal to the sum of our credit risk, market risk, and operations risk capital requirements, all of which are calculated in accordance with Finance Agency regulations. The Finance Agency may require us to maintain a greater amount of permanent capital than is required by the risk-based capital requirements as defined.
(ii) Total regulatory capital. We are required to maintain at all times a total capital-to-assets ratio of at least 4%. Total regulatory capital is the sum of permanent capital, any general loss allowance, if consistent with GAAP and not established for specific assets, and other amounts from sources determined by the Finance Agency as available to absorb losses. For regulatory capital purposes, AOCI is not considered capital.
(iii) Leverage capital. We are required to maintain at all times a leverage capital-to-assets ratio of at least 5%. Leverage capital is defined as the sum of (i) permanent capital weighted 1.5 times and (ii) all other capital without a weighting factor.

As presented in the following table, we were in compliance with these Finance Agency's capital requirements at December 31, 2020 and 2019.

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **Regulatory Capital Requirements** | **Required** | **Actual** | **Required** | **Actual** |
| Risk-based capital | $ 630,661 | $ 3,595,668 | $ 639,495 | $ 3,412,286 |
| | | | | |
| Total regulatory capital | $ 2,636,990 | $ 3,595,668 | $ 2,700,431 | $ 3,412,286 |
| Total regulatory capital-to-assets ratio | 4.00% | 5.45% | 4.00% | 5.05% |
| | | | | |
| Leverage capital | $ 3,296,238 | $ 5,393,502 | $ 3,375,539 | $ 5,118,429 |
| Leverage ratio | 5.00% | 8.18% | 5.00% | 7.58% |

***Partial Recovery of Prior Capital Distribution to Financing Corporation.*** The Competitive Equality Banking Act of 1987 was enacted in August 1987, which, among other things, provided for the recapitalization of the Federal Savings and Loan Insurance Corporation through a newly-chartered entity, FICO. The capitalization of FICO was provided by capital distributions from the FHLBanks to FICO in 1987, 1988 and 1989 that aggregated to $680 million in exchange for FICO nonvoting capital stock. Upon passage of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, the Bank's previous investment in capital stock of FICO was determined to be non-redeemable and, therefore, the Bank charged-off its prior capital distributions to FICO directly against retained earnings.

Upon the dissolution of FICO in October 2019, FICO determined that excess funds aggregating to $200 million were available for distribution to its sole stockholders, the FHLBanks. Specifically, the Bank received $10,574 during the year ended December 31, 2020 which was determined based on our proportionate ownership of FICO's nonvoting capital stock. The Bank treated the receipt of these funds as a partial recovery of the prior capital distributions made by the Bank to FICO. These funds were credited to unrestricted retained earnings.

**Note 13 - Accumulated Other Comprehensive Income**

The following table presents a summary of the changes in the components of AOCI.

| AOCI Rollforward | Unrealized Gains (Losses) on AFS Securities | Non-Credit OTTI on AFS Securities | Non-Credit OTTI on HTM Securities | Pension Benefits | Total AOCI |
|---|---|---|---|---|---|
| **Balance, December 31, 2017** | $ 92,519 | $ 29,322 | $ (51) | $ (10,384) | $ 111,406 |
| OCI before reclassifications: | | | | | |
| Net change in unrealized gains (losses) | (39,533) | 392 | — | — | (39,141) |
| Net change in fair value | — | 2,693 | — | — | 2,693 |
| Accretion of non-credit losses | — | — | 51 | — | 51 |
| Reclassifications from OCI to net income: | | | | | |
| Net realized gains from sale of AFS securities | — | (32,407) | — | — | (32,407) |
| Non-credit portion of OTTI losses | — | — | — | — | — |
| Pension benefits, net | — | — | — | (915) | (915) |
| Total other comprehensive income (loss) | (39,533) | (29,322) | 51 | (915) | (69,719) |
| **Balance, December 31, 2018** | $ 52,986 | $ — | $ — | $ (11,299) | $ 41,687 |
| OCI before reclassifications: | | | | | |
| Net change in unrealized gains (losses) | 36,827 | — | — | — | 36,827 |
| Reclassifications from OCI to net income: | | | | | |
| Pension benefits, net | — | — | — | (11,138) | (11,138) |
| Total other comprehensive income (loss) | 36,827 | — | — | (11,138) | 25,689 |
| **Balance, December 31, 2019** | $ 89,813 | $ — | $ — | $ (22,437) | $ 67,376 |
| OCI before reclassifications: | | | | | |
| Net change in unrealized gains (losses) | 47,108 | — | — | — | 47,108 |
| Reclassifications from OCI to net income: | | | | | |
| Pension benefits, net | — | — | — | (9,082) | (9,082) |
| Total other comprehensive income (loss) | 47,108 | — | — | (9,082) | 38,026 |
| **Balance, December 31, 2020** | $ 136,921 | $ — | $ — | $ (31,519) | $ 105,402 |

**Note 14 - Employee and Director Retirement and Deferred Compensation Plans**

***Qualified Defined Benefit Pension Plan.*** We participate in a tax-qualified, defined benefit pension plan for financial institutions administered by Pentegra Retirement Services. This DB Plan is treated as a multiemployer plan for accounting purposes but operates as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. As a result, certain multiemployer plan disclosures are not applicable.

Under the DB Plan, contributions made by a participating employer may be used to provide benefits to employees of other participating employers because assets contributed by an employer are not segregated in a separate account or restricted to provide benefits to employees of that employer only. Also, in the event that a participating employer is unable to meet its contribution or funding requirements, the required contributions for the other participating employers (including us) could increase proportionately.

Our contributions to the DB Plan for the fiscal years ended December 31, 2020, 2019 and 2018 were not more than 5% of the total contributions to the DB Plan by all participating employers for the plan years ended June 30, 2019, 2018 and 2017, respectively.

Our DB Plan covers our officers and employees who meet certain eligibility requirements, including an employment date prior to February 1, 2010. The DB Plan operates on a fiscal year from July 1 through June 30 and files one Form 5500 on behalf of all participating employers. The most recent Form 5500 available for the DB Plan is for the plan year ended June 30, 2019. The Employer Identification Number is 13-5645888 and the three digit plan number is 333. There are no collective bargaining agreements in place.

The DB Plan's annual valuation process includes calculating its funded status and separately calculating the funded status of each participating employer. The funded status is calculated as the market value of plan assets divided by the funding target (100% of the present value of all benefit liabilities accrued at that date utilizing the discount rate prescribed by statute). The calculation of the funding target as of July 1, 2020, 2019 and 2018 incorporated a higher discount rate in accordance with MAP-21, which resulted in a lower funding target and a higher funded status. Over time, the favorable impact of MAP-21 is expected to decline. As permitted by the Employee Retirement Income Security Act of 1974, the DB Plan accepts contributions for the prior plan year up to eight and a half months after the asset valuation date. As a result, the market value of plan assets at the valuation date (July 1) will increase by any subsequent contributions designated for the immediately preceding plan year ended June 30.

The following table presents a summary of net pension costs charged to compensation and benefits expense and the DB Plan's funded status.

| DB Plan Net Pension Cost and Funded Status | 2020 | 2019 | 2018 |
|---|---|---|---|
| Net pension cost charged to compensation and benefits expense for the year ended December 31[1] | $ 3,211 | $ 3,500 | $ 2,750 |
| DB Plan funded status as July 1 | 108 % [a] | 109 % [b] | 110 % |
| Our funded status as of July 1 | 104 % | 109 % | 116 % |

[1] Includes voluntary contributions for the years ended December 31, 2020, 2019 and 2018 of $1,944, $2,856, and $2,240, respectively.

[a] The DB Plan's funded status as of July 1, 2020 is preliminary and may increase because the participating employers are permitted to make designated contributions for the plan year ended June 30, 2020 through March 15, 2021. Any such contributions will be included in the final valuation as of July 1, 2020. The final funded status as of July 1, 2020 will not be available until the Form 5500 for the plan year ended June 30, 2021 is filed (no later than April 2022).

[b] The DB Plan's final funded status as of July 1, 2019 will not be available until the Form 5500 for the plan year ended June 30, 2020 is filed (no later than April 2021).

***Qualified Defined Contribution Plan.*** The Bank participated in a tax-qualified multiple-employer retirement savings plan through October 1, 2020. Effective October 2, 2020, the Bank adopted a tax-qualified single-employer plan. The terms of such plans are substantially the same.

This DC plan covers our officers and employees who meet certain eligibility requirements. The Bank makes a matching contribution equal to a percentage of voluntary employee contributions, subject to certain limitations. In addition, the Bank makes a non-elective contribution to the account of each participant who is not eligible to participate in the Bank's DB plan. During the years ended December 31, 2020, 2019 and 2018, we contributed $2,810, $2,778, and $2,478, respectively.

***Nonqualified Defined Benefit Supplemental Retirement Plan.*** We participate in a nonqualified, single-employer, unfunded supplemental executive retirement plan. This SERP restores all of the defined benefits to participating employees who have had their qualified defined benefits limited by Internal Revenue Service regulations. Because the SERP is a nonqualified unfunded plan, no contributions are required to be made. However, we may elect to make contributions to a related grantor trust that we established to indirectly fund the SERP in order to maintain a desired funding level. Payments of benefits may be made from the related grantor trust or from our general assets.

The following table presents the changes in our SERP benefit obligation.

| **Change in benefit obligation** | **2020** | **2019** | **2018** |
|---|---|---|---|
| Projected benefit obligation at beginning of year | $ 42,719 | $ 27,593 | $ 23,176 |
| Service cost | 2,489 | 1,636 | 1,762 |
| Interest cost | 1,086 | 1,039 | 863 |
| Actuarial loss | 12,551 | 13,079 | 3,452 |
| Benefits paid | (515) | (628) | (1,660) |
| Projected benefit obligation at end of year | $ 58,330 | $ 42,719 | $ 27,593 |

The actuarial loss includes the impact of the changes in the discount rate, compensation, mortality, demographics and other components used to calculate the projected benefit obligation at December 31 of each year.

The following table presents the key assumptions used in the actuarial calculations of the benefit obligation.

| | **December 31,** | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| Discount rate | 1.54 % | 2.55 % | 3.64 % |
| Compensation increases | 5.50 % | 5.50 % | 5.50 % |

The discount rate represents a weighted average that was determined by a discounted cash-flow approach, which incorporates the timing of each expected future benefit payment. We estimate future benefit payments based on the census data of the SERP's participants, benefit formulas and provisions, and valuation assumptions reflecting the probability of decrement and survival. We then determine the present value of the future benefit payments by using duration-based interest-rate yields from the Financial Times Stock Exchange Group Pension Discount Curve as of the measurement date, and solving for the single discount rate that produces the same present value of the future benefit payments.

The accumulated benefit obligation for the SERP, which excludes projected future salary increases as of December 31, 2020 and 2019 was $42,739 and $31,595, respectively.

The unfunded benefit obligation is reported in other liabilities. Although there are no plan assets, the assets in the related grantor trust, included as a component of other assets, had a total estimated fair value at December 31, 2020 and 2019 of $45,200 and $21,983, respectively.

The following table presents the components of the net periodic benefit cost and the amounts recognized in OCI for the SERP.

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| Net periodic benefit cost: | | | |
| Service cost | $ 2,489 | $ 1,636 | $ 1,762 |
| Net periodic benefit cost recognized in compensation and benefits | 2,489 | 1,636 | 1,762 |
| Interest cost | 1,086 | 1,039 | 863 |
| Amortization of net actuarial loss | 3,469 | 1,941 | 2,539 |
| Net periodic benefit cost recognized in other expenses | 4,555 | 2,980 | 3,402 |
| Total net periodic benefit cost recognized in the statement of income | 7,044 | 4,616 | 5,164 |
| Amounts recognized in OCI: | | | |
| Actuarial loss | 12,551 | 13,079 | 3,452 |
| Amortization of net actuarial loss | (3,469) | (1,941) | (2,539) |
| Net loss recognized in OCI | 9,082 | 11,138 | 913 |
| Total recognized as net periodic benefit cost | $ 16,126 | $ 15,754 | $ 6,077 |

The following table presents the key assumptions used in the actuarial calculations to determine net periodic benefit cost for the SERP.

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| Discount rate | 2.55 % | 3.64 % | 3.00 % |
| Compensation increases | 5.50 % | 5.50 % | 5.50 % |

The following table presents the components of the pension benefits reported in AOCI related to the SERP.

| | **December 31, 2020** | **December 31, 2019** |
|---|---|---|
| Net actuarial loss | $ (31,519) | $ (22,436) |
| Net pension benefits reported in AOCI | $ (31,519) | $ (22,436) |

The net periodic benefit cost for the SERP, including the net amount to be amortized, for the year ending December 31, 2021 is projected to be approximately $7,903.

The following table presents the estimated future benefit payments reflecting scheduled benefit payments for retired participants and the estimated payments to active participants, based on the actual form of payment elected by the participant and weighting the value of the participant's benefits based on the probability of the participant retiring. Actual payments may differ.

| **For the Years Ending December 31,** | |
|---|---|
| 2021 | $ 5,712 |
| 2022 | 21,463 |
| 2023 | 3,561 |
| 2024 | 2,170 |
| 2025 | 2,552 |
| 2026 - 2030 | 16,644 |

***Nonqualified Supplemental Executive Thrift Plan.*** Effective January 1, 2016, we offer the SETP, a voluntary, nonqualified, unfunded deferred compensation plan that permits certain officers and approved employees of the Bank to elect to defer certain components of their compensation. The SETP constitutes a deferred compensation arrangement that complies with Section 409A of the Internal Revenue Code, as amended. The SETP provides that, subject to certain limitations, the Bank will make matching contributions to the participant's deferred contribution account each plan year. For the years ended December 31, 2020, 2019 and 2018, we contributed $125, $73 and $70, respectively, to the SETP and our liability at December 31, 2020 and 2019 was $2,988 and $1,973, respectively.

***Directors' Deferred Compensation Plan.*** Effective January 1, 2016, we offer the DDCP, a voluntary, nonqualified, unfunded deferred compensation plan that permits our directors to defer all or a portion of the fees payable to them for a calendar year for their services as directors. The DDCP constitutes a deferred compensation arrangement that complies with Section 409A of the Internal Revenue Code, as amended. Any duly elected and serving member of our board may participate in the DDCP. We make no matching contributions under the DDCP. Our liability under the DDCP at December 31, 2020 and 2019 was $2,845 and $2,080, respectively.

**Note 15 - Segment Information**

We report based on two operating segments:

- Traditional, which consists of credit products (including advances, standby letters of credit, and lines of credit), investments (including federal funds sold, securities purchased under agreements to resell, interest-bearing demand deposit accounts, and investment securities), and correspondent services and deposits; and
- Mortgage loans, which consists of mortgage loans purchased from our members through our MPP and participating interests purchased in 2012 - 2014 from the FHLBank of Topeka in mortgage loans that were originated by certain of its PFIs under the MPF Program.

These segments reflect our two primary mission asset activities and the manner in which they are managed from the perspective of development, resource allocation, product delivery, pricing, credit risk and operational administration. The segments identify the principal ways we provide services to members.

We measure the performance of each segment based upon the net interest spread of the underlying portfolio(s). Therefore, each segment's performance begins with net interest income.

Traditional net interest income is derived primarily from the difference, or spread, between the interest income earned on advances and investments and the borrowing costs related to those assets, net interest settlements and changes in fair value related to certain interest-rate swaps, and related premium and discount amortization. Traditional also includes the costs related to holding deposits for members and other miscellaneous borrowings. Mortgage loan net interest income is derived primarily from the difference, or spread, between the interest income earned on mortgage loans, including the premium and discount amortization, and the borrowing costs related to those loans.

Direct other income and expense also affect each segment's results. The traditional segment includes the direct earnings impact of certain derivatives and hedging activities related to advances, investments and consolidated obligations as well as all other miscellaneous income and expense not associated with mortgage loans. The mortgage loans segment includes the direct earnings impact of derivatives and hedging activities as well as direct compensation, benefits and other expenses (including an allocation for indirect overhead) associated with operating the MPP and MPF Program and volume-driven costs associated with master servicing and quality control fees.

As a result of hedge accounting guidance effective January 1, 2019, net gains (losses) related to fair-value hedge ineffectiveness previously presented in other income is presented in net interest income for the years ended December 31, 2020 and 2019. Amounts for the year ended December 31, 2018 have not been reclassified.

The assessments related to AHP have been allocated to each segment based upon its proportionate share of income before assessments.

The following table presents our financial performance by operating segment.

| Year Ended December 31, 2020 | Traditional | Mortgage Loans | Total |
|---|---|---|---|
| Net interest income | $ 253,683 | $ 9,687 | $ 263,370 |
| Provision for (reversal of) credit losses | — | 140 | 140 |
| Other income (loss) | (52,262) | (3,254) | (55,516) |
| Other expenses | 92,953 | 16,181 | 109,134 |
| Income before assessments | 108,468 | (9,888) | 98,580 |
| Affordable Housing Program assessments | 11,706 | (989) | 10,717 |
| Net income (loss) | $ 96,762 | $ (8,899) | $ 87,863 |
| **Year Ended December 31, 2019** | | | |
| Net interest income | $ 181,367 | $ 55,875 | $ 237,242 |
| Provision for (reversal of) credit losses | — | (289) | (289) |
| Other income (loss) | 20,166 | 143 | 20,309 |
| Other expenses | 84,638 | 14,356 | 98,994 |
| Income before assessments | 116,895 | 41,951 | 158,846 |
| Affordable Housing Program assessments | 12,876 | 4,195 | 17,071 |
| Net income | $ 104,019 | $ 37,756 | $ 141,775 |
| **Year Ended December 31, 2018** | | | |
| Net interest income | $ 220,886 | $ 67,201 | $ 288,087 |
| Provision for (reversal of) credit losses | — | (231) | (231) |
| Other income (loss) | 22,253 | (1,744) | 20,509 |
| Other expenses | 77,526 | 13,995 | 91,521 |
| Income before assessments | 165,613 | 51,693 | 217,306 |
| Affordable Housing Program assessments | 17,401 | 5,169 | 22,570 |
| Net income | $ 148,212 | $ 46,524 | $ 194,736 |

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 above including, among other items, the allocation of depreciation without an allocation of the depreciable assets, derivatives and hedging earnings adjustments with no corresponding allocation to derivative assets, if any, and the recording of interest income with no allocation to accrued interest receivable.

The following table presents asset balances by operating segment.

| By Date | Traditional | Mortgage Loans | Total |
|---|---|---|---|
| December 31, 2020 | $57,409,111 | $ 8,515,645 | $65,924,756 |
| December 31, 2019 | 56,695,738 | 10,815,037 | 67,510,775 |

**Note 16 - Estimated Fair Values**

We estimate fair value amounts by using available market and other pertinent information and the most appropriate valuation methods. Although we use our best judgment in estimating the fair values of financial instruments, there are inherent limitations in any valuation technique. Therefore, these estimated fair values may not be indicative of the amounts that would have been realized in market transactions at the reporting dates.

Certain estimates of the fair value of financial assets and liabilities are highly subjective and require judgments regarding significant factors such as the amount and timing of future cash flows, prepayment speeds, interest-rate volatility, and the discount rates that appropriately reflect market and credit risks. The use of different assumptions could have a material effect on the fair value estimates.

***Fair Value Hierarchy.*** GAAP establishes a fair value hierarchy and requires us to maximize the use of significant observable inputs and minimize the use of significant unobservable inputs when measuring estimated fair value. The inputs are evaluated, and an overall level for the estimated fair value measurement is determined. This overall level is an indication of the extent of the market observability of the estimated fair value measurement for the asset or liability.

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

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

*Level 2 Inputs.* Inputs other than quoted prices within level 1 that are observable inputs for the asset or liability, either directly or indirectly. If the asset or liability has a specified or contractual term, a level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical or similar assets or liabilities in markets that are not active; (iii) inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates and yield curves that are observable at commonly quoted intervals and implied volatilities); and (iv) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3 Inputs.* Unobservable inputs for the asset or liability.

We review the fair value hierarchy classifications on a quarterly basis. Changes in the observability of the inputs may result in a reclassification of certain assets or liabilities. Such reclassifications are reported as transfers in/out at estimated fair value as of the beginning of the quarter in which the changes occur. There were no such reclassifications during the years ended December 31, 2020, 2019, or 2018.

The following tables present the carrying value and estimated fair value of each of our financial instruments. The total of the estimated fair values does not represent an estimate of our overall market value as a going concern, which would take into account, among other considerations, future business opportunities and the net profitability of assets and liabilities.

| | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | | Estimated Fair Value | | | | |
| **Financial Instruments** | **Carrying Value** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Netting Adjustments** [1] |
| **Assets:** | | | | | | |
| Cash and due from banks | $ 1,811,544 | $ 1,811,544 | $ 1,811,544 | $ — | $ — | $ — |
| Interest-bearing deposits | 100,026 | 100,026 | 100,000 | 26 | — | — |
| Securities purchased under agreements to resell | 2,500,000 | 2,500,000 | — | 2,500,000 | — | — |
| Federal funds sold | 1,215,000 | 1,215,000 | — | 1,215,000 | — | — |
| Trading securities | 5,094,703 | 5,094,703 | — | 5,094,703 | — | — |
| AFS securities | 10,144,899 | 10,144,899 | — | 10,144,899 | — | — |
| HTM securities | 4,701,302 | 4,723,796 | — | 4,723,796 | — | — |
| Advances | 31,347,486 | 31,290,664 | — | 31,290,664 | — | — |
| Mortgage loans held for portfolio, net | 8,515,645 | 8,922,185 | — | 8,860,853 | 61,332 | — |
| Accrued interest receivable | 103,076 | 103,076 | — | 103,076 | — | — |
| Derivative assets, net | 283,082 | 283,082 | — | 20,557 | — | 262,525 |
| Grantor trust assets [2] | 51,032 | 51,032 | 51,032 | — | — | — |
| **Liabilities:** | | | | | | |
| Deposits | 1,375,206 | 1,375,206 | — | 1,375,206 | — | — |
| Consolidated obligations: | | | | | | |
| Discount notes | 16,617,079 | 16,617,976 | — | 16,617,976 | — | — |
| Bonds | 43,332,946 | 43,952,206 | — | 43,952,206 | — | — |
| Accrued interest payable | 63,581 | 63,581 | — | 63,581 | — | — |
| Derivative liabilities, net | 22,979 | 22,979 | — | 762,997 | — | (740,018) |
| MRCS | 250,768 | 250,768 | 250,768 | — | — | — |

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | | Estimated Fair Value | | | | |
| **Financial Instruments** | **Carrying Value** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Netting Adjustments** [1] |
| **Assets:** | | | | | | |
| Cash and due from banks | $ 220,294 | $ 220,294 | $ 220,294 | $ — | $ — | $ — |
| Interest-bearing deposits | 809,141 | 809,141 | 809,000 | 141 | — | — |
| Securities purchased under agreements to resell | 1,500,000 | 1,500,000 | — | 1,500,000 | — | — |
| Federal funds sold | 2,550,000 | 2,550,000 | — | 2,550,000 | — | — |
| Trading securities | 5,016,649 | 5,016,649 | — | 5,016,649 | — | — |
| AFS securities | 8,484,478 | 8,484,478 | — | 8,484,478 | — | — |
| HTM securities | 5,216,401 | 5,216,206 | — | 5,216,206 | — | — |
| Advances | 32,480,108 | 32,425,749 | — | 32,425,749 | — | — |
| Mortgage loans held for portfolio, net | 10,815,037 | 10,943,595 | — | 10,935,787 | 7,808 | — |
| Accrued interest receivable | 131,822 | 131,822 | — | 131,822 | — | — |
| Derivative assets, net | 208,008 | 208,008 | — | 60,941 | — | 147,067 |
| Grantor trust assets [2] | 26,050 | 26,050 | 26,050 | — | — | — |
| **Liabilities:** | | | | | | |
| Deposits | 960,304 | 960,304 | — | 960,304 | — | — |
| Consolidated obligations: | | | | | | |
| Discount notes | 17,676,793 | 17,679,210 | — | 17,679,210 | — | — |
| Bonds | 44,715,224 | 45,036,500 | — | 45,036,500 | — | — |
| Accrued interest payable | 178,981 | 178,981 | — | 178,981 | — | — |
| Derivative liabilities, net | 3,206 | 3,206 | — | 319,061 | — | (315,855) |
| MRCS | 322,902 | 322,902 | 322,902 | — | — | — |

(1) Represents the application of the netting requirements that allow us to settle (i) positive and negative positions and (ii) cash collateral and related accrued interest held or placed with the same clearing agent and/or counterparty.
(2) Included in other assets on the statement of condition.

***Summary of Valuation Techniques and Significant Inputs.*** The valuation techniques and significant inputs used to develop our measurement of estimated fair value for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the Statement Condition are listed below.

*Investment Securities - MBS.* The estimated fair value incorporates prices from multiple third-party pricing vendors, when available. These pricing vendors use various proprietary models to price MBS. The inputs to those models are derived from various sources, including, but not limited to, benchmark yields, reported trades, dealer estimates, issuer spreads, benchmark securities, bids, offers, and other market-related data.

We conduct reviews of the pricing vendors' processes, methodologies and control procedures to confirm and further augment our understanding of the vendors' prices for our MBS. Each pricing vendor has an established challenge process in place for all MBS valuations, which facilitates resolution of potentially erroneous prices identified by us.

Our valuation technique for estimating the fair values of MBS initially requires the establishment of a "median" price for each security. All prices that are within a specified tolerance threshold of the median price are then included in the "cluster" of prices that are averaged to compute a "default" price. All prices that are outside the threshold (i.e., outliers) are subject to further analysis (including, but not limited to, comparison to prices provided by an additional third-party valuation service, prices for similar securities, and/or non-binding dealer estimates) to determine if an outlier is a better estimate of fair value. If so, then the outlier (or the other price as appropriate) is used as the final price rather than the default price. In all cases, the final price is used to determine the estimated fair value of the security.

As of December 31, 2020, we obtained two or three prices for substantially all of our MBS.

*Investment Securities - non-MBS.* The estimated fair value is determined using market-observable price quotes from third-party pricing vendors, such as the Composite Bloomberg Bond Trader screen, thus falling under the market approach.

*Impaired Mortgage Loans Held for Portfolio.* We record non-recurring fair value adjustments to reflect partial charge-offs on impaired mortgage loans. We estimate the fair value of these assets using a current property value obtained from a third-party.

*Derivative assets/liabilities.* We base the estimated fair values of derivatives with similar terms on market prices when available. However, active markets do not exist for many of our derivatives. Consequently, fair values for these instruments are generally estimated using standard valuation techniques such as discounted cash-flow analysis and comparisons to similar instruments. In limited instances, fair value estimates for derivatives are obtained from dealers and are corroborated by using a pricing model and observable market data (e.g., the LIBOR or OIS curves).

A discounted cash flow analysis utilizes market-observable inputs (inputs that are actively quoted and can be validated to external sources). Inputs by class of derivative are as follows:

Interest-rate related:

- LIBOR curve or the OIS curve, as applicable, to project cash flows for collateralized interest-rate swaps and the OIS curve only to discount those cash flows; and
- Volatility assumption - market-based expectations of future interest-rate volatility implied from current market prices for similar options.

TBAs:

- TBA securities prices - market-based prices are determined by coupon, maturity and expected term until settlement.

MDCs:

- TBA securities prices - prices are then adjusted for differences in coupon, average loan rate and seasoning.

The estimated fair values of our derivative assets and liabilities include accrued interest receivable/payable and related cash collateral. The estimated fair values of the accrued interest receivable/payable and cash collateral equal their carrying values due to their short-term nature.

We adjust the estimated fair values of our derivatives for counterparty nonperformance risk, particularly credit risk, as appropriate. We compute our nonperformance risk adjustment by using observable credit default swap spreads and estimated probability default rates applied to our exposure after considering collateral held or placed.

*Grantor Trust Assets.* Grantor trust assets, included as a component of other assets, are carried at estimated fair value based on quoted market prices as of the last business day of the reporting period.

***Estimated Fair Value Measurements***. The following tables present, by level within the fair value hierarchy, the estimated fair value of our financial assets and liabilities that are recorded at estimated fair value on a recurring or non-recurring basis on our statement of condition.

| December 31, 2020 | Total | Level 1 | Level 2 | Level 3 | Netting Adjustments [1] |
|---|---|---|---|---|---|
| Trading securities: | | | | | |
| U.S. Treasury securities | $ 5,094,703 | $ — | $ 5,094,703 | $ — | $ — |
| Total trading securities | 5,094,703 | — | 5,094,703 | — | — |
| AFS securities: | | | | | |
| GSE and TVA debentures | 3,503,137 | — | 3,503,137 | — | — |
| GSE MBS | 6,641,762 | — | 6,641,762 | — | — |
| Total AFS securities | 10,144,899 | — | 10,144,899 | — | — |
| Derivative assets: | | | | | |
| Interest-rate related | 282,060 | — | 19,535 | — | 262,525 |
| MDCs | 1,022 | — | 1,022 | — | — |
| Total derivative assets, net | 283,082 | — | 20,557 | — | 262,525 |
| Other assets: | | | | | |
| Grantor trust assets | 51,032 | 51,032 | — | — | — |
| Total assets at recurring estimated fair value | $ 15,573,716 | $ 51,032 | $ 15,260,159 | $ — | $ 262,525 |
| | | | | | |
| Derivative liabilities: | | | | | |
| Interest-rate related | $ 22,979 | $ — | $ 762,997 | $ — | $ (740,018) |
| MDCs | — | — | — | — | — |
| Total derivative liabilities, net | 22,979 | — | 762,997 | — | (740,018) |
| Total liabilities at recurring estimated fair value | $ 22,979 | $ — | $ 762,997 | $ — | $ (740,018) |
| | | | | | |
| Mortgage loans held for portfolio [2] | $ 1,460 | $ — | $ — | $ 1,460 | $ — |
| Total assets at non-recurring estimated fair value | $ 1,460 | $ — | $ — | $ 1,460 | $ — |

| December 31, 2019 | Total | Level 1 | Level 2 | Level 3 | Netting Adjustments [1] |
|---|---|---|---|---|---|
| Trading securities: | | | | | |
| U.S. Treasury securities | $ 5,016,649 | $ — | $ 5,016,649 | $ — | $ — |
| Total trading securities | 5,016,649 | — | 5,016,649 | — | — |
| AFS securities: | | | | | |
| GSE and TVA debentures | 3,926,852 | — | 3,926,852 | — | — |
| GSE MBS | 4,557,626 | — | 4,557,626 | — | — |
| Total AFS securities | 8,484,478 | — | 8,484,478 | — | — |
| Derivative assets: | | | | | |
| Interest-rate related | 207,903 | — | 60,836 | — | 147,067 |
| MDCs | 105 | — | 105 | — | — |
| Total derivative assets, net | 208,008 | — | 60,941 | — | 147,067 |
| Other assets: | | | | | |
| Grantor trust assets | 26,050 | 26,050 | — | — | — |
| Total assets at recurring estimated fair value | $ 13,735,185 | $ 26,050 | $ 13,562,068 | $ — | $ 147,067 |
| | | | | | |
| Derivative liabilities: | | | | | |
| Interest-rate related | $ 3,203 | $ — | $ 319,058 | $ — | $ (315,855) |
| MDCs | 3 | — | 3 | — | — |
| Total derivative liabilities, net | 3,206 | — | 319,061 | — | (315,855) |
| Total liabilities at recurring estimated fair value | $ 3,206 | $ — | $ 319,061 | $ — | $ (315,855) |
| | | | | | |
| Mortgage loans held for portfolio [3] | $ 1,504 | $ — | $ — | $ 1,504 | $ — |
| Total assets at non-recurring estimated fair value | $ 1,504 | $ — | $ — | $ 1,504 | $ — |

(1) Represents the application of the netting requirements that allow us to settle (i) positive and negative positions and (ii) cash collateral and related accrued interest held or placed with the same clearing agent and/or counterparty.
(2) Amounts are as of the date the fair-value adjustment was recorded during the year ended December 31, 2020.
(3) Amounts are as of the date the fair-value adjustment was recorded during the year ended December 31, 2019.

