

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended **December 31, 2023**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
Commission File Number **000-51405**

**FEDERAL HOME LOAN BANK OF DALLAS**

(Exact name of registrant as specified in its charter)

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

**71-6013989**  
(I.R.S. Employer Identification Number)

**8500 Freeport Parkway South, Suite 600**  
**Irving, TX**  
(Address of principal executive offices)

**75063-2547**  
(Zip Code)

Registrant's telephone number, including area code: **(214) 441-8500**

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered

**Securities registered pursuant to Section 12(g) of the Act: Class B Capital Stock, \$100 par value per share**

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 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 to 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.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The registrant's capital 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 requirements. At March 12, 2024, the registrant had 46,461,235 shares of its capital stock outstanding. As of June 30, 2023 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate par value of the registrant's capital stock outstanding was approximately \$6.224 billion.

**Documents Incorporated by Reference:** None.

**FEDERAL HOME LOAN BANK OF DALLAS**  
**TABLE OF CONTENTS**

	<u>Page</u>
<b>PART I</b>	
<a href="#"><u>Item 1. Business</u></a>	<a href="#"><u>1</u></a>
<a href="#"><u>Item 1A. Risk Factors</u></a>	<a href="#"><u>22</u></a>
<a href="#"><u>Item 1B. Unresolved Staff Comments</u></a>	<a href="#"><u>30</u></a>
<a href="#"><u>Item 1C. Cybersecurity</u></a>	<a href="#"><u>30</u></a>
<a href="#"><u>Item 2. Properties</u></a>	<a href="#"><u>31</u></a>
<a href="#"><u>Item 3. Legal Proceedings</u></a>	<a href="#"><u>32</u></a>
<a href="#"><u>Item 4. Mine Safety Disclosures</u></a>	<a href="#"><u>32</u></a>
<b>PART II</b>	
<a href="#"><u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u></a>	<a href="#"><u>33</u></a>
<a href="#"><u>Item 6. Reserved</u></a>	<a href="#"><u>35</u></a>
<a href="#"><u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></a>	<a href="#"><u>35</u></a>
<a href="#"><u>Forward-Looking Information</u></a>	<a href="#"><u>35</u></a>
<a href="#"><u>Overview</u></a>	<a href="#"><u>35</u></a>
<a href="#"><u>Financial Market Conditions</u></a>	<a href="#"><u>36</u></a>
<a href="#"><u>2023 in Summary</u></a>	<a href="#"><u>37</u></a>
<a href="#"><u>Selected Financial Data</u></a>	<a href="#"><u>39</u></a>
<a href="#"><u>Financial Condition</u></a>	<a href="#"><u>40</u></a>
<a href="#"><u>Results of Operations</u></a>	<a href="#"><u>60</u></a>
<a href="#"><u>Liquidity and Capital Resources</u></a>	<a href="#"><u>68</u></a>
<a href="#"><u>Risk-Based Capital Rules and Other Capital Requirements</u></a>	<a href="#"><u>70</u></a>
<a href="#"><u>Critical Accounting Estimates</u></a>	<a href="#"><u>72</u></a>
<a href="#"><u>Recently Issued Accounting Guidance</u></a>	<a href="#"><u>72</u></a>
<a href="#"><u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u></a>	<a href="#"><u>73</u></a>
<a href="#"><u>Item 8. Financial Statements and Supplementary Data</u></a>	<a href="#"><u>77</u></a>
<a href="#"><u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u></a>	<a href="#"><u>77</u></a>
<a href="#"><u>Item 9A. Controls and Procedures</u></a>	<a href="#"><u>77</u></a>
<a href="#"><u>Item 9B. Other Information</u></a>	<a href="#"><u>77</u></a>
<a href="#"><u>Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections</u></a>	<a href="#"><u>77</u></a>
<b>PART III</b>	
<a href="#"><u>Item 10. Directors, Executive Officers and Corporate Governance</u></a>	<a href="#"><u>77</u></a>
<a href="#"><u>Item 11. Executive Compensation</u></a>	<a href="#"><u>89</u></a>
<a href="#"><u>Compensation Discussion and Analysis</u></a>	<a href="#"><u>89</u></a>
<a href="#"><u>Compensation Committee Report</u></a>	<a href="#"><u>102</u></a>
<a href="#"><u>Summary Compensation Table</u></a>	<a href="#"><u>103</u></a>
<a href="#"><u>Grants of Plan-Based Awards</u></a>	<a href="#"><u>104</u></a>
<a href="#"><u>Pension Benefits</u></a>	<a href="#"><u>107</u></a>
<a href="#"><u>Nonqualified Deferred Compensation</u></a>	<a href="#"><u>110</u></a>
<a href="#"><u>Potential Payments upon Termination or Change in Control</u></a>	<a href="#"><u>114</u></a>
<a href="#"><u>Pay Ratio</u></a>	<a href="#"><u>119</u></a>
<a href="#"><u>Director Compensation</u></a>	<a href="#"><u>119</u></a>
<a href="#"><u>Compensation Committee Interlocks and Insider Participation</u></a>	<a href="#"><u>121</u></a>
<a href="#"><u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u></a>	<a href="#"><u>121</u></a>
<a href="#"><u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u></a>	<a href="#"><u>123</u></a>
<a href="#"><u>Item 14. Principal Accounting Fees and Services</u></a>	<a href="#"><u>127</u></a>
<b>PART IV</b>	
<a href="#"><u>Item 15. Exhibits, Financial Statement Schedules</u></a>	<a href="#"><u>128</u></a>
<a href="#"><u>Item 16. Form 10-K Summary</u></a>	<a href="#"><u>130</u></a>
<a href="#"><u>Signatures</u></a>	<a href="#"><u>S-1</u></a>
<a href="#"><u>Index to Financial Statements</u></a>	<a href="#"><u>F-1</u></a>
EX-10.13	
EX-10.24	
EX-14.1	
EX-31.1	
EX-31.2	
EX-32.1	
EX-99.1	
EX-99.2	
EX-101	
EX-104	

## PART I

### ITEM 1. BUSINESS

#### **Background**

The Federal Home Loan Bank of Dallas (the “Bank”) is one of 11 Federal Home Loan Banks (each individually a “FHLBank” and collectively the “FHLBanks,” and, together with the Office of Finance, a joint office of the FHLBanks, the “FHLBank System,” or the “System”). The FHLBanks were created by the Federal Home Loan Bank Act of 1932, as amended (the “FHLB Act”). Each of the 11 FHLBanks is a member-owned cooperative that operates as a separate federally chartered corporation with its own management, employees and board of directors. Each FHLBank helps finance housing, community lending, and community development needs in the specified states in its respective district. Federally insured commercial banks, savings banks, savings and loan associations, and federally or privately insured credit unions, as well as insurance companies and Community Development Financial Institutions that are certified under the Community Development Banking and Financial Institutions Act of 1994, are all eligible for membership in the FHLBank of the district in which the institution’s principal place of business is located. Housing associates, including state and local housing authorities, that meet certain statutory and regulatory criteria may also borrow from the FHLBanks.

The public purpose of the Bank is to promote housing, jobs and general prosperity through products and services that assist its members in providing affordable credit in their communities. The Bank’s primary business is to serve as a financial intermediary between the capital markets and its members. In its most basic form, this intermediation process involves raising funds by issuing debt in the capital markets and lending the proceeds to member institutions (in the form of loans known as advances) at rates that are slightly higher than the cost of the debt. The interest spread between the cost of the Bank’s liabilities and the yield on its assets, combined with the earnings on its invested capital, are the Bank’s primary sources of earnings. The Bank endeavors to manage its assets and liabilities in such a way that its net interest spread (excluding fair value hedge ineffectiveness) is consistent across a wide range of interest rate environments. The intermediation of its members’ credit needs with the investment requirements of the Bank’s creditors is made possible by the extensive use of interest rate exchange agreements. These agreements, commonly referred to as derivatives or derivative instruments, are discussed below in the section entitled “Use of Interest Rate Exchange Agreements.”

The Bank’s principal source of funds is debt issued in the capital markets. All 11 FHLBanks issue debt in the form of consolidated obligations through the Office of Finance as their agent, and each FHLBank uses these funds to make loans to its members, invest in debt securities, or for other business purposes. Generally, consolidated obligations are traded in the over-the-counter market. All 11 FHLBanks are jointly and severally liable for the repayment of all consolidated obligations. Although consolidated obligations are not obligations of or guaranteed by the U.S. government, FHLBanks are considered to be government-sponsored enterprises (“GSEs”) and thus have historically been able to borrow at the more favorable rates generally available to GSEs. Consolidated obligations are currently rated Aaa/P-1 by Moody’s Investors Service (“Moody’s”) and AA+/A-1+ by S&P Global Ratings (“S&P”). In the application of S&P’s Government Related Entities criteria, the ratings of the FHLBanks are constrained by the long-term sovereign credit rating of the United States. Moody’s outlook for the Aaa rating on the System’s consolidated obligations is negative, reflecting Moody’s negative outlook on the Aaa rating of the U.S. government. These ratings indicate that each of these nationally recognized statistical rating organizations (“NRSROs”) has concluded that the FHLBanks have a very strong capacity to meet their financial commitments on consolidated obligations. The ratings also reflect the FHLBank System’s status as a GSE. Historically, the FHLBanks’ GSE status and very high credit ratings on consolidated obligations have provided the FHLBanks with excellent capital markets access. Deposits, other borrowings and the proceeds from the issuance of capital stock to members are also sources of funds for the Bank.

In addition to the ratings on the FHLBanks’ consolidated obligations, each FHLBank is rated individually by both S&P and Moody’s. These individual FHLBank ratings apply to the individual obligations of the respective FHLBanks, such as interest rate derivatives, deposits, and letters of credit. As of the date of this report, Moody’s had assigned a deposit rating of Aaa/P-1 to each of the FHLBanks and S&P had rated each of the FHLBanks AA+/A-1+. Moody’s outlook for the Aaa rating on each of the FHLBank’s long-term deposit ratings was negative, reflecting Moody’s negative outlook on the ratings of the U.S. government.

Current and prospective shareholders and debtholders should understand that these credit ratings are not a recommendation to buy, hold or sell securities and they may be revised or withdrawn at any time by the NRSRO. The ratings from each of the NRSROs should be evaluated independently.

All members of the Bank are required to purchase capital stock in the Bank as a condition of membership and in proportion to their asset size and business activity with the Bank. The Bank’s capital stock is not publicly traded and all stock is owned by members of the Bank, by non-member institutions that acquire stock by virtue of acquiring member institutions, by a federal or state agency or insurer acting as a receiver of a closed institution, or by former members of the Bank that retain capital stock to support advances or other obligations that remain outstanding or until any applicable stock redemption or withdrawal notice period expires.

The Federal Housing Finance Agency (“Finance Agency”), an independent agency in the executive branch of the U.S. government, is responsible for supervising and regulating the FHLBanks and the Office of Finance. The Finance Agency’s stated mission is to ensure that the housing GSEs, including the FHLBanks, 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. Consistent with this mission, the Finance Agency establishes policies and regulations covering the operations of the FHLBanks.

The Bank’s debt and equity securities are exempt from registration under the Securities Act of 1933 and are “exempted securities” under the Securities Exchange Act of 1934 (the “Exchange Act”). As required by the Housing and Economic Recovery Act of 2008 (the “HER Act”), each FHLBank has voluntarily registered a class of its equity securities with the Securities and Exchange Commission (“SEC”) under Section 12(g) of the Exchange Act. As a registrant, the Bank is subject to the periodic reporting and disclosure regime as administered and interpreted by the SEC. The SEC maintains an Internet site (<https://www.sec.gov>) that contains reports and other information filed with the SEC. Reports and other information that the Bank files with the SEC are also available free of charge through the Bank’s website at [www.fhlb.com](http://www.fhlb.com). To access these reports and other information through the Bank’s website, click on "About Us," then “Investor Relations,” and then “SEC” under the heading SEC Filings. The information on the Bank's website is not, and shall not be deemed to be, a part hereof or incorporated into this or any of the Bank's other filings with the SEC.

## **Membership**

The Bank’s members are financial institutions with their principal place of business in the Ninth Federal Home Loan Bank District, which consists of Arkansas, Louisiana, Mississippi, New Mexico and Texas (the "Ninth District"). The following table summarizes the Bank’s membership, by type of institution, as of December 31, 2023, 2022 and 2021.

### **MEMBERSHIP SUMMARY**

	<b>December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Commercial banks	537	537	552
Credit unions	135	126	126
Insurance companies	61	59	59
Savings institutions	51	52	54
Community Development Financial Institutions ("CDFIs")	7	7	7
<b>Total members</b>	<b>791</b>	<b>781</b>	<b>798</b>
Housing associates	8	8	8
Non-member borrowers	2	3	2
<b>Total</b>	<b>801</b>	<b>792</b>	<b>808</b>
Community Financial Institutions ("CFIs") <sup>(1)</sup>	496	500	521

<sup>(1)</sup> The figures presented above reflect the number of members that were CFIs as of December 31, 2023, 2022 and 2021 based upon the definitions of CFIs that applied as of those dates.

As of December 31, 2023, approximately 63 percent of the Bank’s members were Community Financial Institutions ("CFIs"). CFIs are defined by the FHLB Act (as amended by the HER Act) to include all institutions insured by the Federal Deposit Insurance Corporation (“FDIC”) with average total assets over the three-year period preceding measurement of less than \$1.0 billion, as adjusted annually for inflation. For 2023, CFIs were FDIC-insured institutions with average total assets as of December 31, 2022, 2021 and 2020 of less than \$1.417 billion. For 2022 and 2021, the asset cap was \$1.323 billion and \$1.239 billion, respectively. For 2024, the asset cap is \$1.461 billion.

As of December 31, 2023, 2022 and 2021, approximately 47.8 percent, 48.9 percent and 41.7 percent, respectively, of the Bank’s members had outstanding advances from the Bank. These usage rates are calculated excluding housing associates and non-member borrowers. While eligible to borrow, housing associates are not members of the Bank and, as such, are not required or permitted to hold capital stock. Non-member borrowers consist of institutions that have acquired former members and assumed the advances and/or other extensions of credit of those former members and former members who have withdrawn from membership but that continue to have advances and/or other extensions of credit outstanding. Non-member borrowers are required to hold capital stock to support outstanding advances or other extensions of credit until the time when those advances have been repaid or the extensions of credit have expired, as applicable. During the period that their obligations remain outstanding, non-member borrowers may not request new extensions of credit, nor are they permitted to extend or renew the assumed extensions of credit.

The Bank's membership currently includes the majority of commercial banks and savings institutions in its district that are eligible to become members. Eligible non-members are primarily insurance companies, credit unions and smaller commercial banks that have thus far elected not to join the Bank. While the Bank anticipates that some number of these eligible non-member institutions will apply for membership each year, the Bank also anticipates that some number of its existing members will be acquired or merge with other institutions and it does not currently anticipate a substantial change in the number of member institutions.

As a cooperative, the Bank is managed with the primary objectives of enhancing the value of membership for member institutions and fulfilling its public purpose. The value of membership includes access to readily available credit and other services from the Bank, the value of the cost differential between Bank advances and other potential sources of funds and, to a lesser extent, the dividends paid on members' investments in the Bank's capital stock.

### **Business Segments**

The Bank manages its operations as one business segment. Management and the Bank's Board of Directors review enterprise-wide financial information in order to make operating decisions and assess performance. All of the Bank's revenues are derived from U.S. operations.

### **Interest Income**

The Bank's interest income is derived from advances, investment activities and mortgage loans held for portfolio. Each of these revenue sources is more fully described below. During the years ended December 31, 2023, 2022 and 2021, interest income derived from each of these sources (expressed as a percentage of the Bank's total interest income) was as follows:

	<b>Year Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Advances (including prepayment fees)	69.0 %	57.9 %	34.3 %
Investments	28.9	35.7	45.1
Mortgage loans held for portfolio	2.1	6.4	20.6
Total	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
Total interest income (in thousands)	<u>\$8,322,183</u>	<u>\$1,864,745</u>	<u>\$ 377,684</u>

Substantially all of the Bank's interest income from advances is derived from financial institutions domiciled in the Bank's five-state district.

### **Products and Services**

Advances. The Bank's primary function is to provide its members with a reliable source of secured credit in the form of loans known as advances. The Bank offers advances to its members with a wide variety of terms designed to meet members' business and risk management needs. Standard offerings include the following types of advances:

Fixed-rate, fixed-term advances. The Bank offers fixed-rate, fixed-term advances with maturities ranging from overnight to 20 years, and with maturities as long as 30 years for Community Investment advances. Interest is generally paid monthly and principal repaid at maturity for fixed-rate, fixed-term advances.

Fixed-rate, amortizing advances. The Bank offers fixed-rate advances with a variety of final maturities and fixed amortization schedules. Standard advances offerings include fully amortizing advances with final maturities of 5, 7, 10, 15 or 20 years, and advances with amortization schedules based on maturities up to 30 years but with shorter final maturities accompanied by balloon payments of the remaining outstanding principal balance. Borrowers may also request alternative amortization schedules and maturities. Amortizing Community Investment advances can have maturities as long as 40 years. Interest is generally paid monthly and principal is repaid in accordance with the specified amortization schedule. Although these advances have fixed amortization schedules, borrowers may elect to pay a higher interest rate and have an option to prepay the advance without a fee after a specified lockout period (typically five years). Otherwise, early repayments are subject to the Bank's standard prepayment fees.

Variable-rate advances. The Bank offers term variable-rate advances with maturities between one and ten years. The Bank offers variable-rate advances indexed to discount notes that reset every 8, 13 or 26 weeks based on the results of the FHLBank System's discount note auctions that typically occur twice every week. In addition, the Bank offers short term variable-rate advances (maturities of 30 days or less) indexed to the daily federal funds rate or that adjust daily based on the prevailing discount note market. Further, the Bank offers variable-rate advances indexed to the daily Secured Overnight Financing Rate ("SOFR") for terms ranging from 3 months to 18 months. Variable-rate advances may also include an embedded cap.

Puttable advances. The Bank also makes advances that include a put feature that allows the Bank to terminate the advance at specified points in time. If the Bank exercises its option to terminate the puttable advance, the Bank offers replacement funding to the member for a period selected by the member up to the remaining term to maturity of the puttable advance, provided the Bank determines that the member is able to satisfy the normal credit and collateral requirements of the Bank for the replacement funding requested.

Symmetrical prepayment advances. The Bank also offers fixed-rate, fixed-term or amortizing advances that include a symmetrical prepayment feature which allows a member to prepay an advance at the lower of par value or fair value plus a make-whole amount, thus allowing the member to realize a portion of the decrease in fair value that would arise if interest rates have increased since the advance was originated.

Fixed-rate, fixed-term advances, including Community Investment Program and Economic Development Program advances, can be forward-starting, which allows a member to lock in a rate for an advance that will settle at a future date. Amortizing advances and certain advances containing the symmetrical prepayment feature are also available on a forward-starting basis.

Finance Agency regulations require the Bank to establish a formula for and to charge, if necessary, a prepayment fee on an advance that is repaid prior to maturity in an amount sufficient to make the Bank financially indifferent to the borrower's decision to repay the advance prior to its scheduled maturity date. Currently, these fees are generally calculated as the present value of the difference (if positive) between the interest rate on the prepaid advance and the rate derived from the FHLBank System consolidated obligations curve for the remaining term to maturity of the repaid advance.

Members are required by statute and regulation to use the proceeds of advances with an original term to maturity of greater than five years to purchase or fund new or existing residential housing finance assets which, for CFIs, are defined by statute and regulation to include small business, small farm and small agribusiness loans, loans for community development activities (subject to the Finance Agency's requirements as described below) and securities representing a whole interest in such loans. Community Investment Cash Advances (described below) are exempt from these requirements.

The Bank prices its credit products with the objective of providing benefits of membership that are greatest for those members that use the Bank's products most actively, while maintaining sufficient profitability to pay dividends at a rate that makes members financially indifferent to holding the Bank's capital stock and that will allow the Bank to increase its retained earnings over time. Generally, that set of objectives results in small mark-ups over the Bank's cost of funds for its advances. In keeping with its cooperative philosophy, the Bank provides the same pricing for advances to all similarly situated members regardless of asset or transaction size, charter type, or geographic location.

The Bank is required by the FHLB Act to obtain collateral that is sufficient, in the judgment of the Bank, to fully secure advances and other extensions of credit to members/borrowers. The Bank has not suffered any credit losses on advances since it was established in 1932. In accordance with the Bank's Capital Plan, members and former members must hold Class B-2 capital stock in proportion to their outstanding advances and, beginning in April 2021, their outstanding letters of credit. In addition, members must hold Class B-1 capital stock to meet their membership investment requirement. Pursuant to the FHLB Act, the Bank has a lien upon and holds the Bank's Class B-1 and Class B-2 capital stock owned by each of its shareholders as additional collateral for all of the respective shareholder's obligations to the Bank.

In order to comply with the requirement to fully secure advances and other extensions of credit, the Bank and each of its members/borrowers execute a written security agreement that establishes the Bank's security interest in a variety of the members'/borrowers' assets. The Bank, pursuant to the FHLB Act and Finance Agency regulations, originates, renews, or extends advances only if it has obtained and is maintaining a security interest in sufficient eligible collateral at the time such advance is made, renewed, or extended. Eligible collateral includes whole first mortgages on improved residential real property (not more than 90 days delinquent) or securities representing an undivided interest in such mortgages; securities issued, insured, or guaranteed by the U.S. government or any of its agencies, including mortgage-backed and other debt securities issued or guaranteed by the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or the Government National Mortgage Association; term deposits in the Bank; and other real estate-related collateral acceptable to the Bank, provided that such collateral has a readily ascertainable value and the Bank can perfect a security interest in such assets.

In the case of CFIs, the Bank may also accept as eligible collateral secured small business, small farm, and small agribusiness loans, secured loans for community development activities, and securities representing a whole interest in such loans, provided the Bank can perfect a security interest in such collateral and the collateral (i) has a readily ascertainable value, (ii) can be reliably discounted to account for liquidation, and (iii) can be liquidated in due course.

The HER Act added secured loans for community development activities as a new type of eligible collateral for CFIs. To date, the Bank has not been requested to accept secured loans for community development activities as collateral.

Except as set forth in the next sentence, the FHLB Act affords any security interest granted to the Bank by any member/borrower of the Bank, or any affiliate of any such member/borrower, priority over the claims and rights of any party, including

any receiver, conservator, trustee, or similar party having rights of a lien creditor. The Bank's security interest is not entitled to priority over the claims and rights of a party that (i) would be entitled to priority under otherwise applicable law and (ii) is an actual bona fide purchaser for value or is a secured party who has a perfected security interest in such collateral in accordance with applicable law (e.g., a prior perfected security interest under the Uniform Commercial Code or other applicable law). For example, as discussed further below, the Bank usually perfects its security interest in collateral by filing a Uniform Commercial Code financing statement against the borrower. If another secured party, without knowledge of the Bank's lien, perfected its security interest in that same collateral by taking possession of the collateral, rather than or in addition to filing a Uniform Commercial Code financing statement against the borrower, then that secured party's security interest that was perfected by possession may be entitled to priority over the Bank's security interest that was perfected by filing a Uniform Commercial Code financing statement.

From time to time, the Bank agrees to subordinate its security interest in certain assets or categories of assets granted by a member/borrower of the Bank to the security interest of another creditor (typically, a Federal Reserve Bank or another FHLBank). If the Bank agrees to subordinate its security interest in certain assets or categories of assets granted by a member/borrower of the Bank to the security interest of another creditor, the Bank will not extend credit against those assets or categories of assets.

As stated above, each member/borrower of the Bank executes a security agreement pursuant to which such member/borrower grants a security interest in favor of the Bank in certain assets of such member/borrower. The assets in which a member grants a security interest fall into one of two general structures. In the first structure, the member grants a security interest in all of its assets that are included in the eligible collateral categories, as described above, which the Bank refers to as a "blanket lien." A member may request that its blanket lien be modified, such that the member grants in favor of the Bank a security interest limited to certain of the eligible collateral categories (i.e., whole first residential mortgages, securities, term deposits in the Bank and other real estate-related collateral). In the second structure, the member grants a security interest in specifically identified assets rather than in the broad categories of eligible collateral covered by the blanket lien and the Bank identifies those members as being on "specific collateral only status."

The basis upon which the Bank will lend to a member that has granted the Bank a blanket lien depends on numerous factors, including, among others, that member's financial condition and general creditworthiness. Generally, and subject to certain limitations, a member that has granted the Bank a blanket lien may borrow up to a specified percentage of the value of eligible collateral categories, as determined from that member's financial reports filed with its federal regulator, without specifically identifying each item of collateral or delivering the collateral to the Bank. Under certain circumstances, including, among others, a deterioration of a member's financial condition or general creditworthiness, the amount a member may borrow is determined only on the basis of the collateral that such member delivers to the Bank or a third-party custodian approved by the Bank. Under these circumstances, the Bank places the member on "custody status." In addition, members on blanket lien status may choose to deliver some or all of the collateral to the Bank.

The members/borrowers that are granted specific collateral only status by the Bank are typically either insurance companies or members/borrowers with an investment grade credit rating from at least two NRSROs that have requested this type of structure. Insurance companies are permitted to borrow only against the eligible collateral that is delivered to the Bank, and insurance companies generally grant a security interest only in collateral they have delivered. Members/borrowers with an investment grade credit rating from at least two NRSROs may grant a security interest in, and would be permitted to borrow only against, delivered eligible securities and specifically identified, eligible first-lien mortgage loans. Such loans must be delivered to the Bank or a third-party custodian approved by the Bank, or the Bank and the member/borrower must otherwise take actions that ensure the priority of the Bank's security interest in the loans. Investment grade rated members/borrowers that choose this option are subject to fewer provisions that allow the Bank to demand additional collateral or exercise other remedies based on the Bank's discretion.

As of December 31, 2023, 652 of the Bank's borrowers/potential borrowers with a total of \$63.8 billion in outstanding advances were on blanket lien status, 22 borrowers/potential borrowers with \$3.2 billion in outstanding advances were on specific collateral only status and 127 borrowers/potential borrowers with \$13.3 billion in outstanding advances were on custody status.

The Bank perfects its security interest in members'/borrowers' collateral in a number of ways. The Bank usually perfects its security interest in collateral by filing a Uniform Commercial Code financing statement against the relevant assets of the member/borrower. In the case of certain borrowers, the Bank perfects its security interest by taking possession or control of the collateral, which may be in addition to the filing of a financing statement. In these cases, the Bank also generally takes assignments of most of the mortgages and deeds of trust that are designated as collateral. Instead of requiring delivery of the collateral to the Bank, the Bank may allow certain borrowers to deliver specific collateral to a third-party custodian approved by the Bank or otherwise take actions that ensure the priority of the Bank's security interest in such collateral.

On at least a quarterly basis, the Bank obtains updated information relating to collateral pledged to the Bank by depository institution members/borrowers, including those on blanket lien status. This information is either obtained directly from the member/borrower or obtained by the Bank from appropriate regulatory filings. In addition, on a monthly basis or as otherwise requested by the Bank, members/borrowers on custody status and members/borrowers on specific collateral only status must update information relating to collateral pledged to the Bank. Bank personnel regularly verify the existence and eligibility of collateral securing advances to members/borrowers on blanket lien status and members/borrowers on specific collateral only status with respect to any collateral not delivered to the Bank. Members/borrowers on blanket lien status are subject to collateral verifications if in the prior 12-month period ending on November 30 the member/borrower relied on blanket lien collateral to support any of its outstanding obligations. The frequency and the extent of these collateral verifications depend on the average amount by which a member's/borrower's outstanding obligations to the Bank during the 12-month period exceed the collateral value of its securities, loans and term deposits held by the Bank. Collateral verifications are not required for members/borrowers that have had no, or only a *de minimis* amount of, outstanding obligations to the Bank secured by a blanket lien during the prior 12-month period ending on November 30, are on custody status, or are on blanket lien status but at all times have delivered to the Bank or an approved custodian eligible loans, securities and term deposits with a collateral value in excess of the advances and other extensions of credit to the member/borrower.

As of December 31, 2023, the Bank's outstanding advances (at par value) totaled \$80.3 billion. As of that date, advances outstanding to the Bank's five largest borrowers represented 56.6 percent of the Bank's total outstanding advances. Advances to the Bank's three largest borrowers (Charles Schwab Bank, SSB, Comerica Bank and USAA Federal Savings Bank) represented 29.9 percent, 9.4 percent and 7.5 percent, respectively, of the Bank's total outstanding advances as of December 31, 2023. For additional information regarding the composition and concentration of the Bank's advances, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Advances.

In January 2024, the Bank announced the Community Development Special Finance Program ("CDSFP"), a pilot program that was created to increase member support for single-family home lending activity. Through the pilot program, which began on March 1, 2024, the Bank provides a more favorable collateral haircut to members that pledge single-family mortgage loans to certain income-qualified borrowers. Extensions of credit under the CDSFP cannot exceed \$200 million.

Statutory and Regulatory Community Investment Programs. The Bank offers a Community Investment Cash Advances ("CICA") program (which includes a Community Investment Program, an Economic Development Program and a Disaster Relief Program) as authorized by Finance Agency regulations. Advances made under the CICA program benefit low- to moderate-income households by providing funds for housing or economic development projects or projects that promote recovery efforts in communities that have been declared disaster areas by the Federal Emergency Management Agency ("FEMA"). CICA advances are made at rates below the rates the Bank charges on standard advances. CICA advances are provided separately from and do not count toward the Bank's statutory obligations under the Affordable Housing Program, through which the Bank provides grants to support projects that benefit very low-, low- and moderate-income households as further described below. As of December 31, 2023, the par value of advances outstanding under the CICA program totaled \$277.9 million, representing approximately 0.3 percent of the Bank's total advances outstanding as of that date.

The Bank also offers an Affordable Housing Program ("AHP") as required by the FHLB Act and in accordance with Finance Agency regulations. The Bank sets aside 10 percent of each year's earnings (as adjusted for interest expense on mandatorily redeemable capital stock) for its AHP, which provides grants for projects that facilitate development of rental and owner-occupied housing for very low-, low- and moderate-income households. The calculation of the amount to be set aside for the Bank's AHP is further discussed below in the section entitled "AHP Assessments." For 2023, 2022 and 2021, the Bank set aside \$97.2 million, \$35.3 million and \$18.3 million, respectively, for its AHP Program. Each year, a portion of the amount set aside is typically allocated specifically for the Bank's Homebuyer Equity Leverage Partnership ("HELP") program, its Special Needs Assistance Program ("SNAP") and its Disaster Rebuilding Assistance ("DRA") program. HELP provides grant funds for down payment and closing cost assistance for eligible first-time homebuyers. SNAP provides grant funds to special needs homeowners for rehabilitation costs. The DRA program provides grant funds (for repair and construction costs that are not covered by insurance or federal or state emergency assistance) to low- and very low-income households in the Bank's member communities that have been declared disaster areas eligible for individual assistance by FEMA. HELP is administered on a first-come, first-served basis while DRA is also offered on a first-come, first-served basis but in two separate offerings each year. SNAP is offered in two 3-day funding windows. All three programs are subject to member caps. For 2023, the Bank set aside from its 2022 AHP funds a total of \$10.5 million which was comprised of \$6.5 million, \$2.0 million and \$2.0 million for HELP, SNAP and the DRA program, respectively. For 2024, the Bank has set aside from its 2023 AHP funds a total of \$20.0 million which is comprised of \$15.5 million, \$2.0 million and \$2.5 million for HELP, SNAP and the DRA program, respectively. Each year, the Bank conducts a competitive application process to allocate the AHP funds set aside from the prior year's earnings which have not been specifically allocated for HELP, SNAP and DRA. Applications submitted by Bank members and their community partners are scored in accordance with Finance Agency regulations and the Bank's AHP Implementation Plan. The highest scoring proposals are approved to receive funds, which are disbursed upon receipt of documentation that the projects are progressing as specified in the original applications or in approved modifications thereto.



Voluntary Community Investment Programs. The Bank also offers a number of voluntary loan and grant programs that are designed to meet specific community investment needs in its district, some of which were introduced in the second half of 2023 and the first quarter of 2024.

The Bank offers a Small Business Boost ("SBB") Program, which is designed to provide recoverable assistance to small businesses in their first few years of operation. SBB funds awarded to small businesses are disbursed through member institutions. In 2023, 2022 and 2021, the Bank made available \$4 million, \$3 million and \$3 million, respectively, for SBB loans. At December 31, 2023, \$11.9 million of SBB loans were outstanding, all of which were unsecured.

In addition, the Bank offers a Housing Assistance for Veterans ("HAVEN") program that is designed to provide grants to households of veterans or active service members who were disabled as a result of an injury during their active military service since August 2, 1990. In each of 2023, 2022 and 2021, the Bank made available \$0.3 million for the HAVEN program.

Further, the Bank offers a Partnership Grant Program ("PGP") which provides funding for the operational needs of community-based organizations ("CBOs"). CBOs include non-profit organizations involved in affordable housing, local community development funds and small business technical assistance providers. In each of 2023, 2022 and 2021, the Bank made available \$0.4 million for the PGP.

Funds available in 2024 for SBB, HAVEN and PGP are \$3.0 million, \$0.3 million and \$1.0 million, respectively.

In the latter half of 2023, the Bank introduced two new voluntary grant programs. The Heirs' Property Program ("HPP") was developed to assist in-district organizations (specifically, non profit, governmental and tribal entities) with initiatives that help prevent or address heirs' property issues and the FHLB Dallas FORTIFIED Fund was developed to assist income-qualified homeowners with purchases of storm-resistant roofs that are designed to withstand hurricanes, high winds, hailstorms, severe thunderstorms and tornados rated EF2 or lower. During 2023, the Bank made available \$1.0 million for HPP grants and \$1.75 million for FORTIFIED grants. Funds available in 2024 for HPP and the FORTIFIED Fund are \$2.0 million and \$4.0 million, respectively.

In February 2024, the Bank introduced the Capacity Building and Growth Grant ("CBGG"), a pilot program that was created to increase nondepository CDFI's ability to support affordable housing, small businesses and community economic development. Through the pilot program, the Bank will make available to eligible CDFIs \$3.0 million in CBGG grants in 2024.

The Bank currently expects to offer two additional voluntary programs in 2024, each of which is presently under development. In 2024 and subsequent years, the Bank intends to make available for its voluntary loan and grant programs an amount that equals or exceeds 5 percent of its prior year income before assessments (for 2024, this amount is expected to equal or exceed \$48.583 million). The following table sets forth a summary of the amounts that the Bank has thus far made available for its voluntary loan and grant programs in 2024 (2023 amounts are provided for comparative purposes). The total funds that are ultimately made available in 2024 are expected to increase when the new programs are introduced.

#### FUNDS MADE AVAILABLE FOR VOLUNTARY PROGRAMS

*(dollars in thousands)*

	2024	2023
SBB Loan Program	\$ 3,000	\$ 4,000
<b>Grant Programs</b>		
Housing Assistance for Veterans	300	300
Partnership Grant Program	1,000	400
Heirs' Property Program	2,000	1,000
FORTIFIED Fund	4,000	1,750
Capacity Building and Growth Grant	3,000	—
<b>Total Grant Programs</b>	<b>10,300</b>	<b>3,450</b>
<b>Total</b>	<b>\$ 13,300</b>	<b>\$ 7,450</b>

Communities within the Bank's district are subject to severe storms from time to time. To promote recovery efforts in communities that have been devastated by storms, the Bank will typically offer assistance in the form of grants and/or charitable donations. For example, in 2023, in response to the devastation that was caused by severe storms in Arkansas and Northeast Mississippi, the Bank offered \$4.0 million in assistance in the form of recovery grants and charitable donations.

Ultimately, the Bank expended \$3.4 million to assist small businesses, member employees and charitable organizations with recovery efforts.

Standby Letters of Credit. The Bank's credit services also include standby letters of credit issued or confirmed on behalf of members to facilitate business transactions with third parties that support residential housing finance, community lending, or asset/liability management or to provide liquidity to members. Standby letters of credit are also issued on behalf of members to secure the deposits of public entities that are held by such members. All letters of credit must be fully collateralized as though they were funded advances. At December 31, 2023 and 2022, outstanding standby letters of credit totaled \$33.3 billion and \$21.5 billion, respectively, of which \$24 million and \$29 million, respectively, had been issued or confirmed under the Bank's CICA program as of those dates.

Correspondent Banking and Collateral Services. The Bank provides its members with a variety of correspondent banking and collateral services. These services include overnight and term deposit accounts, wire transfer services, securities safekeeping, and securities pledging services.

Standby Bond Purchase Agreements. The Bank offers standby bond purchase services to state housing finance agencies within its district. In these transactions, in order to enhance the liquidity of bonds issued by a state housing finance agency, the Bank, for a fee, agrees to stand ready to purchase, in certain circumstances specified in the standby agreement, a state housing finance agency's bonds that the remarketing agent for the bonds is unable to sell. The specific terms for any bonds purchased by the Bank are specified in the standby bond purchase agreement entered into by the Bank and the state housing finance agency. The Bank reserves the right to sell any bonds it purchases at any time, subject to any conditions the Bank agrees to in the standby bond purchase agreement. At December 31, 2023, the Bank had outstanding standby bond purchase agreements with a state housing finance agency totaling \$778 million. To date, the Bank has never been required to purchase any bonds under these agreements.

MPF Xtra. The Bank offers MPF Xtra<sup>®</sup> to its members. MPF Xtra is offered under the Mortgage Partnership Finance<sup>®</sup> ("MPF<sup>®</sup>") program administered by the FHLBank of Chicago, which is discussed on pages 10-11 of this report ("Mortgage Partnership Finance," "MPF," and "MPF Xtra" are registered trademarks of the FHLBank of Chicago). MPF Xtra provides members that participate in the MPF program (known as participating financial institutions or "PFIs") an opportunity to sell certain fixed-rate, conforming mortgage loans into the secondary market. Under this program, loans are sold to the FHLBank of Chicago and are concurrently sold to Fannie Mae as a third-party investor. These loans are not held by the Bank, nor are they recorded on the Bank's balance sheet. Unlike other products offered under the MPF program, PFIs are not required to provide credit enhancement and do not receive credit enhancement fees when using the MPF Xtra product. Under the MPF Xtra program, the Bank receives a fee for any loans sold by its PFIs. During 2023, 2022 and 2021, \$26.3 million, \$11.4 million and \$68.5 million, respectively, of loans were sold through the MPF Xtra program and the fees earned on the sale of these loans were insignificant.

### **Investment Activities**

The Bank maintains a portfolio of investments to enhance interest income and meet liquidity needs, including certain regulatory liquidity requirements, as discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources. To ensure the availability of funds to meet members' credit needs, the Bank's operating needs, and its other general and regulatory liquidity requirements, the Bank maintains a portfolio of short-term investments typically consisting of overnight federal funds issued by highly rated domestic banks and U.S. branches of foreign financial institutions, overnight reverse repurchase agreements, overnight interest-bearing deposits with highly rated domestic banks and U.S. Treasury Bills and Notes. At December 31, 2023, the Bank's short-term investments were comprised of \$14.7 billion of overnight reverse repurchase agreements (of which \$11.1 billion was transacted with the Federal Reserve Bank of New York), \$6.4 billion of overnight federal funds sold, \$2.3 billion of overnight interest-bearing deposits and \$1.2 billion of U.S. Treasury Notes.

To enhance net interest income, the Bank maintains a long-term investment portfolio, which currently includes mortgage-backed securities ("MBS") issued by U.S. government-sponsored enterprises (i.e., Fannie Mae and Freddie Mac); non-MBS debt instruments issued or guaranteed by the U.S. government; and non-MBS debt instruments issued by U.S. government-sponsored enterprises (i.e., Fannie Mae, Freddie Mac and the Farm Credit System). The interest rate and, in the case of MBS, prepayment risk inherent in the securities is managed through a variety of debt and interest rate derivative instruments.

As of December 31, 2023, 2022 and 2021, the composition of the Bank's long-term investment portfolio was as follows (dollars in millions):

	<b>December 31,</b>					
	<b>2023</b>		<b>2022</b>		<b>2021</b>	
	<b>Amortized Cost</b>	<b>Percentage</b>	<b>Amortized Cost</b>	<b>Percentage</b>	<b>Amortized Cost</b>	<b>Percentage</b>
Government-sponsored enterprises						
Commercial MBS	\$ 14,293	79.4 %	\$ 11,604	75.2 %	\$ 10,123	64.3 %
Debentures	3,084	17.1	3,121	20.2	4,471	28.4
Residential MBS	253	1.4	288	1.9	484	3.1
Government-guaranteed securities	368	2.1	379	2.5	521	3.3
Non-agency residential MBS	—	—	29	0.2	37	0.2
Other	—	—	—	—	113	0.7
<b>Total</b>	<b>\$ 17,998</b>	<b>100.0 %</b>	<b>\$ 15,421</b>	<b>100.0 %</b>	<b>\$ 15,749</b>	<b>100.0 %</b>

The Bank is precluded from purchasing additional MBS if such purchase would cause the aggregate amortized historical cost of its MBS holdings to exceed an amount equal to 300 percent of its total regulatory capital at the time of purchase. For purposes of applying this limit, the Finance Agency defines "amortized historical cost" as the sum of the initial investment, less the amount of cash collected that reduces principal, less write-downs plus yield accreted to date. This definition excludes hedge basis adjustments, which, for investment securities, are included in the definition of amortized cost basis under accounting principles generally accepted in the United States of America ("U.S. GAAP"). Using this definition, the Bank's MBS holdings totaled \$15.0 billion as of December 31, 2023, which represented 210 percent of its total regulatory capital at that date. Given other balance sheet constraints imposed by the Finance Agency (see the section entitled "Core Mission Achievement" on page 11 of this report) and in the absence of a significant reduction in the size of the Bank's balance sheet and, correspondingly, its regulatory capital, the Bank's investments in MBS are expected to remain below the regulatory dollar limit which, as of December 31, 2023, was \$21.5 billion.

Prior to January 1, 2020, the Bank was permitted to invest in the non-MBS debt obligations of any GSE provided such investments in any single GSE did not exceed the lesser of the Bank's total regulatory capital or that GSE's total capital (taking into account the financial support provided by the U.S. Department of the Treasury, if applicable) at the time new investments were made. The Bank's authority to invest in the non-MBS debt obligations of GSEs that are not operating with capital support or some other form of direct financial assistance from the U.S. government was reduced beginning January 1, 2020. The Bank's investments in the non-MBS debt obligations of Fannie Mae and Freddie Mac are each currently limited to an amount equal to 100 percent of the Bank's total regulatory capital while investments in the non-MBS debt obligations of the Farm Credit System are now limited to an amount equal to 15 percent of the Bank's total regulatory capital. Although the Bank's holdings of Farm Credit System debentures exceeded this new limit on January 1, 2020, the Bank was not required to sell or otherwise reduce any of these investments. Instead, the Bank is precluded from purchasing any additional Farm Credit System debentures until such time as its holdings are reduced to an amount that is less than 15 percent of the Bank's total regulatory capital.

For additional constraints relating to the Bank's long-term investment portfolio, see the section below entitled "Core Mission Achievement."

In accordance with Finance Agency policy and regulations, total capital for purposes of determining the Bank's MBS and non-MBS investment limitations excludes accumulated other comprehensive income (loss) and includes all amounts paid in for the Bank's capital stock regardless of accounting classification (see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations). The Bank is not required to sell or otherwise reduce any investments that exceed these regulatory limits due to reductions in capital or increases in amortized historical cost that occur after the investments are made, but it is precluded from making additional investments that exceed these limits.

Finance Agency regulations include a variety of restrictions and limitations on the FHLBanks' investment activities, including limits on the types, amounts, and maturities of unsecured investments in private issuers. Finance Agency rules and regulations also prohibit the Bank from investing in certain types of securities, including:

- instruments, such as common stock, that represent an ownership interest 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;

- debt instruments that are not investment quality, other than certain investments targeted to low-income persons or communities and instruments that became non-investment quality after purchase by the Bank;
- whole mortgages or other whole loans, other than 1) those acquired by the Bank through a duly authorized Acquired Member Assets program such as the Mortgage Partnership Finance program discussed below; 2) certain investments targeted to low-income persons or communities; 3) certain marketable direct obligations of state, local, or tribal government units or agencies that are investment quality; 4) MBS or asset-backed securities backed by manufactured housing loans or home equity loans; and 5) certain foreign housing loans authorized under Section 12(b) of the FHLB Act;
- non-U.S. dollar denominated securities;
- interest-only or principal-only stripped MBS;
- residual-interest or interest-accrual classes of collateralized mortgage obligations and real estate mortgage investment conduits; and
- fixed-rate MBS or floating-rate MBS that, on trade date, are at rates equal to their contractual cap and that have average lives that vary by more than six years under an assumed instantaneous interest rate change of 300 basis points.

### **Acquired Member Assets ("AMA")**

Through the MPF program, the Bank currently invests in conventional residential mortgage loans originated by its PFIs. The Bank previously purchased conventional mortgage loans and government-guaranteed/insured mortgage loans (i.e., those insured or guaranteed by the Federal Housing Administration or the Department of Veterans Affairs) during the period from 1998 to mid-2003, and resumed acquiring conventional mortgage loans under this program in early 2016. All of the mortgage loans acquired during the period from 2016 to 2023 were originated by certain of the Bank's PFIs and the Bank acquired a 100 percent interest in such loans. For the loans that were acquired from its members during the period from 1998 to mid-2003, the Bank retained title to the mortgage loans, subject to any participation interest in such loans that was sold to the FHLBank of Chicago; the interest in the loans retained by the Bank ranged from 1 percent to 49 percent. Additionally, during the period from 1998 to 2000, the Bank also acquired from the FHLBank of Chicago a percentage interest (ranging up to 75 percent) in certain MPF loans originated by PFIs of other FHLBanks. Substantially all of the \$5.0 billion (unpaid principal balance) of mortgage loans on the Bank's balance sheet at December 31, 2023 were conventional loans acquired during the period from 2016 through 2023.

The Bank manages the liquidity, interest rate and prepayment risk of these loans, while the PFIs or their designees retain the servicing activities. The Bank and the PFIs share in the credit risk of the loans with the Bank assuming a limited first loss obligation defined as the First Loss Account ("FLA"), and the PFIs assuming credit losses in excess of the FLA, up to the amount of the required credit enhancement obligation ("CE Obligation") as specified in the master agreement ("Second Loss Credit Enhancement"). Depending on the MPF product structure, the FLA is either a memo account calculated as the cumulative amount of a specified portion of the monthly interest payments on the MPF loans (e.g., 4 basis points, annualized, per month), or a specified percentage amount of MPF loans outstanding (e.g., 35 basis points of the principal amount of the loans). In the first case, the Bank's first loss obligation is limited to the accumulated amount of the FLA, while in the second case the Bank's first loss obligation is limited to the specified percentage of the loans outstanding, subject to recovery from future credit enhancement fees otherwise payable to the PFI as described below.

The CE Obligation is the amount of credit enhancement needed for a pool of loans delivered under a master commitment to be considered "AMA investment grade," which is defined in the Finance Agency's regulations as sufficient credit enhancement such that the Bank expects to be "paid principal and interest in all material respects, even under reasonably likely adverse changes to expected economic conditions." The Bank assumes all losses in excess of the Second Loss Credit Enhancement. As further described below, the PFIs are paid a fee by the Bank for assuming a portion of the credit risk of the loans.

The PFI's CE Obligation arises under its PFI Agreement while the amount and nature of the obligation are determined with respect to each master commitment. Under the Finance Agency's Acquired Member Asset regulation (12 C.F.R. part 1268) ("AMA Regulation"), the PFI must "bear the economic consequences" of certain credit losses with respect to a master commitment based upon the MPF product and other criteria. Under the MPF program, the PFI's credit enhancement protection may take the form of the CE Obligation, which represents the direct liability to pay credit losses incurred with respect to that master commitment, or may require the PFI to obtain and pay for a supplemental mortgage insurance ("SMI") policy insuring the Bank for a portion of the credit losses arising from the master commitment, and/or the PFI may contract for a contingent performance-based credit enhancement fee whereby such fees are reduced by losses up to a certain amount arising under the master commitment. The credit risk-sharing structures utilized by the Bank during the period from 2016 through 2023 did not include SMI. Under the AMA Regulation, any portion of the CE Obligation that is a PFI's direct liability must be collateralized by the PFI in the same way that advances are collateralized. The PFI Agreement provides that the PFI's obligations under the PFI Agreement are secured along with other obligations of the PFI under its regular advances agreement with the Bank and, further, that the Bank may request additional collateral to secure the PFI's obligations. PFIs are paid a credit enhancement fee

("CE fee") as an incentive to minimize credit losses, to share in the risk of loss on MPF loans and to pay for SMI (if applicable), rather than paying a guaranty fee to other secondary market purchasers. CE fees are paid monthly and are determined based on the remaining unpaid principal balance of the MPF loans. The required CE Obligation may vary depending on the MPF product alternatives selected. The Bank also pays performance-based CE fees that are based on the actual performance of the pool of MPF loans under each individual master commitment. To the extent that losses incurred by the Bank as part of its first loss obligation in the current month exceed accrued performance-based CE fees, the remaining losses may be recovered from future performance-based CE fees payable to the PFI.

PFI's must comply with the requirements of the PFI agreement, MPF guides, applicable law and the terms of mortgage documents. If a PFI fails to comply with any of these requirements, it may be required to repurchase the MPF loans that are impacted by such failure. The reasons that a PFI could be required to repurchase an MPF loan include, but are not limited to, the failure of the loan to meet underwriting standards, the PFI's failure to deliver a qualifying promissory note and certain other relevant documents to an approved custodian, a servicing breach, fraud or other misrepresentations by the PFI. In addition, a PFI may, under the terms of the MPF servicing guide, elect to repurchase any government-guaranteed/insured loan for an amount equal to the loan's then current scheduled principal balance and accrued interest thereon, provided no payment has been made by the borrower for three consecutive months. This policy allows PFI's to comply with loss mitigation requirements of the applicable government agency in order to preserve the insurance guaranty coverage.

As of December 31, 2023 and 2022, MPF loans held for portfolio (net of allowance for credit losses) were \$5.089 billion and \$4.395 billion, respectively, representing approximately 4.0 percent and 3.8 percent, respectively, of the Bank's total assets at each of those dates. Over time, the Bank expects to increase the balance of its mortgage loan portfolio to an amount that approximates 10 percent to 15 percent of its total assets. Currently, the Bank intends to continue to acquire a 100 percent interest in the mortgage loans that it purchases from its PFI's.

On June 3, 2020, the Finance Agency issued a final rule which amended the FHLBank housing goals regulation. Beginning in 2023, the rule establishes a mortgage purchase housing goal target in which 20 percent of any mortgage loans that are purchased in a calendar year (based on the number of loans acquired) must be comprised of loans to low-income or very low-income families, or to families in low-income areas. The rule also establishes a separate small member participation housing goal. Under this provision of the rule, a target level of 50 percent of a FHLBank's members that are selling mortgage loans to the FHLBank in a calendar year must be small members. Small members are defined as any AMA user whose average total assets over the three-year period culminating in the year preceding the one being reviewed are no greater than the applicable community-based AMA user cap (which is the same cap that is used to define CFIs). The rule's housing goals apply to each FHLBank that acquires any mortgage loans during a calendar year, eliminating the previous \$2.5 billion volume threshold that, if met, triggered the application of housing goals for each FHLBank. If the Finance Agency determines that a FHLBank has failed to meet any housing goal and the achievement of that housing goal was feasible, it may require the FHLBank to submit a housing plan for approval. Among other things, the housing plan would need to describe the specific actions that the FHLBank will take to achieve the housing goal for the next calendar year. In 2023, the Bank met each of the two housing goals. During the year ended December 31, 2023, 22.8 percent of the mortgage loans purchased by the Bank were comprised of loans that were made to low-income or very low-income families, or to families in low-income areas and 57.5 percent of members that sold mortgage loans to the Bank were small members. It is possible that this rule could limit the Bank's future purchase volumes. In addition, the rule could negatively impact PFI's ability to sell loans to the Bank.

### **Core Mission Achievement**

On July 14, 2015, the Finance Agency issued an Advisory Bulletin ("AB 2015-05") that provides guidance to the FHLBanks regarding core mission achievement. As stipulated in AB 2015-05, the Finance Agency assesses each FHLBank's core mission achievement by calculating the ratio of a FHLBank's primary mission assets (defined for this purpose as advances and mortgage loans held for portfolio) relative to its consolidated obligations (hereinafter referred to as the core mission asset or "CMA" ratio). On August 23, 2018, the Finance Agency issued an Advisory Bulletin that, among other things, allows each FHLBank (beginning January 1, 2019) to adjust its CMA ratio (as defined in AB 2015-05) by deducting from the ratio's denominator the FHLBank's holdings of U.S. Treasury securities with a remaining maturity no greater than 10 years that are classified as trading or available-for-sale. The CMA ratio is calculated for each calendar year using annual average par values.

AB 2015-05 also provides the Finance Agency's expectations for each FHLBank's strategic plan based on the FHLBank's CMA ratio, which are:

- when the CMA ratio is 70 percent or higher, the strategic plan should include an assessment of the FHLBank's prospects for maintaining that level of core mission achievement;
- when the CMA ratio is at least 55 percent but less than 70 percent, the strategic plan should explain the FHLBank's plans to increase its mission focus; and

- when the CMA ratio is below 55 percent, the strategic plan should include a robust explanation of the circumstances that caused the CMA ratio to be below that level, as well as a detailed description of the FHLBank's plans to increase the ratio. AB 2015-05 provides that if a FHLBank has a CMA ratio below 55 percent over the course of several consecutive reviews, then the FHLBank's board of directors should consider possible strategic alternatives as part of its strategic planning.

For the years ended December 31, 2023, 2022 and 2021, the Bank's CMA ratio was 76.7 percent, 73.0 percent and 66.4 percent, respectively.

The elevated levels of liquidity in the financial markets stemming from COVID-19 relief measures taken by the U.S. government dampened demand for the Bank's advances during 2021. Further, during that same year, the Bank's mortgage loans held for portfolio declined due to a combination of significant prepayment activity (due to historically low mortgage rates) and reduced purchase volumes (due to the Bank's less competitive mortgage pricing in the wake of the Federal Reserve's purchases of agency securities to support the flow of credit in the financial markets). The reductions in the Bank's advances and mortgage loans held for portfolio negatively impacted the Bank's CMA ratio in 2021. In 2022 and 2023, demand for advances increased significantly and mortgage prepayments moderated as a result of higher mortgage rates, both of which contributed to an increase in the Bank's CMA ratio for 2022 and 2023.

For 2024, the Bank's goal is to maintain a CMA ratio of at least 70 percent. Among other things, the achievement of this goal will be dependent upon the level of demand for advances, the volume of mortgage loan purchases and prepayments, and the Bank's ability to prudently manage the level and composition of its liquidity portfolio. Currently, the Bank believes that it can achieve this goal while at the same time continuing to acquire additional long-term investments, albeit in amounts that are likely less than the amounts that could otherwise be purchased under rules that are applicable to its investment activities. If at some point in the future the Bank expected that its CMA ratio could fall below 70 percent due, for example, to a significant and unexpected decline in advances, the Bank could choose to rely more heavily on U.S. Treasury securities to meet its liquidity requirements (given the favorable treatment afforded such investments in the Bank's CMA ratio relative to other short-term investment alternatives) and/or it could elect to selectively reduce the size of its long-term investment portfolio by selling assets. Reducing the size of the Bank's long-term investment portfolio would have the effect of reducing its future earnings. Similarly, investing in U.S. Treasury securities rather than alternative short-term investments would likely reduce the Bank's earnings. The Bank has no current plan to sell any long-term investments.

### **Funding Sources**

**General.** The principal funding source for the Bank is consolidated obligations issued in the capital markets through the Office of Finance. Member deposits and the proceeds from the issuance of capital stock are also funding sources for the Bank. Consolidated obligations consist of consolidated obligation bonds and consolidated obligation discount notes. Discount notes are consolidated obligations with maturities of one year or less, and consolidated obligation bonds typically have maturities in excess of one year.

The Bank determines its participation in the issuance of consolidated obligations based upon, among other things, its own funding and operating requirements and the amounts, maturities, rates of interest and other terms available in the marketplace. In collaboration with the FHLBanks, the issuance terms for consolidated obligations are established by the Office of Finance, subject to policies established by its board of directors and the regulations of the Finance Agency. In addition, the Government Corporation Control Act provides that, before a government corporation issues and offers obligations to the public, the U.S. Secretary of the Treasury shall prescribe the form, denomination, maturity, interest rate, and conditions of the obligations, the way and time issued, and the selling price.

Consolidated obligation bonds generally satisfy long-term funding needs. Typically, the maturities of these securities range from 1 to 20 years, but their maturities are not subject to any statutory or regulatory limit. Consolidated obligation bonds can be fixed-rate or variable-rate and may be callable or non-callable.

Consolidated obligation bonds are issued and distributed through negotiated or competitively bid transactions with underwriters or bidding group members. The Bank receives 100 percent of the proceeds of bonds issued through direct negotiation with underwriters of System debt when it is the sole primary obligor on consolidated obligation bonds. When the Bank and one or more other FHLBanks jointly agree to the issuance of bonds directly negotiated with underwriters, the Bank receives the portion of the proceeds of the bonds agreed upon with the other FHLBanks; in those cases, the Bank is the primary obligor for a pro rata portion of the bonds based on the proceeds it receives. In these cases, the Bank records on its balance sheet only that portion of the bonds for which it is the primary obligor. The majority of the Bank's consolidated obligation bond issuance has been conducted through direct negotiation with underwriters of System debt, and a majority of that issuance has been without participation by the other FHLBanks.

The Bank may also request that specific amounts of specific bonds be offered by the Office of Finance for sale through competitive auction conducted with underwriters that are bidding group members. One or more other FHLBanks may also request that amounts of these same bonds be offered for sale for their benefit through the same auction. The Bank may receive

from zero to 100 percent of the proceeds of the bonds issued through competitive auction depending on the amounts and costs for the bonds bid by underwriters, the maximum costs the Bank or other FHLBanks, if any, participating in the same issue are willing to pay for the bonds, and Office of Finance guidelines for allocation of bond proceeds among multiple participating FHLBanks.

Consolidated obligation discount notes are a significant funding source for money market instruments and for advances with short-term maturities or repricing frequencies of less than one year, or advances for which the interest rate is indexed to discount notes. Discount notes are sold at a discount and mature at par, and are offered daily through a consolidated obligation discount notes selling group and through other authorized securities dealers.

On a daily basis, the Bank may request that specific amounts of consolidated obligation discount notes with specific maturity dates be offered by the Office of Finance at a specific cost for sale to securities dealers in the discount note selling group. One or more other FHLBanks may also request that amounts of discount notes with the same maturities be offered for sale for their benefit on the same day. The Office of Finance commits to issue discount notes on behalf of the participating FHLBanks when securities dealers in the selling group submit orders for the specific discount notes offered for sale. The Bank may receive from zero to 100 percent of the proceeds of the discount notes issued through this sales process depending on the maximum costs the Bank or other FHLBanks, if any, participating in the same discount notes are willing to pay for the discount notes, the amounts of orders for the discount notes submitted by securities dealers, and Office of Finance guidelines for allocation of discount note proceeds among multiple participating FHLBanks. Under the Office of Finance guidelines, FHLBanks generally receive funding on a first-come-first-served basis subject to threshold limits within each category of discount notes. For overnight discount notes, sales are allocated to the FHLBanks in lots of \$250 million for identical commitments. For all other discount note maturities, sales are allocated in lots of \$50 million. Within each category of discount notes, the allocation process is repeated until all orders are filled or canceled.

Twice weekly, the Bank may also request that specific amounts of consolidated obligation discount notes with fixed maturity dates ranging from 4 to 26 weeks be offered by the Office of Finance through competitive auctions conducted through securities dealers in the discount note selling group. One or more other FHLBanks may also request that amounts of those same discount notes be offered for sale for their benefit through the same auction. The discount notes offered for sale through competitive auction are not subject to a limit on the maximum costs the FHLBanks are willing to pay. The FHLBanks receive funding at a single price based on a Dutch auction format. If the bids submitted are less than the total of the FHLBanks' requests, the Bank receives funding based on the ratio of the Bank's regulatory capital (defined on page 40 of this report) relative to the regulatory capital of the other FHLBanks offering discount notes. The majority of the Bank's discount note issuance in maturities of 4 weeks or longer is conducted through the auction process. Regardless of the method of issuance, as with consolidated obligation bonds, the Bank is the primary obligor for the portion of discount notes issued for which it has received the proceeds.

On occasion, and as an alternative to issuing new debt, the Bank may assume the outstanding consolidated obligations for which other FHLBanks are the original primary obligors. This occurs in cases where the original primary obligor may have participated in a large consolidated obligation issue to an extent that exceeded its immediate funding needs in order to facilitate better market execution for the issue. The original primary obligor might then warehouse the funds until they were needed, or make the funds available to other FHLBanks. Transfers may also occur when the original primary obligor's funding needs change, and that FHLBank offers to transfer debt that is no longer needed to other FHLBanks. Transferred debt is typically fixed-rate, fixed-term, non-callable debt, and may be in the form of discount notes or bonds. In connection with these transactions, the Bank becomes the primary obligor for the transferred debt.

The Bank participates in such transfers of funding from other FHLBanks when the transfer represents favorable pricing relative to a new issue of consolidated obligations with similar features. During the first quarter of 2023, the Bank assumed one SOFR-indexed consolidated obligation bond with a par value of \$1.0 billion from the FHLBank of Topeka. The bond matured and was repaid during the second quarter of 2023. The Bank did not assume any other consolidated obligations from other FHLBanks during the years ended December 31, 2023, 2022 or 2021.

In addition, the Bank occasionally transfers debt that it no longer needs to other FHLBanks. The Bank did not transfer any consolidated obligations to other FHLBanks during the years ended December 31, 2023, 2022 or 2021.

Joint and Several Liability. Although the Bank is primarily liable only for its portion of consolidated obligations (i.e., those consolidated obligations issued on its behalf and those that have been assumed from other FHLBanks), it is also jointly and severally liable with the other FHLBanks for the payment of principal and interest on all of the consolidated obligations issued by the FHLBanks. The Finance Agency, in its discretion, may require any FHLBank to make principal or interest payments due on any consolidated obligation, regardless of whether there has been a default by a FHLBank having primary liability. To the extent that a FHLBank makes any payment on a consolidated obligation on behalf of another FHLBank, the paying FHLBank shall be entitled to reimbursement from the FHLBank with primary liability. The FHLBank with primary liability would have a corresponding liability to reimburse the FHLBank providing assistance to the extent of such payment and other associated costs

(including interest to be determined by the Finance Agency). However, if the Finance Agency determines that the primarily liable FHLBank is unable to satisfy its obligations, then the Finance Agency may allocate the outstanding liability among the remaining FHLBanks on a pro rata basis in proportion to each FHLBank's participation in all consolidated obligations outstanding, or on any other basis that the Finance Agency may determine. No FHLBank has ever failed to make any payment on a consolidated obligation for which it was the primary obligor; as a result, the regulatory provisions for directing other FHLBanks to make payments on behalf of another FHLBank or allocating the liability among other FHLBanks have never been invoked. Consequently, the Bank has no means to determine how the Finance Agency might allocate the obligations of a FHLBank that is unable to pay consolidated obligations for which such FHLBank is primarily liable. If principal of or interest on any consolidated obligation issued by the FHLBank System is not paid in full when due, the Bank may not pay dividends to, or repurchase shares of stock from, any shareholder of the Bank.

The FHLBanks and the Office of Finance are parties to the Amended and Restated Federal Home Loan Banks P&I Funding and Contingency Plan Agreement which is designed to facilitate the timely funding of principal and interest payments on FHLBank System consolidated obligations in the event that a FHLBank is not able to meet its funding obligations in a timely manner. For additional information regarding this agreement, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources.

According to the Office of Finance, the 11 FHLBanks had (at par value) approximately \$1.204 trillion and \$1.182 trillion in consolidated obligations outstanding at December 31, 2023 and 2022, respectively. The Bank was the primary obligor on \$119.8 billion and \$109.1 billion (at par value), respectively, of these consolidated obligations.

Certification and Reporting Obligations. Under Finance Agency regulations, before the end of each calendar quarter and before paying any dividends for that quarter, the President and Chief Executive Officer of the Bank must certify to the Finance Agency that, based upon known current facts and financial information, the Bank will remain in compliance with its depository and liquidity requirements and will remain capable of making full and timely payment of all current obligations (which includes the Bank's obligation to pay principal of and interest on consolidated obligations) coming due during the next quarter. The Bank is required to provide notice to the Finance Agency if it (i) is unable to provide the required certification, (ii) projects at any time that it will fail to comply with its liquidity requirements or will be unable to meet all of its current obligations due during the quarter, (iii) actually fails to comply with its liquidity requirements or to meet all of its current obligations due during the quarter, or (iv) negotiates to enter into or enters into an agreement with one or more other FHLBanks to obtain financial assistance to meet its current obligations due during the quarter. The Bank has been in compliance with the applicable reporting requirements at all times since they became effective in 1999.

A FHLBank must file a consolidated obligation payment plan for the Finance Agency's approval if (i) the FHLBank becomes a non-complying FHLBank as a result of failing to provide the required certification, (ii) the FHLBank becomes a non-complying FHLBank as a result of being required to provide the notice described above to the Finance Agency, except in the case of a failure to make a payment on a consolidated obligation caused solely by an external event such as a power failure, or (iii) the Finance Agency determines that the FHLBank will cease to be in compliance with its liquidity requirements or will lack the capacity to meet all of its current obligations due during the quarter.

A non-complying FHLBank is permitted to continue to incur and pay normal operating expenses in the regular course of business, but may not incur or pay any extraordinary expenses, or declare or pay dividends, or redeem any capital stock, until such time as the Finance Agency has approved the FHLBank's consolidated obligation payment plan or inter-FHLBank assistance agreement, or ordered another remedy, and all of the non-complying FHLBank's direct obligations have been paid.

Negative Pledge Requirements. Each FHLBank must maintain specified assets free from any lien or pledge in an amount at least equal to its participation in outstanding consolidated obligations. Eligible assets for this purpose include (i) cash; (ii) obligations of, or fully guaranteed by, the U.S. government; (iii) secured advances; (iv) mortgages having any guaranty, insurance, or commitment from the U.S. government or any related agency; and (v) investments described in Section 16(a) of the FHLB Act, which, among other items, include securities that a fiduciary or trust fund may purchase under the laws of the state in which the FHLBank is located. At December 31, 2023 and 2022, the Bank had eligible assets free from pledge of \$127.2 billion and \$113.8 billion, respectively, compared to its participation in outstanding consolidated obligations of \$119.8 billion and \$109.1 billion, respectively. In addition, the Bank was in compliance with its negative pledge requirements at all times during the years ended December 31, 2023, 2022 and 2021.

Office of Finance. The Office of Finance ("OF") is a joint office of the 11 FHLBanks that executes the issuance of consolidated obligations, as agent, on behalf of the FHLBanks. The OF also services all outstanding consolidated obligation debt, serves as a source of information for the FHLBanks on capital market developments, manages the FHLBank System's relationship with rating agencies as it pertains to the consolidated obligations, and prepares and distributes the annual and quarterly combined financial reports for the FHLBanks.

The OF's board of directors is comprised of 16 directors: the 11 FHLBank presidents, who serve *ex officio*, and 5 independent directors, who each serve five-year terms that are staggered so that not more than one independent directorship is scheduled to



become vacant in any one year. Independent directors are limited to two consecutive full terms. Independent directors must be United States citizens. As a group, the independent directors must have substantial experience in financial and accounting matters and they must not have any material relationship with any FHLBank or the OF.

One of the responsibilities of the board of directors of the OF is to establish policies regarding consolidated obligations to ensure that, among other things, such obligations are issued efficiently and at the lowest all-in funding costs for the FHLBanks over time consistent with prudent risk management practices and other market and regulatory factors.

The Finance Agency has regulatory oversight and enforcement authority over the OF and its directors and officers generally to the same extent as it has such authority over a FHLBank and its respective directors and officers. The FHLBanks are responsible for jointly funding the monthly expenses of the OF, which, since July 1, 2023, are shared on a pro rata basis with two-thirds based on each FHLBank's total consolidated obligations outstanding (calculated as an average of the prior 12 month-end balances) and one-third divided equally among all of the FHLBanks. Prior to July 1, 2023, two-thirds of the OF's monthly expenses were shared on a pro rata basis based on each FHLBank's total consolidated obligations outstanding as of the prior month-end and one-third was divided equally among all of the FHLBanks.

### **Use of Interest Rate Exchange Agreements**

Finance Agency regulations authorize and establish general guidelines for the FHLBanks' use of derivative instruments, and the Bank's Enterprise Market Risk Management Policy establishes specific guidelines for their use. The Bank can use interest rate swaps, swaptions, cap and floor agreements, calls, puts, and futures and forward contracts as part of its interest rate risk management and funding strategies. Regulations prohibit derivative instruments that do not qualify as hedging instruments pursuant to U.S. GAAP unless a non-speculative use is documented.

In general, the Bank uses interest rate exchange agreements in three ways: (1) by designating the agreement as a fair value hedge of a specific financial instrument or firm commitment; (2) by designating the agreement as a cash flow hedge of a forecasted transaction; or (3) by designating the agreement as a hedge of some defined risk in the course of its balance sheet management. For example, the Bank uses interest rate exchange agreements in its overall interest rate risk management activities to adjust the interest rate sensitivity of consolidated obligations to approximate more closely the interest rate sensitivity of its assets, including advances and investments, and/or to adjust the interest rate sensitivity of advances and investments to approximate more closely the interest rate sensitivity of its liabilities. In addition to using interest rate exchange agreements to manage mismatches between the coupon features of its assets and liabilities, the Bank uses interest rate exchange agreements to manage embedded options in assets and liabilities, to preserve the market value of existing assets and liabilities and to reduce funding costs.

The Bank frequently enters into interest rate exchange agreements concurrently with the issuance of consolidated obligation bonds and it simultaneously designates the agreement as a fair value hedge. This strategy of issuing bonds while simultaneously entering into interest rate exchange agreements enables the Bank to offer a wider range of attractively priced advances to its members. The attractiveness of such debt generally depends on yield relationships between the consolidated obligation bond and interest rate exchange markets. As conditions in these markets change, the Bank may alter the types or terms of the consolidated obligations that it issues.

To a lesser extent, the Bank uses interest rate exchange agreements to hedge the variability of cash flows associated with the forecasted issuances of consolidated obligation discount notes.

For further discussion of interest rate exchange agreements, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Derivatives and Hedging Activities and the audited financial statements accompanying this report.

### **Competition**

Demand for the Bank's advances is affected by, among other things, the cost of other available sources of funds for its members, including deposits. The Bank competes with other suppliers of wholesale funding, both secured and unsecured, including investment banking concerns, commercial banks, the Federal Reserve and, in certain circumstances, other FHLBanks. Historically, sources of wholesale funds for its members have included unsecured long-term debt, unsecured short-term debt such as federal funds, repurchase agreements and deposits issued into the brokered certificate of deposit market. The availability of funds through these wholesale funding sources can vary from time to time as a result of a variety of factors including, among others, market conditions, members' creditworthiness and availability of collateral. The availability of these alternative private funding sources could significantly influence the demand for the Bank's advances. The Bank competes against other financing sources on the basis of cost, the relative ease by which the members can access the various sources of funds, collateral requirements, and the flexibility desired by the member when structuring the liability.

As a debt issuer, the Bank competes with Fannie Mae, Freddie Mac and other GSEs, as well as corporate, sovereign and supranational entities for funds raised in the national and global debt markets. Increases in the supply of competing debt

products could, in the absence of increases in demand, result in higher debt costs for the FHLBanks. Although investor demand for FHLBank debt has historically been sufficient to meet the Bank's funding needs, there can be no assurance that this will always be the case.

## **Capital**

The Bank's capital consists of capital stock owned by its members (and, in some cases, non-member borrowers or former members as described below), plus retained earnings and accumulated other comprehensive income (loss). Consistent with the FHLB Act and the Finance Agency's regulations, the Bank's Capital Plan requires each member to own Class B stock (redeemable with five years' written notice subject to certain restrictions) in an amount equal to the sum of a membership investment requirement and an activity-based investment requirement. Specifically, the Bank's Capital Plan requires members to hold capital stock in proportion to their total asset size and borrowing activity with the Bank. Members are also required to hold capital stock for letters of credit that are issued or renewed on and after April 19, 2021.

The Bank's capital stock is not publicly traded and it may be issued, repurchased, redeemed and, with the prior approval of the Bank, transferred only at its par value. In addition, the Bank's capital stock may only be held by members of the Bank, by non-member institutions that acquire stock by virtue of acquiring member institutions, by a federal or state agency or insurer acting as a receiver of a closed institution, or by former members of the Bank that retain capital stock to support advances or other obligations that remain outstanding or until any applicable stock redemption or withdrawal notice period expires.

The Bank has two sub-classes of Class B Stock. Class B-1 Stock is used to meet the membership investment requirement and Class B-2 Stock is used to meet the activity-based investment requirement. Subject to the limitations in the Capital Plan, the Bank converts shares of one sub-class of Class B Stock to the other sub-class of Class B Stock under the following circumstances: (i) shares of Class B-2 Stock held by a shareholder in excess of its activity-based investment requirement are converted into Class B-1 Stock, if necessary, to meet that shareholder's membership investment requirement and (ii) shares of Class B-1 Stock held by a shareholder in excess of the amount required to meet its membership investment requirement are converted into Class B-2 Stock as needed in order to satisfy that shareholder's activity-based investment requirement. All excess stock is held as Class B-1 Stock at all times.

For more information about the Bank's minimum capital requirements, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk-Based Capital Rules and Other Capital Requirements.

Retained Earnings. The Bank has a retained earnings policy that calls for the Bank to maintain retained earnings in an amount at least sufficient to protect the par value of the Bank's capital stock against potential economic losses that could arise from a variety of designated risk factors. The Bank updates its retained earnings target calculations quarterly under an analytic framework that takes into account the potential losses for each risk factor generally at the 99 percent confidence stress level, or a stress scenario that approximates the 99<sup>th</sup> percentile. The Board of Directors reviews the Bank's retained earnings policy annually and revises the methodology as appropriate. The Bank's current retained earnings policy target is described in Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

On February 28, 2011, the Bank entered into a Joint Capital Enhancement Agreement (the "JCE Agreement") with the other FHLBanks. Effective August 5, 2011, the FHLBanks amended the JCE Agreement (the "Amended JCE Agreement"), and the Finance Agency approved an amendment to the Bank's Capital Plan to incorporate its provisions on that same date. The Amended JCE Agreement provides that the Bank (and each of the other FHLBanks) will, on a quarterly basis, allocate at least 20 percent of its net income to a separate restricted retained earnings account ("RRE Account"). Pursuant to the provisions of the Amended JCE Agreement, the Bank is required to build its RRE Account to an amount equal to one percent of its total outstanding consolidated obligations, which for this purpose is based on the most recent quarter's average carrying value of all consolidated obligations, excluding hedging adjustments ("Total Consolidated Obligations").

The Amended JCE Agreement provides that any quarterly net losses incurred by the Bank may be netted against its net income, if any, for other quarters during the same calendar year to determine the minimum required year-to-date or annual allocation to its RRE Account. In the event the Bank incurs a net loss for a cumulative year-to-date or annual period, the Bank may decrease the amount of its RRE Account such that the cumulative year-to-date or annual addition to its RRE Account is zero and the Bank shall apply any remaining portion of the net loss first to reduce retained earnings that are not restricted retained earnings until such retained earnings are reduced to zero, and thereafter may apply any remaining portion of the net loss to reduce its RRE Account. For any subsequent calendar quarter in the same calendar year, the Bank may decrease the amount of its quarterly allocation to its RRE Account in that subsequent calendar quarter such that the cumulative year-to-date addition to the RRE Account is equal to 20 percent of the amount of such cumulative year-to-date net income. In the event the Bank sustains a net loss for a calendar year, any such net loss first shall be applied to reduce retained earnings that are not restricted retained earnings until such retained earnings are reduced to zero, and thereafter any remaining portion of the net loss for the calendar year may be applied to reduce the Bank's RRE Account. If during a period in which the Bank's RRE Account is less than one percent of its Total Consolidated Obligations, the Bank incurs a net loss for a cumulative year-to-date or annual period that results in a decrease to the balance of its RRE Account as of the beginning of that calendar year, the Bank's quarterly allocation

requirement shall thereafter increase to 50 percent of quarterly net income until the cumulative difference between the allocations made at the 50 percent rate and the allocations that would have been made at the regular 20 percent rate is equal to the amount of the decrease to the balance of its RRE Account at the beginning of that calendar year.

The Amended JCE Agreement provides that if the Bank's RRE Account exceeds 1.5 percent of its Total Consolidated Obligations, the Bank may transfer amounts from its RRE Account to its unrestricted retained earnings account, but only to the extent that the balance of its RRE Account remains at least equal to 1.5 percent of the Bank's Total Consolidated Obligations immediately following such transfer.

The Amended JCE Agreement further provides that the Bank may not pay dividends out of its RRE Account, nor may it reallocate or transfer amounts out of its RRE Account except as described above. In addition, during periods in which the Bank's RRE Account is less than one percent of its Total Consolidated Obligations, the Bank may not pay dividends out of the amount of its quarterly net income that is required to be allocated to its RRE Account.

**Dividends.** Subject to the FHLB Act, Finance Agency regulations and other Finance Agency directives, the Bank pays dividends to holders of its capital stock quarterly or as otherwise determined by its Board of Directors. The Board of Directors may declare dividends at the same rate for all shares of Class B Stock, or at different rates for Class B-1 Stock and Class B-2 Stock, provided that in no event can the dividend rate on Class B-2 Stock be lower than the dividend rate on Class B-1 Stock. Dividends may be paid in the form of cash, additional shares of either, or both, sub-classes of Class B Stock, or a combination thereof as determined by the Bank's Board of Directors. The dividend rates on Class B-1 Stock and Class B-2 Stock are paid on all shares of Class B-1 Stock and Class B-2 Stock, respectively, regardless of their classification for accounting purposes. The Bank is permitted by statute and regulation to pay dividends only from previously retained earnings or current net earnings, and the payment of dividends is also subject to the terms of the Amended JCE Agreement.

Because the Bank's returns from net interest income generally track short-term interest rates, the Bank benchmarks the dividend rate that it pays on capital stock to a short-term index. Until recently, the index used for this purpose was one-month LIBOR. In anticipation of the discontinuance of one-month LIBOR after June 30, 2023, the Bank's Board of Directors adopted new dividend target ranges for Class B-1 and Class B-2 Stock that became effective beginning with the dividends that were paid in the second quarter of 2023, such that they are indexed to the average overnight SOFR rate. While there can be no assurances about future dividends or future dividend rates, the target range for quarterly dividends on Class B-1 Stock is an annualized rate that approximates the average overnight SOFR rate plus 0 – 0.5 percent and the target range for quarterly dividends on Class B-2 Stock is an annualized rate that approximates the average overnight SOFR rate plus 1.0 – 1.5 percent.

The Bank generally pays dividends in the form of capital stock. When dividends are paid, capital stock is issued in full shares and any fractional shares are paid in cash. For a more detailed discussion of the Bank's dividend policy and the restrictions relating to its payment of dividends, see Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### **AHP Assessments**

Although the Bank is exempt from all federal, state, and local income taxes, the FHLB Act requires each FHLBank to establish and fund an AHP. Annually, the FHLBanks must collectively set aside for the AHP the greater of \$100 million or 10 percent of their current year's income before AHP expenses. Interest expense on capital stock that is classified as a liability (i.e., mandatorily redeemable capital stock) is added back to income for purposes of computing the Bank's AHP assessment.