***Level 3 Disclosures for All Assets and Liabilities that are Measured at Fair Value on a Recurring Basis.*** The table below presents a rollforward of our AFS private-label RMBS measured at estimated fair value on a recurring basis using level 3 significant inputs. The estimated fair values were determined using a pricing source, such as a dealer quote or comparable security price, for which the significant inputs used to determine the price were not readily observable. During the year ended December 31, 2018, for strategic, economic and operational reasons, we sold all of our AFS investments in private-label RMBS.

| AFS private-label RMBS Level 3 Rollforward | 2018 |
|---|---|
| Balance, beginning of year | $ 218,534 |
| Total realized and unrealized gains (losses): | |
| Net realized gains from sale of AFS securities | 32,407 |
| Accretion of credit losses in interest income | 1,884 |
| Net losses on changes in fair value in other income | — |
| Net change in fair value not in excess of cumulative non-credit losses in OCI | 2,693 |
| Unrealized gains in OCI | 392 |
| Reclassification of non-credit portion in OCI to other income | — |
| Purchases, issuances, sales and settlements: | |
| Sales | (236,248) |
| Settlements | (19,662) |
| Balance, end of year | $ — |
| | |
| Net gains included in earnings attributable to changes in fair value relating to assets still held at end of year | $ — |

**Note 17 - Commitments and Contingencies**

The following table presents our off-balance-sheet commitments at their notional amounts.

| | December 31, 2020 | | |
|---|---|---|---|
| Type of Commitment | Expire within one year | Expire after one year | Total |
| Standby letters of credit outstanding | $ 190,786 | $ 165,441 | $ 356,227 |
| Unused lines of credit [1] | 997,608 | — | 997,608 |
| Commitments to fund or purchase mortgage loans, net [2] | 180,152 | — | 180,152 |
| Unsettled CO bonds, at par | 150,000 | — | 150,000 |
| Unsettled discount notes, at par | 250,000 | — | 250,000 |

(1) Maximum line of credit amount per member is $50,000.
(2) Generally for periods up to 91 days.

***Commitments to Extend Credit.*** A standby letter of credit is a financing arrangement between us and one of our members for which we charge the member a commitment fee. If we are required to make a payment for a beneficiary's draw, the payment amount is converted into a collateralized advance to the member. Substantially all of these standby letters of credit, including related commitments, range from 3 months to 20 years, although some are renewable at our option. The carrying value of guarantees (commitment fees) related to standby letters of credit is recorded in other liabilities and totaled $5,082 at December 31, 2020.

Lines of credit allow members to fund short-term cash needs (up to one year) without submitting a new application for each request for funds.

We monitor the creditworthiness of our standby letters of credit and lines of credit based on an evaluation of the financial condition of our members. In addition, commitments to extend credit are fully collateralized at the time of issuance. We have established parameters for the measurement, review, classification, and monitoring of credit risk related to these two products. Based on credit analyses performed by us as well as collateral requirements, we have not deemed it necessary to record any additional liability for these commitments.

***Commitments to Fund or Purchase Mortgage Loans.*** Commitments that unconditionally obligate us to fund or purchase mortgage loans are generally for periods not to exceed 91 days. Such commitments are reported as derivative assets or derivative liabilities at their estimated fair value and are reported net of participating interests sold to other FHLBanks.

***Pledged Collateral.*** At December 31, 2020 and 2019, we had pledged cash collateral of $1,003,380 and $463,780, respectively, to counterparties and clearing agents. At December 31, 2020 and 2019, we had not pledged any securities as collateral.

***Liability for Credit Losses.*** We monitor the creditworthiness of our members that have standby letters of credit and lines of credit. As standby letters of credit and lines of credit are subject to the same collateralization and borrowing limits that apply to advances and are fully collateralized at the time of issuance, we have not recorded a liability for credit losses on these credit products.

***Legal Proceedings.*** We are subject to legal proceedings arising in the normal course of business. We record an accrual for a loss contingency when it is probable that a loss for which we could be liable has been incurred and the amount can be reasonably estimated. After consultation with legal counsel, management does not anticipate that the ultimate liability, if any, arising out of these proceedings could have a material effect on our financial condition, results of operations or cash flows.

Additional discussion of other commitments and contingencies is provided in *Note 5 - Advances; Note 6 - Mortgage Loans Held for Portfolio; Note 8 - Derivatives and Hedging Activities; Note 10 - Consolidated Obligations; Note 12 - Capital;* and *Note 16 - Estimated Fair Values*.

**Note 18 - Related Party and Other Transactions**

***Transactions with Related Parties.*** We are a cooperative whose members and former members (or legal successors) own all of our outstanding capital stock. Former members (including certain non-members) are required to maintain their investment in our capital stock until their outstanding business transactions with us have matured or are paid off and their capital stock is redeemed in accordance with our capital plan and regulatory requirements. For more information, see *Note 12 - Capital*.

Under GAAP, transactions with related parties include transactions with principal owners, i.e, owners of more than 10% of the voting interests of the entity. Due to the statutory limits on members' voting rights and the number of members in our Bank, no shareholder owned more than 10 percent of the total voting interests as of and for the three-year period ended December 31, 2020. Therefore, the Bank had no transactions with principal owners for any of the periods presented.

Under GAAP, transactions with related parties also include transactions with management. Management is defined as persons who are responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. For this purpose, management typically includes those who serve on our board of directors. The Bank provides, in the ordinary course of its business, products and services to members whose officers or directors may also serve as directors of the Bank, i.e., directors' financial institutions. However, Finance Agency regulations require that transactions with directors' financial institutions be made on the same terms as those with any other member. Therefore, all of our transactions with directors' financial institutions are subject to the same eligibility and credit criteria, as well as the same conditions, as comparable transactions with all other members.

The following table presents the aggregate balances of capital stock and advances outstanding for directors' financial institutions and their balances as a percent of the total balances on our statement of condition.

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| **Balances with Directors' Financial Institutions** | **Par value** | **% of Total** | **Par value** | **% of Total** |
| Capital stock | $ 426,003 | 17 % | $ 57,133 | 2 % |
| Advances | 5,397,433 | 18 % | 698,699 | 2 % |

The par values at December 31, 2020 reflect changes in the composition of directors' financial institutions effective January 1, 2020, due to changes in board membership resulting from the 2019 director election.
The following table presents our transactions with directors' financial institutions, taking into account the beginning and ending dates of the directors' terms, merger activity and other changes in the composition of directors' financial institutions.

| | Years Ended December 31, | | |
|---|---|---|---|
| **Transactions with Directors' Financial Institutions** | **2020** | **2019** | **2018** |
| Net capital stock issuances (redemptions and repurchases) | $ 80,088 | $ 6,729 | $ 6,328 |
| Net advances (repayments) | 346,863 | 203,078 | 23,550 |
| Mortgage loan purchases | 48,394 | 30,610 | 40,038 |

***Transactions with Members and Former Members.*** Substantially all advances are made to members, and all whole mortgage loans held for portfolio are purchased from members. We also maintain demand deposit accounts for members, primarily to facilitate settlement activities that are directly related to advances or mortgage loan purchases. Such transactions with members are entered into in the ordinary course of business. In addition, we may purchase investments in federal funds sold, securities purchased under agreements to resell, certificates of deposit, and MBS from members or their affiliates. All purchases are transacted at market prices without preference to the status of the counterparty or the issuer of the security as a member, nonmember, or affiliate thereof.

Under our AHP, we provide subsidies to members, which may be in the form of direct grants or below-market-rate advances. All AHP subsidies are made in the ordinary course of business. Under our Community Investment Program and our Community Investment Cash Advances program, we provide subsidies in the form of below-market-rate advances to members or standby letters of credit to members for community lending and economic development projects. All Community Investment Cash Advances subsidies are made in the ordinary course of business.

***Transactions with Other FHLBanks.*** Occasionally, we loan or borrow short-term funds to/from other FHLBanks. The following table presents the loans to/borrowings from other FHLBanks.

| | Years Ended December 31, | | |
|---|---|---|---|
| **Loans to other FHLBanks** | **2020** | **2019** | **2018** |
| Disbursements | $ (90,000) | $ — | $ (400,000) |
| Principal repayments | 90,000 | — | 400,000 |
| **Borrowings from other FHLBanks** | | | |
| Proceeds from borrowings | $ — | $ 250,000 | $ — |
| Principal repayments | — | (250,000) | — |

There were no loans to or borrowings from other FHLBanks that remained outstanding at December 31, 2020 or 2019.

***Transactions with the Office of Finance.*** Our proportionate share of the cost of operating the Office of Finance is identified in our statement of income.

**DEFINED TERMS**

**2005 SERP:** Federal Home Loan Bank of Indianapolis 2005 Supplemental Executive Retirement Plan, as amended
**ABS:** Asset-Backed Securities
**Advance:** Secured loan to members, former members or Housing Associates
**AFS:** Available-for-Sale
**Agency:** GSE and Ginnie Mae
**AHP:** Affordable Housing Program
**AMA:** Acquired Member Assets
**AOCI:** Accumulated Other Comprehensive Income (Loss)
**Bank Act:** Federal Home Loan Bank Act of 1932, as amended
**bps:** basis points
**CARES Act:** Coronavirus Aid, Relief and Economic Security Act
**CDFI:** Community Development Financial Institution
**CE:** Credit Enhancement
**CFI:** Community Financial Institution, an FDIC-insured depository institution with average total assets below an annually-adjusted limit established by the Finance Agency Director based on the Consumer Price Index
**CFPB:** Bureau of Consumer Financial Protection
**CFTC:** United States Commodity Futures Trading Commission
**Clearinghouse:** A United States Commodity Futures Trading Commission-registered derivatives clearing organization
**CME:** CME Clearing
**CMO:** Collateralized Mortgage Obligation
**CO bond:** Consolidated Obligation bond
**COVID-19:** Coronavirus Disease 2019
**DB Plan:** Pentegra Defined Benefit Pension Plan for Financial Institutions, as amended
**DC Plan:** Collectively, the Pentegra Defined Contribution Retirement Savings Plan for Financial Institutions, as amended, in effect through October 1, 2020 and the Federal Home Loan Bank of Indianapolis Retirement Savings Plan, commencing October 2, 2020
**DDCP:** Directors' Deferred Compensation Plan
**Dodd-Frank Act:** Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended
**EFFR:** Effective Federal Funds Rate
**Exchange Act:** Securities Exchange Act of 1934, as amended
**Fannie Mae:** Federal National Mortgage Association
**FASB:** Financial Accounting Standards Board
**FCA:** Financial Conduct Authority
**FDIC:** Federal Deposit Insurance Corporation
**FHA:** Federal Housing Administration
**FHLBank:** A Federal Home Loan Bank
**FHLBanks:** The 11 Federal Home Loan Banks or a subset thereof
**FHLBank System:** The 11 Federal Home Loan Banks and the Office of Finance
**FICO®:** Fair Isaac Corporation, the creators of the FICO credit score
**Final Membership Rule:** Final Rule on FHLBank Membership issued by the Finance Agency effective February 19, 2016
**Finance Agency:** Federal Housing Finance Agency, successor to Finance Board
**Finance Board:** Federal Housing Finance Board, predecessor to Finance Agency
**FLA:** First Loss Account
**FOMC:** Federal Open Market Committee
**Form 8-K:** Current Report on Form 8-K as filed with the SEC under the Exchange Act
**Form 10-K:** Annual Report on Form 10-K as filed with the SEC under the Exchange Act
**Form 10-Q:** Quarterly Report on Form 10-Q as filed with the SEC under the Exchange Act
**Freddie Mac:** Federal Home Loan Mortgage Corporation
**Frozen SERP:** Federal Home Loan Bank of Indianapolis Supplemental Executive Retirement Plan, frozen effective December 31, 2004
**GAAP:** Generally Accepted Accounting Principles in the United States of America
**Ginnie Mae:** Government National Mortgage Association
**GLB Act:** Gramm-Leach-Bliley Act of 1999, as amended
**GSE:** United States Government-Sponsored Enterprise
**HERA:** Housing and Economic Recovery Act of 2008, as amended
**Housing Associate:** Approved lender under Title II of the National Housing Act of 1934 that is either a government agency or is chartered under federal or state law with rights and powers similar to those of a corporation

**HTM:** Held-to-Maturity
**HUD:** United States Department of Housing and Urban Development
**JCE Agreement:** Joint Capital Enhancement Agreement, as amended, among the 11 FHLBanks
**KESP:** Key Employee Severance Policy
**LCH:** LCH.Clearnet LLC
**LIBOR:** London Interbank Offered Rate
**LRA:** Lender Risk Account
**LTV:** Loan-to-Value
**MAP-21:** Moving Ahead for Progress in the 21st Century Act, enacted on July 6, 2012
**MBS:** Mortgage-Backed Securities
**MCC:** Master Commitment Contract
**MDC:** Mandatory Delivery Commitment
**Moody's:** Moody's Investor Services
**MPF:** Mortgage Partnership Finance®
**MPP:** Mortgage Purchase Program, including Original and Advantage unless indicated otherwise
**MRCS:** Mandatorily Redeemable Capital Stock
**MVE:** Market Value of Equity
**NRSRO:** Nationally Recognized Statistical Rating Organization
**OCC:** Office of the Comptroller of the Currency
**OCI:** Other Comprehensive Income (Loss)
**OIS:** Overnight-Indexed Swap
**ORERC:** Other Real Estate-Related Collateral
**OTTI:** Other-Than-Temporary Impairment or -Temporarily Impaired (as the context indicates)
**PFI:** Participating Financial Institution
**PMI:** Primary Mortgage Insurance
**REMIC:** Real Estate Mortgage Investment Conduit
**REO:** Real Estate Owned
**RMBS:** Residential Mortgage-Backed Securities
**S&P:** Standard & Poor's Rating Service
**Safety and Soundness Act:** Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended
**SBA:** Small Business Administration
**SEC:** Securities and Exchange Commission
**Securities Act:** Securities Act of 1933, as amended
**SERP:** Collectively, the 2005 SERP and the Frozen SERP
**SETP:** Federal Home Loan Bank of Indianapolis 2016 Supplemental Executive Thrift Plan, as amended and restated
**SMI:** Supplemental Mortgage Insurance
**SOFR:** Secured Overnight Financing Rate
**TBA:** To Be Announced, a forward contract for the purchase or sale of MBS at a future agreed-upon date for an established price
**TDR:** Troubled Debt Restructuring
**TVA:** Tennessee Valley Authority
**UPB:** Unpaid Principal Balance
**VaR:** Value at Risk
**WAIR:** Weighted-Average Interest Rate

**Supplementary Data**

Supplementary unaudited financial data for each full quarter within the years ended December 31, 2020 and 2019 are included in the tables below ($ amounts in millions).

| Statement of Income | 1st Quarter 2020 | 2nd Quarter 2020 | 3rd Quarter 2020 | 4th Quarter 2020 | 2020 Total |
|---|---|---|---|---|---|
| Interest income | $ 365 | $ 195 | $ 151 | $ 142 | $ 853 |
| Interest expense | 302 | 128 | 90 | 70 | 590 |
| Net interest income | 63 | 67 | 61 | 72 | 263 |
| Provision for (reversal of) credit losses | — | — | — | — | — |
| Net interest income after provision for credit losses | 63 | 67 | 61 | 72 | 263 |
| Other income (loss) | (4) | (25) | (17) | (9) | (55) |
| Other expenses | 26 | 26 | 27 | 30 | 109 |
| Income before assessments | 33 | 16 | 17 | 33 | 99 |
| AHP assessments | 4 | 2 | 2 | 3 | 11 |
| Net income | $ 29 | $ 14 | $ 15 | $ 30 | $ 88 |

| Statement of Income | 1st Quarter 2019 | 2nd Quarter 2019 | 3rd Quarter 2019 | 4th Quarter 2019 | 2019 Total |
|---|---|---|---|---|---|
| Interest income | $ 446 | $ 474 | $ 439 | $ 394 | $ 1,753 |
| Interest expense | 388 | 414 | 389 | 324 | 1,515 |
| Net interest income | 58 | 60 | 50 | 70 | 238 |
| Provision for (reversal of) credit losses | — | — | — | — | — |
| Net interest income after provision for credit losses | 58 | 60 | 50 | 70 | 238 |
| Other income (loss) | 3 | 3 | 3 | 11 | 20 |
| Other expenses | 23 | 24 | 24 | 28 | 99 |
| Income before assessments | 38 | 39 | 29 | 53 | 159 |
| AHP assessments | 4 | 4 | 3 | 6 | 17 |
| Net income | $ 34 | $ 35 | $ 26 | $ 47 | $ 142 |

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

We use acronyms and terms throughout this Item that are defined herein or in the *Defined Terms*.

### Evaluation of Disclosure Controls and Procedures

We are responsible for establishing and maintaining disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in our reports filed under the Exchange Act is: (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and (b) accumulated and communicated to our management, including our principal executive officer, principal financial officer, and principal accounting officer, to allow timely decisions regarding required disclosures.

As of December 31, 2020, we conducted an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (the principal executive officer), Chief Financial Officer (the principal financial officer) and Chief Accounting Officer (the principal accounting officer), of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. In making this assessment, our management used the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded that our disclosure controls and procedures were effective as of December 31, 2020.

### Internal Control Over Financial Reporting

***Changes in Internal Control Over Financial Reporting.*** There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15(d)-15(f) of the Exchange Act, that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Limitations on the Effectiveness of Controls.*** We do not expect that our disclosure controls and procedures and other internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can only be reasonable assurance that any design will succeed in achieving its stated goals under all potential future conditions. Additionally, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## ITEM 9B. OTHER INFORMATION

None.

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We use acronyms and terms throughout this Item that are defined herein or in the *Defined Terms*.

### Board of Directors

The Bank Act divides FHLBank directorships into two categories, "member" directorships and "independent" directorships. Both types of directorships are filled by a vote of the members. Elections for member directors are held on a state-by-state basis. Member directors are elected by a plurality vote of the members in their state. Independent directors are elected at-large by all the members in the FHLBank district without regard to the state. No member of management of an FHLBank may serve as a director of an FHLBank.

Under the Bank Act, member directorships must make up a majority of the board of directors' seats, while the independent directorships must comprise at least 40% of the entire board. A Finance Agency Order issued June 10, 2020 provides that we have 17 seats on our board of directors for 2021, consisting of five Indiana member directors, four Michigan member directors, and eight independent directors. The term of office for directors is four years, unless otherwise adjusted by the Director in order to achieve an appropriate staggering of terms, with approximately one-fourth of the directors' terms expiring each year. Directors may not serve more than three consecutive full terms.

Finance Agency regulations permit, but do not require, the board of directors to conduct an annual assessment of the skills and experience possessed by the board as a whole and to determine whether the capabilities of the board would be enhanced through the addition of individuals with particular skills and experience. We may identify those qualifications and inform the voting members as part of our nomination and balloting process; however, by regulation as described below, we may not exclude a member director nominee from the election ballot on the basis of those qualifications. For the 2020 director elections, our board listed in its request for nominations certain desirable candidate attributes and experiences, personal characteristics, and other competencies, but no particular qualifications beyond the eligibility criteria were required as part of the nomination, balloting and election process.

Finance Agency regulations require each FHLBank to develop, implement, and maintain policies and procedures to ensure, to the maximum extent possible in balance with financially safe and sound business practices, the consideration of minorities, women, and individuals with disabilities for employment, and consideration of minority-, women-, and disabled-owned businesses to be engaged for all business and activities. In particular, those policies and procedures shall (among other things) encourage the consideration of diversity in nominating or soliciting nominees for positions on our board of directors.

***Nomination of Member Directors.*** The Bank Act and Finance Agency regulations require that member director nominees meet certain statutory and regulatory criteria in order to be eligible to be elected and serve as directors. To be eligible, an individual must: (i) be an officer or director of a member institution located in the state in which there is an open member director position; (ii) represent a member institution that is in compliance with the minimum capital requirements established by its regulator; and (iii) be a United States citizen. These criteria are the only eligibility and qualifications criteria that member directors must meet.

Each eligible institution may nominate representatives from member institutions in its state to serve as member directors. Only our shareholders may nominate and elect member directors. Our board of directors is not permitted to nominate or elect member directors, except to fill a vacancy for the remainder of an unexpired term or to fill a vacancy for which no nominations were received. With respect to member directors, no director, officer, employee, attorney or agent of our Bank (except in his or her personal capacity) may, directly or indirectly, support the nomination or election of a particular individual for a member directorship. Finance Agency regulations do not require member institutions to communicate the reasons for their nominations, and we have no power to require them to do so.

***Nomination of Independent Directors.*** Independent director nominees also must meet certain statutory and regulatory eligibility criteria. Each independent director must be a United States citizen and a bona fide resident of Michigan or Indiana. Before nominating an individual for an independent directorship, other than for a public interest directorship, our board must determine that the nominee's knowledge or experience is commensurate with that needed to oversee a financial institution with a size and complexity that is comparable to that of our Bank. The Bank Act and Finance Agency regulations prohibit an independent director from serving as a director, officer, or employee of a member of the FHLBank on whose board the director sits, or of a recipient of an advance from that FHLBank, or as an officer of any FHLBank, and would also prohibit the nomination or election as an independent director of an individual serving in any such capacity.

Under the Bank Act, there are two types of independent directors:

- **Public interest directors** - We are required to have at least two public interest directors. Each must have more than four years of experience representing consumer or community interests in banking services, credit needs, housing, or consumer financial protections.
- **Other independent directors** - Independent directors must have demonstrated knowledge or experience in auditing or accounting, derivatives, financial management, organizational management, project development or risk management practices, or other expertise established by Finance Agency regulations.

Pursuant to the Bank Act and Finance Agency regulations, the board of directors, after consultation with our Affordable Housing Advisory Council, nominates candidates for the independent director positions. Individuals interested in serving as independent directors may submit an application for consideration by the Executive/Governance Committee, which performs certain functions for our board that are similar to those of a board nominating committee with respect to the nomination of candidates for election as independent directors. The application form is available on our website at www.fhlbi.com, by clicking on "Resources," "Corporate Governance" and "Board of Directors." Our members may also nominate independent director candidates. The conclusion that an independent director nominee may qualify to serve as a director is based upon the nominee's satisfaction of the eligibility criteria listed above and verified through application and eligibility certification forms prescribed by the Finance Agency. The board then submits the slated independent director candidates to the Finance Agency for review and comment. Once the Finance Agency has accepted candidates for the independent director positions, we hold a district-wide election for those positions.

Under Finance Agency regulations, if the board of directors nominates only one independent director candidate for each open seat, each candidate must receive at least 20% of the votes that are eligible to be cast in order to be elected. If there is more than one candidate for each open independent director seat, then such requirement does not apply.

***2020 Member and Independent Director Elections.*** The Bank Act and Finance Agency regulations set forth the voting rights and processes with respect to the election of member directors and independent directors. The board of directors does not solicit proxies, nor are eligible institutions permitted to solicit or use proxies to cast their votes in an election for directors. For the election of both member directors and independent directors, each eligible institution is entitled to cast one vote for each share of stock that it was required to hold as of the record date (i.e., December 31 of the year prior to the year in which the election is held); however, the number of votes that a member institution may cast for each directorship cannot exceed the average number of shares of stock that were required to be held by all member institutions located in the applicable state on the record date.

The only matter submitted to a vote of our shareholders in 2020 was the fourth quarter election of three independent directors and two Indiana member directors. No meeting of the members was held with regard to the 2020 election. The 2020 election was conducted in accordance with the Bank Act and Finance Agency regulations.

***Board of Directors Vacancies.*** If a vacancy occurs on an FHLBank's board of directors, the board, by a majority vote of the remaining directors, shall elect an individual to fill the unexpired term of office of the vacant directorship. Any individual so elected must satisfy all eligibility requirements of the Bank Act and Finance Agency regulations applicable to his or her predecessor. Before an election to fill a vacant directorship occurs, the FHLBank must obtain an executed eligibility certification form from each individual being considered to fill the vacancy, and must verify each individual's eligibility. The FHLBank must also verify the qualifications of any potential independent director. Before electing an independent director, the FHLBank must deliver to the Finance Agency for review a copy of the application form of each individual being considered by the board. Promptly following an election to fill a vacancy on the board, the FHLBank must send a notice to its members and the Finance Agency providing information about the elected director, including his or her name, company affiliation, title, term expiration date and, for member directors, the voting state that the director represents.

Our directors are listed in the table below, including those who served in 2020 or serve as of March 10, 2021.

| Name | Age | Director Since | Term Expiration | Independent (elected by District) or Member (elected by State) |
|---|---|---|---|---|
| Dan L. Moore, Chair [1] | 70 | 1/1/2011 | 12/31/2022 | Member (IN) |
| James L. Logue, III, Vice Chair [1] | 68 | 4/24/2007 | 12/31/2021 | Independent |
| Karen F. Gregerson, Vice Chair [1] | 60 | 1/1/2013 | 12/31/2024 | Member (IN) |
| Brian D. J. Boike | 44 | 1/1/2020 | 12/31/2023 | Member (MI) |
| Jonathan P. Bradford [2] | 71 | 4/24/2007 | 12/31/2020 | Independent |
| Ronald Brown | 56 | 1/1/2018 | 12/31/2021 | Member (IN) |
| Clifford M. Clarke | 57 | 1/1/2021 | 12/31/2024 | Member (IN) |
| Lisa D. Cook | 56 | 1/1/2021 | 12/31/2024 | Independent |
| Charlotte C. Decker | 56 | 1/1/2017 | 12/31/2024 | Independent |
| Robert M. Fisher | 60 | 1/1/2019 | 12/31/2022 | Member (MI) |
| Michael J. Hannigan, Jr. | 76 | 4/24/2007 | 12/31/2021 | Independent |
| Jeffrey G. Jackson | 50 | 1/1/2019 | 12/31/2022 | Member (MI) |
| Carl E. Liedholm | 80 | 1/1/2009 | 12/31/2020 | Independent |
| Robert D. Long | 66 | 4/24/2007 | 12/31/2023 | Independent |
| Michael J. Manica | 72 | 1/1/2016 | 12/31/2023 | Member (MI) |
| Larry W. Myers | 62 | 1/1/2018 | 12/31/2021 | Member (IN) |
| Christine Coady Narayanan [3] | 57 | 1/1/2008 | 12/31/2023 | Independent |
| Todd Sears [4] | 52 | 1/1/2021 | 12/31/2024 | Independent |
| Larry A. Swank | 78 | 1/1/2009 | 12/31/2022 | Independent |
| Ryan M. Warner | 64 | 1/1/2017 | 12/31/2020 | Member (IN) |

(1) Our board of directors, with input from the Executive/Governance Committee, elects a Chair and a Vice Chair to two-year terms. On November 16, 2018, our board elected Mr. Moore as Chair and Mr. Logue as Vice Chair for 2019-2020. On November 20, 2020, our board elected Mr. Moore as Chair and Ms. Gregerson as Vice Chair for 2021-2022.

(2) Public Interest Director designation, effective April 24, 2007, through the expiration of his term on December 31, 2020.

(3) Public Interest Director designation, effective May 15, 2014, throughout current term.

(4) Public Interest Director designation, effective January 1, 2021, throughout current term.

Each of our directors serves on one or more committees of our board. Committee assignments are made annually, based on board consensus, with input from the President - CEO. Committee assignments take into consideration several factors, including the committees' responsibilities and needs, directors' preferences and expertise, the benefits of rotations in committee memberships, and balancing the committees' responsibilities among all directors. The following table presents the committees on which each director serves as of March 10, 2021, as well as whether the director is the Chair (C), Vice Chair (VC), member (x), or Ex-Officio member (EO).

| Name | Affordable Housing | Audit | Executive/ Governance | Finance/ Budget | Human Resources | Risk Oversight | Succession Planning | Technology |
|---|---|---|---|---|---|---|---|---|
| Dan L. Moore | EO | EO | C | EO | EO | EO | EO | EO |
| Karen F. Gregerson | | X | VC | | | X | | |
| Brian D.J. Boike | | | | X | X | VC | | |
| Ronald Brown | X | | | | VC | X | X | |
| Clifford M. Clarke | | | | X | X | | | VC |
| Lisa D. Cook | | | | X | | X | | X |
| Charlotte C. Decker | | | X | | | X | | C |
| Robert M. Fisher | | X | X | | C | | X | |
| Michael J. Hannigan, Jr. | X | | | | X | | VC | X |
| Jeffrey G. Jackson | X | VC | | | | X | | |
| James L. Logue III | X | | | VC | X | | X | |
| Robert D. Long | | C | X | X | | | | X |
| Michael J. Manica | X | | X | C | | | X | |
| Larry W. Myers | | X | X | | | C | | |
| Christine Coady Narayanan | | X | X | | | | C | |
| Todd Sears | VC | X | | | | | | X |
| Larry A. Swank | C | | X | X | | | X | |

It has been the practice of the board of directors to not appoint any director as Chair of more than one Committee.

The following is a summary of the background and business experience of each of our directors. Except as otherwise indicated, for at least the last five years, each director has been engaged in his or her principal occupation as described below.

*Dan L. Moore* is the Chairman of Home Bank SB in Martinsville, Indiana, and has served in that position since January 2021. Previously, he served as its Chairman, President and CEO from April 2020 to January 2021, after having served as its President, CEO and director beginning in 2006. Mr. Moore has been employed by Home Bank SB since 1978. Mr. Moore serves on the board of directors of Stability First, a not-for-profit organization in Martinsville, Indiana, established to address issues associated with the alleviation of poverty. He holds a bachelor of science degree from Indiana State University and a master of science degree in management from Indiana Wesleyan University.

*Karen F. Gregerson* is the President and CEO of The Farmers Bank in Frankfort, Indiana, and President of The Farmers Bancorp, a bank holding company in Frankfort, Indiana, having been appointed to those positions in April 2016. She is also a director of both entities. Prior to those appointments, Ms. Gregerson was Senior Vice President and Chief Financial Officer of STAR Financial Bank in Fort Wayne, Indiana, a position she held beginning in 1997. She also serves as a member of the board of directors of the Indiana Statewide Certified Development Corporation. Ms. Gregerson holds a bachelor of science degree from Ball State University and a master of science degree in organizational leadership from the Indiana Institute of Technology. She maintains her CPA designation. The board of directors has determined that Ms. Gregerson is an Audit Committee Financial Expert due primarily to her experience as a director, CEO and Chief Financial Officer of a commercial bank and as a CPA.

*Brian D. J. Boike* is the Executive Vice President & Treasurer of Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, an NYSE-listed bank holding company located in Troy, Michigan, and has held that position since October 2014. Prior to that, Mr. Boike was Senior Vice President & Director of Capital Planning and Stress Testing of FirstMerit Bank, a subsidiary of FirstMerit Corporation (acquired by Huntington Bancshares Incorporated in August 2016), from April 2013 until October 2014. Previously, he was the Senior Vice President & Treasurer of Citizens Bank, a subsidiary of Citizens Republic Bancorp, Inc. in Flint, Michigan (acquired by FirstMerit Corporation in April 2013), from November 2009 until April 2013 and prior to that, Vice President & Asset Liability Manager from 2004 to November 2009 of Citizens Bank. Mr. Boike holds a bachelor of arts degree in economics from the University of Michigan and a Master of Arts in Political Economy degree from Boston University. Mr. Boike is also a CFA® charterholder.

*Ronald Brown* is Executive Vice President - General Counsel and a member of the board of directors of United Fidelity Bank, FSB, in Evansville, Indiana since January 2021, after having served as Senior Vice President - General Counsel and a member of the board of directors of United Fidelity Bank, FSB, since 2015. He is also Senior Vice President - General Counsel of its affiliated thrift holding company, Pedcor Financial, LLC, in Carmel, Indiana, since 2005. He is also a member of the board of an affiliated company, Pedcor Assurance Company. He is a member of the board of directors of the Indianapolis Legal Aid Society. Mr. Brown holds a bachelor of arts degree from the University of Southern California and a juris doctor degree from Indiana University.