#### **Regulatory Oversight**

As discussed above, the Finance Agency supervises and regulates the FHLBanks and the OF. The Finance Agency has a statutory responsibility and corresponding authority to ensure that the FHLBanks operate in a safe and sound manner. Consistent with that duty, the Finance Agency has an additional responsibility to ensure the FHLBanks carry out their housing and community development finance mission. In order to carry out those responsibilities, the Finance Agency establishes regulations governing the entire range of operations of the FHLBanks, conducts ongoing off-site monitoring and supervisory reviews, performs annual on-site examinations and periodic interim on-site reviews, and requires the FHLBanks to submit daily, monthly and quarterly information including, but not limited to, information regarding their financial condition, results of operations, advances activity, liquidity and risk metrics.

The Comptroller General of the United States (the "Comptroller General") has authority under the FHLB Act to audit or examine the Finance Agency and the Bank and to decide the extent to which they fairly and effectively fulfill the purposes of the FHLB Act. Furthermore, the Government Corporation Control Act provides that the Comptroller General may review any audit of a FHLBank's financial statements conducted by an independent registered public accounting firm. If the Comptroller General conducts such a review, then he or she must report the results and provide his or her recommendations to Congress, the Office of Management and Budget, and the FHLBank in question. The Comptroller General may also conduct his or her own audit of the financial statements of any FHLBank.

As an SEC registrant, the Bank is subject to the periodic reporting and disclosure regime as administered and interpreted by the SEC. The Bank must also submit annual management reports to Congress, the President of the United States, the Office of Management and Budget, and the Comptroller General; these reports are required to include a statement of financial condition, a statement of operations, a statement of cash flows, a statement of internal accounting and administrative control systems, and the report of the independent registered public accounting firm on the financial statements. In addition, the Treasury receives the Finance Agency's annual report to Congress and other reports reflecting the operations of the FHLBanks.

### **Legislative and Regulatory Developments**

#### ***Finance Agency Proposed Rule on Fair Lending, Fair Housing, and Equitable Housing Finance Plans***

On April 26, 2023, the Finance Agency published a proposed rule that, if adopted, would specify requirements related to FHLBank compliance with fair housing and fair lending laws and prohibitions on unfair or deceptive acts or practices. The fair housing and fair lending laws referenced in the proposed rule are the Fair Housing Act, the Equal Credit Opportunity Act, and the regulations that implement those acts. Further, the proposed rule would outline the Finance Agency's enforcement authority. The proposed rule was open for public comment through June 26, 2023. The Bank is currently evaluating the potential impact that the proposed rule could have on its business and operations.

#### ***Finance Agency's Review and Analysis of the FHLBank System***

In August 2022, the Finance Agency launched a comprehensive review and analysis of the FHLBank System. As part of its review and analysis, the Finance Agency solicited written input from stakeholders and held a series of public listening sessions and regional roundtable discussions. The review covered such areas as the FHLBanks' mission and purpose in a changing marketplace; their organization, operational efficiency, and effectiveness; their role and level of support in promoting affordable, sustainable, equitable, and resilient housing and community investment; their role in addressing the unique needs of rural and financially vulnerable communities; member products, services, and collateral requirements; and membership eligibility and requirements.

On November 7, 2023, the Finance Agency issued a written report which sets forth the actions it intends to take or consider based on its review and analysis. The report, entitled *FHLBank System at 100: Focusing on the Future*, categorizes these actions under four broad themes: (1) mission of the FHLBank System; (2) stable and reliable source of liquidity; (3) housing and community development; and (4) FHLBank System operational efficiency, structure, and governance. Among other things, the Finance Agency indicated that it will likely pursue actions related to:

- a. Requiring that certain members have at least 10 percent of their assets in residential mortgage loans or equivalent mission assets (including assets that qualify as CFI collateral where appropriate) on an ongoing basis to remain eligible for FHLBank financing;
- b. Preserving the benefits of FHLBank debt issuance for all members by limiting debt issuances that unduly raise debt clearing costs or debt issuance activity;
- c. Considering whether FHLBank mergers or district realignment are necessary to meet the Finance Agency's safety and soundness objectives;
- d. Expanding the FHLBanks' housing and community development focus, including a recommendation that Congress consider amending the FHLBank Act to at least double the minimum required annual AHP contributions by the FHLBanks; and
- e. Recommending that Congress amend the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 to eliminate the restrictions on the Finance Agency's authority to prescribe levels or ranges for the compensation of FHLBank executive officers.

The report also notes that the role of the FHLBanks in providing secured advances must be distinguished from the Federal Reserve's financing facilities, which are set up to provide emergency funding for troubled financial institutions that are faced with immediate liquidity challenges. Due to operational and financing limitations of the market intermediation process, the FHLBanks cannot, in the Finance Agency's view, functionally serve as the lender of last resort, particularly for large, troubled members that can have significant borrowing needs over a short period of time. To address this, the report notes that the FHLBanks should coordinate with their members' primary regulators and the regional Federal Reserve Banks to ensure financial institutions' borrowing needs continue to be met when they no longer meet a FHLBank's credit criteria.

According to the report, the Finance Agency seeks to position the FHLBank System to continue serving as a source of stable and reliable liquidity, while increasing support for housing and community development, in a safe and sound manner. The Finance Agency characterized the report as a blueprint for innovative and prudent steps to bolster and improve the FHLBank System and its publication as the beginning of a multi-year, collaborative effort with stakeholders to address the recommended

actions in the report. Under its existing authorities, the Finance Agency can implement some of the recommendations through ongoing supervision, guidance, or rulemaking, while some of the other recommendations will require Congressional action.

The Bank is unable at this time to predict what actions will ultimately result from the Finance Agency's recommendations or the extent to which any of those actions could impact the Bank's future business prospects, financial condition, or results of operations.

### ***Banking Regulatory Proposals***

Following the bank failures and banking industry turmoil that occurred in March 2023, the following rules have been proposed by federal banking regulators:

On September 18, 2023, the Office of the Comptroller of the Currency (the "OCC"), the Board of Governors of the Federal Reserve System (the "FRB"), and the FDIC published a joint notice of proposed rulemaking that would amend the capital requirements applicable to certain large banking organizations and banking organizations with significant trading activity, by amending the calculation of risk-based capital requirements to better reflect the risks of these banking organizations' exposures; reducing the complexity of the framework; enhancing the consistency of requirements across these banking organizations; and facilitating more effective supervisory and market assessments of capital adequacy (the "Proposed Capital Rule"). This proposed rule was open to public comment through January 16, 2024.

On September 19, 2023, the OCC, the FRB, and the FDIC published a joint notice of proposed rulemaking that would require certain large banking organizations to issue and maintain outstanding a minimum amount of long-term debt in order to: promote more orderly resolutions in the event of such organizations' failure; reduce costs to the Deposit Insurance Fund; and mitigate financial stability and contagion risks by reducing the risk of loss to uninsured depositors (the "Proposed Long-Term Debt Rule"). This proposed rule was open to public comment through November 30, 2023.

On September 19, 2023, the FDIC published proposed amendments to its existing resolution plan requirements for insured depository institutions ("IDIs") with \$50 billion or more in total assets, which would require additional detail on covered IDIs' strategies for their orderly and efficient resolutions and enhance the FDIC's expectations for resolution plan testing. For resolutions involving a bridge depository institution, the proposed rule provides that a resolution strategy may assume continuation of FHLBank advances, provided the strategy contemplates timely repayment of those advances. This proposed rule was open to public comment through November 30, 2023.

The Bank is evaluating the extent to which these proposed rules, if adopted in their current form, may impact some of its members' business activities with the Bank and/or the demand for, and liquidity of, the FHLBank's consolidated obligations.

### ***Amendment to FINRA Rule 4210: Margining of Covered Agency Transactions***

On July 27, 2023, the Financial Industry Regulatory Authority, Inc. ("FINRA") extended, to May 22, 2024, the implementation date of its amendments to FINRA Rule 4210 which establish margin requirements for forward-settling transactions in the to be announced ("TBA") market. When the margining requirements become effective, the Bank may be required to collateralize transactions that occur in the TBA market. In any event, the costs associated with those transactions are likely to increase.

### ***Final Rule on Climate-related Disclosures***

On March 6, 2024, the SEC adopted a final rule that mandates and standardizes climate-related disclosures in annual reports that are filed with the SEC. Among other things, the final rule requires registrants to disclose climate-related risks that have had or are reasonably likely to have a material impact on its business strategy, results of operations or financial condition. In addition, the rule requires certain disclosures in a registrant's audited financial statements related to severe weather events and other natural conditions, such as hurricanes, tornadoes, flooding, drought, wildfires, extreme temperatures and sea level rise, subject to specified thresholds. The Bank is currently evaluating the disclosures that are applicable to non-accelerated filers, which, in a departure from the proposed rule, are less in scope than the disclosures that apply to large accelerated filers and accelerated filers.

## **Human Capital Resources**

The Bank’s human capital is a significant contributor to the success of its strategic business objectives. In managing its human capital, the Bank focuses on its workforce profile and the various programs and philosophies described below.

Workforce Profile. The Bank’s workforce is comprised almost entirely of corporate employees, substantially all of whom are located in one office in Irving, Texas. The following table provides information regarding the Bank’s workforce as of December 31, 2023, 2022 and 2021. The percentages in the table may not add to 100 percent because some employees chose not to specify ethnicity.

<b>Date</b>	<b>Number of Full-time Employees</b>	<b>Number of Part-time Employees</b>	<b>Percent Male</b>	<b>Percent Female</b>	<b>Percent Minority</b>	<b>Percent Non-minority</b>
December 31, 2023	202	2	61%	39%	58%	41%
December 31, 2022	200	1	60%	40%	56%	42%
December 31, 2021	196	1	59%	41%	54%	46%

In 2023, 2022 and 2021, the Bank’s turnover rate approximated 12 percent, 13 percent and 15 percent, respectively. The Bank is leanly staffed and its workforce has historically included a number of longer-tenured employees. The Bank strives to develop talent from within the organization and to supplement those efforts with external hires. The Bank believes that developing talent internally contributes to institutional strength and continuity and promotes loyalty and commitment among its employees, which furthers the Bank’s success. At the same time, adding new employees contributes to new ideas, continuous improvement, and the Bank’s goal of having a diverse and inclusive workforce. As of both December 31, 2023 and 2022, the average tenure of the Bank’s employees was 9 years. None of the Bank’s employees are subject to a collective bargaining agreement.

Total Rewards. The Bank seeks to attract, develop and retain talented employees to achieve its strategic business initiatives, enhance business performance and increase shareholder value. The Bank effects these objectives through a combination of benefits and employee wellness and development programs and by recognizing and rewarding performance. Specifically, the Bank’s programs include:

- Cash compensation that includes competitive salary and performance-based incentives
- Benefits – health insurance (including medical, dental, vision and prescription drug benefits), Teladoc Health services, health and dependent care flexible spending accounts, healthcare savings accounts with employer contribution, life and accidental death and dismemberment insurance, supplemental life insurance, short- and long-term disability, 401(k) retirement savings plan with employer match, deferred compensation program for highly compensated employees and, for a group of eligible employees, defined benefit pension benefits
- Wellness program – employee assistance program, exercise classes, onsite gym, smoothie and coffee bars
- Time away from work – time off for vacation, illness, personal, holiday, volunteer opportunities and, provided certain eligibility criteria are met, sabbatical leave
- Culture – various employee resource/affinity groups, multiple cultural and inclusion initiatives, employee lounge with small meeting rooms, and outdoor meeting space with recreation activities
- Work/life balance – time off with full pay for bereavement, jury duty, court appearances and maternity and paternity leave; limited tuition reimbursement assistance for employees and their dependents
- Development programs and training – focused on leadership development, employee engagement, employee knowledge sharing, English as a Second Language, competency-based training and personal development programs, as well as a mentoring program, summer internship program, and fee reimbursement for external training programs.

The Bank’s Performance Management Program includes the use of Objectives and Key Results (“OKRs”) as well as annual performance reviews and quarterly discussions between managers and employees. The focus of the Performance Management Program is to encourage open dialogue between managers and employees to ensure that employees have the tools and training needed to do their best work.

In 2023, the Bank employed a hybrid work model. Employees worked in the office at least three days per week and remotely the remaining days. For 2024, the Bank expects that employees will continue to work in the office at least three days per week and remotely the remaining days. Days that are designated as "office days" are the same for all employees.

Diversity, Equity and Inclusion Program. Diversity, equity and inclusion is a strategic business priority for the Bank. The Bank’s diversity, equity and inclusion officer is a member of the executive management team who reports to the President and Chief Executive Officer and serves as a liaison to the Board of Directors. The Bank recognizes that diversity increases the

capacity for innovation and creativity and that inclusion allows the Bank to: (i) leverage the unique perspectives of all employees and (ii) strengthen the Bank's retention efforts. The Bank operationalizes its commitment to diversity, equity and inclusion through the development and execution of a 3-year diversity, equity and inclusion strategic plan that includes quantifiable metrics that are used to measure its performance. These performance metrics are regularly reported to executive management and the Board of Directors. The Bank offers various opportunities for its employees to connect and grow personally and professionally through its employee resource/affinity groups and it annually holds one or more events which, through various means, focus attention on diversity, equity and inclusion topics. The Bank considers learning to be an important component of its diversity, equity and inclusion strategy and, as such, it regularly offers related educational opportunities to its employees. Further, the Bank evaluates inclusive behaviors as part of its annual employee performance reviews.

### **Business Strategy and Outlook**

The Bank maintains a Strategic Business Plan that provides the framework for its future business direction. The goals and strategies for the Bank's major business activities are encompassed in this plan, which is updated and approved by the Board of Directors at least annually and at any other time that revisions are deemed necessary.

As described in its Strategic Business Plan, the Bank operates under a cooperative business model that is intended to maximize the overall value of membership in the Bank. This business model envisions that the Bank will limit and carefully manage its risk profile while generating sufficient profitability to maintain an appropriate level of retained earnings, to pay dividends on members' capital stock at rates at least sufficient to make members financially indifferent to holding the Bank's capital stock, and to absorb periodic earnings volatility related to hedging and derivatives or other external shocks. Consistent with this business model, the Bank places the highest priority on being able to meet its members' liquidity and funding needs in all market environments.

The Bank intends to continue to operate under its cooperative business model for the foreseeable future. All other things being equal, the Bank's earnings are typically expected to rise and fall with the general level of market interest rates, particularly short-term money market rates, and the Bank's total capital and asset size. Other factors that could have an effect on the Bank's future earnings include the level, volatility of and relationships between short-term money market rates such as federal funds and SOFR; the availability and cost of the Bank's short- and long-term debt relative to benchmark rates such as federal funds, SOFR, and long-term fixed mortgage rates; the availability of interest rate exchange agreements at competitive prices; whether the Bank's larger borrowers continue to be members of the Bank and the level at which they maintain their borrowing activity; the extent to which the Bank's members continue to sell mortgage loans to the Bank; and the impact of economic conditions and possible regulatory changes on the demand for the Bank's credit products.

During 2023, economic growth in the United States was to some extent negatively impacted by the higher level of interest rates and concerns about inflation and the possibility of a near-term recession. In addition, in March 2023, several out-of-district U.S. banks experienced significant deposit outflows and financial difficulties, creating stress for the banking industry and the financial markets, much of which had dissipated by the end of the year. The extent to which any of these concerns affect the Bank's future business will depend on many factors that remain uncertain and difficult to predict.

Notwithstanding the ongoing economic uncertainty, sustained long-term growth in both advances and mortgage loans held for portfolio continue to be strategic priorities for the Bank as these assets contribute to the value the Bank provides its members, as well as the Bank's earnings (and, correspondingly, the level of support for its AHP and voluntary programs), core mission assets and, similarly, its CMA ratio. As previously discussed in this report, the Bank also intends to further increase its support for affordable housing and community development in 2024 and subsequent years by way of its voluntary program offerings and has targeted a minimum level of annual support that will be tied to the Bank's prior year operating results.

While the Bank's primary focus will continue to be ensuring its ability to meet the liquidity and funding needs of its members, in order to become a more valuable resource to its members, the Bank will also continue to consider ways in which it can enhance its product and/or service offerings. The FHLB Act and Finance Agency regulations limit the products and services that the Bank can offer to its members and govern many of the terms of the products and services that the Bank offers. The Bank is also required by regulation to file New Business Activity notices with the Finance Agency for any new products or services that would constitute new business activities under the regulation and, therefore, with certain limited exceptions discussed in the next paragraph, it will have to assess any potential new products or services offerings in light of these statutory and regulatory restrictions.

On November 9, 2023, the Finance Agency issued an Advisory Bulletin ("AB 2023-06") that provides guidance for the FHLBanks regarding the establishment of pilot and voluntary programs and which generally affords the FHLBanks greater flexibility in offering such programs provided they are developed and administered in a safe and sound manner and in accordance with board-established prudential parameters. A pilot program or voluntary program must be permissible under applicable statutory, regulatory, or other legal authorities, and may not be used to circumvent existing statutory or regulatory requirements or Finance Agency guidance. As noted in AB 2023-06, pilot programs generally would be new business activities implemented with a small size and defined time frame and with the expectation that, after a given time period, careful analysis

of the benefits and drawbacks will be conducted and considered. AB 2023-06 also notes that pilot programs and voluntary programs typically should not present material risks to a FHLBank but in those cases where specific programs may present material risks, they would be subject to the requirements of the New Business Activity Regulation. Further, depending upon the facts and circumstances, converting a pilot program to a permanent program may require the submission of a New Business Activity notice.

## **ITEM 1A. RISK FACTORS**

### **General Economic Conditions**

***A prolonged downturn in the economy, including the U.S. housing market, and related U.S. government monetary policies, could adversely affect our business activities and results of operations.***

Our business and results of operations are sensitive to the U.S. economy and the U.S. housing market. A prolonged period of slow growth in the U.S. economy, deterioration in general economic conditions, or a downturn in the housing markets could adversely affect our borrowers, particularly those whose businesses are concentrated in the mortgage industry. For example, if home prices decline or the unemployment rate increases, the value of collateral securing member credit may decline, which could in turn increase the possibility of under-collateralization and the risk of loss if a member defaults. Deterioration in the residential mortgage markets could also affect the value of collateral securing our mortgage loan portfolio, increasing the risk of loss due to credit impairment, as well as possible realized losses if we were forced to liquidate the collateral.

Unfavorable economic and market conditions can be caused by many factors. Volatility and uncertainty in global economic and political conditions and/or concerns about financial institutions' sources of and access to liquidity can significantly affect U.S. economic conditions and financial markets. Furthermore, natural disasters, pandemics or other widespread health emergencies, terrorist attacks, cyberattacks, civil unrest, geopolitical instability or conflicts, trade disruptions, economic or other sanctions, or other unanticipated or catastrophic events could create economic and financial disruptions and uncertainties, which may lead to reduced demand for advances and an increased risk of credit losses and may adversely affect our cost of or access to funding. These events may also lead to operational difficulties that could adversely affect our ability to conduct and manage our business. Any of these factors could adversely affect our business activities and results of operations.

In addition, our business and results of operations are significantly affected by the monetary policies of the U.S. government and its agencies, including the Federal Reserve. The Federal Reserve Board's policies directly and indirectly influence interest rates on our assets and liabilities and could adversely affect the demand for advances and/or consolidated obligations as well as our financial condition and results of operations. Efforts by the Federal Reserve to reduce inflation, including multiple increases in the federal funds target rate during 2022 and 2023, and financial difficulties experienced by some depository institutions have contributed to significant volatility in the financial markets and uncertainties about the economic outlook, including concerns about a possible recession.

### **Interest Rate Risk**

***Our profitability is vulnerable to interest rate fluctuations.***

We are subject to significant risks from changes in interest rates because most of our assets and liabilities are financial instruments. Our profitability depends significantly on our net interest income and is impacted by changes in the fair value of interest rate derivatives and any associated hedged items. Changes in interest rates can impact our net interest income as well as the values of our derivatives and certain other assets and liabilities. Changes in overall market interest rates, changes in the relationships between short-term and long-term market interest rates, changes in the relationship between different interest rate indices, or differences in the timing of rate resets for assets and liabilities or related interest rate derivatives with interest rates tied to those indices, can affect the interest rates received from our interest-earning assets differently than those paid on our interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income, which would result in a decrease in our net interest spread, or a net decrease in earnings related to the relationship between changes in the valuation of our derivatives and any associated hedged items.

***Our profitability may be adversely affected if we are not successful in managing our interest rate risk.***

Like most financial institutions, our results of operations are significantly affected by our ability to manage interest rate risk. We use a number of tools to monitor and manage interest rate risk, including income simulations and duration/market value sensitivity analyses. Given the unpredictability of the financial markets, capturing all potential outcomes in these analyses is extremely difficult. Key assumptions used in our market value sensitivity analyses include interest rate volatility, mortgage prepayment projections and the future direction of interest rates, among other factors. Key assumptions used in our income simulations include projections of advances volumes and pricing, MPF volumes and pricing, market conditions for our debt, prepayment speeds and cash flows on mortgage-related assets, the level of short-term interest rates, and other factors. These assumptions are inherently uncertain and, as a result, the measures cannot precisely estimate net interest income or the market



value of our equity nor can they precisely predict the effect of higher or lower interest rates or changes in other market factors on net interest income or the market value of our equity. Actual results will most likely differ from simulated results due to the timing, magnitude, and frequency of interest rate changes and changes in market conditions and management strategies, among other factors. Our ability to maintain a positive spread between the interest earned on our interest-earning assets and the interest paid on our interest-bearing liabilities may be affected by the unpredictability of changes in interest rates.

### **Credit Risk**

#### ***Exposure to credit risk from our customers could have a negative impact on our profitability and financial condition.***

We are subject to credit risk from advances and other extensions of credit to members, non-member borrowers and housing associates (collectively, our customers). Other extensions of credit include letters of credit issued or confirmed on behalf of customers, customers' credit enhancement obligations associated with MPF loans held in portfolio, and interest rate exchange agreements we have entered into with our customers. For this purpose, other extensions of credit exclude a *de minimis* amount of unsecured loans that have been made to members under our SBB program, which is a voluntary program that is designed to promote small businesses.

We require that all outstanding advances and other extensions of credit to our customers be fully collateralized. We evaluate the types of collateral pledged by our customers and assign a borrowing capacity to the collateral, generally based on either a percentage of its book value or estimated market value. The vast majority of the collateral is assigned a borrowing capacity based on its estimated market value. During economic downturns, the number of our member institutions exhibiting significant financial stress generally increases. In addition, at any time, changes in the perceived financial strength of some or all of our member institutions could occur which, in turn, could cause the institutions to incur financial losses and/or funding challenges, or worse, to fail. Further, some of our members could experience financial stress as a result of the current challenges in the commercial real estate sector which, in turn, could increase the possibility that those member institutions might fail. If member institutions fail, and if the FDIC (or other receiver, conservator or acquiror) does not promptly repay all of the failed institution's obligations to us or assume the outstanding extensions of credit, we might be required to liquidate the collateral pledged by the failed institution in order to satisfy its obligations to us. A devaluation of or our inability to liquidate collateral in a timely manner in the event of a default by the obligor could cause us to incur a credit loss and adversely affect our financial condition or results of operations.

#### ***Exposure to credit risk on our investments and MPF loans could have a negative impact on our profitability and financial condition.***

We are exposed to credit risk from our MPF loans held in portfolio and our secured and unsecured investment portfolio. A deterioration of economic conditions, declines in residential real estate values, changes in monetary policy or other events that could negatively impact the economy and the markets as a whole could lead to borrower defaults, which in turn could cause us to incur losses on our MPF loans and/or our investment portfolio. If delinquencies, default rates and loss severities on residential mortgage loans increase, and/or there is a decline in residential real estate values, we could experience losses on our MPF loans held in portfolio. Further, we could experience losses on our agency mortgage-backed securities if, following a default, the guarantor elects to repurchase the security at its par value. In this instance, the Bank could incur a loss if the amortized cost basis of the investment exceeds its par value.

#### ***Defaults by or the insolvency of one or more of our derivative counterparties could adversely affect our profitability and financial condition.***

We regularly enter into derivative transactions with major financial institutions and third-party clearinghouses. Our financial condition and results of operations could be adversely affected if derivative counterparties to whom we have exposure fail.

Cleared trades are subject to initial and variation margin requirements established by the clearinghouse and its clearing members. Currently, all of our cleared derivatives are settled daily and these daily settlements are not subject to any maximum unsecured credit exposure thresholds. With cleared transactions, we are exposed to credit risk in the event that the clearinghouse or the clearing member fails to meet its obligations to us.

We have entered into master agreements with all of our non-member bilateral derivative counterparties that require the delivery (or return) of collateral (variation margin) consisting of cash or very liquid, highly rated securities if credit risk exposures rise above certain minimum amounts (generally ranging from \$50,000 to \$500,000). Upon a request made by the unsecured counterparty, the party that has the unsecured obligation to the counterparty bearing the risk of the unsecured credit exposure must deliver sufficient collateral to reduce the unsecured credit exposure to zero. In addition, excess collateral must be returned by a party in an oversecured position. Delivery or return of the collateral generally occurs within one business day and, until such delivery or return, we may be in an undersecured position, which could result in a loss in the event of a default by the counterparty, or we may be due excess collateral, which could result in a loss in the event that the counterparty is unable or unwilling to return the collateral. Our bilateral derivatives that are transacted on and after September 1, 2022 are subject to initial margin requirements when the unmarginated exposure, on a counterparty-by-counterparty basis, exceeds \$50 million.

Because derivative valuations are determined based on market conditions at particular points in time, they can change quickly. Even after the settlement of a derivative or the delivery or return of collateral, as the case may be, we may be in an undersecured position (or be entitled to the return of excess collateral) as the values upon which the settlement, delivery or return was based may have changed since the valuation was performed. In addition, we may incur additional losses if any non-cash collateral held by us cannot be readily liquidated at prices that are sufficient to fully recover the value of the derivatives. Further, the initial margin and any excess variation margin that we post with our derivative counterparties is over and above the amount that is needed to fully settle the value of our derivative positions and therefore exposes us to additional credit risk in the event that a bilateral or clearinghouse counterparty (or clearing member of a clearinghouse) fails.

### **Credit Market Conditions and Funding Risk**

***Changes in overall credit market conditions and/or competition for funding may adversely affect our cost of funds and our access to the capital markets.***

The cost of our consolidated obligations depends in part on prevailing conditions in the capital markets at the time of issuance, which are generally beyond our control. For instance, a decline in overall investor demand for debt issued by the FHLBanks and similar issuers could adversely affect our ability to issue consolidated obligations on favorable terms or in amounts that are sufficient to meet our funding needs. Investor demand is influenced by many factors including changes or perceived changes in general economic conditions, changes in investors' risk tolerances or balance sheet capacity, or, in the case of overseas investors, changes in preferences for holding dollar-denominated assets. Credit market disruptions tend to dampen investor demand for longer-term debt, including longer-term FHLBank consolidated obligations, making it more difficult for us to match the maturities of our assets and liabilities. In addition, changes in the relationships between the cost of our consolidated obligations and interest rate swaps could increase our net cost of funds, which could negatively impact our results of operations. Further, higher long-term debt costs and/or lack of demand for our long-term debt at attractive prices (or at all) could cause us to fund some long-term assets with short-term debt, creating mismatches between the maturities of our assets and liabilities. Such mismatches expose us to refinancing risk, which is the risk that we may have difficulty rolling over our short-term obligations if market conditions change and/or investor demand for our debt is suddenly insufficient to satisfy our funding needs.

We compete with Fannie Mae, Freddie Mac and other GSEs, as well as commercial banking, corporate, sovereign and supranational entities for funds raised through the issuance of unsecured debt in the global debt markets. Increases in the supply of competing debt products may, in the absence of increased investor demand, result in higher debt costs, which could negatively affect our financial condition and results of operations. Further, if investors limit their demand for our debt, our ability to fund our operations and to meet the credit and liquidity needs of our members by accessing the capital markets could eventually be compromised.

***Our inability to issue consolidated obligations for a relatively short period of time could jeopardize our ability to continue operating.***

We typically issue consolidated obligations almost every day. We also maintain access to other sources of contingent liquidity. As more fully described in the Liquidity and Capital Resources section of this report, we currently manage our liquidity to ensure that, at a minimum, we maintain 20 calendar days or more of positive daily cash balances (or such higher or lower number of days as the Finance Agency may from time to time require us to maintain) assuming no access to the market for consolidated obligations or other unsecured funding sources and the renewal of all advances that are scheduled to mature during the measurement period. However, if we were unable to issue consolidated obligations for a relatively short period of time and our other sources of contingent liquidity were either not available or were not available in sufficient quantities, our ability to meet our obligations and otherwise conduct our operations would be compromised.

***An interruption in our access to the capital markets would limit our ability to obtain funds.***

We conduct our business and fulfill our public purpose primarily by acting as an intermediary between our members and the capital markets. Certain events, such as a natural disaster, terrorist act or global pandemic, could limit or prevent us from accessing the capital markets in order to issue consolidated obligations for some period of time. An event that precludes us from accessing the capital markets may also limit our ability to enter into transactions to obtain funds from other sources. External forces are difficult to predict or prevent, but can have a significant impact on our ability to manage our financial needs and to meet the credit and liquidity needs of our members.

***Changes in investors' perceptions of the creditworthiness of the FHLBanks may adversely affect our ability to issue consolidated obligations on favorable terms.***

We, and the other ten FHLBanks, currently have the highest credit rating from Moody's and are rated AA+/A-1+ by S&P. The consolidated obligations issued by the FHLBanks are rated Aaa/P-1 by Moody's and AA+/A-1+ by S&P. S&P has assigned a stable outlook to its long-term credit rating on the FHLBank System's consolidated obligations and to its long-term rating of each of the FHLBanks. Moody's has assigned a negative outlook to its long-term credit rating on the FHLBank System's

consolidated obligations and to its long-term rating of each of the FHLBanks, reflecting Moody's negative outlook on the U.S. sovereign credit rating.

Pursuant to criteria used by S&P and Moody's, the FHLBank System's debt rating and the credit ratings of the individual FHLBanks are linked closely to the U.S. sovereign credit rating because of the FHLBanks' GSE status. The U.S. government's fiscal challenges could negatively impact the credit rating of the U.S. government, which could in turn result in a downgrade of the rating assigned to us and/or the consolidated obligations of the FHLBank System.

With increasing frequency, the United States will from time to time reach its statutory debt limit and the U.S. Treasury will then take extraordinary measures to prevent the United States from defaulting on its obligations. The failure by the U.S. government to adequately address its statutory debt limit in a timely manner, or uncertainty relating to the debt limit, could result in downgrades to the U.S. sovereign credit rating or outlook (and a downgrade to our rating or outlook and/or the rating or outlook assigned to the FHLBank System's consolidated obligations) and cause significant harm to the U.S. economy and global financial stability.

Because the FHLBanks have joint and several liability for all of the FHLBanks' consolidated obligations, negative developments at any FHLBank could also adversely affect S&P's and/or Moody's credit ratings on us and/or the FHLBanks' consolidated obligations or result in one or both of these NRSROs issuing a negative credit report on the FHLBank System.

Our primary source of liquidity is the issuance of consolidated obligations. Historically, the FHLBank System's status as a GSE and its favorable credit ratings have provided us with excellent access to the capital markets. Any downgrades of the FHLBank System's consolidated obligations by S&P and/or Moody's, negative guidance from the rating agencies, or negative announcements by one or more of the FHLBanks could result in higher funding costs and/or disruptions in our access to the capital markets. To the extent that we cannot access funding when needed on acceptable terms, our financial condition and results of operations could be adversely impacted.

### **Derivatives and Hedging Activities**

***Changes in our access to the interest rate derivatives market on acceptable terms may adversely affect our ability to maintain our current hedging strategies.***

We actively use derivative instruments to manage interest rate risk. The effectiveness of our interest rate risk management strategy depends to a significant extent upon our ability to enter into these instruments with acceptable counterparties in the necessary quantities and under satisfactory terms to hedge our corresponding assets and liabilities. We currently enjoy ready access in the over-the-counter ("OTC") derivatives market for uncleared interest rate derivatives through a diverse group of investment grade rated counterparties. Several factors could have an adverse impact on our access to the OTC derivatives market, including changes in our credit rating, changes in the current counterparties' credit ratings, reductions in our counterparties' allocation of resources to the interest rate derivatives business, and changes in the liquidity of that market created by a variety of regulatory or market factors. If mergers involving our financial institution counterparties were to occur, it could increase our concentration risk with respect to counterparties in the industry. Further, defaults by, or even negative rumors or questions about, one or more financial services institutions, or the financial services industry in general, could lead to market-wide disruptions in which it may be difficult for us to find acceptable counterparties for such transactions. If changes in our access to the derivatives market result in our inability to manage our hedging activities efficiently and economically, we may be unable to find economical alternative means to manage our interest rate risk effectively, which could adversely affect our financial condition and results of operations.

Many of the derivative transactions that we enter into are required to be cleared through a third-party clearinghouse, which exposes us to credit risk to other parties that we do not have when transacting in the OTC market. In addition, many of the other derivatives that we continue to trade in the OTC market could eventually be subject to central clearing.

### **Business Volume**

***Loss of members or borrowers could adversely affect our earnings, which could result in lower investment returns and/or higher borrowing rates for remaining members.***

One or more members or borrowers could withdraw their membership or decrease their business levels as a result of a merger with an institution that is not one of our members, or for other reasons, which could lead to a decrease in our total assets and capital.

As the financial services industry has consolidated, acquisitions involving some of our members have resulted in membership withdrawals or business level decreases. Additional acquisitions that lead to similar results are possible, including acquisitions in which the acquired institutions are merged into institutions located outside our district with which we cannot do business. We could also be adversely impacted by the reduction in business volume that would arise from the failure of one or more of our members.

As discussed in Item 1. Business — Legislative and Regulatory Developments, the Finance Agency has indicated that it will likely pursue actions to require that certain members have at least 10 percent of their assets in residential mortgage loans or equivalent mission assets (including assets that qualify as CFI collateral where appropriate) on an ongoing basis to remain eligible for FHLBank financing. These actions, if taken, could result in a loss of borrowers or a decrease in borrowings by members impacted by these restrictions.

The loss of one or more borrowers that represent a significant proportion of our business, or a significant reduction in the borrowing levels of one or more of these borrowers, could, depending on the magnitude of the impact, cause us to lower dividend rates, raise advances rates, attempt to reduce operating expenses (which could cause a reduction in service levels), or undertake some combination of these actions. The magnitude of the impact would depend, in part, on our size and profitability at the time such institution repays its advances to us.

***Members' funding needs may decline, which could reduce loan demand and adversely affect our earnings.***

Market factors or regulatory changes could reduce loan demand from our member institutions, which could adversely affect our earnings. Since 2005, our quarter-end advances balances (at par value) have ranged from a low of \$15.2 billion at March 31, 2014 to a high of \$125.1 billion at March 31, 2023. High deposit levels and/or low demand for loans at member institutions could limit members' needs for funding. A decline in the demand for advances, if significant, could negatively affect our results of operations.

***We face competition for loan demand, which could adversely affect our earnings.***

Our primary business is making advances to our members. We compete with other suppliers of wholesale funding, both secured and unsecured, including investment banks, commercial banks, the Federal Reserve and, in certain circumstances, other FHLBanks. Our members have access to alternative funding sources, which may provide more favorable terms than we do on our advances, including more flexible credit or collateral standards.

The availability to our members of alternative funding sources that are more attractive than the funding products offered by us may significantly decrease the demand for our advances. Any change made by us in the pricing of our advances in an effort to compete more effectively with these competitive funding sources may reduce the profitability on advances. A decrease in the demand for advances or a decrease in our profitability on advances would negatively affect our financial condition and results of operations.

Alternatively, if we were to increase the pricing of our advances due to an increase in our debt costs or for any other reason, demand for our advances could decline, which would negatively affect our financial condition and results of operations.

**Regulation**

***Changes in the regulatory environment could negatively impact our operations and financial results and condition.***

We could be materially adversely affected by the adoption of new laws, policies, regulations or directives or changes in existing laws, policies, regulations or directives, including, but not limited to, changes in the interpretations or applications by the Finance Agency or as the result of judicial reviews that modify the present regulatory environment. For instance, since 2013, several housing reform proposals have been introduced by members of the U.S. Congress. It is not possible to determine if or when legislation regarding housing reform will be enacted, nor are the ultimate provisions of any such legislation determinable at this time. To the extent that legislation is enacted, it is possible that the FHLBanks could be impacted. Further, in recent years, the Finance Agency has taken a number of actions through regulations and other directives that have restricted or otherwise constrained how we manage and operate our business and it is possible that additional restrictions and/or constraints could be imposed upon us in the future. Among other things, these restrictions and constraints have limited our product offerings and investment activities.

On November 7, 2023, the Finance Agency issued a written report which sets forth the actions it intends to take or consider based on a review and analysis of the FHLBank System. The report, entitled *FHLBank System at 100: Focusing on the Future*, categorizes these actions under four broad themes: (1) mission of the FHLBank System; (2) stable and reliable source of liquidity; (3) housing and community development; and (4) FHLBank System operational efficiency, structure, and governance. The report set forth several actions that the Finance Agency will likely pursue, some of which could have a negative impact on our future business prospects, financial condition or results of operation. At this time, we are unable to predict what actions will ultimately result from the Finance Agency's recommendations.

In addition, the regulatory environment affecting our members could change in a manner that could have a negative impact on their ability to own our stock or take advantage of our products and services.

For a discussion of recent legislative and regulatory developments, see Item 1. Business — Legislative and Regulatory Developments beginning on page 18 of this report.

***Finance Agency authority to approve changes to our capital plan and to impose other restrictions and limitations on us and our capital management may adversely affect members.***

Under Finance Agency regulations and our capital plan, amendments to the capital plan must be approved by the Finance Agency. However, amendments to our capital plan are not subject to member consent or approval. While amendments to our capital plan must be consistent with the FHLB Act and Finance Agency regulations, it is possible that they could result in changes to the capital plan that could adversely affect the rights and obligations of members.

Moreover, the Finance Agency has significant supervisory authority over us and may impose various limitations and restrictions on us, our operations, and our capital management as it deems appropriate to ensure our safety and soundness, and the safety and soundness of the FHLBank System. Among other things, the Finance Agency may impose higher capital requirements on us that might include, but not be limited to, the imposition of a minimum retained earnings requirement, and may suspend or otherwise limit stock repurchases, redemptions and/or dividends.

***Limitations on our ability to pay dividends could result in lower investment returns for members.***

Under Finance Agency regulations and our capital plan, we may pay dividends on our stock only out of unrestricted retained earnings or a portion of our current net earnings. However, if we are not in compliance with our minimum capital requirements or if the payment of dividends would make us noncompliant, we are precluded from paying dividends. In addition, we may not declare or pay a dividend if the par value of our stock is impaired or is projected to become impaired after paying such dividend. Further, we may not declare or pay any dividends in the form of capital stock if our excess stock is greater than one percent of our total assets or if, after the issuance of such shares, our outstanding excess stock would be greater than one percent of our total assets. Payment of dividends would also be suspended if the principal and interest due on any consolidated obligations issued on behalf of any FHLBank through the Office of Finance have not been paid in full or if we become unable to comply with regulatory liquidity requirements or satisfy our current obligations. In addition to these explicit limitations, it is also possible that the Finance Agency could restrict our ability to pay a dividend even if we have sufficient retained earnings to make the payment and are otherwise in compliance with the requirements for the payment of dividends.

***Lack of a public market and restrictions on transferring our stock could result in an illiquid investment for the holder.***

Under the Gramm-Leach-Bliley Act of 1999 (the "GLB Act"), Finance Agency regulations, and our capital plan, our stock may be redeemed upon the expiration of a five-year redemption period following a redemption request. Only stock in excess of a member's minimum investment requirement, stock held by a member that has submitted a notice to withdraw from membership, or stock held by a member whose membership has been terminated may be redeemed at the end of the redemption period. Further, we may elect to repurchase excess stock of a member at any time at our sole discretion.

There is no guarantee, however, that we will be able to redeem stock held by a shareholder even at the end of the redemption period. If the redemption or repurchase of the stock would cause us to fail to meet our minimum capital requirements, then the redemption or repurchase is prohibited by Finance Agency regulations and our capital plan. Likewise, under such regulations and the terms of our capital plan, we could not honor a member's capital stock redemption notice if the redemption would cause the member to fail to maintain its minimum investment requirement. Moreover, because our 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 may transfer any of its stock to another member, there can be no assurance that a member would be allowed to sell or transfer any excess stock to another member at any point in time.

We may also suspend the redemption of stock if we reasonably believe that the redemption would prevent us from maintaining adequate capital against a potential risk, or would otherwise prevent us from operating in a safe and sound manner. In addition, approval from the Finance Agency for redemptions or repurchases would be required if the Finance Agency or our Board of Directors were to determine that we have incurred, or are likely to incur, losses that result in, or are likely to result in, charges against our capital. Under such circumstances, there can be no assurance that the Finance Agency would grant such approval or, if it did, upon what terms it might do so. Redemption and repurchase of our stock would also be prohibited if the principal and interest due on any consolidated obligations issued on behalf of any FHLBank through the Office of Finance have not been paid in full or if we become unable to comply with regulatory liquidity requirements or satisfy our current obligations.

Accordingly, there are a variety of circumstances that would preclude us from redeeming or repurchasing our stock that is held by a member. Because there is no public market for our stock and transfers require our approval, there can be no assurance that a member's purchase of our stock would not effectively become an illiquid investment.

***Failure by a member to comply with our minimum investment requirement could result in substantial penalties to that member and could cause us to fail to meet our capital requirements.***

Members must comply with our minimum investment requirement at all times. Our Board of Directors may increase the members' minimum investment requirement within certain ranges specified in our capital plan. The minimum investment requirement may also be increased beyond such ranges pursuant to an amendment to the capital plan, which would have to be

adopted by our Board of Directors and approved by the Finance Agency. We would provide members with 30 days' notice prior to the effective date of any increase in their minimum investment requirement. Under the capital plan, members are required to purchase an additional amount of our stock as necessary to comply with any new requirements or, alternatively, they may reduce their business activity with us (subject to any prepayment fees applicable to the reduction in activity) on or prior to the effective date of the increase. To facilitate the purchase of additional stock to satisfy an increase in the minimum investment requirement, the capital plan authorizes us to issue stock in the name of the member and to correspondingly debit the member's demand deposit account maintained with us.

The GLB Act requires members to "comply promptly" with any increase in the minimum investment requirement to ensure that we continue to satisfy our minimum capital requirements. However, the Finance Agency's predecessor stated, when it published the final regulation implementing this provision of the GLB Act, that it did not believe this provision provides the FHLBanks with an unlimited call on the assets of their members. As a result, it is not clear whether we or our regulator would have the legal authority to compel a member to invest additional amounts in our capital stock.

Thus, while the GLB Act and our capital plan contemplate that members would be required to purchase whatever amounts of stock are necessary to ensure that we continue to satisfy our capital requirements, and while we may seek to enforce this aspect of the capital plan, our ability ultimately to compel a member, either through automatic deductions from a member's demand deposit account or otherwise, to purchase an additional amount of our stock is not free from doubt.

Nevertheless, even if a member could not be compelled to make additional stock purchases, the failure by a member to comply with the stock purchase requirements of our capital plan could subject it to substantial penalties, including the possible termination of its membership. In the event of termination for this reason, we may call any outstanding advances to the member prior to their maturity and the member would be subject to any fees applicable to the prepayment.

Furthermore, if our members fail to comply with the minimum investment requirement, we may not be able to satisfy our capital requirements, which could adversely affect our operations and financial condition.

***Our joint and several liability for all consolidated obligations may adversely impact our earnings, our ability to pay dividends, and our ability to redeem or repurchase capital stock.***

Under the FHLB Act and Finance Agency regulations, we are jointly and severally liable with the other FHLBanks for the consolidated obligations issued by the FHLBanks through the Office of Finance regardless of whether we receive all or any portion of the proceeds from any particular issuance of consolidated obligations.

If another FHLBank were to default on its obligation to pay principal of or 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, the Finance Agency, in its discretion, may require any FHLBank to make principal or interest payments due on any consolidated obligations, whether or not the primary obligor FHLBank has defaulted on the payment of that obligation. Accordingly, we could incur significant liability beyond our primary obligation under consolidated obligations due to the failure of other FHLBanks to meet their payment obligations, which could negatively affect our financial condition and results of operations.

Further, the FHLBanks may not pay any dividends to members or redeem or repurchase any shares of stock unless the principal and interest due on all consolidated obligations has been paid in full. Accordingly, our ability to pay dividends or to redeem or repurchase stock could be affected not only by our own financial condition but also by the financial condition of one or more of the other FHLBanks.

***An increase in our AHP contribution rate could adversely affect our ability to grow our retained earnings and/or pay dividends to our shareholders.***

The FHLB Act requires each FHLBank to establish and fund an AHP. Annually, the FHLBanks are required to set aside, in the aggregate, the greater of \$100 million or 10 percent of their current year's income (before charges for AHP, as adjusted for interest expense on mandatorily redeemable capital stock) for their AHPs. If the FHLBanks' combined income does not result in an aggregate AHP contribution of at least \$100 million in a given year, we could be required to contribute more than 10 percent of our income to the AHP. As discussed in Item 1. Business — Legislative and Regulatory Developments, the Finance Agency has indicated that it will likely recommend that Congress consider amending the FHLBank Act to at least double the minimum required annual AHP contributions by the FHLBanks. A significant increase in our AHP contribution for any reason would reduce our net income and could limit our ability to grow our retained earnings and/or adversely affect our ability to pay dividends to our shareholders.

***The terms of any liquidation, merger or consolidation involving us may have an adverse impact on members' investments in us.***

Under the GLB Act, holders of Class B Stock own our retained earnings, if any. With respect to liquidation, our capital plan provides that, after payment of creditors, all Class B Stock will be redeemed at par, or pro rata if liquidation proceeds are

insufficient to redeem all of the stock in full. Any remaining assets will be distributed to the shareholders in proportion to their stock holdings relative to the total outstanding Class B Stock.

Our capital plan also stipulates that its provisions governing liquidation are subject to the Finance Agency's statutory authority to prescribe regulations or orders governing liquidations of a FHLBank, and that consolidations and mergers may be subject to any lawful order of the Finance Agency. We cannot predict how the Finance Agency might exercise its authority with respect to liquidations or reorganizations or whether any actions taken by the Finance Agency in this regard would be inconsistent with the provisions of our capital plan or the rights of holders of our Class B Stock. Consequently, there can be no assurance that any liquidation, merger or consolidation involving us will be consummated on terms that do not adversely affect our members' investment in us.

### **General Risk Factors**

#### ***A failure or interruption in our information systems or other technology may adversely affect our ability to conduct and manage our business effectively.***

We rely heavily upon information systems and other technology to conduct and manage our business and deliver a very large portion of our services to members on an automated basis. Our operations rely on the secure processing, storage and transmission of confidential and other information in computer systems and networks. Computer systems, software and networks can be vulnerable to failures and interruptions, including "cyberattacks" (e.g., breaches, unauthorized access, misuse, computer viruses or other malicious code and other events) that could jeopardize the confidentiality or integrity of information, or otherwise cause interruptions or malfunctions in operations. Over time, cyberattacks have become more frequent, sophisticated, and increasingly difficult to detect or prevent. During periods of geopolitical conflict, the threat of cyberattacks may increase. To the extent that we experience a failure or interruption in any of our information systems or other technology, we may be unable to conduct and manage our business effectively, including, without limitation, our hedging and advances activities. We can make no assurance that we will be able to prevent or timely and adequately address any such failure or interruption. Any failure or interruption could significantly harm our customer relations, reputation, risk management, and profitability, which could negatively affect our financial condition and results of operations.

#### ***Failures of critical vendors or other third parties could disrupt our ability to conduct and manage our business***

We rely on vendors and other third parties to perform certain critical services for us. A failure or interruption of one or more of these services, including as a result of human failings, failure to follow established protocols, breaches, cyberattacks, system malfunctions or failures, or other technological issues, could negatively affect our business operations. If one or more of these key external parties were not able to perform their functions for a period of time or at an acceptable service level, our operations could be constrained, disrupted, or otherwise negatively affected. Further, our use of vendors and other third parties also exposes us to the risk of a loss of data, intellectual property, or other confidential information, or other harm.

#### ***Our inability to attract and retain skilled labor could adversely affect our business and operations***

We rely on key personnel to manage our business and conduct our operations. Competition for skilled labor from within and outside the financial services industry, including the technology sector, has often been intense. In addition, we experience competition for independent contractors, whom we currently rely on for software development projects. Further, as discussed in Item 1. Business - Legislative and Regulatory Developments, the Finance Agency has indicated that it will likely recommend the elimination of restrictions on its authority to prescribe levels or ranges for the compensation of FHLBank executive officers which, if enacted by Congress, could make it more difficult for us to attract and retain qualified executive officers. Our failure to attract and retain skilled personnel and/or independent contractors, or our failure to maintain effective succession plans for key positions, could adversely affect our business and operations.

#### ***A natural or man-made disaster or a pandemic, especially one affecting our region, could adversely affect our profitability and/or financial condition.***

Portions of our district are subject to risks from hurricanes, tornadoes, floods and other natural disasters and the impact of climate change could increase the frequency of these events. Further, the entire district is subject to the risk of a pandemic. In addition to natural disasters, our business could also be negatively impacted by man-made disasters.

Natural or man-made disasters that occur within or outside our district may damage or dislocate our members' facilities, may damage or destroy collateral pledged to secure advances or other extensions of credit, may adversely affect the livelihood of MPF borrowers or members' customers or otherwise cause significant economic dislocation in the affected areas. If this were to occur, our business could be negatively impacted.

In the aftermath of a natural or man-made disaster or during or after a pandemic, significant borrower defaults on loans made by our members could occur and these defaults could cause members to fail. If one or more member institutions fail, and if the value of the collateral pledged to secure advances and/or other extensions of credit from us has declined below the amount borrowed, we could incur a credit loss that would adversely affect our financial condition and results of operations. A decline in

the local economies in which our members operate could reduce members' needs for funding, which could reduce demand for our advances. We could be adversely impacted by the reduction in business volume that would arise either from the failure of one or more of our members or from a decline in member funding needs. In addition, it is possible that the protections we have in place for our MPF loans including, but not limited to, borrowers' equity, PMI, hazard insurance and, if applicable, flood insurance, along with MPF credit enhancements, may not be sufficient to prevent us from incurring losses on loans that are secured by properties located in areas that are affected by a natural or man-made disaster. Similarly, the protections we have in place for our MPF loans may not be sufficient to prevent us from incurring losses on loans to borrowers who are no longer able to make payments due to a decline in or loss of income as a result of the economic fallout from a disaster or pandemic.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

#### **ITEM 1C. CYBERSECURITY**

The Bank relies heavily on its information systems and other technology to conduct and manage its business and, as a result, it is subject to cybersecurity threat risk. Cybersecurity threats include potential unauthorized occurrences on or conducted through the Bank's information systems that may result in adverse effects on the confidentiality, integrity, or availability of its information systems or any information residing therein. Cybersecurity threat risks include, but are not limited to, malicious software or the exploitation of vulnerabilities, social engineering (e.g., phishing), denial-of-service attacks, viruses, and/or malware. As further described below, the Bank has implemented processes for assessing, identifying, and managing material risks from cybersecurity threats that are designed to protect the confidentiality, integrity, and availability of its information technology assets and data.

##### **Cybersecurity Risk Management and Strategy**

The Bank's approach to cybersecurity risk management relies upon having the right people, processes, and technology in place to identify, protect, detect, respond, and recover from cybersecurity threats/incidents. The Bank's cybersecurity program aligns with industry standards, specifically the National Institute of Standards and Technology ("NIST") Cybersecurity Framework and the NIST 800-53 control framework. The effectiveness of the Bank's cybersecurity program is measured through internal and external audits, Finance Agency regulatory oversight and other third-party control and compromise assessments such as periodic penetration tests and various security assessments. In addition, the Bank's cybersecurity program includes processes and technologies that enhance its ability to detect and respond to cybersecurity threats, including the use of automation, threat intelligence feeds, robust incident response procedures and frequent vulnerability scans and remediation. The Bank's Vulnerability Management Group, which is comprised of members from Information Technology ("IT") Security, IT Infrastructure and Operational Risk Management, meets regularly to discuss details of the Bank's vulnerability management program including, but not limited to, current threats and vulnerabilities, patching status, upcoming technology changes, and current issues or concerns, if any.

The Bank's IT Security Program and policies establish safeguards to protect data and information that is used by the Bank's employees, independent contractors, and vendors. The goal of the Bank's cybersecurity risk management processes is to maintain and safeguard the confidentiality and integrity of the Bank's data, and to ensure system availability to protect against cybersecurity threats and vulnerabilities. The Bank maintains IT security policies that are reviewed at least annually and approved by the Bank's Chief Information Officer ("CIO"), appropriate management committees and, for its critical policies, the Bank's Board of Directors. To help ensure the effectiveness of the Bank's IT security policies, all employees are required to participate in annual IT security training and to review and acknowledge the Bank's IT security policies.

The Bank maintains an Enterprise Risk Management Framework which is updated and approved at least annually by its Board of Directors. The framework outlines the methodology and elements that are used to manage Bank-wide risks, including cybersecurity risks, and it assigns responsibilities for the Bank's enterprise risk management. The Bank's IT Security department measures cybersecurity risks by way of risk assessments that utilize a scale which includes both the likelihood and impact of risk occurrence. The scale used to measure likelihood and impact is tied to the criteria contained in the Bank's Enterprise Risk Management Framework.

The Bank also maintains Incident Response policies and procedures that are invoked in the event of a security breach or incident and which provide, among other things, guidance for the purpose of managing and executing the appropriate level of communication to executive management, the Board of Directors, government agencies, and/or the Finance Agency.

The Bank has a Business Continuity Program that sets forth the actions that would be taken to recover business processes in a timely manner in the event of a disruption. The Bank regularly tests its Business Continuity Plan to ensure its relevance and viability. Representatives from the Bank's Business Continuity team work closely with the Bank's business units and IT to help ensure that critical resources are available in the event of an interruption. To ensure its preparedness, the Bank updates its



Business Continuity Plan semiannually. In addition, the Bank evaluates and analyzes threat scenarios, and it conducts periodic exercises to demonstrate the Bank's ability to run production systems from an alternate location and to seamlessly return to using production systems at its primary operations centers.

The Bank's vendors are subject to a formal vendor management process which includes an assessment of vendor risks (including cybersecurity risks) and ongoing monitoring. When warranted, the Bank seeks independent third-party reports related to the performance of its vendors, such as System and Organization Controls ("SOC") reports that are issued in accordance with Statement on Standards for Attestation Engagements No. 18.

While risks from cybersecurity threats have not materially affected nor are they currently expected to materially affect the Bank's business strategy, financial condition or results of operations, the Bank has invested and expects to continue to invest significant resources to maintain and enhance its cybersecurity program.

### **Cybersecurity Governance**

The Bank's cybersecurity program is managed by its Chief Information Security Officer ("CISO") with oversight from executive management and the Bank's Board of Directors. The CISO reports to both the Bank's CIO and its Chief Risk Officer ("CRO").

The Bank's CISO has over 20 years of experience serving in various IT roles, and he maintains a number of technology and cloud certifications, including the Certified Information Systems Security Professional certification.

The Bank's IT Infrastructure team, led by the Director of Cloud Infrastructure, is responsible for the hands-on configuration and patch management of the Bank's information systems to ensure the security, reliability, and availability of those systems. The team is comprised of information system and cloud professionals that hold various certifications in systems administration and cloud computing.

The Bank's Operational Risk Oversight Committee ("OROC"), led by the CRO, provides oversight of the Bank's operational risk, including cybersecurity risk. OROC meets quarterly and is comprised of senior leaders from the IT (including Security), Legal, Accounting, and Operational Risk Management departments, among others. In addition, matters of cybersecurity importance relating to specific IT projects are discussed and addressed in the Bank's Information Technology Steering Committee, which is led by the CIO and is comprised of senior leaders from across the Bank.

The Bank's CISO provides quarterly reports to OROC which include vulnerability management and security incident metrics, the status of security awareness training (including phish-testing results), and the status of any risk-accepted items and remediations. The quarterly reports also include any significant findings from audits, third-party security assessments, and penetration tests. Monthly, the CISO briefs the CRO, CIO, and the Bank's Chief Executive Officer regarding any significant IT security items.

The Bank's CISO periodically updates the Board of Directors regarding the Bank's cybersecurity program, including current risks and metrics, the evolving external threat landscape and the results of the Bank's security awareness training. The Risk Management Committee of the Board of Directors, the Board committee that is primarily responsible for the oversight of risks from cybersecurity threats, is briefed quarterly on cybersecurity risks and receives information and metrics that are similar to the information and metrics provided to OROC. In addition, the Board's Strategic Planning, Operations and Technology Committee is briefed, as needed, on security matters relating to specific IT projects.

Monthly, the Board of Directors receives an IT status dashboard which includes, among other things, IT security metrics regarding phish-training and vulnerability management.

Annually, the CISO prepares the Bank's Annual State of Security report which is provided to executive management, OROC, and the Board of Directors. The report provides data on, and insights into, the top security concerns facing the Bank, such as shifts in the threat landscape, high-priority threats, and trends affecting the banking industry, in addition to security-specific technology changes which have occurred during the current year that could impact the overall risk to the Bank. The report also includes an assessment of the upcoming threats that the Bank could potentially face over the course of the next year and includes recommendations designed to mitigate those threats.

## **ITEM 2. PROPERTIES**

The Bank owns a 157,000 square foot office building located at 8500 Freeport Parkway South, Irving, Texas. The Bank occupies approximately 87,000 square feet of space in this building.

The Bank also maintains leased off-site business resumption, storage and co-location facilities comprising approximately 12,000, 5,000 and 500 square feet of space, respectively.

**ITEM 3. LEGAL PROCEEDINGS**

The Bank is not a party to any material pending legal proceedings.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

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

The Bank is a cooperative and all of its outstanding capital stock, which is known as Class B Stock, is owned by its members or, in some cases, by non-member institutions that acquire stock by virtue of acquiring member institutions, by a federal or state agency or insurer acting as a receiver of a closed institution, or by former members of the Bank that retain capital stock to support advances or other extensions of credit that remain outstanding or until any applicable stock redemption or withdrawal notice period expires. All members must hold stock in the Bank. All of the Bank's shareholders are financial institutions; no individual may own any of the Bank's capital stock. The Bank's capital stock is not publicly traded, nor is there an established market for the stock. The Bank's capital stock has a par value of \$100 per share and it may be purchased, redeemed, repurchased and transferred only at its par value. By regulation, the parties to a transaction involving the Bank's stock can include only the Bank and its member institutions (or non-member institutions or former members, as described above). While a member could transfer stock to another member of the Bank, such transfer could occur only upon approval of the Bank and then only at par value. Members may redeem excess stock, or withdraw from membership and redeem all outstanding capital stock, with five years' written notice to the Bank. The Bank does not issue options, warrants or rights relating to its capital stock, nor does it provide any type of equity compensation plan. As of March 12, 2024, the Bank had 795 shareholders and 46,461,235 shares of capital stock outstanding.

The Bank has two sub-classes of Class B stock. Class B-1 Stock is used to meet the membership investment requirement and Class B-2 Stock is used to meet the activity-based investment requirement. Daily, subject to the limitations in the Bank's Capital Plan, the Bank converts shares of one sub-class of Class B Stock to the other sub-class of Class B Stock under the following circumstances: (i) shares of Class B-2 Stock held by a shareholder in excess of its activity-based investment requirement are converted into Class B-1 Stock, if necessary, to meet that shareholder's membership investment requirement and (ii) shares of Class B-1 Stock held by a shareholder in excess of the amount required to meet its membership investment requirement are converted into Class B-2 Stock as needed in order to satisfy that shareholder's activity-based investment requirement. All excess stock is held as Class B-1 Stock at all times.

Subject to Finance Agency directives and the terms of the Amended JCE Agreement described below, the Bank is permitted by statute and regulation to pay dividends on members' capital stock in either cash or capital stock only from previously retained earnings or a portion of current net earnings. The Bank's Board of Directors may not declare or pay a dividend based on projected or anticipated earnings, nor may it declare or pay a dividend if the Bank is not in compliance with its minimum capital requirements or if the Bank would fail to meet its minimum capital requirements after paying such dividend (for a discussion of the Bank's minimum capital requirements, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk-Based Capital Rules and Other Capital Requirements). Further, the Bank may not declare or pay any dividends in the form of capital stock if excess stock held by its shareholders is greater than one percent of the Bank's total assets or if, after the issuance of such shares, excess stock held by its shareholders would be greater than one percent of the Bank's total assets. Shares of capital stock issued as dividend payments have the same rights, obligations, and restrictions as all other shares of capital stock, including rights, privileges, and restrictions related to the repurchase and redemption of capital stock. To the extent such shares represent excess stock, they may be repurchased or redeemed by the Bank in accordance with the provisions of the Bank's Capital Plan.

The Bank, and the other FHLBanks, are parties to the Amended JCE Agreement, which provides that the Bank (and each of the other FHLBanks) will, on a quarterly basis, allocate at least 20 percent of its net income to an RRE Account. Pursuant to the provisions of the Amended JCE Agreement, the Bank is required to build its RRE Account to an amount equal to one percent of its total outstanding consolidated obligations, which for this purpose is based on the most recent quarter's average carrying value of all outstanding consolidated obligations, excluding hedging adjustments. The Amended JCE Agreement provides that during periods in which the Bank's RRE Account is less than the amount prescribed in the preceding sentence, it may pay dividends only from unrestricted retained earnings or from the portion of its quarterly net income that exceeds the amount required to be allocated to its RRE Account. The allocations to, and restrictions associated with, its RRE Account have not had, nor are they currently expected to have, an effect on the Bank's dividend payment practices. For additional information regarding the Amended JCE Agreement, see Item 1. Business — Capital — Retained Earnings.

The Bank has had a long-standing practice of paying quarterly dividends in the form of capital stock. During the years ended December 31, 2022 and 2021 and the three months ended March 31, 2023, quarterly dividends on Class B-1 Stock were paid at annualized rates that equaled average one-month LIBOR for the preceding quarters (the then current target dividend rate for Class B-1 Stock) while quarterly dividends on Class B-2 Stock were paid at annualized rates that equaled average one-month LIBOR for the preceding quarters plus 1.0 percent (the upper end of the Bank's then current target range for dividends on Class B-2 Stock). In anticipation of the discontinuance of one-month LIBOR after June 30, 2023, the Bank's Board of Directors adopted new dividend target ranges for Class B-1 and Class B-2 Stock that became effective beginning with the dividends that

were paid in the second quarter of 2023, such that they are indexed to the average overnight SOFR rate. While there can be no assurances about future dividends or future dividend rates, the target range for quarterly dividends on Class B-1 Stock is an annualized rate that approximates the average overnight SOFR rate plus 0 – 0.5 percent and the target range for quarterly dividends on Class B-2 Stock is an annualized rate that approximates the average overnight SOFR rate plus 1.0 – 1.5 percent. Dividends are based upon shareholders' average capital stock holdings and the average benchmark index rate for the preceding quarter.

When stock dividends are paid, capital stock is issued in full shares and any fractional shares are paid in cash. Dividends are typically paid during the last week of each calendar quarter and are based upon the Bank's operating results, shareholders' average capital stock holdings and the applicable rate for the preceding quarter. All capital stock dividends are paid in the form of Class B-1 shares.

By way of example, the Bank's fourth quarter 2023 dividends on Class B-1 Stock and Class B-2 Stock were paid at annualized rates of 5.34 percent (a rate equal to average overnight SOFR for the third quarter of 2023 plus 0.1 percent) and 6.34 percent (a rate equal to average overnight SOFR for the third quarter of 2023 plus 1.1 percent), respectively. The annualized dividend rates of 5.34 percent and 6.34 percent were applied to shareholders' average balances of Class B-1 Stock and Class B-2 Stock, respectively, which were held during the period from July 1, 2023 through September 30, 2023.

The following table sets forth certain information regarding the quarterly dividends that were declared and paid by the Bank during the years ended December 31, 2023 and 2022.

	<b>DIVIDENDS PAID</b>			
	<i>(dollars in thousands)</i>			
	<b>2023</b>		<b>2022</b>	
	<b>Amount<sup>(1)</sup></b>	<b>Annualized Rate<sup>(3)</sup></b>	<b>Amount<sup>(2)</sup></b>	<b>Annualized Rate<sup>(3)</sup></b>
First Quarter	\$ 43,231	4.595 %	\$ 3,693	0.665 %
Second Quarter	65,837	5.372 %	4,368	0.794 %
Third Quarter	98,532	5.848 %	10,568	1.618 %
Fourth Quarter	88,314	6.096 %	22,587	3.068 %
<b>Total Dividends Paid During the Period</b>	<b><u>\$ 295,914</u></b>		<b><u>\$ 41,216</u></b>	

<sup>(1)</sup> Amounts exclude (in thousands) \$134, \$86, \$102 and \$85 of dividends paid on mandatorily redeemable capital stock for the first, second, third and fourth quarters of 2023, respectively. For financial reporting purposes, these dividends were classified as interest expense.

<sup>(2)</sup> Amounts exclude (in thousands) \$3, \$6, \$58 and \$100 of dividends paid on mandatorily redeemable capital stock for the first, second, third and fourth quarters of 2022, respectively. For financial reporting purposes, these dividends were classified as interest expense.

<sup>(3)</sup> Reflects the annualized rate paid on all of the Bank's average capital stock outstanding regardless of its classification for financial reporting purposes as either capital stock or mandatorily redeemable capital stock. Rates represent the blended rates paid on Class B-1 and Class B-2 stock (computed as the total dividend paid divided by the aggregate average balance of both classes of stock).

The following table sets forth the annualized dividend rates that were paid on Class B-1 and Class B-2 Stock during the years ended December 31, 2023 and 2022.

	<b>2023</b>		<b>2022</b>	
	<b>Class B-1</b>	<b>Class B-2</b>	<b>Class B-1</b>	<b>Class B-2</b>
First Quarter	3.89%	4.89%	0.09%	1.09%
Second Quarter	4.60%	5.60%	0.23%	1.23%
Third Quarter	5.07%	6.07%	1.02%	2.02%
Fourth Quarter	5.34%	6.34%	2.47%	3.47%

On March 20, 2024, the Bank's Board of Directors approved dividends on Class B-1 and Class B-2 Stock in the form of additional shares of Class B-1 Stock for the first quarter of 2024 at annualized rates of 5.42 percent (a rate equal to average overnight SOFR for the fourth quarter of 2023 plus 0.1 percent) and 6.42 percent (a rate equal to average overnight SOFR for the fourth quarter of 2023 plus 1.1 percent), respectively. The first quarter 2024 dividends, to be applied to average Class B-1

Stock and Class B-2 Stock held during the period from October 1, 2023 through December 31, 2023, will be paid on March 27, 2024.

The Bank has a retained earnings policy that calls for the Bank to maintain retained earnings in an amount at least sufficient to protect the par value of the Bank's capital stock against potential economic losses that could arise from a variety of designated risk factors, including those related to potential permanent losses, potential earnings shortfalls or losses in periodic earnings, and potential reductions in the Bank's estimated market value of equity. With certain exceptions, the Bank's policy calls for the Bank to maintain its total retained earnings balance at or above its policy target when determining the amount of funds available to pay dividends. The Bank's current retained earnings policy target, which was last updated as of December 31, 2023, calls for the Bank to maintain a total retained earnings balance of at least \$642.7 million to protect against the risks identified in the policy. Notwithstanding the fact that the Bank's December 31, 2023 retained earnings balance of \$2.413 billion exceeds the policy target balance, the Bank currently expects to continue to build its retained earnings in keeping with its long-term strategic objectives and the provisions of the Amended JCE Agreement.

Pursuant to the terms of an SEC no-action letter dated September 13, 2005, the Bank is exempt from the requirements to report: (1) sales of its equity securities under Item 701 of Regulation S-K and (2) repurchases of its equity securities under Item 703 of Regulation S-K. In addition, the HER Act specifically exempts the Bank from periodic reporting requirements under the securities laws pertaining to the disclosure of unregistered sales of equity securities.

## **ITEM 6. RESERVED**

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the annual audited financial statements and notes thereto for the years ended December 31, 2023, 2022 and 2021 beginning on page F-1 of this Annual Report on Form 10-K.

### **Forward-Looking Information**

This annual report contains forward-looking statements that reflect current beliefs and expectations of the Bank about its future results, performance, liquidity, financial condition, prospects and opportunities. These statements are identified by the use of forward-looking terminology, such as "anticipates," "plans," "believes," "could," "estimates," "may," "should," "would," "will," "might," "expects," "intends" or their negatives or other similar terms. The Bank cautions that forward-looking statements involve risks or uncertainties that could cause the Bank's actual future results to differ materially from those expressed or implied in these forward-looking statements, or could affect the extent to which a particular objective, projection, estimate, or prediction is realized. As a result, undue reliance should not be placed on such statements.

These risks and uncertainties include, without limitation, evolving economic and market conditions, political events, and the impact of competitive business forces. The risks and uncertainties related to evolving economic and market conditions include, but are not limited to, changes in interest rates, changes in the Bank's access to the capital markets, changes in the cost of the Bank's debt, changes in the ratings on the Bank's debt, adverse consequences resulting from a significant regional, national or global economic downturn (including, but not limited to, reduced demand for the Bank's products and services), credit and prepayment risks and changes in the financial health of the Bank's members or non-member borrowers. Among other things, political events could possibly lead to changes in the Bank's regulatory environment or its status as a GSE, or to changes in the regulatory environment for the Bank's members or non-member borrowers. Risks and uncertainties related to competitive business forces include, but are not limited to, the potential loss of a significant amount of member borrowings through acquisitions or other means or changes in the relative competitiveness of the Bank's products and services for member institutions. For a more detailed discussion of the risk factors applicable to the Bank, see Item 1A. Risk Factors. The Bank undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances, or any other reason.

### **Overview**

The Bank serves eligible financial institutions in Arkansas, Louisiana, Mississippi, New Mexico and Texas (collectively, the Ninth District of the FHLBank System). The Bank's primary business is lending relatively low cost funds (known as advances) to its member institutions, which include commercial banks, savings institutions, insurance companies and credit unions. Community Development Financial Institutions that are certified under the Community Development Banking and Financial Institutions Act of 1994 are also eligible for membership in the Bank. While not members of the Bank, housing associates, including state and local housing authorities, that meet certain statutory criteria may also borrow from the Bank. The Bank also maintains a portfolio of highly rated investments for liquidity purposes and to provide additional earnings. Additionally, the

Bank holds interests in a portfolio of mortgage loans that have been acquired through the MPF Program administered by the FHLBank of Chicago. Substantially all of the loans were acquired during the period from 2016 to 2023 and all of those loans are conventional loans. The remainder of the portfolio (less than 0.2 percent of the unpaid principal balance) is comprised of government-guaranteed/insured and conventional mortgage loans that were acquired during the period from 1998 to mid-2003. Shareholders' return on their investment includes the value derived from access to the Bank's products and services and, to a lesser extent, dividends (which are typically paid quarterly in the form of capital stock). Historically, the Bank has balanced the financial rewards to shareholders by seeking to pay a dividend that meets or exceeds the return on alternative short-term money market investments available to shareholders, while lending funds at the lowest rates expected to be compatible with that objective and its objective to build retained earnings over time.

The Bank's principal source of funds is debt issued in the capital markets. All 11 FHLBanks issue debt in the form of consolidated obligations through the Office of Finance as their agent and all 11 FHLBanks are jointly and severally liable for the repayment of all consolidated obligations.

The Bank conducts its business and fulfills its public purpose primarily by acting as a financial intermediary between its members and the capital markets. The intermediation of the timing, structure, and amount of its members' credit needs with the investment requirements of the Bank's creditors is made possible by the extensive use of interest rate exchange agreements, including interest rate swaps, swaptions and caps. For a discussion of the Bank's accounting policies for derivatives and hedging, see the sections below entitled "Financial Condition — Derivatives and Hedging Activities" and "Critical Accounting Policies and Estimates."

### **Financial Market Conditions**

In March 2020, the President of the United States declared the COVID-19 pandemic a national emergency. The extraordinary governmental response to the pandemic in 2020 resulted in significantly higher financial market liquidity and lower interest rates during 2020 and 2021, as compared to levels before the pandemic. Many factors, some of which have been attributed to the pandemic, led to significant inflation in the U.S. beginning in 2021. In order to combat higher inflation, the Federal Reserve changed its monetary policy in 2022 by significantly increasing short-term interest rates and beginning to reduce its holdings of Treasury securities, agency debt and agency MBS, as further discussed below. These policy actions continued into 2023. Economic growth was modest during 2023, but was to some extent negatively impacted by the higher level of interest rates and concerns about inflation and the possibility of a near-term recession. In addition, in March 2023, several U.S. banks experienced significant deposit outflows and financial difficulties, creating stress for the banking industry and the financial markets. The extent to which these concerns affect the Bank's business will depend on many factors that remain uncertain and difficult to predict.

The gross domestic product increased at an annual rate of 2.5 percent during 2023 according to the second estimate reported by the Bureau of Economic Analysis, after increasing at annual rates of 1.9 percent during the year ended December 31, 2022 and 5.8 percent during the year ended December 31, 2021. In January 2024, the Bureau of Labor Statistics reported that the U.S. unemployment rate was 3.7 percent at the end of 2023 compared to 3.5 percent at the end of 2022 and 3.9 percent at the end of 2021. The Bureau of Labor Statistics also reported that the unadjusted U.S. consumer price index ("CPI") increased 3.4 percent for the year ended December 31, 2023, compared to an increase of 6.5 percent for the year ended December 31, 2022 and an increase of 7.0 percent for the year ended December 31, 2021. The CPI is one of the primary measures of inflation in the U.S., and the peak CPI rate of 9.1 percent for the 12 months ended June 30, 2022 was the highest such measure in the preceding 40 years.

Throughout 2021, the Federal Open Market Committee ("FOMC") maintained the target for the federal funds rate at a range between 0 percent and 0.25 percent. In an effort to combat inflation, the FOMC increased its target for the federal funds rate in increments of 0.25 percent to 0.75 percent at each of its scheduled meetings from March 2022 through May 2023. In July 2023, the FOMC further raised its target for the federal funds rate to a current range between 5.25 percent and 5.50 percent. At its March 19/20, 2024 meeting, the FOMC noted that it will continue to monitor the implications of incoming information for the economic outlook. In considering any adjustments to the target range for the federal funds rate, the FOMC will carefully assess incoming data, the evolving outlook, and the balance of risks.

In 2020, in response to the instability caused by the COVID-19 pandemic, the FOMC stated that, to support the smooth functioning of markets for Treasury securities and agency MBS that are central to the flow of credit to households and businesses, it would increase its holdings of Treasury securities by at least \$500 billion and its holdings of agency MBS by at least \$200 billion and would reinvest all principal payments from the Federal Reserve's holdings of agency debt and agency MBS in agency MBS. In March 2021, the FOMC further stated that it would continue to increase its holdings of Treasury securities by at least \$80 billion per month and of agency MBS by at least \$40 billion per month until substantial further progress had been made toward the Committee's maximum employment and price stability goals. At its scheduled meeting on November 2/3, 2021, the FOMC stated that, in light of the substantial further progress the economy had made toward the FOMC's goals since December 2020, it would begin reducing the monthly pace of its net asset purchases by \$10 billion for

Treasury securities and \$5 billion for agency MBS. Beginning in November 2021, the FOMC stated it would increase its holdings of Treasury securities by at least \$70 billion per month (down from \$80 billion per month) and of agency MBS by at least \$35 billion per month (down from \$40 billion per month). Beginning in December 2021, the FOMC would increase its holdings of Treasury securities by at least \$60 billion per month and of agency MBS by at least \$30 billion per month. On January 26, 2022, the FOMC announced that it would continue to reduce the monthly pace of its net asset purchases, bringing them to an end in March 2022. At its May 3/4, 2022 meeting, the FOMC announced that it would begin reducing its holdings of Treasury securities and agency debt and agency MBS on June 1, 2022. Beginning on that date, principal payments from its holdings of Treasury securities and agency debt and agency MBS are reinvested to the extent that they exceed monthly caps. For Treasury securities, the cap was initially set at \$30 billion per month and after three months it was increased to \$60 billion per month. For agency debt and agency MBS, the cap was initially set at \$17.5 billion per month and after three months it was increased to \$35 billion per month. At its March 19/20, 2024 meeting, the FOMC stated that these reductions would continue.

Due to the dramatic increase in volatility across the global capital markets that occurred in response to the COVID-19 pandemic, the Federal Reserve also undertook a number of other emergency actions. Notably, the Federal Reserve increased substantially its provision of liquidity to the repo and U.S. Treasury markets via open market operations while also providing liquidity to related markets, such as the commercial paper market, via an array of new programs, many of which expired on March 31, 2021. On July 28, 2021, the FOMC announced the establishment of two standing repurchase agreement facilities (a domestic facility and a repo facility for foreign and international monetary authorities), which are intended to support the effective implementation of monetary policy and smooth market functioning.

In response to the disruptions in the banking industry and financial markets, the Federal Reserve, on March 12, 2023, announced a plan to make available additional funding to eligible depository institutions to help ensure that they have the ability to meet the needs of all their depositors, through easier access to the discount window and the creation of a new Bank Term Funding Program. The Bank Term Funding Program ceased making new loans on March 11, 2024.

The following table presents information on various market interest rates at December 31, 2023 and 2022 and various average market interest rates for the years ended December 31, 2023, 2022 and 2021.

	Ending Rate		Average Rate		
	December 31,	December 31,	For the Year Ended December 31,		
	2023	2022	2023	2022	2021
Federal Funds Target <sup>(1)</sup>	5.50%	4.50%	5.20%	1.89%	0.25%
Average Effective Federal Funds Rate <sup>(2)</sup>	5.33%	4.33%	5.03%	1.69%	0.08%
Overnight SOFR <sup>(3)</sup>	5.38%	4.30%	5.01%	1.64%	0.04%
1-month SOFR <sup>(3)</sup>	5.34%	4.06%	4.97%	1.46%	0.04%
3-month SOFR <sup>(3)</sup>	5.36%	3.62%	4.86%	1.17%	0.04%
2-year SOFR <sup>(3)</sup>	4.07%	4.45%	4.53%	3.01%	0.23%
5-year SOFR <sup>(3)</sup>	3.53%	3.75%	3.83%	2.79%	0.73%
10-year SOFR <sup>(3)</sup>	3.47%	3.56%	3.66%	2.72%	1.21%
3-month U.S. Treasury <sup>(3)</sup>	5.40%	4.42%	5.28%	2.09%	0.04%
2-year U.S. Treasury <sup>(3)</sup>	4.23%	4.41%	4.58%	2.99%	0.27%
5-year U.S. Treasury <sup>(3)</sup>	3.84%	3.99%	4.06%	3.00%	0.86%
10-year U.S. Treasury <sup>(3)</sup>	3.88%	3.88%	3.96%	2.95%	1.45%

<sup>(1)</sup> Source: Bloomberg (reflects upper end of target range)

<sup>(2)</sup> Source: Federal Reserve Statistical Release

<sup>(3)</sup> Source: Bloomberg

## **2023 In Summary**

- The Bank ended 2023 with total assets of \$128.3 billion compared with \$114.3 billion at the end of 2022. The \$14.0 billion increase in total assets was attributable primarily to increases in the Bank's advances (\$11.1 billion), long-term securities portfolio (\$2.5 billion) and mortgage loans held for portfolio (\$0.7 billion), partially offset by a decrease in its short-term liquidity portfolio (\$0.5 billion)
- Total advances at December 31, 2023 were \$80.0 billion, compared to \$68.9 billion at the end of 2022.