*Clifford M. Clarke* is the board vice chair of Three Rivers Federal Credit Union in Fort Wayne, Indiana, since 2020, and has served as a director of the credit union since August 2012. Mr. Clarke is the founder, Principal Consultant, and President of $C^2$ IT Advisors LLC, a strategic information technology consulting firm since December 2008. He served as the Chief Information Officer of the Public Technology Institute, a national nonprofit organization advising local municipal executives on technology, research, and best practices, located in Alexandria, Virginia, from 2009-2020. Previously, Mr. Clarke served as the Executive Director in the Office of Information Technology of Ivy Tech Community College, Fort Wayne, Indiana from July 2010 through September 2019. He has previously served as board chair of Big Brothers Big Sisters Northeast Indiana and Leadership Fort Wayne. He is the Fort Wayne Black Chamber of Commerce board president. Mr. Clarke holds a master of business administration and a bachelor of science degree, each from Indiana Institute of Technology, where he is pursuing a PhD in global leadership. Mr. Clarke holds several professional certifications including CRISC, CGEIT, CISM, CSSGB, and PMP.

*Lisa D. Cook, PhD,* is a Professor of Economics and International Relations at Michigan State University in East Lansing, Michigan, and has held that position since 2005. Previously, Dr. Cook was President of the National Economic Association from 2015-2016, was elected to the Executive Committee of the American Economic Association for 2019, and served in the White House Council of Economic Advisers during 2011-2012. She is a Research Associate at the National Bureau for Economic Research and has previously held visiting appointments at the University of Michigan, and the Federal Reserve Banks of Chicago, Minneapolis, New York, and Philadelphia. Dr. Cook holds a PhD in economics from the University of California, Berkeley, and bachelors of arts degrees from Spelman College and St. Hilda's College, Oxford University, Oxford, United Kingdom.

*Charlotte C. Decker* is Chief Information Technology Officer for the UAW Retiree Medical Benefits Trust, in Detroit, Michigan, and has held that position since December 2014. She is also a director of Quaker Chemical Corporation (also known as Quaker Houghton), a chemicals company whose board of directors she joined in May 2020. Ms. Decker served as a Senior Consultant for Data Consulting Group, an information technology consulting services company in Detroit, Michigan, from August 2014 through December 2015. Prior to that, she was Vice President - Chief Technology Officer for Auto Club Group, an insurance and financial services company in Dearborn, Michigan, from September 2008 to June 2014. She was a Director of Global Computing for General Motors Corporation in Detroit, Michigan, from 2004 to 2007. Ms. Decker holds a bachelor of science degree, a master of science degree, and a master of business administration degree, each from the University of Michigan.

*Robert M. Fisher* is President - CEO of Lake-Osceola State Bank in Baldwin, Michigan, and has held that position since 2018. He also serves as the vice chair of that bank's board of directors, and is the President and Secretary of Lake Financial Holding Company, Baldwin, Michigan, its bank holding company. Prior to 2018, Mr. Fisher served as President - Chief Operating Officer of Lake-Osceola State Bank since 2005. Mr. Fisher is chair of the board of Baldwin Family Health Care, a community healthcare program. Mr. Fisher holds a bachelor of business leadership degree from Baker College. The board of directors has determined that Mr. Fisher is an Audit Committee Financial Expert due primarily to his experience as President - CEO and Chief Operating Officer of a commercial bank.

*Michael J. Hannigan, Jr.* has been employed in mortgage banking and related businesses for more than 30 years. Currently, he is the President of The Hannigan Company, LLC, a real estate consulting company in Carmel, Indiana, and has held that position since 2007 when he formed the company. From 1996 to 2006, Mr. Hannigan was the Executive Vice President and a director of The Precedent Companies, Inc., a residential real estate company. Mr. Hannigan previously served as a Senior Vice President and director of Union Federal Savings Bank. During his career, Mr. Hannigan has served as a director and founding partner of several companies engaged in residential development, home building, private water utility service, industrial development, and private capital acquisition. Mr. Hannigan is a director of the Indiana Builders Association, a trade association. He holds a bachelor of business administration degree from the University of Notre Dame. He has previously served as Vice Chair of our board of directors and Vice Chair of the Council of FHLBanks.

*Jeffrey G. Jackson* is the Chief Lending Officer of Michigan State University Federal Credit Union, in East Lansing, Michigan, and has held that position since July 2015. Prior to that appointment, Mr. Jackson was Senior Vice President - Business Lending and Operations during 2015 and Vice President - Payment Systems and Support Services from 2012 through 2014. He has also held officer positions in Member Services, Finance and Internal Audit since he began employment with Michigan State University Federal Credit Union in 1997. Before joining that institution, he held positions with public accounting firms. Mr. Jackson also serves on the board of directors of Child and Family Charities, and previously served on the board of directors of the Michigan Credit Union Foundation, both located in Lansing, Michigan. Mr. Jackson maintains his CPA designation. He holds a bachelor of business administration degree from the University of Michigan, and a master of business administration degree from Michigan State University. The board of directors has determined that Mr. Jackson is an Audit Committee Financial Expert primarily due to his experience as an officer of a financial institution and his experience in public accounting.

*James L. Logue III* is the Executive Vice President, Policy and Government Relations of Cinnaire Corp., formerly Great Lakes Capital Fund, a housing finance and development company in Lansing, Michigan, and has held that position since January 2020. He previously served as Chief Public Policy Officer starting in 2018, and as Chief Strategy Officer starting in 2016, after having served as Chief Operating Officer of Cinnaire since 2003. Prior to that, Mr. Logue served as the Executive Director of the Michigan State Housing Development Authority beginning in 1991. Mr. Logue has over 40 years' experience in affordable housing, finance, commercial real estate and economic development matters. He served as Deputy Assistant Secretary for Multifamily Housing Programs at HUD in 1988 - 1989, and has been involved in various capacities with the issuance of housing bonds and the management of multi-billion dollar housing portfolios. Mr. Logue serves as a board member of the National Housing Trust, Washington, D.C. Mr. Logue holds a bachelor of arts degree from Kean College.

*Robert D. Long* retired from KPMG LLP on December 31, 2006, where he had been the Office Managing Partner in the Indianapolis, Indiana office since 1999, and had served as an Audit Partner for KPMG since 1988. As an audit partner, Mr. Long served a number of companies with public, private and cooperative ownership structures in a variety of industries, including banking, finance and insurance. Mr. Long maintains his CPA designation. Since December 2014, Mr. Long has been a member of the board for Celadon Group, Inc., a transportation and logistics company, also serving as its Audit Committee chair and Audit Committee financial expert from December 2014 through the termination of such committee in 2019. From 2010 to 2015, Mr. Long was a member of the board and chair of the Audit Committee for Beefeaters Holding Company, Inc., a pet food company. He holds a bachelor of science degree from Indiana University. The board of directors has determined that Mr. Long is an Audit Committee Financial Expert due primarily to his previous experience as an audit partner at a major public accounting firm and as the Audit Committee chair of multiple companies.

*Michael J. Manica* is the vice chair and a director of United Bank Financial Corporation, a bank holding company, and is vice chair and a director of its banking subsidiary, United Bank of Michigan, in Grand Rapids, Michigan, and has held those positions since July 2019. Before his appointments as vice chair, Mr. Manica had served as a director and President and Chief Executive Officer beginning in March 2014. His career with United Bank of Michigan began in 1980. He holds a bachelor of arts degree from the University of Michigan and completed the Graduate School of Banking program at the University of Wisconsin.

*Larry W. Myers* is the President and CEO of First Savings Financial Group, Inc., a bank holding company, and its banking subsidiary, First Savings Bank, in Clarksville, Indiana, and has held those positions since 2009 and 2007, respectively. Previously he served as the Chief Operations Officer of First Savings Bank, and has served as a director of that bank since 2005. Mr. Myers has over 35 years' experience in retail banking, commercial lending and wealth management. Mr. Myers has served as chair of the Indiana Bankers Association and currently serves on the Community Bank Council and the FHLBank Committee of the American Bankers Association. He additionally serves as an Advisory Director for the Community Depository Institutions Advisory Council of the Federal Reserve Bank of St. Louis. Mr. Myers holds a bachelor of science degree and a master of business administration degree, both from the University of Kentucky. The board of directors has determined that Mr. Myers is an Audit Committee Financial Expert due primarily to his extensive experience as director, CEO, and chief operations officer of a commercial bank.

*Christine Coady Narayanan* is the President and CEO of Opportunity Resource Fund, a U.S. Treasury-certified CDFI with offices in Lansing, Grand Rapids, and Detroit, Michigan, having served in that position since October 2004. Opportunity Resource Fund is a non-profit CDFI that provides social impact investment opportunities for individuals and corporations throughout Michigan and engages in lending for affordable housing and community development purposes. As such, Opportunity Resource Fund is licensed and regulated by the Michigan Department of Insurance and Financial Services. Ms. Narayanan has held various positions with the Opportunity Resource Fund and its predecessor organization since 1989, and served as its Executive Director from 1997 to 2004. She holds an associate degree from Lansing Community College and a bachelor of arts degree from Spring Arbor University. Ms. Narayanan is a graduate of the National Internship in Community Economic Development and Michigan Municipal League's Elected Officials Academy and has completed certification through the Indiana University Center of Philanthropy.

*Todd Sears* is Executive Vice President of Research, Policy & Strategy at Kittle Property Group, Inc. (formerly Herman & Kittle Properties, Inc.), in Indianapolis, Indiana, a national multifamily housing property developer, having served in that position since March 2021. Prior to that appointment, he served as Executive Vice President from January 2018 through February 2021, after serving as Executive Vice President - Portfolio Management & Analysis beginning in January 2014. He joined Kittle Property Group Inc. in 2005. During 2020, Mr. Sears also was an adjunct professor of real estate finance at Butler University. He previously served on our Affordable Housing Advisory Council from 2012-2018. He is the founder of Pyxso, LLC, a consulting firm through which he has provided advisory services to not-for-profit companies since 2011. Mr. Sears holds a bachelor of science degree from Indiana University, Bloomington, Indiana, and a master of arts degree from Indiana University, Indianapolis, Indiana. Mr. Sears is a CFA® charterholder and holds a Chartered Alternative Investment Analyst designation.

*Larry A. Swank* is Founder, CEO and chair of Sterling Group, Inc. and affiliated companies in Mishawaka, Indiana. Mr. Swank has served as chair and CEO of Sterling Group, Inc. since 1976, and served as its President until July 2012. The principal business of that company and its affiliates involves the acquisition, development, construction and management of multi-family housing and storage units. Mr. Swank has served as a director of the National Association of Home Builders since 1973 and served as a member of its Executive Board for several terms. He also served as chair of that association's Housing Finance Committee on three separate occasions.

***Audit Committee.*** Our board of directors has a standing Audit Committee that was comprised of the following directors as of December 31, 2020:

Robert D. Long, Chair, independent director
Ryan M. Warner, Vice Chair
Robert M. Fisher
Karen F. Gregerson
Jeffrey G. Jackson
Larry W. Myers
Christine Coady Narayanan, independent director
Dan L. Moore, Ex-Officio Voting Member

Our board has determined that Mr. Long and Ms. Narayanan are "independent" under the New York Stock Exchange rules definition, and has further determined that no member director may qualify as "independent" under that definition due to the cooperative ownership structure of our Bank by its member institutions. For further discussion about the board's analysis of director independence, see *Item 13. Certain Relationships and Related Transactions, and Director Independence*.

The Bank Act requires the FHLBanks to comply with the substantive audit committee director independence rules applicable to issuers of securities registered under the Exchange Act. Those rules provide that, to be considered an independent member of an audit committee, a director may not be an affiliated person of the registrant. The term "affiliated person" means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the registrant. The rule provides a "safe harbor," whereby a person will not be deemed an affiliated person if the person is not the beneficial owner, directly or indirectly, of more than 10% of any class of voting securities of the registrant. All of our Audit Committee member directors' institutions met this safe harbor as of December 31, 2020, and as of March 10, 2021.

***Audit Committee Report.*** Our Audit Committee operates under a written charter adopted by the board of directors that was most recently amended on March 19, 2020. The Audit Committee charter is available on our website by scrolling to the bottom of any web page on www.fhlbi.com and then selecting "Corporate Governance" in the navigation menu. In accordance with its charter, the Audit Committee assists the board in fulfilling its fiduciary responsibilities and overseeing the internal and external audit functions. The Audit Committee is responsible for evaluating the Bank's compliance with laws, regulations, policies and procedures (including the Code of Conduct), and for determining that the Bank has adequate administrative, operating and internal controls. In addition, the Audit Committee is responsible for providing reasonable assurance regarding the integrity of financial and other data used by the board, the Finance Agency, our members and the public. Furthermore, the Audit Committee oversees the programs, policies, and systems of the Bank designed to ensure the integrity and reliability of Bank operations and technology, including cybersecurity. To fulfill these responsibilities, the Audit Committee may, in accordance with its charter, conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Audit Committee may also retain independent counsel, accountants, or others to assist in any investigation.

The Audit Committee annually reviews its charter and practices and has determined that its charter and practices are consistent with all applicable laws, regulations and policies. During 2020, the Audit Committee met 13 times and, among other matters, also:

- reviewed the scope of and overall plans for the external and internal audit programs;
- reviewed and recommended board approval of our policy with regard to the hiring of former employees of our independent registered public accounting firm, PricewaterhouseCoopers ("PwC");
- reviewed and approved our policy for the pre-approval of audit and permitted non-audit services by the independent registered public accounting firm ("independent auditor");
- received reports pursuant to our policy for the submission and confidential treatment of communications from employees and others about accounting, internal controls and auditing matters;
- reviewed the adequacy of our internal controls, including for purposes of evaluating the fair presentation of our financial statements in connection with certifications made by our principal executive officer, principal financial officer and principal accounting officer;
- discussed with management and PwC significant matters, including Critical Audit Matters, arising during the audit and other areas of significant judgment or estimation in preparing the financial statements;
- reviewed and challenged management and PwC, as necessary, on how they have established materiality thresholds for establishing the controls over financial reporting and their audit process; and
- discussed with management the use and appropriateness of any non-GAAP measures in the financial statements.

The Sarbanes-Oxley Act of 2002 requires the Audit Committee to establish and maintain procedures for the confidential submission of employee concerns regarding questionable accounting, internal controls or auditing matters. The Audit Committee has established procedures for the receipt, retention and treatment, on a confidential basis, of any related concerns we receive. The Audit Committee encourages employees and third-party individuals and organizations to report concerns about accounting controls, auditing matters or anything else that appears to involve financial or other wrongdoing pertaining to the Bank.

The Bank is one of 11 regional FHLBanks across the United States which, along with the Office of Finance, compose the FHLBank System. Each FHLBank operates as a separate entity with its own management, employees, and board of directors, and each is regulated by the Finance Agency. The Office of Finance has responsibility for the issuance of consolidated obligations on behalf of the FHLBanks, and for publishing combined financial reports of the FHLBanks. Accordingly, the FHLBank System has determined that it is optimal to have the same independent auditor to coordinate and perform the separate audits of the financial statements of each FHLBank and the FHLBanks' combined financial reports. The FHLBanks and the Office of Finance cooperate in selecting, setting the compensation of, and evaluating the performance of the independent auditor, but the responsibility for the appointment of and oversight of the independent auditor remains solely with the audit committee of each FHLBank and the Office of Finance.

PwC has been the independent auditor for the FHLBank System and the Bank since 1990. The Audit Committee engages in thorough evaluations each year when appointing an independent auditor. In connection with the appointment of the Bank's independent auditor, the Audit Committee's evaluation included consultation with the Audit Committees of the other FHLBanks and the Office of Finance. In the course of these evaluations, the Audit Committee considers, among other factors:

- an analysis of the risks and benefits of retaining the same firm as independent auditor versus engaging a different firm, including consideration of:
    - PwC engagement audit partner, engagement quality review partner and audit team rotation;
    - PwC's tenure as the Bank's and the FHLBank System's independent auditor;
    - benefits associated with engaging a different firm as independent auditor; and
    - potential disruption and risks associated with changing the Bank's independent auditor;
- PwC's familiarity with our operations and businesses, accounting policies and practices and internal control over financial reporting;
- PwC's historical and recent performance of our audit, including feedback from Bank management as to PwC's service and quality;
- an analysis of PwC's known legal risks and significant proceedings;
- both engagement and external data relating to audit quality and performance, including recent Public Company Accounting Oversight Board audit quality inspection reports on PwC and its peer firms as well as metrics indicative of audit quality;
- the appropriateness of PwC's fees, on both an absolute basis and as compared to fees charged to other banks both within and beyond the FHLBank System and trends therein; and
- the diversity of PwC's ownership and staff assigned to the engagement.

The Audit Committee reviews and approves the amount of fees paid to PwC for audit, audit-related and other services. Audit fees represent fees for professional services provided in connection with the audit of our annual financial statements and internal control over financial reporting and reviews of our quarterly financial statements, regulatory filings, and other SEC matters. The Audit Committee has determined that PwC did not provide any non-audit services that would impair its independence. To the Audit Committee's knowledge, there are no other matters which cause the Audit Committee to believe PwC is not independent.

In accordance with SEC rules, audit partners are subject to rotation requirements to limit the number of consecutive years an individual partner may provide service to our Bank. For engagement audit and quality review partners, the maximum number of consecutive years of service in that capacity is five years. The process for selection of our lead audit partner pursuant to this rotation policy involves a meeting between the Chair of the Audit Committee and the candidate(s) for the role, as well as discussion by the full Audit Committee and with management. The Bank's current lead audit partner has served since 2016.

Based on its evaluation and review, the Audit Committee appointed PwC as our independent auditor for the year ended December 31, 2020.

Management has the primary responsibility for the integrity and reliability of our financial statements, accounting and financial reporting principles, and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. An independent auditor is responsible for performing an independent audit of our financial statements and of the effectiveness of internal control over financial reporting in accordance with auditing standards promulgated by the Public Company Accounting Oversight Board and standards applicable to financial audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Our internal auditors are responsible for preparing an annual audit plan and conducting internal audits under the direction of our Chief Internal Audit Officer ("CIAO"), who reports to the Audit Committee.

The Audit Committee's responsibility is to monitor and oversee these processes. The Audit Committee has certain other responsibilities with respect to the internal audit function, including facilitation of independent, direct communications between the board and our internal auditors. The Audit Committee also reviews the scope of internal audit services required, internal audit findings, and management responses. In addition, the Audit Committee is responsible for the selection, compensation, performance evaluation and independence of the CIAO, who may be removed only with the Audit Committee’s approval. The Audit Committee also approves the incentive compensation plans and awards for internal audit employees; the charter for the internal audit department; and the staffing, budget, and risk-based internal audit plan.

Prior to their issuance, the Audit Committee reviews and discusses the quarterly and annual earnings releases, financial statements (including the presentation of any non-GAAP financial information) and additional disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" with management, our internal auditors and PwC. The Audit Committee also oversees our internal auditors' review of our policies and practices with respect to financial risk assessment, and our processes and practices with respect to enterprise risk assessment and management (although the board's Risk Oversight Committee has primary responsibility for the review of our risk assessment and risk management matters). The Audit Committee discussed with PwC matters required to be discussed by Auditing Standard No. 1301 Communications with Audit Committee, as amended, and Rule 2-07 (Communication with Audit Committees) of Regulation S-X; received the disclosures and letter from PwC required by applicable requirements of the Public Company Accounting Oversight Board concerning independence, and has discussed PwC's independence with PwC. The Audit Committee met with PwC and with our internal auditors, in each case with and without other members of management present, to discuss the results of their respective audits; their views regarding the appropriateness of management's estimates, judgments, selection of accounting policies, and systems of internal controls; and the overall quality and integrity of our financial reporting. Management represented to the Audit Committee that our financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

Based on its discussions with our management, our internal auditors and PwC, as well as its review of the representations of management and PwC's report, the Audit Committee recommended to the board, and the board has approved, the inclusion of the audited financial statements in our Annual Report on Form 10-K for the year ended December 31, 2020, for filing with the SEC.

The Audit Committee is comprised of the following directors as of March 10, 2021:

Robert D. Long, Chair, independent director
Jeffrey G. Jackson, Vice Chair
Robert M. Fisher
Karen F. Gregerson
Larry W. Myers
Christine Coady Narayanan, independent director
Todd Sears, independent director
Dan L. Moore, Ex-Officio Voting Member

***2020 Audit Committee Financial Experts.*** Our board of directors determined that Audit Committee Chair Robert D. Long, Audit Committee Vice Chair Ryan M. Warner, and Audit Committee members Robert M. Fisher, Karen F. Gregerson, Jeffrey G. Jackson and Larry W. Myers were Audit Committee Financial Experts under SEC rules. For information concerning our incumbent directors' qualifications to be so designated, please refer to their respective biographical summaries above in this Item 10.

Mr. Warner's term as a director ended on December 31, 2020. The board of directors determined that Mr. Warner was an Audit Committee Financial Expert due primarily to his extensive experience as chairman and CEO, president and in other senior management capacities in a financial institution.

**Executive Officers**

Our Executive Officers during the last completed fiscal year, as determined under SEC rules, are listed in the table below. Each officer serves a term of office of one calendar year or until the election and qualification of his or her successor, provided, however, that pursuant to the Bank Act, our board of directors may dismiss any officer at any time. Except as indicated, each officer has been employed in the principal occupation listed below for at least five years.

| Name | Age | Position |
|---|---|---|
| Cindy L. Konich [1] | 64 | President - Chief Executive Officer ("CEO") |
| William D. Miller [2] | 63 | Executive Vice President - Chief Economist |
| Deron J. Streitenberger [3] | 53 | Executive Vice President - Chief Business Operations Officer ("CBOO") |
| Gregory L. Teare [4] | 67 | Executive Vice President - Chief Financial Officer ("CFO") |
| Chad A. Brandt [5] | 56 | Senior Vice President - Treasurer |
| Shaun H. Clifford [6] | 60 | Senior Vice President - General Counsel and Chief Compliance Officer (Ethics Officer) |
| Kristina L. Cunningham [7] | 45 | Senior Vice President - Senior Director of Compliance & Operational Risk Analysis |
| Christopher Dawson [8] | 44 | Senior Vice President - Chief Information Officer |
| Jonathan W. Griffin [9] | 50 | Senior Vice President - Chief Business Development Officer |
| Kania D. Lottie [10] | 39 | Senior Vice President - Chief Human Resources and Diversity, Equity, & Inclusion Officer (Ethics Officer) |
| Brendan McGrath [11] | 43 | Senior Vice President - Chief Risk Officer ("CRO") |
| Gregory J. McKee [12] | 47 | Senior Vice President - Chief Internal Audit Officer |
| K. Lowell Short, Jr. [13] | 64 | Senior Vice President - Chief Accounting Officer ("CAO") |
| Mary Beth Wott [14] | 56 | Senior Vice President - Community Investment Officer |

(1) Ms. Konich was appointed by our board of directors to serve as President - CEO in July 2013. Prior to that appointment, she served as Acting Co-President - CEO for two periods during 2013. Previously, Ms. Konich was promoted to Executive Vice President - Chief Operating Officer - Chief Financial Officer in July 2010 after having served as Senior Vice President - Chief Financial Officer beginning in September 2007. As an FHLBank President, she serves on the Board of Directors of the FHLBank Office of Finance, and is a member of its Governance Committee. Ms. Konich holds an MBA and is a CPA.

(2) Mr. Miller's employment with the Bank ceased effective February 19, 2021. He was appointed Executive Vice President - Chief Economist effective May 25, 2020. Previously, he had been appointed Executive Vice President - Chief Risk and Compliance Officer in November 2018, after having been appointed Executive Vice President - Chief Risk Officer effective January 2017, and Senior Vice President - Chief Risk Officer in February 2014. Mr. Miller holds an MBA.

(3) Mr. Streitenberger was promoted to Executive Vice President - CBOO effective January 2019, after having been appointed Senior Vice President - CBOO effective January 2016. Prior to that, he was appointed Senior Vice President - Chief Information and MPP Operations Officer in February 2015. He was previously promoted to Senior Vice President - Chief Information Officer effective January 2015. Mr. Streitenberger holds an MBA.

(4) Mr. Teare was promoted to Executive Vice President - CFO effective January 2017, after having been appointed Senior Vice President - CFO in February 2015. He was previously appointed Senior Vice President - Chief Banking Officer in September 2008. Mr. Teare holds an MBA.

(5) Mr. Brandt was appointed Senior Vice President - Treasurer effective January 2016. Previously, Mr. Brandt was Vice President and Senior Manager - Liquidity and Funding at BMO Harris Bank from July 2015 to December 2015. Prior to that, he was Managing Principal of North Center Management Partners LLC from December 2014 to July 2015. Mr. Brandt holds an MBA.

(6) Ms. Clifford was appointed Senior Vice President - General Counsel effective March 16, 2020, and was appointed Senior Vice President - General Counsel & Chief Compliance Officer effective May 25, 2020. Ms. Clifford also serves as one of the Bank's Ethics Officers. Previously, Ms. Clifford was a Partner at the law firm Faegre Drinker Biddle & Reath LLP from January 2003 to February 2020. Ms. Clifford holds a JD and is licensed to practice law in the State of Indiana and in Washington, D.C.

(7) Ms. Cunningham was promoted to Senior Vice President - Senior Director of Compliance & Operational Risk Analysis effective May 25, 2020. Previously, she was appointed First Vice President - Senior Director of Compliance + Operational Risk Analysis effective November 2018, after having been appointed First Vice President - Director of Operational Risk Analysis effective January 2018, and Vice President - Director of Operational Risk Analysis in March 2016. Ms. Cunningham holds an MBA and a CRMA certification, and is a CPA.

(8) Mr. Dawson was promoted to Senior Vice President - Chief Information Officer effective January 2019, after having been appointed First Vice President - Chief Technology Officer in November 2015. Prior to that, he was appointed Vice President - Director of Technology Services in March 2014. Mr. Dawson holds an MBA.

(9) Mr. Griffin was appointed Senior Vice President - Chief Business Development Officer in June 2018, after serving as Senior Vice President - Chief Marketing Officer from 2017 to 2018. Mr. Griffin was promoted to Senior Vice President - Chief Credit and Marketing Officer effective January 2015. Mr. Griffin holds an MBA and is a CFA® charterholder.

(10) Ms. Lottie was promoted to Senior Vice President - Chief Human Resources and Diversity & Inclusion Officer in July 2019, which position was redesignated as Senior Vice President - Chief Human Resources and Diversity, Equity, & Inclusion Officer in September 2020. Previously, she had been appointed First Vice President - Director of Human Resources and Diversity & Inclusion in November 2018, after having been appointed First Vice President - Director of Human Resources effective January 2018. Ms. Lottie was appointed Vice President - Director of Human Resources effective January 2016 after having served as Vice President - Director of Human Resources and Administration & Corporate Secretary since May 2015. Ms. Lottie also serves as one of the Bank's Ethics Officers. She holds an MBA and a JD and is licensed to practice law in the State of Indiana. She also holds SPHR and SHRM-SCP certifications.

(11) Mr. McGrath was promoted to Senior Vice President - Chief Risk Officer effective May 25, 2020, after having been appointed Senior Vice President - Chief Analytics Officer effective January 2019, and First Vice President - Director of Credit Risk Analysis effective January 2017. Prior to that, Mr. McGrath was appointed Vice President - Director of Credit Risk Analysis in May 2014. Mr. McGrath holds a masters of science in accounting, is a CPA and a CFA® charterholder.

(12) Mr. McKee was promoted to Senior Vice President - Chief Internal Audit Officer effective January 2015. Mr. McKee holds an MBA and is a CPA.

(13) Mr. Short was appointed Senior Vice President - CAO in August 2009. Mr. Short holds an MBA and is a CPA.

(14) Ms. Wott was promoted to Senior Vice President - Community Investment Officer effective July 2019, after having been appointed First Vice President - Community Investment Officer in July 2013. Ms. Wott holds an MBA.

**Code of Ethics and Codes of Conduct**

We have a Code of Ethics for Senior Financial Officers ("Code of Ethics") that applies to our principal executive officer, our principal financial officer, and our principal accounting officer ("Senior Financial Officers"). The Code of Ethics sets forth the obligations of the Senior Financial Officers related to honest and ethical conduct; full, fair, accurate, timely, and understandable disclosures; compliance with applicable laws, rules and regulations; prompt internal reporting of Code of Ethics violations; and accountability for adherence to the Code of Ethics. The Bank intends to post information regarding any amendments to, or waivers from, its Code of Ethics on its website. We additionally have a Code of Conduct and Conflict of Interest Policy for Affordable Housing Advisory Council Members, a Code of Conduct and Conflict of Interest Policy for Directors and a Code of Conduct and Conflict of Interest Policy for Employees and Contractors (collectively, the "Codes of Conduct").

The Codes of Conduct and the Code of Ethics are available on our website by scrolling to the bottom of any web page on www.fhlbi.com and then selecting "Corporate Governance" in the navigation menu. Interested persons may also request a copy of the Codes of Conduct and the Code of Ethics by contacting us, Attention: Corporate Secretary, FHLBank of Indianapolis, 8250 Woodfield Crossing Boulevard, Indianapolis, IN 46240.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Not Applicable.

## ITEM 11. EXECUTIVE COMPENSATION

We use acronyms and terms throughout this Item that are defined herein or in the *Defined Terms*.

### Compensation Committee Interlocks and Insider Participation

The Human Resources Committee ("HR Committee") is a standing committee that serves as the Compensation Committee of the board of directors and is comprised solely of directors. No officers or employees of our Bank serve on the HR Committee, nor do any Bank officers serve as directors of any member institution or of any other entity, one of whose officers is a director of our Bank. Further, no director serving on the HR Committee has ever been an officer of our Bank or had any other relationship that would be disclosable under Item 404 of SEC Regulation S-K.

### Compensation Committee Report

The HR Committee has reviewed and discussed with Bank management the "Compensation Discussion and Analysis" that follows and, based on such review and discussions, has by resolution recommended to our board of directors that the Compensation Discussion and Analysis be included in our Form 10-K for 2020.

As of the dates indicated, the HR Committee was comprised of the following directors:

| Name | December 31, 2020 | March 10, 2021 |
|---|---|---|
| Christine Coady Narayanan | Chair | |
| Robert M. Fisher | Vice Chair | Chair |
| Brian D.J. Boike | | Member |
| Ronald Brown | Member | Vice Chair |
| Clifford M. Clarke | | Member |
| Charlotte C. Decker | Member | |
| Michael J. Hannigan, Jr. | Member | Member |
| James L. Logue, III | | Member |
| Robert D. Long | Member | |
| Dan L. Moore | Ex-Officio | Ex-Officio |

### Compensation Discussion and Analysis

***Overview.*** To provide perspective on our compensation programs and practices for our Named Executive Officers ("NEOs"), we have included certain information in this Compensation Discussion and Analysis relating to Executive Officers and employees other than the NEOs. Our NEOs for 2020 consisted of (i) individuals who served as our principal executive officer ("PEO") during such year, (ii) individuals who served as our principal financial officer ("PFO") during such year, and (iii) the three most highly compensated officers (other than the officers who served as PEO or PFO) who were serving as Executive Officers (as defined in SEC rules) at the end of 2020. The following persons were our NEOs for 2020, the period covered by this Compensation Discussion and Analysis.

| NEO | Title |
|---|---|
| Cindy L. Konich | President - Chief Executive Officer ("CEO") - PEO |
| Gregory L. Teare | Executive Vice President - Chief Financial Officer ("CFO") - PFO |
| William D. Miller [(1)] | Executive Vice President - Chief Economist |
| Deron J. Streitenberger | Executive Vice President - Chief Business Operations Officer ("CBOO") |
| K. Lowell Short, Jr. | Senior Vice President - Chief Accounting Officer ("CAO") |

(1) Mr. Miller's employment with the Bank ceased effective February 19, 2021.