- Mortgage loans held for portfolio increased from \$4.4 billion at December 31, 2022 to \$5.1 billion at December 31, 2023.
- The Bank's net income for 2023 was \$874.5 million, which represented a return on average capital stock of 15.42 percent. In comparison, the Bank's net income for 2022 was \$317.2 million, which represented a return on average capital stock of 11.02 percent for that year. For discussion and analysis of the increase in net income, see the section entitled "Results of Operations" beginning on page 60 of this report.
- At all times during 2023, the Bank was in compliance with all of its regulatory capital requirements. In addition, the Bank's total retained earnings increased to \$2.413 billion at December 31, 2023 from \$1.834 billion at December 31, 2022. Retained earnings represented 1.9 percent and 1.6 percent of total assets at December 31, 2023 and 2022, respectively. At December 31, 2023, the balance of the Bank's restricted retained earnings account was \$505.1 million, representing 0.42 percent of the carrying value of its consolidated obligations (excluding hedging adjustments) at that date.
- In 2023, the Bank paid dividends totaling \$295.9 million which, based on the applicable average capital stock balances, equated to an overall blended rate of 5.58 percent for the year. Based on its net income for the year, the dividend payout ratio was 33.84 percent.



## Selected Financial Data

### SELECTED FINANCIAL DATA (dollars in thousands)

	Year Ended December 31,				
	2023	2022	2021	2020	2019
<b>Balance sheet (at year end)</b>					
Advances	\$ 79,951,855	\$ 68,921,869	\$ 24,637,464	\$ 32,478,944	\$ 37,117,455
Investments <sup>(1)</sup>	42,631,192	40,613,512	34,653,202	25,660,696	33,918,055
Mortgage loans	5,096,410	4,400,040	3,494,389	3,426,611	4,076,613
Allowance for credit losses on mortgage loans	7,768	4,865	3,124	3,925	1,149
Total assets	128,264,612	114,348,556	63,488,376	64,912,526	75,381,605
Consolidated obligations — discount notes	8,598,022	46,270,265	11,003,026	22,171,296	34,327,886
Consolidated obligations — bonds	109,536,207	59,946,458	44,514,220	37,112,721	35,745,827
Total consolidated obligations <sup>(2)</sup>	118,134,229	106,216,723	55,517,246	59,284,017	70,073,713
Mandatorily redeemable capital stock <sup>(3)</sup>	506	7,453	6,657	13,864	7,140
Capital stock — putable	4,737,388	3,984,105	2,192,504	2,101,380	2,466,242
Unrestricted retained earnings	1,907,882	1,504,236	1,291,656	1,174,359	1,038,533
Restricted retained earnings	505,101	330,210	266,761	233,886	194,144
Total retained earnings	2,412,983	1,834,446	1,558,417	1,408,245	1,232,677
Accumulated other comprehensive income	108,849	182,526	182,770	47,260	99,049
Total capital	7,259,220	6,001,077	3,933,691	3,556,885	3,797,968
Dividends paid <sup>(3)</sup>	295,914	41,216	14,205	38,589	75,923
<b>Income statement</b>					
Net interest income after provision/reversal for mortgage loan losses <sup>(4)</sup>	\$ 1,017,913	\$ 479,672	\$ 277,547	\$ 309,979	\$ 293,175
Other income (loss) <sup>(4)</sup>	91,718	(25,446)	10,243	32,159	56,320
Other expense	137,974	101,713	105,147	121,342	96,965
AHP assessment	97,206	35,268	18,266	22,087	25,272
Net income	874,451	317,245	164,377	198,709	227,258
<b>Performance ratios</b>					
Net interest margin <sup>(4)(5)</sup>	0.66 %	0.63 %	0.46%	0.43 %	0.41 %
Net interest spread <sup>(4)(6)</sup>	0.33 %	0.45 %	0.45%	0.39 %	0.28 %
Return on average assets	0.57 %	0.41 %	0.27%	0.28 %	0.32 %
Return on average equity	10.94 %	6.69 %	4.31%	5.41 %	5.96 %
Return on average capital stock <sup>(7)</sup>	15.42 %	11.02 %	7.72%	8.17 %	8.90 %
Total average equity to average assets	5.17 %	6.17 %	6.37%	5.11 %	5.35 %
Regulatory capital ratio <sup>(8)</sup>	5.58 %	5.09 %	5.92%	5.43 %	4.92 %
Dividend payout ratio <sup>(3)(9)</sup>	33.84 %	12.99 %	8.64%	19.42 %	33.41 %

- 
- (1) Investments consist of interest-bearing deposits, federal funds sold, securities purchased under agreements to resell and securities classified as held-to-maturity, available-for-sale and trading.
  - (2) The Bank is jointly and severally liable with the other FHLBanks for the payment of principal and interest on the consolidated obligations of all of the FHLBanks. At December 31, 2023, 2022, 2021, 2020 and 2019, the outstanding consolidated obligations (at par value) of all of the FHLBanks totaled approximately \$1.204 trillion, \$1.182 trillion, \$0.653 trillion, \$0.747 trillion and \$1.026 trillion, respectively. As of those dates, the Bank's outstanding consolidated obligations (at par value) were \$119.8 billion, \$109.1 billion, \$55.8 billion, \$59.2 billion and \$70.1 billion, respectively. The Bank records on its statement of condition only that portion of the consolidated obligations for which it has received the proceeds.
  - (3) Mandatorily redeemable capital stock represents capital stock that is classified as a liability under U.S. GAAP. Dividends on mandatorily redeemable capital stock are recorded as interest expense and excluded from dividends paid. Dividends paid on mandatorily redeemable capital stock totaled \$407 thousand, \$167 thousand, \$25 thousand, \$110 thousand and \$201 thousand for the years ended December 31, 2023, 2022, 2021, 2020 and 2019, respectively.
  - (4) Under U.S. GAAP, changes in the fair value of a derivative in a qualifying fair value hedge along with changes in the fair value of the hedged asset or liability attributable to the hedged risk (the net amount of which is referred to as fair value hedge ineffectiveness) are recorded in net interest income. Fair value hedge ineffectiveness increased (reduced) net interest income by (\$83.1 million), (\$5.7 million), \$23.8 million, (\$15.0 million) and (\$17.9 million) for the years ended December 31, 2023, 2022, 2021, 2020 and 2019, respectively. Included in the fair value ineffectiveness amounts are price alignment amounts on cleared derivatives totaling (\$73.7 million), (\$15.8 million), \$0.4 million, \$3.9 million and \$6.8 million for the years ended December 31, 2023, 2022, 2021, 2020 and 2019, respectively. For additional discussion, see the section entitled "Results of Operations" beginning on page 60 of this report.
  - (5) Net interest margin is net interest income as a percentage of average earning assets.
  - (6) Net interest spread is the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities.
  - (7) Return on average capital stock is derived by dividing net income by average capital stock balances excluding mandatorily redeemable capital stock.
  - (8) The regulatory capital ratio is computed by dividing regulatory capital (the sum of capital stock — putable, mandatorily redeemable capital stock and retained earnings) by total assets at each year-end.
  - (9) Dividend payout ratio is computed by dividing dividends paid by net income for the year.
  - (10) Rates obtained from the Federal Reserve Statistical Release.
  - (11) Rates obtained from Bloomberg.

### **Financial Condition**

The following table provides selected period-end balances as of December 31, 2023, 2022 and 2021, as well as selected average balances for the years ended December 31, 2023, 2022 and 2021. As shown in the table, the Bank's total assets increased by 12.2 percent (or \$13.9 billion) during the year ended December 31, 2023 after increasing by 80.1 percent (or \$50.9 billion) during the year ended December 31, 2022. The increase in total assets during the year ended December 31, 2023 was attributable primarily to increases in the Bank's advances (\$11.0 billion), long-term securities portfolio (\$2.5 billion) and mortgage loans held for portfolio (\$0.7 billion), partially offset by a decrease in its short-term liquidity portfolio (\$0.5 billion). As the Bank's assets increased, the funding for those assets also increased. During the year ended December 31, 2023, total consolidated obligations increased by \$11.9 billion, as consolidated obligation bonds increased by \$49.6 billion and consolidated obligation discount notes decreased by \$37.7 billion.

The increase in total assets during the year ended December 31, 2022 was attributable primarily to increases in the Bank's advances (\$44.3 billion), short-term liquidity portfolio (\$5.9 billion) and mortgage loans held for portfolio (\$0.9 billion), partially offset by a decrease in the Bank's long-term securities portfolio (\$0.5 billion). As the Bank's assets increased, the funding for those assets also increased. During the year ended December 31, 2022, total consolidated obligations increased by \$50.7 billion, as consolidated obligation discount notes increased by \$35.3 billion and consolidated obligation bonds increased by \$15.4 billion.

The activity in each of the major balance sheet captions is discussed in the sections following the table. Activity for the year ended December 31, 2021 is discussed in the Bank's Annual Report on Form 10-K for the year ended December 31, 2022 which was filed with the SEC on March 22, 2023 (the "2022 10-K").

## SUMMARY OF CHANGES IN FINANCIAL CONDITION

*(dollars in millions)*

	December 31, 2023			December 31, 2022			Balance at December 31, 2021
	Balance	Increase (Decrease)		Balance	Increase (Decrease)		
		Amount	Percentage		Amount	Percentage	
Advances	\$ 79,952	\$ 11,030	16.0 %	\$ 68,922	\$ 44,285	179.7 %	\$ 24,637
<b>Short-term liquidity holdings</b>							
Non-interest bearing excess cash balances <sup>(1)</sup>	—	—	—	—	(515)	(100.0)	515
Interest-bearing deposits	2,297	(723)	(23.9)	3,020	2,134	240.9	886
Securities purchased under agreements to resell	14,750	2,550	20.9	12,200	1,550	14.6	10,650
Federal funds sold	6,368	(3,416)	(34.9)	9,784	5,003	104.6	4,781
<b>Trading securities</b>							
U.S. Treasury Notes	1,171	1,082	1,215.7	89	(8)	(8.2)	97
U.S. Treasury Bills	—	—	—	—	(2,250)	(100.0)	2,250
Total short-term liquidity holdings	24,586	(507)	(2.0)	25,093	5,914	30.8	19,179
<b>Long-term investments</b>							
Trading securities (U.S. Treasury Note)	101	2	2.0	99	(9)	(8.3)	108
Available-for-sale securities	17,691	2,585	17.1	15,106	(182)	(1.2)	15,288
Held-to-maturity securities	253	(62)	(19.7)	315	(279)	(47.0)	594
Total long-term investments	18,045	2,525	16.3	15,520	(470)	(2.9)	15,990
Mortgage loans held for portfolio, net	5,089	694	15.8	4,395	904	25.9	3,491
Total assets	128,265	13,916	12.2	114,349	50,861	80.1	63,488
<b>Consolidated obligations</b>							
Consolidated obligations — bonds	109,536	49,590	82.7	59,946	15,432	34.7	44,514
Consolidated obligations — discount notes	8,598	(37,672)	(81.4)	46,270	35,267	320.5	11,003
Total consolidated obligations	118,134	11,918	11.2	106,216	50,699	91.3	55,517
Mandatorily redeemable capital stock	1	(6)	(85.7)	7	—	—	7
Capital stock	4,737	753	18.9	3,984	1,791	81.7	2,193
Retained earnings	2,413	579	31.6	1,834	276	17.7	1,558
Average total assets	154,439	77,607	101.0	76,832	16,987	28.4	59,845
Average capital stock	5,672	2,794	97.1	2,878	748	35.1	2,130
Average mandatorily redeemable capital stock	6	(6)	(50.0)	12	4	50.0	8

<sup>(1)</sup> Represents excess cash held at the Federal Reserve Bank of Dallas. These amounts are classified as "Cash and Due From Banks" in the Bank's statements of condition

## Advances

The following table presents advances outstanding, by type of institution, as of December 31, 2023, 2022 and 2021.

### ADVANCES OUTSTANDING BY BORROWER TYPE

(par value, dollars in millions)

	December 31,					
	2023		2022		2021	
	Amount	Percent	Amount	Percent	Amount	Percent
Savings institutions	\$ 36,893	46 %	\$ 20,105	29 %	\$ 1,880	8 %
Commercial banks	26,654	33	33,026	48	13,181	54
Insurance companies	8,952	11	7,882	11	6,814	28
Credit unions	7,599	10	8,273	12	2,396	10
Community Development Financial Institutions	28	—	24	—	25	—
Total member advances	80,126	100	69,310	100	24,296	100
Housing associates	117	—	106	—	116	—
Non-member borrowers	18	—	21	—	—	—
Total par value of advances	<u>\$ 80,261</u>	<u>100 %</u>	<u>\$ 69,437</u>	<u>100 %</u>	<u>\$ 24,412</u>	<u>100 %</u>
Total par value of advances outstanding to CFIs <sup>(1)</sup>	<u>\$ 5,675</u>	<u>7 %</u>	<u>\$ 6,370</u>	<u>9 %</u>	<u>\$ 3,153</u>	<u>13 %</u>

<sup>(1)</sup> The figures presented above reflect the advances outstanding to CFIs as of December 31, 2023, 2022 and 2021 based upon the definitions of CFIs that applied as of those dates.

The Bank's advances balances (at par value) increased by \$10.8 billion (16 percent) during the year ended December 31, 2023. Demand for the Bank's advances was extraordinary during the first quarter of 2023, particularly during the five-day period from March 13, 2023 through March 17, 2023 in response to the turmoil in the banking industry and financial markets that was sparked by the financial difficulties experienced by some out-of-district depository institutions. The increase in the Bank's advances during this period was driven largely by demand from savings institutions and commercial banks as they sought to increase their liquidity levels. At March 31, 2023, advances outstanding totaled \$125.1 billion. As market liquidity began to normalize in the second quarter, member demand moderated and, correspondingly, advances balances began to decline toward the end of that period (at June 30, 2023, advances outstanding totaled \$109.9 billion) and this trend continued in the second half of 2023 with outstanding advances further declining to \$80.3 billion by year end. Members with more than a \$2.0 billion net increase in advances during 2023 were Charles Schwab Bank SSB (\$14.0 billion), Comerica Bank (\$4.4 billion) and USAA Federal Savings Bank (\$2.5 billion). While advances demand is difficult to predict, the Bank currently expects that advances will likely continue to decline in 2024 in the absence of some type of destabilizing event.

The Bank's advances balances (at par value) increased by \$45.0 billion (184 percent) during the year ended December 31, 2022. The increase in advances was spread broadly across the Bank's membership with demand particularly robust from commercial banks (increase of \$19.8 billion or 151 percent), savings institutions (increase of \$18.2 billion or 969 percent) and credit unions (increase of \$5.9 billion or 245 percent). The Bank believes the increase in advances was due in part to a decline in members' liquidity levels and healthy demand for loans at member institutions. Some of the Bank's larger members also used advances to fund investment activities. Members with more than a \$2.0 billion net increase in advances during 2022 were Charles Schwab Bank SSB (\$10.0 billion), USAA Federal Savings Bank (\$3.5 billion), Beal Bank USA (\$3.4 billion), Comerica Bank (\$3.2 billion), Cadence Bank (\$3.1 billion) and Charles Schwab Premier Bank (\$2.4 billion).

At December 31, 2023, advances outstanding to the Bank's five largest borrowers totaled \$45.4 billion, representing 56.6 percent of the Bank's total outstanding advances as of that date.

The following table presents the Bank's five largest borrowers as of December 31, 2023.

**FIVE LARGEST BORROWERS AS OF DECEMBER 31, 2023**  
(par value, dollars in millions)

Name	Par Value of Advances	Percent of Total Par Value of Advances
Charles Schwab Bank, SSB	\$ 24,000	29.9 %
Comerica Bank	7,550	9.4
USAA Federal Savings Bank	6,000	7.5
American General Life Insurance Company	4,475	5.6
Beal Bank USA	3,400	4.2
	\$ 45,425	56.6 %

With outstanding advances of \$2.4 billion as of December 31, 2023 (representing 3.0 percent of the Bank's total outstanding advances as of that date), Charles Schwab Premier Bank, SSB, an affiliate of Charles Schwab Bank, SSB, was the Bank's seventh largest borrower at year end 2023.

As of December 31, 2022 and 2021, advances outstanding to the Bank's five largest borrowers comprised \$23.5 billion (33.9 percent) and \$10.1 billion (41.4 percent), respectively, of the total advances portfolio at those dates.

The following table presents information regarding the composition of the Bank's advances by product type as of December 31, 2023 and 2022.

**ADVANCES OUTSTANDING BY PRODUCT TYPE**  
(par value, dollars in millions)

	December 31, 2023		December 31, 2022	
	Balance	Percentage of Total	Balance	Percentage of Total
Fixed-rate	\$ 69,559	86.7 %	\$ 53,056	76.4 %
Adjustable/variable-rate indexed	9,685	12.1	15,480	22.3
Amortizing	1,017	1.2	901	1.3
Total par value	\$ 80,261	100.0 %	\$ 69,437	100.0 %

The Bank is required by statute and regulation to obtain sufficient collateral from members/borrowers to fully secure all advances and other extensions of credit. The Bank's collateral arrangements with its members/borrowers and the types of collateral it accepts to secure advances are described in Item 1. Business. To ensure the value of collateral pledged to the Bank is sufficient to secure its advances, the Bank applies various haircuts, or discounts, to determine the value of the collateral against which borrowers may borrow. From time to time, the Bank reevaluates the adequacy of its collateral haircuts under a range of stress scenarios to ensure that its collateral haircuts are sufficient to protect the Bank from credit losses on advances and other extensions of credit.

In addition, as described in Item 1. Business, the Bank reviews the financial condition of its depository institution borrowers on at least a quarterly basis to identify any borrowers whose financial condition indicates they might pose an increased credit risk and, as needed, takes appropriate action. The Bank has not experienced any credit losses on advances since it was founded in 1932 and, based on its credit extension and collateral policies, management currently does not anticipate any credit losses on advances. Accordingly, the Bank has not provided any allowance for losses on advances.

**Short-Term Liquidity Holdings**

At December 31, 2023, the Bank's short-term liquidity holdings were comprised of \$14.7 billion of overnight reverse repurchase agreements (of which \$11.1 billion was transacted with the Federal Reserve Bank of New York), \$6.4 billion of overnight federal funds sold, \$2.3 billion of overnight interest-bearing deposits and \$1.2 billion of U.S. Treasury Notes. At December 31, 2022, the Bank's short-term liquidity holdings were comprised of a \$12.2 billion overnight reverse repurchase agreement transacted with the Federal Reserve Bank of New York, \$9.8 billion of overnight federal funds sold, \$3.0 billion of overnight interest-bearing deposits and a \$0.1 billion U.S. Treasury Note. All of the Bank's federal funds sold during 2023 and 2022 were transacted with domestic bank counterparties, U.S. subsidiaries of foreign holding companies or U.S. branches of foreign financial institutions on an overnight basis. All of the Bank's interest-bearing deposits were transacted on an overnight basis with domestic bank counterparties or U.S. subsidiaries of foreign holding companies.

As of December 31, 2023, the Bank's overnight federal funds sold consisted of \$3.6 billion of funds sold to counterparties rated double-A and \$2.8 billion of funds sold to counterparties rated single-A. At that same date, substantially all of the Bank's overnight interest-bearing deposits were held in single-A rated banks. The credit ratings presented in the two preceding sentences represent the lowest long-term rating assigned to the counterparty by Moody's or S&P.

The amount of the Bank's short-term liquidity holdings fluctuates in response to several factors, including the anticipated demand for advances, the timing and extent of advance prepayments, changes in the Bank's deposit balances, the Bank's pre-funding activities, prevailing conditions (or anticipated changes in conditions) in the short-term debt markets, the level of liquidity needed to satisfy Finance Agency requirements and the Finance Agency's expectations with regard to the Bank's core mission achievement. For a discussion of the Finance Agency's liquidity requirements, see the section below entitled "Liquidity and Capital Resources." For a discussion of the Finance Agency's guidance regarding core mission achievement, see Item 1. Business (specifically, the section entitled Core Mission Achievement beginning on page 11 of this report).

Finance Agency regulations and Bank policies govern the Bank's investments in unsecured money market instruments, such as overnight and term federal funds and commercial paper. Those regulations and policies establish limits on the amount of unsecured credit that may be extended to borrowers or to affiliated groups of borrowers, and require the Bank to base its investment limits on the creditworthiness of its counterparties.

## ***Long-Term Investments***

The composition of the Bank's long-term investment portfolio at December 31, 2023 and 2022 is set forth in the table below.

### **COMPOSITION OF LONG-TERM INVESTMENT PORTFOLIO**

*(in millions)*

<b>December 31, 2023</b>	<b>Balance Sheet Classification</b>			<b>Total Long-Term Investments (at carrying value)</b>	<b>Held-to-Maturity (at fair value)</b>
	<b>Held-to-Maturity (at carrying value)</b>	<b>Available-for-Sale (at fair value)</b>	<b>Trading (at fair value)</b>		
<b>Debentures</b>					
U.S. government-guaranteed obligations	\$ —	\$ 264	\$ 101	\$ 365	\$ —
GSE obligations	—	3,115	—	3,115	—
<b>Total debentures</b>	<b>—</b>	<b>3,379</b>	<b>101</b>	<b>3,480</b>	<b>—</b>
<b>MBS portfolio</b>					
GSE residential MBS	253	—	—	253	247
GSE commercial MBS	—	14,312	—	14,312	—
<b>Total MBS</b>	<b>253</b>	<b>14,312</b>	<b>—</b>	<b>14,565</b>	<b>247</b>
<b>Total long-term investments</b>	<b>\$ 253</b>	<b>\$ 17,691</b>	<b>\$ 101</b>	<b>\$ 18,045</b>	<b>\$ 247</b>
<b>December 31, 2022</b>					
	<b>Balance Sheet Classification</b>			<b>Total Long-Term Investments (at carrying value)</b>	<b>Held-to-Maturity (at fair value)</b>
	<b>Held-to-Maturity (at carrying value)</b>	<b>Available-for-Sale (at fair value)</b>	<b>Trading (at fair value)</b>		
<b>Debentures</b>					
U.S. government-guaranteed obligations	\$ 1	\$ 277	\$ 99	\$ 377	\$ 1
GSE obligations	—	3,169	—	3,169	—
<b>Total debentures</b>	<b>1</b>	<b>3,446</b>	<b>99</b>	<b>3,546</b>	<b>1</b>
<b>MBS portfolio</b>					
GSE residential MBS	288	—	—	288	283
GSE commercial MBS	—	11,660	—	11,660	—
Non-agency residential MBS	26	—	—	26	30
<b>Total MBS</b>	<b>314</b>	<b>11,660</b>	<b>—</b>	<b>11,974</b>	<b>313</b>
<b>Total long-term investments</b>	<b>\$ 315</b>	<b>\$ 15,106</b>	<b>\$ 99</b>	<b>\$ 15,520</b>	<b>\$ 314</b>

The following table presents supplemental information regarding the maturities and yields of the Bank's investments (at carrying value) as of December 31, 2023. Maturities are based on the contractual maturities of the securities. All of the Bank's available-for-sale securities are fixed rate securities, substantially all of which have been swapped to a variable rate. The yields presented in the table for available-for-sale securities reflect their contractual fixed rates. The weighted average yields are calculated as the sum of each debt security using the period end balances multiplied by the coupon rate adjusted by the effect of amortization and accretion of premiums and discounts, divided by the total debt securities in the applicable portfolio.

#### AVAILABLE-FOR-SALE AND HELD-TO-MATURITY SECURITIES MATURITIES AND YIELDS

*(dollars in thousands)*

	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
<b>Maturities</b>					
Available-for-sale securities					
U.S. government-guaranteed debentures	\$ 180,201	\$ 83,966	\$ —	\$ —	\$ 264,167
GSE debentures	1,081,568	1,907,092	126,346	—	3,115,006
GSE commercial MBS	194,332	6,907,699	7,060,653	148,865	14,311,549
Total available-for-sale securities	<u>\$ 1,456,101</u>	<u>\$ 8,898,757</u>	<u>\$ 7,186,999</u>	<u>\$ 148,865</u>	<u>\$ 17,690,722</u>
Held-to-maturity securities					
U.S. government-guaranteed debentures	\$ 374	\$ —	\$ —	\$ —	\$ 374
GSE residential MBS	—	69	1,694	251,165	252,928
Total held-to-maturity securities	<u>\$ 374</u>	<u>\$ 69</u>	<u>\$ 1,694</u>	<u>\$ 251,165</u>	<u>\$ 253,302</u>
<b>Weighted average yields</b>					
Available-for-sale securities					
U.S. government-guaranteed debentures	2.56 %	2.66 %	— %	— %	2.59 %
GSE debentures	2.24	2.46	2.84	—	2.40
GSE commercial MBS	2.82	3.01	4.13	4.85	3.58
Yield on available-for-sale securities	<u>2.36 %</u>	<u>2.89 %</u>	<u>4.11 %</u>	<u>4.85 %</u>	<u>3.36 %</u>
Held-to-maturity securities					
U.S. government-guaranteed debentures	0.76 %	— %	— %	— %	0.76 %
GSE residential MBS	—	6.02	5.88	5.92	5.92
Yield on held-to-maturity securities	<u>0.76 %</u>	<u>6.02 %</u>	<u>5.88 %</u>	<u>5.92 %</u>	<u>5.91 %</u>

During the years ended December 31, 2023 and 2022, proceeds from maturities, prepayments and paydowns of held-to-maturity securities totaled approximately \$37 million and \$180 million, respectively. Proceeds from maturities, prepayments and paydowns of available-for-sale securities totaled \$0.648 billion and \$2.386 billion during the years ended December 31, 2023 and 2022, respectively. The Bank did not sell any available-for-sale securities during the years ended December 31, 2023 or 2022. During the year ended December 31, 2023, the Bank sold all of its non-agency residential MBS ("RMBS") classified as held-to-maturity securities. Proceeds from the sale totaled \$29.0 million, resulting in a net realized gain of \$1.1 million. During the year ended December 31, 2022, the Bank sold \$101.2 million (par value) of GSE RMBS classified as held-to-maturity securities. The gains recognized on these sales totaled \$0.1 million. For each of the securities sold during 2023 and 2022, the Bank had previously collected at least 85 percent of the principal outstanding at the time of acquisition. As such, the sales were considered maturities for purposes of security classification.

During the year ended December 31, 2023, 17 GSE commercial MBS ("CMBS") with an aggregate par value of \$443.9 million were prepaid. No yield maintenance fees were received in connection with these GSE CMBS prepayments. The unamortized purchase premiums or discounts and hedge basis adjustments on the prepaid securities totaled \$26.5 million for the year ended December 31, 2023, and were recorded as an increase in interest income on available-for-sale securities.

During the year ended December 31, 2022, 40 GSE CMBS with an aggregate par value of \$1.1 billion were prepaid. In connection with the GSE CMBS prepayments, the Bank received yield maintenance fees totaling \$27.7 million. The yield maintenance fees are recorded in interest income on available-for-sale securities, net of unamortized purchase premiums and discounts and hedge basis adjustments on the prepaid securities. The net amounts recorded in interest income totaled \$47.4 million.

The Bank is precluded by regulation from purchasing additional MBS if such purchase would cause the aggregate amortized historical cost of its MBS holdings to exceed 300 percent of the Bank's total regulatory capital (the sum of its capital stock, mandatorily redeemable capital stock and retained earnings). However, the Bank is not required to sell any mortgage securities that it purchased at a time when it was in compliance with this ratio. For purposes of applying this limit, the Finance Agency defines "amortized historical cost" as the sum of the initial investment, less the amount of cash collected that reduces principal,



less write-downs plus yield accreted to date. This definition excludes hedge basis adjustments which, for investment securities, are included in the U.S. GAAP definition of amortized cost basis. Under this definition, the Bank's MBS holdings totaled \$15.0 billion as of December 31, 2023, which represented 210 percent of its total regulatory capital at that date. Given the constraints imposed by the Finance Agency's guidance regarding core mission achievement, the Bank did not purchase any MBS during the first three months of 2022. With capacity to purchase MBS and its CMA ratio above 70 percent, the Bank acquired (based on trade date) \$3.0 billion (par value) and \$3.9 billion (par value) of GSE CMBS during the year ended December 31, 2023 and the nine months ended December 31, 2022, respectively. All of the Bank's CMBS holdings are backed by multi-family loans. To the extent it has capacity, the Bank intends to continue to purchase GSE CMBS if attractive opportunities are available and provided it is reasonably confident (at the time of purchase) that it can maintain its CMA ratio at or above 70 percent.

In addition to MBS, the Bank is also permitted under applicable policies and regulations to purchase certain other types of highly rated, long-term, non-MBS investments subject to certain limits. These investments include but are not limited to the non-MBS debt obligations of other GSEs. The Bank has not purchased any long-term, non-MBS investments since October 2019 and it does not currently intend to purchase additional long-term, non-MBS investments in the near future. For a discussion of the regulatory limits on the Bank's ability to purchase non-MBS investments, see Item 1. Business - Investment Activities.

The Bank evaluates all outstanding available-for-sale securities in an unrealized loss position and all outstanding held-to-maturity securities as of the end of each calendar quarter to determine whether an allowance is needed to reserve for expected credit losses on the securities. As of December 31, 2023, the Bank determined that an allowance for credit losses was not necessary on any of its held-to-maturity or available-for-sale securities. For a summary of the Bank's evaluation, see the audited financial statements included in this report (specifically, Note 9 beginning on page F-24 of this report).

As of December 31, 2023, the U.S. government and the issuers of the Bank's holdings of GSE debentures and GSE MBS were rated triple-A by Moody's and AA+ by S&P.

The Bank's remaining GSE RMBS portfolio is comprised of collateralized mortgage obligations ("CMOs") with variable-rate coupons (\$253 million par value at December 31, 2023). These CMOs include caps that would limit increases in the variable-rate coupons if short-term interest rates rise above the caps, exposing the Bank to interest rate risk. In addition, if interest rates rise, prepayments on the mortgage loans underlying the securities would likely decline, thus lengthening the time that the securities would remain outstanding with their coupon rates capped. As of December 31, 2023, one-month SOFR was 5.34 percent and the effective interest rate caps on one-month SOFR (the interest cap rate minus the stated spread on the coupon) embedded in the CMO floaters ranged from 5.84 percent to 9.04 percent. The largest concentration of embedded effective caps (\$234 million) was between 5.84 percent and 6.10 percent. As of December 31, 2023, one-month SOFR rates were approximately 50 basis points below the lowest effective interest rate cap embedded in the CMO floaters.

### **Mortgage Loans Held For Portfolio**

As of December 31, 2023 and 2022, mortgage loans held for portfolio (net of allowance for credit losses) were \$5.1 billion and \$4.4 billion, respectively, representing approximately 4.0 percent and 3.8 percent, respectively, of the Bank's total assets at each of those dates. Through the MPF program, the Bank currently invests in only conventional residential mortgage loans originated by its PFIs. During the period from 1998 to mid-2003, the Bank purchased conventional mortgage loans and government-guaranteed/insured mortgage loans (i.e., those insured or guaranteed by the Federal Housing Administration or the Department of Veterans Affairs). The Bank resumed acquiring conventional mortgage loans under this program in early 2016. During the years ended December 31, 2023 and 2022, the Bank acquired mortgage loans totaling \$1.044 billion (\$1.033 billion unpaid principal balance) and \$1.423 billion (\$1.431 billion unpaid principal balance), respectively. All of the mortgage loans acquired in 2023 and 2022 were originated by certain of the Bank's PFIs and the Bank acquired a 100 percent interest in such loans.

During the second half of 2022, the Bank's mortgage loan purchases declined slightly in comparison to the first half of that year due to a slowdown in originations resulting from the significant increase in mortgage interest rates. The increase in mortgage interest rates also led to a significant reduction in mortgage prepayment activity during the second half of 2022. Both mortgage loan originations and prepayment activity remained low in 2023 as significantly higher mortgage interest rates persisted. During the year ended December 31, 2023, mortgage loan prepayments totaled \$202 million. In comparison, mortgage loan prepayments totaled \$380 million in 2022, of which \$253 million occurred during the first half of that year.

The following table presents the Bank's mortgage loans held for portfolio, by contractual maturity, as of December 31, 2023 and 2022. All of the Bank's mortgage loans held for portfolio are fixed-rate loans.

## MORTGAGE LOANS HELD FOR PORTFOLIO

*(dollars in millions)*

Redemption Term	December 31, 2023	December 31, 2022
Due in one year or less	\$ 101	\$ 92
Due after one year through five years	473	424
Due after five years through fifteen years	1,541	1,354
Thereafter	2,927	2,478
Total unpaid principal balance	5,042	4,348
Net premiums, discounts and deferred net derivative gains associated with mortgage delivery commitments	55	52
Total mortgage loans held for portfolio	5,097	4,400
Allowance for credit losses on mortgage loans	(8)	(5)
Mortgage loans held for portfolio, net	<u>\$ 5,089</u>	<u>\$ 4,395</u>

As more fully discussed in Item 1. Business, the Bank manages the liquidity, interest rate and prepayment risk of the MPF loans, while the PFIs or their designees retain the servicing activities. The Bank and the PFIs share in the credit risk of the loans with the Bank assuming a limited first loss obligation defined as the FLA, and the PFIs assuming credit losses in excess of the FLA, up to the amount of the required CE Obligation specified in the master agreement (“Second Loss Credit Enhancement”).

Under the MPF program, the PFI’s credit enhancement protection may take the form of the CE Obligation, which represents the direct liability to pay credit losses incurred with respect to that master commitment, or may require the PFI to obtain and pay for an SMI policy insuring the Bank for a portion of the credit losses arising from the master commitment, and/or the PFI may contract for a contingent performance-based credit enhancement fee whereby such fees are reduced by losses up to a certain amount arising under the master commitment. The credit risk-sharing structures utilized by the Bank during the period from 2016 through 2023 did not include SMI. PFIs are paid a CE fee by the Bank as an incentive to minimize credit losses, to share in the risk of loss on MPF loans and to pay for SMI (if applicable). CE fees are paid monthly and are determined based on the remaining unpaid principal balance of the MPF loans. During the years ended December 31, 2023 and 2022, mortgage loan interest income was reduced by CE fees totaling \$2.5 million and \$2.2 million, respectively. The required CE Obligation may vary depending on the MPF product alternatives selected. The Bank also pays performance-based CE fees that are based on the actual performance of the pool of MPF loans under each individual master commitment. To the extent that losses incurred by the Bank as part of its first loss obligation in the current month exceed accrued performance-based CE fees, the remaining losses may be recovered from future performance-based CE fees payable to the PFI. During the years ended December 31, 2023 and 2022, performance-based CE fees that were foregone and not paid to the Bank’s PFIs were insignificant.

If a PFI fails to comply with any of the requirements of the PFI agreement, MPF guides, applicable law or the terms of mortgage documents, it may be required to repurchase the MPF loans that are impacted by such failure. During the years ended December 31, 2023 and 2022, the principal amount of mortgage loans held by the Bank that were repurchased by the Bank’s PFIs totaled \$4.9 million and \$8.5 million, respectively.

The following table presents the geographic concentration of the Bank’s mortgage loan portfolio as of December 31, 2023.

### GEOGRAPHIC CONCENTRATION OF MORTGAGE LOANS

Southwest (AR, AZ, CO, KS, LA, MO, NM, OK, TX, and UT)	77.1 %
Southeast (AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA, and WV)	14.1
West (AK, CA, GU, HI, ID, MT, NV, OR, WA, and WY)	4.1
Midwest (IA, IL, IN, MI, MN, ND, NE, OH, SD, and WI)	2.9
Northeast (CT, DE, MA, ME, NH, NJ, NY, PA, PR, RI, VI, and VT)	1.8
	<u>100.0 %</u>

The following table presents various ratios pertaining to the allowance for credit losses on mortgage loans as of December 31, 2023 and 2022.

### MORTGAGE LOANS HELD FOR PORTFOLIO — RISK ELEMENTS AND CREDIT LOSSES

(dollars in millions)

	December 31,	
	2023	2022
Net charge-offs during the year	\$ —	\$ —
Average loans outstanding during the year (before allowance for credit losses)	4,776	3,972
Allowance for credit losses at the end of the year	8	5
Mortgage loans held for portfolio at the end of the year (before allowance for credit losses)	5,096	4,400
Non-accrual loans at the end of the year	21	19
Ratio of net charge-offs to average loans outstanding during the period	— %	— %
Ratio of allowance for credit losses to mortgage loans held for portfolio	0.15 %	0.11 %
Ratio of non-accrual loans to mortgage loans held for portfolio	0.41 %	0.44 %
Ratio of allowance for credit losses to non-accrual loans	36.81 %	25.05 %

#### Consolidated Obligations and Deposits

During the year ended December 31, 2023, the Bank's consolidated obligation bonds (at par value) increased by \$48.7 billion and its consolidated obligation discount notes (at par value) decreased by \$38.0 billion. The following table presents the composition of the Bank's outstanding bonds at December 31, 2023 and 2022.

### COMPOSITION OF CONSOLIDATED OBLIGATION BONDS OUTSTANDING

(par value, dollars in millions)

	December 31, 2023		December 31, 2022	
	Balance	Percentage of Total	Balance	Percentage of Total
Fixed-rate				
Callable	\$ 53,550	48.2 %	\$ 28,801	46.1 %
Non-callable	15,600	14.1	9,710	15.6
Non-callable SOFR-indexed variable rate	35,499	31.9	15,054	24.1
Step-up				
Callable	4,492	4.0	7,616	12.2
Non-callable	1,954	1.8	1,246	2.0
Callable step-down	15	—	15	—
Total par value	<u>\$ 111,110</u>	<u>100.0 %</u>	<u>\$ 62,442</u>	<u>100.0 %</u>

Variable-rate bonds have variable-rate coupons that reset based on SOFR. Fixed-rate bonds have coupons that are fixed over the life of the bond. Some fixed-rate bonds contain provisions that enable the Bank to call the bonds at its option on predetermined call dates. Step-up bonds pay interest at increasing fixed rates for specified intervals over the life of the bond and, if callable, contain provisions enabling the Bank to call the bonds at its option on predetermined dates. Callable step-down bonds pay interest at decreasing fixed rates for specified intervals over the life of the bond and contain provisions enabling the Bank to call the bonds at its option on predetermined dates.

The FHLBanks rely extensively on the underwriters of their securities, including investment banks, money center banks and large commercial banks, to source investors for consolidated obligations. Investors may be located in the United States or overseas. The features of consolidated obligations are structured to meet the requirements of investors. The various types of consolidated obligations included in the table above reflect the features of the Bank's outstanding bonds as of December 31,

2023 and 2022 and do not represent all of the various types and styles of consolidated obligation bonds that may be issued by the Bank or the other FHLBanks.

Consistent with its risk management philosophy, the Bank uses interest rate exchange agreements (i.e., interest rate swaps) to convert many of the fixed-rate consolidated obligation bonds that it issues to variable-rate instruments that reset based on SOFR or, to a far lesser extent, the overnight index swap ("OIS") rate. Generally, the Bank receives a coupon on the interest rate swap that is identical to the coupon it pays on the consolidated obligation bond while paying a variable-rate coupon on the interest rate swap that resets based on SOFR or OIS. Typically, the formula for the variable-rate coupon also includes a spread to the index; for instance, the Bank may pay a coupon on the interest rate swap equal to SOFR plus 5 basis points.

During the years ended December 31, 2023 and 2022, the Bank issued \$139.4 billion and \$43.4 billion, respectively, of consolidated obligation bonds. The proceeds from these issuances were generally used to fund the increase in the Bank's assets, as well as to replace maturing or called consolidated obligations. During the year ended December 31, 2023, the Bank's consolidated obligation bond issuance (based on par value) consisted of approximately 66 percent variable-rate bonds, 29 percent swapped fixed-rate callable bonds (including step-up bonds) and 5 percent fixed-rate non-callable bonds (most of which were swapped). During the year ended December 31, 2022, the Bank's consolidated obligation bond issuance (based on par value) consisted of approximately 47 percent variable-rate bonds, 37 percent swapped fixed-rate callable bonds (including step-up bonds) and 16 percent fixed-rate non-callable bonds (most of which were swapped).

At December 31, 2023 and 2022, discount notes comprised approximately 7 percent and 43 percent, respectively, of the Bank's total outstanding consolidated obligations. During 2023, the Bank issued approximately \$144 billion of consolidated obligation discount notes (excluding those with overnight terms), the proceeds of which were used primarily to fund the increase in the Bank's assets and to replace maturing or called consolidated obligation bonds and maturing consolidated obligation discount notes.

The primary benchmark that the Bank uses to analyze the effectiveness of its debt issuance efforts and trends in its debt issuance costs is the spread to SOFR that the Bank pays on interest rate swaps used to convert its fixed-rate consolidated obligations to SOFR. During the years ended December 31, 2023 and 2022, the weighted average SOFR-equivalent cost of swapped and variable-rate consolidated obligation bonds issued by the Bank approximated SOFR plus 2 basis points and SOFR minus 2 basis points, respectively. SOFR-indexed bonds, which are generally more expensive than swapped fixed-rate callable bonds, represented a higher percentage of the Bank's debt issuance during 2023, resulting in an increase in the Bank's SOFR-equivalent cost of debt.

Demand and term deposits were approximately \$1.4 billion and \$1.3 billion at December 31, 2023 and 2022, respectively. The size of the Bank's deposit base varies as market factors change, including the attractiveness of the Bank's deposit pricing relative to the rates available to members on alternative money market investments, members' investment preferences with respect to the maturity of their investments, and member liquidity.

Time deposits totaled \$23.5 million at December 31, 2023. These deposits mature as follows: \$23.1 million in three months or less and \$0.4 million in over three months through six months.

All of the Bank's deposits are uninsured.

### **Capital Stock**

The Bank's outstanding capital stock (excluding mandatorily redeemable capital stock) was \$4.7 billion and \$4.0 billion at December 31, 2023 and 2022, respectively, while the Bank's average outstanding capital stock (excluding mandatorily redeemable capital stock) was \$5.7 billion and \$2.9 billion for the years ended December 31, 2023 and 2022, respectively.

At December 31, 2023, the Bank's five largest shareholders held \$1.9 billion of capital stock, which represented 40.8 percent of the Bank's total outstanding capital stock (including mandatorily redeemable capital stock) as of that date. The following table presents the Bank's five largest shareholders as of December 31, 2023.

### FIVE LARGEST SHAREHOLDERS AS OF DECEMBER 31, 2023

*(par value, dollars in thousands)*

Name	Par Value of Capital Stock	Percent of Total Par Value of Capital Stock
Charles Schwab Bank, SSB	\$ 1,011,814	21.4 %
Comerica Bank	316,550	6.7
USAA Federal Savings Bank	264,085	5.6
American General Life Insurance Company	195,859	4.1
NexBank	140,233	3.0
	\$ 1,928,541	40.8 %

As of December 31, 2023, all of the stock held by the five institutions shown in the table above was classified as capital in the statement of condition.

Charles Schwab Premier Bank, SSB and Charles Schwab Trust Bank, affiliates of Charles Schwab Bank, SSB, held \$108,866,000 and \$5,288,000, respectively, of the Bank's capital stock as of December 31, 2023, representing 2.3 percent and 0.1 percent, respectively, of the Bank's total outstanding capital stock (including mandatorily redeemable capital stock) as of that date. In aggregate, these three affiliated institutions held \$1,125,968,000 of the Bank's capital stock as of December 31, 2023, representing 23.8 percent of the Bank's total outstanding capital stock (including mandatorily redeemable capital stock) as of that date.

In addition, six affiliates of USAA Federal Savings Bank held a combined total of \$29,745,000 of the Bank's capital stock as of December 31, 2023 and the Variable Annuity Life Insurance Company, an affiliate of American General Life Insurance Company, held \$57,642,000 of the Bank's capital stock as of that date. In aggregate, USAA-affiliated institutions and institutions affiliated with American General Life Insurance Company held \$293,830,000 and \$253,501,000, respectively, of the Bank's capital stock as of December 31, 2023, representing 6.2 percent and 5.4 percent, respectively, of the Bank's total outstanding capital stock (including mandatorily redeemable capital stock) as of that date.

As described in Item 1. Business, members are required to maintain an investment in Class B stock equal to the sum of a membership investment requirement and an activity-based investment requirement. Currently, the membership investment requirement is 0.04 percent of each member's total assets as of the previous calendar year end, subject to a minimum of \$1,000 and a maximum of \$7,000,000. The activity-based investment requirement is currently 4.10 percent of outstanding advances, except for advances that were funded under the special reduced stock advances offerings discussed below, and 0.10 percent of letters of credit that are issued or renewed on and after April 19, 2021. Prior to April 19, 2021, there was not an activity-based investment requirement for letters of credit. The Bank's Board of Directors reviews these requirements at least annually and has the authority to adjust them periodically within ranges established in the Bank's Capital Plan, as amended from time to time, to ensure that the Bank remains adequately capitalized. Any changes to either the membership or activity-based investment requirements require at least 30 days advance notice to the Bank's members. There were no changes to the investment requirements during the years ended December 31, 2023 and 2022.

The Bank has two sub-classes of Class B Stock. Class B-1 Stock is used to meet the membership investment requirement and Class B-2 Stock is used to meet the activity-based investment requirement. Daily, subject to the limitations in the Capital Plan, the Bank converts shares of one sub-class of Class B Stock to the other sub-class of Class B Stock under the following circumstances: (i) shares of Class B-2 Stock held by a shareholder in excess of its activity-based investment requirement are converted into Class B-1 Stock, if necessary, to meet that shareholder's membership investment requirement and (ii) shares of Class B-1 Stock held by a shareholder in excess of the amount required to meet its membership investment requirement are converted into Class B-2 Stock as needed in order to satisfy that shareholder's activity-based investment requirement. All excess stock is held as Class B-1 Stock at all times.

The Bank's Board of Directors may declare dividends at the same rate for all shares of Class B Stock, or at different rates for Class B-1 Stock and Class B-2 Stock, provided that in no event can the dividend rate on Class B-2 Stock be lower than the dividend rate on Class B-1 Stock. Dividend payments may be made in the form of cash, additional shares of either, or both, sub-

classes of Class B Stock, or a combination thereof as determined by the Bank's Board of Directors. For additional information, see Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The permissible range for the advances-based component of the activity-based investment requirement is currently a range of 2.0 percent to 5.0 percent of members' advances outstanding. The Bank's Board of Directors may establish one or more separate advances investment requirement percentages (each an "advance type specific percentage") within this range to be applied to a specific category of advances in lieu of the generally applicable advances-related investment requirement percentage in effect at the time. Such category of advances may be defined as a particular advances product offering, advances with particular maturities or other features, advances that represent an increase in member borrowing, or such other criteria as the Bank's Board of Directors may determine. Any advance type specific percentage may be established for an indefinite period of time, or for a specific time period, at the discretion of the Bank's Board of Directors.

On September 21, 2015, the Bank announced a Board-authorized reduction in the activity-based stock investment requirement from 4.1 percent to 2 percent for certain advances that were funded during the period from October 21, 2015 through December 31, 2015. The standard activity-based stock investment requirement of 4.1 percent continued to apply to all other advances that were funded during the period from October 21, 2015 through December 31, 2015. All other minimum investment requirements also continued to apply during that period. At December 31, 2023, the remaining balance of advances funded under this special reduced stock advances offering totaled approximately \$413 million.

On February 28, 2020, the Bank announced another Board-authorized reduction in the activity-based stock investment requirement from 4.1 percent to 2.0 percent for up to \$5.0 billion of advances that: (1) were funded during the period from April 1, 2020 through December 31, 2020 and (2) had a maturity of one year or greater. On July 1, 2020, the Bank announced a Board-authorized modification to this special advances offering. As modified, the Bank's activity-based capital stock investment requirement was reduced from 4.1 percent to 2.0 percent for advances that: (1) were funded during the period from August 1, 2020 through December 31, 2020 and (2) had a maturity of 28 days or greater. On December 7, 2020, the Bank announced that its Board of Directors had authorized the Bank to extend the expiration date of the special advances offering from December 31, 2020 to June 30, 2021. On March 17, 2021, the Bank announced another Board-authorized modification and extension to this special advances offering. As modified and extended, the Bank's activity-based capital stock investment requirement was reduced from 4.1 percent to 2.0 percent for advances that: (1) were funded during the period from April 19, 2021 through December 31, 2021 and (2) had a maturity of 32 days or greater. For advances that were funded on or prior to April 18, 2021, the reduced activity-based capital stock investment requirement continued to apply to advances that had a maturity of 28 days or greater. On December 8, 2021, the Bank announced that its Board of Directors had authorized the Bank to extend the expiration date of the special advances offering from December 31, 2021 to December 31, 2022. Under the special advances offering described in this paragraph, the maximum balance of advances to which the reduced activity-based stock investment requirement could be applied was \$5.0 billion. If, at the time of funding an advance that would have otherwise been eligible for the reduced capital stock investment requirement, the then outstanding balance of advances made pursuant to this offering totaled \$5 billion, then the standard capital stock investment requirement of 4.1 percent applied. Except as described in this paragraph, the standard activity-based stock investment requirement of 4.1 percent continued to apply to all other advances that were funded during the period from April 1, 2020 through December 31, 2022. At December 31, 2023, advances outstanding under this program totaled approximately \$4.0 billion.

In response to a regulatory directive, the Bank implemented an amendment to its Capital Plan on April 19, 2021. The amended Capital Plan provides for the imposition of an activity-based investment requirement ranging from 0.10 percent to 2.0 percent of members' outstanding letters of credit (the "LC Percentage"), as specified from time to time by the Bank's Board of Directors. The Board of Directors established an initial LC Percentage of 0.10 percent which applies only to letters of credit that are issued or renewed on and after April 19, 2021. The LC Percentage is applied to the issued amount of the letter of credit rather than, if applicable, the amount of the letter of credit that is used from time to time during the term of the letter of credit. Further, renewals for this purpose include amendments that extend the expiration date of the letter of credit.

Quarterly, the Bank typically repurchases a portion of members' excess capital stock. Excess stock is defined as the amount of stock held by a member (or former member) in excess of that institution's minimum investment requirement. The portion of members' excess capital stock subject to repurchase is known as surplus stock. For the repurchases that occurred during 2023 and 2022, surplus stock was defined as the amount of stock held by a shareholder in excess of 125 percent of the shareholder's minimum investment requirement. A shareholder's surplus stock was not repurchased if: (1) the amount of that shareholder's surplus stock was \$2,000,000 or less, (2) the shareholder elected to opt out of the repurchase, or (3) the shareholder was on restricted collateral status (subject to certain exceptions). During the years ended December 31, 2023 and 2022, the Bank repurchased surplus stock totaling \$1.393 billion and \$0.470 billion, respectively, none of which was classified as mandatorily redeemable capital stock at the time of repurchase. From time to time, the Bank may modify the definition of surplus stock or the timing and/or frequency of surplus stock repurchases.

Concurrent with the quarterly repurchases of surplus stock that occurred in 2023 and 2022, the Bank also repurchased all excess stock held by non-member shareholders as of the repurchase dates. This excess stock, all of which was classified as mandatorily redeemable capital stock at those dates, totaled \$4 million and \$10 million, respectively.

At December 31, 2023, excess stock held by the Bank's members and former members totaled \$1.012 billion, which represented 0.79 percent of the Bank's total assets as of that date.

The Bank is precluded from paying dividends in the form of capital stock if excess stock held by its shareholders is greater than 1 percent of the Bank's total assets or if, after the issuance of such shares, excess stock held by its shareholders would be greater than 1 percent of the Bank's total assets.

The following table sets forth the repurchases of excess stock that have occurred under the quarterly repurchase program since January 1, 2022.

**EXCESS STOCK REPURCHASED UNDER QUARTERLY REPURCHASE PROGRAM**  
(dollars in thousands)

Date of Repurchase by the Bank	Shares Repurchased	Amount of Surplus Stock Repurchased from Member Shareholders	Amount of Excess Stock Repurchased from Non-Member Shareholders
March 28, 2022	570,071	\$ 57,007	\$ —
June 27, 2022	1,450,804	142,951	2,129
September 26, 2022	830,271	82,207	820
December 27, 2022	1,948,463	187,633	7,214
March 27, 2023	2,036,052	203,286	319
June 28, 2023	6,366,857	636,028	658
September 26, 2023	2,536,991	252,430	1,269
December 27, 2023	3,032,732	301,593	1,680

U.S. GAAP requires issuers to classify as liabilities certain financial instruments that embody obligations for the issuer (hereinafter referred to as "mandatorily redeemable financial instruments"). Pursuant to these requirements, the Bank reclassifies shares of capital stock from the capital section to the liability section of its balance sheet at the point in time when either a written redemption or withdrawal notice is received from a member or a membership withdrawal or termination is otherwise initiated, because the shares of capital stock then meet the definition of a mandatorily redeemable financial instrument. Shares of capital stock meeting this definition are reclassified to liabilities at fair value. Following reclassification of the stock, any dividends paid or accrued on such shares are recorded as interest expense in the statements of income. As the repurchases presented in the table above are made at the sole discretion of the Bank, the repurchase, in and of itself, does not cause the shares underlying these repurchases to meet the definition of mandatorily redeemable financial instruments.

Stock dividends paid on capital stock that is classified as mandatorily redeemable capital stock are reported as either an issuance of capital stock or as an increase in the mandatorily redeemable capital stock liability depending upon the event that caused the stock on which the dividend is being paid to be classified as a liability. Stock dividends paid on stock subject to a written redemption notice are reported as an issuance of capital stock as such dividends are not covered by the original redemption notice. Stock dividends paid on stock that is subject to a withdrawal notice (or its equivalent) are reported as an increase in the mandatorily redeemable capital stock liability. During the years ended December 31, 2023 and 2022, the Bank did not receive any stock redemption notices.

Mandatorily redeemable capital stock outstanding at December 31, 2023 and 2022 was \$0.5 million and \$7.5 million, respectively. For the years ended December 31, 2023 and 2022, average mandatorily redeemable capital stock was \$5.7 million and \$12.4 million, respectively. Although mandatorily redeemable capital stock is excluded from capital (equity) for financial reporting purposes, this stock is considered capital for regulatory purposes (see the section below entitled "Risk-Based Capital Rules and Other Capital Requirements" for further information).



The following table presents capital stock outstanding, by type of institution, as of December 31, 2023 and 2022.

**CAPITAL STOCK OUTSTANDING BY INSTITUTION TYPE**

*(dollars in millions)*

	December 31, 2023		December 31, 2022	
	Amount	Percent	Amount	Percent
Commercial banks	\$ 1,954	41 %	\$ 1,991	50 %
Savings institutions	1,600	34	864	22
Credit unions	699	15	697	17
Insurance companies	483	10	431	11
Community Development Financial Institutions	1	—	1	—
Total capital stock classified as capital	4,737	100	3,984	100
Mandatorily redeemable capital stock	1	—	7	—
Total regulatory capital stock	<u>\$ 4,738</u>	<u>100 %</u>	<u>\$ 3,991</u>	<u>100 %</u>

**Derivatives and Hedging Activities**

The Bank functions as a financial intermediary by channeling funds provided by investors in its consolidated obligations to member institutions. During the course of a business day, all member institutions may obtain advances through a variety of product types that include features as diverse as variable and fixed coupons, overnight to 40-year maturities, and bullet (principal due at maturity) or amortizing redemption schedules. The Bank funds advances primarily through the issuance of consolidated obligation bonds and discount notes. The terms and amounts of these consolidated obligation bonds and discount notes and the timing of their issuance is determined by the Bank and is subject to investor demand as well as FHLBank System debt issuance policies.

The intermediation of the timing, structure, and amount of Bank members' credit needs with the investment requirements of the Bank's creditors is made possible by the extensive use of interest rate exchange agreements. The Bank's general practice has been to contemporaneously execute interest rate exchange agreements when acquiring longer maturity fixed-rate assets and/or issuing longer maturity fixed-rate liabilities in order to convert the instruments' cash flows to a variable rate that is tied to a short-term index. By doing so, the Bank reduces its interest rate risk exposure and preserves the value of, and earns more stable returns on, its members' capital investment.

This use of derivatives is integral to the Bank's financial management strategy, and the impact of these interest rate exchange agreements permeates the Bank's financial statements. Management has put in place a risk management framework that outlines the permitted uses of interest rate derivatives and that requires frequent reporting of their values and impact on the Bank's financial statements. All interest rate derivatives employed by the Bank hedge identifiable risks and none are used for speculative purposes. As of December 31, 2023, substantially all of the Bank's derivative instruments that were designated in hedging relationships were either hedging fair value risk attributable to changes in SOFR (the designated benchmark interest rate) or hedging the variability of cash flows associated with forecasted transactions.

U.S. GAAP requires that all derivative instruments be recorded in the statements of condition at their fair values. Changes in the fair values of the Bank's derivatives, other than those designated in cash flow hedging relationships, are recorded each period in current earnings. U.S. GAAP also sets forth conditions that must exist in order for balance sheet items to qualify for fair value hedge accounting. If an asset or liability qualifies for fair value hedge accounting, changes in the fair value of the hedged item that are attributable to the hedged risk are also recorded in earnings. As a result, the net effect is that only the "ineffective" portion of a qualifying fair value hedge has an impact on current earnings. Changes in the fair values of the Bank's derivatives designated in cash flow hedging relationships are recorded each period in other comprehensive income.

Under U.S. GAAP, periodic earnings variability for fair value hedges occurs in the form of the net difference between changes in the fair values of the derivative (the hedging instrument) and the hedged item (the asset or liability), if any, for accounting purposes. For the Bank, two types of hedging relationships are primarily responsible for creating earnings volatility.

The first type involves transactions in which the Bank enters into interest rate swaps with coupon cash flows identical or nearly identical to the cash flows of the hedged item (e.g., an advance, investment security or consolidated obligation). In some cases involving hedges of this type, an assumption of "no ineffectiveness" can be made and the changes in the fair values of the derivative and the hedged item are considered identical and offsetting (hereinafter referred to as the shortcut method). However, if the derivative or the hedged item do not have certain characteristics defined in U.S. GAAP, the assumption of "no



ineffectiveness” cannot be made, and the derivative and the hedged item must be marked to fair value independently (hereinafter referred to as the long-haul method). Under the long-haul method, the two components of the hedging relationship are marked to fair value using different discount rates, and the resulting changes in fair value are generally slightly different from one another. Even though these differences are generally relatively small when expressed as prices, their impact can become more significant when multiplied by the principal amount of the transaction and then evaluated in the context of the Bank’s net income.

The second type involves transactions in which the Bank enters into interest rate exchange agreements to hedge identifiable portfolio risks that either do not qualify for fair value hedge accounting under U.S. GAAP or are not designated in a qualifying fair value hedging relationship (hereinafter referred to as an “economic hedge”). For instance, from time to time, the Bank uses fixed-for-floating interest rate swaps to hedge its fair value risk exposure associated with some of its longer-term discount notes. The changes in fair value of the interest rate swaps flow through current earnings without an offsetting change in the fair value of the hedged items (i.e., the discount notes), which increases the volatility of the Bank’s earnings. Excluding net interest settlements, the impact of the changes in fair value of these stand-alone interest rate swaps on earnings over the life of the transactions will be zero if these instruments are held until their maturity. The Bank generally holds its discount note swaps to maturity.

Because the use of interest rate derivatives enables the Bank to better manage its economic risks, and thus run its business more effectively and efficiently, the Bank will continue to use them during the normal course of its balance sheet management. The Bank views the accounting consequences of using interest rate derivatives as being an important, but secondary, consideration.

As a result of using interest rate exchange agreements extensively to fulfill its role as a financial intermediary, the Bank has a large notional amount of interest rate exchange agreements relative to its size. As of December 31, 2023, 2022 and 2021, the Bank’s notional balance of interest rate exchange agreements was \$164.1 billion, \$104.5 billion and \$53.0 billion, respectively, while its total assets were \$128.3 billion, \$114.3 billion and \$63.5 billion, respectively. The notional amount of interest rate exchange agreements does not reflect the Bank’s credit risk exposure which, as discussed below, is much less than the notional amount.

The following table provides the notional balances of the Bank's derivative instruments, by balance sheet category and accounting designation, as of December 31, 2023, 2022 and 2021.

**COMPOSITION OF DERIVATIVES BY BALANCE SHEET CATEGORY AND ACCOUNTING DESIGNATION**  
(in millions)

	<u>Fair Value Hedges</u>		<u>Cash Flow Hedges</u>	<u>Economic Hedges</u>	<u>Total</u>
	<u>Shortcut Method</u>	<u>Long-Haul Method</u>			
<b>December 31, 2023</b>					
Advances	\$ 50,880	\$ 1,660	\$ —	\$ 1,109	\$ 53,649
Investments	—	17,987	—	1,552	19,539
Mortgage loans held for portfolio	—	—	—	1,377	1,377
Consolidated obligation bonds	—	70,233	—	1,021	71,254
Consolidated obligation discount notes	—	—	1,066	1,521	2,587
Intermediary positions	—	—	—	19	19
Counterparty exposures	—	—	—	15,300	15,300
Other	—	—	—	400	400
Total notional balance	<u>\$ 50,880</u>	<u>\$ 89,880</u>	<u>\$ 1,066</u>	<u>\$ 22,299</u>	<u>\$ 164,125</u>
<b>December 31, 2022</b>					
Advances	\$ 18,768	\$ 637	\$ —	\$ 2,000	\$ 21,405
Investments	—	15,847	—	1,153	17,000
Mortgage loans held for portfolio	—	—	—	596	596
Consolidated obligation bonds	—	43,766	—	372	44,138
Consolidated obligation discount notes	—	—	1,066	3,402	4,468
Intermediary positions	—	—	—	119	119
Counterparty exposures	—	—	—	16,300	16,300
Other	—	—	—	425	425
Total notional balance	<u>\$ 18,768</u>	<u>\$ 60,250</u>	<u>\$ 1,066</u>	<u>\$ 24,367</u>	<u>\$ 104,451</u>
<b>December 31, 2021</b>					
Advances	\$ 9,324	\$ 483	\$ —	\$ 265	\$ 10,072
Investments	—	14,398	—	3	14,401
Mortgage loans held for portfolio	—	—	—	898	898
Consolidated obligation bonds	—	24,112	—	—	24,112
Consolidated obligation discount notes	—	—	1,066	900	1,966
Intermediary positions	—	—	—	172	172
Counterparty exposures	—	—	—	1,000	1,000
Other	—	—	—	425	425
Total notional balance	<u>\$ 9,324</u>	<u>\$ 38,993</u>	<u>\$ 1,066</u>	<u>\$ 3,663</u>	<u>\$ 53,046</u>

The following table provides the notional balances of the Bank's derivative instruments, by hedging strategy, as of December 31, 2023 and 2022.

**HEDGING STRATEGIES**  
(in millions)

Hedged Item / Hedging Instrument	Hedging Objective	Hedge Accounting Designation	Notional Amount at December 31,	
			2023	2022
<b>Advances</b>				
Pay fixed, receive floating interest rate swap (without options)	Converts the advance's fixed rate to a variable- rate index.	Fair Value Economic	\$ 47,354 1,109	\$ 13,860 2,000
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 Economic	5,186 —	5,545 —
<b>Investments</b>				
Pay fixed, receive floating interest rate swap	Converts the investment security's fixed rate to a variable-rate index.	Fair Value Economic	17,987 402	15,847 3
Receive fixed interest rate swaption	Provides the option to enter into an interest rate swap to offset prepayment risk associated with the CMBS portfolio.	Economic	1,150	1,150
<b>Mortgage Loans</b>				
Pay fixed, receive floating interest rate swap, or receive fixed, pay floating interest rate swap	To hedge risks to the Bank's earnings associated with the mortgage loan portfolio.	Economic	813	588
Pay or receive fixed interest rate swaption	Provides the option to enter into an interest rate swap to offset interest rate risk associated with the mortgage loan portfolio.	Economic	550	—
<b>Consolidated Obligation Bonds</b>				
Receive fixed, pay floating interest rate swap (without options)	Converts the bond's fixed rate to a variable-rate index.	Fair Value Economic	6,428 76	6,574 —
Receive fixed, 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 Economic	63,805 945	37,192 372
<b>Consolidated Obligation Discount Notes</b>				
Receive floating, pay fixed interest rate swap	Reduces cash flow variability by converting the variable cash flows of rolling three-month discount notes to fixed cash flows.	Cash Flow	1,066	1,066
Receive fixed, pay floating interest rate swap	Converts the discount note's fixed rate to a variable rate index.	Economic	1,521	3,402
<b>Intermediary Positions</b>				
Pay fixed, receive floating interest rate swap, and receive fixed, pay floating interest rate swap	To provide interest rate swaps to members and to offset these interest rate swaps by executing interest rate swaps with the Bank's derivative counterparties.	Economic	19	79
Interest rate caps	To provide interest rate caps to members and to offset these interest rate caps by executing interest rate caps with the Bank's derivative counterparties.	Economic	—	40
<b>Counterparty Exposure</b>				
Pay floating, receive fixed or pay fixed, receive floating interest rate swaps	To reduce net derivatives exposure to bilateral and clearinghouse counterparties by executing offsetting swaps	Economic	15,300	16,300
<b>Other</b>				
Receive fixed, pay floating interest rate swaps	To hedge risks to the Bank's earnings that are not directly linked to specific assets, liabilities or forecasted transactions	Economic	400	425
<b>Total derivatives used to hedge risk</b>			164,111	104,443
Mortgage delivery commitments			14	8
<b>Total notional amount of derivatives</b>			<u>\$ 164,125</u>	<u>\$ 104,451</u>

As a result of statutory and regulatory requirements emanating from the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), certain derivative transactions that the Bank enters into are required to be cleared through a third-party central clearinghouse. As of December 31, 2023, the Bank had cleared trades outstanding with notional amounts totaling \$76.9 billion. Cleared trades are subject to initial and variation margin requirements established by the clearinghouse and its clearing members. Collateral (or variation margin on daily settled derivative contracts) is typically delivered/paid (or returned/received) daily and, unlike bilateral derivatives, is not subject to any maximum unsecured credit exposure thresholds. The fair values of all interest rate derivatives (including accrued interest receivables and payables) with each clearing member of each clearinghouse are offset for purposes of measuring credit exposure and determining initial and variation margin requirements. With cleared transactions, the Bank is exposed to credit risk in the event that the clearinghouse or the clearing member fails to meet its obligations to the Bank. The Bank has determined that the exercise by a non-defaulting party of the setoff rights incorporated in its cleared derivative transactions should be upheld in the event of a default, including a bankruptcy, insolvency or similar proceeding involving the clearinghouse or any of its clearing members or both.

The Bank has transacted some of its interest rate exchange agreements bilaterally with large financial institutions (with which it has in place master agreements). In doing so, the Bank has generally exchanged a defined market risk for the risk that the counterparty will not be able to fulfill its obligations in the future. The Bank manages this credit risk by spreading its transactions among as many highly rated counterparties as is practicable, by entering into master agreements with each of its non-member bilateral counterparties that include maximum unsecured credit exposure amounts ranging from \$50,000 to \$500,000, and by monitoring its exposure to each counterparty on a daily basis. In addition, all of the Bank's master agreements with its bilateral counterparties include netting arrangements whereby the fair values of all interest rate derivatives (including accrued interest receivables and payables) with each counterparty are offset for purposes of measuring credit exposure. As of December 31, 2023, the notional balance of outstanding interest rate exchange agreements transacted with non-member bilateral counterparties totaled \$87.2 billion.

Under the Bank's master agreements with its non-member bilateral counterparties, the unsecured credit exposure thresholds must be met before collateral is required to be delivered by one party to the other party. Once the counterparties agree to the valuations of the interest rate exchange agreements, and if it is determined that the unsecured credit exposure exceeds the threshold, then, upon a request made by the unsecured counterparty, the party that has the unsecured obligation to the counterparty bearing the risk of the unsecured credit exposure generally must deliver sufficient collateral (or return a sufficient amount of previously remitted collateral) to reduce the unsecured credit exposure to zero (or, in the case of pledged securities, to an amount equal to the discount applied to the securities under the terms of the master agreement). Collateral is delivered (or returned) daily when these thresholds are met. The master agreements with the Bank's non-member bilateral counterparties require the delivery of collateral consisting of cash or very liquid, highly rated securities (generally consisting of U.S. government-guaranteed or agency debt securities) if credit risk exposures rise above the thresholds.

The Dodd-Frank Act also changed the regulatory framework for derivative transactions that are not subject to mandatory clearing requirements (uncleared trades). While the Bank is able in certain instances to continue to enter into uncleared trades on a bilateral basis, transactions entered into on and after September 1, 2022 are subject to two-way initial margin requirements if certain thresholds are met. The Bank is required to post initial margin when its unmarginated exposure (excluding legacy derivatives) exceeds \$50 million on a counterparty-by-counterparty basis. The Bank was not required to post initial margin relating to its bilaterally traded derivatives during 2022.

The notional amount of interest rate exchange agreements does not reflect the Bank's credit risk exposure, which is much less than the notional amount. The Bank's net credit risk exposure is based on the current estimated cost, on a present value basis, of replacing at current market rates all interest rate exchange agreements with individual counterparties, if those counterparties were to default, after taking into account the value of any cash and/or securities collateral held or remitted by the Bank. For counterparties with which the Bank is in a net gain position, the Bank has credit exposure when the collateral it is holding (if any) has a value less than the amount of the gain. For counterparties with which the Bank is in a net loss position, the Bank has credit exposure when it has delivered collateral with a value greater than the amount of the loss position.

As of December 31, 2023, cash collateral totaling \$1.0 billion had been delivered by the Bank to its non-member bilateral derivative counterparties under the terms of the collateral exchange agreements. At that date, the Bank had pledged securities with a carrying value of \$122 million to three bilateral derivative counterparties to meet its initial margin requirements. Further, as of December 31, 2023, the Bank had pledged \$767 million (fair value) of securities to satisfy initial margin requirements associated with its cleared derivatives. In addition, as of December 31, 2023, the Bank had received \$832 million in variation margin to settle its cleared derivatives with its clearinghouse counterparties.

The following table provides information regarding the Bank's derivative counterparty credit exposure as of December 31, 2023.

### DERIVATIVES COUNTERPARTY CREDIT EXPOSURE

*(dollars in millions)*

Credit Rating <sup>(1)</sup>	Number of Bilateral Counterparties	Notional Principal <sup>(2)</sup>	Net Derivatives Fair Value Before Collateral	Cash Collateral Pledged To (From) Counterparty	Net Other Collateral Pledged To (From) Counterparty	Net Credit Exposure
<b>Non-member counterparties</b>						
Asset positions with credit exposure						
Single-A	3	\$ 225.0	\$ 1.9	\$ (0.3)	\$ —	\$ 1.6
Cleared derivatives <sup>(3)</sup>	—	19,665.4	1.3	0.1	216.9	218.3
Liability positions with credit exposure						
Single-A <sup>(4)</sup>	8	48,311.3	(477.3)	490.9	36.9	50.5
Cleared derivatives <sup>(3)</sup>	—	57,234.7	(7.4)	(1.6)	550.4	541.4
<b>Total derivative positions with non-member counterparties to which the Bank had credit exposure</b>	<b>11</b>	<b>125,436.4</b>	<b>(481.5)</b>	<b>489.1</b>	<b>804.2</b>	<b>811.8</b>
Asset positions without credit exposure						
	1	6,526.3	29.0	(29.1)	—	—
Liability positions without credit exposure						
	5	32,138.4	(573.5)	562.0	—	—
<b>Total derivative positions with non-member counterparties to which the Bank did not have credit exposure</b>	<b>6</b>	<b>38,664.7</b>	<b>(544.5)</b>	<b>532.9</b>	<b>—</b>	<b>—</b>
<b>Total non-member counterparties</b>	<b>17</b>	<b>164,101.1</b>	<b>(1,026.0)</b>	<b>\$ 1,022.0</b>	<b>\$ 804.2</b>	<b>\$ 811.8</b>
<b>Member institutions</b>						
Interest rate exchange agreements <sup>(5)</sup>						
Asset positions	1	9.3	—			
Mortgage delivery commitments	—	14.4	—			
<b>Total member institutions</b>	<b>1</b>	<b>23.7</b>	<b>—</b>			
<b>Total</b>	<b>18</b>	<b>\$164,124.8</b>	<b>\$ (1,026.0)</b>			

<sup>(1)</sup> Credit ratings shown in the table reflect the lowest rating from Moody's or S&P and are as of December 31, 2023.

<sup>(2)</sup> Includes amounts that had not settled as of December 31, 2023.

<sup>(3)</sup> The Bank's cleared derivatives were transacted with clearinghouses that are rated double-A.

<sup>(4)</sup> The figures for liability positions with credit exposure to counterparties rated single-A included transactions with a counterparty that is affiliated with a member of the Bank. Transactions with that counterparty had an aggregate notional principal of \$4.3 billion and a net credit exposure of \$2.1 million.

<sup>(5)</sup> Interest rate exchange agreements with members and the collateral provisions associated therewith are discussed in the paragraph below.

Previously, the Bank offered interest rate exchange agreements to its members to assist them in meeting their risk management objectives. In derivative transactions with its members, the Bank acts as an intermediary by entering into an interest rate exchange agreement with the member and then entering into an offsetting interest rate exchange agreement with one of the Bank's non-member derivative counterparties discussed above. For the two remaining interest rate exchange agreements with one of its members, the Bank requires the member to post eligible collateral in an amount equal to the sum of the net market value of the member's derivative transactions with the Bank (if the value is positive to the Bank) plus a percentage of the notional amount of the interest rate swaps, with market values determined on at least a monthly basis. Eligible collateral for these derivative transactions consists of collateral that is eligible to secure advances and other obligations under the member's Advances and Security Agreement with the Bank (for a description of eligible collateral, see Item 1. Business — Products and Services – Advances).

### **Market Value of Equity**

The ratio of the Bank's estimated market value of equity to its book value of equity was 103 percent and 104 percent at December 31, 2023 and 2022, respectively. For additional discussion, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

### **LIBOR Phase-Out**

In periods prior to June 30, 2023, many of the Bank's assets, liabilities and derivatives were indexed to either one-month or three-month LIBOR. After June 30, 2023, one-month and three-month LIBOR became non-representative. For some time, the Bank had been preparing for the phase-out of LIBOR and the associated transition to an alternative reference rate (i.e., SOFR). Among other things, a permanent discontinuation of LIBOR necessitated the addition of fallback language in the Bank's LIBOR-indexed derivative contracts that extended past the cessation date, as well as changes in the Bank's risk management practices.

On October 23, 2020, the International Swaps and Derivatives Association ("ISDA") launched the IBOR Fallbacks Supplement ("Supplement") and the IBOR Fallbacks Protocol ("Protocol"). The Supplement amended ISDA's standard definitions for interest rate derivatives to incorporate robust fallbacks for derivatives linked to certain interbank offered rates ("IBORs"). 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 IBOR, including LIBOR, were amended to apply the new ISDA-recommended IBOR fallbacks in the event of the relevant IBOR's cessation. Both parties were required to adhere to the Protocol in order to effectively amend legacy derivative contracts or, alternatively, the parties had to bilaterally agree to amended legacy contracts to address LIBOR fallbacks. The Bank and all of its non-member bilateral derivative counterparties adhered to the Protocol. On and after January 25, 2021, all new derivative contracts were subject to the relevant LIBOR fallbacks set forth in the Supplement. ISDA stated that the announcement by the United Kingdom's Financial Conduct Authority ("FCA") on March 5, 2021 (in which the FCA announced the dates that panel bank submissions for all LIBOR settings would cease) constituted an index cessation event under the Supplement and the Protocol and, as a result, the fallback spread adjustment published by Bloomberg was fixed as of the date of that announcement for all LIBOR settings.

On March 15, 2022, President Biden signed into law the Adjustable Interest Rate (LIBOR) Act (the "LIBOR Act"). The LIBOR Act provided legal certainty for legacy contracts with inadequate or unworkable fallback provisions when LIBOR stopped being published after June 30, 2023. For contracts with either no fallback provisions or insufficient fallback provisions, the legislation automatically imposed a rate selected by the Federal Reserve based upon SOFR including any applicable tenor spread adjustment. On December 16, 2022, the Board of Governors of the Federal Reserve System adopted a final rule that implemented the LIBOR Act.

During the six months ended June 30, 2023, the Bank modified approximately \$13.9 billion (notional value) of its clearinghouse-traded LIBOR-indexed derivatives to reference SOFR. In addition, during this same period, the Bank terminated approximately \$2.8 billion (notional value) of clearinghouse-traded LIBOR-indexed derivatives with largely offsetting risks or short remaining terms to maturity. The Bank's remaining clearinghouse-traded LIBOR-indexed derivatives (\$118 million notional value as of June 30, 2023) had their last LIBOR reset prior to June 30, 2023 and therefore were not subject to any fallback provisions.

The Bank's remaining uncleared LIBOR-indexed derivatives as of June 30, 2023 (\$236 million notional value) fell back to SOFR (pursuant to the Protocol) during the three months ended September 30, 2023. The Bank's remaining LIBOR-indexed investments as of June 30, 2023 (\$271 million par value) fell back to SOFR during the three months ended September 30, 2023, in accordance with the provisions of the LIBOR Act or, in some cases, the contractual provisions of the securities. The Bank did not have any outstanding LIBOR-indexed financial instruments on or after September 30, 2023.

### **Results of Operations**

#### **Net Income**

Net income for 2023, 2022 and 2021 was \$874.5 million, \$317.2 million and \$164.4 million, respectively. The Bank's net income for 2023 represented a return on average capital stock ("ROCS") of 15.42 percent. In comparison, the Bank's ROCS was 11.02 percent in 2022 and 7.72 percent in 2021. To derive the Bank's ROCS, net income is divided by average capital stock outstanding excluding stock that is classified as mandatorily redeemable capital stock. The factors contributing to the changes in the Bank's net income from 2022 to 2023 are discussed below. The factors contributing to the changes in the Bank's net income from 2021 to 2022 are discussed in the 2022 10-K.

While the Bank is exempt from all federal, state and local income taxes, it is obligated to set aside 10 percent of its income before assessments (adjusted for interest expense on mandatorily redeemable capital stock) for its AHP. The AHP provides grants that members can use to support affordable housing projects in their communities. Generally, the Bank's AHP assessment is derived by adding interest expense on mandatorily redeemable capital stock to income before assessments; the result of this calculation is then multiplied by 10 percent. For the years ended December 31, 2023 and 2022, the Bank's AHP assessments totaled \$97.2 million and \$35.3 million, respectively. In each of these years, the effective assessment rate closely approximated 10 percent. Because interest expense on mandatorily redeemable capital stock is not deductible for purposes of computing the Bank's AHP assessment, the effective assessment rate could exceed 10 percent in future periods.

### **Income Before Assessments**

During 2023 and 2022, the Bank's income before assessments was \$971.7 million and \$352.5 million, respectively. The \$619.2 million increase in income before assessments for 2023 as compared to 2022 was attributable to a \$538.2 million increase in net interest income after provision/reversal for mortgage loan losses and a \$117.2 million favorable change in other income (loss) partially offset by a \$36.3 million increase in other expenses. The components of income before assessments (net interest income after provision/reversal for mortgage loan losses, other income/loss and other expense) are discussed in more detail in the following sections.

### **Net Interest Income After Provision/Reversal for Mortgage Loan Losses**

In 2023 and 2022, the Bank's net interest income after provision/reversal for mortgage loan losses was \$1.018 billion and \$0.480 billion, respectively. The \$538 million increase in net interest income after provision/reversal for mortgage loan losses from 2022 to 2023 was due primarily to a significant increase in the average balances of the Bank's interest-earning assets, higher average capital balances and higher rates of return on the Bank's invested capital, partially offset by a \$57.9 million increase in net price alignment expense on cleared derivatives, a \$19.5 million unfavorable change in fair value hedge ineffectiveness gains/losses from year to year and a \$20.9 million decrease in net gains/losses recorded in connection with GSE CMBS prepayments (as previously discussed in the Long-Term Investments section beginning on page 45 of this report).

The average balances of the Bank's interest-earning assets increased by \$77.2 billion, from \$77.9 billion in 2022 to \$155.1 billion in 2023. The Bank's net interest margin increased from 63 basis points in 2022 to 66 basis points in 2023. Net interest margin, or net interest income as a percentage of average earning assets, is a function of net interest spread and the rates of return on assets funded by the investment of the Bank's capital. Net interest spread is the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities. The Bank's net interest spread decreased from 45 basis points in 2022 to 33 basis points in 2023. Due to the significant increase in average short-term interest rates in 2023 relative to 2022, the contribution of the Bank's invested capital to the net interest margin (the impact of non-interest bearing funds) increased from 18 basis points in 2022 to 33 basis points in 2023. The Bank's net interest margin and net interest spread are impacted positively or negatively, as the case may be, by the amount of fair value hedge ineffectiveness recorded in net interest income (including the price alignment amounts on cleared derivatives). In addition, the Bank's net interest margin and net interest spread are impacted positively by the amount of net prepayment fees on advances and net yield maintenance fees on GSE CMBS.

U.S. GAAP requires that, for fair value hedges, the entire change in the fair value of the hedging instrument included in the assessment of hedge effectiveness along with the changes in the fair value of the hedged item attributable to the hedged risk be presented in the same income statement line that is used to present the earnings effect of the hedged item. As a result, the Bank's net interest margin and net interest spread are impacted positively or negatively, as the case may be, by the amount of fair value hedge ineffectiveness that is recorded in net interest income. For the years ended December 31, 2023 and 2022, the fair value hedge ineffectiveness amounts reported in net interest income (excluding the price alignment amount on cleared derivatives) increased (reduced) interest income on advances by (\$4.6 million) and \$0.9 million, respectively, increased (reduced) interest income on available-for-sale securities by (\$11.7 million) and \$18.6 million, respectively, and increased (reduced) interest expense on consolidated obligations by (\$6.9 million) and \$9.4 million, respectively. In aggregate, these amounts increased (reduced) net interest income by (\$9.4 million) and \$10.1 million for the years ended December 31, 2023 and 2022, respectively. In addition, the price alignment amounts on cleared derivatives reduced net interest income by \$73.7 million and \$15.8 million for the years ended December 31, 2023 and 2022, respectively.

The higher yielding, longer duration fixed-rate GSE CMBS and GSE debentures held in the Bank's available-for-sale securities portfolio (substantially all of which have been hedged with fixed-for-floating interest rate swaps in long-haul hedging relationships) expose the Bank to periodic earnings variability in the form of fair value hedge ineffectiveness. For the hedge relationships that were established prior to 2022, the hedge ineffectiveness gains and losses are attributable in large part to the use of different discount curves to value the interest rate swaps (either the OIS curve or the SOFR curve) and the GSE CMBS/GSE debentures (SOFR or, in some cases prior to June 30, 2023, LIBOR, plus a constant spread). Notwithstanding the hedge ineffectiveness gains and losses, these hedging relationships have been, and are expected to continue to be, highly effective in achieving offsetting changes in fair values attributable to the hedged risk. While the ineffectiveness-related gains and losses associated with these hedging relationships can at times be significant when evaluated in the context of the Bank's net income, they are relatively small when expressed as a percentage of the values of the positions. Because the Bank expects to hold these

interest rate swaps to maturity, the unrealized ineffectiveness-related gains (or losses) associated with its holdings of GSE CMBS and GSE debentures are, in the absence of CMBS prepayments, expected to be transitory, meaning that they will reverse in future periods in the form of ineffectiveness-related losses (or gains).

As allowed under U.S. GAAP, the Bank has designated the hedged risk associated with its investments in available-for-sale securities that were acquired in 2022 and 2023 as the SOFR benchmark interest rate component, thereby excluding the credit spread from the hedged items' contractual cash flows. Long-haul hedging relationships that are based upon the benchmark rate component of the contractual coupon cash flows are expected to generate significantly less periodic earnings variability than the Bank's other (pre-2022) available-for-sale hedging relationships which are based upon the securities' contractual cash flows. During the years ended December 31, 2023 and 2022, the fair value hedge ineffectiveness gains (losses) associated with the Bank's available-for-sale benchmark component hedging relationships totaled \$0.1 million and (\$0.9 million), respectively. The notional amount of interest rate swaps in benchmark component hedging relationships totaled \$6.8 billion and \$3.9 billion at December 31, 2023 and 2022, respectively.



The following table presents average balance sheet amounts together with the total dollar amounts of interest income and expense and the weighted average interest rates of major earning asset categories and the funding sources for those earning assets for 2023, 2022 and 2021.

### YIELD AND SPREAD ANALYSIS

(dollars in millions)

	For the year ended December 31,								
	2023			2022			2021		
	Average Balance	Interest Income/Expense	Average Rate <sup>(a)</sup>	Average Balance	Interest Income/Expense	Average Rate <sup>(a)</sup>	Average Balance	Interest Income/Expense	Average Rate <sup>(a)</sup>
<b>Assets</b>									
Interest-bearing deposits <sup>(b)</sup>	\$ 5,619	\$ 289	5.14 %	\$ 3,025	\$ 69	2.28 %	\$ 1,110	\$ 1	0.11 %
Securities purchased under agreements to resell	7,399	385	5.20 %	924	14	1.52 %	295	—	0.05 %
Federal funds sold <sup>(c)</sup>	13,939	709	5.09 %	6,994	165	2.36 %	4,200	3	0.08 %
<b>Investments</b>									
Trading	364	12	3.18 %	2,315	12	0.51 %	2,715	9	0.32 %
Available-for-sale <sup>(d)</sup>	16,362	993	6.07 %	13,890	398	2.86 %	15,983	152	0.95 %
Held-to-maturity <sup>(d)</sup>	281	15	5.49 %	451	9	1.94 %	750	5	0.70 %
Advances <sup>(e)</sup>	106,415	5,742	5.40 %	46,306	1,079	2.33 %	31,294	130	0.41 %
Mortgage loans held for portfolio <sup>(f)</sup>	4,770	177	3.72 %	3,968	119	3.00 %	3,296	78	2.36 %
Total earning assets	155,149	8,322	5.36 %	77,873	1,865	2.39 %	59,643	378	0.63 %
Cash and due from banks	41			80			150		
Other assets	703			255			197		
Derivatives netting adjustment <sup>(b)</sup>	(1,522)			(1,532)			(421)		
Fair value adjustment on available-for-sale securities <sup>(d)</sup>	69			160			281		
Adjustment for net non-credit portion of other-than-temporary impairments on held-to-maturity securities <sup>(d)</sup>	(1)			(4)			(5)		
Total assets	<u>\$ 154,439</u>	<u>8,322</u>	<u>5.39 %</u>	<u>\$ 76,832</u>	<u>1,865</u>	<u>2.43 %</u>	<u>\$ 59,845</u>	<u>378</u>	<u>0.63 %</u>
<b>Liabilities and Capital</b>									
Interest-bearing deposits <sup>(b) (g)</sup>	\$ 1,424	71	5.00 %	\$ 1,626	24	1.45 %	\$ 1,753	—	0.02 %
<b>Consolidated obligations</b>									
Bonds	106,161	5,453	5.14 %	45,898	889	1.94 %	42,851	71	0.17 %
Discount notes	37,423	1,776	4.75 %	23,662	471	1.99 %	11,099	30	0.27 %
Mandatorily redeemable capital stock and other borrowings	17	1	5.62 %	16	—	1.78 %	20	—	0.03 %
Total interest-bearing liabilities	145,025	7,301	5.03 %	71,202	1,384	1.94 %	55,723	101	0.18 %
Other liabilities	2,946			2,421			731		
Derivatives netting adjustment <sup>(b)</sup>	(1,522)			(1,532)			(421)		
Total liabilities	<u>146,449</u>	<u>7,301</u>	<u>4.99 %</u>	<u>72,091</u>	<u>1,384</u>	<u>1.92 %</u>	<u>56,033</u>	<u>101</u>	<u>0.18 %</u>
Total capital	7,990			4,741			3,812		
Total liabilities and capital	<u>\$ 154,439</u>		<u>4.73 %</u>	<u>\$ 76,832</u>		<u>1.80 %</u>	<u>\$ 59,845</u>		<u>0.17 %</u>
Net interest income		<u>\$ 1,021</u>			<u>\$ 481</u>			<u>\$ 277</u>	
Net interest margin			0.66 %			0.63 %			0.46 %
Net interest spread			0.33 %			0.45 %			0.45 %
Impact of non-interest bearing funds			0.33 %			0.18 %			0.01 %

- (a) Amounts used to calculate average rates are based on whole dollars. Accordingly, recalculations based upon the disclosed amounts (millions) may not produce the same results.
- (b) The Bank offsets the fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against the fair value amounts recognized for derivative instruments transacted under a master netting agreement or other similar arrangement. The average balances of interest-bearing deposit assets for the years ended December 31, 2023, 2022 and 2021 in the table above include \$1.462 billion, \$1.531 billion and \$0.411 billion, respectively, which are classified as derivative assets/liabilities on the statements of condition. In addition, the average balances of interest-bearing deposit liabilities for the years ended December 31, 2023, 2022 and 2021 in the table above include \$57 million, \$1 million and \$10 million, respectively, which are classified as derivative assets/liabilities on the statements of condition.
- (c) Includes overnight federal funds sold to other FHLBanks.
- (d) Average balances for available-for-sale and held-to-maturity securities are calculated based upon amortized cost.
- (e) Interest income and average rates include net prepayment fees on advances.
- (f) The average balances for mortgage loans held for portfolio in the table above include \$20 million, \$31 million and \$87 million of non-accruing loans for the years ended December 31, 2023, 2022 and 2021, respectively.
- (g) Average balances of deposits for the years ended December 31, 2023, 2022 and 2021 include time deposits of \$44 million, \$173 million and \$62 million, respectively. The remaining balances are substantially comprised of interest-bearing demand deposits. During the years ended December 31, 2023, 2022 and 2021, interest was paid on demand deposits at average rates of 5.0 percent, 1.5 percent and 0.02 percent, respectively, and on time deposits at average rates of 4.6 percent, 1.0 percent and 0.04 percent, respectively.

### Rate and Volume Analysis

Changes in both volume (i.e., average balances) and interest rates influence changes in net interest income and net interest margin. The following table summarizes changes in interest income and interest expense between 2023 and 2022 and between 2022 and 2021. Changes in interest income and interest expense that cannot be attributed to either volume or rate have been allocated to the volume and rate categories based upon the proportion of the absolute value of the volume and rate changes.

### RATE AND VOLUME ANALYSIS (in millions)

	2023 vs. 2022 Increase (Decrease) Due To			2022 vs. 2021 Increase (Decrease) Due To		
	Volume	Rate	Total	Volume	Rate	Total
<b>Interest income</b>						
Interest-bearing deposits	\$ 89	\$ 131	\$ 220	\$ 5	\$ 63	\$ 68
Securities purchased under agreements to resell	276	95	371	1	13	14
Federal funds sold	251	293	544	4	158	162
<b>Investments</b>						
Trading	(17)	17	—	(1)	4	3
Available-for-sale	82	513	595	(22)	268	246
Held-to-maturity	(4)	10	6	(3)	7	4
Advances	2,317	2,346	4,663	89	860	949
Mortgage loans held for portfolio	26	32	58	18	23	41
Total interest income	<u>3,020</u>	<u>3,437</u>	<u>6,457</u>	<u>91</u>	<u>1,396</u>	<u>1,487</u>
<b>Interest expense</b>						
Interest-bearing deposits	(3)	50	47	—	24	24
<b>Consolidated obligations</b>						
Bonds	2,021	2,543	4,564	5	813	818
Discount notes	386	919	1,305	66	375	441
Mandatorily redeemable capital stock and other borrowings	—	1	1	—	—	—
Total interest expense	<u>2,404</u>	<u>3,513</u>	<u>5,917</u>	<u>71</u>	<u>1,212</u>	<u>1,283</u>
<b>Changes in net interest income</b>	<u>\$ 616</u>	<u>\$ (76)</u>	<u>\$ 540</u>	<u>\$ 20</u>	<u>\$ 184</u>	<u>\$ 204</u>

## ***Other Income (Loss)***

The following table presents the various components of other income (loss) for the years ended December 31, 2023, 2022 and 2021.

### **OTHER INCOME (LOSS)** *(in thousands)*

	<b>2023</b>	<b>2022</b>	<b>2021</b>
Net interest income (expense) associated with:			
Economic hedge derivatives related to consolidated obligation bonds	\$ 872	\$ 398	\$ 555
Economic hedge derivatives related to consolidated obligation discount notes	(12,416)	(7,206)	124
Member/offsetting derivatives	10	36	44
Economic hedge derivatives related to advances	8,292	(3,262)	(583)
Economic hedge derivatives related to trading securities	152	1,074	(3,520)
Economic hedge derivatives related to available-for-sale securities	31	(11)	(36)
Economic hedge derivatives related to mortgage loans held for portfolio	17,752	3,836	1,599
Other stand-alone economic hedge derivatives	(13,862)	274	7,359
<b>Total net interest income (expense) associated with economic hedge derivatives</b>	<b>831</b>	<b>(4,861)</b>	<b>5,542</b>
Gains (losses) related to economic hedge derivatives			
Interest rate swaps			
Advances	1,523	3,823	5,668
Available-for-sale securities	(77)	321	169
Trading securities	(2,193)	—	3,532
Mortgage loans held for portfolio	(6,503)	45,617	3,867
Consolidated obligation bonds	1,763	(5,248)	—
Consolidated obligation discount notes	9,616	(8,555)	(905)
Other stand-alone economic hedge derivatives	11,024	(44,413)	(22,543)
Interest rate swaptions			
Available-for-sale securities	(1,398)	(2,087)	—
Mortgage loans held for portfolio	(2,290)	(9,449)	5,307
Mortgage delivery commitments	3,338	(306)	(1,848)
Member/offsetting derivatives	(8)	(35)	(44)
<b>Total fair value gains (losses) related to economic hedge derivatives</b>	<b>14,795</b>	<b>(20,332)</b>	<b>(6,797)</b>
<b>Price alignment amount on daily settled derivative contracts</b>	<b>15,068</b>	<b>2,377</b>	<b>3</b>
<b>Total net gains (losses) on derivatives and hedging activities</b>	<b>30,694</b>	<b>(22,816)</b>	<b>(1,252)</b>
Net gains (losses) on trading securities	12,009	(19,011)	(10,501)
Gains on early extinguishment of debt	23,396	—	—
Net gains (losses) on other assets carried at fair value	2,075	(2,073)	1,848
Realized gains on sales of held-to-maturity securities	1,081	127	—
Service fees	3,191	3,137	2,753
Letter of credit fees	18,011	13,230	14,498
Standby bond purchase agreement fees	1,674	1,812	1,902
Other, net	(413)	148	995
<b>Total other</b>	<b>61,024</b>	<b>(2,630)</b>	<b>11,495</b>
<b>Total other income (loss)</b>	<b>\$ 91,718</b>	<b>\$ (25,446)</b>	<b>\$ 10,243</b>

#### *Net Interest Settlements*

Net interest income (expense) associated with economic hedge derivatives including, but not limited to, those associated with non-qualifying fair value hedging relationships is recorded in net gains (losses) on derivatives and hedging activities. Net interest income (expense) associated with derivatives in qualifying fair value hedging relationships is recorded in net interest income in the same income statement line that is used to present the earnings effect of the hedged item.

### *Fair Value Hedge Ineffectiveness*

The Bank uses interest rate swaps to hedge the risk of changes in the fair value of some of its advances and consolidated obligation bonds and substantially all of its available-for-sale securities. These hedging relationships are designated as fair value hedges. To the extent these relationships qualify for hedge accounting, changes in the fair values of both the derivative (the interest rate swap) and the hedged item (limited to changes attributable to the hedged risk) are recorded in net interest income in the same income statement line that is used to present the earnings effect of the hedged item. To the extent that the Bank's fair value hedging relationships do not qualify for hedge accounting, or cease to qualify because they are determined to be ineffective, only the change in fair value of the derivative is recorded in earnings as net gains (losses) on derivatives and hedging activities (in this case, there is no offsetting change in fair value of the hedged item). The net gains (losses) on derivatives associated with specific advances, available-for-sale securities and consolidated obligation bonds that did not qualify for hedge accounting, or ceased to qualify because they were determined to be ineffective, totaled \$3.2 million and \$(1.1) million in 2023 and 2022, respectively.

### *Economic Hedge Derivatives*

Notwithstanding the transitory nature of the ineffectiveness-related gains and losses associated with the Bank's available-for-sale securities portfolio (discussed above), the Bank has entered into several derivative transactions in an effort to mitigate a portion of the periodic earnings variability that can result from those fair value hedging relationships. At December 31, 2023 and 2022, the notional balance of these derivatives totaled \$400 million and \$425 million, respectively. For the years ended December 31, 2023 and 2022, the gains (losses) associated with these stand-alone economic hedge derivatives were \$10.9 million and \$(44.4) million, respectively. The mitigation activities were much less effective in 2022 as compared to 2023 due largely to the volatility in the yield curve during 2022.

The Bank has invested in residential mortgage loans. A portion of the interest rate and prepayment risk associated with the Bank's mortgage loan portfolio is managed through the use of interest rate swaps and swaptions. The net change in the fair values of these interest rate swaps and swaptions was \$(8.8) million and \$36.2 million for the years ended December 31, 2023 and 2022, respectively. In addition, in some but not all cases, the Bank enters into delivery commitments associated with the purchase of the mortgage loans. The fair value changes associated with mortgage delivery commitments (representing net unrealized gains or losses from the commitment date to the settlement date) were \$3.3 million and \$(0.3) million for the years ended December 31, 2023 and 2022, respectively.

The Bank has invested in GSE CMBS. To hedge a portion of the prepayment risk that exists during the open period (i.e., the period during which the securities can be prepaid without a yield maintenance fee), the Bank has entered into swaptions with a notional balance of \$1.15 billion. For the years ended December 31, 2023 and 2022, the losses associated with these stand-alone economic hedge derivatives were \$1.4 million and \$2.1 million, respectively.

From time to time, the Bank hedges the risk of changes in the fair value of some of its longer-term consolidated obligation discount notes using fixed-for-floating swaps. For the years ended December 31, 2023 and 2022, the gains (losses) associated with these stand-alone economic hedge derivatives were \$9.6 million and \$(8.6) million, respectively.

As discussed previously in the section entitled "Financial Condition — Derivatives and Hedging Activities," the Bank previously offered interest rate exchange agreements to its members to assist them in meeting their risk management objectives. In derivative transactions with its members, the Bank acts as an intermediary by entering into an interest rate exchange agreement with the member and then entering into an offsetting interest rate exchange agreement with one of the Bank's non-member derivative counterparties. The net change in the fair values of derivatives transacted with members and the offsetting derivatives was insignificant for the years ended December 31, 2023 and 2022, respectively.

### *Price Alignment Amount*

Pursuant to their rulebooks, the Bank's two clearinghouse counterparties legally characterize variation margin payments on cleared derivatives as settlements on the contracts. The Bank receives or pays a price alignment amount on the cumulative variation margin payments associated with these contracts. The price alignment amount approximates the amount of interest the Bank would receive or pay if the variation margin payments were characterized as collateral pledged to secure outstanding credit exposure on the contracts. The price alignment amount associated with derivatives in qualifying fair value hedging relationships is recorded in net interest income in the same income statement line that is used to present the earnings effect of the hedged item. The price alignment amount associated with economic hedge derivatives including, but not limited to, those associated with non-qualifying fair value hedging relationships, is recorded in net gains (losses) on derivatives and hedging activities.

### *Other*

The Bank did not sell any available-for-sale securities during the years ended December 31, 2023 or 2022. During the year ended December 31, 2023, the Bank sold all of its non-agency RMBS that had been classified as held-to-maturity securities. Proceeds from the sale totaled \$29.0 million, resulting in a net realized gain of \$1.1 million. During the year ended December 31, 2022, the Bank sold nine held-to-maturity securities with an unpaid principal balance of \$101.2 million. The gains recognized on these sales totaled \$0.1 million. For each of the held-to-maturity securities sold during 2023 and 2022, the Bank had previously collected at least 85 percent of the principal outstanding at the time of acquisition. As such, the sales were considered maturities for purposes of security classification.

During the years ended December 31, 2023 and 2022, the Bank held from time to time U.S. Treasury Bills and U.S. Treasury Notes, all of which were classified as trading securities. Due to fluctuations in interest rates, the aggregate gains (losses) on these securities were \$12.0 million and \$(19.0) million for the years ended December 31, 2023 and 2022, respectively. The Bank occasionally hedges the risk of changes in the fair value of some of its U.S. Treasury Notes and U.S. Treasury Bills. For the year ended December 31, 2023, the losses associated with these stand-alone derivatives were \$2.2 million. There were no net gains or losses on the swaps used to hedge U.S. Treasury Notes or U.S. Treasury Bills during the year ended December 31, 2022 because the gains and losses had reversed by the end of the year.

The Bank has a small balance of marketable equity securities consisting solely of mutual fund investments associated with its non-qualified deferred compensation plans. These securities are carried at fair value and included in other assets on the statements of condition. The fair value gains (losses) on these securities totaled \$2.1 million and \$(2.1) million for the years ended December 31, 2023 and 2022, respectively. The gains (losses) on the securities are offset by a corresponding increase (decrease) in amounts owed to participants in the deferred compensation plans, the expense (or credit) for which is recorded in compensation and benefits expense (in the case of employees) or other operating expenses (in the case of directors).

During the year ended December 31, 2023, the Bank extinguished three consolidated obligation bonds with a total par value of \$250 million. The gains on these extinguishments totaled \$23.4 million. There were no debt extinguishments during the year ended December 31, 2022.

For the years ended December 31, 2023 and 2022, letter of credit fees totaled \$18.0 million and \$13.2 million, respectively. During the years ended December 31, 2023 and 2022, average outstanding letters of credit totaled \$26.2 billion and \$19.8 billion, respectively.

Standby bond purchase agreement fees totaled \$1.7 million and \$1.8 million for the years ended December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, outstanding standby bond purchase agreements totaled \$778 million and \$854 million, respectively.

### **Other Expense**

Total other expense includes the Bank's compensation and benefits, other operating expenses, discretionary grants and donations, derivative clearing fees, and its proportionate share of the costs of operating the Finance Agency and the Office of Finance. For the years ended December 31, 2023 and 2022, these expenses totaled \$138.0 million and \$101.7 million, respectively.

Compensation and benefits totaled \$65.3 million for 2023, compared to \$48.3 million for 2022. The \$17.0 million increase in compensation and benefits for the year ended December 31, 2023, as compared to the year ended December 31, 2022, was due largely to increases in expenses related to the Bank's defined benefit pension plan, its non-qualified deferred compensation plans and employee incentives, as well as cost-of-living and merit increases and higher average headcount. In 2023, the Bank made a \$10.0 million voluntary contribution to the multiemployer defined benefit pension plan in which it participates, which contributed to a \$6.9 million increase in pension expenses from 2022 to 2023. Expenses related to employees' participation in the Bank's non-qualified deferred compensation plans were \$3.4 million higher during the year ended December 31, 2023 as compared to the year ended December 31, 2022 due to favorable changes in the fair value of the assets associated with those plans. Compensation and benefit expense (credit) related to the Bank's non-qualified deferred compensation plans were \$1.7 million and \$(1.7) million for the years ended December 31, 2023 and 2022, respectively. The Bank's average headcount in 2023 and 2022 was 203 and 197 employees, respectively. At December 31, 2023 and 2022, the Bank employed 204 and 201 people, respectively. From 2022 to 2023, incentive compensation increased by \$4.1 million due in part to higher incentive plan goal achievement in 2023 as compared to 2022 and a special incentive that was paid to non-executive employees in 2023.

Other operating expenses for the years ended December 31, 2023 and 2022 were \$48.1 million and \$38.6 million, respectively. The \$9.5 million increase in other operating expenses resulted primarily from increased usage of independent contractors to support information technology initiatives at the Bank (\$4.2 million), as well as increases in member events (\$1.3 million), mortgage program expenses (\$0.8 million) and professional services (\$0.7 million). In addition, expenses related to directors' participation in the Bank's non-qualified deferred compensation plan also increased due to favorable changes in the fair value of

the assets associated with the plan. Other operating expense (credit) related to the Bank's non-qualified deferred compensation plans were \$0.4 million and \$(0.4) million for the years ended December 31, 2023 and 2022, respectively.

The Bank, together with the other FHLBanks, is assessed for the costs of operating the Office of Finance and a portion of the costs of operating the Finance Agency. The Bank's allocated share of the Office of Finance's expenses totaled \$7.6 million and \$5.6 million in 2023 and 2022, respectively, representing a year-over-year increase of \$2.0 million. In these years, the Bank's allocated share of the Finance Agency's expenses totaled \$9.5 million and \$7.2 million, respectively, representing a year-over-year increase of \$2.3 million.

Discretionary grants and donations were \$5.3 million and \$0.8 million for the years ended December 31, 2023 and 2022, respectively. The \$4.5 million increase in discretionary grants and donations was due largely to higher disaster relief grant funding in 2023 as compared to 2022 due to severe storms and tornados in Mississippi and Arkansas. In addition, as discussed in Item 1. Business, the Bank introduced two new voluntary programs in the second half of 2023. During 2023, grants related to the Heirs' Property Program and the FORTIFIED Fund totaled \$0.9 million and \$0.4 million, respectively. As discussed previously, the Bank expects to increase its discretionary grants and donations in 2024.

Derivative clearing fees were \$2.1 million and \$1.2 million for the years ended December 31, 2023 and 2022, respectively. The increase of \$0.9 million from 2022 to 2023 was due to an increase in the Bank's cleared derivative transactions from year to year and the derivative modifications that were discussed previously in the section entitled "LIBOR Phase-Out."

### **Unaudited Quarterly Financial Data**

The following is a summary of the Bank's unaudited quarterly operating results for the year ended December 31, 2023.

#### **SELECTED QUARTERLY FINANCIAL DATA** (unaudited, in thousands)

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Total</b>
Interest income	\$1,608,860	\$2,484,064	\$2,231,201	\$1,998,058	\$ 8,322,183
Net interest income after provision (reversal) for mortgage loan losses	196,124	285,545	284,851	251,393	1,017,913
Other income (loss)					
Net gains (losses) on trading securities	2,803	(2,215)	(147)	11,568	12,009
Net gains on derivatives and hedging activities	5,644	8,154	14,882	2,014	30,694
Net gains (losses) on other assets carried at fair value	571	583	(381)	1,302	2,075
Realized gains on sales of held-to-maturity securities	—	1,081	—	—	1,081
Gains on early extinguishment of debt	23,396	—	—	—	23,396
Letter of credit fees	3,950	4,523	4,516	5,022	18,011
Service fees and other, net	1,245	1,570	1,311	326	4,452
Other expense	39,644	32,945	29,774	35,611	137,974
AHP assessment	19,422	26,648	27,533	23,603	97,206
Net income	174,667	239,648	247,725	212,411	874,451

### **Liquidity and Capital Resources**

In order to meet members' credit needs and the Bank's financial obligations, the Bank maintains a portfolio of money market instruments typically consisting of overnight federal funds, overnight reverse repurchase agreements, overnight interest-bearing deposits, U.S. Treasury Bills and U.S. Treasury Notes. Beyond those amounts that are required to meet members' credit needs and its own obligations, the Bank typically holds additional balances of short-term investments that fluctuate as the Bank invests the proceeds of debt issued to replace maturing and called liabilities, as the balance of deposits changes, and as the level of liquidity needed to satisfy Finance Agency requirements changes. At December 31, 2023, the Bank's short-term liquidity portfolio was comprised of \$14.7 billion of overnight reverse repurchase agreements, \$6.4 billion of overnight federal funds sold, \$2.3 billion of overnight interest-bearing deposits and \$1.2 billion of U.S. Treasury Notes.

The Bank's primary source of funds is the proceeds it receives from the issuance of consolidated obligation bonds and discount notes in the capital markets. Historically, the FHLBanks have issued debt throughout the business day in the form of discount

notes and bonds with a wide variety of maturities and structures. Generally, the Bank has access to the capital markets as needed during the business day to acquire funds to meet its needs.

In addition to the liquidity provided from the proceeds of the issuance of consolidated obligations, the Bank also maintains access to wholesale funding sources such as federal funds purchased and securities sold under agreements to repurchase (e.g., borrowings secured by its investments in MBS and/or agency debentures). Furthermore, the Bank has access to borrowings (typically short-term) from the other FHLBanks.

The 11 FHLBanks and the Office of Finance are parties to the Federal Home Loan Banks P&I Funding and Contingency Plan Agreement, as amended and restated effective January 1, 2017 (the "Contingency Agreement"). The Contingency Agreement and related procedures are designed to facilitate the timely funding of principal and interest payments on FHLBank System consolidated obligations in the event that a FHLBank is not able to meet its funding obligations in a timely manner. The Contingency Agreement and related procedures provide for the issuance of overnight consolidated obligations ("Plan COs") directly to one or more FHLBanks that provide funds to avoid a shortfall in the timely payment of principal and interest on any consolidated obligations for which another FHLBank is the primary obligor. The direct placement by a FHLBank of consolidated obligations with another FHLBank is permitted only in those instances when direct placement of consolidated obligations is necessary to ensure that sufficient funds are available to timely pay all principal and interest on FHLBank System consolidated obligations due on a particular day. Through the date of this report, no Plan COs have ever been issued pursuant to the terms of the Contingency Agreement.

On occasion, and as an alternative to issuing new debt, the Bank may assume the outstanding consolidated obligations for which other FHLBanks are the original primary obligors. This occurs in cases where the original primary obligor may have participated in a large consolidated obligation issue to an extent that exceeded its immediate funding needs in order to facilitate better market execution for the issue. The original primary obligor might then warehouse the funds until they were needed or make the funds available to other FHLBanks. Transfers may also occur when the original primary obligor's funding needs change, and that FHLBank offers to transfer debt that is no longer needed to other FHLBanks. Transferred debt is typically fixed-rate, fixed-term, non-callable debt, and may be in the form of discount notes or bonds. During the year ended December 31, 2023, the Bank assumed one SOFR-indexed consolidated obligation bond with a par value of \$1.0 billion from the FHLBank of Topeka. The bond matured and was repaid during 2023. The Bank did not assume any other debt from other FHLBanks during the years ended December 31, 2023 or 2022.

The Finance Agency's expectations with respect to the maintenance of sufficient liquidity to enable the FHLBanks to provide advances and fund letters of credit during a sustained capital markets disruption are set forth in an Advisory Bulletin and accompanying supervisory letter. More specifically, the Advisory Bulletin (hereinafter referred to as the "Liquidity AB") sets forth the Finance Agency's expectations with respect to base case liquidity and funding gaps, among other things. The Liquidity AB sets forth ranges for the prescribed base case liquidity and funding gap measures and the supervisory letter identified the initial thresholds within those ranges that the Finance Agency believed were appropriate in light of then existing market conditions.

With respect to base case liquidity, the Bank is required to maintain a positive cash balance during a prescribed period of time ranging from 10 to 30 calendar days assuming no access to the market for consolidated obligations or other unsecured funding sources and the renewal of all advances that are scheduled to mature during the measurement period. The supervisory letter sets forth the cash flow assumptions to be used by the FHLBanks which include, among other things, a reserve for potential draws on standby letters of credit and, through December 31, 2023, the inclusion of uncommitted/unencumbered U.S. Treasury securities with a remaining maturity no greater than 10 years which are classified as trading or available-for-sale securities as a cash inflow one business day after measurement. Beginning January 1, 2024, uncommitted/unencumbered U.S. Treasury securities with a remaining maturity no greater than 10 years which are classified as trading or available-for-sale securities are included as a cash inflow three business days after measurement.

Funding gaps measure the difference between a FHLBank's assets and liabilities that are scheduled to mature during a specified period, expressed as a percentage of the FHLBank's total assets. Depending on conditions in the financial markets, the Finance Agency believes (as stated in the Liquidity AB) that the FHLBanks should operate so as not to exceed a funding gap ratio between negative 10 percent and negative 20 percent for a three-month time horizon and between negative 25 percent and negative 35 percent for a one-year time horizon. These limits are designed to reduce the liquidity risks associated with a mismatch in a FHLBank's asset and liability maturities, including an undue reliance on short-term debt funding, which may increase a FHLBank's debt rollover risk. For purposes of calculating the funding gap ratios, the FHLBanks may include estimates of expected cash inflows, including anticipated prepayments, for mortgage loans and MBS. In addition, uncommitted/unencumbered U.S. Treasury securities with a remaining maturity no greater than 10 years which are classified as trading securities are treated as maturing assets in the three-month time horizon regardless of maturity.

On and after December 31, 2020, the Finance Agency considers a FHLBank to have adequate reserves of liquid assets if it maintains 20 calendar days of positive daily cash balances. Further, the Finance Agency considered a FHLBank to have

adequate liquidity to address funding gap risks if, from December 31, 2020 through December 30, 2022, the FHLBank's funding gap ratios for the three-month and one-year time horizons did not exceed negative 20 percent and negative 35 percent, respectively. On and after December 31, 2022, the Finance Agency considers a FHLBank to have adequate liquidity to address funding gap risks if the FHLBank's funding gap ratios for the three-month and one-year time horizons do not exceed negative 15 percent and negative 30 percent, respectively.

The Bank was in compliance with these liquidity requirements at all times during the years ended December 31, 2023 and 2022, except as discussed in this paragraph. On four consecutive days during the first quarter of 2023, the Bank's positive daily cash balance measurement was below 20 calendar days due to unusually large and unforeseen advance demand resulting from the turmoil in the banking industry. On March 14, 15, 16 and 17, 2023, the Bank's positive daily cash balance measurement fell to 15 calendar days for each of the first three days before increasing to 19 calendar days on the fourth day. On the next business day (March 20, 2023), the Bank increased this liquidity measurement beyond 20 days. In addition, on one day during the second quarter of 2022, the Bank's positive daily cash balance measurement fell to 15 calendar days due to unusually large and unforeseen advance demand. On the next day, the Bank issued consolidated obligations that were sufficient to increase this liquidity measurement beyond 20 days.

The Bank's access to the capital markets has never been interrupted to an extent that the Bank's ability to meet its obligations was compromised and the Bank does not currently believe that its ability to issue consolidated obligations will be impeded to that extent in the future. If, however, the Bank were unable to issue consolidated obligations for an extended period of time, the Bank would eventually exhaust the availability of purchased federal funds (including borrowings from other FHLBanks) and repurchase agreements as sources of funds. It is also possible that an event (such as a natural disaster or a pandemic) that might impede the Bank's ability to raise funds by issuing consolidated obligations would also limit the Bank's ability to access the markets for federal funds purchased and/or repurchase agreements.

Under those circumstances, to the extent that the balance of principal and interest that came due on the Bank's debt obligations and the funds needed to pay its operating expenses exceeded the cash inflows from its interest-earning assets and proceeds from maturing assets, and if access to the market for consolidated obligations was not again available, the Bank would seek to access funding under the Contingency Agreement to repay any principal and interest due on its consolidated obligations. However, if the Bank were unable to raise funds by issuing consolidated obligations, it is likely that the other FHLBanks would have similar difficulties issuing debt. If funds were not available under the Contingency Agreement, the Bank's ability to conduct its operations would be compromised even earlier than if this funding source was available.

### **Risk-Based Capital Rules and Other Capital Requirements**

The Bank is required to maintain at all times permanent capital in an amount at least equal to its risk-based capital requirement, which is the sum of its credit risk capital requirement, its market risk capital requirement, and its operations risk capital requirement, as further described below. Permanent capital is defined under the Finance Agency's rules as retained earnings and amounts paid in for Class B Stock (which, for the Bank, includes both Class B-1 Stock and Class B-2 Stock), regardless of its classification as equity or liabilities for financial reporting purposes, as further described above in the section entitled "Financial Condition – Capital Stock." For reasons of safety and soundness, the Finance Agency may require the Bank, or any other FHLBank, to maintain a greater amount of permanent capital than is required by the risk-based capital requirements as defined.

The Bank's credit risk capital requirement is determined by adding together the credit risk capital charges for advances, investments, mortgage loans, derivatives, other assets and off-balance-sheet commitment positions (e.g., outstanding letters of credit and commitments to fund advances). Among other things, these charges are computed based upon the credit risk percentages assigned to each item as required by Finance Agency rules, taking into account the time to maturity and credit ratings of certain of the items. These percentages are applied to the book value of assets or, in the case of off-balance-sheet commitments, to their balance sheet equivalents.

The Bank's market risk capital requirement is determined by estimating the potential loss in market value of equity under a wide variety of market conditions. Simulations of over 300 historical market interest rate scenarios dating back to January 1998 (using changes in interest rates and volatilities over each six-month period since that date) are generated and, under each scenario, the hypothetical impact on the Bank's current market value of equity is determined. The hypothetical impact associated with each historical scenario is calculated by simulating the effect of each set of rate and volatility conditions upon the Bank's current risk position, each of which reflects actual assets, liabilities, derivatives and off-balance-sheet commitment positions as of the measurement date. From the complete set of resulting simulated scenarios, the average of the five scenarios resulting in the worst estimated deteriorations in market value of equity is identified as the market risk component of the Bank's regulatory risk-based capital requirement which, in conjunction with the credit risk and operations risk components, determines the Bank's overall risk-based capital requirement.

The Bank's operations risk capital requirement is equal to 30 percent of the sum of its credit risk capital requirement and its market risk capital requirement.



At December 31, 2023, the Bank's credit risk, market risk and operations risk capital requirements were \$474 million, \$677 million and \$345 million, respectively. These requirements were \$323 million, \$473 million and \$238 million, respectively, at December 31, 2022.

In addition to the risk-based capital requirement, the Bank is subject to three other capital requirements. First, the Bank must, at all times, maintain a minimum total capital-to-assets ratio of 4.0 percent. For this purpose, total capital is defined by Finance Agency rules and regulations as the Bank's permanent capital and the amount of any general allowance for losses (i.e., those reserves that are not held against specific assets). Second, the Bank is required to maintain at all times a minimum leverage capital-to-assets ratio in an amount at least equal to 5.0 percent of its total assets. In applying this requirement to the Bank, leverage capital includes the Bank's permanent capital multiplied by a factor of 1.5 plus the amount of any general allowance for losses. The Bank did not have any general reserves at December 31, 2023 or December 31, 2022. Under the regulatory definitions, total capital and permanent capital exclude accumulated other comprehensive income (loss). Third, the Bank is required to maintain a capital stock-to-assets ratio of at least 2.0 percent, as measured on a daily average basis at each month end. The Bank is required to submit monthly capital compliance reports to the Finance Agency. At all times during the years ended December 31, 2023 and 2022, the Bank was in compliance with all of its regulatory capital requirements. For a summary of the Bank's compliance with the Finance Agency's capital requirements as of December 31, 2023 and 2022, see the audited financial statements included in this report (specifically, Note 15 beginning on page F-39).

A final regulation adopted by the Finance Agency in 2009 (the "Capital Classification Regulation") establishes criteria for four capital classifications for the FHLBanks: adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. An adequately capitalized FHLBank meets all existing risk-based and minimum capital requirements. An undercapitalized FHLBank does not meet one or more of its risk-based or minimum capital requirements, but nevertheless has total capital equal to or greater than 75 percent of all capital requirements. A significantly undercapitalized FHLBank does not have total capital equal to or greater than 75 percent of all capital requirements, but the FHLBank does have total capital greater than 2 percent of its total assets. A critically undercapitalized FHLBank has total capital that is less than or equal to 2 percent of its total assets.

The Director of the Finance Agency determines each FHLBank's capital classification no less often than once a quarter; the Director may make a determination more often than quarterly. The Director may reclassify a FHLBank one category below the otherwise applicable capital classification (e.g., from adequately capitalized to undercapitalized) if the Director determines that (i) the FHLBank is engaging in conduct that could result in the rapid depletion of permanent or total capital, (ii) the value of collateral pledged to the FHLBank has decreased significantly, (iii) the value of property subject to mortgages owned by the FHLBank has decreased significantly, (iv) after notice to the FHLBank and opportunity for an informal hearing before the Director, the FHLBank is in an unsafe and unsound condition, or (v) the FHLBank is engaging in an unsafe and unsound practice because the FHLBank's asset quality, management, earnings or liquidity were found to be less than satisfactory during the most recent examination, and any deficiency has not been corrected. Before classifying or reclassifying a FHLBank, the Director must notify the FHLBank in writing and give the FHLBank an opportunity to submit information relative to the proposed classification or reclassification. Since the adoption of the Capital Classification Regulation, the Bank has been classified as adequately capitalized for each quarterly period for which the Director has made a final determination.

In addition to restrictions on capital distributions by a FHLBank that does not meet all of its risk-based and minimum capital requirements, a FHLBank that is classified as undercapitalized, significantly undercapitalized or critically undercapitalized is required to take certain actions, such as submitting a capital restoration plan to the Director of the Finance Agency for approval. Additionally, with respect to a FHLBank that is less than adequately capitalized, the Director of the Finance Agency may take other actions that he or she determines will help ensure the safe and sound operation of the FHLBank and its compliance with its risk-based and minimum capital requirements in a reasonable period of time.

The Director may appoint the Finance Agency as conservator or receiver for any FHLBank that is classified as critically undercapitalized. The Director may also appoint the Finance Agency as conservator or receiver of any FHLBank that is classified as undercapitalized or significantly undercapitalized if the FHLBank fails to submit a capital restoration plan acceptable to the Director within the time frames established by the Capital Classification Regulation or materially fails to implement any capital restoration plan that has been approved by the Director. At least once in each 30-day period following classification of a FHLBank as critically undercapitalized, the Director must determine whether during the prior 60 days the FHLBank had assets less than its obligations to its creditors and others or if the FHLBank was not paying its debts on a regular basis as such debts became due. If either of these conditions apply, then the Director must appoint the Finance Agency as receiver for the FHLBank.

A FHLBank for which the Director appoints the Finance Agency as conservator or receiver may bring an action in the United States District Court for the judicial district in which the FHLBank is located or in the United States District Court for the District of Columbia for an order requiring the Finance Agency to remove itself as conservator or receiver. A FHLBank that is not critically undercapitalized may also seek judicial review of any final capital classification decision or of any final decision to take supervisory action made by the Director under the Capital Classification Regulation.

## **Critical Accounting Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Management bases its judgments and estimates on current market conditions and industry practices, historical experience, changes in the business environment and other factors that it believes to be reasonable under the circumstances. Although management believes its judgments, estimates, and assumptions are reasonable, actual results may differ and other parties could arrive at different conclusions. Given the assumptions used and judgment involved, management has identified the fair value measurement of interest rate derivatives and associated hedged items as the Bank's critical accounting estimate. The Bank's financial condition and results of operations could be materially affected under different conditions or different assumptions related to this accounting estimate. For additional discussion regarding the fair value measurement of interest rate derivatives, see Note 17 to the Bank's audited financial statements included in this report.

As discussed in the section entitled Financial Condition — Derivatives and Hedging Activities, all interest rate derivatives employed by the Bank hedge identifiable risks and none are used for speculative purposes. As of December 31, 2023, substantially all of the Bank's derivative instruments that were designated in hedging relationships were either hedging fair value risk attributable to changes in SOFR (the designated benchmark interest rate) or hedging the variability of cash flows associated with forecasted transactions. U.S. GAAP requires that all derivative instruments be recorded in the statements of condition at their fair values. Changes in the fair values of the Bank's derivatives, other than those designated in cash flow hedging relationships, are recorded each period in current earnings. If an asset or liability qualifies for fair value hedge accounting, changes in the fair value of the hedged item that are attributable to the hedged risk are also recorded in earnings. As a result, the net effect is that only the "ineffective" portion of a qualifying fair value hedge has an impact on current earnings. Changes in the fair values of the Bank's derivatives that are designated in cash flow hedging relationships are recorded each period in other comprehensive income until earnings are affected by the variability of the cash flows of the hedged transaction, at which time these amounts are reclassified from accumulated other comprehensive income to earnings.

As of December 31, 2023, the Bank's derivatives portfolio included \$140.8 billion (notional amount) that was designated in fair value hedging relationships, \$1.1 billion (notional amount) that was designated in cash flow hedging relationships and \$22.3 billion (notional amount) that either did not qualify for hedge accounting or were not designated in hedge relationships for accounting purposes. By comparison, at December 31, 2022, the Bank's derivatives portfolio included \$79.0 billion (notional amount) that was designated in fair value hedging relationships, \$1.1 billion (notional amount) that was designated in cash flow hedging relationships and \$24.4 billion (notional amount) that either did not qualify for hedge accounting or were not designated in hedge relationships for accounting purposes.

The fair values of the Bank's derivatives are estimated using a pricing model and inputs that are observable for the asset or liability, either directly or indirectly. For its derivatives, the Bank compares the fair values obtained from its pricing model to clearinghouse valuations (in the case of cleared derivatives) and non-binding dealer estimates (in the case of bilateral derivatives) and may also compare its fair values to those of similar instruments to ensure such fair values are reasonable. The assumptions and inputs used have a significant effect on the reported carrying values of derivative assets and liabilities and the related income and expense. The use of different assumptions/inputs could result in materially different earnings and reported carrying values.

In applying hedge accounting, the Bank calculates the periodic changes in the fair values of hedged items (e.g., certain advances, available-for-sale securities and consolidated obligations) that are attributable solely to changes in the designated benchmark interest rate ("the benchmark fair values") and the periodic changes in the fair values of hypothetical derivatives associated with cash flow hedges. Such values are estimated using a pricing model that employs discounted cash flows or other similar pricing techniques. Significant inputs to the pricing model (e.g., yield curves and volatilities) are based on current observable market data. The inputs to the pricing model have a significant effect on the benchmark fair values of assets and liabilities and the related income and expense; the use of different inputs could result in materially different earnings.

The Bank's pricing model is subject to an independent validation every three years. In those years when a validation is not performed, the pricing model is subject to an annual review. The Bank periodically reviews and refines, as appropriate, its assumptions and valuation methodologies to reflect market indications as closely as possible. The Bank believes it has the appropriate personnel, technology, and policies and procedures in place to enable it to value its derivatives and associated hedged items in a reasonable and consistent manner.

## **Recently Issued Accounting Guidance**

For a discussion of recently issued accounting guidance, see the audited financial statements accompanying this report (specifically, Note 2 beginning on page F-16).

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

### **Overview**

As a financial intermediary, the Bank is subject to interest rate risk. Changes in the level of interest rates, the slope of the interest rate yield curve, and/or the relationships (or spreads) between interest yields for different instruments have an impact on the Bank's estimated market value of equity and its net earnings. This risk arises from a variety of instruments that the Bank enters into on a regular basis in the normal course of its business.

The terms of member advances, investment securities and consolidated obligations may present interest rate risk and/or embedded option risk. As discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations, the Bank makes extensive use of interest rate derivative instruments, primarily interest rate swaps and swaptions, to manage the risk arising from these sources.

The Bank has investments in residential mortgage-related assets, primarily MPF mortgage loans and, to a far lesser extent, CMOs, both of which present prepayment risk. This risk arises from the mortgagors' option to prepay their mortgages, making the effective maturities of these mortgage-based assets relatively more sensitive to changes in interest rates and other factors that affect the mortgagors' decisions to repay their mortgages as compared to other long-term investment securities that do not have prepayment features. A decline in interest rates generally accelerates mortgage refinancing activity, thus increasing prepayments and thereby shortening the effective maturity of the mortgage-related assets. Conversely, rising rates generally slow prepayment activity and lengthen a mortgage-related asset's effective maturity.

The Bank has managed the potential prepayment risk embedded in mortgage assets by purchasing securities that maintain their original principal balance for a fixed number of years, by purchasing highly structured tranches of mortgage securities that substantially limit the effects of prepayment risk, by issuing a combination of callable and non-callable debt with varying maturities, and/or by using interest rate derivative instruments to offset prepayment risk specific both to particular securities and to the overall mortgage portfolio.

The Bank uses a variety of risk measurements to monitor its interest rate risk. The Bank has made a substantial investment in sophisticated financial modeling systems to measure and analyze interest rate risk. These systems enable the Bank to routinely and regularly measure interest rate risk metrics, including the sensitivity of its market value of equity and income under a variety of interest rate scenarios. Management regularly monitors the information derived from these models and provides the Bank's Board of Directors with risk measurement reports. The Bank uses these periodic assessments, in combination with its evaluation of the factors influencing the results, when developing its funding and hedging strategies.

The Bank's Enterprise Market Risk Management Policy provides a risk management framework for the financial management of the Bank consistent with the strategic principles outlined in its Strategic Business Plan. The Bank develops its funding and hedging strategies to manage its interest rate risk within the risk limits established in its Enterprise Market Risk Management Policy.

### **Business Objectives**

The Bank serves as a financial intermediary between the capital markets and its members. In its most basic form, this intermediation process involves raising funds by issuing consolidated obligations in the capital markets and lending the proceeds to member institutions at slightly higher rates. The interest spread between the cost of the Bank's liabilities and the yield on its assets, combined with the earnings on its invested capital, are the Bank's primary sources of earnings. The Bank's primary asset liability management goal is to manage its assets and liabilities in such a way that its current and projected net interest spread (excluding fair value hedge ineffectiveness, net prepayment fees on advances, gains associated with GSE CMBS prepayments, and net price alignment income/expense on cleared derivatives) is relatively consistent across a wide range of interest rate environments, although the Bank may occasionally take actions that are not necessarily consistent with this objective for short periods of time in response to unusual market conditions.

The objective of maintaining a stable interest spread is complicated under normal conditions by the fact that the intermediation process outlined above cannot be executed for all of the Bank's assets and liabilities on an individual basis. In the course of a typical business day, the Bank continuously offers a wide range of fixed and floating rate advances with maturities ranging from overnight to 40 years that members can borrow in amounts that meet their specific funding needs at any given point in time. At the same time, the Bank issues consolidated obligations to investors who have their own set of investment objectives and preferences for the terms and maturities of securities that they are willing to purchase.

Because it is not possible to consistently issue debt simultaneously with the issuance of an advance to a member in the same amount and with the same terms as the advance, or to predict what types of advances members might want or what types of consolidated obligations investors might be willing to buy on any particular day, the Bank must have a ready supply of funds on hand at all times to meet member advance demand.

In order to have a ready supply of funds, the Bank typically issues debt as opportunities arise in the market, and makes the proceeds of those debt issuances (some of which bear fixed interest rates and have relatively long maturities) available for members to borrow in the form of advances. Holding fixed-rate liabilities in anticipation of member borrowing subjects the Bank to interest rate risk, and there is no assurance in any event that members will borrow from the Bank in quantities or maturities that will match these warehoused liabilities. Therefore, in order to intermediate the mismatches between advances with certain terms and features, and consolidated obligations with a different set of terms and features, the Bank typically converts both longer maturity assets and longer maturity liabilities to a floating rate index, and attempts to manage the interest spread between the pools of floating-rate assets and liabilities. The Bank typically uses SOFR when converting longer-maturity assets and liabilities to a floating rate index.

This process of intermediating the timing, structure, and amount of Bank members' credit needs with the investment requirements of the Bank's creditors is made possible by the extensive use of interest rate exchange agreements. The Bank's general practice has been, as often as practical, to contemporaneously execute interest rate exchange agreements when acquiring longer maturity fixed-rate assets and/or issuing longer maturity fixed-rate liabilities in order to convert the cash flows to floating rates. Doing so reduces the Bank's interest rate risk exposure, which allows it to preserve the value of, and earn more stable returns on, members' capital investment.

However, in the normal course of business, the Bank also acquires (or has acquired) assets whose structural characteristics and/or size reduce the Bank's ability to enter into interest rate exchange agreements having mirror image terms. These assets include small fixed-rate, fixed-term advances; small fixed-schedule amortizing advances; and floating-rate mortgage-related securities with embedded caps. These assets require the Bank to employ risk management strategies in which the Bank hedges against aggregated risks. The Bank may use fixed-rate, callable or non-callable debt or interest rate exchange agreements, such as fixed-for-floating interest rate swaps or interest rate caps, to manage these aggregated risks.

### **Interest Rate Risk Measurement**

As discussed above, the Bank measures its market risk regularly and generally manages its market risk within its Enterprise Market Risk Management Policy limits on estimated market value of equity losses under 200 basis point interest rate shock scenarios. The Enterprise Market Risk Management Policy articulates the Bank's tolerance for the amount of overall interest rate risk the Bank will assume by limiting the maximum estimated loss in market value of equity that the Bank would incur under simulated 200 basis point changes in interest rates to 15 percent of the estimated base case market value. The Bank was in compliance with this limit at each month-end during the period from December 2022 through December 2023.

As part of its ongoing risk management process, the Bank calculates an estimated market value of equity for a base case interest rate scenario and for interest rate scenarios that reflect parallel interest rate shocks. The base case market value of equity is calculated by determining the estimated fair value of each instrument on the Bank's balance sheet, and subtracting the estimated aggregate fair value of the Bank's liabilities from the estimated aggregate fair value of the Bank's assets. For purposes of these calculations, mandatorily redeemable capital stock is treated as equity rather than as a liability. The fair values of the Bank's financial instruments (both assets and liabilities) are determined using either vendor prices or a pricing model. For those instruments for which a pricing model is used, the calculations are based upon parameters derived from market conditions existing at the time of measurement, and are generally determined by discounting estimated future cash flows at the replacement (or similar) rate for new instruments of the same type with the same or very similar characteristics. The market value of equity calculations include non-financial assets and liabilities, such as premises and equipment, other assets, payables for AHP, and other liabilities at their recorded carrying amounts.

For purposes of compliance with the Bank's Enterprise Market Risk Management Policy limit on estimated losses in market value, market value of equity losses are defined as the estimated net sensitivity of the value of the Bank's equity (the net value of its portfolio of assets, liabilities and interest rate derivatives) to 200 basis point parallel shifts in interest rates. In addition, the Bank routinely performs projections of its future earnings over a rolling horizon that includes the current year and the next four calendar years under a variety of interest rate and business environments.

The following table provides the Bank's estimated base case market value of equity and its estimated market value of equity under up and down 200 basis point interest rate shock scenarios (and, for comparative purposes, its estimated market value of equity under up and down 100 basis point interest rate shock scenarios) for each quarter-end during the period from December 2022 through December 2023. In addition, the table provides the percentage change in estimated market value of equity under each of these shock scenarios for the indicated periods.

### MARKET VALUE OF EQUITY

(dollars in billions)

	Base Case Market Value of Equity	Up 200 Basis Points <sup>(1)</sup>		Down 200 Basis Points <sup>(2)</sup>		Up 100 Basis Points <sup>(1)</sup>		Down 100 Basis Points <sup>(2)</sup>	
		Estimated Market Value of Equity	Percentage Change from Base Case	Estimated Market Value of Equity	Percentage Change from Base Case	Estimated Market Value of Equity	Percentage Change from Base Case	Estimated Market Value of Equity	Percentage Change from Base Case
December 2022	\$ 6.237	\$ 6.324	1.39 %	\$ 5.952	(4.57)%	\$ 6.300	1.01 %	\$ 6.122	(1.84)%
March 2023	8.712	8.825	1.29 %	8.410	(3.47)%	8.787	0.85 %	8.586	(1.45)%
June 2023	8.831	8.818	(0.15)%	8.739	(1.04)%	8.831	— %	8.787	(0.50)%
September 2023	7.729	7.722	(0.09)%	7.692	(0.48)%	7.738	0.12 %	7.701	(0.36)%
December 2023	7.445	7.404	(0.55)%	7.453	0.11 %	7.440	(0.07)%	7.454	0.12 %

<sup>(1)</sup> In the up 100 and 200 basis point scenarios, the estimated market value of equity is calculated under assumed instantaneous +100 and +200 basis point parallel shifts in interest rates.

<sup>(2)</sup> In the down 100 and 200 basis point scenarios, the estimated market value of equity is calculated under assumed instantaneous -100 and -200 basis point parallel shifts in interest rates, subject to a floor of 0.01 percent.

A related measure of interest rate risk is duration of equity. Duration is the weighted average maturity (typically measured in months or years) of an instrument's cash flows, weighted by the present value of those cash flows. As such, duration provides an estimate of an instrument's sensitivity to small changes in market interest rates. The duration of assets is generally expressed as a positive figure, while the duration of liabilities is generally expressed as a negative number. The change in value of a specific instrument for given changes in interest rates will generally vary in inverse proportion to the instrument's duration. As market interest rates decline, instruments with a positive duration are expected to increase in value, while instruments with a negative duration are expected to decrease in value. Conversely, as interest rates rise, instruments with a positive duration are expected to decline in value, while instruments with a negative duration are expected to increase in value.

The values of instruments having relatively longer (or higher) durations are more sensitive to a given interest rate movement than instruments having shorter durations; that is, risk increases as the absolute value of duration lengthens. For instance, the value of an instrument with a duration of three years will theoretically change by three percent for every one percentage point (100 basis point) change in interest rates, while the value of an instrument with a duration of five years will theoretically change by five percent for every one percentage point change in interest rates.

The duration of individual instruments may be easily combined to determine the duration of a portfolio of assets or liabilities by calculating a weighted average duration of the instruments in the portfolio. These combinations provide a single straightforward metric that describes the portfolio's sensitivity to interest rate movements. These additive properties can be applied to the assets and liabilities on the Bank's balance sheet. The difference between the combined durations of the Bank's assets and the combined durations of its liabilities is sometimes referred to as duration gap and provides a measure of the relative interest rate sensitivities of the Bank's assets and liabilities.

Duration gap is a useful measure of interest rate sensitivity but does not account for the effect of leverage, or the effect of the absolute duration of the Bank's assets and liabilities, on the sensitivity of its estimated market value of equity to changes in interest rates. The inclusion of these factors results in a measure of the sensitivity of the value of the Bank's equity to changes in market interest rates referred to as the duration of equity. Duration of equity is the market value weighted duration of assets minus the market value weighted duration of liabilities divided by the market value of equity.

The significance of an entity's duration of equity is that it can be used to describe the sensitivity of the entity's market value of equity to movements in interest rates. A duration of equity equal to zero would mean, within a narrow range of interest rate movements, that the Bank had neutralized the impact of changes in interest rates on the market value of its equity.

A positive duration of equity would mean, within a narrow range of interest rate movements, that for each one year of duration the estimated market value of the Bank's equity would be expected to decline by about 0.01 percent for every positive 0.01 percent change in the level of interest rates. A positive duration generally indicates that the value of the Bank's assets is more sensitive to changes in interest rates than the value of its liabilities (i.e., that the duration of its assets is greater than the duration of its liabilities).

Conversely, a negative duration of equity would mean, within a narrow range of interest rate movements, that for each one year of negative duration the estimated market value of the Bank's equity would be expected to increase by about 0.01 percent for every positive 0.01 percent change in the level of interest rates. A negative duration generally indicates that the value of the Bank's liabilities is more sensitive to changes in interest rates than the value of its assets (i.e., that the duration of its liabilities is greater than the duration of its assets).

The following table provides information regarding the Bank's base case duration of equity as well as its duration of equity in up and down 100 and 200 basis point interest rate shock scenarios for each quarter-end during the period from December 2022 through December 2023.

**DURATION ANALYSIS**  
(expressed in years)

	Base Case Interest Rates				Duration of Equity			
	Asset Duration	Liability Duration	Duration Gap	Duration of Equity	Up 100 <sup>(1)</sup>	Up 200 <sup>(1)</sup>	Down 100 <sup>(2)</sup>	Down 200 <sup>(2)</sup>
December 2022	0.16	(0.26)	(0.10)	(1.52)	(0.60)	(0.17)	(2.25)	(3.38)
March 2023	0.16	(0.23)	(0.07)	(1.15)	(0.57)	(0.31)	(1.77)	(2.30)
June 2023	0.15	(0.17)	(0.02)	(0.20)	0.12	0.22	(0.57)	(0.57)
September 2023	0.15	(0.17)	(0.02)	(0.30)	0.04	0.28	(0.21)	(0.20)
December 2023	0.17	(0.18)	(0.01)	(0.02)	0.18	0.59	0.04	(0.28)

<sup>(1)</sup> In the up 100 and up 200 basis point scenarios, the duration of equity is calculated under assumed instantaneous +100 and +200 basis point parallel shifts in interest rates.

<sup>(2)</sup> In the down 100 and down 200 basis point scenarios, the duration of equity is calculated under assumed instantaneous -100 and -200 basis point parallel shifts in interest rates.

**Interest Rate Risk Components**

The Bank manages the interest rate risk of a significant percentage of its assets and liabilities on a transactional basis. Using interest rate exchange agreements, the Bank pays (in the case of an asset) or receives (in the case of a liability) a coupon that is identical or nearly identical to the balance sheet item, and receives or pays in return, respectively, a floating rate such as SOFR. The combination of the interest rate exchange agreement with the balance sheet item has the effect of reducing the duration of the asset or liability to the term to maturity of the floating rate index.

In the normal course of business, the Bank also acquires assets whose structural characteristics and/or size limit the Bank's ability to enter into interest rate exchange agreements having mirror image cash flows. These assets include fixed-rate, fixed-schedule, amortizing advances and mortgage-related assets. The Bank manages the interest rate risk of these assets by issuing non-callable liabilities, and by entering into interest rate exchange agreements that are not designated against specific assets or liabilities for accounting purposes (stand-alone or economic derivatives). These hedging transactions serve to preserve the value of the asset and minimize the impact of changes in interest rates on the spread between the asset and liability due to maturity mismatches.

In the normal course of business, the Bank may issue fixed-rate advances in relatively small sizes (e.g., \$1.0 — \$5.0 million) that are too small to efficiently hedge on an individual basis. These advances may require repayment of the entire principal at maturity or may have fixed amortization schedules that require repayment of portions of the original principal each month or at other specified intervals over their term. This activity tends to extend the Bank's duration of equity over time. To monitor and hedge this risk, the Bank periodically evaluates the amount of its unhedged advances and may issue a corresponding amount of fixed-rate debt with similar maturities or enter into interest rate swaps to offset the interest rate risk created by the pool of fixed-rate assets.

In practice, management analyzes a variety of factors in order to assess the suitability of the Bank's interest rate exposure within the established risk limits. These factors include current and projected market conditions, including possible changes in the level, shape, and volatility of the term structure of interest rates, possible changes to the composition of the Bank's balance sheet, and possible changes in the delivery channels for the Bank's assets, liabilities, and hedging instruments. Many of these same variables are also included in the Bank's income modeling processes. While management considered the Bank's interest rate risk profile to be appropriate given market conditions during 2023, the Bank may adjust its exposure to market interest rates based on the results of its analyses of the impact of these conditions on future earnings.

As noted above, the Bank typically manages interest rate risk on a transaction by transaction basis as much as possible. To the extent that the Bank finds it necessary or appropriate to modify its interest rate risk position, it would normally do so through

one or more cash or interest rate derivative transactions, or a combination of both. For instance, if the Bank wished to shorten its duration of equity, it would typically do so by issuing additional fixed-rate debt with maturities that correspond to the maturities of specific assets or pools of assets that have not previously been hedged. This same result might also be implemented by executing one or more interest rate swaps to convert specific assets from a fixed rate to a variable rate of interest. A similar approach would be taken if the Bank determined it was appropriate to extend rather than shorten its duration.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Bank's annual audited financial statements for the years ended December 31, 2023, 2022 and 2021, together with the notes thereto and the report of PricewaterhouseCoopers LLP thereon, are included in this Annual Report on pages F-1 through F-57.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

The Bank's management, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Bank's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, the Bank's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Bank's disclosure controls and procedures were effective in: (1) recording, processing, summarizing and reporting information required to be disclosed by the Bank in the reports that it files or submits under the Exchange Act within the time periods specified in the SEC's rules and forms and (2) ensuring that information required to be disclosed by the Bank in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Bank's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

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

Management's Report on Internal Control over Financial Reporting as of December 31, 2023 is included herein on page F-2. The Bank's independent registered public accounting firm, PricewaterhouseCoopers LLP, has also issued a report regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2023, which is included herein on page F-3.

### **Changes in Internal Control over Financial Reporting**

There were no changes in the Bank's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

## **ITEM 9B. OTHER INFORMATION**

Not applicable.

## **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

## **PART III**

## **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

### **Directors**

Pursuant to the HER Act, each FHLBank is governed by a board of directors of 13 persons or so many persons as the Director of the Finance Agency may determine. The HER Act divides directors of FHLBanks into two categories. The first category is comprised of "member" directors who are elected by the member institutions of each state in the FHLBank's district to

represent that state. The second category is comprised of “independent” directors who are nominated by a FHLBank’s board of directors, after consultation with its affordable housing Advisory Council, and elected by the FHLBank’s members at-large.

Pursuant to the HER Act and an implementing Finance Agency regulation, member directors must constitute a majority of the members of the board of directors of each FHLBank and independent directors must constitute at least 40 percent of the members of each board of directors. At least two of the independent directors must be public interest directors with more than four years’ experience representing consumer or community interests in banking services, credit needs, housing, or consumer financial protections. Annually, the Board of Directors of the Bank is required to determine how many of its independent directorships should be designated as public interest directorships, provided that the Bank at all times has at least two public interest directorships. By order of the Finance Agency on June 5, 2023, the Director of the Finance Agency designated that, for 2024, the Bank would have nine member directors and seven independent directors, a decrease of one independent director from 2023. With respect to the director elections that the Bank conducted during calendar year 2023, for terms beginning January 1, 2024, the order designated that one member director would be elected in Texas and two independent directors would be elected.

The term of office of each directorship is four years. Director terms commence on January 1 (except in instances where a vacancy is filled, as further discussed below) and end on December 31. Directors (both member and independent) cannot serve more than three consecutive full terms for which they have been elected by the Bank’s members.

### *Member Directors*

Each year the Finance Agency designates the number of member directorships for each state in the Bank’s district. The Finance Agency allocates the member directorships among the states in the Bank’s district as follows: (1) one member directorship is allocated to each state; (2) if the total number of member directorships allocated pursuant to clause (1) is less than eight, the Finance Agency allocates additional member directorships among the states using the method of equal proportions (which is the same equal proportions method used to apportion seats in the U.S. House of Representatives among states) until the total allocated for the Bank equals eight; (3) if the number of member directorships allocated to any state pursuant to clauses (1) and (2) is less than the number that was allocated to that state on December 31, 1960, the Finance Agency allocates such additional member directorships to that state until the total allocated to that state equals the number allocated to that state on December 31, 1960; and (4) after consultation with the Bank, the Finance Agency may approve additional discretionary member directorships. For 2024, the Finance Agency designated the Bank’s member directorships as follows: Arkansas – 1; Louisiana – 2 (the grandfather provision in clause (3) of the preceding sentence guarantees Louisiana two of the member directorships in the Bank’s district); Mississippi – 1; New Mexico – 1; and Texas – 4.

To be eligible to serve as a member director, a candidate must be: (1) a citizen of the United States and (2) an officer or director of a member institution that is located in the represented state and that meets all of the minimum capital requirements established by its federal or state regulator. For purposes of election of directors, a member is deemed to be located in the state in which a member’s principal place of business is located as of December 31 of the calendar year immediately preceding the election year (“Record Date”). In most cases, a member’s principal place of business is the state in which such member maintains its home office as established in conformity with the laws under which it is organized and from which the member conducts business operations; provided, however, a member may request in writing to the FHLBank in the district where such member maintains its home office that a state other than the state in which it maintains its home office be designated as its principal place of business. Within 90 calendar days of receipt of such written request, the board of directors of the FHLBank in the district where the member maintains its home office shall designate a state other than the state where the member maintains its home office as the member’s principal place of business, provided all of the following criteria are satisfied: (a) at least 80 percent of such member’s accounting books, records, and ledgers are maintained, located or held in such designated state; (b) a majority of meetings of such member’s board of directors and constituent committees are conducted in such designated state; and (c) a majority of such member’s five highest paid officers have their place of employment located in such designated state.

For an insurance company or CDFI member that cannot satisfy the requirements in the previous paragraph, the principal place of business is the location from which the member conducts the predominant portion of its business activities. A member will be deemed to conduct the predominant portion of its business activities in a particular state if any two of the following factors are present: (i) the member’s largest office based on number of employees is located in the state; (ii) a plurality of the institution’s employees are located in the state; or (iii) the places of employment for a plurality of the member’s senior executives are located in the state. If an entity cannot identify a location from which it conducts the predominant portion of its business activities based on the factors enumerated in the previous sentence, the entity’s state of domicile or incorporation shall be designated as its principal place of business.

Candidates for member directorships are nominated by members located in the state to be represented by that particular directorship. Member directors may be elected without a vote by members if the number of nominees from a state is equal to or less than the number of directorships to be filled from that state. In that case, the Bank will notify the members in the affected



voting state in writing (in lieu of providing a ballot) that the directorships are to be filled without an election due to a lack of nominees.

For each member directorship that is to be filled in an election, each member institution that is located in the state to be represented by the directorship is entitled to cast one vote for each share of capital stock that the member was required to hold as of the Record Date; provided, however, that the number of votes that any member may cast for any one directorship cannot exceed the average number of shares of capital stock that are required to be held as of the Record Date by all members located in the state to be represented. The effect of limiting the number of shares that a member may vote to the average number of shares required to be held by all members in the member's state is generally to equalize voting rights among members. Members required to hold the largest number of shares above the average generally have proportionately less voting power, and members required to hold a number of shares closer to or below such average have proportionately greater voting power than would be the case if each member were entitled to cast one vote for each share of stock it was required to hold. A member may not split its votes among multiple nominees for a single directorship, nor, where there are multiple directorships to be filled for a voting state, may it cumulatively vote for a single nominee. Any ballots cast in violation of these restrictions are void.

No shareholder meetings are held for the election of directors; the election process is conducted electronically using a third-party vendor experienced in administering secure, online elections. For members that choose to opt out of the electronic balloting process or that are unable for whatever reason to cast their votes electronically, the process is conducted by mail. The Bank's Board of Directors does not solicit proxies, nor are member institutions permitted to solicit or use proxies to cast their votes in an election. Except as set forth in the next sentence, no director, officer, employee, attorney or agent of the Bank may (i) communicate in any manner that a director, officer, employee, attorney or agent of the Bank, directly or indirectly, supports or opposes the nomination or election of a particular individual for a member directorship or (ii) take any other action to influence the voting with respect to any particular individual. A Bank director, officer, employee, attorney or agent may, acting in his or her personal capacity, support the nomination or election of any individual for a member directorship, provided that no such individual may purport to represent the views of the Bank or its Board of Directors in doing so.

In the event of a vacancy in any member directorship, such vacancy is to be filled by an affirmative vote of a majority of the Bank's remaining directors, regardless of whether such remaining directors constitute a quorum of the Bank's Board of Directors. A member director so elected shall satisfy the requirements for eligibility that were applicable to his or her predecessor and will fill the unexpired term of office of the vacant directorship.

#### *Independent Directors*

Independent directors are nominated by the Bank's Board of Directors after consultation with its affordable housing Advisory Council. Any individual who seeks to be an independent director of the Board of Directors of the Bank may deliver to the Bank, on or before the deadline set by the Bank, an executed independent director application form prescribed by the Finance Agency. Before announcing any independent director nominee, the Bank must deliver to the Finance Agency a copy of the independent director application forms executed by the individuals proposed to be nominated for independent directorships by the Board of Directors of the Bank. If within two weeks of such delivery the Finance Agency provides comments to the Bank on any independent director nominee, the Board of Directors of the Bank must consider the Finance Agency's comments in determining whether to proceed with that nominee or to reopen the nomination process. If within the two-week period the Finance Agency offers no comment on a nominee, the Bank's Board of Directors may proceed to nominate such nominee.

The Bank conducts elections for independent directorships in conjunction with elections for member directorships. Independent directors are elected by a plurality of the Bank's members at-large; in other words, all eligible members in every state in the Bank's district vote on the nominees for independent directorships. If the Bank's Board of Directors nominates only one individual for each independent directorship, then, to be elected, each nominee must receive at least 20 percent of the number of votes eligible to be cast in the election. If any independent directorship is not filled through this initial election process, the Bank must conduct the election process again until a nominee receives at least 20 percent of the votes eligible to be cast in the election. If, however, the Bank's Board of Directors nominates more persons for the type of independent directorship to be filled (either a public interest directorship or other independent directorship) than there are directorships of that type to be filled in the election, then the Bank will declare elected the nominee receiving the highest number of votes, without regard to whether the nominee received at least 20 percent of the number of votes eligible to be cast in the election. The same determinations and limitations that apply to the number of votes that any member may cast for a member directorship apply equally to the election of independent directors.

No shareholder meetings are held for the election of independent directors; the election process is conducted in the same manner as the election process for member directorships. The Bank's Board of Directors does not solicit proxies, nor are member institutions permitted to solicit or use proxies to cast their votes in an election. A Bank director, officer, employee, attorney or agent and the Bank's Board of Directors and affordable housing Advisory Council (including members of the Advisory Council) may support the candidacy of any individual nominated by the Board of Directors for election to an independent directorship, but may not otherwise (i) communicate in any manner that a director, officer, employee, attorney or

agent of the Bank, directly or indirectly, supports or opposes the nomination or election of a particular individual for an independent directorship or (ii) take any other action to influence the voting with respect to any particular individual.

As determined by the Bank, at least two of the independent directors must be public interest directors with more than four years' experience representing consumer or community interests in banking services, credit needs, housing, or consumer financial protections. The remainder of the independent directors must have demonstrated knowledge of or experience in one or more of the following areas: auditing and accounting; derivatives; financial management; organizational management; project development; risk management practices; or the law. The independent director's knowledge of or experience in the above areas should be commensurate with that needed to oversee a financial institution with a size and complexity that is comparable to that of the Bank.

In the event of a vacancy in any independent directorship occurring other than by failure of a sole nominee for an independent directorship to receive votes equal to at least 20 percent of all eligible votes, such vacancy is to be filled by an affirmative vote of a majority of the Bank's remaining directors, regardless of whether the remaining directors constitute a quorum of the Bank's Board of Directors. An independent director so elected shall satisfy the requirements for eligibility that were applicable to his or her predecessor and will fill the unexpired term of office of the vacant directorship. If the Board of Directors of the Bank is electing an independent director to fill the unexpired term of office of a vacant directorship, the Bank must deliver to the Finance Agency for its review a copy of the independent director application form of each individual being considered by the Bank's Board of Directors.

To be eligible to serve as an independent director, a person must be: (1) a citizen of the United States and (2) a resident in the Bank's district. Additionally, an independent director is prohibited from serving as an officer of any FHLBank or as an officer, employee or director of any member of the Bank, or of any recipient of advances from the Bank, except that an independent director may serve as an officer, employee or director of a holding company that controls one or more members of, or recipients of advances from, the Bank if the assets of all such members or recipients of advances constitute less than 35 percent of the assets of the holding company, on a consolidated basis. For these purposes, any officer position, employee position or directorship of the director's spouse is attributed to the director. An independent director must disclose to the Bank all officer, employee or director positions described above that the director or the director's spouse holds.

The Board of Directors has designated Dianne W. Bolen and Felipe A. Rael as the Bank's public interest directors.

## 2024 Directors

The following table sets forth certain information regarding each of the Bank's directors (ages are as of March 21, 2024):

Name	Age	Director Since	Expiration of Term as Director	Board Committees
A. Fred Miller, Jr., Chairman (Member)	74	2015	2026	(a)(b)(c)(d)(e)(f)(g)
Sally I. Nelson, Vice Chairman (Independent)	70	2014	2025	(a)(b)(c)(d)(e)(f)(g)
Karuna Annavajjala (Independent)	48	2024	2027	(a)(c)(d)
Dorsey L. Baskin, Jr. (Independent)	70	2020	2025	(a)(b)
Dianne W. Bolen (Independent)	75	2012	2026	(e)(f)(g)
Tim H. Carter (Member)	69	2013	2024	(b)(d)(e)(g)
Albert C. Christman (Member)	72	2014	2025	(a)(d)(g)
Rufus Cormier, Jr. (Independent)	76	2021	2024	(b)(c)(d)(f)
James D. Goudge (Member)	70	2014	2025	(a)(c)(e)(g)
W. Wesley Hoskins (Member)	72	2013	2024	(d)(e)(g)
Michael C. Hutsell (Member)	73	2014	2025	(a)(b)(c)(g)
Lorraine Palacios (Independent)	45	2023	2026	(a)(e)(f)
Christopher G. Palmer (Member)	54	2023	2026	(b)(c)(d)
Stephen Panepinto (Member)	71	2021	2024	(d)(e)(f)
Felipe A. Rael (Independent)	46	2020	2027	(a)(c)(f)
Brett F. Seybold (Member)	43	2024	2027	(a)(b)(f)

- (a) Member of Risk Management Committee
- (b) Member of Audit Committee
- (c) Member of Compensation and Human Resources Committee
- (d) Member of Strategic Planning, Operations and Technology Committee
- (e) Member of Government and External Affairs Committee
- (f) Member of Affordable Housing and Economic Development Committee
- (g) Member of Executive and Governance Committee

A. Fred Miller, Jr. is Chairman of the Board of Directors of the Bank and has served in that capacity since January 1, 2024. He has served as a director of the Bank continuously since 2015 and he previously served as a director of the Bank from 1997 to 2004. In 2002 and 2003, Mr. Miller served as Vice Chairman of the Bank's Board of Directors and in 2004 he served as Chairman of the Bank's Board of Directors. Mr. Miller serves as a director of Bank of Anguilla in Anguilla, Mississippi and has served in that capacity since 1986. He joined Bank of Anguilla, a member of the Bank, in 1971 and served as Chairman from January 2015 to January 2021. Since stepping down as Chairman, Mr. Miller has served as a consultant to Bank of Anguilla. From 1986 to January 2015, Mr. Miller served as President and Chief Executive Officer of Bank of Anguilla. From 2008 to January 2015, Mr. Miller also served as President and Chief Executive Officer of Pyramid Financial Corporation, Bank of Anguilla's privately held holding company. In addition, since 2008, Mr. Miller has served as a director of Pyramid Financial Corporation and, from January 2014 to January 2021, he served as Chairman of Pyramid Financial Corporation. Since January 2000, Mr. Miller has also served on the board of directors of Hope Enterprise Corporation. Mr. Miller currently serves on the Council of Federal Home Loan Banks and is a member of the Bank Directors' Committee of the Council of Federal Home Loan Banks. He also serves as Chairman of the Executive and Governance Committee of the Bank's Board of Directors.

Sally I. Nelson is Vice Chairman of the Board of Directors of the Bank and has served in that capacity since January 1, 2024. Ms. Nelson serves as Chairperson and Chief Executive Officer of Nextwave Ventures, a privately held real estate company located in Huntsville, Texas, and has served in such capacities since March 2015. From January 2013 until January 2014, Ms. Nelson served as an advisor to the Huntsville Memorial Hospital board of directors and as the chairman of the Huntsville Memorial Hospital Foundation. From 2007 until January 2013, Ms. Nelson served as Chief Executive Officer of Huntsville Memorial Hospital. Prior to that, she served as a board member and officer of the Greater Houston Area Chapter of the American Red Cross from 2005 to 2008. From 1986 to 2004, Ms. Nelson served as Executive Vice President, Chief Financial Officer and Chief Operations Officer of Texas Children's Hospital in Houston, Texas. From 1999 to 2005, she served as chair of the Finance and Audit committees of the United Way of Houston. Ms. Nelson is a Certified Public Accountant. She currently

serves on the Council of Federal Home Loan Banks and is a member of the Bank Directors' Committee of the Council of Federal Home Loan Banks. She also serves as Vice Chairman of the Executive and Governance Committee of the Bank's Board of Directors.