Our executive compensation program is overseen by the Executive/Governance Committee (with respect to the President - CEO's performance and compensation) and the HR Committee (with respect to the other NEOs' compensation), and ultimately by the entire board of directors. The HR Committee meets at scheduled times throughout the year (eight times in 2020) and reports its recommendations to the board. The HR Committee has the authority to obtain advice and assistance from outside legal counsel, compensation consultants, and other advisors as the HR Committee deems necessary, with all fees and expenses paid by our Bank. The Executive/Governance Committee assists the board in the governance of our Bank, including nominations of the Chair and Vice Chair of the board and its committee structures and assignments, and in overseeing the affairs of our Bank during intervals between regularly scheduled meetings of the board, as provided in our bylaws. The Executive/Governance Committee meets as needed throughout the year (eight times in 2020) and reports its recommendations to the board.

***Regulation of Executive Compensation.***

*Bank Act and Finance Agency Executive Compensation Rule.* Because we are a GSE, our executive compensation programs are subject to regulation by the Finance Agency. The Safety and Soundness Act and the Finance Agency's rule on executive compensation ("Executive Compensation Rule") provide the Finance Agency Director with the authority to prevent the FHLBanks from paying compensation to executive officers that is not "reasonable and comparable" to compensation for employment paid at institutions of similar size and function for similar duties and responsibilities. While the Safety and Soundness Act and the Executive Compensation Rule prohibit the Director from setting specific levels or ranges of compensation for FHLBank executive officers, the Executive Compensation Rule does authorize the Director to identify relevant factors for determining whether executive compensation is reasonable and comparable. Such factors include but are not limited to: (i) duties and responsibilities of the position; (ii) compensation factors that indicate added or diminished risks, constraints, or aids in carrying out the responsibilities of the position; and (iii) performance of the executive officer's institution, the specific executive officer, or one of the institution's significant components with respect to achievement of goals, consistency with supervisory guidance and internal rules of the entity, and compliance with applicable laws and regulations. We have incorporated these factors into our development, implementation, and review of compensation policies and practices for executive officers, as described below.

Pursuant to the Executive Compensation Rule, the Finance Agency requires the FHLBanks to provide information to the Finance Agency for review and non-objection concerning all compensation actions relating to the respective FHLBanks' executive officers. This information, including studies of comparable compensation, must be provided to the Finance Agency at least 30 days in advance of any planned FHLBank payment of compensation to executive officers. In addition, the FHLBanks are required to provide at least 60 days' advance notice to the Finance Agency of any arrangement that provides for incentive awards to executive officers. Under the supervision of our board of directors, we provide this information to the Finance Agency as required.

*Finance Agency Advisory Bulletin 2009-AB-02.* Finance Agency Advisory Bulletin 2009-AB-02 sets forth certain principles for executive compensation practices to which each FHLBank and the Office of Finance should adhere in setting executive compensation. These principles consist of the following:

- executive compensation must be reasonable and comparable to that offered to executives in similar positions at other comparable financial institutions;
- executive incentive compensation should be consistent with sound risk management and preservation of the par value of the FHLBank's capital stock;
- a significant percentage of an executive's incentive-based compensation should be tied to longer-term performance and outcome indicators;
- a significant percentage of an executive's incentive-based compensation should be deferred and made contingent upon performance over several years; and
- the FHLBank's board of directors should promote accountability and transparency in the process of setting compensation.

In evaluating an FHLBank's compensation, the Finance Agency Director will consider the extent to which an executive's compensation is consistent with these advisory bulletin principles. We have incorporated these principles into our development, implementation, and review of compensation policies and practices for executive officers, as described below.

*Finance Agency Rule on Golden Parachute Payments.* The Finance Agency's rule on golden parachute payments ("Golden Parachute Rule") sets forth the standards that the Finance Agency will take into consideration when limiting or prohibiting golden parachute payments by an FHLBank, the Office of Finance, Fannie Mae or Freddie Mac. The Golden Parachute Rule generally prohibits golden parachute payments except in limited circumstances with Finance Agency approval. Golden parachute payments may include compensation paid to a director, officer or employee following the termination of such person's employment by a regulated entity that is insolvent, is in conservatorship or receivership, is required by the Finance Agency Director to improve its financial condition, or has been assigned a composite examination rating of 4 or 5 by the Finance Agency. Golden parachute payments generally do not include payments made pursuant to a qualified pension or retirement plan, an employee welfare benefit plan, a bona fide deferred compensation plan, a nondiscriminatory severance pay plan, or payments made by reason of the death or disability of the individual. The golden parachute provisions in our benefit plans comply with the Golden Parachute Rule.

***Compensation Philosophy and Objectives.*** In 2020, our board of directors adopted a resolution updating our statement of compensation philosophy. Pursuant to the resolution, our compensation philosophy is to provide a market-competitive compensation and benefits package that will enable us to effectively recruit, promote, retain and motivate highly qualified employees, management and leadership talent for the benefit of our Bank, its members, and other stakeholders. We desire to be competitive and forward-thinking while maintaining a prudent risk management culture. Thus, our compensation program encourages operational excellence, superior member service, responsible growth and prudent risk-taking while delivering a competitive pay package.

Specifically, our compensation program is designed to reward:

- attainment of performance goals;
- implementation of short- and long-term business strategies;
- accomplishment of our public policy mission;
- effective and appropriate management of financial, operational, reputational, regulatory, and human resources risks;
- growth and enhancement of senior management leadership and functional competencies; and
- accomplishment of goals to maintain an efficient, cooperative system of FHLBanks.

The board of directors regularly reviews these goals and the compensation alternatives available and may make changes in the program from time to time to better achieve these goals or to comply with Finance Agency directives. As a cooperative, we are not able to offer equity-based compensation, and only member institutions (or their legal successors) may own our stock. Without equity incentives to attract, reward and retain NEOs and senior management, we provide alternative compensation and benefits such as cash incentive opportunities, pension (with respect to three of the NEOs) or additional non-elective contributions (with respect to the other two NEOs) and other retirement benefits (as to all NEOs). This approach generally will lead to a mix of compensation for NEOs that emphasizes base salary, provides meaningful incentive opportunities, and creates a competitive total compensation opportunity relative to the market.

***Role of the Executive/Governance and HR Committees in Setting Executive Compensation.*** The Executive/Governance and HR Committees intend that our executive compensation program be aligned with our Bank-wide short-term and long-term business objectives and focus executives' efforts on fulfilling these objectives. The Executive/Governance Committee reviews the President - CEO's performance and researches and recommends the President - CEO's salary to the board of directors. The President - CEO determines the salaries of the other NEOs, generally after consulting with the HR Committee, as discussed below. The HR Committee recommends, for approval by the board, the percentage of salary increases that will apply to merit and promotional or internal pay equity adjustments for each year's budget. The benefit plans that will be offered, and any material changes to those plans from time to time, are approved by the board after review and recommendation by the HR Committee. The HR Committee also recommends the goals, payouts and qualifications for both the annual incentive awards and the deferred incentive awards for the board's review and approval.

Our Executive/Governance and HR Committees operate under written charters adopted by the board of directors, most recently reviewed by the board as of January 7, 2020, and January 22, 2021, respectively. Those charters are available on our website by scrolling to the bottom of any web page on www.fhlbi.com and then selecting "Corporate Governance" in the navigation menu.

***Role of Compensation Consultants in Setting Executive Compensation.*** For each of the last ten years, McLagan Partners, Inc. ("McLagan"), an Aon plc company, was engaged by Bank management to work with the HR Committee to evaluate and update our salary and benefit benchmarks for certain positions, including the NEOs' positions, in our Bank. Many other FHLBanks engage McLagan for similar compensation-related services.

The salary and benefit benchmarks we use to establish reasonable and competitive compensation for our employees are the competitor groups identified by McLagan. The competitor groups are comprised of selected firms that participated in McLagan's Financial Industry Salary Survey. The firms included in the competitor groups can change year-to-year, based on changes in the composition of the McLagan survey participants, changes in financial metrics of firms that participated in the survey for that year, and McLagan's analysis.

As a guideline, McLagan considers compensation for a role within 10 percent of the market benchmark to be competitive and within 15 percent to be within the competitive market range. We consider this general range along with our financial performance, stability, prudent risk-taking and conservative operating philosophies, internal pay equity, and our compensation philosophy.

For 2020, McLagan identified three peer groups, which are collectively referred to as "Competitor Groups." The first peer group is comprised of the 10 other FHLBanks. The benchmark positions used from the other FHLBanks are comparable to the positions at our Bank (*e.g.*, CEO to CEO).

The second peer group consists of a number of large financial institutions and regional commercial banks, as well as the Federal Reserve Banks. There are 102 institutions in the second peer group. The benchmark positions used from the large financial institutions and regional commercial banks include the divisional/functional heads, rather than the overall head of the bank, to account for the difference in scale of activities at such institutions compared to an FHLBank (*e.g.*, Head of Corporate Banking used in the benchmark, rather than a large financial institution's or regional bank's CEO, as the appropriate comparison to the FHLBank's CEO). While the benchmark jobs from the large financial institutions and regional/commercial banks capture the functional responsibility of FHLBank positions, they do not capture the executive responsibility that exists at the FHLBank.

| | | |
|---|---|---|
| ABN AMRO | Federal Reserve Bank of Atlanta | New York Community Bank |
| AIB | Federal Reserve Bank of Boston | Nomura Securities |
| Ally Financial Inc. | Federal Reserve Bank of Chicago | Nord/LB |
| Arvest Bank | Federal Reserve Bank of Kansas City | Nordea Bank |
| Associated Bank | Federal Reserve Bank of Minneapolis | Northern Trust Corporation |
| Australia & New Zealand Banking Group | Federal Reserve Bank of New York | OCBC Bank |
| Banco Bilbao Vizcaya Argentaria | Federal Reserve Bank of Richmond | OneMain Financial |
| Bank ABC | Federal Reserve Bank of San Francisco | People's United Financial, Inc. |
| Bank Hapoalim | Federal Reserve Bank of St. Louis | PNC Bank |
| Bank of America | Fifth Third Bank | Regions Financial Corporation |
| Bank of Ireland | First Citizens Bank - NC | Royal Bank of Canada |
| Bank of New York Mellon | First National Bank of Omaha | Royal Bank of Scotland Group |
| Bank of Nova Scotia | First Republic Bank | Sallie Mae |
| Bank of the West | First Tennessee Bank/First Horizon | Santander Bank, NA |
| Bayerische Landesbank | Flagstar Bank | Siemens Financial Services |
| BBVA | Freddie Mac | Signature Bank - NY |
| BBVA Compass | Frost Bank | Societe Generale |
| BMO Financial Group | Hancock Whitney Bank | Standard Chartered Bank |
| BNP Paribas | HSBC | State Street Corporation |
| BOK Financial Corporation | Huntington Bancshares, Inc. | Sterling National Bank |
| Brown Brothers Harriman | ING | Sumitomo |
| Capital One | Intesa Sanpaolo | SVB Financial Group |
| CIBC World Markets | Investec Bank | Synovus Financial Corporation |
| CIT Group Inc. | Investors Bancorp, Inc | TD Securities |
| Citigroup | JP Morgan Chase | Texas Capital Bank |
| Citizens Financial Group | KBC Bank | Truist |
| City National Bank | KeyCorp | U.S. Bancorp |
| Comerica | Lloyds Banking Group | UMB Financial Corporation |
| Commerce Bank | M&T Bank Corporation | UniCredit Bank AG |
| Commerzbank | Macquarie Bank | Valley National Bancorp |
| Commonwealth Bank of Australia | Mitsubishi UFJ Trust | Webster Bank |
| Crédit Agricole CIB | MUFG Bank, Ltd. | Wells Fargo Bank |
| Credit Industriel et Commercial – N.Y. | National Australia Bank | Wintrust Financial Corporation |
| Fannie Mae | Natixis | Zions Bancorporation |

The third peer group consists of publicly-traded regional/commercial banks with assets of $10 billion to $20 billion. There are 36 banks in the third peer group. The benchmark jobs used from this peer group include the NEOs reported in their proxy statements, which capture the executive responsibilities encompassed in the positions.

| | | |
|---|---|---|
| Ameris Bancorp | CVB Financial Corp. | International Bancshares Corp. |
| Atlantic Union Bkshs Corp. | First Financial Bancorp. | Northwest Bancshares, Inc. |
| Axos Financial Inc. | First Interstate BancSystem | Pacific Premier Bancorp |
| Bank of Hawaii Corp. | First Merchants Corp. | Renasant Corp. |
| Banner Corp. | First Midwest Bancorp Inc. | South State Corporation |
| Berkshire Hills Bancorp Inc. | Glacier Bancorp Inc. | TowneBank |
| Cadence Bancorp. | Great Western Bancorp | Trustmark Corp. |
| Cathay General Bancorp | Heartland Financial USA Inc. | United Bankshares Inc. |
| CenterState Bank Corp. | Home BancShares Inc. | United Community Banks Inc. |
| Columbia Banking System Inc. | Hope Bancorp, Inc. | Washington Federal Inc. |
| Community Bank System Inc. | Independent Bank Corp. | WesBanco Inc. |
| Customers Bancorp Inc. | Independent Bk Group Inc. | WSFS Financial Corp. |

The benchmark jobs selected by McLagan from the Competitor Groups collectively capture the functional and executive responsibilities of our NEO positions, represent comparable market opportunities and represent realistic employment opportunities. We establish threshold, target and maximum base and anticipated incentive pay levels based on this Competitor Group analysis, while actual pay levels are based on our financial performance, stability, prudent risk-taking and conservative operating philosophies, internal pay equity, and our compensation philosophy, as discussed above.

***Role of the Named Executive Officers in the Compensation Process.*** The NEOs may assist the HR Committee and the board of directors by providing data and background information to any compensation consultants engaged by management, the board or the HR Committee. The Human Resources department assists the HR Committee and compensation consultants by gathering research on the Bank's hiring and turnover statistics, compensation trends, peer groups, cost of living, and other market data requested by the President - CEO, the HR Committee, the Finance/Budget Committee, the Audit Committee, the Executive/Governance Committee, or the board. Senior management (including the NEOs) prepares the strategic plan financial forecasts, which are then considered by the Finance/Budget Committee and by the board when establishing the goals and anticipated payout terms for the incentive compensation plan. The CRO oversees the Enterprise Risk Management ("ERM") department's review, from a risk perspective, of the incentive compensation plan's risk-related performance goals and target achievement levels.

***Compensation Risk.*** The HR Committee and the Executive/Governance Committee review our policies and practices of compensating our employees, including non-executive officers, and have determined that none of these policies or practices result in any risk that is reasonably likely to have a material adverse effect on our Bank. Further, based on such reviews, the HR Committee and the Executive/Governance Committee believe that our plans and programs contain features that operate to mitigate risk and reduce the likelihood of employees taking excessive risks relating to the compensation-related aspects of their duties. In addition, the material plans and programs operate within a strong governance, review and regulatory structure that serves and supports risk mitigation.

***Elements of Compensation Used to Achieve Compensation Philosophy and Objectives.*** The total compensation mix for NEOs in 2020 consisted of:

(1) base salaries;
(2) annual and deferred incentive opportunities;
(3) retirement benefits;
(4) perquisites and other benefits; and
(5) potential payments upon termination or change in control.

The board of directors has structured the compensation programs to comply with Internal Revenue Code ("IRC") Section 409A. If an executive is entitled to nonqualified deferred compensation benefits that are subject to IRC Section 409A, and such benefits do not comply with IRC Section 409A, then the benefits are taxable in the first year they are not subject to a substantial risk of forfeiture. In such case, the executive is subject to payment of regular federal income tax, interest and an additional federal income tax of 20% of the benefit includable in income. The Key Employee Severance Agreement ("KESA") between our Bank and our President-CEO contains provisions that "gross-up" certain benefits paid thereunder in the event she should become liable for an excise tax on such benefits. Other elements of our NEOs' compensation may be adjusted to reflect the tax effects of such compensation.

*Base Salaries.* Unless otherwise described, the term "base salary" as used in this Item 11 refers to an individual's annual salary, including any adjustments, before considering incentive compensation, deferred compensation, perquisites, taxes, or any other adjustments that may be elected or required. We recruit and desire to retain senior management from national markets. Consequently, the cost of living in Indiana is not a direct factor in determining base salary. Merit increases to base salaries are used, in part, to keep our NEO salary levels competitive with those in the Competitor Groups.

The President - CEO's base salary is established annually by the board after review and recommendation by the Executive/ Governance Committee. Our board has concluded that the level of scrutiny to which the base salary determination for the President - CEO is subjected is appropriate in light of the nature of the position and the extent to which she is responsible for the overall performance of our Bank. In setting the President - CEO's base salary, the Executive/Governance Committee and the board have discretion to consider a wide range of factors, including the overall performance of our Bank, the President - CEO's individual performance, her tenure, and the amount of her base salary relative to the base salaries of executives in similar positions in companies in our Competitor Groups. Although a policy or a specific formula has not been developed for such purpose, the Executive/Governance Committee and the board also consider the amount and relative percentage of the President - CEO's total compensation that is derived from her base salary. In light of the variety of factors that are considered, the Executive/Governance Committee and the board have not attempted to rank or otherwise assign relative weights to the factors they consider. Rather, the Executive/Governance Committee and the board consider all the factors as a whole, including data and recommendations from McLagan.

After an advisory consultation with the HR Committee, the base salaries for our other NEOs are set or approved annually by the President - CEO, who has discretion to consider a wide range of factors including competitive benchmark data from McLagan, each NEO's qualifications, responsibilities, assessed performance contribution, tenure, position held, amount of base salary relative to similarly-positioned executives in our Competitor Groups and our overall salary budget. Although a policy or a specific formula has not been developed for such purpose, the President - CEO also considers the amounts and relative percentages of the NEOs' total compensation that are derived from their base salaries, including data and recommendations from McLagan.

The NEOs' base salaries for 2020 were effective December 23, 2019. Annual base salaries are typically paid in 26 even biweekly installments. However, during 2020, we paid a 27th installment on December 31, 2020 because the first scheduled pay date of 2021 was on the holiday of January 1, 2021. The salary amounts presented in the Summary Compensation Table reflect the actual payments received for 2020, which reflects 27 pay periods rather than the customary 26 pay periods. All of our compensation programs are calculated on the basis of such person's base salary, i.e., the total salary received by a participant during the year, except where otherwise noted.

*Annual and Deferred Incentive Opportunities.* Generally, as an executive's level of responsibility increases, a greater percentage of total compensation is based on our overall performance. Our incentive plan has a measurement framework that rewards achievement of specific goals consistent with our mission. As discussed below, our incentive plan is performance-based and represents a reasonable risk-return balance for our cooperative members both as users of our products and as shareholders, and is appropriate to our status and risk appetite as a housing GSE.

The board of directors adopted an incentive compensation plan effective January 1, 2012 ("Incentive Plan"). The Incentive Plan provides cash award opportunities based on achievement of performance goals. The purpose of the Incentive Plan is to attract, retain and motivate employees and to focus their efforts on a reasonable level of profitability while maintaining safety and soundness. Employees in the Internal Audit department are excluded from the Incentive Plan but are eligible to participate in a separate incentive compensation plan established by the Audit Committee. With certain exceptions, any eligible employee hired before October 1 of a calendar year becomes a "Participant" in the Incentive Plan for that calendar year. A "Level I Participant" is the Bank's President - CEO, an EVP or a SVP, while a "Level II Participant" is any other participating employee. All NEOs identified as of each December 31 are included among the eligible Level I Participants and must execute an agreement with us containing certain non-solicitation and non-disclosure provisions.

Performance goals and the relative weight to be accorded to each goal are established annually by the HR Committee and approved by the board of directors for each calendar-year period ("Performance Period") and three-calendar-year period ("Deferral Performance Period"). The board also approves the "Threshold," "Target" and "Maximum" achievement levels for each performance goal to determine how much of an award may be earned. The achievement of performance goals determines the value of awards, which for Level I Participants (including the NEOs), may be Annual Awards (relating to achievement of performance goals over a Performance Period) and Deferred Awards (relating to achievement of performance goals over a Deferral Performance Period), and for Level II Participants includes Annual Awards only. The board may adjust the performance goals to ensure the purposes of the Incentive Plan are served, but made no such adjustments during 2018, 2019 or 2020. The board establishes a maximum award for eligible Participants before the beginning of each Performance Period. Each award equals a percentage of the Participant's annual compensation, which is generally defined as the Participant's base salary (i.e., amount actually received during the year as salary) or wages for hours worked, including overtime, and hours paid under the Bank's paid-time-off policies, as applicable, but excluding any bonus, incentive compensation, deferred compensation payments, lump sum payouts for accrued but unused vacation time, or long-term disability insurance payments paid for the current or a prior year.

With respect to the NEOs' Annual Awards and Deferred Awards, 50% of an award to a Level I Participant will become earned and vested on the last day of the Performance Period (Annual Award), subject to the achievement of specified Bank performance goals over such period, the attainment of a specific minimum individual performance rating for such period, and active employment on the last day of such period (subject to certain limited exceptions relating to the circumstances of employment termination before the end of the Performance Period). The remaining 50% will become earned and vested on the last day of the Deferral Performance Period (Deferred Award), subject to the attainment of a specific minimum individual performance rating for each year of such period, and active employment on the last day of such period (subject to certain limited exceptions relating to the circumstances of employment termination before the end of the Deferral Performance Period), and further subject to the Bank's achievement during the Deferral Performance Period of additional performance goals relating to our profitability, retained earnings, regulatory capital-to-assets ratio, and distributions in compliance with AHP funding requirements. Depending on our performance during the Deferral Performance Period, the final award (i.e., the amount of the earned and vested Deferred Award ultimately paid to the Level I Participant) will be worth 75% at Threshold, 100% at Target or 125% at Maximum of the original amount of the Deferred Award. The level of achievement of those additional goals could thereby result in an increase or decrease to the Deferred Awards, through which the Level I Participants share in the Bank's performance for a longer term.

If a Participant changes his or her status under the Incentive Plan, their Awards are prorated to reflect the portion of the year in such status. Specifically, if a Participant transfers into a department with different performance goal weights during a year, the Participant is eligible for a pro-rata Award for the the portion of the Performance Period the Participant was subject to the performance goal weights applicable to each department. This was the case for one of our NEOs for 2020. Similarly, a Level II Participant that becomes a Level I Participant during the Performance Period is eligible for a prorated Annual Award for the portion of the year the employee was a Level II Participant and is eligible to receive a prorated Annual Award and related Deferred Award for the portion of the year the employee was a Level I Participant.

*2020 Annual Award (Paid in 2021).* The table below presents the incentive opportunity, earned, and deferred percentages of base salary for Level I Participants for the 2020 Performance Period.

| | **Total Incentive Opportunity as % of Base Salary** | | | **Total Incentive Earned and Vested at Year End** | | | **Total Incentive Deferred for 3 Years** | | |
|---|---|---|---|---|---|---|---|---|---|
| **Position** | **Threshold** | **Target** | **Maximum** | **Threshold** | **Target** | **Maximum** | **Threshold** | **Target** | **Maximum** |
| CEO | 50.0% | 80.0% | 100.0% | 25.0% | 40.0% | 50.0% | 25.0% | 40.0% | 50.0% |
| EVP | 40.0% | 60.0% | 80.0% | 20.0% | 30.0% | 40.0% | 20.0% | 30.0% | 40.0% |
| SVP | 35.0% | 52.5% | 70.0% | 17.5% | 26.25% | 35.0% | 17.5% | 26.25% | 35.0% |

On November 15, 2019, the board of directors established Annual Award Performance Goals for 2020 for Level I Participants relating to specific mission goals for profitability, MVE, member activity, ERM, minority and women inclusion, and market risk excellence. The weights and specific achievement levels for each 2020 mission goal are presented below.

| | Weighted Value | | Performance Levels | | | | | Weighted Average Achievement | |
|---|---|---|---|---|---|---|---|---|---|
| **2020 Mission Goals** | **Bank [1]** | **ERM** | **Threshold** | **Target** | **Maximum** | **Actual Result** | **Achievement Percentage** | **Bank [1]** | **ERM** |
| Profitability [2] | 15 % | 10 % | 269 bps | 342 bps | 432 bps | 305 bps | 62% | 9.4 % | 6.2 % |
| Market Value of Equity (MVE) to Capital Stock (CS) [3] | 10 % | 10 % | 110% | 130% | 160% | 141 % | 84% | 8.4 % | 8.4 % |
| Member Advances Growth [4] | 10 % | 5 % | 0.5% | 1.0% | 3.0% | Maximum | 100% | 10.0 % | 5.0 % |
| Member Education and Outreach [5] | 10 % | 5 % | 40% of All Members | Achieve Threshold and 75% of Tier 1 Members | Achieve Target and 50% of Tier 2 Members | Maximum | 100% | 10.0 % | 5.0 % |
| Recruit new and/or reactivate Participating Financial Institutions into the Bank's MPP [6] | 5 % | 5 % | 3 new or reactivated PFIs | 4 new or reactivated PFIs | 5 new or reactivated PFIs | Maximum | 100% | 5.0 % | 5.0 % |
| CIP Advances Originated [7] | 10 % | 5 % | $37.5 MM | $75 MM | $150 MM | Maximum | 100% | 10.0 % | 5.0 % |
| Market Risk Excellence [8] | 10 % | 30 % | See (8) below | See (8) below | See (8) below | Maximum | 100% | 10.0 % | 30.0 % |
| Promote inclusion within the organization through cultural awareness events/activities | 5 % | 5 % | Host 2 events/ activities | Host 4 events/ activities | Host 6 events/ activities | Maximum | 100% | 5.0 % | 5.0 % |
| Increase Diverse Vendor pool [9] | 5 % | 5 % | 16 new diverse suppliers (25% increase) | 24 new diverse suppliers (37.5% increase) | 33 new diverse suppliers (50% increase) | Maximum | 100% | 5.0 % | 5.0 % |
| Transition to New Primary Data Center [10] | 10 % | 10 % | Achieve Technical Readiness | Complete Threshold and Achieve Operational Readiness | Complete Target and Transition Site of Record | Target | 75% | 7.5 % | 7.5 % |
| Implement Enterprise Content Management Platform [11] | 10 % | 10 % | Achieve Technical Readiness | Complete Threshold and Achieve Operational Readiness | Complete Target and Transition System of Record | Maximum | 100% | 10.0 % | 10.0 % |
| Total | 100% | 100% | | | | | | 90.3% | 92.1% |

(1) For all Level I Participants, excluding those in ERM. "ERM" means the Bank's Enterprise Risk Management department.

(2) For purposes of this goal, profitability is defined as the Bank's profitability rate in excess of the Bank's cost of funds rate. Profitability is the Bank's adjusted net income reduced by the portion of net income to be added to restricted retained earnings under the JCE Agreement dated August 5, 2011, as amended, by and among the Federal Home Loan Banks and increased by the Bank's accruals for incentive compensation net of the AHP assessment. Adjusted net income represents GAAP Net Income adjusted: (i) for the net impact of certain current and prior period Advance prepayments and debt extinguishments, net of the AHP assessment, (ii) to exclude mark-to-market adjustments on derivatives and certain other effects from derivatives and hedging activities, net of the AHP assessment, and (iii) to exclude interest expense on MRCS. The Bank's profitability rate is profitability, as defined above, as a percentage of average total regulatory capital stock (B1 weighted at 100% and B2 weighted at 80% to reflect the relative weights of the Bank's dividend). This goal assumes no material change in investment authority under the FHFA's regulation, policy, directive, guidance, or law.

(3) The metric that will be used to determine performance on this goal will be the twelve (12) month simple average of the MVE to Book Value of Capital Stock ratio as reported in the monthly Market Risk Monitor Report.

(4) Member Advances growth is calculated as the growth in the average daily balance of Advances outstanding to members at par. Average daily balances are used instead of point-in-time balances to eliminate point-in-time activity that may occur and to reward for the benefit of the income earned on Advances balances while outstanding. Advances to members that become non-members during 2020 and all captive insurance company members will be excluded from the calculation. Goal assumes no material change in membership eligibility under the Finance Agency's regulation, policy, directive, guidance or law.

(5) Member education and outreach events for purposes of threshold achievement include symposia, conferences, workshops, webinars, educational events, presentations at trade conferences, presentation to member Boards of Directors or Committees thereof or to management committees, in-person joint presentations to members (where a subject matter expert or senior officer of the Bank participates) and other events educating Bank members about Advances, MPP, the Bank's community investment products and activities, industry trends, and other products and services. For purposes of Target and Maximum achievement, member education and outreach events include presentations to member Boards of Directors or committees thereof, presentations to member management committees or in-person joint presentations to members (where a subject matter expert or senior officer of the Bank participates) to discuss or educate regarding Advances, MPP, the Bank's community investment products, industry trends or other products and services. Member tiers are defined by management based upon core business levels or the capacity to engage in core business with the Bank and are established annually. Status and reporting on this Goal and its attainment will be supported by the Bank's Customer Relationship Management (CRM) system. Achievement towards this goal will be calculated by dividing the number of members that participated in one of the above events (defined as a member at the time of participation in the event) during the calendar year by the total number of members of the Bank at December 31, 2020.

(6) For purposes of this goal, in order for a PFI to qualify as a new or reactivated PFI the member either has never sold loans into the MPP or, as of their application for approval, has not settled a trade into the MPP within the past 24 months.

(7) "CIP" means Community Investment Program. CIP Advances are newly-originated Community Investment Cash Advances, including CIP and other qualifying Advances and CIP qualified letters of credit, provided in support of targeted projects as defined in 12 C.F.R. Part 1291 and the Bank Act.

(8) The Performance Levels for Market Risk Excellence are:

Threshold: Enhance the existing assessment of market valuation assumptions for assets and liabilities while researching and reviewing valuation comparability with other FHLBanks.

- Defined as written analysis, recommendations and implementation plan presented at Risk Committee.

Target: Complete Threshold and Execute Corporate Priority to support the transition of ERM's Market Risk Modeling from QRM to PolyPaths.

- Defined as complete operational readiness for transition and submit documentation to a) Finance Agency for non-objection, and b) ERM Model Risk Management Group for model validation. "Operational readiness" defined as being able to generate market risk metrics that are reported to the Finance Agency.

Maximum: Complete Target and ERM Market Risk staff will become proficient in the fundamentals of PolyPaths, including current Treasury Risk Analytics team EUCs, data extracts, and other related PolyPaths processes.

- Defined as independent completion of market risk report by ERM following successful completion of Target goal. "Market risk reports" to be defined as reports on market value sensitivity.

(9) "Increase Diverse Vendor Pool" means new registration(s) on the Bank's Supplier Registration Portal in 2020 of vendors that qualify as minorities, women, veterans, individuals with disabilities, and minority-, women-, veteran-, and disabled-owned businesses that were not previously registered.

(10) Status and reporting of this goal, and its attainment will be provided in writing to the Information Technology Steering Committee. Threshold, Target, and Maximum performance achievement levels are as follows:

Technical Readiness: "Technical Readiness" is defined as the installation, configuration and readiness of technology installed at the new data center. The criteria and milestones to achieve technical readiness will be reviewed and approved by the Information Technology Steering Committee.

Operational Readiness: "Operational Readiness" is defined as ensuring data replication is established across the primary and secondary data centers, and the bank can operate a set of non-production systems out of the new data center. The criteria and milestones to achieve operational readiness will be reviewed and approved by the Information Technology Steering Committee.

Transition Site of Record: "Transition Site of Record" is defined as receiving Information Technology Steering Committee approval to transition the Bank's primary data center from Woodfield Crossing to the new co-location data center, after successfully achieving technical and operational readiness. The criteria and milestones to transition the site of record will be reviewed and approved by the Information Technology Steering Committee.