Karuna Annavajjala serves as Vice President and Chief Information Officer for Silicon Labs, a publicly held wireless technology company in Austin, Texas. She has served in this role since joining the company in May 2020. From October 2017 to May 2020, Ms. Annavajjala served as Chief Information Officer for Corporate Functions for American International Group, Inc. ("AIG"), a global provider of insurance and other financial services. Prior to joining AIG, she was employed by Teachers Insurance and Annuity Association of America ("TIAA"), where she served as Executive Director of IT Delivery from June 2014 to September 2017 and as Director, IT Shared Services from August 2012 to June 2014. From October 1999 to August 2012, Ms. Annavajjala served in various technology and technology consulting roles.

Dorsey L. Baskin, Jr. is a retired partner of Grant Thornton LLP. Mr. Baskin joined Grant Thornton in 2002 as an audit partner and served in that capacity until his retirement in 2016. From 2002 to 2011, he also served as one of the firm's five National Professional Practice Directors. Further, from 2011 until his retirement in 2016, Mr. Baskin served as the firm's National Assurance Innovation Managing Partner. Prior to joining Grant Thornton, Mr. Baskin spent 25 years with Arthur Andersen LLP. He joined Arthur Andersen's audit practice in 1977 and served as a partner from 1989 to 2002. In addition, Mr. Baskin served as a member of Arthur Andersen's Accounting Principles Group from 1987 to 1989, as National Technical Director and Regulatory Liaison for the Banking Industry Audit Practice from 1989 to 1999, and as Managing Director of the Global Assurance Professional Standards Group from 1999 to 2002. Beginning early in his career, Mr. Baskin specialized in the financial services industry. Over the course of his 39-year career in public accounting, he served on numerous task forces and committees in support of the accounting profession, was a frequent speaker on technical accounting and auditing topics, and authored numerous papers and articles on such topics. Since his retirement, Mr. Baskin has worked as an independent consultant and has from time to time served as an accounting expert witness. In November 2022, he received a certificate upon completing the requirements for "ESG: Navigating the Board's Role," an executive education program offered by the University of California Berkeley School of Law. He is a former board member and past chairman of the Dallas Summer Musicals, a non-profit theater presenter. Mr. Baskin is a Certified Public Accountant (Retired Status) and he currently serves as Vice Chairman of the Bank's Audit Committee.

Dianne W. Bolen served as Executive Director of the Mississippi Home Corporation in Jackson, Mississippi from 1997 until her retirement on December 31, 2014. The Mississippi Home Corporation is a state housing finance agency that provides rental and homeownership programs to persons of low to moderate income. Ms. Bolen joined the Mississippi Home Corporation in 1990. From 1990 to 1992, she served as Finance Director and from 1992 to 1997, she served as Deputy Executive Director. Ms. Bolen also served as Assistant Secretary Treasurer from 1990 until June 2014. From April 2015 to April 2017, she served as a consultant to the Mississippi Home Corporation. Ms. Bolen previously served on the board of directors of the National Council of State Housing Agencies ("NCSHA") and, until December 31, 2014, she co-chaired the NCSHA's Municipal Disclosure Task Force. Prior to her retirement, Ms. Bolen also served as a member of the National Mortgage Bankers Association and the Affordable Housing Tax Credit Coalition. She currently serves as Chairman of the Affordable Housing and Economic Development Committee of the Bank's Board of Directors. Ms. Bolen previously served on the Bank's affordable housing Advisory Council from 1998 through 1999 and from 2007 through 2009.

Based in Fort Worth, Texas, Tim H. Carter serves as a director of Southside Bank (a member of the Bank headquartered in Tyler, Texas) and has served in that capacity since December 17, 2014. From October 1, 2017 through December 31, 2020, Mr. Carter served as Executive Vice President and Development Officer of Southside Bank. From December 17, 2014 through September 30, 2017, he served as President, North Texas Region for Southside Bank. On December 17, 2014, Mr. Carter's then current employer, Fort Worth-based OmniAmerican Bank (then a member of the Bank) was merged with and into Southside Bank, a wholly-owned subsidiary of Southside Bancshares, Inc., Southside Bank's publicly traded holding company. Upon the closing of the merger, Mr. Carter became an officer of Southside Bank. From June 2007 until December 17, 2014, Mr. Carter served as a director, President and Chief Executive Officer of OmniAmerican Bank and its publicly traded holding company, OmniAmerican Bancorp, Inc. Immediately prior to the OmniAmerican Bank/Southside Bank merger, OmniAmerican Bancorp, Inc. was acquired by Southside Bancshares, Inc. Mr. Carter is a current member and immediate past chairman of the board of directors of Texas Wesleyan University. He is a past board member of the TCU Business School International Board of Visitors, the Van Cliburn Foundation, Lena Pope, the Fort Worth Club (for which he served as president), the Hill School (for which he served as chairman), North Texas LEAD (for which he also served as chairman), Safe City Commission and the North Texas Tollway Authority. Mr. Carter is a past president and chief executive officer of the United Way of Metropolitan Tarrant County and a former president of the Harris Methodist Health Foundation. He currently serves as Chairman of the Strategic Planning, Operations and Technology Committee of the Bank's Board of Directors.

Albert C. Christman serves as Chairman and Chief Executive Officer of Guaranty Bank & Trust Company of Delhi (a member of the Bank located in Delhi, Louisiana) and as Chairman and Chief Executive Officer of its privately held holding company, Delhi Bancshares, Inc. He has served as Chairman of Guaranty Bank & Trust Company of Delhi since November 2016 and as

Chief Executive Officer since 1986. From 1986 to November 2016, Mr. Christman also served as a director and President of Guaranty Bank & Trust Company of Delhi. He has served as Chairman of Delhi Bancshares, Inc. since January 2017 and as its Chief Executive Officer since 1986. From 1986 to January 2017, Mr. Christman also served as a director and President of Delhi Bancshares, Inc. Since 1987, Mr. Christman has also served on the boards of directors of First National Bankers Bank, a member of the Bank, and its privately held holding company, First National Bankers Bankshares, Inc. He is the founder of Delhi Charter School and Community Financial Insurance Center, LLC. Mr. Christman has served as Chairman of Community Financial Insurance Center, LLC since its inception in 2004. In addition, he serves as a director of Pecan Haven Addiction Center, LLC. Further, Mr. Christman serves as Chairman and Chief Executive Officer of Southern Fidelity Agency, Inc., a privately held insurance agency he founded in 1998. He is a past chairman of the Louisiana Bankers Association and he previously served as Chairman of the Delhi Charter School from its inception in 2001 to June 2022. Mr. Christman currently serves as Chairman of the Risk Management Committee of the Bank's Board of Directors.

Rufus Cormier, Jr. is a retired partner of the law firm of Baker Botts L.L.P. in Houston, Texas. As a corporate and banking/finance lawyer, he specialized in commercial lending, derivatives, securitizations, and asset purchase and sale transactions. Mr. Cormier joined Baker Botts L.L.P. in 1974 and was a partner from 1981 until his retirement in December 2012. Since 1992, he has served on the Board of Visitors of the MD Anderson Cancer Center. Previously, Mr. Cormier served as a commissioner of the Houston City Planning Commission and on the boards of directors of Memorial Hermann Hospital and the Memorial Hermann Healthcare System, St. John's School, the Center for American and International Law, the Texas Business Hall of Fame Foundation and the United Way for the Texas Gulf Coast. He is a past chairman of the board of regents of Texas Southern University, a past vice chairman of the board of directors of the Houston Bar Foundation and a past vice chairman of the American Red Cross (Greater Houston Chapter). Further, Mr. Cormier previously served on the executive committee of the board of directors of the Center for Houston's Future, the executive board of Southern Methodist University's School of Law and the executive committee of the Yale Law School Association. He currently serves as Vice Chairman of the Strategic Planning, Operations and Technology Committee of the Bank's Board of Directors.

James D. Goudge serves as Executive Vice President of Broadway National Bank in San Antonio, Texas and has served in that capacity since April 1, 2019. He joined Broadway National Bank, a member of the Bank, in 1989. Before stepping down in connection with a leadership succession plan, Mr. Goudge served as Chairman of Broadway National Bank from 2001 through March 31, 2019. From 2001 to 2016, he also served as Chief Executive Officer of Broadway National Bank. From 1998 to 2001, Mr. Goudge served as President and Chief Executive Officer. From 1989 to 1998, he served as Executive Vice President in charge of Broadway National Bank's Lending Division. From 2001 through March 31, 2019, Mr. Goudge also served as Chairman and Chief Executive Officer of Broadway Bancshares, Inc., Broadway National Bank's privately held holding company. Mr. Goudge previously served on the ABA's Membership Committee and its Government Relations Committee. He is also a past chairman of the Texas Bankers Association. Mr. Goudge currently serves as Chairman of the Compensation and Human Resources Committee and as Vice Chairman of the Risk Management Committee of the Bank's Board of Directors.

W. Wesley Hoskins serves as Chairman, President and Chief Executive Officer of First Community Bank (a member of the Bank located in Corpus Christi, Texas). Mr. Hoskins has served as Chairman since 2001, as President and Chief Executive Officer since 1997 and as a director since 1993. Since 1999, he has also served as Chairman of Coastal Bend Bancshares, Inc., First Community Bank's privately held holding company. In addition, Mr. Hoskins has served as a director and President of WBH Inc., a privately held real estate holding company in Premont, Texas since August 1996 and as President of LTF Holdings, Inc., a privately held real estate holding company in Corpus Christi, Texas since September 2010. He is a current member and past chairman of the Texas Bankers Association. Further, Mr. Hoskins presently serves as chairman of the ABA's BankPac Committee and as chairman of the Corpus Christi Chamber of Commerce. He currently serves as Chairman of the Government and External Affairs Committee of the Bank's Board of Directors.

Michael C. Hutsell serves as a director of First Security Bank in Searcy, Arkansas and has served in that capacity since March 2006. Mr. Hutsell joined First Security Bank, a member of the Bank, in 1989 and served as President from March 2006 to December 2020. From January 2002 to March 2006, he served as Executive Vice President and from October 1996 to January 2002, he served as Operations Officer. Mr. Hutsell previously served on the boards of directors of Main Street Searcy, the City of Searcy Planning Commission, and the Sunshine School (a private school for students with developmental disabilities in Searcy, Arkansas) and he is a past chairman of the Searcy Chamber of Commerce and the Searcy Kiwanis Club. Mr. Hutsell currently serves as Chairman of the Bank's Audit Committee and as Vice Chairman of the Bank's Compensation and Human Resources Committee.

Lorraine Palacios serves as Managing Director, Co-Head National Housing Group, Head of Midwest, and Texas Group Senior Member for Samuel A. Ramirez & Co., Inc. ("Ramirez"), a nationwide, full-service investment bank, brokerage and advisory firm. Ms. Palacios joined Ramirez in January 2011 and has served in her current role since November 2016. From January 2011 to October 2016, she served as Senior Vice President. In her current role, Ms. Palacios provides investment banking coverage to general market municipal bond issuers in Texas and the Midwest and she co-leads Ramirez's national affordable housing practice which is concentrated in Texas, the Midwest and the Northeast. Prior to joining Ramirez, Ms. Palacios served as Vice

President - National Housing Public Finance Group for RBC Capital Markets, LLC from June 2008 to December 2010. From September 2001 to May 2008, Ms. Palacios served in various positions in the National Housing Public Finance Group at UBS Investment Bank. Ms. Palacios currently serves as a member of the Hispanic Scholarship Fund Austin Advisory Council and the Texas Chapter of Women in Public Finance Scholarship and Mentoring Committees. She is a past board member of the Municipal Advisory Council of Texas.

Christopher G. Palmer serves as a director, President and Chief Executive Officer of Pioneer Bank in Roswell, New Mexico. He joined Pioneer Bank, a member of the Bank, in November 2004 and has served as President and Chief Executive Officer since April 2019. From April 2017 to March 2019, Mr. Palmer served as President and Chief Operating Officer and from November 2004 to March 2017 he served as Senior Vice President and Chief Financial Officer. He has served as a director of Pioneer Bank since April 2017. Prior to joining Pioneer Bank, Mr. Palmer held various positions for The Citizens Bank in Farmington, New Mexico from September 1996 to October 2004. Mr. Palmer currently serves as the Past Chairman of the Independent Community Bankers Association of New Mexico and as Vice President of the Southeastern New Mexico Society of Certified Public Accountants. He previously served as President of the United Way of Chaves County, Chairman of the Roswell Chaves County Economic Development Corporation, Vice President of the United Way Foundation, Treasurer of the Community Foundation of Chaves County, Treasurer of the First Tee of the Pecos Valley and Treasurer of the Roswell Adult Center Foundation. Mr. Palmer is a Certified Public Accountant.

Stephen Panepinto serves as Chairman and Chief Executive Officer of Plaquemine Bank and Trust Company in Plaquemine, Louisiana. He joined Plaquemine Bank and Trust Company, a member of the Bank, in 1983 and has served as Chairman and Chief Executive Officer since 1998. Mr. Panepinto also served as President of Plaquemine Bank and Trust Company from 1998 to July 2023. He currently serves as chairman of the Civil Service Board representing the Police and Fire Departments for the city of Plaquemine. Mr. Panepinto previously served as a director of the Louisiana Bankers Association and as a director of the Community Bankers of Louisiana and he is a past chairman of the Iberville Chamber of Commerce. Mr. Panepinto currently serves as Vice Chairman of the Government and External Affairs Committee of the Bank's Board of Directors.

Felipe A. Rael serves as Executive Director of Sol Housing, a non-profit affordable housing developer of multifamily rental and owner-occupied homes for first-time homebuyers. He has served as Executive Director of Sol Housing, formerly known as the Greater Albuquerque Housing Partnership, since December 2014. Prior to joining Sol Housing, Mr. Rael served as Director of Housing Development for the New Mexico Mortgage Finance Authority from February 2009 to December 2014. From 2001 to 2008, Mr. Rael served in various positions in the mortgage finance industry. Until his election to the Bank's Board of Directors, Mr. Rael had served as a member of the Bank's affordable housing Advisory Council since January 2016 and as the Advisory Council's vice chair since January 2019. Mr. Rael currently serves as Vice Chairman of the Affordable Housing and Economic Development Committee of the Bank's Board of Directors.

Brett F. Seybold serves as Senior Vice President and Treasurer for the United Services Automobile Association ("USAA"), a financial services company headquartered in San Antonio, Texas. In addition, he serves as Senior Vice President and Treasurer for USAA Federal Savings Bank, USAA Casualty Insurance Company, USAA General Indemnity Company, Garrison Property & Casualty, Catastrophe Reinsurance Company, and USAA Life Insurance Company (all of which are wholly owned subsidiaries of USAA and members of the Bank). In this capacity, he is responsible for USAA's investments, capital, liquidity, capital market activities, stress testing, financial analytics and rating agency relationships in addition to treasury operations. Mr. Seybold joined USAA in June 2004 and has served as Senior Vice President and Treasurer since April 2018. From September 2021 to September 2023, he also served as USAA's Chief Transformation Officer. From February 2016 to April 2018, he served as Vice President of Enterprise Planning and Analysis and from October 2014 to February 2016, he served as Vice President of Strategic Solutions and Financial Planning and Analysis. Mr. Seybold held various asset/liability management, capital management, investment and capital markets positions from June 2004 to October 2014. He currently serves as a board member of Haven for Hope, a non-profit organization addressing the needs of the homeless. Until his election to the Bank's Board of Directors, Mr. Seybold served as the Chair of the Bank's Insurance Member Advisory Council. He is a Certified Financial Analyst Charterholder.

### **Audit Committee Financial Expert**

The Bank's Board of Directors has determined that Mr. Baskin qualifies as an "audit committee financial expert" as defined by SEC rules. The Bank is required by SEC rules to disclose whether Mr. Baskin is "independent" and, in making that determination, is required to apply the independence standards of a national securities exchange or an inter-dealer quotation system. For this purpose, the Bank has elected to use the independence standards of the New York Stock Exchange. The Bank's Board of Directors has determined that Mr. Baskin is independent under those standards. In addition, Mr. Baskin is independent under applicable Finance Agency regulations and under Rule 10A-3 of the Exchange Act related to the independence of audit committee members. For more information regarding director independence, see Item 13. Certain Relationships and Related Transactions, and Director Independence.

## Director Qualifications and Attributes

As more fully described above, the size of the Bank's Board of Directors, including the number of member directors and independent directors, is determined by the Finance Agency, subject to a minimum number of directors established by statute. Candidates for member directorships are nominated and elected by members located in the state to be represented by that particular directorship. The Bank's Board of Directors does not nominate member directors nor can it support or oppose the nomination or election of a particular individual for a member directorship. In the event of a vacancy in any member directorship, such vacancy is to be filled by an affirmative vote of a majority of the Bank's remaining directors, regardless of whether the remaining directors constitute a quorum of the Bank's Board of Directors.

Independent directors, on the other hand, are nominated by the Bank's Board of Directors (after consultation with its affordable housing Advisory Council) and are elected by a plurality of the Bank's members at-large. A vacancy in any independent directorship is similarly filled by an affirmative vote of a majority of the Bank's remaining directors, regardless of whether the remaining directors constitute a quorum of the Bank's Board of Directors.

In evaluating an independent director candidate (or a candidate to fill a vacancy in any member directorship), the Board of Directors considers factors that it has determined to be in the best interests of the Bank and its shareholders and which go beyond the statutory eligibility requirements, including the knowledge, experience, integrity and judgment of each candidate; the experience and competencies that the Board desires to have represented; each candidate's ability to devote sufficient time and effort to his or her duties as a director; geographic representation in the Bank's five-state district; prior tenure on the Board; the need to have at least two public interest directors from among the Bank's independent directors; and any core competencies or technical expertise necessary to staff committees of the Board of Directors. In addition, the Board of Directors assesses whether a candidate possesses the integrity, judgment, knowledge, experience, skills and expertise that are likely to enhance the Board's ability to manage and direct the affairs and business of the Bank including, when applicable, to enhance the ability of committees of the Board to fulfill their duties.

Each of the Bank's member directors and independent directors brings a unique background and strong set of skills to the Board, giving the Board as a whole competence and experience in a wide variety of areas, including corporate governance and board service, executive management, finance, accounting, information technology, cybersecurity, human resources, legal, risk management, affordable housing, economic development and government relations. Set forth below are the attributes of each of the Bank's independent directors that the Board of Directors considered important to his or her inclusion on the Board. The Board of Directors does not make any judgments with regard to its member directors who have been elected by the Bank's members, although the skills and experience of those directors may bear on the Board of Directors' decisions with regard to the competencies it seeks when nominating candidates for independent directorships or when filling vacancies in either member or independent directorships.

Ms. Anavajjala was elected by the Bank's members at-large to serve a four-year term that commenced on January 1, 2024. With over 20 years of experience in information technology and technology consulting, Ms. Annavajjala brings to the Board extensive experience in the areas of information technology, cybersecurity, project development, organizational management and risk management. She has served as Vice President and Chief Information Officer for Silicon Labs since May 2020. From October 2017 to May 2020, Ms. Annavajjala served as Chief Information Officer for Corporate Functions for AIG. Prior to joining AIG, she was employed by TIAA, where she served as Executive Director of IT Delivery from June 2014 to September 2017 and as Director, IT Shared Services from August 2012 to June 2014. From October 1999 to August 2012, Ms. Annavajjala served in various technology and technology consulting roles with Deloitte Consulting, Alliance Data, Insurance Services Office and Netmap Analytics, Inc.

Mr. Baskin was elected by the Bank's members at-large to serve a four-year term that commenced on January 1, 2022. He has served on the Bank's Board of Directors since November 30, 2020. Having spent 39 years with two international public accounting firms, where he specialized in the financial services industry, Mr. Baskin brings to the Board extensive experience in the areas of accounting, finance, internal controls and corporate governance. From 2002 until his retirement in 2016, Mr. Baskin served as an audit partner with Grant Thornton LLP. For nine years, he also served as one of the firm's five National Professional Practice Directors and, for five years, as the firm's National Assurance Innovation Managing Partner. Prior to joining Grant Thornton, Mr. Baskin spent 25 years at Arthur Andersen LLP. Over the course of his career, Mr. Baskin served on numerous task forces and committees in support of the accounting profession, was a frequent speaker on technical accounting and auditing topics, and authored numerous papers and articles on such topics. Mr. Baskin is a Certified Public Accountant (Retired Status).

Ms. Bolen was elected by the Bank's members at-large to serve a four-year term that commenced on January 1, 2023. She has served on the Bank's Board of Directors since November 5, 2012. Ms. Bolen brings to the Board extensive experience in the areas of affordable housing, community development, organizational management and finance. From 1997 until December 31, 2014, she served as the Executive Director of the Mississippi Home Corporation. From 1990 to 1992, she served as Finance Director and from 1992 to 1997, she served as Deputy Executive Director. From 1998 through 1999 and from 2007 through



2009, Ms. Bolen served as a member of the Bank’s affordable housing Advisory Council, which advises the Bank’s Board of Directors regarding opportunities for community revitalization through specialized community investment and affordable housing programs. Ms. Bolen previously served on the board of directors of the NCSHA and, until December 31, 2014, she co-chaired the NCSHA’s Municipal Disclosure Task Force.

Mr. Cormier was elected by the Bank’s Board of Directors to fulfill the unexpired term of an independent director effective December 14, 2021. As a corporate and banking/finance lawyer with Baker Botts L.L.P. for over 37 years, he brings extensive legal experience to the Board. Prior to his retirement in December 2012, Mr. Cormier specialized in the areas of commercial lending, derivatives, securitizations, and asset purchase and sale transactions. He also brings to the Board extensive experience in corporate governance and regulatory compliance matters. Further, Mr. Cormier has served on numerous boards of directors.

Ms. Nelson was elected by the Bank’s members at-large to serve a four-year term that commenced on January 1, 2022. She has served on the Bank’s Board of Directors since January 1, 2014. Ms. Nelson brings to the Board extensive experience in accounting, finance, organizational management, corporate governance and matters involving executive compensation. She currently serves as Chairperson and Chief Executive Officer of a privately held real estate company. From 2007 to January 2013, Ms. Nelson served as Chief Executive Officer of Huntsville Memorial Hospital. Prior to that, she served as Executive Vice President, Chief Financial Officer and Chief Operations Officer of Texas Children’s Hospital in Houston, Texas for 18 years. In addition, she has served on numerous boards of directors. Ms. Nelson is a Certified Public Accountant.

Ms. Palacios was elected by the Bank’s members at-large to serve a four-year term that commenced on January 1, 2023. She brings to the Board over 20 years of experience in public finance and affordable housing. As Managing Director, Co-Head National Housing Group, Head of Midwest, and Texas Group Senior Member for Ramirez, Ms. Palacios provides investment banking coverage to general market municipal bond issuers in Texas and the Midwest and she co-leads the firm’s national affordable housing practice. She is a past board member of the Municipal Advisory Council of Texas.

Mr. Rael was elected by the Bank’s members at-large to serve a four-year term that commenced on January 1, 2024. He has served on the Bank’s Board of Directors since March 6, 2020. With over 20 years of experience in the mortgage finance industry, Mr. Rael brings to the Board extensive experience in the areas of affordable housing, community development, organizational management and mortgage finance. Since December 2014, he has served as Executive Director of Sol Housing. From 2009 to 2014, he served as Director of Housing Development for the New Mexico Mortgage Finance Authority. From January 2016 until his election to the Bank’s Board of Directors, Mr. Rael served as a member of the Bank’s affordable housing Advisory Council, which advises the Bank’s Board of Directors regarding opportunities for community revitalization through specialized community investment and affordable housing programs. Mr. Rael served as vice chair of the Bank’s affordable housing Advisory Council from January 2019 until his election to the Bank’s Board of Directors.

### Executive Officers

Set forth below is certain information regarding the Bank’s executive officers (ages are as of March 21, 2024). The executive officers serve at the discretion of, and are elected annually by, the Bank’s Board of Directors.

Name	Age	Position Held	Officer Since
Sanjay Bhasin	55	President and Chief Executive Officer	2014
Brehan Chapman	47	Executive Vice President and Chief ESG and Administrative Officer	2009
Sandra Damholt	71	Executive Vice President and General Counsel	2010
Kelly Davis	56	Executive Vice President and Chief Risk Officer	2015
Tom Lewis	61	Executive Vice President and Chief Financial Officer	2003
Kalyan Madhavan	57	Executive Vice President and Chief Business Officer	2014
Gustavo Molina	51	Executive Vice President and Chief Banking and Digital Transformation Officer	2009
Jibo Pan	51	Executive Vice President and Head of Capital Markets	2014
Jeff Yeager	50	Executive Vice President and Chief Information Officer	2015
Michael Zheng	54	Executive Vice President and Chief Credit Officer	2015

Sanjay Bhasin serves as President and Chief Executive Officer of the Bank and has served in that capacity since he joined the Bank in May 2014. Prior to his employment with the Bank, Mr. Bhasin served as Executive Vice President, Members and Markets for the Federal Home Loan Bank of Chicago (the "Chicago Bank") from 2011 until May 2014. He joined the Chicago Bank in 2004 as Vice President, Mortgage Finance and was promoted to Senior Vice President, Mortgage Finance in 2007 and to Executive Vice President, Financial Markets in 2008, a position he held until his appointment as Executive Vice President, Members and Markets. Prior to joining the Chicago Bank, Mr. Bhasin was responsible for managing the interest rate risk associated with Bank One, NA’s mortgage pipeline holdings from 1999 to 2004. Mr. Bhasin currently serves on the Council of Federal Home Loan Banks and as a director of the FHLBanks Office of Finance.



Brehan Chapman serves as Executive Vice President and Chief ESG and Administrative Officer. In this capacity, Ms. Chapman has responsibility for the Bank's corporate communications, government and industry relations, human resources, property and facilities management, compliance, and environmental, social and governance ("ESG") function. She joined the Bank in December 2004 as a Content Management Specialist. In November 2005, Ms. Chapman was promoted to Corporate Communications Manager, a position she held until her appointment as Vice President and Director of Corporate Communications and External Affairs in July 2009. In November 2013, her responsibilities were expanded to include human resources. In April 2014, May 2014 and July 2022, Ms. Chapman's responsibilities were further expanded to include the Bank's compliance function, property and facilities management, and ESG oversight, respectively. Ms. Chapman also serves as the Bank's Corporate Secretary and has served in that capacity since February 2008. She was promoted to Senior Vice President in January 2012, to Chief Administrative Officer in February 2014, to Executive Vice President in January 2016 and to Chief ESG Officer in July 2022. Prior to joining the Bank, Ms. Chapman served as the Public Relations Manager for Waubesa Community College from 2001 to 2004.

Sandra Damholt serves as Executive Vice President and General Counsel of the Bank. Ms. Damholt joined the Bank in October 2009 as Deputy General Counsel, and was promoted to Vice President and General Counsel in October 2010. She was promoted to Senior Vice President in January 2014 and to Executive Vice President in January 2022. Prior to joining the Bank, Ms. Damholt served as Senior Vice President and General Counsel of Dovenmuehle Mortgage, Inc. from January 2008 through May 2009. From 2000 to 2007, Ms. Damholt served in several capacities for the Chicago Bank, including Deputy General Counsel and Director of Compliance and Ethics. Prior to that, Ms. Damholt served in various legal and management roles in the financial services industry, including 13 years with PNC Mortgage Corporation (formerly Sears Mortgage Corporation) and 3 years with the State of Oklahoma Department of Banking.

Kelly Davis serves as Executive Vice President and Chief Risk Officer of the Bank. In this capacity, Ms. Davis has responsibility for the Bank's market risk, operational risk and model risk management functions. In January 2017, her responsibilities were expanded to include income forecasting. She joined the Bank in August 2008 as a Senior Strategic Planning Analyst. In September 2013, Ms. Davis was promoted to Risk Reporting Manager, a position she held until her appointment as Director of Operational Risk Management and Enterprise Risk Management Reporting in July 2014. Ms. Davis was promoted to Chief Risk Officer in June 2015, to Senior Vice President in July 2015 and to Executive Vice President in January 2022. Prior to joining the Bank, she served in various consulting and management roles for Liberty Mutual Insurance Group from 2002 to 2008, as Assistant Treasurer of Georgia State University from 1999 to 2001, and in various audit positions from 1991 to 1999, including roles with KPMG LLP and the U.S. General Accounting Office, which is now known as the U.S. Government Accountability Office. Ms. Davis is a Certified Public Accountant.

Tom Lewis serves as Executive Vice President and Chief Financial Officer of the Bank. He joined the Bank in January 2003 as Vice President and Controller and was promoted to Senior Vice President in April 2004 and to Chief Accounting Officer in February 2005, a position he held until his appointment as Chief Financial Officer in June 2014. Mr. Lewis was promoted to Executive Vice President in January 2016. From May 2002 through December 2002, Mr. Lewis served as Senior Vice President and Chief Financial Officer for Trademark Property Company ("Trademark"), a privately held commercial real estate developer. Prior to joining Trademark, Mr. Lewis served as Senior Vice President, Chief Financial Officer and Controller for AMRESKO Capital Trust ("AMCT"), a publicly traded real estate investment trust, from February 2000 to May 2002. From AMCT's inception in 1998 until February 2000, he served as Vice President and Controller. Prior to that, Mr. Lewis served in a number of accounting and finance positions with AMRESKO, INC., a publicly traded financial services company, from 1995 to 1998 and Prentiss Properties Limited, Inc., a privately held commercial real estate company, from 1989 to 1995. From 1985 to 1989, he served as an auditor for Price Waterhouse LLP. Mr. Lewis is a Certified Public Accountant.

Kalyan Madhavan serves as Executive Vice President and Chief Business Officer of the Bank. He joined the Bank in August 2014 as Executive Vice President and Group Head, Members and Markets, a position he held until his appointment as Chief Business Officer in January 2020. While serving as Group Head, Members and Markets, Mr. Madhavan had overall responsibility for the Bank's treasury operations, member sales and community investment. With his appointment as Chief Business Officer, his areas of responsibility were expanded to include corporate strategy and oversight of the Bank's mortgage loan acquisition program. From April to November 2015, he also served as Interim Chief Information Officer. Prior to joining the Bank, Mr. Madhavan served as Senior Vice President and Co-Head, Members and Markets for the Chicago Bank, where he was responsible for asset acquisitions, funding, liquidity management, and marketing strategy. He joined the Chicago Bank in 2005 as a portfolio manager and was promoted to Assistant Vice President in 2006 and to Vice President in 2007. In 2008, he was appointed as Treasurer. In 2009, Mr. Madhavan was promoted to Senior Vice President and in 2011 his responsibilities were expanded to include member strategy and solutions. He served as Senior Vice President, Treasurer and Head of Member Strategy and Solutions from March 2012 until his appointment as Co-Head, Members and Markets in May 2014. Prior to joining the Chicago Bank, Mr. Madhavan served in various financial and operations management roles for 11 years in the credit card, airline and manufacturing industries.

Gustavo Molina serves as Executive Vice President and Chief Banking and Digital Transformation Officer. In this capacity, Mr. Molina oversees the Bank's member services, collateral services, correspondent operations, product management and safekeeping functions. He joined the Bank in April 2002 as Credit Operations Manager and was promoted to Credit and Collateral Vault Operations Manager in 2004, to Customer Operations and Support Manager in 2007 and to Director of Banking Operations in 2009, a position he held until his appointment as Chief Banking Operations Officer in February 2014. In February 2024, Mr. Molina's responsibilities were expanded to include the Bank's product management function and, in recognition of this additional responsibility, his title was changed to Chief Banking and Digital Transformation Officer. Mr. Molina served as a Vice President of the Bank from 2009 to 2011. He was promoted to Senior Vice President in 2011 and to Executive Vice President in January 2022. Prior to joining the Bank, Mr. Molina served as a Project Manager in the Operational Control and Risk Management Department of Fleet Bank Boston Financial (now Bank of America).

Jibo Pan serves as Executive Vice President and Head of Capital Markets of the Bank. As Head of Capital Markets, Mr. Pan has responsibility for the Bank's investment, funding and hedging activities. Mr. Pan joined the Bank in August 2014 as Senior Vice President and Head of Capital Markets and was promoted to Executive Vice President in January 2016. Prior to joining the Bank, Mr. Pan served as Senior Vice President for the Chicago Bank where he was responsible for overseeing that institution's hedging activities. He joined the Chicago Bank in 2002 as a Senior Quantitative Analyst and was promoted to Assistant Vice President in 2006 and to Vice President in 2007, a position he held until his appointment as Senior Vice President in 2008. In 2006 and 2007, Mr. Pan managed the Chicago Bank's option portfolio. From 1994 to 2000, Mr. Pan served in various engineering roles for Hewlett Packard/Agilent Technologies Medical Division in Qingdao, China.

Jeff Yeager serves as Executive Vice President and Chief Information Officer of the Bank. Mr. Yeager joined the Bank in November 2015 as Senior Vice President and Chief Information Officer and was promoted to Executive Vice President in January 2022. From 1999 to May 2015, Mr. Yeager served in various information technology positions for Horizon Lines, LLC ("Horizon LLC"), a wholly-owned subsidiary of Horizon Lines, Inc. ("Horizon"), a publicly traded provider of ocean transportation services. Among other roles, he served as Chief Information Officer from 2010 to 2015 and prior to that he served as Director of Technology from 2007 to 2010. Horizon was acquired by Matson, Inc. ("Matson") in May 2015. Mr. Yeager was employed by Matson until July 2015 at which time he joined The Pasha Group ("Pasha") as a consultant. Pasha had acquired a portion of Horizon's business prior to the Matson transaction. Mr. Yeager left Pasha to join the Bank. Prior to joining Horizon LLC, Mr. Yeager held various systems engineering positions with Electronic Data Systems from 1995 to 1999.

Michael Zheng serves as Executive Vice President and Chief Credit Officer of the Bank. In this capacity, Mr. Zheng has responsibility for the Bank's credit risk and enterprise risk modeling functions. He joined the Bank in July 2012 as Credit and Capital Risk Manager. In July 2014, Mr. Zheng was promoted to Director of Enterprise Risk Modeling and Analysis, a position he held until his appointment as Chief Credit Officer in January 2015. Mr. Zheng was promoted to Senior Vice President in July 2015 and to Executive Vice President in January 2022. Prior to joining the Bank, Mr. Zheng served as Director of Enterprise Risk Analytics for USAA, a member-owned diversified financial services organization, from 2010 to 2012. Mr. Zheng joined USAA in 2008 as Director of Modeling Analytics and he served in that role until his appointment as Director of Enterprise Risk Analytics. Prior to that, Mr. Zheng held risk management/risk modeling positions at Washington Mutual Bank (2005 to 2008) and CitiGroup, Inc. (2001 to 2005) and various other roles at Mitsui & Co., Ltd. in China and Japan (1994 to 1999). Mr. Zheng is a Certified Financial Risk Manager.

## **Relationships**

There are no family relationships among any of the Bank's directors or executive officers. Except as described above, none of the Bank's directors holds directorships in any company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of such Act or any company registered as an investment company under the Investment Company Act of 1940. There are no arrangements or understandings between any director or executive officer and any other person pursuant to which that director or executive officer was selected.

## **Code of Ethics**

The Board of Directors has adopted a code of ethics that applies to the Bank's President and Chief Executive Officer (its principal executive officer), the Bank's Executive Vice President and Chief Financial Officer (its principal financial and accounting officer) and specified management personnel within the Bank's Accounting Department (collectively, the Bank's "Financial Professionals").

Annually, the Bank's Financial Professionals are required to certify that they have read and will abide by the Code of Ethics for Financial Professionals. A copy of the Code of Ethics for Financial Professionals is filed as an exhibit to this report and is also available on the Bank's website at [www.fhfb.com](http://www.fhfb.com) by clicking on "About Us," then "Corporate Governance" and then "Code of Ethics for Financial Professionals."

The Board of Directors has also adopted a Code of Conduct and Ethics for Employees that applies to all employees of the Bank, including the Financial Professionals, and a Code of Conduct and Ethics and Conflict of Interest Policy for Directors that applies to all directors of the Bank (each individually a “Code of Conduct and Ethics” and together the “Codes of Conduct and Ethics”). The Codes of Conduct and Ethics embody the Bank’s commitment to high standards of ethical and professional conduct. The Codes of Conduct and Ethics set forth policies on standards for conduct of the Bank’s business, the protection of the rights of the Bank and others, and compliance with laws and regulations applicable to the Bank and its employees and directors. All employees and directors are required to annually certify that they have read and will abide by the applicable Code of Conduct and Ethics. A copy of the Code of Conduct and Ethics for Employees is available on the Bank’s website at [www.fhllb.com](http://www.fhllb.com) by clicking on “About Us,” then “Corporate Governance” and then “Code of Conduct and Ethics for Employees.” A copy of the Code of Conduct and Ethics and Conflict of Interest Policy for Directors is available on the Bank’s website by clicking on “About Us,” then “Corporate Governance” and then “Code of Conduct and Ethics and Conflict of Interest Policy for Directors.” Information on the Bank’s website does not constitute part of this report.

## **ITEM 11. EXECUTIVE COMPENSATION**

### **COMPENSATION DISCUSSION AND ANALYSIS**

The Compensation and Human Resources Committee of the Board of Directors (the “Committee”) has responsibility for, among other things, establishing, reviewing and monitoring compliance with our compensation philosophy. In support of that philosophy, the Committee is responsible for making recommendations regarding, and monitoring implementation of, compensation and benefit programs that are consistent with our short- and long-term business strategies and objectives. The Committee’s recommendations regarding our compensation philosophy and benefit programs are subject to the approval of our Board of Directors.

#### **Compensation Philosophy and Objectives**

The goal of our compensation program is to attract, retain, and motivate employees and executives with the requisite skills and experience to enable us to achieve our short- and long-term strategic business objectives. We attempt to accomplish this goal as it relates to our executive officers through a mix of base salary, short-term incentive awards and other benefit programs. While we believe that we offer a work environment in which employees can find attractive career challenges and opportunities, we also recognize that those employees have a choice regarding where they pursue their careers and that the compensation we offer may play a significant role in their decision to join or remain with us. As a result, we seek to deliver fair and competitive compensation for our employees, including the named executive officers identified in the Summary Compensation Table on page 103.

For 2023, our named executive officers were: Sanjay Bhasin, our President and Chief Executive Officer; Tom Lewis, our Executive Vice President and Chief Financial Officer; Kalyan Madhavan, our Executive Vice President and Chief Business Officer; Jibo Pan, our Executive Vice President and Head of Capital Markets; and Brehan Chapman, our Executive Vice President and Chief ESG and Administrative Officer.

For our executive officers, we attempt to align and weight total direct and indirect compensation with the prevailing competitive market and provide total compensation opportunities that are consistent with each executive’s responsibilities and individual performance and with our overall business results. For 2023 and prior years, the Committee and Board of Directors defined the competitive market for our executives as: (1) the other Federal Home Loan Banks (each individually a “FHLBank” and collectively with us, the “FHLBanks” and, together with the Office of Finance, a joint office of the FHLBanks, the “FHLBank System”); (2) commercial banks with \$20 billion or more in assets (including, to the extent data is available, the Federal Reserve Banks but excluding global investment banks); and (3) public proxy peers with assets between \$10 billion and \$20 billion. In addition to the other FHLBanks, we believed that the other institutions included in our peer group presented a breadth and level of complexity of operations that are generally comparable to our own.

In August 2023, the Finance Agency issued a Supervisory Letter that provides supplemental guidance to the FHLBanks regarding the comparative market data that should be used when setting the compensation of their executive officers. Consistent with that guidance, for 2024, the Committee and Board of Directors redefined the competitive market for our executives as (1) the other FHLBanks and (2) commercial financial services companies with assets between \$10 billion and \$20 billion (the “Primary Commercial Peer Group”). In instances where an executive officer position, for whatever reason, has fewer than nine like-for-like position matches using the Primary Commercial Peer Group, the competitive market is expanded to include commercial financial services companies with assets between \$20 billion and \$65 billion (the “Secondary Commercial Peer Group”). For companies in the Secondary Commercial Peer Group, like positions one or more levels down in those companies are used in the benchmarking analysis.

Generally, it is our overall intent to provide total direct compensation, comprised of base salary and targeted incentive opportunities, for our executive officers at or above the competitive market median for comparable positions.

### **Responsibility for Compensation Decisions**

The Board of Directors makes all decisions regarding the compensation of our President and Chief Executive Officer. The President and Chief Executive Officer's performance is reviewed annually by the full Board. The Committee is responsible for making recommendations to the Board of Directors regarding the President and Chief Executive Officer's compensation. The Board of Directors is responsible for reviewing and approving and has discretion to modify any of the Committee's recommendations regarding the President and Chief Executive Officer's compensation.

The President and Chief Executive Officer annually reviews the performance and has responsibility for making recommendations to the Committee regarding the compensation of our other executive officers. The Committee is responsible for reviewing and approving or disapproving the recommendations that are made by the President and Chief Executive Officer. The performance reviews for all of our executive officers are generally conducted in the latter part of each year and salary adjustments, if any, are typically made on January 1 of the following year.

The President and Chief Executive Officer can recommend to the Committee additional base salary adjustments at any time during the year if warranted based on market data, job performance and/or other factors, such as a change in job responsibilities. In the absence of a promotion or a change in an officer's job responsibilities, base salary adjustments on any date other than January 1 are rare.

The Board of Directors is responsible for approving our short-term incentive compensation plan known as the Variable Pay Program or VPP. The VPP provides all regular, full-time employees (except those who participate in our executive incentive plan) with the opportunity to earn an annual incentive award. The Committee is responsible for recommending annually to the Board of Directors the approval of the VPP for the next year and the performance goals that will be applicable for that year under the Corporate plan (including the addendums for our Capital Markets and Member Sales Departments) and the plan for our Internal Audit Department. The VPP plan goals for our Internal Audit Department are approved by our Audit Committee before Internal Audit's VPP plan is considered by the Committee.

Further, the Board of Directors is responsible for approving our executive incentive plan known as the EIP. As more fully described below in the section entitled "Elements of Executive Compensation," the EIP provides cash-based award opportunities to officers of the Bank who are voting members of our Executive Management Committee ("EMC"), which include, among other executive officers, each of our named executive officers. The Committee is responsible for recommending annually to the Board of Directors the approval of the EIP for the next year and the performance goals that will be applicable for that year, which goals were (in the case of all previous EIPs except the 2022 EIP), are (in the case of the 2024 EIP) and are expected to be (in future years) substantially the same as the goals for the Corporate VPP. In 2022, a performance goal with a percentage weight of 20 percent was modified for purposes of the 2022 VPP but was not modified for purposes of the 2022 EIP.

Acting upon recommendations from the Committee, the Board of Directors is also responsible for approving any proposed revisions to our defined benefit and defined contribution plans, our deferred compensation plans, our Reduction in Workforce Policy and any other benefit plan as the Committee or Board of Directors deems appropriate.

The Finance Agency requires us to provide advance notice of pending actions to be taken by the Committee or our Board of Directors with respect to any aspect of the compensation of one or more of our named executive officers. As part of the notification process, we are required to provide the proposed compensation actions and any supporting materials, including studies of comparable compensation.

### **Use of Compensation Consultants and Surveys**

Annually, we engage an independent compensation consultant to help ensure that our executive compensation program is both competitive and targeted at or above market-median compensation levels.

In August 2022 (for compensation to be paid in 2023), the Committee and Board of Directors engaged McLagan Partners ("McLagan") to conduct a competitive market pay study for all of our executive officers (the "2022 Pay Study"). The 2022 Pay Study involved an analysis of total direct compensation for benchmark jobs at a total of 133 institutions, including the other FHLBanks; the value of retirement plans and other benefits were not considered as part of the study. To account for differences in the size and scope of the benchmark jobs included in the study, low quartile data (25<sup>th</sup> percentile), median data (50<sup>th</sup> percentile) or high quartile data (75<sup>th</sup> percentile) was judgmentally selected for each of those jobs to develop a market composite benchmark for each of the positions held by our named executive officers. In the case of the commercial bank peers, divisional head comparisons were used to identify the jobs with the closest functional responsibilities to our named executive officers. In the case of the public proxy peers, executive to executive comparisons were made for the top five paid positions

and, conservatively, the 25<sup>th</sup> percentile was used for all of the comparable positions at those institutions. For purposes of our comparative analysis, total direct compensation within +/- 15 percent of the median market composite compensation was considered to be within the competitive market range. Total direct compensation within +/- 10 percent of the median market composite compensation was considered to be competitive.

### **Elements of Executive Compensation**

We rely upon a mix of base salary, annual incentive compensation (50 percent of which is deferred) and benefits to attract, retain and motivate our executive officers. As a cooperative whose stock can only be held by member institutions, we are precluded from offering equity-based compensation to our employees, including our executive officers.

On December 7, 2017, the Board of Directors, acting upon a recommendation from the Committee, approved our 2018 EIP, subject to the review of the Finance Agency. On January 4, 2018, the Finance Agency informed us that it did not object to the 2018 EIP. The 2018 EIP was effective as of January 1, 2018. The 2018 EIP provided for an annual award, 50 percent of which could be fully earned in 2018 and 50 percent of which could be fully earned in 2021. For Mr. Bhasin, the threshold, target and maximum award percentages in the 2018 EIP were 50 percent, 75 percent and 95 percent of base salary, respectively. For all of our other executive officers, the threshold, target and maximum award percentages in the 2018 EIP were 30 percent, 50 percent and 65 percent of base salary, respectively.

On December 6, 2018, the Board of Directors, acting upon a recommendation from the Committee, approved our 2019 EIP, subject to the review of the Finance Agency. On December 20, 2018, the Finance Agency informed us that it did not object to the 2019 EIP. The 2019 EIP was effective as of January 1, 2019. Like the 2018 EIP, the 2019 EIP provided for an annual award, 50 percent of which could be fully earned in 2019 and 50 percent of which could be fully earned in 2022. The threshold, target and maximum award percentages in the 2019 EIP were the same as those in the 2018 EIP.

On December 5, 2019, the Board of Directors, acting upon a recommendation from the Committee, approved our 2020 EIP (the "Proposed 2020 EIP"), subject to the review of the Finance Agency. In response to comments received from the Finance Agency, the Board, acting upon a recommendation from the Committee, approved a revision to the Proposed 2020 EIP (inclusive of the revision, the "2020 EIP") on February 27, 2020, subject again to review by the Finance Agency. On May 21, 2020, the Finance Agency informed the Bank that it did not object to the 2020 EIP. The 2020 EIP was effective as of January 1, 2020. Like previous EIPs, the 2020 EIP provided for an annual award, 50 percent of which could be fully earned in 2020 and 50 percent of which could be fully earned in 2023.

The threshold, target and maximum award percentages for our named executive officers are reviewed and approved annually by the Committee and Board of Directors. For 2020, the Committee and Board of Directors elected to increase the maximum award percentages for all of our executive officers and to increase the target award percentages for Messrs. Madhavan and Pan. In establishing these higher award percentages, the Committee and Board of Directors took into consideration the incentive opportunities that are available to similarly situated executives at the other FHLBanks and the results of a competitive market pay study that was conducted for us by McLagan in the latter part of 2019. For Mr. Bhasin, his maximum award percentage was increased from 95 percent to 100 percent. For Messrs. Madhavan and Pan, their maximum award percentage was increased from 65 percent to 80 percent. For Mr. Lewis and Ms. Chapman, their maximum award percentage was increased from 65 percent to 70 percent. The target award percentage for Messrs. Madhavan and Pan was increased from 50 percent to 60 percent. In summary, the threshold, target and maximum award percentages in the 2020 EIP were 50 percent, 75 percent and 100 percent of base salary, respectively, for Mr. Bhasin; 30 percent, 60 percent and 80 percent of base salary, respectively, for Messrs. Madhavan and Pan; and 30 percent, 50 percent and 70 percent of base salary, respectively, for Mr. Lewis and Ms. Chapman.

On December 3, 2020, the Board of Directors, acting upon a recommendation from the Committee, approved our 2021 EIP (the "2021 EIP"), subject to the review of the Finance Agency. On January 11, 2021, the Finance Agency informed us that it did not object to the 2021 EIP. The 2021 EIP was effective as of January 1, 2021. Like previous EIPs, the 2021 EIP provided for an annual award, 50 percent of which could be fully earned in 2021 and 50 percent of which can be fully earned in 2024. The other 50 percent of our executives' 2021 incentive opportunity was derived from the 2018 EIP Deferred Award. The threshold, target and maximum award percentages in the 2021 EIP were the same as those in the 2020 EIP.

On December 2, 2021, the Board of Directors, acting upon a recommendation from the Committee, approved our 2022 EIP, subject to the review of the Finance Agency. On January 31, 2022, the Finance Agency informed us that it did not object to the 2022 EIP. The 2022 EIP was retroactively effective as of January 1, 2022. Like previous EIPs, the 2022 EIP provided for an annual award, 50 percent of which could be fully earned in 2022 and 50 percent of which can be fully earned in 2025. The other 50 percent of our executives' 2022 incentive opportunity was derived from the 2019 EIP Deferred Award. The threshold, target and maximum award percentages in the 2022 EIP were the same as those in the 2021 EIP.

On December 1, 2022, the Board of Directors, acting upon a recommendation from the Committee, approved our 2023 EIP (the "Proposed 2023 EIP"), subject to the review of the Finance Agency. In response to comments received from the Finance

Agency, we made certain revisions to the Proposed 2023 EIP (inclusive of the revisions, the “2023 EIP”), subject again to review by the Finance Agency. On February 13, 2023, the Finance Agency informed us that it did not object to the 2023 EIP. The 2023 EIP was retroactively effective as of January 1, 2023. Like previous EIPs (and as more fully described in the "Incentive Compensation" section beginning on page 93 and the "Grants of Plan-Based Awards" section beginning on page 104), the 2023 EIP provided for an annual award, 50 percent of which could be fully earned in 2023 and 50 percent of which can be fully earned in 2026. The other 50 percent of our executives' 2023 incentive opportunity was derived from the 2020 EIP Deferred Award.

For 2023, the Committee and Board of Directors elected to increase the threshold, target and maximum incentive award percentages for all of our executive officers other than Mr. Bhasin. Mr. Bhasin's maximum award percentage (100 percent) was at that time the same as the maximum award percentage for all other FHLBank Presidents/CEOs and his threshold and target award percentages (50 percent and 75 percent, respectively) were equivalent to the median threshold and target award percentages for the FHLBank Presidents/CEOs. In establishing the higher award percentages for our other executives, the Committee and Board of Directors took into consideration the incentive opportunities that are available to similarly situated executives at the other FHLBanks and the results of the 2022 Pay Study. For Messrs. Madhavan and Pan, their threshold, target and maximum award percentages were increased from 30 percent, 60 percent and 80 percent, respectively, to 40 percent, 65 percent and 85 percent, respectively. For Mr. Lewis and Ms. Chapman, their threshold, target and maximum award percentages were increased from 30 percent, 50 percent and 70 percent, respectively, to 35 percent, 55 percent and 75 percent, respectively. The higher award percentages were either equal to or slightly above the median incentive opportunities for comparable positions at the other FHLBanks.

The threshold, target and maximum incentive award percentages set forth in the last six EIPs are summarized in the table below.

	Mr. Bhasin			Mr. Madhavan and Mr. Pan			Mr. Lewis and Ms. Chapman		
	Threshold	Target	Maximum	Threshold	Target	Maximum	Threshold	Target	Maximum
2018 EIP	50%	75%	95%	30%	50%	65%	30%	50%	65%
2019 EIP	50%	75%	95%	30%	50%	65%	30%	50%	65%
2020 EIP	50%	75%	100%	30%	60%	80%	30%	50%	70%
2021 EIP	50%	75%	100%	30%	60%	80%	30%	50%	70%
2022 EIP	50%	75%	100%	30%	60%	80%	30%	50%	70%
2023 EIP	50%	75%	100%	40%	65%	85%	35%	55%	75%

#### *Base Salary*

Base salary is one of several key components of our compensation program. We use the base salary element to provide the foundation of a fair and competitive compensation opportunity for each of our executive officers. Base salaries are reviewed annually in the fourth quarter for all of our officers and at other times as circumstances warrant. For our executive officers, we target base salary compensation at or above the market median base salary practices of our defined competitive market for those officers, although we maintain flexibility to deviate from market-median practices for individual circumstances, subject in all cases to review by the Finance Agency. In making base salary determinations, we also consider factors such as time in the position, prior related work experience, individual job performance, the position's scope of duties and responsibilities within our organizational structure and hierarchy, and how these factors compare to other similar positions within our defined competitive market.

In setting the base salaries for our named executive officers for 2023, the Committee and Board of Directors took into consideration, among other things, the results of the 2022 Pay Study which was conducted in the latter part of 2022. The results of this study showed that while the base salaries and incentives for our named executive officers were competitive on a look-back basis, they were below the median market composite benchmarks for their positions. Based on this information and the then prevailing inflation rate, the Committee approved, based upon Mr. Bhasin's recommendation, salary increases of 5.5 percent for Ms. Chapman and Messrs. Lewis, Madhavan and Pan. For 2023, the standard cost-of-living increase for our employees was 5.0 percent. In addition, we had a Bank-wide merit pool of 1.0 percent. The Committee wanted to give Mr. Bhasin a salary increase at least equal to the salary increases for the other named executive officers; however, Mr. Bhasin informed the Committee that he preferred to receive a lower salary increase so that the forgone compensation could be used to increase the merit pool available for our other employees. In response to this request, the Board of Directors, acting upon a recommendation from the Committee, decided to give Mr. Bhasin a salary increase of 4.8 percent.

The base salaries of our named executive officers are presented in the Summary Compensation Table on page 103.

## *Incentive Compensation*

The 2023 EIP provides cash-based award opportunities to all of our executive officers by means of an annual award ("Annual Award"). The Annual Award was based on the achievement of short-term performance goals for the period from January 1, 2023 through December 31, 2023 (the "2023 Performance Goals") and, for 50 percent of that award, the satisfaction of safety and soundness goals for the period from January 1, 2024 through December 31, 2026.

The 2023 Performance Goals that were used to calculate the Annual Award were established by the Board of Directors and fell into the following broad categories: (a) business activity and financial execution; (b) continuous improvement projects; (c) environmental, social and governance ("ESG") initiatives; (d) learning initiatives; and (e) affordable housing program operations. Each 2023 Performance Goal was assigned a specific percentage weight. For 2023 Performance Goals comprising 93 percent of the executives' 2023 Annual Award opportunity, each goal was assigned a "threshold," "target" and "stretch" objective. For 2023 Performance Goals comprising 7 percent of the executives' 2023 Annual Award opportunity, each goal was assigned only a "stretch" objective.

For Mr. Bhasin, the incentive factor for each 2023 Performance Goal could have been 0 percent (if the threshold objective was not met or, in those cases where there was not a threshold or target objective, the stretch objective was not met), 50 percent (if results were equal to the threshold objective for those 2023 Performance Goals that had a threshold objective), 75 percent (if results were equal to the target objective for those 2023 Performance Goals that had a target objective) or 100 percent (if results were equal to or greater than the stretch objective). For Messrs. Madhavan and Pan, the incentive factor for each 2023 Performance Goal could have been 0 percent (if the threshold objective was not met or, in those cases where there was not a threshold or target objective, the stretch objective was not met), 40 percent (if results were equal to the threshold objective for those 2023 Performance Goals that had a threshold objective), 65 percent (if results were equal to the target objective for those 2023 Performance Goals that had a target objective) or 85 percent (if results were equal to or greater than the stretch objective). For Mr. Lewis and Ms. Chapman, the incentive factor for each 2023 Performance Goal could have been 0 percent (if the threshold objective was not met or, in those cases where there was not a threshold or target objective, the stretch objective was not met), 35 percent (if results were equal to the threshold objective for those 2023 Performance Goals that had a threshold objective), 55 percent (if results were equal to the target objective for those 2023 Performance Goals that had a target objective) or 75 percent (if results were equal to or greater than the stretch objective).

Achievement levels between threshold and target and between target and stretch for each 2023 Performance Goal that had those achievement levels were interpolated in a manner as determined by the Committee. The results for each 2023 Performance Goal were multiplied by the assigned percentage weight to determine its contribution to the overall 2023 EIP goal percentage for each of our named executive officers. For example, if the target objective was achieved for a goal with a percentage weight of 20.0 percent, then the contribution of that goal to Mr. Bhasin's overall goal percentage would have been 15.0 percent (20.0 percent x 75 percent). For Messrs. Madhavan and Pan, the contribution of that same goal to their overall goal percentage would have been 13.0 percent (20.0 percent x 65 percent). For Mr. Lewis and Ms. Chapman, the contribution of that same goal to their overall goal percentage would have been 11.0 percent (20.0 percent x 55 percent). The percentages derived from this calculation for each 2023 Performance Goal were added together to derive each executive's overall goal percentage for the 2023 EIP, which percentage was then multiplied by the executive's 2023 base salary to determine his or her final Annual Award.

Generally, the Board of Directors has attempted to set the threshold, target and stretch objectives for our EIPs such that the relative difficulty of achieving each level is consistent from year to year.

For 2023, the Board of Directors established 14 separate performance goals, each of which had a specific percentage weight ranging from 1 percent to 30 percent. As further set forth in the table below, the goals relating to our business activity and financial execution objectives, continuous improvement projects, ESG initiatives, learning initiatives and affordable housing program operations comprised 40 percent, 30 percent, 15 percent, 10 percent and 5 percent, respectively, of our overall 2023 Performance Goals.

As more fully discussed in the section entitled "Grants of Plan-Based Awards" beginning on page 104, the Board of Directors could, among other things, adjust the 2023 Performance Goals to ensure the purposes of the 2023 EIP were served. In addition, the Board of Directors, in its discretion, could consider extraordinary occurrences when assessing performance results and determining award payments. Extraordinary occurrences mean those events that, in the opinion and at the discretion of the Board of Directors, are outside the significant influence of the executive or us and are likely to have a significant unanticipated effect, whether positive or negative, on our operating and/or financial results. Adjustments of any kind would be subject to review by the Finance Agency. No adjustments were made to the 2023 Performance Goals.

For 2023, we had as one of our goals growth in our retained earnings from adjusted net income. This measure of our net income excluded: (1) unrealized gains and losses on derivatives and hedging activities (including the exclusion of the related basis adjustments in the calculation of the gains or losses associated with the sale or prepayment of any of our previously hedged advances or investment securities) and (2) unrealized gains and losses on securities classified as trading. Further, to derive our

adjusted net income, our required AHP assessment was recalculated to incorporate the adjustments referred to in the preceding sentence.

**2023 EIP Objectives**  
(dollars in millions)

	Percentage Weight	Objective				Contribution to the Executive's Overall Goal Percentage		
		Threshold	Target	Stretch	Results	Mr. Bhasin	Mr. Madhavan and Mr. Pan	Mr. Lewis and Ms. Chapman
<b>Business Activity and Financial Execution</b>								
1. Daily Average Advances Outstanding	12 %	\$ 35,000	\$ 45,000	\$ 50,000	\$ 107,108	12.0000 %	10.2000 %	9.0000 %
2. MPF Assets Acquired (UPB)	6 %	\$ 500	\$ 750	\$ 1,000	\$ 1,033	6.0000 %	5.1000 %	4.5000 %
3. New Small Business Boost Commitments	2 %	\$ 2	\$ 3	\$ 4	\$ 3.62	1.8107 %	1.5486 %	1.3486 %
4. Growth in Retained Earnings from Adjusted Net Income	20 %	\$ 90	\$ 120	\$ 150	\$ 579.1	20.0000 %	17.0000 %	15.0000 %
	40 %					39.8107 %	33.8486 %	29.8486 %
<b>Continuous Improvement Projects (total points)</b>	30 %	83	110	138	121 units	25.4464 %	21.8571 %	18.8571 %
Develop Product Strategy and Initiative Roadmap (10 units)					10 units			
Resolve top initiatives from Product Strategy and Initiative Roadmap (3 units each per 100 story points - maximum 60 units)					60 units			
Design signature card self-service process (10 units)					10 units			
Implement signature card self-service process (20 units)					20 units			
Implement Federal Funds solution (25 units)					Incomplete			
DDA Implementation (20 units)					Incomplete			
Decommission virtualization environment (15 units)					15 units			
Decommission operating system environment (6 units)					Incomplete			
Develop IT Optimization Strategy (6 units)					6 units			
	30 %					25.4464 %	21.8571 %	18.8571 %
<b>ESG Initiatives</b>								
Environmental: Develop Roadmap for Climate Initiatives for 2023-2024	3 %	N/A	N/A	Complete	Complete	3.0000 %	2.5500 %	2.2500 %
Social: Diverse Summer Internship Program (% offers to minorities and women applicants)	3 %	40%	50%	60%	85%	3.0000 %	2.5500 %	2.2500 %
Social: Conduct Bank-wide DEI Development/ Training (% participation)	2 %	90%	95%	98%	100%	2.0000 %	1.7000 %	1.5000 %
Social: Bank-wide Project (% participation)	1 %	85%	90%	95%	95.5%	1.0000 %	0.8500 %	0.7500 %
Governance: Compile and Publish ESG Report	4 %	N/A	N/A	Complete	Complete	4.0000 %	3.4000 %	3.0000 %
Governance: ESG Training for Executive Team, ESG Management Committee and Subcommittees (% participation; count of certifications for stretch)	2 %	85%	98%	Target + 8 Certifications	100% + 13 certifications	2.0000 %	1.7000 %	1.5000 %
	15 %					15.0000 %	12.7500 %	11.2500 %
<b>Learning Initiatives</b>								
Internal: Build Knowledge/Skills Training Library	9 %	Approved Training Plan	Threshold +Content Creation for Level Zero	Target+ Content Creation for Level One	Target+ Content Creation for Level One	9.0000 %	7.6500 %	6.7500 %
External: Member Webinars (total attendees)	1 %	175	225	275	856	1.0000 %	0.8500 %	0.7500 %
	10 %					10.0000 %	8.5000 %	7.5000 %
<b>Affordable Housing Program Operations</b>								
Count of digitized and automated processes	5 %	Two by 9/30/23	Five by 12/31/23	Target+ Future Roadmap by November Planning Meeting	Target + Future Roadmap Completed	5.0000 %	4.2500 %	3.7500 %
<b>Overall 2023 EIP Goal Percentage</b>	<b>100 %</b>					<b>95.2571 %</b>	<b>81.2057 %</b>	<b>71.2057 %</b>

As shown in the table above, we achieved the stretch objective for 12 of the 14 performance goals. For each of the other 2 goals, which had a combined weighting of 32 percent, we achieved a level of performance between the target and stretch level. These results produced overall achievement rates for our named executive officers ranging from 94.9 percent to 95.5 percent



(calculated by dividing the executive's 2023 EIP goal percentage by his or her maximum award percentage). In comparison, the overall achievement rates for our named executive officers under the 2022 EIP, 2021 EIP, 2020 EIP, 2019 EIP and 2018 EIP were approximately 77 percent, 89 percent, 92 percent, 77 percent and 97 percent, respectively.

Because each named executive officer received a performance rating for 2023 of at least "Solid Performance," 50 percent of the executive's final Annual Award under the 2023 EIP (the "2023 Current Award") became earned and vested on December 31, 2023 and was payable no later than March 15, 2024. The remaining 50 percent of the executive's final Annual Award under the 2023 EIP (the "2023 Deferred Award") will become earned and vested on December 31, 2026 if the conditions described in the Grants of Plan-Based Awards section are satisfied.

The possible Annual Awards that could be earned by our named executive officers for 2023 are presented in the Grants of Plan-Based Awards section. The calculation of the Annual Awards earned by our named executive officers in 2023 is shown in the table below. The 2023 Current Awards are included in the Summary Compensation Table on page 103 in the column entitled "Non-Equity Incentive Plan Compensation."

Name	Base Salary as of January 1, 2023 (\$)	2023 EIP Goal Percentage	2023 EIP Annual Award (\$)	2023 EIP Current Award (\$)	2023 EIP Deferred Award (\$)
Sanjay Bhasin	1,026,104	95.2571 %	977,437	488,718	488,719
Tom Lewis	455,075	71.2057 %	324,039	162,020	162,019
Kalyan Madhavan	589,784	81.2057 %	478,938	239,469	239,469
Jibo Pan	465,016	81.2057 %	377,619	188,810	188,809
Brehan Chapman	402,193	71.2057 %	286,384	143,192	143,192

Each of our named executive officers participated in the 2020 EIP which, like the 2023 EIP discussed above, provided for a deferred award that was equal to 50 percent of the executive's final Annual Award under the 2020 EIP (the "2020 Deferred Award"). The following table shows the 2020 Deferred Awards with interest at 6 percent compounded annually over the period from January 1, 2021 through December 31, 2023 (the "2020 Deferral Performance Period"). The 2020 Deferred Awards, which are more fully discussed in the Compensation Discussion and Analysis section of our 2020 10-K, became earned and vested on December 31, 2023 because: (i) each of the named executive officers was actively employed by us on December 31, 2023; (ii) each of the named executive officers received a performance rating for 2023 of at least "Solid Performance"; and (iii) the safety and soundness goals set forth in the paragraph immediately following the table were satisfied during the 2020 Deferral Performance Period.

Name	2020 EIP Deferred Award (\$)	Interest on 2020 EIP Deferred Award (\$)	2020 EIP Deferred Award Including Interest (\$)
Sanjay Bhasin	429,084	81,962	511,046
Tom Lewis	132,136	25,240	157,376
Kalyan Madhavan	195,994	37,438	233,432
Jibo Pan	154,532	29,518	184,050
Brehan Chapman	116,781	22,307	139,088

The safety and soundness goals applicable to the 2020 Deferred Award that were met during the 2020 Deferral Performance Period were: (i) we had no material risk management deficiencies at the Bank; (ii) no operational errors or omissions resulted in material revisions to our financial results, information submitted to the Finance Agency, or data used to determine incentive payouts; (iii) no submission of material information to the SEC, the FHLBanks Office of Finance, and/or the Finance Agency was significantly past due; (iv) we made sufficient progress, as determined by the Board of Directors, in the timely remediation of significant examination, monitoring and other supervisory findings; and (v) we had sufficient capital to pay dividends and repurchase members' stock.

#### *Defined Benefit Pension Plan*

All regular employees hired prior to January 1, 2007 who work a minimum of 1,000 hours per year participate in the Pentegra Defined Benefit Plan for Financial Institutions ("Pentegra DB Plan"), a tax-qualified multiemployer defined benefit pension plan. The plan also covers any of our regular employees hired on or after January 1, 2007 who work a minimum of 1,000 hours per year, provided that the employee had prior service with a financial services institution that participated in the Pentegra DB Plan, during which service the employee was covered by such plan and also provided that, prior to January 1, 2008 or on and after April 1, 2023, the employee's break in service from his or her participation in the Pentegra DB Plan was not more than 12 months. Effective July 1, 2015, coverage was extended to include all of our non-highly compensated employees (as defined by Internal Revenue Service rules) who were hired on and after January 1, 2007 but before August 1, 2010 who work a minimum of 1,000 hours per year. Concurrently, we amended our participation in the Pentegra DB Plan such that some of the benefits offered by the plan were reduced prospectively (that is, on and after July 1, 2015) for employees who were hired prior to July 1, 2003. Under these participation rules, all of our named executive officers participate in the plan. Because this is a qualified

defined benefit plan, it is subject to certain compensation and benefit limitations imposed by the Internal Revenue Service. In 2023, the maximum compensation limit was \$330,000 and the maximum annual benefit limit was \$265,000. The pension benefit earned under the plan is based on the number of years of credited service (up to a maximum of 30 years) and compensation earned over an employee's 36 highest consecutive months of earnings. For employees hired prior to July 1, 2003, the high 36-month average compensation for purposes of the benefit earned prior to that date became fixed as of July 1, 2015. For employees hired on and after July 1, 2003, the high 36-month average compensation is calculated over the employee's entire participation period.

This element of our compensation program is one of several that constitute an integral part of our retention strategy, which is to reward tenure by linking it to compensation. It also represents an effort on our part to partially offset our inability to provide equity-based compensation to our employees. We consider this benefit to be a significant element of our compensation program as it pertains to our named executive officers and other key tenured employees. Based on this belief, we have elected to provide a benefit under this plan that we believe is at or near the median for comparable companies that offer this benefit, although we have not conducted any recent studies to confirm this.

The details of this plan and the accumulated pension benefits for our named executive officers can be found in the Pension Benefits Table and accompanying narrative on pages 107-109 of this report.

#### *Defined Contribution Savings Plan*

We offer all regular employees who work a minimum of 1,000 hours per year, including our executive officers, the opportunity to participate in the FHLBank of Dallas 401(k) Retirement Plan ("FHLB Dallas DC Plan"), a tax-qualified defined contribution plan. Because this is a qualified plan, it is subject to the maximum compensation limit set by the Internal Revenue Code, which for 2023 was \$330,000 per year. In addition, the combined calendar year contributions to a qualified defined contribution plan from both us and the employee are limited by the Internal Revenue Code. For 2023, combined contributions from both us and the employee to the FHLB Dallas DC Plan could not exceed \$66,000. The FHLB Dallas DC Plan includes a pre-tax 401(k) option along with an opportunity to make contributions on an after-tax basis. The limitation on combined contributions applies to an employee's pre-tax and after-tax contributions and any matching contributions we make on his or her behalf. The limitation on an employee's pre-tax contributions was \$22,500 for 2023. Employees who were age 50 or older could elect in 2023 to make additional pre-tax contributions (commonly known as catch-up contributions) of up to \$7,500. Catch-up contributions are not taken into account in applying the combined contribution limit which, for employees who were age 50 or older, was \$73,500 for 2023.

Subject to the limits prescribed by the Internal Revenue Code, employees can contribute up to 75 percent of their monthly base salary and up to 100 percent of their incentive compensation on either a pre-tax or after-tax basis.

For employees hired prior to January 1, 2019, we provide matching funds on the first 3 percent of eligible monthly base salary contributed by employees who are eligible to participate in the Pentegra DB Plan, and on the first 5 percent of eligible monthly base salary contributed by employees who are not eligible to participate in the Pentegra Defined Benefit Plan for Financial Institutions. In each case, our matching contribution is 0 percent in the first year of employment, 100 percent in the second and third years of employment, 150 percent in the next two years and 200 percent after the employee has completed five years of employment. For this purpose, an employee's length of service includes, if applicable, their service with a financial services institution that participated in the Pentegra Defined Contribution Plan for Financial Institutions ("Pentegra DC Plan"), during which service the employee was covered by such plan. The Pentegra DC Plan is a tax-qualified multiemployer defined contribution plan in which we participated prior to the establishment of the FHLB Dallas DC Plan in December 2018. Employees who are eligible to participate in the Pentegra DB Plan are fully vested in our matching contributions at the time such funds are deposited in their account. For employees who do not participate in the Pentegra DB Plan, there is a 2-6 year step vesting schedule for our matching contributions with the employee becoming fully vested after 6 years.

For employees hired on or after January 1, 2019, we provide matching funds on the first 3 percent of eligible monthly base salary contributed by the employee. For this group of employees, our matching contribution is 100 percent in the first three years of employment, 150 percent in the next two years and 200 percent after the employee has completed five years of employment. For this group of employees, there is a 3-year step vesting schedule for our matching contributions, with the employee becoming fully vested after 3 years.

Under the FHLB Dallas DC Plan, participants can elect to invest plan contributions in up to 27 different fund options.

Based on their tenure with us (and, in the case of Messrs. Bhasin, Madhavan and Pan, their service with the Federal Home Loan Bank of Chicago during which service each of them was covered by the Pentegra DC Plan), each of our named executive officers was eligible to receive in 2023 a 200 percent matching contribution on the first 3 percent of his or her eligible monthly base salary that he or she contributed to the plan, subject in all cases to the compensation limit prescribed by the Internal Revenue Code. The matching contributions that were made by us are included in the "All Other Compensation" column of the

Summary Compensation Table found on page 103 and further set forth under the “401(k)/Thrift Plan” column of the related “Components of All Other Compensation for 2023” table.

We offer the savings plan as a competitive practice and believe that our matching contributions to the plan are at or above the market median for comparable companies, although we have not conducted any recent studies to confirm this.

#### *Deferred Compensation Program*

Under the terms of our nonqualified deferred compensation program, we offer our highly compensated employees, including our named executive officers, the opportunity to voluntarily defer receipt of all or part of their base salary and all or part of their non-equity incentive plan compensation. The program allows participants to save for retirement or other future-dated in-service obligations (e.g., college, home purchase, etc.) in a tax-effective manner, as contributions and earnings on those contributions are not taxable to the participant until received. Under the program, amounts deferred by the participant and our matching contributions can be invested in an array of externally managed mutual funds.

We offer the program to allow our highly compensated employees to voluntarily defer more compensation than they would otherwise be permitted to defer under our tax-qualified defined contribution savings plan as a result of the limits imposed by the Internal Revenue Code. Further, we offer this program as a competitive practice to help us attract and retain top talent. The matching contributions that we provide in this plan are intended to make the participant whole with respect to the amount of matching funds that he or she would have otherwise been eligible to receive in our tax-qualified defined contribution savings plan if not for the limits imposed by the Internal Revenue Code. These matching contributions are included in the “All Other Compensation” column of the Summary Compensation Table found on page 103 and further set forth under the “Nonqualified Deferred Compensation Plan (NQDC Plan)” column of the related “Components of All Other Compensation for 2023” table. As noted above, we believe that our matching contributions to the qualified savings plan are at or above the market median for comparable companies. Based on our experience and general knowledge of the competitive market, we believe this may also be true for the matching contributions that we provide under the deferred compensation program, although we have not conducted a study to confirm this. The provisions of this program are described more fully in the narrative accompanying the Nonqualified Deferred Compensation table on pages 110-113.

#### *Supplemental Executive Retirement Plan*

We maintain a supplemental executive retirement plan (“SERP”) that, prior to 2024, served to benefit only Mr. Lewis and some of our former executives, each of whom was designated as a Group 1 participant. The SERP is a nonqualified defined contribution plan and, as such, it does not provide for a specified retirement benefit. Based on a recommendation from management in 2014, the Committee and Board of Directors decided at that time to discontinue contributions to our SERP and, as a result, no contributions were made to the SERP from 2015 through 2023. In August 2023, the Committee and Board of Directors engaged Aon plc to conduct a total rewards study for all of our executive officers and, as part of the study, to provide insight and analysis regarding a market-competitive form and level of supplemental retirement benefits for our executives. On December 19, 2023, the Board of Directors, acting upon a recommendation from the Committee, approved an amended and restated SERP, subject to the review of the Finance Agency. On February 2, 2024, the Finance Agency informed us that it did not object to the amended and restated SERP. The SERP was amended and restated principally to provide supplemental retirement benefits to our current executive officers including, but not limited to, Ms. Chapman and Messrs. Bhasin, Lewis, Madhavan and Pan. To accomplish this objective, a new Group 5 was added to the SERP and all of our current executive officers were designated as participants in this group. Each participant’s benefit under the SERP consists of the contributions we make on his or her behalf, plus an allocation of the investment gains or losses on the assets used to fund the plan. Contributions to the SERP are determined solely at the discretion of our Board of Directors and are based upon our desire to provide a reasonable level of supplemental retirement income to the participants and, secondarily, to serve as a retention tool. In each calendar year, our Board of Directors, in its sole and absolute discretion, may elect to make a contribution to the accounts of any or all of the Group 5 participants based on an allocation percentage that is within a specified allocation range, which, for Mr. Bhasin, is 10 percent to 20 percent and, for all other executive officers, is 5 percent to 20 percent (the “Annual Allocation Percentage”). The target Annual Allocation Percentages for Mr. Bhasin and all other executive officers are 15 percent and 10 percent, respectively. If made, the annual contribution will be an amount equal to the Annual Allocation Percentage multiplied by the sum of the executive officer’s (i) base salary for the most recently completed calendar year plus (ii) the non-equity incentive compensation payment that is attributable to the most recently completed calendar year (i.e., the total of the Current Award for that year plus any Deferred Award that vested as of the end of that year). On February 13, 2024, our Board of Directors approved a Group 5 contribution on behalf of each of our executive officers equal to their target Annual Allocation Percentage.

Generally, benefits under the Group 1 SERP vest when the participant attains the “Rule of 70.” A participant attains the Rule of 70 when the sum of his or her age and years of service with us is at least 70. As of December 31, 2023, Mr. Lewis had met the Rule of 70. Group 5 SERP benefits generally vest upon the earlier to occur of (i) the date on which the participant attains age 65

or (ii) the date on which the participant attains the Rule of 70. For purposes of the Group 5 SERP benefits, years of service with us does not include years of credited service with another FHLBank. As of December 31, 2023, neither Ms. Chapman nor Messrs. Bhasin, Madhavan or Pan had met the Group 5 vesting requirements. The provisions of the plan provide for accelerated vesting and payment in the event of a participant's death or disability if such participant is not otherwise vested at the time of his or her death or disability. We maintain the right at any time to amend or terminate the SERP, or remove a participant from the SERP at our discretion, except that no amendment, modification or termination may reduce the then vested account balance of any participant.

For details regarding the operation of our SERP and the account balances for Mr. Lewis as of December 31, 2023, please refer to the Nonqualified Deferred Compensation table and accompanying narrative beginning on page 110.

#### *Other Benefits*

We offer a number of other benefits to our executive officers pursuant to benefit programs that are available to all of our regular, full-time employees. These benefits include: medical, dental, vision and prescription drug benefits; paid time off (in the form of vacation and flex leave); short- and long-term disability coverage; life and accidental death and dismemberment insurance; charitable gift matching (limited to \$500 per employee per year); health and dependent care flexible spending accounts; healthcare savings accounts; and certain other benefits including, but not limited to, retiree health and limited life insurance benefits (provided certain eligibility requirements are met).

Our employees accrue vacation at different rates depending upon their length of service, with some exceptions for officers during their first five years of employment with us. After an employee has completed 12 or more years of service (including any prior service with another FHLBank, subject to certain exceptions), he or she is entitled to 200 hours of annual vacation leave. We limit the amount of accrued and unused vacation leave that an employee can accumulate to two times the amount of vacation he or she earns in an annual period. This policy is effected by allowing employees to carry over no more than the amount of vacation that he or she earns in an annual period to the next calendar year. Unused vacation in excess of the maximum carryover, if any, is deducted from an employee's vacation account balance on December 31. Based on their length of service (including, in the case of Messrs. Bhasin, Madhavan and Pan, their service with the Federal Home Loan Bank of Chicago), each of our named executive officers currently accrue 200 hours of vacation leave per year. If an employee's employment with us is terminated for any reason, he or she is entitled to receive a payment for all accrued but unused vacation time as of their termination date, which, as noted above, cannot exceed two times the amount of vacation that he or she earns in an annual period. This payment is derived by multiplying the number of accrued but unused vacation hours as of the employee's termination date by his or her hourly rate. For this purpose, the hourly rate is computed by dividing the employee's base salary by 2,080 hours.

All of our regular full-time employees, including our executive officers, accrue 80 hours of flex leave per year. Flex leave is defined as accrued leave that is available for personal injury or illness, family injury or illness, personal time off (limited to no more than 16 hours per year), and leave covered under the provisions of the Family and Medical Leave Act of 1993. We limit employees' annual flex leave carryover amount to 520 hours. Employees (including executive officers) are not entitled to receive any payments under our flex leave policy under any circumstances, including a termination of their employment for any reason.

#### *Perquisites*

In 2023, we did not provide any perquisites to our named executive officers.