(11) Status and reporting of this goal, and its attainment will be provided in writing to the Information Technology Steering Committee. Threshold, Target, and Maximum performance achievement levels are as follows:

Technical Readiness: "Technical readiness" is defined as the acquisition, and installation of an Enterprise Content Management (ECM) platform. The criteria and milestones to achieve technical readiness will be reviewed and approved by the Information Technology Steering Committee.

Operational Readiness: "Operational Readiness" is defined as the governance, training and operational activities required to support the operational of the new Enterprise Content Management platform. The criteria and milestones to achieve operational readiness will be reviewed and approved by the Information Technology Steering Committee.

Transition System of Record: "Transition System of Record" is defined as transitioning the system of record for electronic records from Oracle Universal Content Management (UCM) to the new Enterprise Content Management platform. The criteria and milestones to achieve the transition will be reviewed and approved by the Information Technology Steering Committee.

There is no guaranteed payout under the provisions of the 2020 Incentive Plan. Therefore, the minimum that could be paid out to an NEO was $0. The maximum amounts that could have been earned under the 2020 Incentive Plan for the Annual Award Performance Period are presented below. The actual amounts earned are also presented below and in the Non-Equity Incentive Plan Compensation table.

| | | | Maximum | | Actual | |
|---|---|---|---|---|---|---|
| **NEO** | **Base Salary** | **Annual Award Opportunity** | **Weighted Average Achievement** | **Annual Award** | **Weighted Average Achievement** [1] | **Annual Award** |
| Cindy L. Konich | $ 996,867 | 50% | 100% | $498,434 | 91.4% | $ 455,817 |
| Gregory L. Teare | 488,214 | 40% | 100% | 195,286 | 90.3% | 176,265 |
| William D. Miller [2] | 422,469 | 40% | 100% | 168,988 | 91.0% | 153,823 |
| Deron J. Streitenberger | 423,981 | 40% | 100% | 169,592 | 90.3% | 153,074 |
| K. Lowell Short, Jr. | 362,151 | 35% | 100% | 126,753 | 90.3% | 114,407 |

(1) Rounded to the nearest tenth of a percent.

(2) Mr. Miller participated in the 2020 Incentive Plan using the goal weights for ERM employees for the portion of the year he served as CRO and using the weights for Bank employees for the portion of the year he served as Chief Economist. As a result, his Annual Award represents a pro-rata Award. The weighted average achievement for ERM was 92.1% whereas the weighted average achievement for the Bank was 90.3%.

*2017 Deferred Award (Paid in 2021).* Fifty percent of each Level I Participant's 2017 Award ("2017 Deferred Award") was deferred for a three-year period that ended December 31, 2020 ("2018-2020 Deferral Performance Period"). The 2017 Deferred Award became earned and vested on that date, subject to the achievement of specific Bank performance goals over the 2018-2020 Deferral Performance Period and other conditions described below. The performance goals for the 2018-2020 Deferral Performance Period Award are substantially similar to those established for the 2017-2019 Deferral Performance Period. The following table presents the performance goals for the 2017 Deferred Award relating to our profitability, retained earnings and prudential management standards, together with actual results and specific achievement levels for each mission goal.

| 2018-2020 Mission Goals | Weighted Value [1] | Performance Levels | | | Actual Result | Achievement % | Weighted Average Achievement |
|---|---|---|---|---|---|---|---|
| | | Threshold [2] | Target [2] | Maximum [2] | | | |
| Profitability [3] | 35% | 25 bps | 50 bps | 150 bps | maximum | 125% | 44% |
| Retained Earnings [4] | 35% | 3.5% | 3.9% | 4.3% | maximum | 125% | 44% |
| Prudential Standards (see below) | 30% | Achieve 1 Prudential Standard | (a) | Achieve both Prudential Standards | maximum | 125% | 37% |
| *Prudential Standard 1: Maintain a regulatory capital-to-assets ratio of at least 4.16% as measured on each quarter-end in 2018 through 2020.* | | | | | | | |
| *Prudential Standard 2: Award to FHLBI members the annual AHP funding requirement in each plan year.* | | | | | | | |
| Total | 100% | | | | | | 125% |

(1) For Level I Participants.

(2) Deferred Awards are subject to additional performance goals for the Deferral Performance Period. Depending on our performance during the Deferral Performance Period, the Final Award will be worth 75% at Threshold, 100% at Target or 125% at Maximum of the original amount.

(3) For purposes of this goal, profitability is defined as the Bank's profitability rate in excess of the Bank's cost of funds rate. Profitability is the Bank's adjusted net income reduced by the portion of net income to be added to restricted retained earnings under the JCE Agreement and increased by the Bank's accruals for incentive compensation. Adjusted net income represents GAAP net income adjusted: (i) for the net impact of certain current and prior period advance prepayments and debt extinguishments, net of the related AHP assessment, (ii) to exclude mark-to-market adjustments and certain other effects from derivatives and hedging activities, net of the related AHP assessment, and (iii) to exclude the effects from interest expense on MRCS. The Bank's profitability rate, as defined above, as a percentage of average total regulatory capital stock (B1 weighted at 100% and B2 weighted at 80% to reflect the relative weights of the Bank's dividend). This goal assumes no material change in investment authority under the Finance Agency's regulation, policy, directive, guidance, or law. Attainment of this goal will be computed using the simple average of annual profitability measures over the three-year period.

(4) Total retained earnings divided by mortgage assets, measured at the end of each month. Calculated each month as total retained earnings divided by the sum of the carrying value of the MBS and AMA assets portfolios. The calculation will be the simple average of 36 month-end calculations.

(a) There is no target level for this goal.

Each NEO received at least the minimum required performance rating for each year of the 2018-2020 Deferral Performance Period and each was employed by the Bank on the last day of that period, thereby satisfying the two remaining conditions applicable to our NEOs for payment of the 2017 Deferred Award.

The following table presents the payouts to the NEOs by applying the achievement levels described above to the performance goals in the 2017 Deferred Award. These payouts are also presented in the Non-Equity Incentive Plan Compensation table.

**2017 Deferred Award - 2018-2020 Performance Period**

| NEO | Total Award for 2017 | Percentage Deferred | Deferred Amount | Total Achievement | Deferred Award Paid in 2021 |
|---|---|---|---|---|---|
| Cindy L. Konich | $ 777,684 | 50% | $ 388,842 | 125% | $ 486,053 |
| Gregory L. Teare | 307,554 | 50% | 153,777 | 125% | 192,221 |
| William D. Miller | 265,786 | 50% | 132,893 | 125% | 166,116 |
| Deron J. Streitenberger | 214,902 | 50% | 107,451 | 125% | 134,314 |
| K. Lowell Short, Jr. | 205,416 | 50% | 102,708 | 125% | 128,385 |

*Other Incentive Plan Provisions.* The Incentive Plan provides that a termination of service of a Level I Participant during a Performance Period or Deferral Performance Period may result in the forfeiture of the Participant's award. However, the Incentive Plan recognizes certain exceptions to this general rule if the termination of service is (i) due to the Level I Participant's death, "Disability," or "Retirement"; (ii) for "Good Reason"; or (iii) without "Cause" due to a "Reduction in Force" (in each case as defined in the Incentive Plan). If one of these exceptions applies, a Level I Participant's Annual Award or Deferred Awards generally will be treated as earned and vested, and will be calculated using certain assumptions with respect to our achievement of applicable performance goals for the applicable Performance Period or Deferral Performance Period. Additionally, payment of an award may be accelerated if the Participant dies or becomes "Disabled" while an employee of the Bank, or if the termination is without "Cause" due to a "Reduction in Force".

The Incentive Plan provides that awards may be reduced or forfeited in certain circumstances. If, during a Deferral Performance Period, we realize actual losses or other measures or aspects of performance related to the Performance Period or Deferral Performance Period that would have caused a reduction in the final award for the Performance Period or Deferral Performance Period, the remaining amount of the final award to be paid at the end of the Deferral Performance Period will be reduced to reflect this additional information. In addition, all or a portion of an award may be forfeited at the direction of the board of directors if we have failed to remediate to the satisfaction of the board an unsafe or unsound practice or condition (as identified by the Finance Agency) that is material to our financial operation and within the Level I Participant's area(s) of responsibility. Under such circumstances, the board may also direct the cessation of payments for a vested award. Further, the board may reduce or eliminate an award that is otherwise earned but not yet paid if the board finds that a serious, material safety-soundness problem or a serious, material risk management deficiency exists at our Bank, or in certain other circumstances.

*Retirement Benefits.* We maintain a comprehensive retirement program for our NEOs. During 2020, certain of our NEOs were eligible to participate in our qualified (DB Plan) and non-qualified (SERP) defined benefit plans and all of our NEOs were eligible to participate in our qualified (DC Plan) and non-qualified (SETP) defined contribution plans. Those NEOs ineligible to participate in our DB Plan also received an additional non-elective contribution of 4% of their base salary per year to their DC Plan account. The benefits provided by these plans are components of the total compensation opportunity for NEOs. The board of directors believes these plans serve as valuable retention tools and provide significant tax deferral opportunities and resources for the participants' long-range financial planning. These plans are discussed below.

*DB Plan and SERP.* All employees who met the eligibility requirements and were hired before February 1, 2010 participate in the DB Plan, a tax-qualified, multiple employer defined benefit pension plan. The plan neither requires nor permits employee contributions. Participants' pension benefits vest upon completion of five years of service. Benefits under the DB Plan are based upon compensation up to the annual compensation limit established by the Internal Revenue Services ("IRS"), which was $285,000 in 2020. In addition, benefits payable to participants in the DB Plan may not exceed a maximum benefit limit established by the IRS, which in 2020 was $230,000, payable as a single life annuity at normal retirement age.

In connection with the DB Plan, the board of directors established a supplemental non-qualified plan in 1993 in response to federal legislation that imposed restrictions on the retirement benefits otherwise earned by certain management or highly-compensated employees. The original supplemental non-qualified plan was frozen effective December 31, 2004, and is now referred to as the "Frozen SERP." A separate SERP ("2005 SERP") was established effective January 1, 2005 to conform to IRC Section 409A requirements. The SERP is an extension of our retirement commitment to the NEO participants and certain highly-compensated employees. The SERP restores the full pension benefits of NEO participants and certain other employees under the DB Plan that would otherwise be limited by IRS regulations regarding compensation, years of service or benefits payable. The DB Plan and SERP provide benefits based on a combination of a participant's length of service, age and annual compensation. In determining whether a participant is entitled to a restoration of retirement benefits, the SERP utilizes the identical benefit formula applicable to the DB Plan. Benefits payable under the 2005 SERP are reduced by (among other things) benefit amounts that would have been payable under the Frozen SERP, calculated as if the participant in the Frozen SERP had terminated employment on December 31, 2004. SERP benefits are funded by a grantor trust we have established as part of the Bank's general assets. The assets of the grantor trust are subject to the claims of our general creditors. Any rights created under the SERP are unsecured contractual rights of the participants against the Bank.

Our board of directors amended the DB Plan, effective for all employees hired on or after July 1, 2008, to provide a reduced benefit. All eligible employees hired on or before June 30, 2008 were grandfathered under the benefit formula and the terms of the DB Plan in effect as of June 30, 2008 ("Grandfathered DB Plan") and are eligible to continue under the Grandfathered DB Plan, subject to future plan amendments made by the board of directors. All eligible employees hired on or after July 1, 2008 but before February 1, 2010 are enrolled in the amended DB Plan ("Amended DB Plan"). As shown below in the Pension Benefits Table, as of December 31, 2020, three NEOs participate in either the Grandfathered DB Plan or the Amended DB Plan and participate in the SERP.

During 2010, our board of directors discontinued eligibility in the Amended DB Plan for new employees. As a result, no employee hired on or after February 1, 2010 is enrolled in that plan, while participants in the Grandfathered DB Plan or Amended DB Plan as of January 31, 2010 continue to be eligible for the Grandfathered DB Plan or Amended DB Plan (and, as applicable, the 2005 SERP) and accrue benefits thereunder until termination of employment.

The following sections describe the differences in the benefits provided under these plans.

Grandfathered DB Plan. The following table shows estimated annual benefits payable upon retirement at age 65 by combining the Grandfathered DB Plan and the SERP. The estimated annual benefits are calculated in accordance with the formula currently in effect for specified years of service and compensation for individuals participating in both plans, and hired prior to July 1, 2008.

| | Annual Benefits Payable at age 65 Based on Years of Benefit Service | |
|---|---|---|
| **Sample High 3-Consecutive-Year Average Compensation** | **35** | **40** |
| $1,300,000 | $ 1,137,500 | $ 1,300,000 |
| 1,400,000 | 1,225,000 | 1,400,000 |
| 1,500,000 | 1,312,500 | 1,500,000 |

- Formula: The combined Grandfathered DB Plan and SERP benefit equals 2.5% times years of benefit service times the high three-consecutive-year average compensation. Benefit service begins one year after employment, and benefits are vested after five years. Benefit payments commencing before age 65 are reduced by applying an early retirement factor based on the participant's age when payments begin. The allowance payable at age 65 would be reduced by 3.0% for each year the employee is under age 65. However, if the sum of age and years of vesting service at termination of employment is at least 70 ("Rule of 70"), the retirement allowance would be reduced by 1.5% for each year the employee is under age 65. Beginning at age 66, retirees are also provided an annual retiree cost of living adjustment of 3.0% per year, which is not reflected in the table.

Amended DB Plan. The following table shows estimated annual benefits payable upon retirement at age 65 by combining the Amended DB Plan and the 2005 SERP. The estimated annual benefits are calculated in accordance with the formula currently in effect for specified years of service and compensation for individuals participating in both plans, hired on or after July 1, 2008 but before February 1, 2010.

| | Annual Benefits Payable at age 65 Based on Years of Benefit Service | | |
|---|---|---|---|
| **Sample High 5-Consecutive-Year Average Compensation** | **10** | **15** | **20** |
| $400,000 | $ 60,000 | $ 90,000 | $ 120,000 |
| 500,000 | 75,000 | 112,500 | 150,000 |
| 600,000 | 90,000 | 135,000 | 180,000 |

- Formula: The combined Amended DB Plan and 2005 SERP benefit equals 1.5% times years of benefit service times the high five-consecutive-year average compensation. Benefit service begins 1 year after employment, and benefits are vested after five years. The allowance payable at age 65 would be reduced according to the actuarial equivalent based on actual age when early retirement commences. Benefit payments commencing before age 65 are reduced by applying an early retirement factor based on the participant's age when payments begin. If a participant satisfied the Rule of 70 at termination of employment, the retirement allowance would be reduced by 3.0% for each year the participant is under age 65.

The following table sets forth a comparison of the Grandfathered DB Plan and the Amended DB Plan.

| **DB Plan Provisions** | **Grandfathered DB Plan (All Employees Hired on or before June 30, 2008)** | **Amended DB Plan (All Employees Hired between July 1, 2008 and January 31, 2010)** |
|---|---|---|
| Benefit Increment | 2.5% | 1.5% |
| Cost of Living Adjustment | 3.0% Per Year Cumulative, Commencing at Age 66 | None |
| Normal Form of Payment | Guaranteed 12 Year Payout | Life Annuity |
| Early Retirement Reduction for less than Age 65: | | |
| (i) Rule of 70 | 1.5% Per Year | 3.0% Per Year |
| (ii) Rule of 70 Not Met | 3.0% Per Year | Actuarial Equivalent |

*With respect to all employees hired before February 1, 2010:*

- Eligible compensation includes salary (before any employee contributions to tax qualified plans), short-term incentive, bonus (including Annual Awards under the Incentive Plan), and any other compensation that is reflected on the IRS Form W-2 (but not including long-term incentive payments, such as Deferred Awards under the Incentive Plan).
- Retirement benefits from the DB Plan are paid in the form of a lump sum, annuity, or a combination of the two, at the election of the retiree at the time of retirement. Any payments involving a lump sum are subject to spousal consent.
- Retirement benefits from the 2005 SERP may be paid in the form of a lump sum payment, or annual installments up to 20 years, or a combination of lump sum and annual payments.

*DC Plans and SETP*. The Bank participated in the Pentegra Defined Contribution Retirement Savings Plan for Financial Institutions, as amended, a multiple employer retirement savings plan qualified under IRC Section 401(k), through October 1, 2020. Effective October 2, 2020, the Bank adopted the Federal Home Loan Bank of Indianapolis Retirement Savings Plan, which is a single employer retirement savings plan qualified under IRC Section 401(k). The terms of such plans are substantially the same and are collectively referred to as the "DC Plan."

All employees, including the NEOs, who have met the eligibility requirements may participate in the DC Plan. The DC Plan generally provides for an immediate (after the first month of hire) fully vested employer match of 100% on the first 6% of base salary that the participant contributes.

Eligible compensation in the DC Plan is defined as base salary. A participant in the DC Plan may elect to contribute up to 50% of eligible compensation, subject to the following limits. Under IRS regulations, in 2020 an employee could contribute up to $19,500 of eligible compensation on a pre-tax basis, and an employee age 50 or over could contribute up to an additional $6,500 on a pre-tax basis. Participant contributions over that amount may be made on an after-tax basis. A total of $57,000 per year ($63,500 per year including catch-up contributions for employees age 50 or over) could have been contributed to a participant's account in 2020, including our matching contribution and the participant's pre-tax and after-tax contributions. In addition, no more than $285,000 of annual compensation could have been taken into account in computing eligible compensation in 2020. The amount deferred on a pre-tax basis is taxed to the participant as ordinary income when distributed from the DC Plan. The plan permits participants to self-direct the investment of their DC Plan account into one or more investment funds. All returns are at the market rate of the respective fund(s) selected by the participant.

The DC Plan also permits a participant (in addition to making pre-tax elective deferrals) to fund a separate "Roth Elective Deferral Account" (also known as a "Roth 401(k)") with after-tax contributions. A participant may make both pre-tax and Roth 401(k) contributions, subject to the limitations described in the preceding paragraph. All Bank contributions are allocated to the participant's DC Plan account, subject to the maximum match amount described above. Under current IRS rules, withdrawals from a Roth 401(k) account (including investment gains) are tax-free after the participant reaches age 59 1/2 and if the withdrawal occurs at least five years after January 1 of the first year in which a contribution to the Roth 401(k) account occurs. In addition, the DC Plan permits in-plan Roth conversions, which allow participants to convert certain vested contributions into Roth contributions, similar to a Roth Individual Retirement Account conversion.

Effective January 1, 2018, the board of directors established, within the DC Plan, an employer-funded non-elective contribution ("NEC") program. The NEC provides an additional employer-funded benefit for certain DC Plan participants, including two of our NEOs, who were hired on or after February 1, 2010 and therefore do not participate in the Grandfathered DB Plan or the Amended DB Plan. Tthe Bank makes an additional NEC of 4% of base salary per year to the DC Plan account of each employee who is eligible to participate in the NEC. The NEC is subject to a vesting schedule based on a participant's years of service at the Bank. Partial vesting begins when a participant has attained at least two years of service. Participants become fully vested in their NECs when they have attained five years of service. Both NEOs who receive the NEC are fully vested.

In November 2015, the board of directors established the SETP, effective January 1, 2016. As described below, the purpose of the SETP is to permit the NEOs and certain other employees to elect to defer compensation in addition to compensation deferred under the DC Plan. The DC Plan and SETP provide benefits based upon amounts deferred by the participant and employer-matching contributions.

Each DC Plan participant who is an officer with a title of First Vice President or more senior (which includes all NEOs) is automatically eligible to become a SETP participant. In addition, the board of directors in its discretion may designate other DC Plan participants as eligible to participate. The SETP constitutes a nonqualified deferred compensation arrangement that complies with IRC Section 409A regulations and permits a participant to elect to have all or a portion of such participant's base salary and/or annual incentive plan payment withheld and credited to the participant's SETP account. Under this plan, subject to certain limitations, the Bank will contribute to the participant's account each plan year, up to the contribution that would have been made for the benefit of the participant under the DC Plan, including, if applicable, the NECs described above, without regard to benefit or compensation limits imposed by the IRC. The plan permits participants to self-direct the investment of their SETP account into one or more investment funds. All returns are at the market rate of the respective fund(s) selected by the participant. Plan benefits are paid out of an investment account established for each participant under a grantor trust that we have established as part of our general assets. The assets of the grantor trust are subject to the claims of our general creditors. The trust will be maintained such that the SETP is at all times considered unfunded and constitutes a mere promise by the Bank to make benefit payments in the future. Any rights created under this plan are unsecured contractual rights against the Bank.

The DB Plan, the 2005 SERP, the DC Plan and the SETP have all been amended from time to time to comply with changes in laws and IRS regulations and to clarify or modify other benefit features.

*Perquisites and Other Benefits.* We offer the following additional perquisites and other benefits to all employees, including the NEOs, under the same general terms and conditions:

- medical, dental, and vision insurance (subject to employee expense sharing);
- vacation leave, which increases based upon officer title and years of service;
- life and long-term disability insurance (the CEO and the CFO are eligible for enhanced monthly benefits under our disability insurance program);
- travel and accident insurance, as well as special crime coverage, which include life insurance benefits;
- educational assistance;
- employee relocation assistance, where appropriate, for new hires; and
- student loan repayment assistance.

In addition, we provide as a taxable benefit to the NEOs and certain other officers spouse/guest travel to board of directors meetings and preapproved industry activities (limited to two events per year unless otherwise approved by the President - CEO, or by the Chief Internal Audit Officer in the case of the President - CEO).

*Potential Payments Upon Termination or Change in Control.*

*Severance Pay Plan.* The board of directors has adopted a Severance Pay Plan that pays each NEO, upon a qualifying termination as described below (or in the Bank's discretion on a case-by-case basis), up to a maximum 52 weeks of base salary computed at the rate of 4 weeks of severance pay for each year of service with a minimum of 8 weeks of base salary to be paid. In addition, the plan pays a lump sum amount equal to the NEO's cost to maintain health insurance coverage under a Consolidated Omnibus Budget Reconciliation Act ("COBRA")-like coverage for the time period applicable under the severance pay schedule. The Severance Pay Plan may be amended or eliminated by the board at any time. Receipt of benefits under the Severance Pay Plan is conditioned on the execution of a binding separation contract.

The Severance Pay Plan does not apply to NEOs who have entered into a KESA with the Bank or who are participants under the Bank's KESP if a qualifying event has triggered payment under the terms of the KESA or the KESP. As of the date of this Form 10-K, Ms. Konich is the only NEO with whom we have a KESA; all other NEOs are participants under the KESP. If any NEO's employment is terminated, but a qualifying event under the KESA or the KESP, as applicable, has not occurred, the provisions of the Severance Pay Plan apply.

The following qualifying events will trigger an NEO's right to severance benefits under the Severance Pay Plan:

- the elimination of a job or position;
- a reduction in force;
- a substantial job modification, to the extent the incumbent NEO is no longer qualified for, or is unable to perform, the restructured job;
- the reassignment of staff requiring the relocation by more than 75 miles of the NEO's primary residence; or
- termination of employment in connection with a reorganization, merger or other change of control of the Bank.

In addition, the Bank has discretion under the Severance Pay Plan to provide additional pay or outplacement services to amicably resolve employment separations involving our NEOs and other employees.

The following table lists the amounts that would have been payable to the NEOs under the Severance Pay Plan if triggered as of December 31, 2020, absent a qualifying event that would result in payments under Ms. Konich's KESA or the KESP.

| NEO | Months of COBRA | Cost of COBRA | Weeks of Salary | Cost of Salary | Total Severance |
|---|---|---|---|---|---|
| Cindy L. Konich | 12 | $ 23,232 | 52 | $ 959,946 | $ 983,178 |
| Gregory L. Teare | 12 | 16,328 | 52 | 470,132 | 486,460 |
| William D. Miller | 10 | 6,212 | 40 | 312,940 | 319,152 |
| Deron J. Streitenberger | 8 | 15,488 | 32 | 251,248 | 266,736 |
| K. Lowell Short, Jr. | 12 | 16,328 | 48 | 321,912 | 338,240 |

The amounts listed above do not include payments and benefits to the extent that they are provided on a nondiscriminatory basis to NEOs generally upon termination of employment. These payments and benefits include:

- accrued salary and vacation pay;
- distribution of benefits under the DB Plan; and
- distribution of plan balances under the DC Plan.

Similarly, the amounts listed above also do not include payments from the SERP or the SETP. Amounts payable from the SERP may be found in the Pension Benefits Table. Account balances for the SETP may be found in the Non-Qualified Deferred Compensation Table.

*Key Employee Severance Agreement and Key Employee Severance Policy.* In general, key employee severance arrangements are intended to promote retention of certain officers in the event of discussions concerning a possible reorganization or change in control of the Bank, to ensure that merger or reorganization opportunities are evaluated objectively, and to provide compensation and other benefits to covered employees under certain circumstances in the event of a consolidation, change in control or reorganization of the Bank. As described in the following paragraphs, these arrangements provide for payment and, in some cases, continued and/or increased benefits if the officer's employment terminates under certain circumstances in connection with a reorganization, merger or other change in control of the Bank. If we were not in compliance with all applicable regulatory capital or regulatory leverage requirements at the time payment under the KESA or KESP becomes due, or if the payment would cause our Bank to fall below applicable regulatory requirements, the payment would be deferred until such time as we achieve compliance with such requirements. Moreover, if we were insolvent, have had a receiver or conservator appointed, or were in "troubled condition" at the time payment under an arrangement becomes due, the Finance Agency could deem such a payment to be subject to its rules limiting golden parachute payments.

*Key Employee Severance Agreement.* Ms. Konich's KESA was entered into during 2007. Under the terms of her agreement, Ms. Konich is entitled to a lump sum payment equal to a multiplier of her three preceding calendar years':

- base salary (less salary deferrals), bonus, and other cash compensation;
- salary deferrals and employer matching contributions under the DC Plan and SETP; and
- taxable portion of automobile allowance, if any.

Ms. Konich is entitled to a multiplier of 2.99, if she terminates for "good reason" or is terminated "without cause" during a period beginning 12 months before and ending 24 months after a reorganization. This agreement also provides that benefits payable to Ms. Konich pursuant to the SERP would be calculated as if she were three years older and had three more years of benefit service. The agreement with Ms. Konich also provides her with coverage for 36 months under our medical and dental insurance plans in effect at the time of termination (subject to her payment of the employee portion of the cost of such coverage).

We do not believe payments to Ms. Konich under the KESA would be subject to the restriction on change-in-control payments under IRC Section 280G or the excise tax applicable to excess change-in-control payments, because we are exempt from these requirements as a tax-exempt instrumentality of the United States government. If it were determined, however, that Ms. Konich is liable for such excise tax payment, the agreement provides for a "gross-up" of the benefits to cover such excise tax payment. This gross-up of approximately $3.5 million is not shown as a component of the value of the KESA in the table below.

Further, the agreement with Ms. Konich provides that she will be reimbursed for all reasonable accounting, legal, financial advisory and actuarial fees and expenses she incurs with respect to execution of the agreement or at the time of payment under the agreement. The agreement also provides that Ms. Konich will be reimbursed for all reasonable legal fees and expenses she incurs if we contest the enforceability of the KESA or the calculation of the amounts payable under the agreement, so long as she is wholly or partially successful on the merits or the parties agree to a settlement of the dispute.

If a reorganization of our Bank had triggered payments under Ms. Konich's KESA on December 31, 2020, the value of the payments for her would have been approximately as follows:

| Benefit | Value |
|---|---|
| 2.99 times average of the 3 prior calendar years base salary, bonuses and other cash compensation paid to the executive except for salary deferrals which are included below | $ 4,952,591 |
| 2.99 times average of the executive's salary deferrals and employer matching contributions under the DC Plan and SETP for the 3 prior calendar years | 412,091 |
| Additional amount under the SERP equal to the additional benefit calculated as if the executive were 3 years older and had 3 more years of credited service | 2,451,213 |
| Medical and dental insurance coverage for 36 months | 68,328 |
| Reimbursement of reasonable accounting, legal, financial advisory, and actuarial services [(1)] | 15,000 |
| Total value of KESA | $ 7,899,223 |

[(1)] The amount of $15,000 for reimbursement of reasonable accounting, legal, financial advisory, and actuarial services is an estimate and does not represent a minimum or maximum amount that could be paid.

*Key Employee Severance Policy.* On November 20, 2020, the board of directors re-adopted the KESP, which establishes three participation levels for covered employees: (i) Level 1 Participants, which include any Executive Vice President, (ii) Level 2 Participants, which include any Senior Vice President, and (iii) Level 3 Participants, which include any other officer designated by the HR Committee to be a Level 3 Participant from time to time. Thus, covered executives under the KESP (as of the date of filing of this Form 10-K) include all NEOs other than Ms. Konich. Mr. Teare and Mr. Streitenberger are Level 1 Participants, Mr. Miller was a Level 1 Participant, and Mr. Short is a Level 2 Participant.

Under the KESP, if the covered employee terminates for "good reason" or is terminated without "cause," in either case within six months before or 24 months after a reorganization, the covered employee is entitled to a lump-sum payment equal to a multiple (2.0 for Level 1 Participants, 1.5 for Level 2 Participants and 1.0 for Level 3 Participants) of the average of his or her three preceding calendar years' base salary (inclusive of amounts deferred under a qualified or nonqualified plan) and gross bonus (inclusive of amounts deferred under a qualified or nonqualified plan); provided that, for any calendar year in which the covered employee received base salary for less than the entire year, the gross amount shall be annualized as if such amount had been payable for the entire calendar year. All amounts payable under the KESP are capped at an amount equal to one dollar ($1) less than the aggregate amount which would otherwise cause any such payments to be considered a “parachute payment” within the meaning of Section 280G of the IRC.

In addition, to the extent the covered employee is eligible, he or she will continue after a compensated termination to be covered by the Bank’s medical and dental insurance plans in effect immediately prior to the compensated termination, subject to the covered employee’s payment of the employee’s portion of the cost of such continued coverage. The coverage will continue for Level 1, Level 2 and Level 3 Participants for 24 months, 18 months and 12 months, respectively. In the event the covered employee is ineligible under the terms of such plans for continuing coverage or such plans shall have been modified, the Bank will provide through other sources coverage which is substantially equivalent to the coverage provided immediately prior to the compensated termination, subject to the covered employee’s payment of a comparable portion of the cost of such continued coverage as under the Bank’s medical and dental insurance plans. The KESP also provides for outplacement services for all covered employees.

**Summary Compensation Table**

| Name and Principal Position | Year | Salary [1] | Non-Equity Incentive Plan Compensation [2] | Change in Pension Value and Nonqualified Deferred Compensation Earnings [3] | All Other Compensation [4] | Total |
|---|---|---|---|---|---|---|
| Cindy L. Konich<br>President - CEO (PEO) | 2020 | $996,867 | $ 941,870 | $ 4,616,000 | $ 61,878 | $ 6,616,615 |
| | 2019 | 931,996 | 839,154 | 5,665,000 | 69,610 | 7,505,760 |
| | 2018 | 887,614 | 792,565 | 979,000 | 53,257 | 2,712,436 |
| Gregory L. Teare<br>EVP - CFO (PFO) | 2020 | 488,214 | 368,486 | 301,000 | 30,509 | 1,188,209 |
| | 2019 | 456,430 | 303,037 | 368,000 | 28,353 | 1,155,820 |
| | 2018 | 430,586 | 293,358 | 178,000 | 25,835 | 927,779 |
| William D. Miller [5]<br>EVP - Chief Economist | 2020 | 422,469 | 319,939 | — | 43,049 | 785,457 |
| | 2019 | 398,840 | 271,443 | — | 27,964 | 698,247 |
| | 2018 | 365,898 | 255,384 | — | 34,028 | 655,310 |
| Deron J. Streitenberger<br>EVP - CBOO | 2020 | 423,981 | 287,388 | — | 43,609 | 754,978 |
| | 2019 | 378,040 | 253,559 | — | 28,959 | 660,558 |
| | 2018 | 340,574 | 224,067 | — | 27,500 | 592,141 |
| K. Lowell Short, Jr.<br>SVP - CAO | 2020 | 362,151 | 242,792 | 223,000 | 22,878 | 850,821 |
| | 2019 | 338,572 | 222,766 | 223,000 | 21,256 | 805,594 |
| | 2018 | 325,546 | 218,274 | 77,000 | 19,533 | 640,353 |

(1) Salary reflects 27 biweekly pay periods for 2020 and 26 biweekly pay periods for 2019 and 2018.