#### *Executive Employment Agreements*

Effective January 1, 2014 and March 24, 2015, we entered into employment agreements with Ms. Chapman and Mr. Bhasin, respectively. These agreements were authorized and approved by the Committee and Board of Directors and resulted from the Board's desire to retain the services of Ms. Chapman and Mr. Bhasin for no less than the one-year term of the agreements. On each yearly anniversary, the executive's employment agreement automatically renews for an additional one-year term unless either we or the executive gives a notice of non-renewal not less than 30 days prior to the expiration date. Because neither we nor either of the executives gave a notice of non-renewal, the term of Ms. Chapman's employment agreement was automatically extended through December 31, 2024 and the term of Mr. Bhasin's employment agreement will be automatically extended through March 23, 2025.

As more fully described in the section entitled "Potential Payments Upon Termination or Change in Control" beginning on page 114, the employment agreements with Mr. Bhasin and Ms. Chapman provide for payments in the event that the executive officer's employment with us is terminated either by the executive for good reason or by us other than for cause, by reason of the executive's death or disability, or as a result of us giving notice of non-renewal of the employment agreement at a time when the executive is willing and able to continue his or her employment on substantially the same terms. We believe the specified

triggering events and the payments resulting from those events are similar in nature and amount to those commonly found in agreements used by comparable companies and therefore advance our objective of retaining Mr. Bhasin and Ms. Chapman.

We considered the actions with respect to Mr. Bhasin and Ms. Chapman to be prudent based on our belief that they are extremely well qualified to perform the duties of their jobs, that they have skill sets that are highly sought after in the financial services industry, that they have valuable historical knowledge of us and the FHLBank System, and/or that their continued employment with us is essential to our ability to meet our business objectives.

Currently, we do not have employment agreements with Messrs. Lewis, Madhavan or Pan, nor do we expect to enter into employment agreements with these executives in the foreseeable future.

## 2024 Compensation Actions

The 2024 base salaries for our named executive officers (and the percentage change from the salaries in effect at December 31, 2023) are presented below. All of the salaries in the table below were effective January 1, 2024.

Name	2024 Base Salary (\$)	Percentage Change
Sanjay Bhasin	1,067,148	Increase of 4.00 percent
Tom Lewis	474,416	Increase of 4.25 percent
Kalyan Madhavan	604,528	Increase of 2.50 percent
Jibo Pan	476,641	Increase of 2.50 percent
Brehan Chapman	419,286	Increase of 4.25 percent

In August 2023, we engaged McLagan to conduct a competitive market pay study for all of our executive officers (the "2023 Pay Study"). The 2023 Pay Study involved an analysis of base salaries and incentives (total direct compensation) for benchmark jobs at 60 institutions, including the other FHLBanks. For one position (our Head of Capital Markets), the competitive market was expanded to include the Secondary Commercial Peer Group, which included 63 institutions. The results of the 2023 Pay Study showed that while the total direct compensation for all but one of our named executive officers was below the competitive market range in comparison to benchmark jobs at commercial financial services companies, their total direct compensation ranged from the low end of the competitive market range to the high end of the competitive market range for their peer positions at the other FHLBanks. Mr. Bhasin's total direct compensation approximated the market composite benchmark for the FHLBanks. Based on this information and input from the Finance Agency, the Committee approved, based upon Mr. Bhasin's recommendation, salary increases of 4.25 percent for Mr. Lewis and Ms. Chapman and 2.50 percent for Mr. Madhavan and Mr. Pan. The Board of Directors, acting upon a recommendation from the Committee, gave Mr. Bhasin a salary increase of 4.00 percent.

On December 7, 2023, the Board of Directors, acting upon a recommendation from the Committee, approved our 2024 EIP (the "Proposed 2024 EIP"), subject to the review of the Finance Agency. In response to comments received from the Finance Agency, we made certain revisions to the Proposed 2024 EIP (inclusive of the revisions, the "2024 EIP"), subject again to review by the Finance Agency. On March 8, 2024, the Finance Agency informed us that it did not object to the 2024 EIP. The 2024 EIP was retroactively effective as of January 1, 2024. Like previous EIPs, the 2024 EIP provides for an annual award (the "2024 Annual Award"), 50 percent of which can be fully earned in 2024 (the "2024 Current Award"). The 2024 Annual Award is based on the achievement of performance goals for the period from January 1, 2024 through December 31, 2024. The remaining 50 percent of an executive's 2024 Annual Award (the "2024 Deferred Award"), with interest at 7.6 percent compounded annually over the period from January 1, 2025 through December 31, 2027 (the "2024 Deferral Performance Period") will not become fully earned and vested until December 31, 2027 and then only if: (1) the Deferred Performance Goals described in the next sentence are satisfied during the 2024 Deferral Performance Period; (2) the executive receives a performance rating for 2027 of at least "Solid Performance"; and (3) the executive is actively employed by us on December 31, 2027. To satisfy the Deferred Performance Goals, we must: (i) maintain a minimum regulatory capital-to-assets ratio of at least 4 percent throughout the 2024 Deferral Performance Period and (ii) pay quarterly dividends throughout the 2024 Deferral Performance Period at annualized rates that are at least equal to the average overnight SOFR rate for the preceding quarter. An executive's 2024 Deferred Award is payable no later than March 15, 2028. Notwithstanding the above, the Board of Directors, in its discretion, may reduce or eliminate award payments under the 2024 EIP if, in its judgment, our safety and soundness has not been maintained.

For the incentives that can be earned in 2024 (which will be payable in early 2025), our executive officers will derive 50 percent of their incentive opportunity from the 2024 EIP (via the 2024 Current Award) and 50 percent of their incentive opportunity from the 2021 EIP Deferred Award discussed below.

For purposes of our 2024 Annual Award, the Board of Directors established 24 performance goals (the "2024 Performance Goals"). The 2024 Performance Goals fall into the following broad categories (with category weights in parentheses): (a) business activity objectives and financial execution (35 percent); (b) community investments (30 percent); (c) continuous improvement projects (25 percent); (d) environmental, social and governance ("ESG") initiatives (6 percent); and (e) learning initiatives (4 percent). Each 2024 Performance Goal has been assigned a specific percentage weight. For 2024 Performance Goals comprising 96 percent of the executives' 2024 Annual Award opportunity, each goal has been assigned a "threshold," "target" and "stretch" objective. For 2024 Performance Goals comprising 2 percent of the executives' 2024 Annual Award opportunity, each goal has been assigned only a "stretch" objective and for one 2024 Performance Goal comprising 2 percent of the executives' 2024 Annual Award opportunity, the goal has been assigned only "target" and "stretch" objectives.

For Mr. Bhasin, the incentive factor for each 2024 Performance Goal can be 0 percent (if the threshold objective is not met or, in those cases where there is not a threshold objective, the target objective is not met or, in those cases where there is not a threshold or target objective, the stretch objective is not met), 50 percent (if results are equal to the threshold objective for those 2024 Performance Goals that have a threshold objective), 75 percent (if results are equal to the target objective for those 2024 Performance Goals that have a target objective) or 100 percent (if results are equal to or greater than the stretch objective). For Messrs. Madhavan and Pan, the incentive factor for each 2024 Performance Goal can be 0 percent (if the threshold objective is not met or, in those cases where there is not a threshold objective, the target objective is not met or in those cases where there is not a threshold or target objective, the stretch objective is not met), 40 percent (if results are equal to the threshold objective for those 2024 Performance Goals that have a threshold objective), 65 percent (if results are equal to the target objective for those 2024 Performance Goals that have a target objective) or 85 percent (if results are equal to or greater than the stretch objective). For Mr. Lewis and Ms. Chapman, the incentive factor for each 2024 Performance Goal can be 0 percent (if the threshold objective is not met or, in those cases where there is not a threshold objective, the target objective is not met or in those cases where there is not a threshold or target objective, the stretch objective is not met), 35 percent (if results are equal to the threshold objective for those 2024 Performance Goals that have a threshold objective), 55 percent (if results are equal to the target objective for those 2024 Performance Goals that have a target objective) or 75 percent (if results are equal to or greater than the stretch objective).

Achievement levels between threshold and target and between target and stretch for each 2024 Performance Goal that has those achievement levels will be interpolated in a manner as determined by the Committee. Like previous EIPs, the results for each 2024 Performance Goal will be multiplied by the assigned percentage weight to determine its contribution to the overall 2024 EIP goal percentage. The percentages derived from this calculation for each 2024 Performance Goal will be added together to derive each executive's overall goal percentage for the 2024 EIP, which percentage will then be multiplied by the executive's 2024 base salary to determine his or her final 2024 Annual Award. The executive's final 2024 Annual Award will be multiplied by 50 percent to derive his or her 2024 Current Award.

The following table sets forth an estimate of the possible 2024 Annual Awards (and, for 50 percent of those awards, the 2024 Current Awards) that can be earned by our named executive officers under the 2024 EIP. The threshold amounts were computed based upon the assumption that we would achieve the threshold objective for each of the 2024 Performance Goals that has a threshold objective. The target amounts were computed based upon the assumption that we would achieve the target objective for each of the 2024 Performance Goals that has a target objective. The maximum amounts were computed based upon the assumption that we would achieve the stretch objective for each of the 2024 Performance Goals. In addition, the threshold, target and maximum 2024 Current Awards are based upon the assumption that each of our named executive officers will receive a performance rating for 2024 of at least "Solid Performance." An executive's 2024 Current Award will become earned and vested on December 31, 2024 provided he or she is actively employed on that date and such award is payable no later than March 15, 2025. Given the number of variables involved in the calculation of our 2024 EIP awards, the ultimate payouts (other than the maximum payouts) can vary significantly. For instance, the 2024 EIP awards can be less than the threshold amounts if we fail to achieve (i) the threshold objective for one or more of our 2024 Performance Goals, (ii) the target objective for our 2024 Performance Goal that only has a target and stretch objective and (iii) the stretch objective for our two 2024 Performance Goals that have only a stretch objective, but we achieve the threshold objective for each of our other 2024 Performance Goals. In addition, as noted above, achievement levels between threshold and target and between target and stretch for each 2024 Performance Goal that has those achievement levels will be interpolated and, as a result, the ultimate awards payable to the named executive officers could vary significantly between the threshold and maximum amounts presented in the table.

Name	Estimated Possible 2024 Annual Award			Estimated Possible Payouts in Early 2025 Under Non-Equity Incentive Plan Awards for 2024 EIP (2024 Current Award)		
	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)
Sanjay Bhasin	512,231	784,354	1,067,148	256,116	392,177	533,574
Tom Lewis	159,404	255,710	355,812	79,702	127,855	177,906
Kalyan Madhavan	232,139	385,084	513,849	116,070	192,542	256,925
Jibo Pan	183,030	303,620	405,145	91,515	151,810	202,573
Brehan Chapman	140,880	225,995	314,465	70,440	112,998	157,233

As previously noted, the remaining 50 percent of our executives' 2024 incentive opportunity will be derived from their 2021 Deferred Award. The amount of each executive's 2021 Deferred Award (before interest) became fixed at the end of 2021 based on the achievement of performance goals for the period from January 1, 2021 through December 31, 2021. The performance goals that were applicable to the 2021 Deferred Award are more fully discussed in the Compensation Discussion and Analysis section of our 2021 10-K.

An executive's 2021 Deferred Award will become earned and vested on December 31, 2024 if: (i) the safety and soundness goals set forth in the next paragraph are satisfied during the three-year deferral performance period which runs from January 1, 2022 through December 31, 2024 (the "2021 Deferral Performance Period"); (ii) the executive receives a performance rating for 2024 of at least "Solid Performance"; and (iii) the executive is actively employed by us on December 31, 2024. An executive's 2021 Deferred Award is payable no later than March 15, 2025 with interest at 6 percent compounded annually over the 2021 Deferral Performance Period.

The safety and soundness goals that must be satisfied during the 2021 Deferral Performance Period are: (i) no material risk management deficiency exists at the Bank; (ii) no operational errors or omissions result in material revisions to our financial results, information submitted to the Finance Agency, or data used to determine incentive payouts; (iii) no submission of material information to the SEC, the FHLBanks Office of Finance, and/or the Finance Agency is significantly past due; (iv) we make sufficient progress, as determined by the Board of Directors, in the timely remediation of significant examination, monitoring and other supervisory findings; and (v) we have sufficient capital to pay dividends and repurchase members' stock.

The following table shows the deferred awards under the 2021 EIP, the anticipated growth in those awards during the 2021 Deferral Performance Period, and the total 2021 Deferred Awards (inclusive of interest) that will be payable in early 2025 provided all of the conditions for payment are met.

Name	2021 EIP Deferred Award (\$)	Interest on Deferred Award (\$)	Total 2021 EIP Deferred Award Including Interest (\$)
Sanjay Bhasin	426,582	81,484	508,066
Tom Lewis	129,407	24,719	154,126
Kalyan Madhavan	193,767	37,013	230,780
Jibo Pan	152,776	29,183	181,959
Brehan Chapman	114,369	21,846	136,215

The following table combines the possible 2024 EIP Current Awards and the actual 2021 Deferred Awards (including interest) from the two preceding tables and represents the total non-equity incentive plan compensation that can be fully earned by our named executive officers in 2024.

Name	Estimated Possible Payouts in Early 2025 for 2024 Incentive Opportunities						
	2024 EIP Current Award			2021 EIP Deferred Award Including Interest (\$)	Total if 2024 EIP Current Award is at Threshold, Target or Maximum		
	Threshold (\$)	Target (\$)	Maximum (\$)		Threshold (\$)	Target (\$)	Maximum (\$)
Sanjay Bhasin	256,116	392,177	533,574	508,066	764,182	900,243	1,041,640
Tom Lewis	79,702	127,855	177,906	154,126	233,828	281,981	332,032
Kalyan Madhavan	116,070	192,542	256,925	230,780	346,850	423,322	487,705
Jibo Pan	91,515	151,810	202,573	181,959	273,474	333,769	384,532
Brehan Chapman	70,440	112,998	157,233	136,215	206,655	249,213	293,448

Notwithstanding anything to the contrary contained in the 2024 EIP or the 2021 EIP, the combination of an executive's 2024 Current Award and his or her 2021 Deferred Award (inclusive of interest at 6 percent compounded annually over the period from January 1, 2022 through December 31, 2024) cannot exceed 100 percent of the executive's annual base salary for 2024. This limitation will not have any impact on our executives' 2024 incentive opportunities as the maximum possible payout for each executive is less than his or her 2024 base salary.

### **Compensation Committee Report**

The Compensation and Human Resources Committee has reviewed and discussed with management the Compensation Discussion and Analysis found on pages 89-102 of this report. Based on our review and discussions, we recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Bank's Annual Report on Form 10-K.

#### *The Compensation and Human Resources Committee*

James D. Goudge, Chairman  
Michael C. Hutsell, Vice Chairman  
Karuna Annavajjala  
Rufus Cormier, Jr.  
A. Fred Miller, Jr.  
Sally I. Nelson  
Christopher G. Palmer  
Felipe A. Rael



## SUMMARY COMPENSATION TABLE

The following table sets forth the total compensation for 2023, 2022 and 2021 of our President and Chief Executive Officer, our Executive Vice President and Chief Financial Officer, and our three other most highly compensated executive officers who were serving as executive officers at the end of 2023. Collectively, the five individuals presented in the table are referred to as our "named executive officers."

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-equity Incentive Plan Compensation (\$) (1)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (2)	All Other Compensation (\$) (3)	Total (\$)
Sanjay Bhasin	2023	1,026,104	—	—	—	999,764	199,000	61,331	2,286,199
President/CEO	2022	979,107	—	—	—	753,063	—	58,746	1,790,916
	2021	950,589	—	—	—	880,244	51,000	57,035	1,938,868
Tom Lewis	2023	455,075	—	—	—	319,396	283,000	27,186	1,084,657
EVP/Chief Financial Officer	2022	431,351	—	—	—	228,074	—	25,881	685,306
	2021	418,788	—	—	—	265,360	74,000	25,127	783,275
Kalyan Madhavan	2023	589,784	—	—	—	472,901	211,000	39,027	1,312,712
EVP/Chief Business Officer	2022	559,037	—	—	—	329,294	—	33,537	921,868
	2021	542,754	—	—	—	382,866	67,000	32,071	1,024,691
Jibo Pan	2023	465,016	—	—	—	372,860	183,000	32,779	1,053,655
EVP/Head of Capital Markets	2022	440,774	—	—	—	259,633	—	29,096	729,503
	2021	427,936	—	—	—	300,445	29,000	25,632	783,013
Brehan Chapman	2023	402,193	—	—	—	282,280	149,000	28,791	862,264
EVP/Chief ESG and Administrative Officer	2022	381,226	—	—	—	207,262	—	18,537	607,025
	2021	370,122	—	—	—	241,456	16,000	10,572	638,150

<sup>(1)</sup> Amounts for 2023 represent 2023 EIP Current Awards earned for services rendered in 2023 and 2020 EIP Deferred Awards earned for services rendered during 2020, 2021, 2022 and 2023. Amounts for 2022 represent 2022 EIP Current Awards earned for services rendered in 2022 and 2019 EIP Deferred Awards earned for services rendered during 2019, 2020, 2021 and 2022. Amounts for 2021 represent 2021 EIP Current Awards earned for services rendered in 2021 and 2018 EIP Deferred Awards earned for services rendered during 2018, 2019, 2020 and 2021. The amounts shown for 2023 were paid to the named executive officers on February 15, 2024. The amounts shown for 2022 and 2021 were paid to the executive officers in February 2023 and February 2022, respectively. The components of this column for 2023 are provided in the table below entitled "Components of Non-Equity Incentive Plan Compensation for 2023."

<sup>(2)</sup> Amounts reported in this column for 2023, 2022 and 2021 are attributable solely to the change in the actuarial present value of the named executive officers' accumulated benefit under the Pentegra Defined Benefit Plan for Financial Institutions during those years, calculated for each such period in accordance with the assumptions and limitations set forth in the narrative following the pension benefits table on pages 107-109. None of our named executive officers received preferential or above-market earnings on nonqualified deferred compensation during 2023, 2022 or 2021. In 2022, the actuarial present value of the accumulated pension benefits for Ms. Chapman and Messrs. Bhasin, Lewis, Madhavan and Pan decreased by \$396,000, \$330,000, \$360,000, \$268,000 and \$405,000, respectively.

<sup>(3)</sup> The components of this column for 2023 are provided in the table below entitled "Components of All Other Compensation for 2023."

### Components of Non-Equity Incentive Plan Compensation for 2023

Name	2023 EIP Current Award (\$)	2020 EIP Deferred Award (\$)	Total Non-Equity Incentive Plan Compensation (\$)
Sanjay Bhasin	488,718	511,046	999,764
Tom Lewis	162,020	157,376	319,396
Kalyan Madhavan	239,469	233,432	472,901
Jibo Pan	188,810	184,050	372,860
Brehan Chapman	143,192	139,088	282,280

### Components of All Other Compensation for 2023

Name	Bank Contributions to Vested Defined Contribution Plans		Nonqualified Deferred Compensation Plan (NQDC Plan) (\$)	Perquisites (\$)	Tax Gross ups (\$)	Other (\$)	Total All Other Compensation (\$)
	401(k)/Thrift Plan (\$)	401(k)/Thrift Plan (\$)					
Sanjay Bhasin	19,800	19,800	41,531	—	—	—	61,331
Tom Lewis	19,800	19,800	7,386	—	—	—	27,186
Kalyan Madhavan	18,594	18,594	15,433	—	—	5,000	39,027
Jibo Pan	19,800	19,800	7,979	—	—	5,000	32,779
Brehan Chapman	19,164	19,164	4,227	—	—	5,400	28,791

### GRANTS OF PLAN-BASED AWARDS

As discussed in the Compensation Discussion and Analysis, the 2023 EIP provided for an Annual Award, which was comprised of a Current Award and a Deferred Award. For the incentives that could be earned in 2023, our executive officers derived 50 percent of their incentive opportunity from the 2023 EIP (via the 2023 Current Award) and 50 percent of their incentive opportunity from the 2020 EIP (via the 2020 Deferred Award).

For Mr. Bhasin, the potential Annual Award under the 2023 EIP (before interest on the deferred portion, as described below), could have been 46.5 percent of salary (if the threshold objective was achieved for each of our 2023 Performance Goals that had a threshold objective), 69.75 percent of salary (if the target objective was achieved for each of our 2023 Performance Goals that had a target objective) or 100 percent of salary (if the stretch objective was achieved for each of our 2023 Performance Goals). For Messrs. Madhavan and Pan, the potential Annual Award under the 2023 EIP (before interest on the deferred portion), could have been 37.2 percent of salary (if the threshold objective was achieved for each of our 2023 Performance Goals that had a threshold objective), 60.45 percent of salary (if the target objective was achieved for each of our 2023 Performance Goals that had a target objective) or 85 percent of salary (if the stretch objective was achieved for each of our 2023 Performance Goals). For Mr. Lewis and Ms. Chapman, the potential Annual Award under the 2023 EIP (before interest on the deferred portion), could have been 32.55 percent of salary (if the threshold objective was achieved for each of our 2023 Performance Goals that had a threshold objective), 51.15 percent of salary (if the target objective was achieved for each of our 2023 Performance Goals that had a target objective) or 75 percent of salary (if the stretch objective was achieved for each of our 2023 Performance Goals).

The Current Award, representing 50 percent of the Annual Award, became earned and vested on December 31, 2023. The Deferred Award, representing the other 50 percent of the Annual Award, will become earned and vested on December 31, 2026 if: (i) the safety and soundness goals set forth in the next paragraph are satisfied during the three-year deferral performance period which runs from January 1, 2024 through December 31, 2026 (the "2023 Deferral Performance Period"); (ii) the executive receives a performance rating for 2026 of at least "Solid Performance"; and (iii) the executive is actively employed on December 31, 2026. An executive's Deferred Award under the 2023 EIP is payable no later than March 15, 2027 with interest at 6 percent compounded annually over the three-year deferral performance period.

The safety and soundness goals that must be satisfied during the three-year deferral performance period are: (i) no material risk management deficiency exists at the Bank; (ii) no operational errors or omissions result in material revisions to our financial results, information submitted to the Finance Agency, or data used to determine incentive payouts; (iii) no submission of material information to the SEC, the FHLBanks Office of Finance, and/or the Finance Agency is significantly past due; (iv) we

make sufficient progress, as determined by the Board of Directors, in the timely remediation of significant examination, monitoring and other supervisory findings; and (v) we have sufficient capital to pay dividends and repurchase members' stock.

The following table sets forth an estimate of the possible Current Awards and Deferred Awards (before interest) that could have been earned by our named executive officers under the 2023 EIP. The achievement levels described above were used to compute the estimated awards shown in the table. Given the number of variables involved in the calculation of the Annual Awards, the ultimate awards (other than the maximum awards) could have varied significantly. For instance, the Annual Awards could have been less than 46.5 percent of salary for Mr. Bhasin, 37.2 percent of salary for Mr. Madhavan and Mr. Pan and 32.55 percent of salary for Ms. Chapman and Mr. Lewis if we failed to achieve the threshold objective for one or more of our 2023 Performance Goals that had a threshold objective but achieved the threshold objective for each of our other 2023 Performance Goals that had a threshold objective. In addition, because achievement levels between threshold and target and between target and stretch for each 2023 Performance Goal that had those achievement levels are interpolated, the ultimate 2023 EIP awards earned by the named executive officers could have varied significantly between the threshold and maximum amounts presented in the table. The 2023 EIP Current Awards that were actually earned by our named executive officers are presented in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table above and are described more fully in the Compensation Discussion and Analysis on pages 89 through 102.

**Estimated Possible Awards for 2023 EIP**

Name	2023 Current Award			2023 Deferred Award			Total 2023 Annual Award		
	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)
Sanjay Bhasin	238,569	357,854	513,052	238,569	357,854	513,052	477,138	715,708	1,026,104
Tom Lewis	74,063	116,385	170,653	74,064	116,386	170,653	148,127	232,771	341,306
Kalyan Madhavan	109,700	178,262	250,658	109,700	178,262	250,658	219,400	356,524	501,316
Jibo Pan	86,493	140,551	197,632	86,493	140,551	197,632	172,986	281,102	395,264
Brehan Chapman	65,457	102,861	150,822	65,457	102,861	150,823	130,914	205,722	301,645

The following table shows the anticipated growth in the threshold, target and maximum Deferred Awards (from the table above) during the period from January 1, 2024 through December 31, 2026 and the total Deferred Awards (inclusive of interest) that would have been payable in early 2027 at each of these achievement levels.

**Estimated Possible Payouts in Early 2027 Under Non-Equity Incentive Plan Awards for 2023 EIP**

Name	2023 Deferred Award			Interest on Deferred Award <sup>(1)</sup>			Total Deferred Award Including Interest		
	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)
Sanjay Bhasin	238,569	357,854	513,052	45,570	68,356	98,001	284,139	426,210	611,053
Tom Lewis	74,064	116,386	170,653	14,147	22,232	32,597	88,211	138,618	203,250
Kalyan Madhavan	109,700	178,262	250,658	20,954	34,051	47,880	130,654	212,313	298,538
Jibo Pan	86,493	140,551	197,632	16,522	26,847	37,751	103,015	167,398	235,383
Brehan Chapman	65,457	102,861	150,823	12,503	19,648	28,810	77,960	122,509	179,633

<sup>(1)</sup> Amounts represent interest on the Deferred Awards at 6 percent, compounded annually.

The following table shows the actual deferred awards under the 2023 EIP, the anticipated growth in those awards during the period from January 1, 2024 through December 31, 2026, and the total Deferred Awards (inclusive of interest) that will be payable in early 2027 provided all of the conditions for payment are met.

Name	Actual 2023 EIP Deferred Award (\$)	Interest on Deferred Award (\$)	Total Deferred Award Including Interest (\$)
Sanjay Bhasin	488,719	93,353	582,072
Tom Lewis	162,019	30,948	192,967
Kalyan Madhavan	239,469	45,742	285,211
Jibo Pan	188,809	36,066	224,875
Brehan Chapman	143,192	27,352	170,544

If an executive officer's employment is terminated for any reason other than death, disability, retirement, a reduction in force or by the officer for good reason (as defined in the 2023 EIP), his or her unvested 2023 EIP awards will be forfeited.

If an executive officer's employment had been terminated in 2023 due to death or disability, then his or her Current Award would have been treated as earned and vested based on the portion of 2023 during which the executive was employed based on the assumption that we would have achieved the 2023 Performance Goals at the target achievement level. If an executive's employment is terminated during the 2023 Deferral Performance Period due to his or her death or disability, then his or her Deferred Award will be treated as fully earned and vested based on the assumption that we would achieve the safety and soundness goals applicable to that award. Payment of awards in connection with a death or disability would be made in a single lump sum within 75 days of the executive's termination date. For the Deferred Award, the payment would include interest through the executive's termination date.

If an executive's employment had been terminated in 2023 due to a retirement, then his or her Current Award would have been treated as earned and vested based on the portion of 2023 during which the executive was employed and the extent to which the 2023 Performance Goals were ultimately satisfied. If an executive's employment is terminated during the 2023 Deferral Performance Period due to a retirement, then his or her Deferred Award will be treated as fully earned and vested upon completion of the three-year performance period. For purposes of the 2023 EIP, retirement is defined as an executive's planned and voluntary termination of employment on or after he or she has attained age 55 with at least 10 years of service to the Bank. Payment of awards in connection with a retirement would be made according to the normal scheduled dates.

If an executive's employment had been terminated in 2023 due to a reduction in force or by the executive for good reason, then his or her Current Award would have been treated as earned and vested based on the portion of 2023 during which the executive was employed and the extent to which the 2023 Performance Goals were ultimately satisfied. If an executive's employment is terminated during the 2023 Deferral Performance Period due to a reduction in force or by the executive for good reason, then his or her Deferred Award will be treated as fully earned and vested upon completion of the three-year performance period. Payment of awards in connection with a reduction in force or termination by the executive for good reason would be made according to the normal scheduled dates and would be contingent upon the executive executing the severance agreement offered by us.

If, in 2023, we had been involved in a merger, consolidation, reorganization or sale of all or substantially all of our assets, or we had been liquidated or dissolved (collectively, a "Reorganization"), subject to certain exceptions for which the Director of the Finance Agency had determined should not be a basis for accelerated vesting, then the Current Award would have been treated as earned and vested on a pro rata basis through the date of the Reorganization based on the assumption that we would have achieved the 2023 Performance Goals at the target achievement level. If we are involved in a Reorganization during the 2023 Deferral Performance Period, then the Deferred Award will be treated as fully earned and vested effective as of the Reorganization date based on the assumption that we would have achieved the safety and soundness goals applicable to that award. Payment of awards in connection with a Reorganization would be made in a single lump sum on the date on which the Reorganization occurs. If we are involved in a Reorganization during the 2023 Deferral Performance Period, the payment of the Deferred Award would also include interest through the Reorganization date.

The Board of Directors may adjust the 2023 Performance Goals to ensure the purposes of the 2023 EIP are served. In addition, the Board of Directors, in its discretion, may consider extraordinary occurrences when assessing performance results and determining award payments. Extraordinary occurrences mean those events that, in the opinion and at the discretion of the Board of Directors, are outside the significant influence of the executive or us and are likely to have a significant unanticipated effect, whether positive or negative, on our operating and/or financial results. Any changes, adjustments or modifications to the 2023 EIP that would affect the 2023 Performance Goals or increase the payment to an executive above the amount that would otherwise be awarded based upon the 2023 Performance Goals would require the Finance Agency's prior review and non-objection.

Any awards not yet paid may be reduced or eliminated if any actual losses or other measures or aspects of performance are realized which would have caused a reduction in the amount of the awards. Further, if during the most recent examination of us by the Finance Agency, the Finance Agency identified an unsafe or unsound practice or condition that is material to the financial operation of the Bank within the executive's area(s) of responsibility and such unsafe or unsound practice or condition is not subsequently resolved in our favor, then all of an executive's vested and unvested awards under the 2023 EIP will be forfeited. Any future payments for a vested award will cease and we will have no further obligation to make such payments.

By resolution, the Board of Directors may reduce or eliminate an award that is otherwise earned under the 2023 EIP but not yet paid if the Board of Directors finds that a serious, material safety and soundness problem or a serious, material risk management deficiency exists at the Bank, or if: (i) operational errors or omissions result in material revisions to our financial results, the information submitted to the Finance Agency, or the data used to determine incentive payouts; (ii) the submission of material information to the SEC, the FHLBanks Office of Finance, and/or the Finance Agency is significantly past due; or (iii)

we fail to make sufficient progress, as determined by the Board of Directors, in the timely remediation of significant examination, monitoring and other supervisory findings.

The Board of Directors may amend the 2023 EIP at any time in its sole discretion. However, the Board of Directors may not amend the 2023 EIP to reduce an executive's awards as determined on the day immediately preceding the effective date of the amendment or to otherwise retroactively impair or adversely affect the rights of an executive.

In addition, the Board of Directors may terminate the 2023 EIP at any time in its sole discretion. Absent an amendment to the contrary, incentives that were earned and vested prior to the termination will be paid at the times and in the manner provided for by the 2023 EIP at the time of the termination.

## PENSION BENEFITS

All of our regular full-time employees hired prior to January 1, 2007 participate in the Pentegra Defined Benefit Plan for Financial Institutions ("Pentegra DB Plan"), a tax-qualified multiemployer defined benefit pension plan. The Pentegra DB Plan also covers any of our regular full-time employees who were hired on or after January 1, 2007, provided that the employee had prior service with a financial services institution that participated in the Pentegra DB Plan, during which service the employee was covered by such plan, and also provided that, prior to January 1, 2008 or on and after April 1, 2023, the employee's break in service from his or her participation in the Pentegra DB Plan was not more than 12 months. Effective July 1, 2015, coverage was extended to include all of our non-highly compensated employees (as defined by Internal Revenue Service rules) who were hired on and after January 1, 2007 but before August 1, 2010. Concurrently, we amended our participation in the Pentegra DB Plan such that some of the benefits offered by the plan were reduced prospectively (that is, on and after July 1, 2015) for employees who were hired prior to July 1, 2003. Mr. Lewis is the only named executive officer who was hired prior to July 1, 2003. Messrs. Bhasin, Madhavan and Pan, each of whom was hired after January 1, 2007, participate in the Pentegra DB Plan because each of them had prior service with the Federal Home Loan Bank of Chicago during which service each of them was covered by the plan. Ms. Chapman was hired in 2004. We do not offer any other defined benefit plans (including supplemental executive retirement plans) that provide for specified retirement benefits. The following table shows the present value of the current accrued pension benefit and the number of years of credited service for each of our named executive officers as of December 31, 2023. The number of years of credited service and the pension benefits shown for Messrs. Bhasin, Madhavan and Pan are inclusive of their prior service with the Federal Home Loan Bank of Chicago.

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Sanjay Bhasin	Pentegra DB Plan	19.1	1,179,000	—
Tom Lewis	Pentegra DB Plan	20.9	1,928,000	—
Kalyan Madhavan	Pentegra DB Plan	18.2	1,257,000	—
Jibo Pan	Pentegra DB Plan	20.8	1,077,000	—
Brehan Chapman	Pentegra DB Plan	19.0	818,000	—

The regular form of retirement benefit under the Pentegra DB Plan is a single life annuity that includes a lump sum death benefit. The normal retirement age is 65, but the plan provides for an unreduced retirement benefit beginning at age 60 as it relates solely to benefits that were accrued prior to July 1, 2015 (for employees hired prior to July 1, 2003) or age 62 (for employees hired on or after July 1, 2003 that meet the eligibility requirements to participate in the Pentegra DB Plan and, for employees hired prior to July 1, 2003, the benefits that those employees accrue on and after July 1, 2015). For employees hired prior to January 1, 2019 who are not eligible to participate in the Pentegra DB Plan, we offer the opportunity for higher matching contributions in our defined contribution plan.

### *Valuation Assumptions*

The accumulated pension benefits reflected in the table above were calculated using the following assumptions:

- Retirement at the earliest age at which retirement benefits may be received without any reduction in benefits (that is, benefits that have been accumulated through December 31, 2023 commence at age 62 and are discounted to December 31, 2023);
- Present values are calculated by weighting the present value of a benefit provided in the form of an annuity by 50 percent and the value of a benefit provided as a lump sum by 50 percent. The annuity benefit is calculated using a discount rate of 4.83 percent. The lump sum benefit is calculated using a discount rate of either 4.83 percent or, for those participants impacted by the Internal Revenue Code Section 415 limits, 5.50 percent (which is the discount rate used to calculate the maximum lump sum payable under Internal Revenue Code Section 415);

- The annuity benefit is valued using the Pri-2012 white collar worker annuitant table with mortality improvement scale MP-2021 and the lump sum benefit is valued using the applicable Internal Revenue Service mortality table for 2023; and
- No pre-retirement decrements (i.e., no pre-retirement termination from any cause including but not limited to voluntary resignation, death or early retirement).

#### *Tax Code Limitations*

As a tax-qualified defined benefit plan, the Pentegra DB Plan is subject to limitations imposed by the Internal Revenue Code of 1986, as amended. Specifically, Section 415(b)(1)(A) of the Internal Revenue Code places a limit on the amount of the annual pension benefit that can be paid from a tax-qualified plan (for 2023, this amount was \$265,000 at age 65). The annual pension benefit limit is less than \$265,000 in the event that an employee retires before reaching age 65 (the extent to which the limit is reduced is dependent upon the age at which the employee retires, among other factors). In addition, Section 401(a)(17) of the Internal Revenue Code limits the amount of annual earnings that can be used to calculate a pension benefit (for 2023, this amount was \$330,000).

From time to time, the Internal Revenue Service may increase the maximum compensation limit and/or the maximum allowable annual benefit for qualified plans. Future increases, if any, would be expected to increase the value of the accumulated pension benefits accruing to our named executive officers. For 2024, the Internal Revenue Service increased the maximum compensation limit to \$345,000 per year. In addition, the Internal Revenue Service increased the maximum allowable annual benefit to \$275,000 for 2024.

#### *Benefit Formula*

Subject to the exceptions noted below for Messrs. Bhasin, Madhavan and Pan, the annual benefit payable under the Pentegra DB Plan (assuming a participant chooses a single life annuity with a lump sum death benefit) is calculated using the following formula:

- 3 percent x years of service credited prior to July 1, 2003 x high 36-month average compensation earned prior to July 1, 2015
- plus
- 2 percent x years of service credited on or after July 1, 2003 x high 36-month average compensation for the entire period of participation in the Pentegra DB Plan

The high 36-month average compensation is the average of a participant's highest 36 consecutive months of compensation. Compensation covered by the Pentegra DB Plan includes taxable compensation as reported on the executive officer's W-2 (reduced by any receipts of compensation deferred from a prior year) plus any pre-tax contributions to our Section 401(k) plan and/or Section 125 cafeteria plan, subject to the Internal Revenue Code limitation which, for 2023, 2022 and 2021, was \$330,000, \$305,000 and \$290,000, respectively. In each of those years, the compensation of all of our named executive officers exceeded the applicable Internal Revenue Code limit; accordingly, the high 36-month average compensation for each of our named executive officers was limited to \$308,333 as of December 31, 2023. Based on the Internal Revenue Code limitations in effect prior to July 1, 2015, the high 36-month average compensation for purposes of the first part of the benefit formula is limited to \$255,000 for Mr. Lewis. The first part of the benefit formula does not apply to Ms. Chapman or Messrs. Bhasin, Madhavan and Pan as they were not employed by us prior to July 1, 2003.

The plan limits the maximum years of benefit service for all participants to 30 years. As of December 31, 2023, Mr. Bhasin, Mr. Lewis, Mr. Madhavan, Mr. Pan and Ms. Chapman had accumulated 9.6, 20.5, 9.3, 9.3 and 19.0 years of credited service, respectively, at the 2 percent service accrual rate. For Mr. Lewis, the remainder of his service (0.4 years) has been credited at the 3 percent service accrual rate. While employed by the Federal Home Loan Bank of Chicago, Messrs. Bhasin, Madhavan and Pan accrued benefits at a service accrual rate of 2.25 percent. As a matter of policy, we do not grant extra years of credited service to participants in the Pentegra DB Plan.

#### *Vesting*

As of December 31, 2023, all of our named executive officers were fully vested in their accrued pension benefits.

### *Early Retirement*

Employees enrolled in the Pentegra DB Plan are eligible for early retirement at age 45 if hired prior to July 1, 2003. If hired on or after July 1, 2003 and before January 1, 2007, employees are eligible for early retirement at age 55 if they have at least 10 years of service with us. Employees hired on or after January 1, 2007 who meet the eligibility requirements to participate in the Pentegra DB Plan are eligible for early retirement at age 55 if they have at least 10 years of accrued benefit service in the Pentegra DB Plan, including prior credited service. If an employee wishes to retire before reaching his or her unreduced benefit age, an early retirement reduction factor (or penalty) is applied. If the sum of an employee's age and benefit service (including any prior credited service) is at least 70, the "Rule of 70" would apply and the employee's benefit would be reduced by 1.5 percent for each year that the benefit is paid prior to reaching his or her unreduced benefit age. If an employee hired prior to July 1, 2003 terminates his or her employment prior to attaining the Rule of 70, the portion of that employee's benefit that was earned prior to July 1, 2015 would be reduced by 3 percent for each year that the benefit is paid prior to reaching age 60. The portion of the benefit earned by that employee on and after July 1, 2015 (if commenced before reaching age 62) would be reduced by 6 percent per year from age 62 to age 60, 4 percent per year from age 60 to age 55 and 3 percent per year from age 55 to age 45. The penalties that apply from age 55 until the employee reaches age 62 (as described in the immediately preceding sentence) are equivalent to the penalties that apply to employees hired on or after July 1, 2003 who have not attained the Rule of 70 prior to termination. The early retirement reduction factor does not apply to an eligible employee if he or she retires as a result of a disability.

Because Mr. Lewis was hired prior to July 1, 2003, he is eligible to receive his pre-July 1, 2015 benefits without reduction at age 60 and his post-June 30, 2015 benefits without reduction at age 62. Given their hire dates, Ms. Chapman and Messrs. Bhasin, Madhavan and Pan are eligible to receive an unreduced benefit at age 62. As of December 31, 2023, Mr. Lewis was eligible for early retirement with reduced benefits. Given his age at December 31, 2023, Mr. Lewis is eligible to receive his pre-July 1, 2015 benefits without reduction. Because he had met the Rule of 70 as of December 31, 2023, the early retirement reduction factor applicable to Mr. Lewis as of that date would have been approximately 1.8 percent as it relates to the benefits he had earned on and after July 1, 2015. As of December 31, 2023, Mr. Madhavan was also eligible for early retirement with reduced benefits. Because he had met the Rule of 70 as of December 31, 2023, the early retirement reduction factor applicable to Mr. Madhavan as of that date would have been approximately 6.6 percent. Given their ages and hire dates, Ms. Chapman and Messrs. Bhasin and Pan were not eligible for early retirement as of December 31, 2023. Mr. Bhasin became eligible for early retirement in early 2024. The early retirement reduction factor applicable to Mr. Bhasin at the date he became eligible for early retirement would have been 10.5 percent.

### *Forms of Benefit*

Participants in the Pentegra DB Plan can choose from among the following standard payment options:

- Single life annuity — that is, a monthly payment for the remainder of the participant's life (this option provides for the largest annuity payment);
- Single life annuity with a lump sum death benefit equal to 12 times the annual retirement benefit — under this option, the death benefit is reduced by 1/12 for each year that the retiree receives payments under the annuity. Accordingly, the death benefit is no longer payable after 12 years (this option provides for a smaller annuity payment as compared to the single life annuity);
- Joint and 50 percent survivor annuity — a monthly payment for the remainder of the participant's life. If the participant dies before his or her survivor, the survivor receives (for the remainder of his or her life) a monthly payment equal to 50 percent of the amount the participant was receiving prior to his or her death (this option provides for a smaller annuity payment as compared to the single life annuity with a lump sum death benefit);
- Joint and 100 percent survivor annuity with a 10-year certain benefit feature — a monthly payment for the remainder of the participant's life. If the participant dies before his or her survivor, the survivor receives (for the remainder of his or her life) the same monthly payment that the participant was receiving prior to his or her death. If both the participant and the survivor die before the end of 10 years, the participant's named beneficiary receives the same monthly payment for the remainder of the 10-year period (this option provides for a smaller annuity payment as compared to the joint and 50 percent survivor annuity); or
- Lump sum payment at retirement in lieu of a monthly annuity.

In addition, other payment options, actuarially equivalent to the foregoing, can be designed for a participant, subject to certain limitations.



## NONQUALIFIED DEFERRED COMPENSATION

The following table sets forth information for 2023 regarding our nonqualified deferred compensation plan (“NQDC Plan”) and our Special Nonqualified Deferred Compensation Plan. The term “NQDC Plan” refers to our 2017 Deferred Compensation Plan, our Consolidated Deferred Compensation Plan and any predecessor plans. The 2017 Deferred Compensation Plan governs compensation earned in 2017 and later years to the extent it is deferred. The Special Nonqualified Deferred Compensation Plan serves primarily as a supplemental executive retirement plan (“SERP”). Prior to 2024, Mr. Lewis was the only currently serving executive officer that had been designated as a participant in the SERP and no SERP contributions had been made on his behalf since 2014. As discussed more fully in the Compensation Discussion and Analysis on pages 89-102, the SERP was recently amended and restated principally to provide supplemental retirement benefits to all of our current executive officers including, but not limited to, Ms. Chapman and Messrs. Bhasin, Lewis, Madhavan and Pan. To accomplish this objective, a new Group 5 was added to the SERP and all of our current executive officers were designated as participants in this group. In February 2024, our Board of Directors approved the initial contributions on behalf of the Group 5 participants. The NQDC Plan and the SERP are defined contribution plans. The assets associated with these plans are held in a grantor trust that is administered by a third party. All assets held in the trust may be subject to forfeiture in the event of our receivership or conservatorship. As explained in the narrative following the table, our SERP is divided into three groups (Group 1, Group 2 and Group 5) based upon differences in participation and vesting characteristics. Groups 3 and 4 are no longer active.

Name	Executive Contributions in Last Fiscal Year (\$) (1)	Registrant Contributions in Last Fiscal Year (\$) (2)	Aggregate Earnings (Losses) in Last Fiscal Year (\$) (3)	Aggregate Withdrawals/ Distributions (\$) (4)	Aggregate Balance at Last Fiscal Year End (\$) (4)
<b>Sanjay Bhasin</b>					
NQDC Plan	192,587	41,531	284,946	30,198	2,024,478
<b>Tom Lewis</b>					
NQDC Plan	35,000	7,386	6,554	20,281	386,527
SERP — Group 1	—	—	58,476	—	477,062
SERP — Group 2	—	—	2,310	—	17,643
	35,000	7,386	67,340	20,281	881,232
<b>Kalyan Madhavan</b>					
NQDC Plan	173,976	15,433	366,946	518,810	1,995,633
<b>Jibo Pan</b>					
NQDC Plan	69,450	7,979	28,019	—	221,750
<b>Brehan Chapman</b>					
NQDC Plan	10,000	4,227	5,912	—	53,820

(1) All amounts in this column are included in the “Salary” column for 2023 in the Summary Compensation Table.

(2) All amounts in this column are included in the “All Other Compensation” column for 2023 in the Summary Compensation Table.

(3) The earnings presented in this column are not included in the “Change in Pension Value and Nonqualified Deferred Compensation Earnings” column for 2023 in the Summary Compensation Table as such earnings are not at above-market or preferential rates.

(4) The balances presented in this column are comprised of the amounts shown in the table below entitled “Components of Nonqualified Deferred Compensation Accounts at Last Fiscal Year End.”

### Components of Nonqualified Deferred Compensation Accounts at Last Fiscal Year End

The following table sets forth the amounts included in the aggregate balance of each named executive officer’s nonqualified deferred compensation accounts as of December 31, 2023 that are attributable to: (1) executive and Bank contributions that are reported in the Summary Compensation Table on page 103; (2) executive and Bank contributions that either were reported in the summary compensation tables for 2006 through 2020 (or that would have been reported if the executive had been a named



executive officer during those years) or that would have been reportable in years prior to 2006 if we had been a registrant in those years and a summary compensation table (in the tabular format presented on page 103) had been required; and (3) earnings (losses) accumulated through December 31, 2023 (2023 and prior years) that either have not been reported, or would not have been reportable, in a summary compensation table because such earnings were not at above-market or preferential rates. Because all of our named executive officers have received distributions from our NQDC Plan in the past, the amounts presented for these officers exclude any prior contributions and the accumulated earnings or losses on those contributions that have previously been distributed, as such assets are no longer held in their NQDC Plan accounts. Ms. Chapman's aggregate balance includes contributions made by her and the Bank and earnings (losses) on those contributions in years prior to 2020 when she was not a named executive officer.

Name	Amounts Reported in Summary Compensation Table			Reported/ Reportable Compensation Related to Years Prior to 2021 (\$)	Cumulative Earnings (Losses) Excluded from Reportable Compensation (\$)	Total (\$)
	2023 (\$)	2022 (\$)	2021 (\$)			
Sanjay Bhasin	143,750	248,307	222,718	834,447	575,256	2,024,478
Tom Lewis	42,386	7,581	7,727	533,835	289,703	881,232
Kalyan Madhavan	74,156	242,303	210,431	871,316	597,427	1,995,633
Jibo Pan	77,429	74,262	8,276	28,770	33,013	221,750
Brehan Chapman	14,227	—	—	31,880	7,713	53,820

### NQDC Plan

Under the 2017 Deferred Compensation Plan, our named executive officers and other highly compensated employees can elect to defer receipt of all or part of their base salary and all or part of their non-equity incentive plan compensation. Deferral elections are made in December of each year for amounts to be earned in the following year and are irrevocable.

Based upon the length of service of our named executive officers (including, in the case of Messrs. Bhasin, Madhavan and Pan, their service with the Federal Home Loan Bank of Chicago during which service each of them was a participant in the Pentegra Defined Contribution Plan for Financial Institutions), we match 200 percent of the first 3 percent of their contributed base salary reduced by 6 percent of their eligible compensation under the FHLBank of Dallas 401(k) Retirement Plan (for 2023, the maximum compensation limit for this plan was \$330,000). We do not provide any matching on employees' incentive compensation awards that are contributed to the NQDC Plan. Base salary and incentive compensation deferred under our NQDC Plan are not included in eligible compensation for purposes of our defined benefit pension plan (the Pentegra DB Plan). All of our participating employees, including our named executive officers, are fully vested in their NQDC Plan account balance at all times, including our matching contributions.

Participating executives direct the investment of their NQDC Plan account balances in an array of externally managed mutual funds that are approved from time to time by our Investment and Administrative Committee, which is comprised of several of our officers, some of whom are executive officers. Participants can choose from among several different investment options, including domestic and international equity funds, bond funds, money market funds and advisor managed portfolios. The mutual funds offered through the NQDC Plan (and our other non-qualified plans) employ investment strategies that are similar (although not identical) to those used in the funds that are available to participants in our tax-qualified 401(k) plan, which is managed by a different third-party sponsor. Participants can change their investment selections prospectively by contacting the trust administrator. There are no limitations on the frequency and manner in which participants can change their investment selections.

When participants elect to defer amounts into our NQDC Plan, they also specify when the amounts will ultimately be distributed to them. Under our Consolidated Deferred Compensation Plan, distributions could either be made in a specific year, whether or not the participant's employment has then ended, or at a time that begins at or after the participant's retirement or separation. Participants could elect to receive either a lump sum distribution or annual installment payments over periods ranging from 2 to 20 years.

Under the 2017 Deferred Compensation Plan, participants can have up to five scheduled in-service accounts and one retirement account. Distributions may either be made in a specific year (or years in the case of installments) or upon retirement, which for this purpose is defined as a separation of service on or after the participant has attained age 55. For scheduled distribution accounts, participants can elect to receive either a lump sum distribution or equal annual installments over a period of up to 4 years (in January of the year designated by the participant and, if installments are elected, in each succeeding January). For retirement accounts, participants can elect to receive either a lump sum distribution or equal annual installments over a period of up to 15 years (in January of the year following the year in which the retirement occurs and, if installments are elected, in each succeeding January). In the event of a participant's termination of service (other than a termination of service that qualifies

as a retirement), the vested balances of his or her retirement account and any scheduled distribution accounts that have not yet commenced distribution will be paid in a lump sum in the month following the month in which the termination of service occurs. In the event of a participant's termination of service that qualifies as a retirement, the vested balances of his or her scheduled distribution accounts that have not yet commenced distribution will be paid in a lump sum distribution in January of the year following the year in which the retirement occurs unless the participant has made an alternative election on a timely basis to receive equal annual installments over a period of up to 15 years. In the event of a participant's termination of service for any reason (other than death) after one or more scheduled distribution accounts has commenced installment payments, such installment payments will continue as if the termination of service had not occurred. In the event of a participant's death, all vested balances then remaining in any retirement or scheduled distribution accounts will be paid to the participant's beneficiary in a lump sum in the month following the month in which the death occurs.

Once selected, participants' distribution schedules cannot be accelerated under our NQDC Plan. For deferrals made on or after January 1, 2005, a participant may postpone a distribution from the NQDC Plan to a future date that is later than the date originally specified on the deferral election form if the following two conditions are met: (1) the participant must make the election to postpone the distribution at least one year prior to the date the distribution was originally scheduled to occur and (2) the future date must be at least five years later than the originally scheduled distribution date. Participants may not postpone deferrals made prior to January 1, 2005 without the approval of our Investment and Administrative Committee.

### **SERP**

Our SERP is currently divided into three groups (Group 1, Group 2 and Group 5) based upon differences in participation and vesting characteristics. The SERP was originally established primarily to provide supplemental retirement benefits to those employees who were serving as our executive officers in October 2004, each of whom was designated as a Group 1 participant. Mr. Lewis is the only remaining executive from that group. As noted above, the SERP was recently amended and restated principally to provide supplemental retirement benefits to those employees who currently serve as our executive officers including, but not limited to, Ms. Chapman and Messrs. Bhasin, Lewis, Madhavan and Pan. To accomplish this objective, a new Group 5 was added to the SERP and all of our current executive officers were designated as participants in this group. Group 2, as explained below, was established to provide a one-time benefit to a specified group of our employees. Mr. Lewis is the only named executive officer who participates in Group 2. Groups 3 and 4 were established for the benefit of a former executive and are no longer active.

#### *Group 1*

Mr. Lewis' benefit in Group 1 consists of contributions made by us on his behalf, plus or minus an allocation of the investment gains or losses on the assets used to fund the plan. Contributions to the Group 1 SERP are determined solely at the discretion of our Board of Directors and we have no obligation or current intention to make any future contributions to the Group 1 SERP. Mr. Lewis is not permitted to make contributions to the Group 1 SERP. The ultimate benefit to Mr. Lewis is based solely on the past contributions that were made by us on his behalf and the earnings or losses on those contributions. We do not guarantee a specific benefit amount or investment return to Mr. Lewis. In addition, we have the right at any time to amend or terminate the Group 1 SERP, or to remove Mr. Lewis at our discretion, except that no amendment, modification or termination may reduce his then vested account balance. Group 1 benefits vest on the date on which the sum of a participant's age and years of service with us is at least 70. Based upon his age and years of service with us, Mr. Lewis was fully vested in his Group 1 benefits as of December 31, 2023. If Mr. Lewis retires or is terminated prior to reaching age 62, his Group 1 account balance will be paid at the time he reaches age 62 in a lump sum distribution based on his preexisting election. If Mr. Lewis retires or is terminated after reaching age 62, or upon a separation of service at any age due to a disability, his Group 1 account balance will be paid at that time in a lump sum distribution based on his preexisting election. In addition to a lump sum payment, the SERP provides an option to receive annual installment payments over periods ranging from 2 to 20 years. Mr. Lewis can change his existing distribution election but only if the change is made at least one year prior to the date the lump sum payment would otherwise be made and the first installment payment pursuant to the change occurs at least five years after the date the lump sum payment would otherwise be made. If Mr. Lewis dies before reaching age 62, his Group 1 account balance will be paid to his beneficiary in a lump sum distribution within 90 days of his death. Group 1 assets are currently invested in a portfolio of mutual funds that are actively managed by the administrator of our grantor trust. Decisions regarding the investment of the Group 1 assets are the sole responsibility of our Investment and Administrative Committee. In 2024, we intend to transfer responsibility for investment decisions to Mr. Lewis. Following this change, Mr. Lewis will direct the investment of his Group 1 account balance among the same mutual funds that are available to participants in our NQDC Plan.

## *Group 2*

Eligibility for the Group 2 SERP was limited to all of our employees who were employed as of June 30, 2003 but who were not eligible to receive a special one-time supplemental contribution to our qualified plan at that time (the Pentegra Defined Contribution Plan for Financial Institutions) because of limitations imposed by that plan (only employees eligible to receive a matching contribution as of December 31, 2002 were eligible to receive the one-time supplemental contribution to our qualified plan). At the time the SERP was established, 22 ineligible employees, including Mr. Lewis, were enrolled in Group 2. The supplemental contribution, equal to 3 percent of each ineligible employee's base salary as of June 30, 2003, was made to the Group 2 SERP to partially offset a reduction in the employee service accrual rate applicable to our defined benefit pension plan (the Pentegra DB Plan) from 3 percent to 2 percent effective July 1, 2003. Our employees are not permitted to make contributions to the Group 2 SERP, nor do we intend to make any future contributions to the Group 2 SERP. Mr. Lewis is fully vested in the one-time contribution and the accumulated earnings on that contribution. The ultimate benefit to be derived by Mr. Lewis from Group 2 is dependent upon the earnings or losses generated on the one-time contribution. We have not guaranteed a specific benefit amount or investment return to him or any of the other employees participating in Group 2. Based on his preexisting election, Mr. Lewis' benefit under Group 2 is payable as a lump sum distribution upon termination of his employment for any reason. Mr. Lewis can change this distribution election in the same way he can change his Group 1 distribution election. Group 2 assets are currently invested in one of the asset allocation funds managed by the administrator of our grantor trust. Similar to Group 1, decisions regarding the investment of the Group 2 assets are the sole responsibility of our Investment and Administrative Committee. In 2024, we intend to transfer responsibility for investment decisions to each of the Group 2 participants, including Mr. Lewis. Following this change, participants will direct the investment of their Group 2 account balances among the same mutual funds that are available to participants in our NQDC Plan.

## *Group 5*

All of our current executive officers are participants in the Group 5 SERP. Each participant's benefit in Group 5 consists of the contributions that are made by us on the participant's behalf, plus or minus the investment gains or losses on the assets used to fund the plan. Group 5 benefits vest upon the earlier to occur of (i) the date on which the participant attains age 65 or (ii) the date on which the sum of the participant's age and years of credited service with us is at least 70. If, prior to becoming vested, the executive officer terminates employment for any reason other than death or disability, or he or she is removed from Group 5, all benefits under the plan are forfeited. The provisions of the plan provide for accelerated vesting in the event of a participant's separation from service due to death or disability. In addition, a Group 5 participant would vest in the balance of his or her account if the participant's employment was involuntarily terminated by us without cause within 12 months following a reorganization (as defined in the SERP), provided that such involuntary termination of employment constituted a separation from service under the provisions of the plan.

Contributions to the Group 5 SERP are determined solely at the discretion of our Board of Directors and we have no obligation to make contributions to the Group 5 SERP. In each calendar year, our Board of Directors, in its sole and absolute discretion, may elect to make a contribution to the accounts of any or all of the Group 5 participants based on an allocation percentage that is within a specified allocation range, which, for Mr. Bhasin, is 10 percent to 20 percent and, for all other executive officers, is 5 percent to 20 percent (the "Annual Allocation Percentage"). The target Annual Allocation Percentages for Mr. Bhasin and all other executive officers are 15 percent and 10 percent, respectively. If made, the annual contribution will be an amount equal to the Annual Allocation Percentage multiplied by the sum of the executive officer's (i) base salary for the most recently completed calendar year plus (ii) the non-equity incentive compensation payment that is attributable to the most recently completed calendar year (i.e., the total of the Current Award for that year plus any Deferred Award that vested as of the end of that year). Participants are not permitted to make contributions to the Group 5 SERP. In February 2024, our Board of Directors approved a Group 5 SERP contribution on behalf of each of our executive officers equal to their target Annual Allocation Percentage.

The ultimate benefit to a participant is based solely on the contributions that we make on his or her behalf and the earnings or losses on those contributions. We do not guarantee a specific benefit amount or investment return to any participant. In addition, we have the right at any time to amend or terminate the Group 5 SERP, or to remove a participant from the group at our discretion, except that no amendment, modification, or termination may reduce the then vested account balance of any participant. If a vested executive retires or is terminated, that executive's Group 5 account balance will be paid in either a lump sum distribution within 30 days following the last day of the month in which the participant's separation occurred or annual installment payments over periods ranging from 2 to 10 years based on that participant's preexisting election. Upon a separation of service due to a disability, the participant's Group 5 account balance will be paid at that time in either a lump sum distribution within 30 days following the last day of the month in which the participant's separation occurred or annual installment payments over periods ranging from 2 to 10 years based on the participant's preexisting election. If a participant were to die, his or her Group 5 SERP account would be paid to the participant's beneficiary in a lump sum distribution within 90 days of the participant's death. Each participant will direct the investment of his or her Group 5 account balance among the same mutual funds that are available to participants in our NQDC Plan.

## POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

We currently have employment agreements with Mr. Bhasin and Ms. Chapman. As further discussed below, the employment agreements with each of these executive officers provide for certain termination benefits in specified circumstances. As of December 31, 2023 (and as of the date of this report), no employment agreement or contract of any kind existed between us and Messrs. Lewis, Madhavan or Pan. However, we have a Reduction in Workforce Policy ("RIF Policy") that applied to all of our employees at that date other than four executive officers with whom we have entered into employment agreements, including Mr. Bhasin and Ms. Chapman. With certain exceptions, our RIF Policy provides severance pay and the continuation of certain employee benefits for any employee in a job position that is eliminated due to economic conditions, functional reorganization, budgetary constraints or other business conditions. A reduction in force can also occur when a position changes so significantly that the related job responsibilities are no longer needed or applicable (collectively, a "RIF Policy Triggering Event"). Accordingly, at December 31, 2023, Messrs. Lewis, Madhavan and Pan would have been entitled to termination benefits under our RIF Policy if (and only if) a RIF Policy Triggering Event had occurred on that date. The potential payments upon termination under the employment agreements (applicable to Mr. Bhasin and Ms. Chapman) and our RIF Policy (as applied to Messrs. Lewis, Madhavan and Pan) are discussed in the following sections.

### *Employment Agreements with Mr. Bhasin and Ms. Chapman*

Effective January 1, 2014 and March 24, 2015, we entered into employment agreements with Ms. Chapman and Mr. Bhasin, respectively. Each of these employment agreements provides that we will employ the executive officer for one year (such period, as it may be extended, the "Employment Period"), unless terminated earlier for any of the following reasons: (1) death; (2) disability; (3) termination by us for cause (as discussed below); (4) termination by us for other than cause (i.e., for any other reason or for no reason); or (5) termination by the executive officer with good reason (as discussed below). On each yearly anniversary, the employment agreements automatically renew for an additional one-year term unless either we or the executive officer gives a notice of non-renewal. Not less than 30 days prior to the anniversary date, either we or the executive officer may give a notice of non-renewal, in which case the executive's employment with us would terminate at the end of the Employment Period. We may, in our sole discretion, pay the executive in lieu of such 30-day notice an amount equal to the base salary that would otherwise be payable to the executive for such 30-day period, in which case the termination of the executive would become effective immediately upon the date of such payment. Because neither we nor the executives gave a notice of non-renewal, the employment agreement with Ms. Chapman was recently extended through December 31, 2024 and the employment agreement with Mr. Bhasin will soon be extended through March 23, 2025.

For purposes of these employment agreements, cause for termination shall mean a finding by us that: (i) the executive has failed to perform his or her assigned duties for us after written notice of the failure and an opportunity to cure within 10 days of receipt of the notice (provided we determine that the failure is curable); (ii) the executive has failed or refused to comply in any material respect with our policies, procedures, practices, standards or other written directives; (iii) the executive has engaged in dishonesty, misconduct, gross negligence or falsification of records involving us; (iv) the executive has committed an act which injures or could reasonably be expected to injure our reputation, business or business relationships; (v) the executive fails to devote all of his or her business time and attention exclusively to our business and affairs; (vi) the executive has been convicted of, or has entered a plea of guilty or *nolo contendere* to, any crime involving moral turpitude or any felony; (vii) the executive has engaged in conduct which causes him or her to be barred from employment with us by any law or regulation or by any order of, or agreement with, any regulatory authority; or (viii) the executive breaches his or her employment agreement.

For purposes of these employment agreements, good reason means the occurrence, without the executive's written consent, of any of the following events: (a) any material diminution in the executive's authority, duties or responsibilities with us; (b) a material reduction by us in the executive's incentive compensation award range, except for an across-the-board reduction similarly affecting substantially all similarly-situated employees; (c) a material reduction in the executive's base salary, except for across-the-board salary reductions similarly affecting substantially all similarly-situated employees; (d) a requirement by us that the executive perform his or her principal services more than 100 miles from the executive's place of primary employment on January 1, 2014 (in the case of Ms. Chapman) or March 24, 2015 (in the case of Mr. Bhasin) or such other location at which the executive has later agreed to provide such services; (e) a material breach by us of any material provision of the employment agreement; or (f) we, or substantially all of our assets, are effectively acquired by another FHLBank through merger or other form of acquisition and the surviving bank's Board of Directors or President makes a material diminution in the executive's authority, duties or responsibilities.

No resignation will be treated as resignation for good reason unless (x) the executive has given written notice to us of the executive's intention to terminate his or her employment for good reason, describing in detail the grounds for such action, no later than 30 days after the first occurrence of such circumstance, (y) the executive has provided us with at least 30 days in which to cure the circumstance, and (z) if we are not successful in curing the circumstance, the executive ends employment within 30 days following the conclusion of the cure period in (y). If we inform the executive that we will not treat the

executive's resignation as for good reason, he or she may either withdraw the resignation and remain employed by us (provided that the executive does so before the original notice of resignation becomes effective) or proceed to dispute our decision.

Under the terms of the employment agreements, in the event that the executive officer's employment with us is terminated either by the executive officer for good reason or by us other than for cause, or in the event that we give notice of non-renewal while the executive is willing and able to continue employment on the same terms (each, a "Triggering Event"), the executive officer shall be entitled to receive the following severance benefits in addition to those payable under any applicable incentive and benefit programs in effect at the time of termination and in accordance with their terms:

- (a) base salary continuation (at the base salary in effect at the time of termination) for 12 months;
- (b) a pro rata portion of the executive's non-equity incentive plan compensation for the year in which the executive's termination occurs, based on actual performance for such year and payable at the time that annual incentive awards, if any, are paid to other executives, but in no event later than March 15 following the year in which the termination occurred; and
- (c) continuation of any elective group health and dental insurance benefits that we are providing to the executive officer as of his or her termination date for a period of 12 months.

If the executive officer's employment with us is terminated for any reason other than a Triggering Event, the executive officer will be entitled only to his or her base salary through the last day of the executive's actual employment with us unless his or her termination is due to a death or disability in which case the executive (or his or her estate) will also be entitled to receive the executive's base salary for an additional 30-day period.

The terms of the employment agreements specify that the right to receive payments under items (a) through (c) above is contingent upon the executive delivering to us an executed severance agreement and a release of claims in a form provided by us.

The terms of the employment agreements with Mr. Bhasin and Ms. Chapman provide that during the executive's employment and for a period of one year after the termination of such employment for any reason, the executive will not: (i) engage in a managerial capacity in any business or enterprise in which the executive would serve in a role to affect that entity's decisions with respect to any product or service that competes with our credit products; (ii) directly or indirectly, either alone or in association with others, solicit, recruit, induce, or attempt to solicit, recruit or induce for employment or hire or engage as an independent contractor, any of our employees with whom the executive had contact during his or her employment with us; or (iii) directly or indirectly, either alone or in association with others, solicit, divert or take away, or attempt to solicit, divert or take away, the business or patronage of any of our members or customers with which the executive had material contact during his or her employment with us or about which the executive learned confidential information.

The following table sets forth the amounts that would have been payable to Mr. Bhasin and Ms. Chapman as of December 31, 2023 if a Triggering Event had occurred on that date. If the Triggering Event had been related to a reduction in force, then Mr. Bhasin and Ms. Chapman would also have been entitled, under the terms of the 2021 EIP and 2022 EIP, to receive (in early 2025 and early 2026, respectively), his or her 2021 EIP Deferred Award and 2022 EIP Deferred Award with interest at 6 percent compounded annually over the three-year deferral performance periods. A termination due to a reduction in force would entitle Mr. Bhasin and Ms. Chapman to receive their 2023 EIP Deferred Award only if the termination occurs during the three-year deferral performance period applicable to that award (i.e., the period from January 1, 2024 through December 31, 2026).

Name	Accrued/ Unused Vacation as of 12/31/23 (\$)	Undiscounted Value of Base Salary Continuation (\$)	2023 Non-Equity Incentive Plan Compensation (\$)	Undiscounted Value of Health Care Benefits Continuation (\$)	Total Termination Benefit if Triggering Event was not a RIF (\$)	2021 EIP Deferred Award (\$)	2022 EIP Deferred Award (\$)	Total Estimated Termination Benefit if Triggering Event was a RIF (\$)
Sanjay Bhasin	98,664	1,026,104	999,764	27,261	2,151,793	508,066	451,876	3,111,735
Brehan Chapman	38,672	402,193	282,280	15,897	739,042	136,215	122,592	997,849

If our employment of Mr. Bhasin had been terminated on December 31, 2023 due to his death or disability, he (or his beneficiary in the case of his death) would have been entitled to receive an amount totaling \$2,065,413 comprised of the following: (i) his accrued/unused vacation (\$98,664); (ii) his base salary for one month (\$85,509); (iii) his 2023 non-equity incentive plan compensation comprised of the 2023 EIP Current Award and 2020 EIP Deferred Award (\$999,764); (iv) his 2021 EIP Deferred Award with interest at 6 percent compounded annually for the period from January 1, 2022 through December 31, 2023 (\$479,308); and (v) his 2022 EIP Deferred Award with interest at 6 percent for the period from January 1, 2023 through December 31, 2023 (\$402,168). A termination due to Mr. Bhasin's death or disability would entitle him (or his beneficiary in the case of his death) to receive his 2023 EIP Deferred Award only if the termination occurs during the three-year deferral performance period applicable to the award.

If our employment of Ms. Chapman had been terminated on December 31, 2023 due to her death or disability, she (or her beneficiary in the case of her death) would have been entitled to receive an amount totaling \$592,080 comprised of the

following: (i) her accrued/unused vacation (\$38,672); (ii) her base salary for one month (\$33,516); (iii) her 2023 non-equity incentive plan compensation comprised of the 2023 EIP Current Award and 2020 EIP Deferred Award (\$282,280); (iv) her 2021 EIP Deferred Award with interest at 6 percent compounded annually for the period from January 1, 2022 through December 31, 2023 (\$128,505); and (v) her 2022 EIP Deferred Award with interest at 6 percent for the period from January 1, 2023 through December 31, 2023 (\$109,107). A termination due to Ms. Chapman's death or disability would entitle her (or her beneficiary in the case of her death) to receive her 2023 EIP Deferred Award only if the termination occurs during the three-year deferral performance period applicable to the award.

**Termination Benefits for Messrs. Lewis, Madhavan and Pan Under our RIF Policy**

As of December 31, 2023, no employment agreement or contract of any kind existed between us and Messrs. Lewis, Madhavan or Pan. However, as discussed above, Messrs. Lewis, Madhavan and Pan would have been entitled to benefits under our RIF Policy as of December 31, 2023 if a RIF Policy Triggering Event had occurred on that date. The severance benefit provided under the RIF Policy is based upon an employee's status (nonexempt, exempt, officer or senior officer), length of service (including, in the case of Messrs. Madhavan and Pan, their service with the Federal Home Loan Bank of Chicago pursuant to our standard FHLBank System transfer procedures) and base salary at the time of termination, subject to certain minimum and maximum amounts. In no event may the severance benefit paid to any senior officer under the RIF Policy exceed an amount equal to one year's base salary plus the continuation of certain employee benefits for a one-year period. In addition, employees are entitled to receive a lump sum payment for any accrued and unused vacation.

Benefits continuation includes vacation that would have been accrued by the employee during the severance benefit period, matching contributions that otherwise would have been made on his or her behalf to our 401(k)/Thrift Plan during the severance benefit period (based on elections in effect at the date of termination), and continuation of any health care benefits that we were providing to the employee at the date of his or her termination (our health care benefits are elective and include medical, dental, vision and prescription drug benefits). The dollar equivalent of the future vacation benefit and matching contributions are paid in cash to the employee upon termination. Employees are eligible to continue their pre-existing participation in our health care benefit program, if any, for the length of the severance period by paying premiums at the same subsidized rates that we charge our active employees. If an employee elects to continue his or her coverage, we will pay the difference between the subsidized rate and the full cost of providing the health care benefits during the severance period (in the table below, these amounts are presented in the column entitled "Undiscounted Value of Health Care Benefits Continuation").

Any employee who voluntarily resigns, retires or is discharged for cause is not entitled to any benefits under our RIF Policy. We reserve the right in our sole discretion to amend or discontinue our RIF Policy at any time.

As of December 31, 2023, Messrs. Lewis, Madhavan and Pan would have been entitled under our RIF Policy to severance pay and benefits continuation for one year. Further, under the terms of our 2021 and 2022 EIPs, the executives would have been entitled to receive their 2021 and 2022 EIP Deferred Awards upon completion of the applicable three-year deferral performance periods. The following table sets forth the amounts that would have been payable to these executive officers as of December 31, 2023 if a RIF Policy Triggering Event had occurred on that date. For the 2021 EIP Deferred Awards (payable in early 2025) and 2022 EIP Deferred Awards (payable in early 2026), the amounts presented in the table include interest at 6 percent compounded annually over the three-year deferral performance periods. None of these executives would have been entitled to receive their 2023 EIP Deferred Award because the termination event did not occur during the three-year deferral performance period applicable to that award (i.e., the period from January 1, 2024 through December 31, 2026).

Name	Accrued/ Unused Vacation as of 12/31/23 (\$)	Undiscounted Value of Base Salary Continuation (\$)	2023 Non-Equity Incentive Compensation (\$)	Undiscounted Value of Health Care Benefits Continuation (\$)	Lump Sum Payment for Loss of Future Vacation Benefits (\$)	Lump Sum Payment for Loss of Future Matching Contributions (\$)	SERP (\$) <sup>(1)</sup>	2021 EIP Deferred Award (\$)	2022 EIP Deferred Award (\$)	Total Termination Benefit (\$)
Tom Lewis	43,757	455,075	319,396	27,261	43,757	19,800	494,705	154,126	138,712	1,696,589
Kalyan Madhavan	56,710	589,784	472,901	27,259	56,710	19,800	—	230,780	206,404	1,660,348
Jibo Pan	44,713	465,016	372,860	27,259	44,713	19,800	—	181,959	162,740	1,319,060

<sup>(1)</sup> Amounts reflect the vested balances in Mr. Lewis' Group 1 and Group 2 SERP accounts. Mr. Lewis' Group 1 SERP account (\$477,062) would have been payable to him as a lump sum upon reaching age 62. His Group 2 SERP account (\$17,643) would have been payable to him as a lump sum upon his termination.

Messrs. Lewis, Madhavan and Pan would have been required to execute non-disparagement/confidentiality agreements in order to receive the termination benefits provided by the RIF Policy (i.e., base salary and health care benefits continuation and lump



sum payments for the loss of future vacation benefits and matching contributions). These executive officers would not have been required to execute any type of agreement in order to receive their accrued/unused vacation and SERP benefits, if applicable. In order to receive the termination benefits arising under the 2021 and 2022 EIPs, the executives would have been required to execute the severance agreement offered by us, the provisions of which are not dictated by either the 2021 or 2022 EIP.

If our employment of Messrs. Lewis, Madhavan or Pan had been terminated on December 31, 2023 due to the executive's death or disability, the executive (or his beneficiary in the case of his death) would have been entitled to receive the following: (i) his accrued/unused vacation; (ii) his 2023 non-equity incentive plan compensation comprised of the 2023 EIP Current Award and 2020 EIP Deferred Award; (iii) his 2021 EIP Deferred Award with interest at 6 percent compounded annually for the period from January 1, 2022 through December 31, 2023; and (iv) his 2022 EIP Deferred Award with interest at 6 percent for the period from January 1, 2023 through December 31, 2023. For Messrs. Lewis, Madhavan and Pan, these amounts would have totaled \$632,008, \$931,027 and \$734,070, respectively. These amounts would have been payable no later than March 15, 2024. A termination due to the executive's death or disability would trigger the payment of the 2023 EIP Deferred Award only if the termination occurs during the three-year deferral performance period applicable to that award (i.e., the period from January 1, 2024 through December 31, 2026).

If on December 31, 2023: (1) we had merged or consolidated with or reorganized into or with another FHLBank or other entity, or another FHLBank or other entity had merged or consolidated into us; (2) we had sold or transferred all or substantially all of our business and/or assets to another FHLBank or other entity; or (3) we had liquidated or dissolved (each, a "Significant Transaction"), then the 2023 EIP Current Award, the 2020 EIP Deferred Award, the 2021 EIP Deferred Award (based on the assumption that the applicable safety and soundness goals had been met and with interest at 6 percent compounded annually for the period from January 1, 2022 through December 31, 2023) and the 2022 EIP Deferred Award (based on the assumption that the applicable safety and soundness goals had been met and with interest at 6 percent for the period from January 1, 2023 through December 31, 2023) would have been payable to Messrs. Lewis, Madhavan and Pan on that date. For Messrs. Lewis, Madhavan and Pan, these amounts would have totaled \$588,250, \$874,318 and \$689,357, respectively. A termination due to a Significant Transaction would trigger the payment of the 2023 EIP Deferred Award only if the termination occurs during the three-year deferral performance period applicable to that award (i.e., the period from January 1, 2024 through December 31, 2026).

In the event the 2023 EIP Current Award, the 2020 EIP Deferred Award, the 2021 EIP Deferred Award and the 2022 EIP Deferred Award would not otherwise have been payable under the terms of their employment agreements, Mr. Bhasin and Ms. Chapman would have been entitled under the terms of the 2020, 2021, 2022 and 2023 EIPs to receive \$1,881,240 and \$519,893, respectively, on December 31, 2023 if a Significant Transaction had occurred on that date. These amounts would have been comprised of the executive's 2023 EIP Current Award and 2020 EIP Deferred Award in addition to their 2021 and 2022 Deferred Awards with interest at 6 percent compounded annually through December 31, 2023 (based on the assumption that the applicable safety and soundness goals had been met). A termination due to a Significant Transaction would trigger the payment of the 2023 EIP Deferred Award only if the termination occurs during the three-year deferral performance period applicable to that award (i.e., the period from January 1, 2024 through December 31, 2026).

### **Other**

If any of our named executive officers had voluntarily retired on December 31, 2023, the executive would have been entitled to receive: (i) his or her accrued/unused vacation and (ii) his or her 2023 non-equity incentive plan compensation comprised of the 2023 EIP Current Award and 2020 EIP Deferred Award. If Mr. Lewis had voluntarily retired on December 31, 2023, he would also have been entitled to receive his 2022 Deferred Award in early 2026 (following completion of the three-year deferral performance period that is applicable to that award). This retirement provision did not exist in the EIPs prior to the 2022 EIP and therefore it is not applicable to the 2021 Deferred Award. To qualify for this retirement benefit, an executive must have attained age 55 and have at least 10 years of service with us. Mr. Lewis would not have been entitled to receive his 2023 Deferred Award because his retirement, if it occurred on December 31, 2023, would not have occurred during the three-year deferral performance period applicable to that award (i.e., the period from January 1, 2024 through December 31, 2026). None of our other named executive officers met the requirements for this retirement benefit as of December 31, 2023.

In the event of the death or disability of any of our executive officers, we have no obligation to provide any life insurance or disability benefits beyond those that are provided for in our group life and disability insurance programs that are available generally to all salaried employees and that do not discriminate in scope, terms or operation in favor of our executive officers. Except as previously noted with regard to our SERP, our qualified and nonqualified retirement plans do not provide for any enhancements or accelerated vesting in connection with a termination, including a termination resulting from any of the events described above or the death or disability of a named executive officer. Following a termination for any reason, the balance of a named executive officer's NQDC Plan account would be distributed pursuant to the instructions in his or her deferral election forms or as prescribed by the 2017 Deferred Compensation Plan, as applicable, and he or she would be entitled to cash out any accrued and unused vacation. Other than the benefits described above in connection with each covered circumstance and

ordinary retirement benefits subject to applicable requirements for those benefits (such as eligibility), we do not provide any post-employment benefits or prerequisites to any employees, including our named executive officers.

We also sponsor a retirement benefits program that includes health care and minimal life insurance benefits for eligible retirees. While eligibility for participation in the program and required participant contributions vary depending upon an employee's age, hire date and length of service, the provisions of the plan apply equally to all employees, including our executive officers. For a discussion of our retirement benefits program, see pages F-44 through F-47 of this Annual Report on Form 10-K.

### **Regulatory Rules Regarding Golden Parachute Payments**

On July 30, 2008, the Housing and Economic Recovery Act of 2008 was enacted. Among other things, this legislation gave the Director of the Finance Agency (the "Director") the authority to limit, by regulation or order, any golden parachute payment. On January 28, 2014, the Finance Agency published a final rule relating to golden parachute payments (the "Golden Parachute Regulation"). The Golden Parachute Regulation defines a "golden parachute payment" as any payment (or any agreement to make any payment) in the nature of compensation by any FHLBank for the benefit of certain entity-affiliated parties (including but not limited to a FHLBank's officers) that (i) is contingent on, or by its terms is payable on or after, the termination of such party's primary employment or affiliation with the FHLBank and (ii) is received on or after, or is made in contemplation of, any of the following events: (a) the insolvency of the FHLBank; (b) the appointment of any conservator or receiver for the FHLBank; or (c) the FHLBank is in a troubled condition.