(2) The Non-Equity Incentive Plan Compensation table below presents the components of the "Non-Equity Incentive Plan Compensation" column and the dates that these amounts were paid.

(3) These amounts represent a change in pension value under the Grandfathered DB Plan, Amended DB Plan and the SERP, as applicable. The change in pension values are determined by calculating the present values of pension benefits accrued through the beginning and ending plan valuation dates. The calculations incorporate various assumptions and changes in compensation, age and tenure, and utilize discount interest rates based on market interest rates. Therefore, changes in market interest rates can have a significant impact on the change in pension value. The discount rates used for 2020 were lower by 70 bps and 101 bps than those used for 2019 for the DB Plan and the SERP, respectively, which resulted in significant increases in pension values in 2020. No portion of this change in pension value is realizable until a qualifying event occurs, such as retirement, and therefore, no portion of this change in pension value has been paid or made available to any of the NEOs. No NEO received preferential or above-market earnings on deferred compensation.

(4) Includes contributions to the DC Plan, NEC program, and the SETP, as applicable, for Ms. Konich ($59,804), Mr. Teare ($29,284), Mr. Miller ($41,818), Mr. Streitenberger ($42,396), and Mr. Short ($21,729). Also includes life insurance policy premiums and income tax gross-ups provided to all employees related to a stipend to defray work-from-home expenses, gift cards, and years of service awards, as applicable. None of the NEOs received more than $10,000 in perquisites or other personal benefits and there were no other perquisites or benefits that are available to the NEOs that are not available to all other employees.

(5) Mr. Miller's employment with the Bank ceased effective February 19, 2021.

**Non-Equity Incentive Plan Compensation**

| | | Annual Award | | Deferred Award | | Total Non-Equity |
|---|---|---|---|---|---|---|
| Name | Year | Amounts Earned | Date Paid | Amounts Earned [1] | Date Paid | Incentive Plan Compensation |
| Cindy L. Konich | 2020 | $ 455,817 | 3/5/2021 | $ 486,053 | 3/5/2021 | $ 941,870 |
| | 2019 | 372,798 | 3/6/2020 | 466,356 | 3/6/2020 | 839,154 |
| | 2018 | 442,121 | 3/1/2019 | 350,444 | 3/1/2019 | 792,565 |
| Gregory L. Teare | 2020 | 176,265 | 3/5/2021 | 192,221 | 3/5/2021 | 368,486 |
| | 2019 | 146,058 | 3/6/2020 | 156,979 | 3/6/2020 | 303,037 |
| | 2018 | 171,425 | 3/1/2019 | 121,933 | 3/1/2019 | 293,358 |
| William D. Miller [2] | 2020 | 153,823 | 3/5/2021 | 166,116 | 3/5/2021 | 319,939 |
| | 2019 | 135,606 | 3/6/2020 | 135,837 | 3/6/2020 | 271,443 |
| | 2018 | 145,847 | 3/1/2019 | 109,537 | 3/1/2019 | 255,384 |
| Deron J. Streitenberger | 2020 | 153,074 | 3/5/2021 | 134,314 | 3/5/2021 | 287,388 |
| | 2019 | 120,973 | 3/6/2020 | 132,586 | 3/6/2020 | 253,559 |
| | 2018 | 118,641 | 3/1/2019 | 105,426 | 3/1/2019 | 224,067 |
| K. Lowell Short, Jr. [3] | 2020 | 114,407 | N/A | 128,385 | 3/5/2021 | 242,792 |
| | 2019 | 94,800 | N/A | 127,966 | 3/6/2020 | 222,766 |
| | 2018 | 113,406 | N/A | 104,868 | N/A | 218,274 |

(1) Amounts earned in 2020, 2019, and 2018 represent the 2017, 2016, and 2015 Deferred Awards, respectively.

(2) Mr. Miller elected to defer 5% of his 2019 Annual Award pursuant to the SETP. The amounts not deferred were paid on the date indicated.

(3) Mr. Short elected to defer 100% of his 2020, 2019, and 2018 Annual Awards, and 80% and 100% of his 2017 and 2015 Deferred Awards payable in 2021 and 2019, respectively, pursuant to the terms of the SETP.

**Grants of Plan-Based Awards Table for 2020**

| Name | Plan Name | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Plans: Threshold [1] [2] | Target | Maximum |
|---|---|---|---|---|---|
| Cindy L. Konich | Incentive Plan - Annual | 11/15/19 | $ 12,461 | $ 398,747 | $ 498,434 |
| | Incentive Plan - Deferred | 11/15/19 | 341,863 | 455,817 | 569,772 |
| Gregory L. Teare | Incentive Plan - Annual | 11/15/19 | 4,882 | 146,464 | 195,286 |
| | Incentive Plan - Deferred | 11/15/19 | 132,199 | 176,265 | 220,331 |
| William D. Miller | Incentive Plan - Annual | 11/15/19 | 4,225 | 126,741 | 168,988 |
| | Incentive Plan - Deferred | 11/15/19 | 115,367 | 153,823 | 192,278 |
| Deron J. Streitenberger | Incentive Plan - Annual | 11/15/19 | 4,240 | 127,194 | 169,592 |
| | Incentive Plan - Deferred | 11/15/19 | 114,806 | 153,074 | 191,343 |
| K. Lowell Short, Jr. | Incentive Plan - Annual | 11/15/19 | 3,169 | 95,065 | 126,753 |
| | Incentive Plan - Deferred | 11/15/19 | 85,805 | 114,407 | 143,009 |

(1) The Incentive Plan - Annual threshold payout is the amount expected to be paid when meeting the threshold for the smallest weighted of the eleven components of the 2020 Annual Award Performance Period Goals. If the threshold for the smallest weighted of the eleven components was achieved, but the threshold for all of the other components was not reached, the payout would be 2.50% of the maximum Annual Award for each of the NEOs (1.25% x base salary for Ms. Konich, 1.00% x base salary for Mr. Teare, 1.00% x base salary for Mr. Miller, 1.00% x base salary for Mr. Streitenberger, and 0.88% x base salary for Mr. Short). There was no guaranteed payout under the 2020 Annual Award provisions of the Incentive Plan. Therefore, the minimum that could be paid out under this plan is $0 for each NEO.

(2) The Incentive Plan - Deferred threshold payout is based upon the amount earned under the Incentive Plan - Annual and is further dependent on attaining the threshold over the three-year deferral period (2021-2023). The threshold is the amount expected to be paid when meeting the threshold for achievement under the Deferred Award provisions of the Incentive Plan over the three-year period. Depending on our performance during the Deferral Performance Period, the Final Award will be worth 75% at Threshold, 100% at Target or 125% at Maximum of the original amount of the Deferred Award (from the 2020 Incentive Plan - Annual Award Performance Period table previously presented). There is no guaranteed payout under the Deferred Award provisions of the Incentive Plan. Therefore, the minimum that could be paid out to an NEO under this plan is $0.

The Non-Equity Incentive Plan Compensation - 2020 table previously presented shows the amounts actually earned and paid under the 2020 Annual Award provisions of the Incentive Plan.

**Pension Benefits Table**

| Name [1] | Plan Name | Number of Years of Credited Service [2] | Present Value of Accumulated Benefits | Payments During Last Fiscal Year |
|---|---|---|---|---|
| Cindy L. Konich [3] | DB Plan | 36 | $ 3,226,000 | $ — |
| | SERP | 36 | 24,820,000 | — |
| Gregory L. Teare [4] | DB Plan | 18 | 941,000 | — |
| | SERP | 12 | 860,000 | — |
| K. Lowell Short, Jr. [5] | DB Plan | 10 | 674,000 | — |
| | SERP | 10 | 381,000 | — |

(1) Mr. Streitenberger is not eligible, and Mr. Miller was not eligible, to participate in the DB Plan or the SERP.

(2) For each of the NEOs, the years of credited service have been rounded to the nearest whole year.

(3) Ms. Konich is eligible to retire under the DB Plan and SERP due to the combination of her age and years of credited service.

(4) Mr. Teare earned six years of credited service in the DB Plan as an employee of the FHLBank of Seattle and is eligible to retire under the DB Plan and SERP.

(5) Mr. Short is eligible to retire under the DB Plan and SERP due to the combination of his age and years of credited service.

Pension values are determined by calculating the present values of pension benefits accrued through the plan valuation dates. The calculations incorporate various assumptions and changes in compensation, age and service, and utilize discount interest rates based on market interest rates. The present value of the accumulated benefits is based upon a retirement age of 65, using the PRI-2012 white collar worker annuitant tables (with Scale MP-2020), a discount rate of 2.52% for the DB Plan, and a discount rate of 1.54% for the SERP. The discount rates for the DB Plan and the SERP are based on the Financial Times Stock Exchange ("FTSE") Group Pension Liability Index and the FTSE Group Pension Discount Curve, respectively, both of which are determined by yields on high-quality corporate bonds at the valuation dates.

**Non-Qualified Deferred Compensation - 2020**

| Name | NEO Contributions in Last FY [1] | Bank Contributions in Last FY [2] | Aggregate Earnings in Last FY [3] | Aggregate Withdrawals / Distributions in Last FY | Aggregate Balance at Last FYE [4] |
|---|---|---|---|---|---|
| Cindy L. Konich | $ 59,812 | $ 42,704 | $ 104,976 | $ — | $ 655,561 |
| Gregory L. Teare | 68,350 | 12,184 | 26,092 | — | 303,229 |
| William D. Miller | 55,819 | 29,995 | 40,685 | — | 232,359 |
| Deron J. Streitenberger | 4,240 | 13,896 | 1,611 | — | 19,746 |
| K. Lowell Short, Jr. | 118,729 | 5,260 | 49,501 | — | 798,982 |

(1) The contributions by Ms. Konich, Mr. Teare, and Mr. Streitenberger are included in the "Salary" reported in the Summary Compensation Table for 2020. Of the contributions by Mr. Miller, $42,247 are included in the "Salary" reported in the Summary Compensation Table for 2020. The remaining $13,572 of contributions by Mr. Miller reflect the amounts deferred related to the 2019 Annual Award reported as "Non-Equity Incentive Plan Compensation" in the Summary Compensation Table for 2019. Of the contributions by Mr. Short, $25,303 are included in the "Salary" reported in the Summary Compensation Table for 2020. The remaining $93,426 of contributions by Mr. Short reflect the amounts deferred related to the 2019 Annual Award reported as "Non-Equity Incentive Plan Compensation" in the Summary Compensation Table for 2019.

(2) The amounts in this column are included as a component of "All Other Compensation" in the Summary Compensation Table. The amounts include the Bank's matching contributions for Mr. Miller of $16,678 and Mr. Short of $631 on their contributions to the SETP that were eligible for matching contributions if deferred under the DC Plan, resulting in total Bank contributions of 6% of their base salaries. In addition, the amounts for Mr. Miller and Mr. Streitenberger include the portion of the NEC in excess of the IRS limit applicable to the DC Plan.

(3) The amounts reported in this column are not reported in the Summary Compensation Table because these amounts are not above market or preferential.

(4) The amounts reported in this column have been reported in the Summary Compensation Table either in 2020 or prior years, with the exception of aggregate earnings.

The SETP is described in more detail above in "Retirement Benefits - DC Plan and SETP." Participants in the SETP elect the timing of distribution of their benefits; provided, however, that a participant is permitted to withdraw all or a portion of the amount in his or her account, in a single lump sum, if the participant has experienced an unforeseeable emergency (as defined by the SETP and determined by an administrative committee appointed by our board) or in certain other, limited circumstances. None of the NEOs made a withdrawal or received a distribution from the SETP during 2020.

**Principal Executive Officer Pay Ratio Disclosure**

Our President - CEO is our PEO. As described below, for the year ended December 31, 2020, we determined the ratio of the total compensation, as determined in the Summary Compensation Table ("Total Compensation"), of our PEO to the Total Compensation of the Bank's median employee.

Total Compensation includes, among other components, amounts attributable to changes in pension value under the Bank's Grandfathered DB Plan, Amended DB Plan and the SERP, as applicable. Such change in pension value represents the difference between the present value of pension benefits accrued through the beginning valuation date and the present value of pension benefits accrued through the ending valuation date. The present value calculations incorporate many assumptions and utilize discount rates based on market interest rates. Therefore, changes in market interest rates can have a significant impact on the change in pension value. The discount rates used as of December 31, 2020 were significantly lower than the discount rates used as of December 31, 2019, which caused a significant increase in the pension values for 2020. Additionally, the change in pension value varies considerably among employees based upon their tenure at the Bank, their annual compensation and several other factors. Finally, no portion of this change in pension value has been paid or made available to the PEO or median employee; in fact, no portion is realizable until a qualifying event occurs, such as retirement.

For 2020, the Total Compensation of the PEO was $6,616,615. As of December 31, 2020, our PEO had 36 years of credited service under the Grandfathered DB Plan and SERP. Her Total Compensation therefore includes the change in the present value of her pension benefits, which amounted to $4,616,000, and constituted 70% of her reported 2020 Total Compensation. Excluding the 2020 change in pension value, the PEO’s Total Compensation was $2,000,616.

As required by SEC rules, we reevaluated our employees to identify a new median employee for our pay ratio disclosures in 2020. As a result of this review, we selected a different employee than was originally identified with our 2017 calculations. As in 2017, we identified the median employee by first determining the total of salary, wages, bonuses (if any) and incentive awards (collectively, "cash compensation") for each of the full-time and part-time employees of our Bank on the last pay date of 2020 and annualizing the cash compensation of those who were not employed by the Bank for all of 2020. We then ranked the 2020 annual cash compensation for all such employees from lowest to highest, excluding the PEO.

There was one employee at the median based on cash compensation, but that employee does not participate in a pension plan. We therefore selected as the median employee the individual who participates in the same plan as our PEO (the Grandfathered DB Plan), and whose 2020 annual cash compensation was closest to that of the actual median employee. We made no other material assumptions or adjustments in identifying the median employee. This approach ensures that the median employee's Total Compensation, like the PEO's Total Compensation, includes a change in pension value and thereby provides an appropriate comparison. We then calculated the median employee's Total Compensation in the same manner that we calculated Total Compensation for the PEO.

For 2020, the Total Compensation of the median employee was $289,153. As of December 31, 2020, our median employee had thirteen years of credited service in the DB Plan. The median employee's Total Compensation includes a change in the present value of pension benefits of $156,000. As a result, the ratio of the PEO’s Total Compensation to that of the median employee was 23:1. Excluding the 2020 changes in pension value from the Total Compensation of both the PEO and the median employee, the ratio was 15:1.

**Director Compensation**

Finance Agency regulations provide that each FHLBank may pay its directors reasonable compensation for the time required of them and their necessary expenses in the performance of their duties, as determined by a compensation policy to be adopted annually by the FHLBank's board of directors. The Finance Agency Director annually reviews the compensation and expenses of FHLBank directors and has the authority to determine that the compensation and/or expenses paid to directors are not reasonable. In such case, the Director could order the FHLBank to refrain from making any further payments; however, such an order would only be applied prospectively and would not affect any compensation earned but unpaid or expenses incurred but not yet reimbursed.

***2020 Compensation.*** In September 2019, after considering McLagan market data research and a director fee comparison among the FHLBanks, the board of directors adopted a director compensation and expense reimbursement policy for 2020 ("2020 Policy"). Under the 2020 Policy, each director had an opportunity to earn an annual fee (divided into quarterly payments), subject to the combined fee limit shown below. The fees are intended to reflect the time required of directors in the performance of official Bank and board business, measured principally by meeting attendance thresholds and participation at board and committee meetings and secondarily by performance of other duties, which include:

- preparing for board and committee meetings;
- chairing meetings as appropriate;
- reviewing materials sent to directors on a periodic basis;
- attending other related events such as management conferences, FHLBank System meetings, director training and new director orientation; and
- fulfilling the responsibilities of directors.

Additional compensation is paid for serving as chair or vice chair of the board of directors or as chair of a board committee. Because we are a cooperative and only member institutions may own our stock, no director may receive equity-based compensation. The 2020 Policy provides that director fees were to be paid at the end of each quarter.

The 2020 Policy authorizes a reduction of a director's fourth quarterly payment if a majority of disinterested directors determines that such director's performance, ethical conduct or attendance is significantly deficient. No such reductions occurred for 2020.

The following table summarizes the annual fee limits of the 2020 Policy as approved by the board of directors.

| Position | Annual Fee Limit |
|---|---|
| Chair | $ 137,000 |
| Vice Chair | 123,000 |
| Audit Committee Chair | 122,000 |
| Affordable Housing Committee Chair | 117,000 |
| Finance/Budget Committee Chair | 117,000 |
| Human Resources Committee Chair | 117,000 |
| Risk Oversight Committee Chair | 117,000 |
| Technology Committee Chair | 117,000 |
| All other directors | 107,000 |
| Other Committee Chair | (a) |

(a) Directors serving as Chair of newly-formed Committees, or serving as Chair of an additional Committee, are entitled to an additional $10,000 fee per year, prorated by the number of quarters for which the director served as Chair. During 2020, the Board established a Special Committee that operated during two quarters, therefore its Chair received an additional $5,000 fee.

**Director Compensation Table for 2020**

| Name | Fees Earned or Paid-in Cash | Total |
|---|---|---|
| Brian D. J. Boike | $ 107,000 | 107,000 |
| Jonathan P. Bradford | 107,000 | 107,000 |
| Ronald Brown | 107,000 | 107,000 |
| Charlotte C. Decker | 117,000 | 117,000 |
| Robert M. Fisher | 107,000 | 107,000 |
| Karen F. Gregerson | 117,000 | 117,000 |
| Michael J. Hannigan, Jr. | 107,000 | 107,000 |
| Jeffrey G. Jackson | 107,000 | 107,000 |
| Carl E. Liedholm | 117,000 | 117,000 |
| James L. Logue III | 123,000 | 123,000 |
| Robert D. Long | 122,000 | 122,000 |
| Michael J. Manica | 107,000 | 107,000 |
| Dan L. Moore | 137,000 | 137,000 |
| Larry W. Myers | 107,000 | 107,000 |
| Christine Coady Narayanan | 117,000 | 117,000 |
| Larry A. Swank | 117,000 | 117,000 |
| Ryan M. Warner | 112,000 | 112,000 |

We provide various travel, accident, and kidnapping insurance coverages for all of our directors, officers and employees. These policies provide a life insurance benefit in the event of death within the scope of the policy. We also reimburse directors or directly pay for reasonable travel and related expenses in accordance with the director compensation and travel reimbursement policy.

***Directors' Deferred Compensation Plan.*** In 2015, we established the DDCP, effective January 1, 2016. The DDCP permits members of our board of directors to elect to defer all or a portion of the fees payable to them for a calendar year for their services as directors. The DDCP constitutes a deferred compensation arrangement that complies with Section 409A of the IRC, as amended. Any duly elected and serving member of our board may become a participant in the DDCP. The DDCP has been amended and restated effective January 1, 2021 to increase flexibility as to when distributions may be made.

All contributions credited to a participant’s account will be invested in an irrevocable grantor trust established to provide for the DDCP's benefits. The DDCP is administered by an administrative committee appointed by our board, currently the HR Committee. The trust will be maintained such that the DDCP at all times for income tax purposes will be unfunded and constitutes a mere promise by the Bank to make DDCP benefit payments in the future. Any rights created under the DDCP are unsecured contractual rights against the Bank. The Bank establishes an investment account for each participant under the trust, which at all times remains an asset of the Bank, subject to claims of the Bank’s general creditors. The DDCP permits participants to allocate their investment account among investment options established by the HR Committee or the board. No above-market or preferential earnings are paid on any balances under the DDCP. In general, a participant may elect to have his or her deferred compensation paid in a single lump sum payment, in annual installment payments over a period of two to five years, or in a combination of both such methods.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the beneficial ownership of our Class B common stock as of February 28, 2021, by each shareholder that beneficially owned more than 5% of the outstanding shares. Each shareholder named (with its parent holding company) has sole voting and investment power over the shares beneficially owned.

| Name and Address of Shareholder | Number of Shares Owned | % Outstanding Shares |
|---|---|---|
| Flagstar Bank, FSB - 5151 Corporate Drive, Troy, MI | 3,767,546 | 15.4 % |
| The Lincoln National Life Insurance Company - 1300 S Clinton Street, Fort Wayne, IN | 1,948,500 | 8.0 % |
| TCF National Bank - 2508 South Louise Avenue, Sioux Falls, SD [1] | 1,488,477 | 6.1 % |
| Jackson National Life Insurance Company - 1 Corporate Way, Lansing, MI | 1,253,921 | 5.1 % |
| Total | 8,458,444 | 34.6 % |

[1] TCF National Bank, as successor by merger to Chemical Bank, is a non-member shareholder.

The majority of our directors are officers and/or directors of our financial institution members. The following table sets forth the financial institution members that have an officer and/or director serving on our board of directors as of February 28, 2021.

| Director Name | Name of Member | Number of Shares Owned by Member | % of Outstanding Shares |
|---|---|---|---|
| Brian D. J. Boike | Flagstar Bank, FSB | 3,767,546 | 15.41 % |
| Ronald Brown | United Fidelity Bank, FSB | 62,019 | 0.25 % |
| Clifford M. Clarke | Three Rivers Federal Credit Union | 85,200 | 0.35 % |
| Robert M. Fisher | Lake-Osceola State Bank | 13,501 | 0.06 % |
| Karen F. Gregerson | The Farmers Bank | 17,325 | 0.07 % |
| Jeffrey G. Jackson | Michigan State University Federal Credit Union | 137,250 | 0.56 % |
| Michael J. Manica | United Bank of Michigan | 54,000 | 0.22 % |
| Dan L. Moore | Home Bank SB | 23,205 | 0.09 % |
| Larry W. Myers | First Savings Bank | 177,309 | 0.73 % |
| Total | | 4,337,355 | 17.74 % |

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

We use acronyms and terms throughout this Item that are defined herein or in the *Defined Terms.*

### Related Parties

We are a cooperative institution and owning shares of our stock is generally a prerequisite to transacting business with us. As such, we are wholly-owned by financial institutions that are also our customers (with the exception of shares held by former members, or their legal successors, in the process of redemption). In addition, our directors may serve as officers and/or directors of our members, and we conduct our advances and AMA business almost exclusively with our members. Therefore, in the normal course of business, we extend credit to and purchase mortgage loans from members with officers or directors who may serve as our directors. However, such transactions are on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to our Bank (i.e., other members), and that do not involve more than the normal risk of collectability or present other unfavorable terms.

Also, in the normal course of business, some of our member directors and independent directors are officers of entities that may directly or indirectly participate in our AHP. All AHP transactions, however, including those involving (i) a member (or its affiliate) that owns more than 5% of the Bank's capital stock, (ii) a member with an officer or director who is a director of our Bank, or (iii) an entity with an officer, director or general partner who serves as a director of our Bank (and that has a direct or indirect interest in the AHP transaction), are subject to the same eligibility and other program criteria and requirements and the same Finance Agency regulations governing AHP operations.

We do not extend credit to or conduct other business transactions with our directors, executive officers or any of our other officers or employees. Executive officers may obtain loans under certain employee benefit plans but only on the same terms and conditions as are applicable to all employees who participate in such plans.

**Related Transactions**

We have a Code of Conduct and Conflict of Interest Policy for Directors, a Code of Conduct and Conflict of Interest Policy for Affordable Housing Advisory Council ("AHAC") Members, a Code of Conduct and Conflict of Interest Policy for Employees and Contractors, and a Code of Ethics for Senior Financial Officers. These codes require all directors, AHAC members, officers and employees to disclose any related party interests through ownership or family relationship. These disclosures are reviewed to determine the potential for a conflict of interest. The review is performed by our ethics officers for disclosures relating to officers and employees, and by our General Counsel and board of directors (or, when appropriate, the disinterested members of our board of directors) for directors and AHAC members. In the event of a conflict, appropriate action is taken, which may include: recusal of a director from the discussion and vote on a transaction in which the director has a related interest; removal of an employee from a project with a related party vendor; disqualification of related vendors from transacting business with us; requiring directors, officers or employees to divest their ownership interest in a related party; or removal of an AHAC member. The General Counsel and ethics officers maintain records of all related party disclosures, and there have been no transactions involving our directors, officers or employees that would be required to be disclosed herein.

**Director Independence**

***General.*** As of the filing date of this Form 10-K, we have 17 directors: pursuant to the Bank Act, nine were elected or re-elected as member directors by our member institutions and eight were elected or re-elected as "independent directors" by our member institutions. None of our directors are "inside" directors, that is, none of our directors are employees or officers of our Bank. Further, our directors are prohibited from personally owning stock in our Bank. Each of the nine member directors, however, is a senior officer or director of an institution that is our member and is encouraged to engage in transactions with us on a regular basis.

Our board of directors is required to evaluate and report on the independence of our directors under two distinct director independence standards. First, Finance Agency regulations establish independence criteria for directors who serve as members of our Audit Committee. Second, SEC rules require that our board of directors apply the independence criteria of a national securities exchange or automated quotation system in assessing the independence of our directors.

***Finance Agency Regulations Regarding Independence.*** The Finance Agency director independence standards prohibit an individual from serving as a member of our Audit Committee if he or she has one or more disqualifying relationships with our Bank or our management that would interfere with the exercise of his or her independent judgment. Relationships considered to be disqualifying by our board of directors are: employment with us at any time during the last five years; acceptance of compensation from us other than for service as a director; serving as a consultant, advisor, promoter, underwriter or legal counsel for our Bank at any time within the last five years; and being an immediate family member of an individual who is or who has been an Executive Officer within the past five years. Our board of directors assesses the independence of each director under the Finance Agency's independence standards, regardless of whether he or she serves on the Audit Committee. As of the date of this Form 10-K, each of our directors is "independent" under these criteria relating to disqualifying relationships.

***SEC Rules Regarding Independence.*** SEC rules require our board of directors to adopt a standard of independence with which to evaluate our directors. Pursuant thereto, our board adopted the independence standards of the New York Stock Exchange ("NYSE") to determine which of our directors are "independent," which members of our Audit Committee are not "independent," and whether our Audit Committee's financial expert is "independent."

As noted above, some of our directors who are "independent" (as defined in and for purposes of the Bank Act) are employed by companies that may from time to time have (or seek to have) limited business relationships with our Bank due to those companies' participation in projects funded in part through our AHP. None of those companies, however, has, or within the past three most recently completed fiscal years had a relationship with us that resulted in payments to, or receipts from, the Bank in excess of the limits set forth in the NYSE independence standards. Moreover, any business relationship between those directors' respective companies and the Bank is established and conducted on the same terms and conditions provided to similarly-situated third parties. After applying the NYSE independence standards, our board determined that, as of the date of this Form 10-K, our eight directors (Mses. Cook, Decker and Narayanan and Messrs. Hannigan, Logue, Long, Sears and Swank) who are "independent" directors, as defined in and for purposes of the Bank Act, are also independent under the NYSE standards.

Based upon the fact that each member director is a senior officer or director of an institution that is a member of our Bank (and thus the member is an equity holder in our Bank), that each such institution routinely engages in transactions with us (which may include advances, MPP and AHP transactions), and that such transactions occur frequently and are encouraged in the ordinary course of our business and our member institutions' respective businesses, our board of directors concluded for the present time that none of the member directors meet the independence criteria under the NYSE independence standards. It is possible that, under a strict reading of the NYSE objective criteria for independence (particularly the criterion regarding the amount of business conducted with our Bank by the director's institution), a member director could meet the independence standard on a particular day. However, because the amount of business conducted by a member director's institution may change frequently, and because we generally desire to increase the amount of business we conduct with each member institution, we believe it is inappropriate to draw distinctions among the member directors based upon the amount of business conducted with our Bank by any director's institution at a specific time.

Our board of directors has a standing Audit Committee comprised of eight directors (including the ex-officio member), five of whom are member directors and three of whom are "independent" directors (according to Bank Act director classifications established by HERA). For the reasons noted above, our board of directors determined that none of the current member directors on our Audit Committee are "independent" under the NYSE standards for audit committee members. However, our board of directors determined that the independent director who serves as Chair of the Audit Committee and is one of the Bank's Audit Committee Financial Experts under SEC rules, due primarily to his previous experience as an audit partner at a major public accounting firm, is "independent" under the NYSE independence standards for Audit Committee members.

***SEC Rule Regarding Audit Committee Independence.*** The Exchange Act, as amended by HERA, requires the FHLBanks to comply with the substantive Audit Committee director independence rules applicable to issuers of securities pursuant to the rules of the Exchange Act. Those rules provide that, to be considered an independent member of an Audit Committee, the director may not be an affiliated person of the Exchange Act registrant. The term "affiliated person" means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the registrant. The rule provides a "safe harbor," whereby a person will not be deemed an affiliated person if the person is not the beneficial owner, directly or indirectly, of more than 10% of any class of voting securities of the registrant. All of our Audit Committee member directors' institutions presently meet this safe harbor.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth the aggregate fees billed or to be billed for the years ended December 31, 2020 and 2019 by our independent registered public accounting firm, PricewaterhouseCoopers LLP ($ amounts in thousands).

| | 2020 | 2019 |
|---|---|---|
| Audit fees | $ 812 | $ 821 |
| Audit-related fees | 58 | 47 |
| Tax fees | — | — |
| All other fees | 3 | 3 |
| Total fees | $ 873 | $ 871 |

Audit fees were incurred for professional services rendered for the audits of our financial statements. Audit-related fees were incurred for certain FHLBank System assurance and related services, as well as fees related to PwC's participation at FHLBank conferences. All other fees were incurred for non-audit services for an annual license for PwC's disclosure software.

We are exempt from all federal, state, and local taxation, except employment and real estate taxes. Therefore, no fees were paid for tax services during the years presented.

Our Audit Committee has adopted Independent Accountant Pre-approval Policies and Procedures ("Pre-approval Policy"). In accordance with the Pre-approval Policy and applicable law, on an annual basis, the Audit Committee reviews the list of specific services and projected fees for services to be provided for the next 12 months by our independent registered public accounting firm and pre-approves audit services, audit-related services, tax services and non-audit services, as applicable. Pre-approvals are valid until the end of the next calendar year, unless the Audit Committee specifically provides otherwise.

Under the Pre-approval Policy, the Audit Committee may delegate pre-approval authority to one or more of its members subject to a pre-approval fee limit. The Audit Committee has designated the Committee Chair as the member to whom such authority is delegated. Pre-approved actions by the Committee Chair as designee are reported to the Audit Committee at its next scheduled meeting. New services that have not been pre-approved by the Audit Committee that are in excess of the pre-approval fee level established by the Audit Committee must be presented to the entire Audit Committee for pre-approval.

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The exhibits to this Annual Report on Form 10-K are listed below.

**EXHIBIT INDEX**

| Exhibit Number | Description |
|---|---|
| 3.1* | Organization Certificate of the Federal Home Loan Bank of Indianapolis, incorporated by reference to our Registration Statement on Form 10 (Commission File No. 000-51404) filed on February 14, 2006 |
| 3.2* | Bylaws of the Federal Home Loan Bank of Indianapolis, as amended effective June 28, 2019, incorporated by reference to Exhibit 3.1 of our Quarterly Report on Form 10-Q (Commission File No. 000-51404) filed on August 12, 2019 |
| 4.1* | Capital Plan of the Federal Home Loan Bank of Indianapolis, effective September 5, 2011 through February 9, 2020, incorporated by reference to Exhibit 99.2 of our Current Report on Form 8-K (Commission File No. 000-51404) filed August 5, 2011 |
| 4.2* | Capital Plan of the Federal Home Loan Bank of Indianapolis, effective February 10, 2020 through September 25, 2020, incorporated by reference to Exhibit 4.2 of our Annual Report on Form 10-K (Commission File No. 000-51404) filed on March 10, 2020 |
| 4.3* | Capital Plan of the Federal Home Loan Bank of Indianapolis, effective September 26, 2020, incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K (Commission File No. 00051404) filed on August 13, 2020 |
| 4.4 | Description of the Bank's Capital Stock |
| 10.1*+ | Form of Key Employee Severance Agreement for Executive Officers, incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K (Commission File No. 000-51404) filed on November 20, 2007 |
| 10.2* | Federal Home Loan Banks Amended and Restated P&I Funding and Contingency Plan Agreement, incorporated by reference to Exhibit 10.3 of our Annual Report on Form 10-K (Commission File No. 000-51404) filed on March 10, 2017 |
| 10.3* | Joint Capital Enhancement Agreement dated August 5, 2011, incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K (Commission File No. 000-51404) filed on August 5, 2011 |
| 10.4*+ | 2016 Supplemental Executive Thrift Plan, effective January 1, 2016, adopted on November 20, 2015, as amended by the First Amendment, effective January 1, 2018, adopted on January 19, 2018, incorporated by reference to Exhibit 10.7 of our Annual Report on Form 10-K (Commission File No. 000-51404) filed on March 9, 2018 |
| 10.5*+ | 2016 Supplemental Executive Thrift Plan, effective January 1, 2016, adopted on November 20, 2015, as amended and restated July 29, 2020, effective January 1, 2021, incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K (Commission File No. 000-51404) filed on August 26, 2020 |
| 10.6*+ | Directors' Compensation and Expense Reimbursement Policy, effective January 1, 2020, incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K (Commission File No. 000-51404) filed on October 11, 2020 |

| Exhibit Number | Description |
|---|---|
| 10.7*+ | Key Employee Severance Policy, re-adopted effective November 15, 2019, incorporated by reference to Exhibit 10.6 of our Annual Report on Form 10-K (Commission File No. 000-51404) filed on March 10, 2020 |
| 10.8+ | Key Employee Severance Policy, re-adopted effective November 20, 2020 |
| 10.9*+ | Federal Home Loan Bank of Indianapolis Incentive Plan, effective January 1, 2012, as updated on November 15, 2019, effective as of January 1, 2020, incorporated by reference to Exhibit 10.1 of our current Report on Form 8-K (Commission File No. 000-51404) filed on January 28, 2020 |
| 10.10*+ | Federal Home Loan Bank of Indianapolis Incentive Plan, effective January 1, 2012, as updated on December 16, 2020, effective as of January 1, 2021, incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K (Commission File No. 000-51404) filed on January 27, 2021 |
| 10.11+ | Severance Pay Plan, re-adopted effective November 20, 2020 |
| 24 | Power of Attorney - Annual Report on Form 10-K for Fiscal 2020, dated January 22, 2021 |
| 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 Executive Vice President - Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.3 | Certification of the Senior Vice President - Chief Accounting Officer pursuant to Section 302 of the Sarbanes - Oxley Act of 2002 |
| 32 | Certification of the President - Chief Executive Officer, Executive Vice President - Chief Financial Officer, and 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 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

* These documents are incorporated by reference.

+ Management contract or compensatory plan or arrangement.

**ITEM 16. FORM 10-K SUMMARY**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**FEDERAL HOME LOAN BANK OF INDIANAPOLIS**

/s/ CINDY L. KONICH

Cindy L. Konich
President - Chief Executive Officer
(Principal Executive Officer)
Date: March 10, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated below:

| Signature | Title | Date |
|---|---|---|
| /s/ CINDY L. KONICH<br>**Cindy L. Konich**<br>**(Principal Executive Officer)** | President - Chief Executive Officer | March 10, 2021 |
| /s/ GREGORY L. TEARE<br>**Gregory L. Teare**<br>**(Principal Financial Officer)** | Executive Vice President - Chief Financial Officer | March 10, 2021 |
| /s/ K. LOWELL SHORT, JR.<br>**K. Lowell Short, Jr.**<br>**(Principal Accounting Officer)** | Senior Vice President - Chief Accounting Officer | March 10, 2021 |
| /s/ DAN L. MOORE*<br>**Dan L. Moore** | Chair of the board of directors | March 10, 2021 |
| /s/ KAREN F. GREGERSON*<br>**Karen F. Gregerson** | Vice Chair of the board of directors | March 10, 2021 |
| /s/ BRIAN D.J. BOIKE*<br>**Brian D.J. Boike** | Director | March 10, 2021 |
| /s/ RONALD BROWN*<br>**Ronald Brown** | Director | March 10, 2021 |
| /s/ CLIFFORD M. CLARKE*<br>**Clifford M. Clarke** | Director | March 10, 2021 |
| /s/ LISA D. COOK*<br>**Lisa D. Cook** | Director | March 10, 2021 |
| /s/ CHARLOTTE C. DECKER*<br>**Charlotte C. Decker** | Director | March 10, 2021 |
| /s/ ROBERT M. FISHER*<br>**Robert M. Fisher** | Director | March 10, 2021 |

| Signature | Title | Date |
|---|---|---|
| /s/ MICHAEL J. HANNIGAN, JR.*<br>**Michael J. Hannigan, Jr.** | Director | March 10, 2021 |
| /s/ JEFFREY G. JACKSON*<br>**Jeffrey G. Jackson** | Director | March 10, 2021 |
| /s/ JAMES L. LOGUE III*<br>**James L. Logue III** | Director | March 10, 2021 |
| /s/ ROBERT D. LONG*<br>**Robert D. Long** | Director | March 10, 2021 |
| /s/ MICHAEL J. MANICA*<br>**Michael J. Manica** | Director | March 10, 2021 |
| /s/ LARRY W. MYERS*<br>**Larry W. Myers** | Director | March 10, 2021 |
| /s/ CHRISTINE COADY NARAYANAN*<br>**Christine Coady Narayanan** | Director | March 10, 2021 |
| /s/ TODD E. SEARS*<br>**Todd E. Sears** | Director | March 10, 2021 |
| /s/ LARRY A. SWANK*<br>**Larry A. Swank** | Director | March 10, 2021 |

* By: /s/ K. LOWELL SHORT, JR.
**K. Lowell Short, Jr., Attorney-In-Fact**

**Exhibit 4.4**

# Federal Home Loan Bank of Indianapolis

## Description of Securities Registered Under Section 12 of the Exchange Act

*The terms of the Bank's Class B stock are interwoven with our capital requirements and with the terms of our Capital Plan, which first became effective on January 2, 2003. The Capital Plan (as amended) is incorporated by reference as Exhibit 4.1 of the Bank's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 10, 2021. The Capital Plan is available on our website at www.fhlbi.com. Summaries of the capital requirements and of relevant portions of the Capital Plan are provided below after the description of the material terms of the Class B Stock that follows in order to aid the reader in understanding the background of the Class B Stock.*

**Description of Class B Stock Pursuant to 17 C.F.R. 229.601 and 17 C.F.R. 229.202**
As of February 28, 2021, we have currently only one class of capital stock, Class B Stock, which is authorized, issued, outstanding, and registered under Section 12 of the Securities Exchange Act of 1934, as amended. Class B Stock is issued under our Capital Plan, which was approved by the Federal Housing Finance Board (predecessor to the Federal Housing Finance Agency ("Finance Agency")) on July 10, 2002, amended on October 9, 2002, and implemented on January 2, 2003, and most recently amended effective September 26, 2020. Class B Stock has a par value of $100 per share and may be issued, redeemed, and repurchased only at par value. Class B Stock is held in book-entry form only and is transferable only upon our written approval, which we may withhold in our sole discretion.

The Class B Stock has two subseries, Class B-1 and Class B-2. We are authorized under our Capital Plan to issue additional Class B Stock, at par value of $100 per share, to our members from time to time. Participation in such offerings is voluntary on the part of our members, on terms and conditions to be determined by our board, but such offerings may not discriminate in favor of or against any member. Class B-1 stock is utilized to meet a member's membership requirement, while subseries B-2 stock is utilized to meet a member's activity stock requirement. Subseries B-1 stock is reclassified as subseries B-2 as needed to help fulfill the member's activity stock requirement, and the member may be required to purchase additional subseries B-2 stock to fully meet that requirement. Excess subseries B-2 stock is automatically reclassified as subseries B-1. Additionally, members may opt-in to an activity stock requirement in connection with their sales of mortgage loans to us under MPP Advantage. Members may elect this stock requirement each time they enter into a master delivery contract with us.

The capital plan also permits our board of directors to authorize the issuance of Class A stock. As of February 28, 2021, the board of directors had not authorized the issuance of Class A stock.

The Bank reserves the right to amend the capital plan from time to time. Any amendment to the capital plan must be approved by the board of directors of the Bank and submitted to the FHFA for its approval prior to implementation.

**Terms Relating to Class B Stock**

***Conversion***

Subseries B-1 stock may be reclassified as subseries B-2 stock as necessary to fulfill the activity stock requirement of the Member if sufficient subseries B-2 Stock is not available to the member prior to such reclassification. Similarly, any subseries B-2 stock that is not needed to satisfy an activity stock requirement shall be automatically reclassified as subseries B-1 stock.

The only difference between the Subseries B-1 Stock and the Subseries B-2 Stock is that the dividend rate for the Subseries B-2 Stock may be equal to or greater than the dividend rate for the Subseries B-1 Stock, as described below.

If the Board of Directors authorizes the issuance of Class A Stock, the Board of Directors may, by resolution, authorize optional conversions of shares of excess stock to shares of a different class of excess stock (each such authorized conversion, a "Conversion Option") in accordance with certain restrictions in the Capital Plan. The Board or management, as applicable, shall determine the maximum number of shares to be converted and shall establish a conversion date for any such Conversion Option. Members who wish to exercise a Conversion Option shall be notified by the Bank of the process for exercising the option and shall advise the Bank by the deadline specified in the notice of the amount of conversion-eligible excess stock they wish to have converted. If the Conversion Option is oversubscribed, then the Bank will convert members' eligible shares on a *pro rata* basis. No Capital Stock that is the subject of an excess stock repurchase notice or a redemption notice shall be eligible for conversion to another class.

***Liquidation Rights***
Subject to the authority of the Finance Agency governing liquidations, if the Bank is liquidated, following the retirement of all of our outstanding liabilities to our creditors, all shares of Class B Stock must be repurchased at par value, or if sufficient funds are not available to accomplish the repurchase in full of the Class B Stock at par value, then such repurchase will occur on a pro rata basis among all holders of the Class B Stock. Following the repurchase in full of all Class B Stock, any remaining assets will be distributed to the holders of Class B Stock in the proportion that each member's shares of Class B Stock bears to the total Class B Stock outstanding immediately prior to such liquidation.

***Effect of Consolidation or Merger***
Mergers and consolidations of Federal Home Loan Banks ("FHLBanks(s)") are governed by the Federal Home Loan Bank Act ("Bank Act") and Finance Agency regulations. In the event we consolidate or merge with another FHLBank, our members will become members of the surviving FHLBank. In such event, our members will either have their existing shares of Class B Stock converted into equivalent stock in the surviving FHLBank, or they will receive such other consideration as is provided in any plan of merger or consolidation or in any lawful order of the Finance Agency. If another FHLBank is merged into us and we are the surviving FHLBank, members of the non-surviving FHLBank will immediately become our members and the outstanding stock of the non-surviving FHLBank will be converted into shares of our Class B Stock, or they will receive such other consideration as is provided in any plan of merger or as provided in any lawful order of the Finance Agency.

***Transfer of Stock***
Shares of Class B Stock held by a member in excess of the amount the member needs to meet its membership and activity-based investment requirements ("Excess Stock") may be transferred to another member only upon our prior written approval, which may be withheld in our sole discretion. Such transfers must be made at par value and are effective upon being recorded in our stock records. Transferred shares that were subject to a notice of redemption will have the notice automatically cancelled upon the transfer, but no cancellation fee will be charged. All transfers shall be undertaken in accordance with Finance Agency regulations.

***Voting Rights***
All members holding shares of Class B Stock are entitled to vote for the election of directors pursuant to the Federal Home Loan Bank Act ("Bank Act") and Finance Agency regulations establishing the election procedure. Our district is comprised of the states of Indiana and Michigan. The election and voting for independent director seats are conducted district-wide. Member directors are elected by members in Indiana and Michigan separately as determined by the Finance Agency in its annual determination of the

total number of directorships established for the Bank and its annual allocation of member director seats per state. Member director seats can be added or taken away by the Finance Agency based upon increases or decreases in the amount of outstanding stock required to be held by the members in each state. The stock required to be held ("Stock Requirement") by each member is the greater of (i) its Membership Stock Requirement, *i.e.*, the amount that the member must hold based on its total assets held ("Total Assets"), and (ii) its Activity-based Stock Requirement, *i.e.*, the amount needed to support Advances and other credit products used ("Activity-based Assets"). In the election of directors, members have one vote for each share of stock they hold to meet their Stock Requirement but are subject to caps on the number of shares they can vote, based upon the average number of shares of stock that are required to be held by all members in the applicable state. Members are not entitled to vote any shares of Excess Stock in the election of directors. The stock calculations required to determine the amount of shares eligible to be voted in each election are based upon each member's stock holdings on December 31 of the prior year. There are no voting preferences associated with any class or subseries of Class B Stock.

***Classification of Board of Directors / Cumulative Voting***
Each member of the Bank's board of directors is elected to a four-year term, and the directors' terms are staggered. In general, a director may serve no more than three consecutive four-year terms. There are no classes of directors, and there is no cumulative voting.

***Liability for Capital Assessments***
As more particularly described below, we may increase the minimum Stock Requirement of members:

- within certain ranges specified in the Capital Plan; and
- outside such ranges with approval from the Finance Agency.

Such an increase could result in a member being required to purchase additional stock or reduce its volume of activity in order to come into compliance with the new requirements. The failure of a member to comply with the new requirements would result in its access to products and services being suspended until the requirements are met, and failure to comply within ten business days may lead to the possible termination of its membership.

***Dividends***
Dividends may be, but are not required to be, paid on our Class B Stock. Historically, the board has declared dividends quarterly. Dividends, if declared, may be paid in either cash or stock, or a combination thereof. Our capital plan does not mandate a specific difference between subseries B-1 and subseries B-2 dividend rates. Rather, the Board of Directors may set a dividend rate on subseries B-2 stock that is equal to or greater than the rate on subseries B-1 Stock. The calculation of the dividend to be paid is based on the average number of shares of each type held by the member during the quarter.

No dividend may be declared or paid if we are, or would be as a result of such payment, in violation of our minimum capital requirements. Moreover, we may not pay dividends if any principal or interest due on our Consolidated Obligations issued to provide funds to us has not been paid in full or, under certain circumstances, if we fail to satisfy liquidity requirements under applicable Finance Agency regulations. Dividends are non-cumulative and, if declared, are paid only from current net earnings or retained earnings, and are subject to the application of our capital markets policy.

***Redemption and Repurchase***
As more particularly described below, Class B Stock is redeemable upon written notice from the member, subject to certain restrictions discussed below, after a period of five years ("Redemption Period") from the date of such notice. In addition, Class B Excess Stock may be repurchased by the Bank under certain

circumstances. If a member at any time holds Excess Stock, we may, in our discretion, repurchase such Excess Stock at par value upon fifteen days' notice to the member. A member may identify, by date of acquisition, the shares of Excess Stock to be repurchased. A member may also request that we repurchase Excess Stock, resulting from the receipt of stock dividends or otherwise; however, the Bank retains the discretion as to whether or not to repurchase shares of Excess Stock from a member.

A member may file a written request for us to redeem all or part of its Class B Stock. The Redemption Period will commence on the date of our receipt of the written notice. The redemption notice must identify the specific shares of Class B Stock that are to be redeemed by date of acquisition and amount. If the redemption notice fails to identify the particular shares to be redeemed, the member will be deemed to have requested redemption of the most recently acquired shares that are not already subject to a pending redemption request. At the end of the Redemption Period, only Class B Stock that has been held for at least five years and that is then Excess Stock can be used to fill the redemption request. A member may not have more than one notice of redemption outstanding at one time for the same shares of Class B Stock.

If an Excess Stock redemption request is filed, the member may cancel the redemption request at any time without penalty. Cancellations shall be applied first against Capital Stock needed to meet a member's Stock Requirement, and then against Excess Stock. A redemption request shall be automatically cancelled if the Bank is unable to redeem the Capital Stock within five business days of the end of the redemption period, because such shares are needed to meet the member's Stock Requirement. If the redemption notice is cancelled, either by the member or automatically, the member may be required to pay a $500 redemption cancellation fee.

At the end of the Redemption Period, the member receives the par value of the stock being redeemed, unless the stock is then needed to support the member's Stock Requirement. All outstanding Activity-based Assets that are supported by the stock subject to the redemption request must be paid in full before the stock will be redeemed. Any shares of Excess Stock included in the redemption request will be redeemed.

If, at any time, the Redemption Period for stock owned by more than one member has expired, either with respect to stock subject to a redemption notice or stock of a terminated member, and if the redemption of such stock would cause us to fail to be in compliance with any of our minimum capital requirements, then we will fulfill such redemptions as we are able to accomplish from time to time. In that event, we would begin with such redemptions as to which the redemption period expired on the earliest date and fulfill such redemptions relating to that date on a pro rata basis from time to time until fully satisfied. Thereafter, we would fulfill such redemptions as to which the redemption period expired on the next earliest date in the same manner and continue in that order until all of such redemptions as to which the redemption period has expired have been fulfilled.

If a member has one or more redemption requests outstanding as of the date of repurchase of shares of Capital Stock under redemption and has not identified specific shares to be repurchased, we will first repurchase the most recently acquired shares of Class B Stock of a member that are Excess Stock and that are subject to a redemption request, followed by Excess Stock that is subject to a redemption request that has been outstanding for the next shortest period of time and continue in that order, to the extent necessary, until the member no longer has any Excess Stock, or we have repurchased all of the Excess Stock of the member that we had intended to repurchase.

Any stock that we redeem or repurchase will be retired and will no longer be deemed to be outstanding stock.

***Withdrawal or Termination of Membership***

Any member may voluntarily withdraw from membership upon written notice to us. Further, an institution's membership may be involuntarily terminated in accordance with regulations of the Finance Agency in effect from time to time, or its membership may be terminated (i) by operation of law if it is the non-surviving entity in a consolidation or merger with a non-member, another member of the Bank, or an institution outside our district, or (ii) if it relocates outside our district.

Any member that withdraws from membership or that has had its membership terminated may not be readmitted as a member of any FHLBank for a period of five years from the date membership was terminated and all of the member's stock was redeemed or repurchased. A transfer of membership without interruption between two FHLBanks will not constitute a termination of membership.

Redemptions of stock of a withdrawing or terminated member will occur in accordance with the redemption provisions discussed in the previous section. However, a voluntarily withdrawing member may continue to do business with the Bank during the Redemption Period of the stock held by the member at the time of its notice of withdrawal. If such business requires that member to purchase additional stock, different Redemption Periods will apply to the newly-purchased stock.

**Capital Requirements and the Capital Plan**

***Regulatory Capital Requirements***
The Bank Act and Finance Agency regulations require that each FHLBank maintain permanent capital and total capital in sufficient amounts to comply with specified, minimum risk-based capital and leverage capital requirements. Permanent capital is defined as the amount we receive for our Class B Stock (including mandatorily redeemable stock) plus our retained earnings. Permanent capital must at least equal our risk-based capital requirement, which is defined as the sum of credit risk, market risk, and operations risk capital requirements. Each of these risks is measured in accordance with Finance Agency regulations. Total capital is defined as permanent capital, plus the paid-in value of any Class A stock, plus a general allowance for losses, plus any other amounts determined by the Finance Agency to be available to absorb losses. Total capital must equal at least 4% of total assets. Leverage capital is defined as 150% of permanent capital plus the sum of all other components of capital. Leverage capital must equal at least 5% of total assets. From time to time, for reasons of safety and soundness, the Finance Agency may require one or more of the individual FHLBanks to maintain more permanent capital or total capital than is required by the regulations.

The Bank's authority to redeem or repurchase Class B Stock is subject to a number of regulatory limitations. Specifically, we will not redeem any stock, (notwithstanding the expiration of the Redemption Period), or repurchase any stock: (i) if we are not in compliance with each of our capital requirements; (ii) if the redemption or repurchase would cause us to fail to meet our capital requirements; or (iii) absent approval of the Finance Agency, if we determine or the Finance Agency determines that we have incurred or are likely to incur losses that will result in a charge against our capital.

We also may, subject to certain conditions, suspend redemptions of Class B Stock if we reasonably believe that continued redemption of stock (i) would cause us to fail to meet our minimum capital requirements; (ii) would prevent us from maintaining adequate capital against potential risk that may not be adequately reflected in our minimum capital requirements; or (iii) would otherwise prevent us from operating in a safe and sound manner. During the period of any such suspension of redemptions, we may not repurchase any stock without the approval of the Finance Agency and may be required by the Finance Agency to re-institute the redemption of Class B Stock. In addition, if we reasonably determine that the stock subject to redemption must be maintained as collateral for a member's then-outstanding obligations,

we may redeem the stock but will maintain the proceeds in a collateral account until they are no longer needed as collateral.

***Stock Investment by Members***

Under our Capital Plan, members are required to purchase and hold Class B Stock based upon the greater of a percentage of the member's Total Assets (its Membership Stock Requirement) or the member's Activity-based Stock Requirement, with a minimum investment of $7,500. The Capital Plan currently provides for the calculation of the Membership Stock Requirement to be based upon a percentage of the member's Total Assets which is established by the Board of Directors within a range of 0.01% to 0.5%, and the Membership Stock Requirement is subject to a maximum stock purchase in an amount established by the Board of Directors within a specified range. In no event is a member required to purchase Class B Stock in excess of $35,000,000 aggregate par value based upon the member's Total Assets prior to April 1, 2021, or in excess of $5,000,000 aggregate par value based upon the member's Total Assets thereafter. The Activity-based Stock Requirement is currently set at the total of the following percentages of a member's Activity-based Assets:

- Credit Products:
  - Advances: 4.5%;
  - Lines of Credit: 4.5%;
  - Standby Letters of Credit: 0.1%;

- Derivative Contracts: 4.5%; and

- Acquired Member Assets: 0.0%, unless a member elects to opt-in to a stock purchase requirement for sales of MPP, in which case it is 4.5%.

However, the Capital Plan authorizes our board, in its discretion, to change these percentages within the following respective ranges.

- Total Assets: 0.01% to 0.5%;

- Credit Products:
  - Advances: 1.0% to 6.0%;
  - Lines of Credit: 1.0% to 6.0%;
  - Standby Letters of Credit: 0.1% to 6.0%;
  - Derivative Contracts: 1.0% to 6.0%; and
  - Acquired Member Assets: 0.0% to 6.0%.

Changes in the Activity-based Stock Requirement percentages may, at the discretion of our board, be applied prospectively only as to Activity-based Assets acquired after the date of the notice of the change. Changes outside these ranges would require prior approval from the Finance Agency. An increase in any of the percentages would generally require members to purchase additional shares of Class B Stock.

Each member's Stock Requirement will change from time to time based upon changes in a member's Total Assets or Activity-based Assets. Total Assets are calculated annually on or about April 1, based upon a member's financial statements as of December 31 of the prior year. The Activity-based Stock Requirement will be recalculated whenever a member enters into an Activity-based Asset. To the extent that a member does not hold sufficient Excess Stock, the member must comply with any associated requirement to either purchase additional Class B Stock at the time a new Activity-based Asset is entered into and for as long as the Activity-based Asset is outstanding. We also have the right to recalculate a

member's Stock Requirement at any time, using the most recent financial statements and account balance information available to the Bank at the date of recalculation. If a member fails to purchase or convert the additional stock necessary to comply with a recalculated Stock Requirement, its access to our products and services will be suspended until such requirements are met, and any failure to make such stock purchases or conversions within 10 business days from the required purchase date may result in involuntary termination of membership.

If our board adjusts the percentages used in calculating the Stock Requirement, the adjustment will go into effect not less than 15 days after declaration by the board and notice to the members. Any member that fails to comply with the new Stock Requirement on the date it becomes effective will not be able to access our products or services of the Bank until such requirements are met and, if the failure continues for at least 10 business days, the member may be involuntarily terminated. Members that have filed a notice of withdrawal from membership or that have had their membership otherwise terminated are not required to meet any increases in the Stock Requirement based upon changes in the Membership Stock Requirement percentage or in the Activity-based Stock Requirement percentages while the notice is pending or subsequent to such termination unless new Activity-based Assets are acquired. Changes in the Activity-based Stock Requirement percentages will be applied to a member's outstanding and new Activity-based Assets (or if the percentage change was prospective only, then only to new Activity-based Assets).

**Exhibit 10.8**
Board Approved
November 20, 2020

# KEY EMPLOYEE
# SEVERANCE POLICY

## 1. Purpose of Policy.

The Federal Home Loan Bank of Indianapolis recognizes the valuable services that Covered Employees (as defined below) will provide and desires to be assured that the Covered Employees will continue their active participation in the business of the Bank. The Covered Employees desire assurance that, in the event of any consolidation, change in control or reorganization of the Bank, they will continue to have the responsibility and status each has earned, either with the Bank or with a successor to the Bank.

## 2. Definitions.

"Bank" shall mean the Federal Home Loan Bank of Indianapolis and any other entity within the definition of "Bank" in Section 7(a).

"Cause" shall mean (a) the continued failure of the Covered Employee to perform his duties with the Bank (other than any such failure resulting from Disability), after a demand for performance, pursuant to a resolution of the Bank's Board of Directors, is delivered to the Covered Employee by the Chair of the Board of Directors of the Bank, which specifically identifies the manner in which the Covered Employee has not performed his duties, (b) the personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, or willful violation of any law, rule or regulation (other than routine traffic violations or similar offenses); or (c) the removal of the Covered Employee by the Bank at the direction of the Federal Housing Finance Agency, or by the Federal Housing Finance Agency, or by or at the direction of any successor to the Federal Housing Finance Agency, pursuant to 12 U.S.C. §§ 4615, 4616, 4617 or 4636a, or any statutory provisions subsequently enacted that grant removal authority to such agency, or any rules or regulations issued thereunder.

"Compensated Termination" shall have the meaning set forth in Section 3(a).

"Covered Employees" shall mean each of the Bank's Executive Vice Presidents and Senior Vice Presidents, including without limitation the Bank's Chief Internal Audit Officer and Chief Risk Officer, and such other employees as designated from time to time by the Human Resources Committee of the Board of Directors. This Policy does not apply to the Bank's President-Chief Executive Officer. Covered Employees shall be allocated into three (3) groups, Level 1 Participants, Level 2 Participants, and Level 3 Participants, each as described below.

"Disability" shall mean, as a result of the Covered Employee's incapacity due to physical or mental illness, the Covered Employee shall have been absent from his duties with the Bank for an aggregate of twelve (12) out of fifteen (15) consecutive months and, within thirty (30) days after a

Notice of Termination is thereafter given by the Bank to the Covered Employee, the Covered Employee shall not have returned to the full-time performance of the Covered Employee's duties.

"Good Reason" shall mean any of the following:

(a) during the period (i) beginning with the earliest to occur of the following three dates, as applicable: (A) six (6) months prior to the execution of a definitive agreement regarding a Reorganization of the Bank or (B) if a Reorganization has been mandated by federal statute, rule, regulation or directive, six (6) months prior to the effective date of such Reorganization or (C) six (6) months prior to the adoption of a plan or proposal for the liquidation or dissolution of the Bank, and (ii) ending twenty-four (24) months after the effective date of such Reorganization,

(i) a material change in the Covered Employee's status, position, job title or principal duties and responsibilities as a key employee of the Bank which does not represent a promotion from the Covered Employee's status and position as in effect as of the date hereof ("Position"), or

(ii) the assignment to the Covered Employee of any duties or responsibilities (or removal of any duties or responsibilities), which assignment or removal is materially inconsistent with such Position, or

(iii) any removal of the Covered Employee from such Position (including, without limitation, all demotions and harassing assignments), except in connection with the termination of the Covered Employee's employment for Cause or Disability, or as a result of the Covered Employee's death;

(b) within twenty-four (24) months after the effective date of a Reorganization of the Bank, (i) a reduction by the Bank in the Covered Employee's base salary as in effect immediately prior to such Reorganization, or (ii) the Bank's (or its successor's) failure to increase (within twelve (12) months of the Covered Employee's last increase in base salary) the Covered Employee's base salary after a Reorganization of the Bank in an amount which is not less than fifty percent (50%) of the average percentage increase in base salary for all officers of the Bank effected in the preceding twelve (12) months;

(c) within twenty-four (24) months after the effective date of a Reorganization of the Bank, (i) any failure by the Bank to continue in effect any plan or arrangement, including, without limitation, benefit and incentive plans, in which the Covered Employee is participating immediately prior to such Reorganization (hereinafter referred to as "Plans"), unless such Plans have been replaced with similar benefits that are not materially less than the Covered Employee's benefits under such Plans, or (ii) the taking of any action by the Bank which would adversely affect the Covered Employee's participation in or materially reduce the Covered Employee's benefits under any such Plan or in or under fringe benefits enjoyed by the Covered Employee immediately prior to the time of such Reorganization of the Bank;

(d) any material breach by the Bank of any provisions of this Policy or any other agreement with the Covered Employee; or

(e) any failure by the Bank or its successors and assigns to obtain the assumption of this Policy by any successor or assign of the Bank.

"Level 1 Participant" shall mean each of the Bank's Executive Vice Presidents.

"Level 2 Participant" shall mean each of the Bank's Senior Vice Presidents.

"Level 3 Participant" shall mean each other officer of the Bank, other than an Executive Vice President or a Senior Vice President, whom the Human Resources Committee designates to be a Level 3 Participant from time to time.

"Notice of Termination" shall mean a written notice which shall indicate those specific termination provisions in this Policy upon which the Bank or the Covered Employee, as the case may be, has relied for such termination and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Covered Employee's employment under the provision so indicated.

"Payment Determination Date" shall have the meaning set forth in Section 3(b).

"Reorganization" of the Bank shall mean the occurrence at any time of any of the following events:

(a) The Bank is merged or consolidated with or reorganized into or with another bank or other entity, or another bank or other entity is merged or consolidated into the Bank;

(b) The Bank sells or transfers all, or substantially all of its business and/or assets to another bank or other entity;

(c) More than fifty percent (50%) of the total market value or total voting power of all ownership interests in the Bank is acquired, within any twelve (12) month period, by one person or entity or by more than one person or entity acting as a group; or

(d) The liquidation or dissolution of the Bank.

Provided that the term "Reorganization" shall not include any Reorganization that is mandated by federal statute, rule, regulation, or directive, including 12 U.S.C. § 1421, *et seq*., as amended, and 12 U.S.C. § 4501 *et seq*., as amended, and which the Director of the Federal Housing Finance Agency (or successor agency) has determined should not be a basis for making payment under this Policy, by reason of the capital condition of the Bank or because of unsafe or unsound acts, practices, or condition ascertained in the course of the Agency's supervision of the Bank or because any of the conditions identified in 12 U.S.C. § 4617(a)(3) are met with respect to the Bank (which conditions do not result solely from the mandated reorganization itself, or from action that the Agency has required the Bank to take under 12 U.S.C. § 1431(d)).

"Retirement" shall mean the planned and voluntary termination by the Covered Employee of his or her employment on or after reaching the earliest retirement age permitted by the Bank's qualified retirement plans.