The Golden Parachute Regulation prohibits a FHLBank from making, or agreeing to make, any golden parachute payment unless: (1) the Director determines that the payment or agreement is permissible; (2) the agreement is made in order to hire a person to become an entity-affiliated party either at the time when the FHLBank is insolvent, in a troubled condition or the subject of a conservatorship or receivership or in an effort to prevent such an event, and the Director consents in writing to the amount and terms of the golden parachute payment; or (3) the payment is made pursuant to an agreement which provides for a reasonable severance payment, not to exceed 12 months' salary, in the event of a change in control (excluding a change in control resulting from a conservatorship or receivership); provided, however, that the consent of the Director is obtained prior to making the payment. In all of these cases, the FHLBank must demonstrate that it does not have any reasonable basis to believe that the payee (a) has committed any fraudulent act or omission, breach of trust or fiduciary duty, or insider abuse that is likely to have a material adverse effect on the FHLBank; (b) is substantially responsible for the insolvency of, the appointment of a conservator or receiver for, or the troubled condition of the FHLBank; (c) has materially violated any applicable federal or state law or regulation that has had or is likely to have a material effect on the FHLBank; and (4) has violated or conspired to violate certain specified sections of the United States Code.

The following types of payments are excluded from the definition of "golden parachute payment" under the Golden Parachute Regulation: (i) any payment made pursuant to a pension or retirement plan that is qualified (or is intended within a reasonable period of time to be qualified) under Section 401 of the Internal Revenue Code of 1986 or pursuant to a pension or other retirement plan that is governed by the laws of any foreign country; (ii) any payment made pursuant to any plan, contract, agreement or other arrangement which is an "employee welfare benefit plan" as that term is defined in section 3(1) of the Employee Retirement Income Security Act of 1974, as amended, or other usual and customary plans such as dependent care, tuition reimbursement, group legal services, or cafeteria plans; (iii) any payment made pursuant to a bona fide deferred compensation plan or arrangement (iv) any payment made by reason of death or by reason of termination caused by the disability of the entity-affiliated party; (v) any payment made pursuant to a nondiscriminatory severance pay plan or arrangement that provides for payment of severance benefits of not more than 12 months' base compensation to all eligible employees upon involuntary termination other than for cause, voluntary resignation or early retirement (other than payments to a named executive officer and any other officer identified by the Director whose base salary exceeds \$300,000); or (vi) any severance or similar payment that is required to be made pursuant to a state statute or foreign law that is applicable to all employers within the appropriate jurisdiction (with the exception of employers that may be exempt due to their small number of employees or other similar criteria).

The Golden Parachute Regulation was effective February 27, 2014. Accordingly, payments that might otherwise be payable to Mr. Bhasin or Ms. Chapman under their employment agreements or our other named executive officers under our RIF Policy (or payments that might otherwise be payable to any of our named executive officers under our EIPs) could be reduced if the event giving rise to such payments were to occur at a time at which we were (or it was contemplated that we could become) insolvent, in a troubled condition or the subject of a conservatorship or receivership.

On January 28, 2014, the Finance Agency also published a final rule relating broadly to executive compensation (the "Executive Compensation Regulation"). Under the Executive Compensation Regulation, which became effective on February 27, 2014, the Director has the authority to prohibit us from providing compensation (including termination benefits) to any named executive officer that the Director determines is not reasonable and comparable with compensation for employment in other similar businesses involving similar duties and responsibilities. In determining whether compensation to a named executive officer is not reasonable and comparable, the Director may take into consideration any factors the Director considers



relevant, including any wrongdoing on the part of the executive, such as any fraudulent act or omission, breach of trust or fiduciary duty, violation of law, rule, regulation, order or written agreement, and insider abuse. The Executive Compensation Regulation provides that we must provide at least 30 days' advance written notice prior to making any payments to a named executive officer in connection with a change in control or a termination of the executive's employment with us. Accordingly, it is possible that payments that might otherwise be payable to our named executive officers could be reduced even if the event that triggers those payments were to occur at a time when we were not insolvent, in a troubled condition or the subject of a conservatorship or receivership.

On December 20, 2018, the Finance Agency published a final rule on golden parachute and indemnification payments (the "Golden Parachute Rule") to address areas of supervisory concern and to reduce administrative and compliance burdens. The Golden Parachute Rule, which became effective on January 22, 2019, sets forth the standards the Finance Agency would take into consideration when limiting or prohibiting golden parachute and indemnification payments by a FHLBank to an entity-affiliated party if the FHLBank were in a troubled condition, in conservatorship or receivership, or insolvent. The provisions of the rule: (i) focus the standards on payments to and agreements with executive officers, broad-based plans covering large numbers of employees (such as severance plans), and payments to employees other than executive officers who may have engaged in certain types of wrongdoing; and (ii) revise and clarify definitions, exemptions and procedures to implement the Finance Agency's supervisory approach.

### PAY RATIO

For 2023, the estimated ratio of our President/CEO's total compensation to the median annual total compensation of all of our other employees was 11.9 to 1. The estimated median annual total compensation of all of our other employees was determined by calculating their compensation in the same manner as total compensation is calculated for our President/CEO, which calculation includes, among other things, amounts attributable to the change in pension value for those of our employees who participate in the Pentegra DB Plan ("DB Plan Participants"), as discussed in the "Pension Benefits" section on page 107. The change in pension value for DB Plan Participants varies based upon their age, compensation and tenure with us. For 2023, the estimated median annual total compensation of all of our employees (excluding our President/CEO) was \$191,710 and the total compensation of our President/CEO was \$2,286,199, as shown in the Summary Compensation Table on page 103.

We identified the median by estimating the annual total compensation for each of our employees who were employed by us on December 31, 2023 (excluding our President/CEO) and then ranking the total compensation for those employees from lowest to highest. The ranking included 201 full-time employees and 2 part-time employees. For those employees who were not employed by us during the entire year, we annualized their total compensation. For base salaries (or, in the case of our hourly employees, wages plus overtime), incentive compensation and our matching contributions to qualified and nonqualified defined contribution plans, we used actual (or, as appropriate, annualized) amounts. For the annual change in pension values, we calculated changes for each of the DB Plan Participants for whom the calculation could have impacted our determination of the median annual total compensation.

### DIRECTOR COMPENSATION

Director fees and reimbursable expenses are determined at the discretion of our Board of Directors, subject to the authority of the Finance Agency's Director to object to, and to prohibit prospectively, compensation and/or expenses that she determines are not reasonable. For 2023, our directors received fees based on the number of our regularly scheduled board meetings that they attended in person and the number of telephonic meetings in which they participated, subject to a maximum compensation limit. The following table sets forth the annual compensation limits and attendance fees that our directors were entitled to receive for each regular board meeting that they attended in 2023 (subject to a maximum of five out of the six meetings held). In addition, each director was entitled to receive (subject to the annual compensation limits) \$1,000 for his or her participation in telephonic meetings of the Board of Directors and \$1,000 for his or her participation in telephonic or special in-person meetings of its committees.

	<b>Annual Compensation Limit for 2023</b>	<b>Fee For Attendance at Each Regular Board Meeting</b>
Chairman of the Board	\$ 148,835	\$ 29,767
Vice Chairman of the Board	133,900	26,780
Chairmen of the Audit and Risk Management Committees	129,780	25,956
Chairmen of all other Board Committees	125,145	25,029
All other Directors	114,330	22,866

The following table sets forth the actual compensation earned by our directors in 2023. Three of the directors shown in the table, Robert M. Rigby, Margo S. Scholin and John P. Salazar, no longer serve on our Board of Directors as their terms expired on December 31, 2023. All of the directors shown in the table served on our Board of Directors during all of 2023.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Robert M. Rigby, Chairman in 2023	148,835	—	—	—	—	*	148,835
Margo S. Scholin, Vice Chairman in 2023	133,900	—	—	—	—	*	133,900
Dorsey L. Baskin, Jr.	114,330	—	—	—	—	*	114,330
Dianne W. Bolen	125,145	—	—	—	—	*	125,145
Tim H. Carter	125,145	—	—	—	—	*	125,145
Albert C. Christman	129,780	—	—	—	—	*	129,780
Rufus Cormier, Jr.	114,330	—	—	—	—	*	114,330
James D. Goudge	125,145	—	—	—	—	*	125,145
W. Wesley Hoskins	114,330	—	—	—	—	*	114,330
Michael C. Hutsell	129,780	—	—	—	—	*	129,780
A. Fred Miller, Jr.	114,330	—	—	—	—	*	114,330
Sally I. Nelson	114,330	—	—	—	—	*	114,330
Lorraine Palacios	114,330	—	—	—	—	*	114,330
Christopher Palmer	114,330	—	—	—	—	*	114,330
Stephen Panepinto	114,330	—	—	—	—	*	114,330
Felipe A. Rael	114,330	—	—	—	—	*	114,330
John P. Salazar	125,145	—	—	—	—	*	125,145

\* Our directors did not receive any other form of compensation in 2023 other than the limited perquisites which are discussed below. For each director, the aggregate amount of such perquisites was either less than \$3,032 or zero.

Under our NQDC Plan, our directors may elect to defer any or all of their fees. Deferral elections must be made in December of each year for amounts to be earned in the following year and are irrevocable. Participating board members can elect to receive distributions under the same rules that apply to our highly compensated employees who have elected to participate in the plan. Similarly, directors' distribution schedules cannot be accelerated but they can be postponed under the same rules that apply to our highly compensated employees who have elected to participate in the plan. Participating board members direct the investment of their deferred fees among the same externally managed mutual funds that are available to our employee participants. As the earnings derived from these mutual funds are not at above-market or preferential rates, they are not included in the table above. Our liability for directors' deferred compensation (including both current and former directors), which consists of the accumulated compensation deferrals and the accrued earnings or losses on those deferrals, totaled \$3,551,000 at December 31, 2023.

We have a policy under which we will reimburse our directors for all travel and meal expenses of a spouse accompanying them to no more than two meetings of our board and/or any of its committees each year. In addition, we will reimburse our directors for the meal expenses of a spouse accompanying them to any group functions of the Board of Directors regardless of whether the meal occurs during one of the trips specified in the immediately preceding sentence provided the meal was incurred in connection with a group outing in which directors and officers were in attendance. Further, we will pay for the expenses of directors' spouses attending up to two group spousal functions annually, provided the functions are organized by us. In 2023, 14 of our directors used these benefits to some extent at a total cost to us of \$23,665. As no individual director was reimbursed more than \$3,031 for spousal travel and meal expenses, these perquisites are not reportable as compensation in the table above.

In accordance with Finance Agency regulations, we have established a formal policy governing the travel reimbursement provided to our directors. During 2023, our directors' Bank-related travel expenses totaled \$183,882, not including the spousal travel and meal reimbursements described above.

For 2024, our directors will receive fees based on the number of our regularly scheduled board meetings that they attend in person and the number of telephonic meetings in which they participate, subject to a maximum compensation limit. The following table sets forth the annual compensation limits and attendance fees that our directors will be entitled to receive for each regular board meeting that they attend in 2024 (subject to a maximum of five out of the six meetings to be held). In addition, each director will receive (subject to the annual compensation limits) \$1,000 for his or her participation in telephonic meetings of the Board of Directors and \$1,000 for his or her participation in telephonic or special in-person meetings of its committees.

	<b>Annual Compensation Limit for 2024</b>	<b>Fee For Attendance at Each Regular Board Meeting</b>
Chairman of the Board	\$ 156,277	\$ 31,255
Vice Chairman of the Board	140,595	28,119
Chairmen of the Audit and Risk Management Committees	136,269	27,254
Chairmen of all other Board Committees	130,000	26,000
All other Directors	122,333	24,467

### **Compensation Committee Interlocks and Insider Participation**

None of our directors who served on our Compensation and Human Resources Committee during 2023 was, prior to or during 2023, an officer or employee of the Bank, nor did they have any relationships requiring disclosure under applicable related party requirements. None of our executive officers served as a member of the compensation committee (or similar committee) or board of directors of any entity whose executive officers served on our Compensation and Human Resources Committee or Board of Directors.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The Bank has two sub-classes of Class B capital stock authorized and outstanding, Class B-1 and Class B-2 Capital Stock, both of which have a par value of \$100 per share. The Bank does not have any other authorized classes of capital stock. The Bank is a cooperative and all of its outstanding capital stock is owned by its members or, in some cases, by non-member institutions that acquire stock by virtue of acquiring member institutions, by a federal or state agency or insurer acting as a receiver of a closed institution, or by former members of the Bank that retain capital stock to support advances or other activity that remains outstanding or until any applicable stock redemption or withdrawal notice period expires. No individual owns any of the Bank's capital stock. As a condition of membership, members are required to maintain an investment in Class B-1 Capital Stock of the Bank that is equal to a percentage of the member's total assets, subject to minimum and maximum thresholds. In addition, members are required to hold Class B-2 Capital Stock based upon an activity-based investment requirement. Financial institutions that cease to be members are required to continue to comply with the Bank's activity-based investment requirement until such time that the activities giving rise to the requirement have been fully extinguished.

As provided by statute and as further discussed in Item 10. Directors, Executive Officers and Corporate Governance, the Bank's members are entitled to vote for the election of directors. Each member directorship is designated to one of the five states in the Bank's district and a member is entitled to vote only for member director candidates for the state in which the member's principal place of business is located. In addition, all eligible members in the Bank's five-state district are entitled to vote for the nominees for independent directorships. In each case, a member is entitled to cast, for each applicable directorship, one vote for each share of Class B-1 and Class B-2 Capital Stock that the member is required to hold, subject to a statutory limitation. Under this limitation, the total number of votes that a member may cast is limited to the average number of shares of the Bank's capital stock that were required to be held by all members in that member's state as of the record date for voting. Non-member shareholders are not entitled to cast votes for the election of directors.

As of March 12, 2024, there were 46,461,235 shares of the Bank's capital stock (including mandatorily redeemable capital stock) outstanding. The following table sets forth certain information as of that date with respect to shareholders that beneficially owned more than five percent of the Bank's outstanding capital stock and other shareholders that were affiliated with those shareholders. Each shareholder has sole voting and investment power for all shares shown (subject to the restrictions described above), none of which represent shares with respect to which the shareholder has a right to acquire beneficial ownership.

**Beneficial Owners of More than 5% of the Bank's Outstanding Stock**

Name and Address of Beneficial Owner	Number of Shares Owned	Percentage of Outstanding Shares Owned
Charles Schwab Bank, SSB 3000 Schwab Way, Westlake, TX 76262	9,910,000	21.33 %
Charles Schwab Premier Bank, SSB 3000 Schwab Way, Westlake, TX 76262	644,000	1.39 %
Charles Schwab Trust Bank 3000 Schwab Way, Westlake, TX 76262	52,164	0.11 %
The Charles Schwab Corporation 3000 Schwab Way, Westlake, TX 76262	10,606,164	22.83 %
USAA Federal Savings Bank 10750 McDermott Fwy, San Antonio, TX 78288	2,640,849	5.68 %
USAA Life Insurance Company 9800 Fredericksburg Road, San Antonio, TX 78288	103,204	0.22 %
United Services Automobile Association 9800 Fredericksburg Road, San Antonio, TX 78288	76,224	0.16 %
USAA Casualty Insurance Company 9800 Fredericksburg Road, San Antonio, TX 78288	59,145	0.13 %
USAA General Indemnity Company 9800 Fredericksburg Road, San Antonio, TX 78288	32,074	0.07 %
Garrison Property & Casualty 9800 Fredericksburg Road, San Antonio, TX 78288	17,541	0.04 %
Catastrophe Reinsurance Company 9800 Fredericksburg Road, San Antonio, TX 78288	9,265	0.02 %
United Services Automobile Association (including the subsidiaries listed above) 9800 Fredericksburg Road, San Antonio, TX 78288	2,938,302	6.32 %
American General Life Insurance Company 2727 Allen Parkway Suite A, Houston, TX 77019	1,958,587	4.22 %
The Variable Annuity Life Insurance Company 2929 Allen Parkway, Houston, TX 77019	576,418	1.24 %
Corebridge Financial, Inc. 2919 Allen Parkway, Woodson Tower, Houston, TX 77019	2,535,005	5.46 %

The Bank does not offer any type of compensation plan under which its equity securities are authorized to be issued to any person. Nine of the Bank's 16 directorships are designated as member directorships which by law must be occupied by officers or directors of a member of the Bank. The following table sets forth, as of March 12, 2024, the number of shares owned beneficially by members that have one of their officers and/or directors serving as a director of the Bank and the name of the director of the Bank who is affiliated with each such member. Each shareholder has sole voting and investment power for all shares shown (subject to the restrictions described above), none of which represent shares with respect to which the shareholder has a right to acquire beneficial ownership.

### Security Ownership of Directors' Financial Institutions

Name and Address of Beneficial Owner	Bank Director Affiliated with Beneficial Owner	Number of Shares Owned**	Percentage of Outstanding Shares Owned
USAA Federal Savings Bank 10750 McDermott Fwy, San Antonio, TX 78288	Brett F. Seybold	2,640,849	5.68%
Southside Bank 1201 South Beckham, Tyler, TX 75701	Tim H. Carter	318,229	*
Broadway National Bank 1177 NE Loop 410, San Antonio, TX 78209	James D. Goudge	152,735	*
USAA Life Insurance Company 9800 Fredericksburg Road, San Antonio, TX 78288	Brett F. Seybold	103,204	*
United Services Automobile Association 9800 Fredericksburg Road, San Antonio, TX 78288	Brett F. Seybold	76,224	*
USAA Casualty Insurance Company 9800 Fredericksburg Road, San Antonio, TX 78288	Brett F. Seybold	59,145	*
First Security Bank 314 North Spring Street, Searcy, AR 72143	Michael C. Hutsell	47,868	*
USAA General Indemnity Company 9800 Fredericksburg Road, San Antonio, TX 78288	Brett F. Seybold	32,074	*
First Community Bank 416 North Water Street, Corpus Christi, TX 78401	W. Wesley Hoskins	18,157	*
Garrison Property & Casualty 9800 Fredericksburg Road, San Antonio, TX 78288	Brett F. Seybold	17,541	*
Pioneer Bank 3000 North Main Street, Roswell, NM 88201	Christopher G. Palmer	17,477	*
First National Bankers Bank 7813 Office Park Boulevard, Baton Rouge, LA 70809	Albert C. Christman	15,886	*
Guaranty Bank & Trust Company of Delhi 120 Oak Street, Delhi, LA 71232	Albert C. Christman	14,536	*
Bank of Anguilla 130 Holland Street, Anguilla, MS 38721	A. Fred Miller, Jr.	12,562	*
Catastrophe Reinsurance Company 9800 Fredericksburg Road, San Antonio, TX 78288	Brett F. Seybold	9,265	*
Plaquemine Bank and Trust Company 24025 Eden Street, Plaquemine, LA 70764	Stephen Panepinto	979	*
All Directors' Financial Institutions as a group		3,536,731	7.61 %

\* Indicates less than one percent ownership.

\*\* All shares owned by the Directors' Financial Institutions are pledged as collateral to secure extensions of credit from the Bank.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

#### Transactions with Related Persons

Our capital stock can only be held by our members or, in some cases, by non-member institutions that acquire stock by virtue of acquiring member institutions, by a federal or state agency or insurer acting as a receiver of a closed institution, or by our former members that retain capital stock to support advances or other activity that remains outstanding or until any applicable stock redemption or withdrawal notice period expires. All members are required by law to purchase our capital stock. As a cooperative, our products and services are provided almost exclusively to our shareholders. In the ordinary course of business, transactions between us and our shareholders are carried out on terms that are established by us, including pricing and collateralization terms, under our Member Products and Credit Policy, which treats all similarly situated members on a non-discriminatory basis. We provide, in the ordinary course of business, products and services to members whose officers or directors may serve as our directors ("Directors' Financial Institutions"). Currently, 9 of our 16 directors are officers and/or directors of member institutions. Our products and services are provided to Directors' Financial Institutions and to holders of more than five percent of our capital stock on terms that are no more favorable to them than comparable transactions with our other similarly situated members.

We have adopted written policies prohibiting our employees and directors from accepting any personal benefits where such acceptance may create either the appearance of, or an actual, conflict of interest. These policies also prohibit our employees and directors from having a direct or indirect financial interest that conflicts, or appears to conflict, with that employee's or director's duties and responsibilities to us, subject to certain exceptions. Any of our employees who regularly deal with our members or major financial institutions that do business with us must disclose any personal financial relationships with those members or major financial institutions annually in a manner that we prescribe. Our directors are required to disclose all actual or apparent conflicts of interest and any financial interest of the director or an immediate family member or business associate of the director in any matter to be considered by the Board of Directors. Directors must refrain from participating in the deliberations regarding or voting on any matter in which they, any immediate family members or any business associates have a financial interest, except that member directors may vote on the terms on which our products are offered to all members and other routine corporate matters, such as the declaration of dividends. With respect to our AHP, directors and employees may not participate in or attempt to influence decisions by us regarding the evaluation, approval, funding or monitoring, or any remedial process for an AHP project if the director or employee, or a family member of such individual, has a financial interest in, or is a director, officer or employee of, an organization involved in such AHP project.

In addition, our Board of Directors has adopted a written policy for the review and approval or ratification of a "related person transaction" as defined by policy (the "Transactions with Related Persons Policy"). The Transactions with Related Persons Policy requires that each related person transaction must be presented to the Audit Committee of the Board of Directors for review and consideration. Those members of the Audit Committee who are not related persons with respect to the related person transaction in question will consider the transaction to determine whether, if practicable, the related person transaction will be conducted on terms that are no less favorable than the terms that could be obtained from a non-related person or an otherwise unaffiliated third party on an arms'-length basis. In making such determination, the Audit Committee will review all relevant factors regarding the goods or services that form the basis of the related party transaction, including, as applicable, (i) the nature of the goods or services, (ii) the scope and quality of the goods or services, (iii) the timing of receiving the goods or services through the related person transaction versus a transaction not involving a related person or an otherwise unaffiliated third party, (iv) the reputation and financial standing of the provider of the goods or services, (v) any contractual terms and (vi) any competitive alternatives (if practicable).

After review, the Audit Committee will approve such transaction only if the Audit Committee reasonably believes that the transaction is in, or is not opposed to, our best interests. If a related person transaction is not presented to the Audit Committee for review in advance of such transaction, the Audit Committee may ratify such transaction only if the Audit Committee reasonably believes that the transaction is in, or is not opposed to, our best interests.

A "related person" is defined by the Transactions with Related Persons Policy to be (i) any person who was one of our directors or executive officers at any time since the beginning of our last fiscal year, (ii) any immediate family member of any of the foregoing persons and (iii) any of our members or non-member institutions owning more than five percent of our total outstanding capital stock when the transaction occurred or existed.

For purposes of the Transactions with Related Persons Policy, a "related person transaction" is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which we were, are or will be a participant and in which any related person has or will have a direct or indirect material interest. The Transactions with Related Persons Policy includes as exceptions to the definition of "related person transaction" those exceptions set forth in Item 404(a) of Regulation S-K (and the related instructions to that item) promulgated under the Exchange Act. Additionally, in connection with the registration of our capital stock under Section 12 of the Exchange Act, the SEC issued a no-action letter dated September 13, 2005 concurring with our view that, despite registration of our capital stock under Section 12(g) of the Exchange Act, disclosure of related party transactions pursuant to the requirements of Item 404 of Regulation S-K is not applicable to us to the extent that such transactions are in the ordinary course of our business. Also, the HER Act specifically exempts the FHLBanks from periodic reporting requirements under the securities laws pertaining to the disclosure of related party transactions that occur in the ordinary course of business between the FHLBanks and their members. The Transactions with Related Persons Policy, therefore, also excludes from the definition of "related person transaction" acquisitions or sales of our capital stock by members or non-member institutions, payment by us of dividends on our capital stock and provision of our products and services to members. This exception applies to Directors' Financial Institutions.

Since January 1, 2023, we have not engaged in any transactions with any of our directors, executive officers, or any members of their immediate families that require disclosure under applicable rules and regulations, including Item 404 of Regulation S-K. Additionally, since January 1, 2023, we have not had any dealings with entities that are affiliated with our directors that require disclosure under applicable rules and regulations. None of our directors or executive officers or any of their immediate family members has been indebted to us at any time since January 1, 2023.

As of December 31, 2023 and 2022, advances outstanding to Directors' Financial Institutions aggregated \$399 million and \$487 million, respectively, representing 0.5 percent and 0.7 percent, respectively, of our total outstanding advances as of those dates. As of January 1, 2024, advances outstanding to Directors' Financial Institutions aggregated \$6.399 billion (8.0 percent of



our total outstanding advances as of that date), reflecting changes in the composition of the Bank's Board of Directors on January 1, 2024.

## **Director Independence**

### ***General***

Our Board of Directors is currently comprised of 16 directors. Nine of our directors were elected by our member institutions to represent the five states in our district (“member directors”) while six of our directors were elected by a plurality of our members at-large (“independent directors”). In addition, one independent director was elected by our Board of Directors to fulfill the unexpired term of a former independent director. All member directors must be an officer or director of a member institution, but no member director can be one of our employees or officers. Independent directors, as well as their spouses, are prohibited from serving as an officer of any FHLBank and (subject to the specific exception noted below) from serving as a director, officer or employee of a member of the FHLBank on whose board the director serves, or of any recipient of advances from that FHLBank. The exception provides that an independent director or an independent director’s spouse may serve as a director, officer or employee of a holding company that controls one or more members of, or recipients of advances from, the FHLBank if the assets of all such members or recipients of advances constitute less than 35 percent of the assets of the holding company, on a consolidated basis. Additional discussion of the qualifications of member and independent directors is included in Item 10. Directors, Executive Officers and Corporate Governance.

We are required to determine whether our directors are independent pursuant to three distinct director independence standards. First, Finance Agency regulations establish independence criteria for directors who serve as members of our Audit Committee. Second, the HER Act requires us to comply with Rule 10A-3 of the Exchange Act regarding independence standards relating to audit committees. Third, the SEC’s rules and regulations require that our Board of Directors apply the definition of independence of a national securities exchange or inter-dealer quotation system to determine whether our directors are independent.

### ***Finance Agency Regulations***

The Finance Agency’s regulations prohibit directors from serving as members of our Audit Committee if they have one or more disqualifying relationships with us or our management that would interfere with the exercise of that director’s independent judgment. Disqualifying relationships include employment with us currently or at any time during the last five years; acceptance of compensation from us other than for service as a director; being a consultant, advisor, promoter, underwriter or legal counsel for us currently or at any time within the last five years; and being an immediate family member of an individual who is or who has been within the past five years, one of our executive officers. The current members of our Audit Committee are Dorsey L. Baskin, Jr., Tim H. Carter, Rufus Cormier, Jr., Michael C. Hutsell, A. Fred Miller, Jr., Sally I. Nelson, Christopher G. Palmer and Brett F. Seybold, each of whom is independent within the meaning of the Finance Agency’s regulations. Additionally, Robert M. Rigby and Margo S. Scholin served on our Audit Committee during 2023 and were independent under the Finance Agency’s criteria. The terms of Mr. Rigby and Ms. Scholin expired on December 31, 2023.

### ***Rule 10A-3 of the Exchange Act***

Rule 10A-3 of the Exchange Act (“Rule 10A-3”) requires that each member of our Audit Committee be independent. In order to be considered independent under Rule 10A-3, a member of the Audit Committee may not, other than in his or her capacity as a member of the Audit Committee, the Board of Directors or any other committee of the Board of Directors (i) accept directly or indirectly any consulting, advisory or other compensatory fee from us, provided that compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with us (provided that such compensation is not contingent in any way on continued service); or (ii) be an affiliated person of us.

For purposes of Rule 10A-3, “indirect” acceptance of any consulting, advisory or other compensatory fee includes acceptance of such a fee by a spouse, a minor child or stepchild or a child or stepchild sharing a home with the Audit Committee member, or by an entity in which the Audit Committee member is a partner, member, principal or officer, such as managing director, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and that provides accounting, consulting, legal, investment banking, financial or other advisory services or any similar services to us. The term “affiliate” of, or a person “affiliated” with, a specified 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 person specified. “Control” (including the terms “controlling,” “controlled by” and under “common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise. A person will be deemed not to be in control of a specified person if the person (i) is not the beneficial owner, directly or indirectly, of more than 10 percent of any class of voting equity securities of the specified person and (ii) is not an executive officer of the specified person.

The current members of our Audit Committee are independent within the meaning of Rule 10A-3, as were Robert M. Rigby and Margo S. Scholin, each of whom served as an Audit Committee member during 2023. The terms of Mr. Rigby and Ms. Scholin expired on December 31, 2023.

### ***SEC Rules and Regulations***

The SEC's rules and regulations require us to determine whether each of our directors is independent under a definition of independence of a national securities exchange or of an inter-dealer quotation system. Because we are not a listed issuer whose securities are listed on a national securities exchange or listed in an inter-dealer quotation system, we may choose which national securities exchange's or inter-dealer quotation system's definition of independence to apply. Our Board of Directors has selected the independence standards of the New York Stock Exchange (the "NYSE") for this purpose. However, because we are not listed on the NYSE, we are not required to meet the NYSE's director independence standards and our Board of Directors is using such NYSE standards only to make the independence determination required by SEC rules, as described below.

Our Board of Directors determined that presumptively our member directors are not independent under the NYSE's subjective independence standard. Our Board of Directors determined that, under the NYSE independence standards, member directors have a material relationship with us through their member institutions' relationships with us. This determination was based upon the fact that we are a member-owned cooperative and each member director is required to be an officer or director of a member institution. Also, a member director's member institution may routinely engage in transactions with us that could occur frequently and in large dollar amounts and that we encourage. Furthermore, because the level of each member institution's business with us is dynamic and our desire is to increase our level of business with each of our members, our Board of Directors determined it would be inappropriate to make a determination of independence with respect to each member director based on the director's member's given level of business as of a particular date. As the scope and breadth of the member director's member's business with us changes, such member's relationship with us might, at any time, constitute a disqualifying transaction or business relationship with respect to the member's member director under the NYSE's objective independence standards. Therefore, our member directors are presumed to be not independent under the NYSE's independence standards. Our Board of Directors could, however, in the future, determine that a member director is independent under the NYSE's independence standards based on the particular facts and circumstances applicable to that member director. Furthermore, the determination by our Board of Directors regarding member directors' independence under the NYSE's standards is not necessarily determinative of any member director's independence with respect to his or her service on any special or *ad hoc* committee of the Board of Directors to which he or she may be appointed in the future. Our current member directors are Tim H. Carter, Albert C. Christman, James D. Goudge, W. Wesley Hoskins, Michael C. Hutsell, A. Fred Miller, Jr., Christopher G. Palmer, Stephen Panepinto and Brett F. Seybold. The determination that none of our member directors is independent for purposes of the NYSE's independence standards also applies to Robert M. Rigby, who served on our Board of Directors during 2023. Mr. Rigby's term as a director expired on December 31, 2023.

Our Board of Directors affirmatively determined that each of our current independent directors is independent under the NYSE's independence standards. Our Board of Directors noted as part of its determination that independent directors and their spouses are specifically prohibited from being an officer of any FHLBank or an officer, employee or director of any of our members, or of any recipient of advances from us, subject to the exception discussed above for positions in certain holding companies. This independence determination applies to Karuna Annavajjala, Dorsey L. Baskin, Jr., Dianne W. Bolen, Rufus Cormier, Jr., Sally I. Nelson, Lorraine Palacios and Felipe A. Rael. This determination also applies to John P. Salazar and Margo S. Scholin, who served on our Board of Directors during 2023. The terms of Mr. Salazar and Ms. Scholin expired on December 31, 2023.

Our Board of Directors also assessed the independence of the members of our Audit Committee under the NYSE standards for audit committees. Our Board of Directors determined that, for the same reasons set forth above regarding the independence of our directors generally, none of the member directors serving on our Audit Committee (Tim H. Carter, Michael C. Hutsell, A. Fred Miller, Jr., Christopher G. Palmer and Brett F. Seybold) is independent under the NYSE standards for audit committees. Additionally, in 2023, Robert M. Rigby served on our Audit Committee. Our Board of Directors determined that Mr. Rigby, as a member director, was not independent under the NYSE independence standards for audit committee members. Mr. Rigby no longer serves on our Board of Directors as his term expired on December 31, 2023.

Our Board of Directors determined that Dorsey L. Baskin, Jr., Rufus Cormier, Jr. and Sally I. Nelson, independent directors who serve on our Audit Committee, are independent under the NYSE standards for audit committees. This determination also applies to Margo S. Scholin, who served on our Audit Committee during 2023. Ms. Scholin's term as a director expired on December 31, 2023.



#### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth the aggregate fees billed to the Bank for the years ended December 31, 2023 and 2022 by PricewaterhouseCoopers LLP (“PwC”), the Bank’s independent registered public accounting firm.

	<i>(In thousands)</i>	
	Year Ended December 31,	
	2023	2022
Audit fees	\$ 1,001	\$ 936
Audit-related fees	134	181
Tax fees	—	—
All other fees	30	30
Total fees	<u>\$ 1,165</u>	<u>\$ 1,147</u>

In 2023 and 2022, audit fees were for services rendered in connection with the integrated audits of the Bank’s financial statements and its internal control over financial reporting.

In 2023, the fees associated with audit-related services were for an ESG reporting attestation and discussions regarding miscellaneous accounting-related matters. In 2022, the fees associated with audit-related services were for an ESG reporting attestation, a limited review of the Bank’s progress toward implementing a new banking and collateral management system, and discussions regarding miscellaneous accounting-related matters.

All other fees in 2023 and 2022 were for a subscription to the ESG content within PwC’s upskilling product.

The Bank is assessed its proportionate share of the costs of operating the FHLBanks Office of Finance, which includes the expenses associated with the annual audits of the combined financial statements of the 11 FHLBanks. The audit fees for the combined financial statements are billed directly by PwC to the Office of Finance and the Bank is assessed its proportionate share of these expenses. In 2023 and 2022, the Bank was assessed \$65,000 and \$47,000, respectively, for the costs associated with PwC’s audits of the combined financial statements for those years. These assessments are not included in the table above.

Under the Audit Committee’s pre-approval policies and procedures, the Audit Committee is required to pre-approve all audit and permissible non-audit services (including the fees and terms thereof) to be performed by the Bank’s independent registered public accounting firm, subject to the *de minimis* exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act. The Audit Committee has delegated pre-approval authority to the Chairman of the Audit Committee for: (1) permissible non-audit services that would be characterized as “Audit-Related Services” and (2) auditor-requested fee increases associated with any unforeseen cost overruns relating to previously approved “Audit Services” (if additional fees are requested by the independent registered public accounting firm as a result of changes in audit scope, the Audit Committee must specifically pre-approve such increase). The Chairman’s pre-approval authority is limited in all cases to \$50,000 per service request. Any pre-approval decisions made by the Chairman must be ratified by the Audit Committee at its next regularly scheduled meeting. Bank management is required to periodically update the Audit Committee with regard to the services provided by the independent registered public accounting firm and the fees associated with those services.

All of the services provided by PwC in 2023 and 2022 were pre-approved by the Audit Committee. There were no services for which the *de minimis* exception was used.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

#### (a) Financial Statements

The financial statements are set forth on pages F-1 through F-57 of this Annual Report on Form 10-K.

#### (b) Exhibits

- 3.1 [Organization Certificate of the Registrant \(incorporated by reference to Exhibit 3.1 to the Bank's Registration Statement on Form 10 filed February 15, 2006\).](#)
- 3.2 [Bylaws of the Registrant \(incorporated by reference to Exhibit 3.2 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed on March 22, 2016\).\\*](#)
- 4.1 [Capital Plan of the Registrant, as amended and revised on June 17, 2021 and approved by the Federal Housing Finance Agency on November 9, 2021 \(incorporated by reference to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed on March 23, 2022\).\\*](#)
- 4.2 [Description of Registrant's Securities \(incorporated by reference to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed on March 23, 2022\).\\*](#)
- 10.1 [Deferred Compensation Plan of the Registrant, effective July 24, 2004 \(governs deferrals made prior to January 1, 2005\) \(incorporated by reference to Exhibit 10.1 to the Bank's Registration Statement on Form 10 filed February 15, 2006\).](#)
- 10.2 [2011 Amendment to Deferred Compensation Plan of the Registrant for Deferrals Prior to January 1, 2005, effective March 31, 2011 \(incorporated by reference to Exhibit 10.2 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed on March 23, 2012\).\\*](#)
- 10.3 [Deferred Compensation Plan of the Registrant for Deferrals Effective January 1, 2005 \(incorporated by reference to Exhibit 10.2 to the Bank's Registration Statement on Form 10 filed February 15, 2006\).](#)
- 10.4 [2008 Amendment to Deferred Compensation Plan of the Registrant for Deferrals Effective January 1, 2005, dated December 10, 2008 \(incorporated by reference to Exhibit 10.3 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed on March 27, 2009\).\\*](#)
- 10.5 [2010 Amendment to Deferred Compensation Plan of the Registrant for Deferrals Effective January 1, 2005, dated July 22, 2010 \(incorporated by reference to Exhibit 10.1 to the Bank's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2010, filed on November 12, 2010\).\\*](#)
- 10.6 [Non-Qualified Deferred Compensation Plan for the Board of Directors of the Registrant, effective July 24, 2004 \(governs deferrals made prior to January 1, 2005\) \(incorporated by reference to Exhibit 10.3 to the Bank's Registration Statement on Form 10 filed February 15, 2006\).](#)
- 10.7 [2011 Amendment to Non-Qualified Deferred Compensation Plan for the Board of Directors of the Registrant for deferrals prior to January 1, 2005, effective March 31, 2011 \(incorporated by reference to Exhibit 10.7 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed on March 23, 2012\).\\*](#)
- 10.8 [Non-Qualified Deferred Compensation Plan for the Board of Directors of the Registrant for Deferrals Effective January 1, 2005 \(incorporated by reference to Exhibit 10.4 to the Bank's Registration Statement on Form 10 filed February 15, 2006\).](#)
- 10.9 [2008 Amendment to Non-Qualified Deferred Compensation Plan for the Board of Directors of the Registrant for Deferrals Effective January 1, 2005, dated December 10, 2008 \(incorporated by reference to Exhibit 10.6 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed on March 27, 2009\).\\*](#)
- 10.10 [2010 Amendment to Non-Qualified Deferred Compensation Plan for the Board of Directors of the Registrant for Deferrals Effective January 1, 2005, dated July 22, 2010 \(incorporated by reference to Exhibit 10.2 to the Bank's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2010, filed on November 12, 2010\).\\*](#)

- 10.11 [Consolidated Deferred Compensation Plan of the Registrant for deferrals made on or after January 1, 2011, as adopted by the Bank's Board of Directors on December 29, 2010 \(incorporated by reference to Exhibit 10.9 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed on March 25, 2011\).\\*](#)
- 10.12 [2017 Deferred Compensation Plan of the Registrant for deferrals made on or after January 1, 2017, as adopted by the Bank's Board of Directors on July 21, 2016 \(incorporated by reference to Exhibit 10.12 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed on March 24, 2017\).\\*](#)
- 10.13 [Form of Special Non-Qualified Deferred Compensation Plan of the Registrant, as amended and restated effective December 14, 2023.](#)
- 10.14 [Amended and Restated Federal Home Loan Banks P&I Funding and Contingency Plan Agreement entered into effective January 1, 2017, by and among the Office of Finance and each of the Federal Home Loan Banks \(incorporated by reference to Exhibit 10.14 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed on March 24, 2017\).\\*](#)
- 10.15 [Form of Employment Agreement between the Registrant and each of Brehan Chapman and Gustavo Molina, entered into effective January 1, 2014 \(incorporated by reference to Exhibit 10.15 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed on March 24, 2014\).\\*](#)
- 10.16 [Employment Agreement between the Registrant and Sandra Damholt, entered into effective January 1, 2014 \(incorporated by reference to Exhibit 10.16 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed on March 24, 2014\).\\*](#)
- 10.17 [Employment Agreement between the Registrant and Sanjay Bhasin, entered into effective March 24, 2015 \(incorporated by reference to Exhibit 10.2 to the Bank's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015, filed on May 13, 2015\).\\*](#)
- 10.18 [2018 Executive Incentive Plan \(incorporated by reference to Exhibit 10.22 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed on March 22, 2018\).\\*](#)
- 10.19 [2019 Executive Incentive Plan \(incorporated by reference to Exhibit 10.22 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed on March 25, 2019\).\\*](#)
- 10.20 [2020 Executive Incentive Plan \(incorporated by reference to Exhibit 10.1 to the Bank's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2020, filed on August 12, 2020\).\\*](#)
- 10.21 [2021 Executive Incentive Plan \(filed as Exhibit 10.1 to the Bank's Current Report on Form 8-K dated January 11, 2021 and filed with the SEC on January 15, 2021, which exhibit is incorporated herein by reference\).\\*](#)
- 10.22 [2022 Executive Incentive Plan \(incorporated by reference to Exhibit 10.23 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed on March 23, 2022\).\\*](#)
- 10.23 [2023 Executive Incentive Plan \(incorporated by reference to Exhibit 10.24 to the Bank's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed on March 22, 2023\).\\*](#)
- 10.24 [2024 Executive Incentive Plan.](#)
- 10.25 [Form of Indemnification Agreement between the Registrant and each of its executive officers, entered into on November 9, 2018 \(incorporated by reference to Exhibit 10.1 to the Bank's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2018, filed on November 13, 2018\).\\*](#)
- 10.26 [Form of Indemnification Agreement between the Registrant and each of its directors, entered into on November 9, 2018 \(incorporated by reference to Exhibit 10.2 to the Bank's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2018, filed on November 13, 2018\).\\*](#)
- 10.27 [Joint Capital Enhancement Agreement, as amended effective August 5, 2011 \(filed as Exhibit 10.1 to the Bank's Current Report on Form 8-K dated August 5, 2011 and filed with the SEC on August 5, 2011, which exhibit is incorporated herein by reference\).\\*](#)
- 14.1 [Code of Ethics for Financial Professionals.](#)
- 31.1 [Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

- 99.1 [Charter of the Audit Committee of the Board of Directors.](#)
- 99.2 [Report of the Audit Committee of the Board of Directors.](#)
- 101.INS XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document.
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document.
- 104 The cover page of this Annual Report on Form 10-K, formatted in inline XBRL and contained in Exhibit 101.

\* Commission File No. 000-51405

**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 Dallas

March 21, 2024 By /s/ Sanjay Bhasin  
Date Sanjay Bhasin  
President and Chief Executive Officer

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 indicated on March 21, 2024.

/s/ Sanjay Bhasin  
Sanjay Bhasin  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ Tom Lewis  
Tom Lewis  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

/s/ A. Fred Miller, Jr.  
A. Fred Miller, Jr.  
Chairman of the Board of Directors

/s/ Sally I. Nelson  
Sally I. Nelson  
Vice Chairman of the Board of Directors

Karuna Annavajjala  
Director

/s/ Dorsey L. Baskin, Jr.  
Dorsey L. Baskin, Jr.  
Director

/s/ Dianne W. Bolen  
Dianne W. Bolen  
Director

/s/ Tim H. Carter  
Tim H. Carter  
Director

/s/ Albert C. Christman  
Albert C. Christman  
Director

/s/ Rufus Cormier, Jr.  
Rufus Cormier, Jr.  
Director

/s/ James D. Goudge  
James D. Goudge  
Director

/s/ W. Wesley Hoskins

---

W. Wesley Hoskins

Director

/s/ Michael C. Hutsell

---

Michael C. Hutsell

Director

/s/ Lorraine Palacios

---

Lorraine Palacios

Director

/s/ Christopher G. Palmer

---

Christopher G. Palmer

Director

/s/ Stephen Panepinto

---

Stephen Panepinto

Director

/s/ Felipe A. Rael

---

Felipe A. Rael

Director

---

Brett F. Seybold

Director

**Federal Home Loan Bank of Dallas**

**Index to Financial Statements**

Page No.

---

<a href="#"><u>Management's Report on Internal Control over Financial Reporting</u></a>	<a href="#"><u>F-2</u></a>
<b>Annual Audited Financial Statements:</b>	
<a href="#"><u>Report of Independent Registered Public Accounting Firm ( PCAOB ID 238 )</u></a>	<a href="#"><u>F-3</u></a>
<a href="#"><u>Statements of Condition as of December 31, 2023 and 2022</u></a>	<a href="#"><u>F-5</u></a>
<a href="#"><u>Statements of Income for the years ended December 31, 2023, 2022 and 2021</u></a>	<a href="#"><u>F-6</u></a>
<a href="#"><u>Statements of Comprehensive Income for the years ended December 31, 2023, 2022 and 2021</u></a>	<a href="#"><u>F-7</u></a>
<a href="#"><u>Statements of Capital for the years ended December 31, 2023, 2022 and 2021</u></a>	<a href="#"><u>F-8</u></a>
<a href="#"><u>Statements of Cash Flows for the years ended December 31, 2023, 2022 and 2021</u></a>	<a href="#"><u>F-9</u></a>
<a href="#"><u>Notes to Financial Statements</u></a>	<a href="#"><u>F-11</u></a>

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

Management of the Federal Home Loan Bank of Dallas (the "Bank") is responsible for establishing and maintaining adequate internal control over financial reporting. The Bank'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. 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 Bank's assets; (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 Bank are being made only in accordance with authorizations of the Bank's management and board of directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Bank'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. Further, 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.

Management evaluated the effectiveness of the Bank's internal control over financial reporting as of December 31, 2023 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 edition of *Internal Control — Integrated Framework*. Based upon that evaluation, management concluded that the Bank's internal control over financial reporting was effective as of December 31, 2023.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2023 has been audited by PricewaterhouseCoopers LLP, the Bank's independent registered public accounting firm, as stated in their report which appears on page F-3.



## Report of Independent Registered Public Accounting Firm

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

### ***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 Dallas (the “Bank”) as of December 31, 2023 and 2022, and the related statements of income, comprehensive income, capital and cash flows for each of the three years in the period ended December 31, 2023, 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, 2023, 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, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 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, 2023, 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 Derivatives and Hedged Items*

As described in Notes 14 and 17 to the financial statements, the Bank uses derivatives to manage its exposure to changes in interest rates and to reduce funding costs, among other things. The total notional amount of derivatives as of December 31, 2023 was \$164 billion, of which 86% were designated as hedging instruments, and the net estimated fair value of derivative assets and liabilities as of December 31, 2023 was \$18 million and \$22 million, respectively. The fair values of interest-rate derivatives and hedged items are estimated using a pricing model that employs discounted cash flows or other similar pricing techniques. The pricing model uses inputs observable in the market, such as interest rate curves and volatility assumptions.

The principal considerations for our determination that performing procedures relating to the valuation of interest-rate 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 derivatives and hedged items, including controls over the model, 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 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

Dallas, Texas

March 21, 2024

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

**FEDERAL HOME LOAN BANK OF DALLAS**  
**STATEMENTS OF CONDITION**  
(In thousands, except share data)

	December 31,	
	2023	2022
<b>ASSETS</b>		
Cash and due from banks	\$ 49,885	\$ 27,826
Interest-bearing deposits (Notes 8, 9 and 19)	2,297,225	3,020,217
Securities purchased under agreements to resell (Notes 8, 9 and 13)	14,750,000	12,200,000
Federal funds sold (Notes 8, 9, 19 and 20)	6,368,000	9,784,000
Trading securities (Notes 3 and 8) (\$67,284 pledged at December 31, 2023, which could not be rehypothecated)	1,271,943	188,164
Available-for-sale securities <sup>(a)</sup> (Notes 4, 8, 9, 13 and 18) (\$821,812 and \$434,756 pledged at December 31, 2023 and 2022, respectively, of which \$767,368 and \$434,756, respectively, could be rehypothecated)	17,690,722	15,106,457
Held-to-maturity securities <sup>(b)</sup> (Notes 5, 8 and 9)	253,302	314,674
Advances (Notes 6, 8, 9 and 19)	79,951,855	68,921,869
Mortgage loans held for portfolio, net of allowance for credit losses of \$7,768 and \$4,865 at December 31, 2023 and 2022, respectively (Notes 7, 8, 9 and 19)	5,088,642	4,395,175
Accrued interest receivable (Note 8)	426,243	291,682
Premises and equipment, net	14,449	15,045
Derivative assets (Notes 13 and 14)	17,604	26,889
Other assets (including \$16,546 and \$16,089 of securities held at fair value at December 31, 2023 and 2022, respectively)	84,742	56,558
<b>TOTAL ASSETS</b>	<b>\$ 128,264,612</b>	<b>\$ 114,348,556</b>
<b>LIABILITIES AND CAPITAL</b>		
Deposits (Notes 10 and 19) (including \$1 and \$20 of non-interest bearing deposits at December 31, 2023 and 2022, respectively)	\$ 1,427,843	\$ 1,338,160
Consolidated obligations (Note 11)		
Discount notes	8,598,022	46,270,265
Bonds	109,536,207	59,946,458
Total consolidated obligations	118,134,229	106,216,723
Mandatorily redeemable capital stock (Note 15)	506	7,453
Accrued interest payable	883,353	307,288
Affordable Housing Program (Note 12)	150,431	76,794
Derivative liabilities (Notes 13 and 14)	21,575	6,902
Other liabilities (Notes 3 and 4)	387,455	394,159
Total liabilities	121,005,392	108,347,479
Commitments and contingencies (Notes 9, 12, 14, 16 and 18)		
<b>CAPITAL (Notes 15 and 19)</b>		
Capital stock		
Capital stock — Class B-1 putable (\$100 par value) issued and outstanding shares: 15,107,202 and 12,355,250 at December 31, 2023 and 2022, respectively	1,510,720	1,235,525
Capital stock — Class B-2 putable (\$100 par value) issued and outstanding shares: 32,266,682 and 27,485,801 at December 31, 2023 and 2022, respectively	3,226,668	2,748,580
Total Class B Capital Stock	4,737,388	3,984,105
Retained earnings		
Unrestricted	1,907,882	1,504,236
Restricted	505,101	330,210
Total retained earnings	2,412,983	1,834,446
Accumulated other comprehensive income (Note 21)	108,849	182,526
Total capital	7,259,220	6,001,077
<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>\$ 128,264,612</b>	<b>\$ 114,348,556</b>

<sup>(a)</sup> Amortized cost: \$17,640,544 and \$14,999,405 at December 31, 2023 and 2022, respectively.

<sup>(b)</sup> Fair values: \$247,126 and \$314,373 at December 31, 2023 and 2022, respectively.

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

**FEDERAL HOME LOAN BANK OF DALLAS**  
**STATEMENTS OF INCOME**  
(In thousands)

	<b>For the Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>INTEREST INCOME</b>			
Advances	\$ 5,734,400	\$ 1,070,013	\$ 119,754
Prepayment fees on advances, net	7,130	9,199	9,812
Interest-bearing deposits	288,828	69,064	1,212
Securities purchased under agreements to resell	384,683	14,086	162
Federal funds sold	709,116	165,004	3,395
Trading securities	11,568	11,782	8,776
Available-for-sale securities	993,496	397,823	151,684
Held-to-maturity securities	15,421	8,734	5,222
Mortgage loans held for portfolio	177,541	119,040	77,667
Total interest income	<u>8,322,183</u>	<u>1,864,745</u>	<u>377,684</u>
<b>INTEREST EXPENSE</b>			
Consolidated obligations			
Bonds	5,453,341	888,774	70,916
Discount notes	1,775,820	470,740	29,635
Deposits	71,267	23,523	381
Mandatorily redeemable capital stock	406	169	17
Other borrowings	533	126	(11)
Total interest expense	<u>7,301,367</u>	<u>1,383,332</u>	<u>100,938</u>
<b>NET INTEREST INCOME</b>	1,020,816	481,413	276,746
Provision (reversal) for mortgage loan losses	2,903	1,741	(801)
<b>NET INTEREST INCOME AFTER PROVISION (REVERSAL) FOR MORTGAGE LOAN LOSSES</b>	1,017,913	479,672	277,547
<b>OTHER INCOME (LOSS)</b>			
Service fees	3,191	3,137	2,753
Net gains (losses) on trading securities	12,009	(19,011)	(10,501)
Net gains (losses) on derivatives and hedging activities	30,694	(22,816)	(1,252)
Net gains (losses) on other assets carried at fair value	2,075	(2,073)	1,848
Realized gains on sales of held-to-maturity securities	1,081	127	—
Gains on early extinguishment of debt	23,396	—	—
Letter of credit fees	18,011	13,230	14,498
Other, net	1,261	1,960	2,897
Total other income (loss)	<u>91,718</u>	<u>(25,446)</u>	<u>10,243</u>
<b>OTHER EXPENSE</b>			
Compensation and benefits	65,254	48,278	55,170
Other operating expenses	48,118	38,611	34,348
Finance Agency	9,478	7,196	6,451
Office of Finance	7,637	5,596	5,433
Discretionary grants and donations	5,343	798	2,907
Derivative clearing fees	2,144	1,234	838
Total other expense	<u>137,974</u>	<u>101,713</u>	<u>105,147</u>
<b>INCOME BEFORE ASSESSMENTS</b>	971,657	352,513	182,643
Affordable Housing Program assessment	97,206	35,268	18,266
<b>NET INCOME</b>	<u>\$ 874,451</u>	<u>\$ 317,245</u>	<u>\$ 164,377</u>

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

**FEDERAL HOME LOAN BANK OF DALLAS**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
(In thousands)

	<b>For the Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>NET INCOME</b>	\$ 874,451	\$ 317,245	\$ 164,377
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Net unrealized gains (losses) on available-for-sale securities, net of unrealized gains and losses relating to hedged interest rate risk included in net income	(56,874)	(134,008)	68,699
Unrealized gains on cash flow hedges	8,612	126,793	42,418
Reclassification adjustment for losses (gains) on cash flow hedges included in net income	(28,717)	5,711	22,345
Reversal of non-credit other-than-temporary impairment losses upon sale of held-to-maturity securities	3,338	—	—
Accretion of non-credit portion of other-than-temporary impairment losses to the carrying value of held-to-maturity securities	90	1,057	1,917
Postretirement benefit plan			
Amortization of prior service cost included in net periodic benefit cost/credit	20	21	21
Actuarial gain (loss)	(43)	281	201
Amortization of net actuarial gain included in net periodic benefit cost/credit	(103)	(99)	(91)
Total other comprehensive income (loss)	(73,677)	(244)	135,510
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 800,774</b>	<b>\$ 317,001</b>	<b>\$ 299,887</b>

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

**FEDERAL HOME LOAN BANK OF DALLAS**  
**STATEMENTS OF CAPITAL**  
**FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021**  
(In thousands)

	Capital Stock Class B-1 - Putable (Membership/Excess)		Capital Stock Class B-2 - Putable (Activity)		Retained Earnings			Accumulated Other Comprehensive Income (Loss)	Total Capital
	Shares	Par Value	Shares	Par Value	Unrestricted	Restricted	Total		
<b>BALANCE, JANUARY 1, 2021</b>	9,044	\$ 904,448	11,969	\$ 1,196,932	\$ 1,174,359	\$ 233,886	\$ 1,408,245	\$ 47,260	\$ 3,556,885
Net transfers of shares between Class B-1 and Class B-2 Stock	17,241	1,724,131	(17,241)	(1,724,131)	—	—	—	—	—
Proceeds from sale of capital stock	217	21,693	14,379	1,437,889	—	—	—	—	1,459,582
Repurchase/redemption of capital stock	(13,824)	(1,382,401)	—	—	—	—	—	—	(1,382,401)
Shares reclassified to mandatorily redeemable capital stock	—	(40)	—	—	—	—	—	—	(40)
Comprehensive income									
Net income	—	—	—	—	131,502	32,875	164,377	—	164,377
Other comprehensive income	—	—	—	—	—	—	—	135,510	135,510
Dividends on capital stock									
Cash	—	—	—	—	(222)	—	(222)	—	(222)
Stock	140	13,983	—	—	(13,983)	—	(13,983)	—	—
<b>BALANCE, DECEMBER 31, 2021</b>	12,818	1,281,814	9,107	910,690	1,291,656	266,761	1,558,417	182,770	3,933,691
Net transfers of shares between Class B-1 and Class B-2 Stock	21,334	2,133,377	(21,334)	(2,133,377)	—	—	—	—	—
Proceeds from sale of capital stock	204	20,410	39,713	3,971,267	—	—	—	—	3,991,677
Repurchase/redemption of capital stock	(22,300)	(2,229,965)	—	—	—	—	—	—	(2,229,965)
Shares reclassified to mandatorily redeemable capital stock	(110)	(11,051)	—	—	—	—	—	—	(11,051)
Comprehensive income (loss)									
Net income	—	—	—	—	253,796	63,449	317,245	—	317,245
Other comprehensive loss	—	—	—	—	—	—	—	(244)	(244)
Dividends on capital stock									
Cash	—	—	—	—	(243)	—	(243)	—	(243)
Mandatorily redeemable capital stock	—	—	—	—	(33)	—	(33)	—	(33)
Stock	409	40,940	—	—	(40,940)	—	(40,940)	—	—
<b>BALANCE, DECEMBER 31, 2022</b>	12,355	1,235,525	27,486	2,748,580	1,504,236	330,210	1,834,446	182,526	6,001,077
Net transfers of shares between Class B-1 and Class B-2 Stock	49,513	4,951,284	(49,513)	(4,951,284)	—	—	—	—	—
Proceeds from sale of capital stock	153	15,299	54,294	5,429,372	—	—	—	—	5,444,671
Repurchase/redemption of capital stock	(49,835)	(4,983,489)	—	—	—	—	—	—	(4,983,489)
Shares reclassified to mandatorily redeemable capital stock	(35)	(3,489)	—	—	—	—	—	—	(3,489)
Comprehensive income (loss)									
Net income	—	—	—	—	699,560	174,891	874,451	—	874,451
Other comprehensive loss	—	—	—	—	—	—	—	(73,677)	(73,677)
Dividends on capital stock									
Cash	—	—	—	—	(267)	—	(267)	—	(267)
Mandatorily redeemable capital stock	—	—	—	—	(57)	—	(57)	—	(57)
Stock	2,956	295,590	—	—	(295,590)	—	(295,590)	—	—
<b>BALANCE, DECEMBER 31, 2023</b>	15,107	\$ 1,510,720	32,267	\$ 3,226,668	\$ 1,907,882	\$ 505,101	\$ 2,412,983	\$ 108,849	\$ 7,259,220

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

**FEDERAL HOME LOAN BANK OF DALLAS**  
**STATEMENTS OF CASH FLOWS**  
(In thousands)

	<b>For the Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 874,451	\$ 317,245	\$ 164,377
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization			
Net premiums and discounts on advances, consolidated obligations, investments and mortgage loans	(42,732)	278,644	52,748
Concessions on consolidated obligations	6,859	5,312	2,751
Premises, equipment and computer software costs	3,924	4,786	5,194
Non-cash interest on mandatorily redeemable capital stock	407	167	25
Provision (reversal) for mortgage loan losses	2,903	1,741	(801)
Net losses (gains) on trading securities	(12,009)	19,011	10,501
Net change in derivatives and hedging activities	(571,182)	1,345,063	674,460
Gains on early extinguishment of debt	(23,396)	—	—
Net losses (gains) on other assets carried at fair value	(2,075)	2,073	(1,848)
Gains on sales of held-to-maturity securities	(1,081)	(127)	—
Decrease (increase) in accrued interest receivable	(132,183)	(206,938)	14,745
Increase in other assets	(24,356)	(9,385)	(5,322)
Increase (decrease) in Affordable Housing Program (AHP) liability	73,637	16,661	(3,020)
Increase in accrued interest payable	576,111	234,250	30,998
Increase (decrease) in other liabilities	14,111	30,879	(467)
Total adjustments	(131,062)	1,722,137	779,964
Net cash provided by operating activities	743,389	2,039,382	944,341
<b>INVESTING ACTIVITIES</b>			
Net decrease (increase) in interest-bearing deposits, including swap collateral pledged	1,611,062	(3,614,478)	(116,927)
Net increase in securities purchased under agreements to resell	(2,550,000)	(1,550,000)	(9,650,000)
Net decrease (increase) in federal funds sold	3,416,000	(5,003,000)	(3,866,000)
Purchases of trading securities	(1,915,833)	(8,598,654)	(10,070,699)
Proceeds from maturities of trading securities	1,000,000	3,276,300	11,361,650
Proceeds from sales of trading securities	—	5,321,059	3,493,399
Purchases of available-for-sale securities	(3,145,472)	(3,529,004)	—
Principal collected on available-for-sale securities	648,034	2,386,190	772,428
Principal collected on held-to-maturity securities	36,830	179,912	306,469
Proceeds from sales of held-to-maturity securities	29,025	100,365	—
Principal collected on advances	1,267,307,758	1,123,433,909	537,732,747
Advances made	(1,278,131,547)	(1,168,458,407)	(530,230,119)
Principal collected on mortgage loans held for portfolio	340,401	504,846	1,257,669
Purchases of mortgage loans held for portfolio	(1,043,930)	(1,423,229)	(1,354,271)
Purchases of premises, equipment and computer software	(4,836)	(3,663)	(5,597)
Net cash used in investing activities	(12,402,508)	(56,977,854)	(369,251)

	<b>For the Years Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>FINANCING ACTIVITIES</b>			
Net increase (decrease) in deposit liabilities, including swap collateral held	118,896	(258,993)	3,881
Net receipts on derivative contracts with financing elements	32,093	242,265	76,020
Net proceeds from issuance of consolidated obligations			
Discount notes	383,755,584	165,787,516	34,663,059
Bonds	139,358,781	43,405,574	50,151,289
Debt issuance costs	(6,854)	(5,729)	(1,770)
Proceeds from assumption of debt from other Federal Home Loan Bank	999,987	—	—
Payments for maturing and retiring consolidated obligations			
Discount notes	(421,401,925)	(130,763,925)	(45,825,626)
Bonds	(91,625,399)	(25,734,225)	(42,347,110)
Proceeds from issuance of capital stock	5,444,671	3,991,677	1,459,582
Proceeds from issuance of mandatorily redeemable capital stock	—	13	22
Payments for redemption of mandatorily redeemable capital stock	(10,900)	(10,468)	(7,294)
Payments for repurchase/redemption of capital stock	(4,983,489)	(2,229,965)	(1,382,401)
Cash dividends paid	(267)	(243)	(222)
Net cash provided by (used in) financing activities	<u>11,681,178</u>	<u>54,423,497</u>	<u>(3,210,570)</u>
Net increase (decrease) in cash and cash equivalents	22,059	(514,975)	(2,635,480)
Cash and cash equivalents at beginning of the year	27,826	542,801	3,178,281
Cash and cash equivalents at end of the year	<u>\$ 49,885</u>	<u>\$ 27,826</u>	<u>\$ 542,801</u>
<b>Supplemental disclosures</b>			
Interest paid	<u>\$ 6,921,366</u>	<u>\$ 861,972</u>	<u>\$ 118,806</u>
AHP payments, net	<u>\$ 23,569</u>	<u>\$ 18,607</u>	<u>\$ 21,286</u>
Stock dividends issued	<u>\$ 295,590</u>	<u>\$ 40,940</u>	<u>\$ 13,983</u>
Dividends paid through issuance of mandatorily redeemable capital stock	<u>\$ 57</u>	<u>\$ 33</u>	<u>\$ —</u>
Capital stock reclassified to mandatorily redeemable capital stock, net	<u>\$ 3,489</u>	<u>\$ 11,051</u>	<u>\$ 40</u>
Right-of-use assets acquired by lease	<u>\$ 79</u>	<u>\$ 139</u>	<u>\$ 77</u>

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



## FEDERAL HOME LOAN BANK OF DALLAS

### NOTES TO FINANCIAL STATEMENTS

#### Background Information

The Federal Home Loan Bank of Dallas (the “Bank”), a federally chartered corporation, is one of 11 district Federal Home Loan Banks (each individually a “FHLBank” and collectively the “FHLBanks,” and, together with the Federal Home Loan Banks Office of Finance (“Office of Finance”), a joint office of the FHLBanks, the “FHLBank System”) that were created by the Federal Home Loan Bank Act of 1932 (as amended, the “FHLB Act”). The FHLBanks serve the public by enhancing the availability of credit for residential mortgages and targeted community development. The Bank serves eligible financial institutions in Arkansas, Louisiana, Mississippi, New Mexico and Texas (collectively, the Ninth District of the FHLBank System). The Bank provides a readily available, competitively priced source of funds to its member institutions. The Bank is a cooperative whose member institutions own the capital stock of the Bank. Regulated depository institutions and insurance companies engaged in residential housing finance and Community Development Financial Institutions that are certified under the Community Development Banking and Financial Institutions Act of 1994 may apply for membership in the Bank. All members must purchase stock in the Bank. Housing associates, including state and local housing authorities, that meet certain statutory criteria may also borrow from the Bank; while eligible to borrow, housing associates are not members of the Bank and, as such, are not required or allowed to hold capital stock.

The Federal Housing Finance Agency (“Finance Agency”), an independent agency in the executive branch of the U.S. government, supervises and regulates the FHLBanks and the Office of Finance. The Finance Agency’s stated mission is to ensure that the housing government-sponsored enterprises (“GSEs”), including the FHLBanks, 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. Consistent with this mission, the Finance Agency establishes policies and regulations covering the operations of the FHLBanks. Each FHLBank operates as a separate entity with its own management, employees, and board of directors. The Bank does not have any special purpose entities or any other type of off-balance sheet conduits.

The Office of Finance facilitates the issuance and servicing of the FHLBanks’ debt instruments (known as consolidated obligations). As provided by the FHLB Act and Finance Agency regulation, the FHLBanks’ consolidated obligations are backed only by the financial resources of all 11 FHLBanks. Consolidated obligations are the joint and several obligations of all the FHLBanks and are the FHLBanks’ primary source of funds. Deposits, other borrowings, and the proceeds from capital stock issued to members provide other funds. The Bank primarily uses these funds to provide loans (known as advances) to its members, to purchase single-family mortgage loans from its members, and to fund other investments. The Bank’s credit services also include letters of credit issued or confirmed on behalf of members. Further, the Bank provides its members with a variety of correspondent banking services, including overnight and term deposit accounts, wire transfer services, securities safekeeping and securities pledging services. Previously, the Bank offered interest rate swaps, caps and floors to its members.

#### Note 1—Summary of Significant Accounting Policies

**Use of Estimates and Assumptions.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make assumptions and estimates. These assumptions and estimates may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. Significant estimates include the valuations of the Bank’s investment securities, as well as its derivative instruments and any associated hedged items. Actual results could differ from these estimates.

**Federal Funds Sold, Securities Purchased Under Agreements to Resell, Loans to Other FHLBanks and Interest-Bearing Deposits.** These investments are carried at cost. Substantially all of the Bank’s interest-bearing deposits are over the Federal Deposit Insurance Corporation (“FDIC”) insurance limit.

**Investment Securities.** The Bank records investment securities on trade date. The Bank carries investment securities for which it has both the ability and intent to hold to maturity (held-to-maturity securities) at cost, adjusted for the amortization of premiums and accretion of discounts.

The Bank classifies certain investment securities that it may sell before maturity as available-for-sale and carries them at fair value. For available-for-sale securities that have been hedged (with fixed-for-floating interest rate swaps) and qualify as fair value hedges, the Bank records the portion of the change in value related to the risk being hedged, together with the related change in the fair value of the derivative, in earnings. The Bank records the remainder of the change in value of the securities in other comprehensive income as “net unrealized gains (losses) on available-for-sale securities.”

The Bank classifies certain other investments as trading and carries them at fair value. The Bank records changes in the fair value of these investments in other income (loss) in the statements of income. Although the securities are classified as trading, the Bank does not engage in speculative trading practices.

The Bank computes the amortization and accretion of premiums and discounts on mortgage-backed securities ("MBS") for which prepayments are probable and reasonably estimable using the level-yield method over the estimated lives of the securities. This method requires a retrospective adjustment of the effective yield each time the Bank changes the estimated life as if the new estimate had been known since the original acquisition date of the securities. The Bank computes the amortization and accretion of premiums and discounts on all other investment securities using the level-yield method to the contractual maturity of the securities unless the securities are callable and were purchased at a premium, in which case the premium is amortized to the earliest call date.

The Bank computes gains and losses on sales of investment securities using the specific identification method and includes these gains and losses in other income (loss) in the statements of income. The Bank treats securities purchased under agreements to resell as collateralized financings.

Prior to the adoption of Accounting Standards Update ("ASU") 2016-13, *"Measurement of Credit Losses on Financial Instruments"* ("ASU 2016-13") on January 1, 2020, the Bank evaluated outstanding investment securities classified as held-to-maturity and available-for-sale for other-than-temporary impairment ("OTTI"). In periods prior to 2020, the Bank identified 15 held-to-maturity securities as other-than-temporarily impaired because the present value of cash flows expected to be collected from each of the debt securities was less than the amortized cost basis of the security (any such shortfall was referred to as a "credit loss"). All of these securities were sold during 2023. In instances in which a determination was made that a credit loss existed, the other-than-temporary impairment (i.e., the difference between the security's then-current carrying amount and its estimated fair value) was separated into (i) the amount of the total impairment related to the credit loss (i.e., the credit component) and (ii) the amount of the total impairment related to all other factors (i.e., the non-credit component). The credit component was recognized in earnings and the non-credit component was recognized in other comprehensive income. The non-credit component recognized in other comprehensive income was accreted over the remaining life of the debt security (in a prospective manner based on the amount and timing of future estimated cash flows) as an increase in the carrying value of the held-to-maturity security. Subsequent to the recognition of an OTTI loss, the other-than-temporarily impaired debt security was accounted for as if it had been purchased on the measurement date of the other-than-temporary impairment at an amount equal to the previous amortized cost basis less the other-than-temporary impairment recognized in earnings. The difference between the new amortized cost basis and the cash flows expected to be collected was accreted as interest income over the remaining life of the security in a prospective manner based on the amount and timing of future estimated cash flows. Beginning January 1, 2020, accretion was not adjusted for significant increases in expected cash flows.

**Advances.** The Bank reports advances at their principal amount outstanding, net of unearned commitment fees and deferred prepayment fees, if any, as discussed below. The Bank credits interest on advances to income as earned.

**Mortgage Loans Held for Portfolio.** Through the Mortgage Partnership Finance<sup>®</sup> ("MPF"<sup>®</sup>) program administered by the FHLBank of Chicago, the Bank has invested in conventional and, to a much smaller extent, government guaranteed/insured mortgage loans. The Bank classifies these mortgage loans held for portfolio as held for investment and, accordingly, reports them at their principal amount outstanding net of deferred premiums, discounts and the fair value amount of the delivery commitment, if any (which represents the unrealized gains and losses from loans initially classified as mortgage loan commitments) as of the purchase (i.e., settlement) date. The Bank credits interest on mortgage loans to income as earned. The Bank amortizes or accretes the deferred amounts to interest income using the contractual method. The contractual method uses the cash flows required by the loan contracts, as adjusted for any actual prepayments, to apply the interest method. Future prepayments of principal are not anticipated under this method. The Bank has the ability and intent to hold these mortgage loans until maturity.

**Allowance for Credit Losses.** An allowance for expected credit losses is separately established, if necessary, for each of the Bank's financial instruments carried at amortized cost, its available-for-sale securities and its off-balance sheet credit exposures. The allowance for credit losses is the amount necessary to reduce the amortized cost of financial instruments carried at amortized cost to the net amount expected to be collected and the amortized cost of available-for-sale securities to the higher of the security's fair value or the present value of the cash flows expected to be collected from the security. Accrued interest is recorded separately on the statement of condition. The allowance for credit losses excludes accrued interest receivable, as the Bank places financial assets on nonaccrual status and concurrently reverses any accrued but uncollected interest if the interest is deemed uncollectible. To the extent necessary, an allowance for credit losses for off-balance sheet credit exposures is recorded as a liability. See Note 9 - Allowance for Credit Losses for information regarding the determination of the allowance for credit losses.

The Bank places a conventional mortgage loan on nonaccrual status when the collection of the contractual principal or interest is doubtful or 90 days or more past due. When a mortgage loan is placed on nonaccrual status, accrued but uncollected interest is reversed against interest income. The Bank records cash payments received on nonaccrual loans as a reduction of

principal. A loan on nonaccrual status is restored to accrual status when none of its contractual principal and interest is due and unpaid, and the Bank expects repayment of the remaining contractual interest and principal. At December 31, 2023 and 2022, cash payments received on non-accrual loans and recorded as a reduction of principal totaled \$5,051,000 and \$4,569,000, respectively. Government-guaranteed/insured loans are not placed on nonaccrual status.

Collateral-dependent mortgage loans that are 90 days or more past due are evaluated for credit losses on an individual basis based on the fair value of the underlying mortgaged property less estimated selling costs. Loans are considered collateral-dependent if repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty.

The Bank evaluates whether to record a charge-off on a conventional mortgage loan when the loan becomes 180 days or more past due or upon the occurrence of a confirming event, whichever occurs first. Confirming events include, but are not limited to, the occurrence of foreclosure or notification of a claim against any of the MPF credit enhancements. A charge-off is recorded if the amount expected to be collected on the loan is less than its amortized cost.

**Real Estate Owned.** Real estate owned includes residential assets that have been received in satisfaction of debt or as a result of actual or in-substance foreclosures. Real estate owned is carried at the lower of cost or fair value less estimated costs to sell and is included in other assets in the statements of condition. If the fair value of the real estate owned less estimated costs to sell is less than the recorded investment in the mortgage loan at the date of transfer, the Bank recognizes a charge-off to the allowance for loan losses. Subsequent realized gains and realized or unrealized losses are included in other income (loss) in the statements of income.

**Premises and Equipment.** The Bank records premises and equipment at cost less accumulated depreciation and amortization. At December 31, 2023 and 2022, the Bank's accumulated depreciation and amortization relating to premises and equipment was \$29,327,000 and \$29,576,000, respectively. The Bank computes depreciation using the straight-line method over the estimated useful lives of assets ranging from 3 to 39 years. It amortizes leasehold improvements on the straight-line basis over the shorter of the estimated useful life of the improvement or the remaining term of the lease. The Bank capitalizes improvements and major renewals but expenses ordinary maintenance and repairs when incurred. Depreciation and amortization expense was \$1,472,000, \$1,526,000 and \$1,352,000 during the years ended December 31, 2023, 2022 and 2021, respectively. The Bank includes gains and losses on disposal of premises and equipment, if any, in other income (loss) under the caption "other, net."

**Computer Software.** The cost of purchased computer software, certain costs incurred in developing computer software for internal use, and implementation costs associated with cloud computing arrangements that are service contracts are capitalized and amortized over future periods. As of December 31, 2023 and 2022, the Bank had \$9,211,000 and \$7,704,000, respectively, in unamortized computer software costs included in other assets. Total software costs charged to expense were \$12,968,000, \$13,473,000 and \$13,149,000 for the years ended December 31, 2023, 2022 and 2021, respectively. Included in these total software costs was amortization of \$2,452,000, \$3,260,000 and \$3,842,000, respectively.

**Derivatives and Hedging Activities.** All derivatives are recognized on the statements of condition at their fair values, including accrued interest receivable and payable. For purposes of reporting derivative assets and derivative liabilities, the Bank offsets the fair value amounts recognized for derivative instruments (including the right to reclaim cash collateral and the obligation to return cash collateral) where a legally enforceable right of setoff exists.

Changes in the fair value of a derivative that is effective as — and 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 (including changes that reflect gains or losses on firm commitments), are recorded in current period earnings. The application of hedge accounting generally requires the Bank to evaluate the effectiveness of the fair value hedging relationships on an ongoing basis and to calculate the changes in fair value of the derivatives and related hedged items independently. This is commonly known as the "long-haul" method of hedge accounting. Transactions that meet more stringent criteria qualify for the "shortcut" method of hedge accounting in which an assumption can be made that the change in fair value of a hedged item exactly offsets the change in value of the related derivative. The Bank considers hedges of committed advances to be eligible for the shortcut method of accounting as long as the settlement of the committed advance occurs within the shortest period possible for that type of instrument based on market settlement conventions, the fair value of the swap is zero at the inception of the hedging relationship, and the transaction meets all of the other criteria for shortcut accounting specified in U.S. GAAP. The Bank has defined the market settlement convention to be five business days or less for advances.

Fair value hedge ineffectiveness (which represents the amount by which the change in the fair value of the derivative differs from the change in the fair value of the hedged item attributable to the hedged risk) and the net interest income/expense associated with that derivative are recorded in the same line item as the earnings effect of the hedged item (that is, interest income on advances, interest income on available-for-sale securities or interest expense on consolidated obligation bonds, as appropriate).

Changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge are recorded in accumulated other comprehensive income ("AOCI") until earnings are affected by the variability of the cash flows of the hedged transaction, at which time these amounts are reclassified from AOCI to the income statement line where the earnings effect of the hedged item is reported (e.g., interest expense on consolidated obligation discount notes).

An economic hedge is defined as a derivative hedging specific or non-specific assets or liabilities that does not qualify or was not designated for hedge accounting, but is an acceptable hedging strategy under the Bank's Enterprise Market Risk Management Policy. These hedging strategies also comply with Finance Agency regulatory requirements prohibiting speculative derivative transactions. An economic hedge by definition introduces the potential for earnings variability as changes in the fair value of a derivative designated as an economic hedge are recorded in current period earnings with no offsetting fair value adjustment to an asset or liability. Both the net interest income/expense and the fair value changes associated with derivatives in economic hedging relationships are recorded in other income (loss) as "net gains (losses) on derivatives and hedging activities."

The Bank records the changes in fair value of all derivatives (and, in the case of fair value hedges, the hedged items) beginning on the trade date.

Cash flows associated with all derivatives are reported as cash flows from operating activities in the statements of cash flows, unless the derivative contains an other-than-insignificant financing element, in which case its cash flows are reported as cash flows from financing activities.

The Bank may issue debt, make advances, or purchase financial instruments in which a derivative instrument is "embedded" and the financial instrument that embodies the embedded derivative instrument is not remeasured at fair value with changes in fair value reported in earnings as they occur. Upon execution of these transactions, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., 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. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) 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 either (i) a hedging instrument in a fair value hedge or (ii) a stand-alone derivative instrument pursuant to an economic hedge. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings, or if the Bank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the statement of condition at fair value and no portion of the contract would be separately accounted for as a derivative.

The Bank discontinues hedge accounting prospectively when: (1) management determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (2) the derivative and/or the hedged item expires or is sold, terminated, or exercised; (3) it is no longer probable that a forecasted transaction will occur within the originally specified time frame; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines that designating the derivative as a hedging instrument is no longer appropriate.

In all cases in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the statement of condition, recognizing any additional changes in the fair value of the derivative in current period earnings as a component of "net gains (losses) on derivatives and hedging activities."

When fair value hedge accounting for a specific derivative is discontinued due to the Bank's determination that such derivative no longer qualifies for hedge accounting treatment or because the derivative is terminated, the Bank will cease to adjust the hedged asset or liability for changes in fair value and amortize the cumulative basis adjustment on the formerly hedged item into earnings over its remaining term using the level-yield method. The amortization is recorded in the same line item as the earnings effect of the formerly hedged item.

When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Bank continues to carry the derivative on the statement of condition at its fair value, removing from the statement of condition any asset or liability that was recorded to recognize the firm commitment and recording it as a gain or loss in current period earnings.