**3. Compensated Termination.**

(a) Compensated Termination. If the Covered Employee incurs a Compensated Termination while the Covered Employee is employed by the Bank or within twenty-four (24) months after the effective date of a Reorganization of the Bank (whether the Covered Employee is then employed by the Bank or a successor to the Bank as a result of such Reorganization), the Covered Employee shall be entitled to the benefits provided in Section 5. For purposes of this Policy, a "Compensated Termination" means termination of the Covered Employee's employment under either of the following circumstances:

(i) By the Covered Employee for Good Reason; or

(ii) By the Bank, or by its successor in a Reorganization, without Cause at any time during the period (1) beginning with the earliest to occur of the following three dates, as applicable (A) six (6) months prior to the execution of a definitive agreement regarding a Reorganization, or (B) if a Reorganization has been mandated by federal statute, rule, regulation or directive, six (6) months prior to the effective date of such Reorganization, or (C) six (6) months prior to the adoption of a plan or proposal for the liquidation or dissolution of the Bank, and (2) ending twenty-four (24) months after the effective date of such Reorganization.

(b) Payment Determination Date. "Payment Determination Date," for purposes of determining when a payment resulting from a Compensated Termination must be made pursuant to Section 4(a), shall mean the effective date of the termination of the Covered Employee's employment with the Bank if such termination is a "Compensated Termination."

(c) Non-Compensated Termination. For the avoidance of doubt, none of the following events shall result in any payment to the Covered Employee for a Compensated Termination under Section 5(a):

(i) The termination of employment by the Covered Employee without Good Reason;

(ii) The termination of the Covered Employee's employment for Cause by the Bank or its successor in a Reorganization;

(iii) The termination of the Covered Employee's employment Without Cause by the Bank or its successor in a Reorganization, (1) prior to the date which is the earliest to occur of the following three dates, as applicable: (A) six (6) months prior to the execution of a definitive agreement regarding a Reorganization of the Bank or (B) if a

Reorganization has been mandated by federal statute, rule, regulation or directive, six (6) months prior to the effective date of such Reorganization or (C) six (6) months prior to the adoption of a plan or proposal for the liquidation or dissolution of the Bank, or (2) more than twenty-four (24) months after the effective date of a Reorganization;

(iv) The termination of the Covered Employee's employment by the Bank or its successor in a Reorganization for Disability;

(v) The death of the Covered Employee; or

(vi) The Retirement of the Covered Employee, if the Covered Employee has delivered written notice to the Bank, before the commencement of the time period described in Section 3(c)(iii), of his or her intention to retire.

**4. <u>Termination of Employment.</u>**

(a) <u>Termination by the Bank</u>. The Bank may terminate the employment of the Covered Employee as follows:

(i) For Cause upon the adoption of a resolution by the affirmative vote of not less than a majority of the entire membership of the Bank's Board of Directors at a meeting of the Board (after reasonable notice to the Covered Employee and an opportunity for the Covered Employee, together with counsel, to be heard by the Board), finding that in the good faith opinion of the Board the Covered Employee was guilty of conduct set forth in the definition of "Cause" in Section 2 and specifying the particulars thereof in detail. A vote of the Board is not required if the Covered Employee is removed for cause by the Bank at the direction of the Federal Housing Finance Agency, or by the Federal Housing Finance Agency, or by or at the direction of any successor to the Federal Housing Finance Agency, pursuant to 12 U.S.C. §§ 4615, 4616, 4617 or 4636a, or any statutory provisions subsequently enacted that grant removal authority to such agency, or any rules or regulations issued thereunder.;

(ii) Without Cause;

(iii) Upon the Disability of the Covered Employee; and

(iv) Upon the death of the Covered Employee.

(b) <u>Termination by Covered Employee</u>. The Covered Employee may terminate his or her employment with the Bank as follows:

(i) For Good Reason;

(ii) Without Good Reason; or

(iii) Upon the Covered Employee's Retirement, in which case the Covered Employee shall be entitled to all benefits under any retirement plan of the Bank and other plans to which the Covered Employee is a party.

(c) Preservation of Compensated Termination. The provisions of Sections 4(a) and 4(b) are included in this Policy for clarification of the rights of termination of the employment relationship between the Bank and the Covered Employee, but such provisions shall not prejudice the Covered Employee's right to receive payments or benefits required to be provided to the Covered Employee if any such termination is a "Compensated Termination."

(d) Notice of Termination.

(i) Any termination by the Bank for Disability or Cause shall be communicated by a Notice of Termination; provided, however, that the failure by the Bank to give notice in such circumstances shall not constitute a Compensated Termination.

(ii) Any termination of employment by the Covered Employee for Good Reason will be a Compensated Termination only if the Covered Employee gives Notice of Termination to the Bank therefore within ninety (90) days of the event or occurrence which constitutes "Good Reason," provided, further, that, if the Covered Employee gives such Notice of Termination to the Bank in a timely manner, the Covered Employee shall not be deemed to have waived any of his or her rights hereunder in the event he or she remains in the employment of the Bank while he or she and the Bank engage in good faith discussions to resolve any event or occurrence which constitutes "Good Reason." The Bank has a thirty (30) day period following receipt of notice during which it may remedy the condition and not be required to pay the amount.

(iii) Any termination by the Bank without Cause or by the Covered Employee without Good Reason shall be communicated to the other party in accordance with the general notice provisions of this Policy.

**5. Payment for Compensated Termination.**

(a) In the event of a Compensated Termination, the Bank shall pay or provide the Covered Employee with an amount equal to the following:

(i) With respect to Level 1 Participants, two (2) times the average of the three (3) preceding calendar years' gross base salary (inclusive of amounts deferred under a qualified or nonqualified plan sponsored by the Bank) and gross bonuses (inclusive of any amounts deferred under

a qualified or nonqualified plan sponsored by the Bank) paid to the Covered Employee during such years (provided that for any calendar year in which the Covered Employee received base salary for less than the entire calendar year, the gross amount shall be annualized as if such amount had been payable for the entire calendar year).

(ii) With respect to Level 2 Participants, one and one-half (1.5) times the average of the three (3) preceding calendar years' gross base salary (inclusive of amounts deferred under a qualified or nonqualified plan sponsored by the Bank) and gross bonuses (inclusive of any amounts deferred under a qualified or nonqualified plan sponsored by the Bank) paid to the Covered Employee during such years (provided that for any calendar year in which the Covered Employee received base salary for less than the entire calendar year, the gross amount shall be annualized as if such amount had been payable for the entire calendar year).

(iii) With respect to Level 3 Participants, one (1) times the average of the three (3) preceding calendar years' gross base salary (inclusive of amounts deferred under a qualified or nonqualified plan sponsored by the Bank) and gross bonuses (inclusive of any amounts deferred under a qualified or nonqualified plan sponsored by the Bank) paid to the Covered Employee during such years (provided that for any calendar year in which the Covered Employee received base salary for less than the entire calendar year, the gross amount shall be annualized as if such amount had been payable for the entire calendar year).

The Bank shall distribute such amount in a lump sum in cash within twenty (20) days of the Payment Determination Date.

(b) Notwithstanding Section 5(a), if the Bank is not in compliance with any applicable regulatory capital or regulatory leverage requirement or if the payment would cause the Bank to fall below applicable regulatory requirements, such payment shall be deferred until such time as the Bank achieves compliance with its regulatory requirement.

(c) To the extent the Covered Employee is eligible, he or she shall continue after a Compensated Termination to be covered by the Bank's medical and dental insurance plans in effect immediately prior to the Compensated Termination, subject to the Covered Employee's payment of the employee's portion of the cost of such coverage. This continuing medical and dental insurance shall continue for Level 1 Participants for twenty-four (24) months, for Level 2 Participants for eighteen (18) months, and for Level 3 Participants for twelve (12) months. In the event the Covered Employee is ineligible under the terms of such plans to continue to be so covered or such plans shall have been modified, the Bank shall provide through other sources coverage which is substantially equivalent to the coverage provided immediately prior to the Compensated Termination, subject to the Covered Employee's payment of a comparable portion of the cost of such coverage as under

the Bank's medical and dental insurance plans. If during this time period the Covered Employee should enter into employment providing for comparable medical and dental insurance coverage, his or her participation in the medical and dental plans provided by the Bank shall cease.

(d) The Bank will provide outplacement services for the Covered Employee after a Compensated Termination, at the Bank's cost.

(e) The Covered Employee shall be responsible for the payment of all federal, state and local income taxes which may be due with respect to any payments made to the Covered Employee pursuant to this Policy.

(f) If the severance and other benefits provided for in this Agreement or otherwise payable to the Covered Employee (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) but for this provision, would be subject to the excise tax imposed by Section 4999 of the Code, then such severance and other benefits shall be collectively subject to an overall maximum limit. The payment limit shall be one dollar ($1) less than the aggregate amount which would otherwise cause any such payments to be considered a "parachute payment" within the meaning of Section 280G of the Code. Unless the Bank and the Covered Employee otherwise agree in writing, any determination required under this provision shall be made in writing by the Bank's independent public accountants (the "Accountants"), whose determination shall be conclusive and binding upon the Covered Employee and the Bank for all purposes. For purposes of making the calculations required by this provision, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Bank and the Covered Employee shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this provision. The Bank shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this provision. Accordingly, to the extent that such severance and other benefits would be considered a "parachute payment," or are "deferred compensation" within the meaning of Section 409A of the Code, the severance and other benefits will be reduced pro rata until the remaining severance and other benefits shall be reduced or eliminated in the following order until the remaining severance and other benefits payable hereunder are collectively within the maximum described in this Subsection:

(i) first, any cash payments to the Covered Employee;

(ii) second, any change of control termination payments to the Covered Employee not described herein; and

(iii) third, any forgiveness of indebtedness of the Covered Employee to the Bank.

Each Covered Employee expressly and irrevocably waives any and all rights to receive any severance and other payments which exceed the maximum limit described in this Subsection.

**6. <u>No Obligation to Seek Further Employment; No Effect on Other Contractual Rights.</u>**

(a) The Covered Employee shall not be required to seek other employment, nor shall any payment made under this Policy be reduced by any compensation received from other employment.

(b) The provisions of this Policy, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish the Covered Employee's existing rights, or rights which would accrue solely as a result of the passage of time, under any Plan, except to the extent set forth in Section 6(c).

(c) The following rules clarify the interaction of this Policy with the Bank's Severance Pay Plan ("SPP").

(i) If a Covered Employee becomes eligible to receive benefits under this Policy (*e.g.*, if the Covered Employee experiences a Compensated Termination), the Covered Employee shall be entitled to receive benefits under this Policy and not under the SPP, regardless of whether the Covered Employee would otherwise be eligible for benefits under the SPP.

(ii) If a Covered Employee becomes eligible for benefits under the SPP, but does not become eligible to receive benefits under this Policy, the Covered Employee shall be entitled to receive benefits under the SPP.

(iii) Notwithstanding subsection 6(c)(ii), if (A) a Covered Employee receives benefits under the SPP, and (B) the Covered Employee subsequently becomes eligible to receive benefits under this Policy, then the Covered Employee shall be entitled to receive the benefits contemplated by this Policy, but the total benefits received by the Covered Employee on account of both the SPP and this Policy may not exceed those contemplated by this Policy alone. Therefore, if the Covered Employee is entitled to receive any benefits under this Policy, such benefits shall be automatically reduced by the amount of benefits the Covered Employee received pursuant to the SPP.

**7. <u>Successor to the Bank.</u>**

(a) This Policy is binding upon the successors and assigns of the Bank. The Bank and its successors and assigns will require any successor or assign (whether direct or indirect, in a Reorganization, by operation of law, or otherwise) to all or substantially all of the business and/or assets of the Bank, to enter into a written agreement in form and substance

satisfactory to the Covered Employee. In the written agreement, the successor and its assigns will expressly, absolutely and unconditionally assume and agree to perform this Policy in the same manner and to the same extent that the Bank would be required to perform it if no such succession or assignment had taken place. In such event, the Bank agrees that it shall pay or shall cause such employer to pay any amounts owed to the Covered Employee pursuant to Section 5.

As used in this Policy, "Bank" shall mean the Bank as herein before defined and any successor or assign to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section or which otherwise becomes bound by all the terms and provisions of this Policy by operation of law. If at any time during the term of this Policy the Covered Employee is employed by any corporation a majority of the voting securities of which is then owned by the Bank, the term "Bank" shall include such employer. Whether or not another entity becomes the successor or assign of the Bank under this Policy, the maximum amount which the Covered Employee may receive from all sources under this Policy in a Compensated Termination shall be the amounts set forth in Section 5.

(b) This Policy shall inure to the benefit of and be enforceable by the Covered Employee's personal and legal representatives, executors, administrators, successors, heirs, distributees, and legatees. If the Covered Employee should die while any amounts are still payable to him hereunder, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Policy to the beneficiary designated by notice in writing executed by the Covered Employee and filed with the Bank, or failing such designation, to the Covered Employee's estate.

**8.** **Late Payment of Benefits.** Any payment made later than the time provided for in Section 5(a) for whatever reason, including, without limitation, the reasons set forth in Section 5(b), shall include interest at the Bank's cost of funds plus five percent (5%), which shall begin to accrue on the tenth (10th) day following the Covered Employee's Payment Determination Date.

**9.** **Employment Rights.** This Policy shall not confer upon the Covered Employee any right to continue in the employ of the Bank and shall not in any way affect the right of the Bank to dismiss or otherwise terminate the Covered Employee's employment at any time and for any reason with or without cause. This Policy is not intended (a) to be an employment agreement or (b) to define all aspects of the employment relationship between the Bank and the Covered Employee including, but not limited to applicable employment or benefit policies of the Bank. To the extent there is any conflict between the terms hereof and the terms of any employment or benefit policies of the Bank, the terms of this Policy shall control. Any payments or benefits to which the Covered Employee may be entitled under Section 5 will not constitute wages for work performed by the Covered Employee.

**10.** **Tax Withholding.** The Bank will withhold from any amounts payable to Covered Employee under this Policy to satisfy all applicable federal, state, local or other withholding taxes. All amounts payable under Section 5(a) are considered "wages" to be reported on Form W-2. The normal withholding rules for wages apply. The Bank will also withhold any excise taxes owed under Code Section 4999.

**11. Notice.** For purposes of this Policy, notices and all other communications provided for in the Policy shall be in writing and shall be deemed to have been duly given when delivered by hand, delivered by a nationally-recognized overnight courier service, or mailed by United States registered mail, return receipt requested, postage prepaid, as follows:

If to the Bank:

Federal Home Loan Bank of Indianapolis
8250 Woodfield Crossing Boulevard
Indianapolis, Indiana 46240
Attention: Chairman of the Board of Directors
With a copy to the President

If to the Covered Employee:

At the address on file with the Bank's Human Resources department or such other address as either party may have furnished to the other in writing in accordance herewith. Any notice shall be effective upon receipt.

**12. Legal Fees and Expenses.** The Bank shall pay all reasonable legal fees and expenses which the Covered Employee may incur as a result of the Bank's contesting the validity or enforceability of this Policy or the calculation of amounts payable hereunder so long as the Covered Employee is wholly or partially successful on the merits or the parties agree to a settlement of the dispute.

**13. Term.** This Policy is effective upon its approval by the Board of Directors. The Human Resources Committee will review this Policy, recommend any changes, and recommend Board approval at least once per calendar year. If the Human Resources Committee does not act to approve, amend, or terminate this Policy in a calendar year, this Policy shall automatically renew for an additional 3 year period.

**14. Arbitration.**

(a) Disputes regarding this Policy are subject to the Federal Home Loan Bank of Indianapolis Agreement to Arbitrate by and between the Bank and the Covered Employee ("Arbitration Agreement"). No cancellation, replacement or modification to the arbitration procedures under the Arbitration Agreement shall be effective unless agreed to in writing by both the Bank and the Covered Employee. In the event of any conflict between the provisions of this Policy and the Arbitration Agreement, the provisions of this Policy shall control.

(b) If within thirty (30) days after any Notice of Termination is given, the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the Termination, the parties shall promptly proceed to arbitration as provided in Section 14(a). Notwithstanding the pendency of any such dispute, the Bank shall continue to pay the Covered Employee his or her base salary and provide such other compensation and benefits, all as in effect immediately prior to the Notice of Termination. If it is determined that the

Covered Employee is not entitled to any compensation under Section 5, the Covered Employee shall return all cash amounts to the Bank promptly following the date of resolution by arbitration, with interest thereon commencing as of the date of the resolution of the dispute by arbitration at the prime rate of interest as published by the *Wall Street Journal* from time to time. Any cash amounts paid to the Covered Employee pending the resolution of the dispute by arbitration shall offset any amounts determined to be due to the Covered Employee under Section 5.

**15. Miscellaneous.**

(a) No Waiver. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Policy to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

(b) Entire Policy. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Policy.

(c) Governing Law. This Policy shall be governed by and construed in accordance with the laws of the State of Indiana (excluding conflicts of laws principles), except to the extent such law is preempted by the laws of the United States.

(d) Headings. Section or paragraph headings contained herein are for convenience of reference only and are not to be considered a part of this Policy.

(e) Validity. The invalidity or unenforceability of any provisions of this Policy shall not affect the validity or enforceability of any other provision of this Policy, which shall remain in full force and effect.

(f) Rescission of Prior Agreements. This Policy shall rescind and be in full replacement of any prior "Key Employee Severance Agreement" entered into between the Covered Employee and the Bank.

(g) Administration. This Policy shall be administered by the Chief HR & Diversity, Equity and Inclusion Officer. Interpretations and decisions by the Bank's Chief HR & Diversity, Equity and Inclusion Officer regarding the application of this Policy, made in the Bank's sole discretion, shall be final, provided the interpretations and decisions are consistent with the Bank's authority under applicable federal and state law.

(h) No Discrimination. This Policy will be applied on a non-discriminatory basis without regard to race, color, religion, national origin, sex, age, sexual orientation, handicap, gender identity, genetic information, veteran's status, parental status, pregnancy status, citizenship status, or mental or physical disability, and without regard to whether the employee has made charges, testified, assisted or participated in enforcement proceedings based on an otherwise unlawful employment practice, in accordance with federal law.

**Exhibit 10.11**
Board Approved
November 20, 202

# FEDERAL HOME LOAN BANK OF INDIANAPOLIS
# SEVERANCE PAY PLAN

## PURPOSE:

This Severance Pay Plan ("Plan") is intended to protect an employee(s) from financial hardships due to the loss of their job through no fault of their own. It is designed to provide income during a limited period while the employee looks for other employment and to compensate the employee for the loss of their employment with the Bank. It is nondiscriminatory and provides for payment of severance benefits to all eligible employees upon involuntary termination as provided for under the requirements of this Plan.

## EMPLOYMENT STATUS:

This Plan applies to full-time and part-time employees. It does not apply to temporary, leased, internship or contract employees.

## QUALIFYING EVENTS:

The following qualifying events will trigger an employee's right to severance benefits:

1. The elimination of a job or position.
2. A reduction in force.
3. A substantial job modification, to the extent the incumbent employee is no longer qualified for, or is unable to perform, the restructured job.
4. The reassignment of staff requiring the relocation by more than 75 miles of the employee's primary residence.
5. The termination of employment of an employee with the Bank resulting from the sale, merger or acquisition of the Bank by another entity.

## SEPARATION CONTRACT

The receipt of severance benefits under this Plan is made expressly conditional on the separated employee's execution of a binding separation contract ("Separation Contract"). The Separation Contract will include an outline of the severance payments benefit granted under this Plan (in excess of two weeks' pay and other short-term benefit payments made by the Bank to terminating employees, which represents the binding consideration for obtaining the legal release), and Additional Benefits, if any, determined in accordance with the "Additional Benefits" provision below , and shall provide a general legal release by the employee of any claims against the Bank relative to the involuntary termination as well any other claims arising out of or relating to employment with the Bank. The waiver shall apply to all claims arising on or before the date the Separation Contract is to be executed. The Bank expressly reserves the right to negotiate additional conditions, including covenants not to compete, as appropriate on a case by case basis.

The employee shall, unless otherwise required by law, have a period of at least 21 days following its execution to rescind the Separation Contract. In cases where an early retirement program is offered to a group or class of employees, the review period will be extended to 45 days as required by the Older Workers Benefit Protection Act of 1990.

**DISQUALIFYING EVENTS:**

The following events will disqualify an employee from receiving severance benefits:

1. The acceptance of or refusal to accept a transfer of job assignment within the Bank which does not require relocation of the employee's primary residence as described above.
2. The acceptance of or refusal to accept new employment offered by the acquiring company (regardless of whether the job is voluntarily offered by the legal successor or triggered by the terms of the sale) for a generally comparable job position which does not require relocation of the employee's primary residence as described above.
3. Retirement from the Bank under conditions not involving elimination or termination of the job, including the acceptance of an early retirement incentive plan provided to a group of employees.
4. Voluntary termination of employment.
5. Involuntary termination of employment, "for cause," or "unacceptable job performance" as interpreted by the Bank. "For cause" terminations will generally disqualify an employee from receiving severance benefits. The Bank, however, reserves the right to use judgment on a case by case basis.
6. Failure to report back to the Bank upon expiration of an approved leave of absence during which the eligibility for severance occurs.
7. Resignation prior to a scheduled release date.

**SEVERANCE BENEFIT PAYMENT:**

Employees eligible for the Bank's severance benefit will be paid in a one-time, lump sum payment. All such payments are subject to Federal, State and other withholdings required by law.

**SEVERANCE BENEFIT:**

The severance benefit is based on the employee's level in the organization and number of years of service. Years of service with the Bank shall be continuous, unless otherwise waived by the Bank. The pay level used for calculation purposes is the employee's annual base pay in effect at the time of a qualifying event occurring.

**SEVERANCE PAY SCHEDULE**

| LEVEL | # WEEKS BASE PAY PER YEAR OF SERVICE | MINIMUM | MAXIMUM |
|---|---|---|---|
| Nonexempt | 2 | 2 | 26 |
| Exempt | 2 | 2 | 26 |
| Officer | 2 | 4 | 52 |
| Senior Officer* | 4 | 8 | 52 |

*If an employee has an agreement with the Bank, or is a participant under a Board-approved policy or program, that contains provisions for the payment of severance pay as a result of a qualifying event (such as a change of control), and payment under such agreement, policy, or program has been triggered as to the employee, the provisions contained in the agreement, policy or program shall control over the terms of this severance pay schedule.

**TERMINATION DATE:**

Employment is considered terminated on the employee's release date as specified by the Bank. Any payments received after that date are considered severance pay and are not considered salary.

**BENEFITS:**

Current COBRA requirements allow the terminating employee, at his or her option, to continue health insurance coverage for a specified period of time after termination. The employee is responsible for the payment of the premiums. The Bank will pay the employee in a lump sum payment the amount of such premiums for the time period applicable under the severance pay Schedule set forth in the table above, in addition to the severance pay.

Bank benefits will terminate according to the provisions of the respective benefit plans in effect on the employee's release/termination date. Accrued and unused annual vacation pay benefits, as of the date of the release, shall be paid in a lump sum in addition to the severance pay and insurance payment. The Bank will honor any previously approved tuition reimbursement program where the employee is attending classes in the current semester as of the date of the employee's termination. The Bank will waive any reimbursements required to be made by the employee to the Bank under any educational assistance program.

**CLAIM REVIEW PROCEDURE:**

If an employee, his/her dependent, or beneficiary objects to the Bank's determination of the amount of benefits to which he/she is entitled under this Plan, such person may, within sixty days following denial of the benefits for which he/she has applied, file with the Bank, a written claim objecting to the determination of the amount of his/her benefits payable under this Plan. The claimant or his/her representative may review Plan documents which relate to the claim and may submit written comments to the Bank, Attention: Chief HR & Diversity, Equity and Inclusion Officer. The Bank shall render a written decision concerning the claim not later than ninety days after receipt of such claim. If the claim is denied, in whole or in part, such decision shall include (a) the reason or reasons for the denial; (b) a reference to the Plan provision constituting the basis of the denial; (c) a description of any additional material or information necessary for the claimant to perfect his/her claim; (d) an explanation as to why such information or material is necessary; and (e) an explanation of the Plan's appeal procedure. The claim shall be deemed to be denied if no response is received by the end of the review period. The claimant may file with the Bank a written notice of appeal of the Bank's decision not later than sixty days after receiving the Bank's written decision. The Bank shall render a written decision on the appeal not later than sixty days after the appeal. Such decision shall include the specific reasons for the decision, including a reference to the Plan's specific provisions where appropriate. The Bank may extend the foregoing ninety- and sixty-day periods during which it must respond to the claimant by up to an additional ninety- and sixty- days respectively, if special circumstances beyond its control so require; provided that notice of such extension is given to the claimant prior to the expiration of the initial ninety- or sixty-day period, as the case may be.

After this claim review procedure is exhausted, the Bank's Mandatory Mutual Agreement To Arbitrate procedures for the Bank and employee shall control.

**REEMPLOYMENT OPPORTUNITIES:**

An employee subject to the provisions of this Plan may or may not be eligible for reemployment, at the Bank's discretion.

**ADDITIONAL BENEFITS:**

Additional pay or outplacement services, in the sole discretion of the Bank, may be granted to amicably resolve employment separations. These Additional Benefits, if granted, shall be detailed in the Separation Contract.

**ADMINISTRATION/RESPONSIBILITIES:**

This Severance Plan shall be administered by the Chief HR & Diversity, Equity and Inclusion Officer. Interpretations and decisions by the Bank's Chief HR & Diversity, Equity and Inclusion Officer regarding the application of this Plan, including determinations of job comparability under the Disqualifying Events section of this Plan, made in the Bank's sole discretion, shall be final, provided the interpretations and decisions are consistent with the Bank's authority under applicable federal and state law.

Division Heads are responsible for identifying and justifying, in writing, any reductions in force. Final approval of any reductions in force is required from the Bank's President-CEO (or if the position is vacant, the person(s) acting in that capacity and the Chief HR & Diversity, Equity and Inclusion Officer). Approvals of reductions in force or position eliminations resulting from the sale of the Bank or any of its business functions or divisions require the approval of the Board of Directors or its authorized delegates.

Bank managers are responsible for ensuring that the application of this Plan is made on a non-discriminatory basis without regard to race, color, religion, national origin, sex, age, sexual orientation, gender identity, genetic information, veteran's status, parental status, pregnancy status, citizenship status, or mental or physical disability, and without regard to whether the employee has made charges, testified, assisted or participated in enforcement proceedings based on an otherwise unlawful employment practice, in accordance with federal law.

The Bank reserves the right to amend, modify or terminate this Plan, in whole or in part, at any time it deems appropriate. This Plan does not, and is not intended to, create any contractual rights in favor of any employee or the Bank (unless a Separation Contract is offered to and executed by a particular employee and is accepted by the Bank). While the Bank may grant special consideration to affected employees, Bank management reserves the right to make any employment decision, at any time, deemed to be in the best interest of the Bank, and employment with the Bank may be terminated at any time, with or without cause.

All prior Severance Plans of the Bank are hereby rescinded.

The Severance Pay Plan was reviewed by resolution of the Board of Directors at its November 20, 2020 meeting, and shall be effective until amended or rescinded by the Board of Directors.

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
BOARD OF DIRECTORS

By: /s/ Matthew R. St. Louis
Matthew R. St. Louis
Its: Corporate Secretary

**EXHIBIT 24**

**POWER OF ATTORNEY**
**ANNUAL REPORT ON FORM 10-K FOR FISCAL 2020**

KNOW ALL PERSONS BY THESE PRESENTS that each of the undersigned Directors of the Federal Home Loan Bank of Indianapolis (the "Bank") hereby constitutes and appoints Cindy L. Konich (Principal Executive Officer), Gregory L. Teare (Principal Financial Officer) and K. Lowell Short, Jr. (Principal Accounting Officer), or any of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and revocation, to execute any and all instruments that said attorneys-in-fact and agents, or any of them, may deem necessary or advisable or may be required to enable the Bank to comply with the Securities Exchange Act of 1934, as amended (the "1934 Act"), and any rules, regulations or requirements of the Securities and Exchange Commission (the "Commission") in respect thereof, in connection with the filing under the 1934 Act of the Bank's Annual Report on Form 10-K for the year ended December 31, 2020 (the "2020 Annual Report"), including specifically, but without limiting the generality of the foregoing, power and authority to sign the name of each of the undersigned in the capacity of Director of the Bank to the 2020 Annual Report to be filed with the Commission and to any instruments or documents filed as part of or in connection with the 2020 Annual Report, including any amendments or supplements thereto; and granting unto each of said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as the undersigned might or could do in person, and each of the undersigned hereby ratifies and confirms all that said attorneys-in-fact and agents, or any of them, shall do or cause to be done by virtue hereof.

This power of attorney will be governed by and construed in accordance with the laws of the State of Indiana. This power of attorney will remain in effect until revoked by a resolution of the Bank's Board of Directors as to all signatories, or as to any individual signatory by delivery of a written revocation by such individual signatory to the Bank's Corporate Secretary. The execution of this power of attorney is not intended to, and does not, revoke any prior powers of attorney. This power of attorney may be executed in multiple counterparts, each of which shall be deemed an original with respect to the person executing it, but which taken together, shall constitute one instrument.

IN WITNESS WHEREOF, each of the undersigned has subscribed these presents this 22nd day of January, 2021.

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

/s/ Dan L. Moore
Dan L. Moore, Chair

/s/ Karen F. Gregerson
Karen F. Gregerson, Vice Chair

/s/ Brian D.J. Boike
Brian D.J. Boike

/s/ Ronald Brown
Ronald Brown

/s/ Clifford M. Clarke
Clifford M. Clarke

/s/ Lisa D. Cook
Lisa D. Cook

/s/ Charlotte C. Decker
Charlotte C. Decker

/s/ Robert M. Fisher
Robert M. Fisher

/s/ Michael J. Hannigan, Jr.
Michael J. Hannigan, Jr.

/s/ Jeffrey G. Jackson
Jeffrey G. Jackson

/s/ James L. Logue III
James L. Logue III

/s/ Robert D. Long
Robert D. Long

/s/ Michael J. Manica
Michael J. Manica

/s/ Larry W. Myers
Larry W. Myers

/s/ Christine Coady Narayanan
Christine Coady Narayanan

/s/ Todd E. Sears
Todd E. Sears

/s/ Larry A. Swank
Larry A. Swank

**Exhibit 31.1**

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

I, Cindy L. Konich, certify that:

1. I have reviewed this annual report on Form 10-K 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 our 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; and

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: March 10, 2021

By: /s/ CINDY L. KONICH

Name: Cindy L. Konich

Title: President - Chief Executive Officer

**Exhibit 31.2**

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

I, Gregory L. Teare, certify that:

1. I have reviewed this annual report on Form 10-K 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 our 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; and

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: March 10, 2021

By: /s/ GREGORY L. TEARE

Name: Gregory L. Teare

Title: Executive Vice President - Chief Financial Officer

**Exhibit 31.3**

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

I, K. Lowell Short, Jr., certify that:

1. I have reviewed this annual report on Form 10-K 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 our 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; and

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: March 10, 2021

By: /s/ K. LOWELL SHORT, JR.

Name: K. Lowell Short, Jr.

Title: Senior Vice President - Chief Accounting Officer

**Exhibit 32**

**SECTION 1350 CERTIFICATIONS**

In connection with the annual report of the Federal Home Loan Bank of Indianapolis ("Bank") on Form 10-K for the period ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof ("Report"), each of the undersigned officers certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The 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 Bank.

By: /s/ CINDY L. KONICH
Cindy L. Konich
President - Chief Executive Officer
March 10, 2021

By: /s/ GREGORY L. TEARE
Gregory L. Teare
Executive Vice President - Chief Financial Officer
March 10, 2021

By: /s/ K. LOWELL SHORT, JR.
K. Lowell Short, Jr.
Senior Vice President - Chief Accounting Officer
March 10, 2021