When cash flow hedge accounting for a specific derivative is discontinued due to the Bank's determination that such derivative no longer qualifies for hedge accounting treatment or because the derivative is terminated, the Bank will reclassify the cumulative fair value gains or losses recorded in AOCI as of the discontinuance date from AOCI into earnings when earnings are affected by the original forecasted transaction. If the Bank expects at any time that continued reporting of a net loss in AOCI would lead to recognizing a net loss on the combination of the hedging instrument and hedged transaction in one or

more future periods, the amount that is not expected to be recovered is immediately reclassified to earnings. These items are recorded in the same income statement line where the earnings effect of the hedged item is reported.

In cases where the cash flow hedge is discontinued because the forecasted transaction is no longer probable (i.e., the forecasted transaction will not occur in the originally expected period or within an additional two-month period of time thereafter), any fair value gains or losses recorded in AOCI as of the determination date are immediately reclassified to earnings as a component of "net gains (losses) on derivatives and hedging activities."

**Mandatorily Redeemable Capital Stock.** The Bank reclassifies shares of capital stock from the capital section to the liability section of its statement of condition at the point in time when a member submits a written redemption notice, gives notice of its intent to withdraw from membership, or becomes a non-member by merger or acquisition, charter termination, or involuntary termination from membership, as the shares of capital stock then meet the definition of a mandatorily redeemable financial instrument. Shares of capital stock meeting this definition are reclassified to liabilities at fair value. Following reclassification of the stock, any dividends paid or accrued on such shares are recorded as interest expense in the statement of income. Repurchase or redemption of these mandatorily redeemable financial instruments is reported as a cash outflow in the financing activities section of the statement of cash flows.

If a member cancels a written redemption or withdrawal notice, the Bank reclassifies the shares subject to the cancellation notice from liabilities back to equity. Following this reclassification to equity, dividends on the capital stock are once again recorded as a reduction of retained earnings.

Although mandatorily redeemable capital stock is excluded from capital for financial reporting purposes, it is considered capital for regulatory purposes. See Note 15 for more information, including restrictions on stock redemption.

**Affordable Housing Program.** The FHLB Act requires each FHLBank to establish and fund an Affordable Housing Program ("AHP") (see Note 12). The Bank charges the required funding for AHP to earnings and establishes a liability. The Bank makes AHP funds available to members in the form of direct grants to assist in the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households.

**Prepayment Fees.** The Bank charges a prepayment fee when members/borrowers prepay certain advances before their original maturities. The Bank records prepayment fees received from members/borrowers net of hedging adjustments included in the book basis of the prepaid advance, if any, as interest income on advances in the statements of income either immediately (as prepayment fees on advances) or over time (as interest income on advances), as further described below. In cases in which the Bank funds a new advance concurrent with or within a short period of time before or after the prepayment of an existing advance, the Bank evaluates whether the new advance meets the accounting criteria to qualify as a modification of an existing advance. If the new advance qualifies as a modification of the existing advance, the net prepayment fee on the prepaid advance is deferred, recorded in the basis of the modified advance, and amortized into interest income over the life of the modified advance using the level-yield method. This amortization is recorded in interest income on advances. If the Bank determines that the advance should be treated as a new advance, or in instances where no new advance is funded, it records the net fees as "prepayment fees on advances" in the interest income section of the statements of income.

**Commitment Fees.** The Bank defers commitment fees for advances and amortizes them to interest income using the level-yield method over the life of the advance. The Bank records commitment fees for letters of credit as a deferred credit when it receives the fees and amortizes them over the term of the letter of credit using the straight-line method.

**Concessions on Consolidated Obligations.** The Bank defers and amortizes, using the level-yield method, the amounts paid to securities dealers in connection with the sale of consolidated obligation bonds over the term to maturity of the related bonds. The Office of Finance prorates the amount of the concession to the Bank based upon the percentage of the debt issued that is assumed by the Bank. Unamortized concessions were \$2,314,000 and \$2,319,000 at December 31, 2023 and 2022, respectively, and are recorded as a reduction in the balance of consolidated obligation bonds on the statements of condition. Amortization of such concessions is included in consolidated obligation bond interest expense and totaled \$2,584,000, \$1,090,000 and \$1,871,000 during the years ended December 31, 2023, 2022 and 2021, respectively. The Bank charges to expense as incurred the concessions applicable to the sale of consolidated obligation discount notes because of the short maturities of these notes. Concessions related to the sale of discount notes totaling \$4,275,000, \$4,222,000 and \$880,000 are included in interest expense on consolidated obligation discount notes in the statements of income for the years ended December 31, 2023, 2022 and 2021, respectively.

**Discounts and Premiums on Consolidated Obligations.** The Bank expenses the discounts on consolidated obligation discount notes using the level-yield method over the term to maturity of the related notes. It accretes the discounts and amortizes the premiums on consolidated obligation bonds to expense using the level-yield method over the term to maturity of the bonds.

**Finance Agency and Office of Finance Expenses.** The Bank is assessed its proportionate share of the costs of operating the Finance Agency and the Office of Finance. The assessment for the FHLBanks' portion of the Finance Agency's operating and

capital expenditures is allocated among the FHLBanks based on the ratio between each FHLBank's minimum required regulatory capital and the aggregate minimum required regulatory capital of all FHLBanks determined as of June 30 of each year. Prior to July 1, 2023, the expenses of the Office of Finance were shared on a pro rata basis with two-thirds based on each FHLBank's total consolidated obligations outstanding (as of the prior month-end) and one-third divided equally among all of the FHLBanks. Beginning July 1, 2023, the expenses of the Office of Finance are shared on a pro rata basis with two-thirds based on each FHLBank's total consolidated obligations outstanding (calculated as an average of the prior 12 month-end balances) and one-third divided equally among all of the FHLBanks. These costs are included in the other expense section of the statements of income.

**Estimated Fair Values.** Some of the Bank's financial instruments (e.g., advances) lack an available trading market characterized by transactions between a willing buyer and a willing seller engaging in an exchange transaction. Therefore, the Bank uses internal models employing assumptions regarding interest rates, volatilities, prepayments, and other factors to perform present-value calculations when disclosing estimated fair values for these financial instruments. The Bank assumes that book value approximates fair value for certain financial instruments with three months or less to repricing or maturity. For a discussion of the Bank's valuation techniques for financial instruments measured at fair value on the statement of condition and the estimated fair values of all of its financial instruments, see Note 17.

**Cash Flows.** The Bank considers cash and due from banks as cash and cash equivalents in the statements of cash flows.

## Note 2— Recently Issued Accounting Guidance

**Reference Rate Reform.** On March 12, 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-04, *"Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting"* ("ASU 2020-04"), which provides 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. ASU 2020-04 provides optional expedients and exceptions for applying U.S. GAAP to transactions affected by reference rate reform if certain criteria are met. These transactions include: (i) contract modifications, (ii) hedging relationships, and (iii) sales or transfers of debt securities classified as held-to-maturity.

As amended by ASU 2022-06, *"Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848"* ("ASU 2022-06"), which is discussed below, ASU 2020-04 is effective from March 12, 2020 through December 31, 2024. An entity may elect to adopt the amendments for contract modifications as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. An entity may elect to apply the amendments in ASU 2020-04 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020 through December 31, 2024. The one-time election to sell, transfer, or both sell and transfer debt securities classified as held-to-maturity may be made at any time after March 12, 2020 but no later than December 31, 2024.

On January 7, 2021, the FASB issued ASU 2021-01, *"Reference Rate Reform (Topic 848): Scope"* ("ASU 2021-01"), which clarifies that an entity may elect to apply the optional expedients and exceptions in ASU 2020-04 for contract modifications and hedge accounting to derivative instruments that use an interest rate for margining, discounting or contract price alignment that is modified as a result of reference rate reform. An entity may elect to apply the amendments in ASU 2021-01 on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020 or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to January 7, 2021, up to the date the financial statements are available to be issued. The amendments in ASU 2021-01 (as amended by ASU 2022-06) do not apply to contract modifications made after December 31, 2024, new hedging relationships entered into after December 31, 2024, or existing hedging relationships evaluated for effectiveness in periods after December 31, 2024, except for hedging relationships existing as of December 31, 2024 that apply certain optional expedients in which the accounting effects are recorded through the end of the hedging relationship (including periods after December 31, 2024).

On December 21, 2022, the FASB issued ASU 2022-06, which defers the sunset dates of the optional expedients and exceptions in ASU 2020-04 and ASU 2021-01 from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief available under those ASUs.

In October 2020, the third-party central clearinghouses with which the Bank transacts transitioned to the use of the Secured Overnight Financing Rate ("SOFR") for margining, discounting and contract price alignment. The Bank elected to retroactively apply the optional expedients and exceptions in ASU 2021-01 to its derivative contracts that were affected by these changes.

During the six months ended June 30, 2023, the Bank modified all of its remaining clearinghouse-traded LIBOR-indexed derivatives (other than those which had either an expiration date or last LIBOR reset date prior to July 1, 2023) to reference SOFR and, in so doing, it elected to apply the optional expedients and exceptions provided by ASU 2020-04 in order to

preserve existing hedging relationships. During the three months ended September 30, 2023, the Bank applied some of the expedients and exceptions provided in ASU 2020-04 to its remaining LIBOR-indexed bilateral derivative contracts that fell back to SOFR during that period. These modifications did not have a material impact on the Bank's financial position or results of operations.

While the Bank has no current intentions to do so, it could also elect to apply the expedients and exceptions provided in ASU 2020-04 relating to sales or transfers of held-to-maturity securities.

**Derivatives and Hedging.** On March 28, 2022, the FASB issued ASU 2022-01, *"Fair Value Hedging - Portfolio Layer Method"* ("ASU 2022-01"), which expands the current last-of-layer method to allow multiple hedged layers to be designated for a single closed portfolio. To reflect that expansion, the last-of-layer method was renamed the portfolio layer method. In addition, ASU 2022-01: (i) expands the scope of the portfolio layer method to include nonprepayable financial assets, (ii) specifies eligible hedging instruments in a single-layer hedge, (iii) provides additional guidance on the accounting for and disclosure of hedge basis adjustments under the portfolio layer method, and (iv) specifies how hedge basis adjustments should be considered when determining credit losses for the assets included in the closed portfolio.

For public business entities, ASU 2022-01 is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years (January 1, 2023 for the Bank). Early adoption is permitted. Upon adoption, any entity may designate multiple hedged layers of a single closed portfolio solely on a prospective basis. All entities are required to apply the amendments related to hedge basis adjustments under the portfolio layer method on a modified retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings on the initial application date. Entities have the option to apply the amendments related to disclosures on a prospective basis from the initial application date or on a retrospective basis. An entity may reclassify debt securities classified as held-to-maturity at the date of adoption to available-for-sale only if the entity applies portfolio layer method hedging to one or more closed portfolios that include those debt securities. The decision of which securities to reclassify must be made within 30 days after the date of adoption, and the securities must be included in one or more closed portfolios that are designated in a portfolio layer method hedge within that 30-day period.

The Bank adopted ASU 2022-01 on January 1, 2023. To date, the Bank has not used the last-of-layer method or the portfolio layer method in its hedging strategies; however, the Bank may elect to use the portfolio layer method in the future.

**Troubled Debt Restructuring.** On March 31, 2022, the FASB issued ASU 2022-02, *"Troubled Debt Restructurings and Vintage Disclosures"* ("ASU 2022-02"). ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings ("TDRs") by creditors that have adopted ASU 2016-13 and instead requires that an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. In addition, ASU 2022-02 enhances existing disclosure requirements and introduces new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Further, ASU 2022-02 requires disclosure of current-period gross write-offs by year of origination for financing receivables and net investments in leases.

For entities that have adopted ASU 2016-13, ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years (January 1, 2023 for the Bank). Early adoption is permitted if an entity has already adopted ASU 2016-13. The amendments in ASU 2022-02 are to be applied prospectively except that, for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption.

The Bank adopted ASU 2022-02 on January 1, 2023. The adoption did not have a material impact on the Bank's financial condition or results of operations.

**Segment Reporting.** On November 27, 2023, the FASB issued ASU 2023-07, *"Segment Reporting: Improvements to Reportable Segment Disclosures"* ("ASU 2023-07"). ASU 2023-07 modifies the reportable segment disclosure requirements, primarily by requiring enhanced disclosures about significant segment expenses. In addition, ASU 2023-07: (i) enhances interim disclosure requirements, (ii) clarifies the circumstances in which an entity can disclose multiple measures of a segment's profit or loss, (iii) provides new segment disclosure requirements for public entities with a single reportable segment, and (iv) requires that a public entity disclose the title and position of the chief operating decision maker ("CODM") and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources.

ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments in ASU 2023-07 are to be applied retrospectively to all prior periods presented in the financial statements.

The Bank adopted ASU 2023-07 on January 1, 2024. Beginning with its financial statements for the fiscal year ended December 31, 2024, the Bank will present the disclosures that are applicable to entities with a single reportable segment. ASU 2023-07 will not impact the Bank's financial condition or results of operations.

### Note 3—Trading Securities

Trading securities as of December 31, 2023 and 2022 were comprised solely of U.S. Treasury Notes.

Included in the balance as of December 31, 2023 are U.S. Treasury Notes that were purchased but which had not yet settled as of that date. The aggregate amount due of \$149,796,000 is included in other liabilities on the statement of condition at December 31, 2023.

Net gains (losses) on trading securities during the years ended December 31, 2023, 2022 and 2021 included changes in net unrealized holding gain (loss) of \$12,009,000, \$(17,672,000) and \$(6,489,000) for securities that were held on December 31, 2023, 2022 and 2021, respectively.

### Note 4—Available-for-Sale Securities

**Major Security Types.** Available-for-sale securities as of December 31, 2023 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Debtentures</b>				
U.S. government-guaranteed obligations	\$ 263,673	\$ 494	\$ —	\$ 264,167
GSE obligations	3,083,853	35,229	4,076	3,115,006
	3,347,526	35,723	4,076	3,379,173
GSE commercial MBS	14,293,018	59,940	41,409	14,311,549
<b>Total</b>	<b>\$ 17,640,544</b>	<b>\$ 95,663</b>	<b>\$ 45,485</b>	<b>\$ 17,690,722</b>

Available-for-sale securities as of December 31, 2022 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Debtentures</b>				
U.S. government-guaranteed obligations	\$ 274,169	\$ 2,729	\$ —	\$ 276,898
GSE obligations	3,121,141	50,922	2,963	3,169,100
	3,395,310	53,651	2,963	3,445,998
GSE commercial MBS	11,604,095	81,871	25,507	11,660,459
<b>Total</b>	<b>\$ 14,999,405</b>	<b>\$ 135,522</b>	<b>\$ 28,470</b>	<b>\$ 15,106,457</b>

In the tables above, the amortized cost of the Bank's available-for-sale securities includes premiums, discounts and hedging adjustments. Amortized cost excludes accrued interest of \$70,460,000 and \$58,259,000 at December 31, 2023 and 2022, respectively. Included in the tables above are GSE commercial MBS that were purchased but which had not yet settled as of December 31, 2023 and 2022, respectively. The aggregate amounts due of \$148,865,000 and \$319,603,000, respectively, are included in other liabilities on the statements of condition at those dates.

The following table summarizes (dollars in thousands) the available-for-sale securities with unrealized losses as of December 31, 2023. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous loss position.

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
GSE debtentures	\$ —	\$ —	\$ 73,799	\$ 4,076	\$ 73,799	\$ 4,076
GSE commercial MBS	5,224,152	26,892	851,318	14,517	6,075,470	41,409
<b>Total</b>	<b>\$ 5,224,152</b>	<b>\$ 26,892</b>	<b>\$ 925,117</b>	<b>\$ 18,593</b>	<b>\$ 6,149,269</b>	<b>\$ 45,485</b>



The following table summarizes (dollars in thousands) the available-for-sale securities with unrealized losses as of December 31, 2022. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous loss position.

	Less than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
GSE debentures	\$ —	\$ —	\$ 72,712	\$ 2,963	\$ 72,712	\$ 2,963
GSE commercial MBS	3,254,526	24,640	61,099	867	3,315,625	25,507
Total	\$ 3,254,526	\$ 24,640	\$ 133,811	\$ 3,830	\$ 3,388,337	\$ 28,470

**Redemption Terms.** The amortized cost and estimated fair value of available-for-sale securities by contractual maturity at December 31, 2023 and 2022 are presented below (in thousands).

Maturity	December 31, 2023		December 31, 2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Debentures				
Due in one year or less	\$ 1,256,186	\$ 1,261,769	\$ 116,190	\$ 116,774
Due after one year through five years	1,967,570	1,991,058	3,075,501	3,120,902
Due after five years through ten years	123,770	126,346	203,619	208,322
	3,347,526	3,379,173	3,395,310	3,445,998
GSE commercial MBS	14,293,018	14,311,549	11,604,095	11,660,459
Total	\$17,640,544	\$17,690,722	\$14,999,405	\$15,106,457

**Interest Rate Payment Terms.** At December 31, 2023 and 2022, all of the Bank's available-for-sale securities were fixed rate securities, substantially all of which were swapped to a variable rate.

**Sales of Securities.** During the years ended December 31, 2023, 2022 and 2021, there were no sales of available-for-sale securities.

#### Note 5—Held-to-Maturity Securities

**Major Security Types.** Held-to-maturity securities as of December 31, 2023 were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government-guaranteed debentures	\$ 374	\$ 1	\$ —	\$ 375
GSE residential MBS	252,928	55	6,232	246,751
Total	\$ 253,302	\$ 56	\$ 6,232	\$ 247,126

Held-to-maturity securities as of December 31, 2022 were as follows (in thousands):

	Amortized Cost	OTTI Recorded in AOCI	Carrying Value	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Estimated Fair Value
<b>Debentures</b>						
U.S. government-guaranteed obligations	\$ 1,121	\$ —	\$ 1,121	\$ 5	\$ —	\$ 1,126
<b>Mortgage-backed securities</b>						
GSE residential MBS	287,757	—	287,757	175	5,247	282,685
Non-agency residential MBS	29,224	3,428	25,796	6,088	1,322	30,562
	316,981	3,428	313,553	6,263	6,569	313,247
<b>Total</b>	<b>\$ 318,102</b>	<b>\$ 3,428</b>	<b>\$ 314,674</b>	<b>\$ 6,268</b>	<b>\$ 6,569</b>	<b>\$ 314,373</b>

In the tables above, amortized cost includes premiums, discounts and, as of December 31, 2022, the credit portion of OTTI recorded prior to January 1, 2020. Amortized cost excludes accrued interest of \$404,000 and \$411,000 at December 31, 2023 and 2022, respectively.

**Redemption Terms.** The amortized cost, carrying value and estimated fair value of held-to-maturity securities by contractual maturity at December 31, 2023 and 2022 are presented below (in thousands). The expected maturities of some debentures could differ from the contractual maturities presented because issuers may have the right to call such debentures prior to their final stated maturities.

Maturity	December 31, 2023			December 31, 2022		
	Amortized Cost	Carrying Value	Estimated Fair Value	Amortized Cost	Carrying Value	Estimated Fair Value
<b>Debentures</b>						
Due in one year or less	\$ 374	\$ 374	\$ 375	\$ —	\$ —	\$ —
Due after one year through five years	—	—	—	1,121	1,121	1,126
	374	374	375	1,121	1,121	1,126
<b>Mortgage-backed securities</b>	<b>252,928</b>	<b>252,928</b>	<b>246,751</b>	<b>316,981</b>	<b>313,553</b>	<b>313,247</b>
<b>Total</b>	<b>\$ 253,302</b>	<b>\$ 253,302</b>	<b>\$ 247,126</b>	<b>\$ 318,102</b>	<b>\$ 314,674</b>	<b>\$ 314,373</b>

The amortized cost of the Bank's mortgage-backed securities classified as held-to-maturity includes net purchase discounts of \$57,000 and \$62,000 at December 31, 2023 and 2022, respectively.

**Interest Rate Payment Terms.** At December 31, 2023 and 2022, all of the Bank's held-to-maturity securities were variable-rate securities. All of the Bank's variable-rate MBS classified as held-to-maturity securities were collateralized mortgage obligations which have coupon rates that are subject to interest rate caps, none of which were reached during the years ended December 31, 2023 or 2022.

**Sales of Securities.** During the year ended December 31, 2023, the Bank sold all of its non-agency residential MBS investments. At the time of the sale, the amortized cost of the securities (determined by the specific identification method) was \$27,944,000. Proceeds from the sales totaled \$29,025,000, resulting in realized gains of \$1,081,000. During the year ended December 31, 2022, the Bank sold held-to-maturity securities with an amortized cost (determined by the specific identification method) of \$100,238,000. Proceeds from the sales totaled \$100,365,000, resulting in realized gains of \$127,000. For each of the securities sold during 2023 and 2022, the Bank had previously collected at least 85 percent of the principal outstanding at the time of acquisition. As such, the sales were considered maturities for purposes of security classification. There were no sales of held-to-maturity securities during the year ended December 31, 2021.

## Note 6—Advances

**Redemption Terms.** At December 31, 2023 and 2022, the Bank had advances outstanding at interest rates ranging from 0.39 percent to 8.27 percent and from 0.26 percent to 8.27 percent, respectively, as summarized below (dollars in thousands).

Contractual Maturity	2023		2022	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Overdrawn demand deposit accounts	\$ —	— %	\$ 14,121	4.80 %
Due in one year or less	44,567,898	5.36	48,037,478	4.54
Due after one year through two years	4,689,293	4.40	1,601,879	2.98
Due after two years through three years	6,435,369	4.48	1,877,716	3.17
Due after three years through four years	12,535,123	3.58	1,454,293	3.73
Due after four years through five years	5,776,581	5.06	6,683,504	2.94
Due after five years through fifteen years	6,228,089	3.45	9,736,049	3.27
Due after fifteen years	28,254	2.39	31,779	2.35
Total par value	80,260,607	4.78 %	69,436,819	4.12 %
Deferred net prepayment fees	(3,079)		(4,306)	
Commitment fees	(32)		(35)	
Hedging adjustments	(305,641)		(510,609)	
Total	<u>\$ 79,951,855</u>		<u>\$ 68,921,869</u>	

Advances presented in the table above exclude accrued interest of \$295,802,000 and \$198,313,000 at December 31, 2023 and 2022, respectively.

The Bank offers advances to members that may be prepaid on specified dates without the member incurring prepayment or termination fees (prepayable and callable advances). At December 31, 2023 and 2022, the Bank had aggregate prepayable and callable advances totaling \$6,237,407,000 and \$6,472,357,000, respectively. The prepayment of other advances requires the payment of a fee to the Bank (prepayment fee) if necessary to make the Bank financially indifferent to the prepayment of the advance.

The following table summarizes advances outstanding at December 31, 2023 and 2022, by the earlier of contractual maturity or next call date, or the first date on which prepayable advances can be repaid without a prepayment fee (in thousands):

Contractual Maturity or Next Call Date	2023	2022
Overdrawn demand deposit accounts	\$ —	\$ 14,121
Due in one year or less	49,152,564	54,039,078
Due after one year through two years	4,125,832	1,265,164
Due after two years through three years	5,816,165	1,068,233
Due after three years through four years	12,279,074	781,633
Due after four years through five years	2,688,446	6,394,892
Due after five years	6,198,526	5,873,698
Total par value	<u>\$ 80,260,607</u>	<u>\$ 69,436,819</u>

The Bank also offers putable advances. With a putable advance, the Bank purchases a put option from the member that allows the Bank to terminate the fixed-rate advance on specified dates and offer, subject to certain conditions, replacement funding at prevailing market rates. At December 31, 2023 and 2022, the Bank had putable advances outstanding totaling \$5,130,000,000 and \$5,483,000,000, respectively.

The following table summarizes advances at December 31, 2023 and 2022, by the earlier of contractual maturity or next possible put date (in thousands):

<b>Contractual Maturity or Next Put Date</b>	<b>2023</b>	<b>2022</b>
Overdrawn demand deposit accounts	\$ —	\$ 14,121
Due in one year or less	48,325,898	51,605,479
Due after one year through two years	5,213,793	2,161,879
Due after two years through three years	6,415,369	2,407,716
Due after three years through four years	12,947,623	1,454,293
Due after four years through five years	5,416,331	6,828,504
Due after five years	1,941,593	4,964,827
Total par value	<u>\$ 80,260,607</u>	<u>\$ 69,436,819</u>

**Credit Concentrations.** Due to the composition of its shareholders, the Bank's potential credit risk from advances is concentrated in commercial banks, insurance companies, savings institutions and credit unions. At December 31, 2023, the Bank had advances of \$24,000,000,000 outstanding to its largest borrower, Charles Schwab Bank SSB, which represented approximately 29.9 percent of total advances outstanding at that date. In addition, at that same date, the Bank had advances of \$2,400,000,000 outstanding to Charles Schwab Premier Bank, an affiliate of Charles Schwab Bank SSB, which represented approximately 3.0 percent of total advances outstanding as of December 31, 2023. For the year ended December 31, 2023, interest income on advances to Charles Schwab Bank SSB and Charles Schwab Premier Bank totaled \$1,541,626,000 (26.9 percent of total interest income on advances) and \$269,274,000 (4.7 percent of total interest income on advances), respectively. At December 31, 2022, the Bank had advances of \$10,000,000,000 outstanding to its largest borrower, Charles Schwab Bank SSB, which represented approximately 14.4 percent of total advances outstanding at that date. In addition, at that same date, the Bank had advances of \$2,400,000,000 outstanding to Charles Schwab Premier Bank, which represented approximately 3.5 percent of total advances outstanding as of December 31, 2022. For the year ended December 31, 2022, interest income on advances to Charles Schwab Bank SSB and Charles Schwab Premier Bank totaled \$92,443,000 (8.7 percent of total interest income on advances) and \$12,765,000 (1.2 percent of total interest income on advances), respectively. At December 31, 2021, the Bank had advances of \$3,148,133,000 outstanding to its largest borrower, American General Life Insurance Company, which represented approximately 12.9 percent of total advances outstanding at that date. Interest income on advances to American General Life Insurance Company totaled \$8,526,000 (7.1 percent of total interest income on advances) for the year ended December 31, 2021. Interest income on advances to Simmons Bank, the Bank's fifth largest borrower as of December 31, 2021 with outstanding advances of \$1,305,533,000 (representing 5.3 percent of total advances outstanding at that date), totaled \$18,678,000 (15.6 percent of total interest income on advances) for the year ended December 31, 2021. No other borrower represented more than 10 percent of advances outstanding at December 31, 2023, 2022 or 2021 or more than 10 percent of interest income on advances for the years ended December 31, 2023, 2022 or 2021.

**Interest Rate Payment Terms.** The following table provides interest rate payment terms for advances outstanding at December 31, 2023 and 2022 (in thousands):

	<b>2023</b>	<b>2022</b>
<b>Fixed-rate</b>		
Due in one year or less	\$ 40,590,309	\$ 38,537,518
Due after one year	29,984,969	15,418,892
Total fixed-rate	<u>70,575,278</u>	<u>53,956,410</u>
<b>Variable-rate</b>		
Due in one year or less	3,977,589	9,514,081
Due after one year	5,707,740	5,966,328
Total variable-rate	<u>9,685,329</u>	<u>15,480,409</u>
Total par value	<u>\$ 80,260,607</u>	<u>\$ 69,436,819</u>

At December 31, 2023 and 2022, 76 percent and 40 percent, respectively, of the Bank's fixed-rate advances were swapped to a variable rate.

**Prepayment Fees.** When a member/borrower prepays an advance, the Bank could suffer lower future income if the principal portion of the prepaid advance is reinvested in lower-yielding assets. To protect against this risk, the Bank generally charges a prepayment fee that makes it financially indifferent to a borrower's decision to prepay an advance. As discussed in Note 1, the Bank records prepayment fees received from members/borrowers on prepaid advances net of any associated hedging adjustments on those advances. Gross advance prepayment fees received from members/borrowers during the years

ended December 31, 2023, 2022 and 2021 were \$1,973,000, \$5,815,000 and \$15,059,000, respectively. During the year ended December 31, 2021, the Bank deferred \$653,000 of the gross advance prepayment fees received during that year. None of the gross advance prepayment fees received during the years ended December 31, 2023 or 2022 were deferred.

The Bank also offers advances that include a symmetrical prepayment feature which allows a member to prepay an advance at the lower of par value or fair value plus a make-whole amount payable to the Bank. During the year ended December 31, 2022, seven symmetrical prepayment advances with an aggregate par value of \$42,153,000 were prepaid. The total difference by which the par values of these advances exceeded their fair values, less the make-whole amounts, totaled \$1,350,000 and was recorded in prepayment fees on the advances, net of the associated hedging adjustments on the advances. There were no prepayments of symmetrical prepayment advances for which the par values of the advances exceeded their fair values, less the make-whole amounts, during the years ended December 31, 2023 or 2021.

#### Note 7—Mortgage Loans Held for Portfolio

Mortgage loans held for portfolio represent held-for-investment loans acquired through the MPF program (see Note 1). Under the MPF program, the Bank purchased conventional mortgage loans and government-guaranteed/insured mortgage loans (i.e., those insured or guaranteed by the Federal Housing Administration (“FHA”) or the Department of Veterans Affairs (“DVA”)) during the period from 1998 to mid-2003. The Bank resumed acquiring conventional mortgage loans under this program in 2016. Since 2016, all of the acquired mortgage loans were originated by certain of the Bank's member institutions that participate in the MPF program (“Participating Financial Institutions” or “PFIs”) and the Bank acquired a 100 percent interest in such loans. For loans that were acquired from its members during the period from 1998 to mid-2003, the Bank retained title to the mortgage loans, subject to any participation interest in such loans that was sold to the FHLBank of Chicago; the interest in these loans that was retained by the Bank ranged from 1 percent to 49 percent. Additionally, during the period from 1998 to 2000, the Bank also acquired from the FHLBank of Chicago a percentage interest (ranging up to 75 percent) in certain MPF loans originated by PFIs of other FHLBanks. The Bank manages the liquidity, interest rate and prepayment risk of these loans, while the PFIs or their designees retain the servicing activities. The Bank and the PFIs share in the credit risk of the loans with the Bank assuming the first loss obligation limited by the First Loss Account (“FLA”), and the PFIs assuming credit losses in excess of the FLA, up to the amount of the credit enhancement obligation as specified in the master agreement (“Second Loss Credit Enhancement”). The Bank assumes all losses in excess of the Second Loss Credit Enhancement. The following table presents information as of December 31, 2023 and 2022 for mortgage loans held for portfolio (in thousands):

	<b>2023</b>	<b>2022</b>
Fixed-rate medium-term* single-family mortgages	\$ 108,718	\$ 115,466
Fixed-rate long-term single-family mortgages	4,932,497	4,233,023
Premiums	66,823	64,067
Discounts	(18,730)	(17,140)
Deferred net derivative gains associated with mortgage delivery commitments	7,102	4,624
Total mortgage loans held for portfolio	5,096,410	4,400,040
Less: allowance for credit losses on mortgage loans	(7,768)	(4,865)
Total mortgage loans held for portfolio, net of allowance for credit losses	<u>\$ 5,088,642</u>	<u>\$ 4,395,175</u>

\*Medium-term is defined as an original term of 15 years or less.

Mortgage loans presented in the table above exclude accrued interest receivable of \$31,054,000 and \$22,838,000 at December 31, 2023 and 2022, respectively.

The unpaid principal balance of mortgage loans held for portfolio at December 31, 2023 and 2022 was comprised of conventional loans totaling \$5,035,553,000 and \$4,341,686,000, respectively, and government-guaranteed/insured loans totaling \$5,662,000 and \$6,803,000, respectively.

PFIs are paid a credit enhancement fee (“CE fee”) as an incentive to minimize credit losses, to share in the risk of loss on MPF loans and to pay for supplemental mortgage insurance, rather than paying a guaranty fee to other secondary market purchasers. CE fees are paid monthly and are determined based on the remaining unpaid principal balance of the MPF loans. The required credit enhancement obligation varies depending upon the MPF product type. CE fees, payable to a PFI as compensation for assuming credit risk, are recorded as a reduction to mortgage loan interest income when paid by the Bank. During the years ended December 31, 2023, 2022 and 2021, mortgage loan interest income was reduced by CE fees totaling \$2,470,000, \$2,186,000 and \$1,858,000, respectively. The Bank also pays performance-based CE fees that are based on the actual performance of the pool of MPF loans under each individual master commitment. To the extent that losses in the current

month exceed accrued performance-based CE fees, the remaining losses may be recovered from future performance-based CE fees payable to the PFI. During the years ended December 31, 2023, 2022 and 2021, performance-based CE fees that were forgone and not paid to the Bank's PFIs totaled \$1,000, \$3,000 and \$26,000, respectively.

#### Note 8—Accrued Interest Receivable

The components of accrued interest receivable as of December 31, 2023 and 2022 were as follows (in thousands):

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Advances	\$ 295,802	\$ 198,313
Investment securities		
Trading	9,734	962
Available-for-sale	70,460	58,259
Held-to-maturity	404	411
Mortgage loans held for portfolio	31,054	22,838
Interest-bearing deposits	9,425	5,634
Securities purchased under agreements to resell	6,530	2,914
Federal funds sold	2,834	2,351
Total	<u>\$ 426,243</u>	<u>\$ 291,682</u>

#### Note 9—Allowance for Credit Losses

As of the balance sheet date, an allowance for credit losses is separately established, if necessary, for each of the Bank's financial instruments carried at amortized cost, its available-for-sales securities and its off-balance sheet credit exposures. Expected credit losses on these financial instruments are recorded through an allowance for credit losses. The allowance for credit losses is the amount necessary to reduce the amortized cost of financial instruments carried at amortized cost to the net amount expected to be collected and the amortized cost of available-for-sale securities to the higher of the security's fair value or the present value of the cash flows expected to be collected from the security. To the extent necessary, an allowance for credit losses for off-balance sheet credit exposures is recorded as a liability.

**Short-Term Investments.** The Bank invests in overnight interest-bearing deposits, overnight Federal Funds sold and overnight securities sold under agreements to repurchase. These investments provide short-term liquidity and are carried at amortized cost. At December 31, 2023, all investments in Federal Funds sold, interest-bearing deposits and securities purchased under agreements to resell were repaid according to the contractual terms. Accordingly, no allowance for credit losses was recorded on these assets at December 31, 2023.

**Long-Term Investments.** The Bank evaluates its available-for-sale securities for impairment by comparing the security's fair value to its amortized cost. Impairment exists when the fair value of the investment is less than its amortized cost (i.e., when the security is in an unrealized loss position). The Bank evaluates each impaired security to determine whether the impairment is due to credit losses. Held-to-maturity securities are evaluated for impairment on a pooled basis, unless an individual assessment is deemed necessary because the securities do not contain similar risk characteristics.

At December 31, 2023, the gross unrealized losses on the Bank's available-for-sale and held-to-maturity securities were \$45,485,000 and \$6,232,000, respectively, all of which related to securities that are issued and guaranteed by GSEs.

As of December 31, 2023, the U.S. government and the issuers of the Bank's holdings of GSE debentures, GSE commercial MBS ("CMBS") and GSE residential MBS ("RMBS") were rated triple-A by Moody's Investors Service ("Moody's") and AA+ by S&P Global Ratings ("S&P"). Through December 31, 2023, the Bank has not experienced any defaults on its government-guaranteed debentures or GSE RMBS and it has experienced only one default on its GSE CMBS, which default occurred in August 2020. In the event of a default, the guarantor is required to repurchase the security at its par value and thus the Bank's exposure is limited to the amount of any unamortized premiums and/or positive fair value hedge accounting adjustments included in the amortized cost basis of the investment. Based upon the Bank's assessment of the creditworthiness of the issuers of the GSE debentures that were in an unrealized loss position at December 31, 2023 and the credit ratings assigned by Moody's and S&P, the Bank expects that these debentures would not be settled at an amount less than the Bank's amortized cost bases in these investments. In addition, based upon the Bank's assessment of the strength of the GSEs' guarantees of the Bank's holdings of GSE CMBS and GSE RMBS and the credit ratings assigned by Moody's and S&P, the Bank expects that the amounts to be collected on its holdings of GSE MBS will not be less than the Bank's amortized cost bases in these investments (or, in the rare circumstance of a default, the amount to be collected would not be expected to be significantly less than the Bank's amortized cost basis in the investment). The Bank does not intend to sell the investments and it is not more likely than not that the Bank



will be required to sell the investments before recovery of their amortized cost bases. Because the current market value deficits associated with the Bank's available-for-sale securities are not attributable to credit quality, and because the amount expected to be collected on its held-to-maturity securities is not less than the amortized cost of these investments, the Bank has determined that the credit losses on its U.S. government-guaranteed and GSE investments, if any, would be insignificant and, therefore, the Bank did not provide an allowance for credit losses on these investments at December 31, 2023.

**Standby Bond Purchase Agreements.** The Bank has entered into standby bond purchase agreements with a state housing finance agency within its district whereby, for a fee, the Bank agrees to serve as a standby liquidity provider. If required, the Bank will purchase and hold the housing finance agency's bonds until the designated marketing agent can find a suitable investor or the housing finance agency repurchases the bonds according to a schedule established by the agreement. To date, the Bank has never been required to purchase a bond under its standby bond purchase agreements. In addition, the agreements contain provisions that allow the Bank to terminate the agreement if the housing finance agency's credit rating, or the rating of the bonds underlying the agreements, decline to a level below investment grade. Based on these provisions, the high credit quality of the housing finance agency and the unlikelihood that the Bank will be required to repurchase the bonds, an allowance for credit losses on standby bond purchase agreements was not considered necessary at December 31, 2023.

**Financing Receivables.** A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses on financing receivables which, for the Bank, includes off-balance sheet credit exposures to members. The Bank has developed and documented a systematic methodology for determining an allowance for credit losses for the following portfolio segments: (1) advances and other extensions of credit to members/borrowers, collectively referred to as "extensions of credit to members;" (2) government-guaranteed/insured mortgage loans held for portfolio; and (3) conventional mortgage loans held for portfolio.

Classes of financing receivables are generally a disaggregation of a portfolio segment and are determined on the basis of their initial measurement attribute, the risk characteristics of the financing receivable and an entity's method for monitoring and assessing credit risk. Because the credit risk arising from the Bank's financing receivables is assessed and measured at the portfolio segment level, the Bank does not have separate classes of financing receivables within each of its portfolio segments.

**Advances and Other Extensions of Credit to Members.** In accordance with federal statutes, including the FHLB Act, the Bank lends to financial institutions within its five-state district that are involved in housing finance. The FHLB Act requires the Bank to obtain and maintain sufficient collateral for advances and other extensions of credit to protect against losses. The Bank makes advances and otherwise extends credit only against eligible collateral, as defined by regulation. Eligible collateral includes whole first mortgages on improved residential real property (not more than 90 days delinquent), or securities representing a whole interest in such mortgages; securities issued, insured, or guaranteed by the U.S. government or any of its agencies, including mortgage-backed and other debt securities issued or guaranteed by the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or the Government National Mortgage Association ("Ginnie Mae"); term deposits in the Bank; and other real estate-related collateral acceptable to the Bank, provided that such collateral has a readily ascertainable value and the Bank can perfect a security interest in such property. In the case of Community Financial Institutions (which for 2023 included all FDIC-insured institutions with average total assets as of December 31, 2022, 2021 and 2020 of less than \$1.417 billion), the Bank may also accept as eligible collateral secured small business, small farm and small agribusiness loans, securities representing a whole interest in such loans, and secured loans for community development activities. To ensure the value of collateral pledged to the Bank is sufficient to secure its advances and other extensions of credit, the Bank applies various haircuts, or discounts, to the collateral to determine the value against which borrowers may borrow. As additional security, the Bank has a statutory lien on each borrower's capital stock in the Bank. The Bank has procedures in place for validating the reasonableness of its collateral valuations. In addition, collateral verifications and on-site reviews are performed based on the risk profile of the borrower.

Each member/borrower of the Bank executes a security agreement pursuant to which such member/borrower grants a security interest in favor of the Bank in certain assets of such member/borrower. The agreements under which a member grants a security interest fall into one of two general structures. In the first structure, the member grants a security interest in all of its assets that are included in the eligible collateral categories, as described in the preceding paragraph, which the Bank refers to as a "blanket lien." A member may request that its blanket lien be modified, such that the member grants in favor of the Bank a security interest limited to certain of the eligible collateral categories (i.e., whole first residential mortgages, securities, term deposits in the Bank and other real estate-related collateral). In the second structure, the member grants a security interest in specifically identified assets rather than in the broad categories of eligible collateral covered by the blanket lien and the Bank identifies such members as being on "specific collateral only status."

The basis upon which the Bank will lend to a member that has granted the Bank a blanket lien depends on numerous factors, including, among others, that member's financial condition and general creditworthiness. Generally, and subject to certain limitations, a member that has granted the Bank a blanket lien may borrow up to a specified percentage of the value of eligible collateral categories, as determined from such member's financial reports filed with its federal regulator, without specifically identifying each item of collateral or delivering the collateral to the Bank. Under certain circumstances, including,

among others, a deterioration of a member's financial condition or general creditworthiness, the amount a member may borrow is determined on the basis of only that portion of the collateral subject to the blanket lien that such member delivers to the Bank. Under these circumstances, the Bank places the member on "custody status." In addition, members on blanket lien status may choose to deliver some or all of the collateral to the Bank.

The members/borrowers that are granted specific collateral only status by the Bank are typically either insurance companies or members/borrowers with an investment grade credit rating from at least two nationally recognized statistical rating organizations ("NRSROs") that have requested this type of structure. Insurance companies are permitted to borrow only against the eligible collateral that is delivered to the Bank or a third-party custodian approved by the Bank, and insurance companies generally grant a security interest only in collateral they have delivered. Members/borrowers with an investment grade credit rating from at least two NRSROs may grant a security interest in, and would only be permitted to borrow against, delivered eligible securities and specifically identified, eligible first-lien mortgage loans. Such loans must be delivered to the Bank or a third-party custodian approved by the Bank, or the Bank and such member/borrower must otherwise take actions that ensure the priority of the Bank's security interest in such loans. Investment grade rated members/borrowers that choose this option are subject to fewer provisions that allow the Bank to demand additional collateral or exercise other remedies based on the Bank's discretion; however, the collateral they pledge is generally subject to larger haircuts (depending on the credit rating of the member/borrower from time to time) than are applied to similar types of collateral pledged by members under a blanket lien arrangement.

The Bank perfects its security interests in borrowers' collateral in a number of ways. The Bank usually perfects its security interest in collateral by filing a Uniform Commercial Code financing statement against the borrower. In the case of certain borrowers, the Bank perfects its security interest by taking possession or control of the collateral, which may be in addition to the filing of a financing statement. In these cases, the Bank also generally takes assignments of most of the mortgages and deeds of trust that are designated as collateral. Instead of requiring delivery of the collateral to the Bank, the Bank may allow certain borrowers to deliver specific collateral to a third-party custodian approved by the Bank or otherwise take actions that ensure the priority of the Bank's security interest in such collateral.

With certain exceptions set forth below, Section 10(e) of the FHLB Act affords any security interest granted to the Bank by any member/borrower of the Bank, or any affiliate of any such member/borrower, priority over the claims and rights of any party, including any receiver, conservator, trustee, or similar party having rights of a lien creditor. However, the Bank's security interest is not entitled to priority over the claims and rights of a party that (i) would be entitled to priority under otherwise applicable law and (ii) is an actual bona fide purchaser for value or is a secured party who has a perfected security interest in such collateral in accordance with applicable law (e.g., a prior perfected security interest under the Uniform Commercial Code or other applicable law). For example, in a case in which the Bank has perfected its security interest in collateral by filing a Uniform Commercial Code financing statement against the borrower, another secured party's security interest in that same collateral that was perfected by possession and without prior knowledge of the Bank's lien may be entitled to priority over the Bank's security interest that was perfected by filing a Uniform Commercial Code financing statement.

From time to time, the Bank agrees to subordinate its security interest in certain assets or categories of assets granted by a member/borrower of the Bank to the security interest of another creditor (typically, a Federal Reserve Bank or another FHLBank). If the Bank agrees to subordinate its security interest in certain assets or categories of assets granted by a member/borrower of the Bank to the security interest of another creditor, the Bank will not extend credit against those assets or categories of assets.

On at least a quarterly basis, the Bank evaluates all outstanding extensions of credit to members/borrowers for potential credit losses. These evaluations include a review of: (1) the amount, type and performance of collateral available to secure the outstanding obligations; (2) metrics that may be indicative of changes in the financial condition and general creditworthiness of the member/borrower; and (3) the payment status of the obligations. Any outstanding extensions of credit that exhibit a potential credit weakness that could jeopardize the full collection of the outstanding obligations would be classified as substandard, doubtful or loss. The Bank did not have any advances or other extensions of credit to members/borrowers that were classified as substandard, doubtful or loss at December 31, 2023 or 2022.

The Bank considers the amount, type and performance of collateral to be the primary indicator of credit quality with respect to its extensions of credit to members/borrowers. At December 31, 2023 and 2022, the Bank had rights to collateral on a borrower-by-borrower basis with an estimated value in excess of each borrower's outstanding extensions of credit.

The Bank continues to evaluate and, as necessary, modify its credit extension and collateral policies based on market conditions. At December 31, 2023 and 2022, the Bank did not have any advances that were past due or on nonaccrual status.

The Bank has never experienced a credit loss on an advance or any other extension of credit to a member/borrower and, based on its credit extension and collateral policies, management currently does not anticipate any credit losses on its extensions of credit to members/borrowers. Accordingly, the Bank has not provided any allowance for credit losses on advances, nor has it recorded any liabilities to reflect an allowance for credit losses related to its off-balance sheet credit exposures to members.



**Mortgage Loans — Government-guaranteed or government-insured.** The Bank’s government-guaranteed or government-insured fixed-rate mortgage loans are guaranteed or insured by the FHA or the DVA. Any losses from these loans are expected to be recovered from those entities. Any losses from these loans that are not recovered from those entities are absorbed by the servicers. Therefore, the Bank has not established an allowance for credit losses on government-guaranteed or government-insured mortgage loans.

**Mortgage Loans — Conventional Mortgage Loans.** The allowance for credit losses on conventional mortgage loans is determined by an analysis that includes consideration of various data such as past performance, current performance, projected performance, loan portfolio characteristics, collateral-related characteristics, prevailing economic conditions and reasonable and supportable forecasts of expected economic conditions. The allowance for credit losses on conventional mortgage loans also factors in the credit enhancement under the MPF program. The Bank does not record an allowance for credit losses that are expected to be recovered from the credit enhancements.

The Bank considers the key credit quality indicator for conventional mortgage loans to be the payment status of each loan. The table below summarizes the amortized cost (excluding accrued interest receivable) by payment status for mortgage loans at December 31, 2023 and 2022 (dollars in thousands).

	December 31, 2023				
	Conventional Loans Originated Prior to 2019	Conventional Loans Originated in 2019-2023	Total Conventional Loans	Government-Guaranteed/Insured Loans <sup>(1)</sup>	Total
<b>Mortgage loans:</b>					
30-59 days delinquent	\$ 7,926	\$ 39,417	\$ 47,343	\$ 222	\$ 47,565
60-89 days delinquent	2,796	14,736	17,532	15	17,547
90 days or more delinquent	4,261	10,915	15,176	62	15,238
Total past due	14,983	65,068	80,051	299	80,350
Total current loans	371,320	4,639,360	5,010,680	5,380	5,016,060
Total mortgage loans	<u>\$ 386,303</u>	<u>\$ 4,704,428</u>	<u>\$ 5,090,731</u>	<u>\$ 5,679</u>	<u>\$ 5,096,410</u>
	December 31, 2022				
	Conventional Loans Originated Prior to 2018	Conventional Loans Originated in 2018-2022	Total Conventional Loans	Government-Guaranteed/Insured Loans <sup>(1)</sup>	Total
<b>Mortgage loans:</b>					
30-59 days delinquent	\$ 3,605	\$ 33,213	\$ 36,818	\$ 175	\$ 36,993
60-89 days delinquent	477	6,701	7,178	45	7,223
90 days or more delinquent	3,512	10,537	14,049	56	14,105
Total past due	7,594	50,451	58,045	276	58,321
Total current loans	160,632	4,174,538	4,335,170	6,549	4,341,719
Total mortgage loans	<u>\$ 168,226</u>	<u>\$ 4,224,989</u>	<u>\$ 4,393,215</u>	<u>\$ 6,825</u>	<u>\$ 4,400,040</u>

<sup>(1)</sup> All of the Bank’s government-guaranteed/insured loans were originated in years prior to 2004.

The table below summarizes other delinquency statistics for mortgage loans at December 31, 2023 and 2022 (dollars in thousands).

	December 31, 2023			December 31, 2022		
	Total Conventional Loans	Government-Guaranteed/Insured Loans	Total	Total Conventional Loans	Government-Guaranteed/Insured Loans	Total
In process of foreclosure <sup>(1)</sup>	\$ 3,404	\$ 19	\$ 3,423	\$ 5,030	\$ —	\$ 5,030
Serious delinquency rate <sup>(2)</sup>	0.3 %	1.1 %	0.3 %	0.3 %	0.8 %	0.3 %
Past due 90 days or more and still accruing interest <sup>(3)</sup>	\$ —	\$ 62	\$ 62	\$ —	\$ 56	\$ 56
Nonaccrual loans <sup>(4)</sup>	\$ 21,105	\$ —	\$ 21,105	\$ 19,420	\$ —	\$ 19,420

- <sup>(1)</sup> Includes loans where the decision of foreclosure or similar alternative such as pursuit of deed-in-lieu has been made.  
<sup>(2)</sup> Loans that are 90 days or more past due or in the process of foreclosure expressed as a percentage of the loan portfolio.  
<sup>(3)</sup> Only government-guaranteed/insured mortgage loans continue to accrue interest after they become 90 days or more past due.  
<sup>(4)</sup> The Bank did not have any specific allowance for credit losses on nonaccrual loans at December 31, 2023.

The Bank's other assets included \$705,000 and \$429,000 of real estate owned at December 31, 2023 and 2022, respectively.

In certain circumstances, the Bank enters into loan modifications that allow borrowers who are experiencing financial difficulty to defer past due principal and interest payments until the earlier of the date on which the loan is prepaid or the end of the loan term. During year ended December 31, 2023, both the aggregate unpaid principal balance of loans that were modified and payment defaults on loans that had been modified within the previous 12 months were insignificant.

The Bank individually reviews each seriously delinquent mortgage loan for credit losses. At December 31, 2023 and 2022, the estimated value of the collateral securing each of these loans, plus the estimated amount that can be recovered through credit enhancements and mortgage insurance, if any, exceeded the amortized cost basis of the loans. Therefore, no allowance for credit losses was established for any of the individually reviewed mortgage loans. The remaining conventional mortgage loans were evaluated for credit losses on a pool basis. Based upon the current and past performance of these loans, current economic conditions, reasonable and supportable forecasts of expected economic conditions and expected recoveries from credit enhancements, the Bank's best estimate of the expected credit losses in its conventional mortgage loan portfolio at December 31, 2023 was \$7,768,000.

The following table presents the activity in the allowance for credit losses on conventional mortgage loans held for portfolio during the years ended December 31, 2023, 2022 and 2021 (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Balance, beginning of year	\$ 4,865	\$ 3,124	\$ 3,925
Provision (reversal) for credit losses	2,903	1,741	(801)
Balance, end of year	\$ 7,768	\$ 4,865	\$ 3,124

With the onset of the COVID-19 pandemic in early 2020, the Bank applied a more adverse set of assumptions in developing its estimate of the allowance for credit losses, not fully knowing the impact that this unprecedented event could have on its mortgage loan portfolio. As the expected impact of the pandemic on its mortgage loan portfolio became clearer in 2021, the Bank's credit loss estimates were revised downward and, correspondingly, its allowance for credit losses was reduced. The increase in the allowance for credit losses in 2023 and 2022 was due primarily to the growth in the Bank's mortgage loan portfolio.

#### Note 10—Deposits

The Bank offers demand and overnight deposits for members and qualifying non-members. In addition, the Bank offers short-term interest-bearing deposit programs to members and qualifying non-members. Interest-bearing deposits classified as demand and overnight pay interest based on a daily interest rate. Term deposits pay interest based on a fixed rate, or a stepped fixed rate schedule, that is determined on the issuance date of the deposit. The weighted average interest rates paid on average outstanding deposits were 5.00 percent, 1.45 percent and 0.02 percent during 2023, 2022 and 2021, respectively. None of the deposits are federally insured. For additional information regarding other interest-bearing deposits, see Note 14.

The following table details interest-bearing and non-interest bearing deposits as of December 31, 2023 and 2022 (in thousands):

	2023	2022
Interest-bearing		
Demand and overnight	\$ 1,404,355	\$ 1,319,569
Term	23,487	18,571
Non-interest bearing (other)	1	20
Total deposits	<u>\$ 1,427,843</u>	<u>\$ 1,338,160</u>

#### Note 11—Consolidated Obligations

Consolidated obligations are the joint and several obligations of the FHLBanks and consist of consolidated obligation bonds and discount notes. Consolidated obligations are backed only by the financial resources of the 11 FHLBanks. Consolidated obligations are not obligations of, nor are they guaranteed by, the U.S. government. The FHLBanks issue consolidated obligations through the Office of Finance as their agent. In connection with each debt issuance, one or more of the FHLBanks specifies the amount of debt it wants issued on its behalf; the Bank receives the proceeds of only the debt issued on its behalf and records on its statements of condition only that portion of the consolidated obligations for which it has received the proceeds. The Finance Agency and the U.S. Secretary of the Treasury have oversight over the issuance of FHLBank debt through the Office of Finance. Consolidated obligation bonds are issued primarily to raise intermediate- and long-term funds for the FHLBanks and are not subject to any statutory or regulatory limits on maturity. Consolidated obligation discount notes are issued to raise short-term funds and have maturities of one year or less. These notes are issued at a price that is less than their face amount and are redeemed at par value when they mature. For additional information regarding the FHLBanks' joint and several liability on consolidated obligations, see Note 18.

The par amounts of the FHLBanks' outstanding consolidated obligations, including consolidated obligations held as investments by other FHLBanks, were approximately \$1.204 trillion and \$1.182 trillion at December 31, 2023 and 2022, respectively. The Bank was the primary obligor on approximately \$119.8 billion and \$109.1 billion (at par value), respectively, of these consolidated obligations. Regulations require each of the FHLBanks to maintain unpledged qualifying assets equal to its participation in the consolidated obligations outstanding. Qualifying assets are defined as cash; secured advances; obligations of or fully guaranteed by the U.S. government; obligations, participations, mortgages, or other instruments of or issued by Fannie Mae or Ginnie Mae; mortgages, obligations or other securities which are or have ever been sold by Freddie Mac under the FHLB Act; and such securities as fiduciary and trust funds may invest in under the laws of the state in which the FHLBank is located. Any assets subject to a lien or pledge for the benefit of holders of any issue of consolidated obligations are treated as if they were free from lien or pledge for purposes of compliance with these regulations.

**General Terms.** Consolidated obligation bonds are issued with either fixed-rate coupon payment terms or variable-rate coupon payment terms that use an index for interest rate resets such as SOFR. To meet the specific needs of certain investors in consolidated obligations, both fixed-rate bonds and variable-rate bonds may contain complex coupon payment terms and call options. When such consolidated obligations are issued, the Bank generally enters into interest rate exchange agreements containing offsetting features that effectively convert the terms of the bond to those of a simple variable-rate bond.

The consolidated obligation bonds typically issued by the Bank, beyond having fixed-rate or simple variable-rate coupon payment terms, may also have the following broad terms regarding either principal repayment or coupon payment terms:

Optional principal redemption bonds (callable bonds) may be redeemed in whole or in part at the Bank's discretion on predetermined call dates according to the terms of the bond offerings;

Step-up bonds pay interest at increasing fixed rates for specified intervals over the life of the bond. These bonds generally contain provisions that enable the Bank to call the bonds at its option on predetermined call dates;

Step-down bonds pay interest at decreasing fixed rates for specified intervals over the life of the bond. These bonds generally contain provisions that enable the Bank to call the bonds at its option on predetermined call dates.

**Interest Rate Payment Terms.** The following table summarizes the Bank's consolidated obligation bonds outstanding by interest rate payment terms at December 31, 2023 and 2022 (in thousands, at par value).

	2023	2022
Fixed-rate	\$ 69,150,410	\$ 38,510,775
Variable-rate SOFR-indexed	35,499,000	15,054,500
Step-up	6,445,750	8,861,750
Step-down	15,000	15,000
Total par value	<u>\$ 111,110,160</u>	<u>\$ 62,442,025</u>

At December 31, 2023 and 2022, 94 percent and 93 percent, respectively, of the Bank's fixed-rate consolidated obligation bonds (including step-up and step-down bonds) were swapped to a variable rate.

**Redemption Terms.** The following is a summary of the Bank's consolidated obligation bonds outstanding at December 31, 2023 and 2022, by contractual maturity (dollars in thousands):

Contractual Maturity	2023		2022	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Due in one year or less	\$ 79,593,685	4.99 %	\$ 26,138,655	3.99 %
Due after one year through two years	8,366,470	3.25	10,310,105	2.04
Due after two years through three years	10,524,685	1.52	5,795,470	2.19
Due after three years through four years	6,076,530	2.39	9,494,685	1.03
Due after four years through five years	2,744,660	3.82	5,772,740	2.16
Due after five years	3,804,130	2.10	4,930,370	1.80
Total par value	<u>111,110,160</u>	4.25 %	<u>62,442,025</u>	2.71 %
Premiums	15,026		17,563	
Discounts	(1,351)		(2,451)	
Debt issuance costs	(2,314)		(2,319)	
Hedging adjustments	<u>(1,585,314)</u>		<u>(2,508,360)</u>	
Total	<u>\$ 109,536,207</u>		<u>\$ 59,946,458</u>	

At December 31, 2023 and 2022, the Bank's consolidated obligation bonds outstanding included the following (in thousands, at par value):

	2023	2022
Non-callable bonds	\$ 53,052,780	\$ 26,010,480
Callable bonds	58,057,380	36,431,545
Total par value	<u>\$ 111,110,160</u>	<u>\$ 62,442,025</u>

The following table summarizes the Bank's consolidated obligation bonds outstanding at December 31, 2023 and 2022, by the earlier of contractual maturity or next possible call date (in thousands, at par value):

Contractual Maturity or Next Call Date	2023	2022
Due in one year or less	\$ 104,490,185	\$ 56,752,700
Due after one year through two years	2,362,870	2,669,560
Due after two years through three years	2,282,685	593,970
Due after three years through four years	1,218,630	1,232,685
Due after four years through five years	629,660	820,740
Due after five years	126,130	372,370
Total par value	<u>\$ 111,110,160</u>	<u>\$ 62,442,025</u>

**Discount Notes.** At December 31, 2023 and 2022, the Bank’s consolidated obligation discount notes, all of which are due within one year, were as follows (dollars in thousands):

	<u>Book Value</u>	<u>Par Value</u>	<u>Weighted Average Implied Interest Rate</u>
December 31, 2023	\$ 8,598,022	\$ 8,658,784	5.10 %
December 31, 2022	\$ 46,270,265	\$ 46,634,885	3.96 %

#### Note 12—Affordable Housing Program

Section 10(j) of the FHLB Act requires each FHLBank to establish an AHP. Each FHLBank provides subsidies in the form of direct grants and/or below market interest rate advances to members who use the funds to assist with the purchase, construction, or rehabilitation of housing for very low-, low-, and moderate-income households. The Bank provides subsidies under its AHP solely in the form of direct grants. Annually, each FHLBank must set aside for the AHP 10 percent of its current year’s income before charges for AHP (as adjusted for interest expense on mandatorily redeemable capital stock), subject to a collective minimum contribution for all 11 FHLBanks of \$100 million. The exclusion of interest expense on mandatorily redeemable capital stock is required pursuant to a Finance Agency regulatory interpretation. If the result of the aggregate 10 percent calculation is less than \$100 million for all 11 FHLBanks, then the FHLB Act requires the shortfall to be allocated among the FHLBanks based on the ratio of each FHLBank’s income before AHP to the sum of the income before AHP of all of the FHLBanks provided, however, that each FHLBank’s required annual AHP contribution is limited to its annual net earnings before the contribution. There was no shortfall during the years ended December 31, 2023, 2022 or 2021. If a FHLBank determines that its required contributions are contributing to its financial instability, it may apply to the Finance Agency for a temporary suspension of its AHP contributions. No FHLBank applied for a suspension of its AHP contributions in 2023, 2022 or 2021.

The Bank’s AHP assessment is derived by adding interest expense on mandatorily redeemable capital stock (see Note 15) to reported income before assessments; the result of this calculation is then multiplied by 10 percent. The Bank charges the amount set aside for AHP to income and recognizes it as a liability. The Bank relieves the AHP liability as members receive AHP grants. If the Bank experiences a loss during a calendar quarter but still has income for the calendar year, the Bank’s obligation to the AHP is based upon its year-to-date/annual income. In years where the Bank’s income before assessments (as adjusted for interest expense on mandatorily redeemable capital stock) is zero or less, the amount of the AHP assessment is typically equal to zero, and the Bank would not typically be entitled to a credit that could be used to reduce required contributions in future years.

The following table summarizes the changes in the Bank’s AHP liability during the years ended December 31, 2023, 2022 and 2021 (in thousands):

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 76,794	\$ 60,133	\$ 63,153
AHP assessment	97,206	35,268	18,266
Grants funded, net of recaptured amounts	(23,569)	(18,607)	(21,286)
Balance, end of year	\$ 150,431	\$ 76,794	\$ 60,133

#### Note 13—Assets and Liabilities Subject to Offsetting

The Bank enters into derivatives and securities purchased under agreements to resell that are subject to enforceable master netting agreements or similar arrangements. For purposes of reporting derivative assets and derivative liabilities, the Bank offsets the fair value amounts recognized for derivative instruments (including the right to reclaim cash collateral and the obligation to return cash collateral) where a legally enforceable right of setoff exists. The Bank did not have any liabilities that were eligible to offset its securities purchased under agreements to resell (i.e., securities sold under agreements to repurchase) as of December 31, 2023 or 2022.

The Bank's derivative transactions are executed either bilaterally or, if required, cleared through a third-party central clearinghouse. The Bank has entered into master agreements with each of its bilateral derivative counterparties that provide for the netting of all transactions with each of these counterparties. Under its master agreements with its non-member bilateral derivative counterparties, collateral is delivered (or returned) daily when certain thresholds (ranging from \$50,000 to \$500,000) are met. The Bank offsets the fair value amounts recognized for bilaterally traded derivatives executed with the same counterparty, including any cash collateral remitted to or received from the counterparty. Prior to September 1, 2022, the Bank was subject only to variation margin requirements associated with its bilaterally traded derivatives. Under new rules that took

effect on September 1, 2022, the Bank became subject to initial margin requirements for bilaterally traded derivatives that are transacted on and after that date provided certain thresholds are met. During the period from September 1, 2022 through December 31, 2022, the Bank was not required to post any initial margin relating to its bilaterally traded derivatives. As further described in the table below, the Bank was required to post initial margin relating to its bilaterally traded derivatives during the year ended December 31, 2023.

For derivative transactions with its members, the Bank requires the member to post eligible collateral in an amount equal to the sum of the net market value of the member's derivative transactions with the Bank (if the value is positive to the Bank) plus a percentage of the notional amount of any interest rate swaps, with market values determined on at least a monthly basis. Eligible collateral for derivative transactions with members consists of collateral that is eligible to secure advances and other obligations under the member's Advances and Security Agreement with the Bank. The Bank is not required to pledge collateral to its members to secure derivative positions.

For cleared derivatives, all transactions with each clearing member of each clearinghouse are netted pursuant to legally enforceable setoff rights. Cleared derivatives are subject to initial and variation margin requirements established by the clearinghouse and its clearing members. Unlike bilateral derivatives, variation margin payments on cleared derivatives are legally characterized as settlements on the contracts. Initial and variation margin is typically delivered/paid (or returned/received) daily and is not subject to any maximum unsecured thresholds. The Bank offsets the fair value amounts recognized for cleared derivatives transacted with each clearing member of each clearinghouse (which fair value amounts include variation margin paid or received) and any cash collateral pledged or received.

The following table presents derivative instruments and securities purchased under agreements to resell with the legal right of offset, including the related collateral received from or pledged to counterparties as of December 31, 2023 and 2022 (in thousands). For daily settled derivative contracts, the variation margin payments/receipts are included in the gross amounts of derivative assets and liabilities.

	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Condition	Net Amounts Presented in the Statement of Condition	Collateral Not Offset in the Statement of Condition <sup>(1)</sup>	Net Unsecured Amount
<b>December 31, 2023</b>					
<b>Assets</b>					
Derivatives					
Bilateral derivatives	\$ 760,465	\$ (744,226)	\$ 16,239	\$ (3,644) <sup>(2)</sup>	\$ 12,595
Cleared derivatives	7,775	(6,410)	1,365	—	1,365
Total derivatives	768,240	(750,636)	17,604	(3,644)	13,960
Securities purchased under agreements to resell	14,750,000	—	14,750,000	(14,750,000)	—
<b>Total assets</b>	<b>\$ 15,518,240</b>	<b>\$ (750,636)</b>	<b>\$ 14,767,604</b>	<b>\$ (14,753,644)</b>	<b>\$ 13,960</b>
<b>Liabilities</b>					
Derivatives					
Bilateral derivatives	\$ 1,780,309	\$ (1,767,740)	\$ 12,569	\$ (1,061) <sup>(2)</sup>	\$ 11,508
Cleared derivatives	13,892	(4,886)	9,006	(9,006) <sup>(3)</sup>	—
<b>Total liabilities</b>	<b>\$ 1,794,201</b>	<b>\$ (1,772,626)</b>	<b>\$ 21,575</b>	<b>\$ (10,067)</b>	<b>\$ 11,508</b>
<b>December 31, 2022</b>					
<b>Assets</b>					
Derivatives					
Bilateral derivatives	\$ 538,743	\$ (528,258)	\$ 10,485	\$ (30) <sup>(2)</sup>	\$ 10,455
Cleared derivatives	33,080	(16,676)	16,404	—	16,404
Total derivatives	571,823	(544,934)	26,889	(30)	26,859
Securities purchased under agreements to resell	12,200,000	—	12,200,000	(12,200,000)	—
<b>Total assets</b>	<b>\$ 12,771,823</b>	<b>\$ (544,934)</b>	<b>\$ 12,226,889</b>	<b>\$ (12,200,030)</b>	<b>\$ 26,859</b>
<b>Liabilities</b>					
Derivatives					
Bilateral derivatives	\$ 2,477,561	\$ (2,471,480)	\$ 6,081	\$ —	\$ 6,081
Cleared derivatives	17,206	(16,385)	821	(821) <sup>(3)</sup>	—
<b>Total liabilities</b>	<b>\$ 2,494,767</b>	<b>\$ (2,487,865)</b>	<b>\$ 6,902</b>	<b>\$ (821)</b>	<b>\$ 6,081</b>

- <sup>(1)</sup> Any overcollateralization or any excess variation margin associated with daily settled contracts at an individual clearinghouse/clearing member or bilateral counterparty level is not included in the determination of the net unsecured amount.
- <sup>(2)</sup> Consists of collateral pledged by member counterparties and securities received or pledged as a result of the initial margin requirements imposed upon the Bank and its bilateral counterparties. The amount of non-cash collateral for uncleared derivatives included in the determination of the net amount is limited to the amount needed to secure the Bank's or the counterparties' uncleared exposure. At December 31, 2023, the Bank had pledged excess non-cash collateral with a fair value of \$120,667,000 and the Bank had received excess non-cash collateral with a fair value of \$81,340,000 from its bilateral counterparties.
- <sup>(3)</sup> Consists of securities pledged by the Bank. In addition to the amounts needed to secure the counterparties' exposure to the Bank, the Bank had pledged securities with aggregate fair values of \$758,362,000 and \$433,935,000 at December 31, 2023 and 2022, respectively, to further secure its cleared derivatives, which is a result of the initial margin requirements imposed upon the Bank.

## Note 14—Derivatives and Hedging Activities

**Hedging Activities.** As a financial intermediary, the Bank is exposed to interest rate risk. This risk arises from a variety of financial instruments that the Bank enters into on a regular basis in the normal course of its business. The Bank enters into interest rate swap, swaption and cap agreements (collectively, interest rate exchange agreements) to manage its exposure to changes in interest rates. The Bank may use these instruments to adjust the effective maturity, repricing frequency, or option characteristics of financial instruments to achieve risk management objectives. In addition, the Bank may use these instruments to hedge the variable cash flows associated with forecasted transactions. The Bank has not entered into any credit default swaps or foreign exchange-related derivatives.

The Bank uses interest rate exchange agreements in three ways: (1) by designating the agreement as a fair value hedge of a specific financial instrument or firm commitment; (2) by designating the agreement as a cash flow hedge of a forecasted transaction; or (3) by designating the agreement as a hedge of some other defined risk (referred to as an “economic hedge”). For example, the Bank uses interest rate exchange agreements in its overall interest rate risk management activities to adjust the interest rate sensitivity of consolidated obligations to approximate more closely the interest rate sensitivity of its assets (both advances and investments), and/or to adjust the interest rate sensitivity of advances or investments to approximate more closely the interest rate sensitivity of its liabilities. In addition to using interest rate exchange agreements to manage mismatches between the coupon features of its assets and liabilities, the Bank also uses interest rate exchange agreements to, among other things, manage embedded options in assets and liabilities, to preserve the market value of existing assets and liabilities, to hedge the duration risk of prepayable instruments, to hedge the variable cash flows associated with forecasted transactions, to offset interest rate exchange agreements entered into with members (the Bank serves as an intermediary in these transactions), and to reduce funding costs.

The Bank, consistent with Finance Agency regulations, enters into interest rate exchange agreements only to reduce potential market risk exposures inherent in otherwise unhedged assets and liabilities or anticipated transactions, or to act as an intermediary between its members and the Bank’s non-member derivative counterparties. The Bank is not a derivatives dealer and it does not trade derivatives for short-term profit.

At inception, the Bank formally documents the relationships between derivatives designated as hedging instruments and their hedged items, its risk management objectives and strategies for undertaking the hedge transactions, and its method for assessing the effectiveness of the hedging relationships. For fair value hedges, this process includes linking the derivatives to: (1) specific assets and liabilities on the statements of condition or (2) firm commitments. For cash flow hedges, this process includes linking the derivatives to forecasted transactions. The Bank also formally assesses (both at the inception of the hedging relationship and on a monthly basis thereafter) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value of hedged items or the cash flows associated with forecasted transactions and whether those derivatives may be expected to remain highly effective in future periods. The Bank uses regression analyses to assess the effectiveness of its hedges.

*Investment Securities and Mortgage Loans Held for Portfolio* — The Bank invests in agency MBS and residential mortgage loans. The interest rate and prepayment risk associated with these investments is managed through consolidated obligations and/or derivatives. The Bank may manage prepayment and duration risk presented by some of these investments with either callable and/or non-callable consolidated obligations and/or interest rate exchange agreements, including interest rate swaps, swaptions and caps.

All of the Bank's available-for-sale securities are fixed-rate agency and U.S. government-guaranteed debentures and agency CMBS. To hedge the interest rate risk associated with these fixed-rate investment securities, the Bank has entered into fixed-for-floating interest rate exchange agreements, substantially all of which are designated as fair value hedges. For the fair value hedges that were entered into during 2023 and 2022, the Bank measures the change in the fair value of the available-for-sale securities on the basis of the benchmark rate component of the contractual coupon cash flows determined at hedge inception.

The Bank's trading securities include fixed-rate and variable-rate U.S. Treasury Notes and, at times, U.S. Treasury Bills. To convert some of its fixed-rate U.S. Treasury Notes and, at times, some of its U.S. Treasury Bills to a short-term floating rate, the Bank has entered into fixed-for-floating interest rate exchange agreements indexed to either the overnight index swap (“OIS”) rate or SOFR. These derivatives are treated as economic hedges.

The interest rate swaps and swaptions that are used by the Bank to hedge the risks associated with its mortgage loan portfolio and the interest rate swaptions that are used by the Bank to hedge the risks associated with its available-for-sale agency CMBS portfolio are treated as economic hedges.

*Advances* — The Bank issues both fixed-rate and variable-rate advances. When deemed appropriate, the Bank uses interest rate exchange agreements to adjust the interest rate sensitivity of its fixed-rate advances to approximate more closely the interest rate sensitivity of its liabilities. With issuances of puttable advances, the Bank purchases from the member a put option



that enables the Bank to terminate a fixed-rate advance on specified future dates. This embedded option is clearly and closely related to the host advance contract. The Bank typically hedges a puttable advance by entering into a cancelable interest rate exchange agreement where the Bank pays a fixed-rate coupon and receives a variable-rate coupon, and sells an option to cancel the swap to the swap counterparty. This type of hedge is treated as a fair value hedge. The swap counterparty can cancel the interest rate exchange agreement on the call date and the Bank can cancel the puttable advance and offer, subject to certain conditions, replacement funding at prevailing market rates.

From time to time, a small portion of the Bank's variable-rate advances may be subject to interest rate caps that would limit the variable-rate coupons if short-term interest rates rise above a predetermined level. To hedge the cap risk embedded in these advances, the Bank will generally enter into interest rate cap agreements. This type of hedge is treated as a fair value hedge.

The Bank may hedge a firm commitment for a forward-starting advance through the use of an interest rate swap. In this case, the swap will function as the hedging instrument for both the firm commitment and the subsequent advance. The carrying value of the firm commitment will be included in the basis of the advance at the time the commitment is terminated and the advance is issued. The basis adjustment will then be amortized into interest income over the life of the advance.

*Consolidated Obligations* — While consolidated obligations are the joint and several obligations of the FHLBanks, each FHLBank is the primary obligor for the consolidated obligations it has issued or assumed from another FHLBank. The Bank generally enters into derivative contracts to hedge the interest rate risk associated with its specific debt issuances.

To manage the interest rate risk of certain of its consolidated obligations, the Bank will match the cash outflow on a consolidated obligation with the cash inflow of an interest rate exchange agreement. With issuances of fixed-rate consolidated obligation bonds, the Bank typically enters into a matching interest rate exchange agreement in which the counterparty pays fixed cash flows to the Bank that are designed to mirror in timing and amount the cash outflows the Bank pays on the consolidated obligation. In this transaction, the Bank pays a variable cash flow that more closely matches the interest payments it receives on short-term or variable-rate assets. These transactions are treated as fair value hedges. On occasion, the Bank enters into fixed-for-floating interest rate exchange agreements to hedge the interest rate risk associated with certain of its consolidated obligation discount notes. The derivatives associated with the Bank's fair value discount note hedging are indexed to the OIS rate or SOFR and are treated as economic hedges.

The Bank has not issued consolidated obligations denominated in currencies other than U.S. dollars.

*Forecasted Issuances of Consolidated Obligations* — The Bank uses derivatives to hedge the variability of cash flows over a specified period of time as a result of the forecasted issuances and maturities of short-term, fixed-rate instruments, such as three-month consolidated obligation discount notes. Although each short-term consolidated obligation discount note has a fixed rate of interest, a portfolio of rolling consolidated obligation discount notes effectively has a variable interest rate. The variable cash flows associated with these liabilities are converted to fixed-rate cash flows by entering into receive-variable, pay-fixed interest rate swaps. The maturity dates of the cash flow streams are closely matched to the interest rate reset dates of the derivatives. These derivatives are treated as cash flow hedges. The Bank has not entered into any new interest rate swaps for this purpose since January 2020.

*Counterparty Exposures* — When deemed appropriate, the Bank may enter into offsetting interest rate exchange agreements to simultaneously reduce its net credit exposure to bilateral and/or cleared derivative counterparties. These derivatives are treated as economic hedges.

*Intermediation* — In the past, the Bank offered interest rate exchange agreements to its members to assist them in meeting their hedging needs. In these transactions, the Bank acts as an intermediary for its members by entering into an interest rate exchange agreement with a member and then entering into an offsetting interest rate exchange agreement with one of the Bank's approved derivative counterparties. All interest rate exchange agreements related to the Bank's intermediary activities with its members are accounted for as economic hedges.

*Other* — From time to time, the Bank may enter into derivatives to hedge risks to its earnings that are not directly linked to specific assets, liabilities or forecasted transactions. These derivatives are treated as economic hedges.

**Impact of Derivatives and Hedging Activities.** The following table summarizes the notional balances and estimated fair values of the Bank's outstanding derivatives (inclusive of variation margin on daily settled contracts) and the amounts offset against those values in the statement of condition at December 31, 2023 and 2022 (in thousands).

	December 31, 2023			December 31, 2022		
	Notional Amount of Derivatives	Estimated Fair Value		Notional Amount of Derivatives	Estimated Fair Value	
		Derivative Assets	Derivative Liabilities		Derivative Assets	Derivative Liabilities
<b>Derivatives designated as hedging instruments</b>						
Interest rate swaps						
Advances <sup>(1)</sup>	\$ 52,539,282	\$ 78,178	\$ 70,360	\$ 19,404,622	\$ 133,486	\$ 17,583
Available-for-sale securities <sup>(1)</sup>	17,987,464	138,600	66,469	15,846,428	166,294	4,161
Consolidated obligation bonds <sup>(1)</sup>	70,233,175	258,148	1,654,346	43,766,005	4,681	2,457,104
Consolidated obligation discount notes <sup>(2)</sup>	1,066,000	49	116	1,066,000	1,733	—
<b>Total derivatives designated as hedging instruments</b>	<b>141,825,921</b>	<b>474,975</b>	<b>1,791,291</b>	<b>80,083,055</b>	<b>306,194</b>	<b>2,478,848</b>
<b>Derivatives not designated as hedging instruments</b>						
Interest rate swaps						
Advances	1,108,500	238	—	2,000,000	61	—
Available-for-sale securities	2,049	—	—	3,025	4	—
Mortgage loans held for portfolio	812,975	3,690	2,028	588,000	3,471	79
Consolidated obligation bonds	1,021,445	8,401	474	372,445	60	865
Consolidated obligation discount notes	1,521,000	19	104	3,402,000	71	188
Trading securities	400,000	—	146	—	—	—
Counterparty exposure	15,300,000	275,027	—	16,300,000	257,313	13,201
Intermediary transactions	18,558	123	108	78,558	177	888
Other	400,000	—	50	425,000	—	663
Interest rate swaptions						
Available-for-sale securities	1,150,000	3,058	—	1,150,000	4,456	—
Mortgage loans held for portfolio	550,000	2,642	—	—	—	—
Mortgage delivery commitments	14,410	67	—	8,473	—	19
Interest rate caps						
Intermediary transactions	—	—	—	40,000	16	16
<b>Total derivatives not designated as hedging instruments</b>	<b>22,298,937</b>	<b>293,265</b>	<b>2,910</b>	<b>24,367,501</b>	<b>265,629</b>	<b>15,919</b>
<b>Total derivatives before collateral and netting adjustments</b>	<b>\$ 164,124,858</b>	<b>768,240</b>	<b>1,794,201</b>	<b>\$ 104,450,556</b>	<b>571,823</b>	<b>2,494,767</b>
Cash collateral and related accrued interest		(14,738)	(1,038,247)		9,861	(1,933,359)
Cash received or remitted in excess of variation margin requirements		120	1,639		(291)	(2)
Netting adjustments		(736,018)	(736,018)		(554,504)	(554,504)
<b>Total collateral and netting adjustments<sup>(3)</sup></b>		<b>(750,636)</b>	<b>(1,772,626)</b>		<b>(544,934)</b>	<b>(2,487,865)</b>
<b>Net derivative balances reported in statements of condition</b>		<b>\$ 17,604</b>	<b>\$ 21,575</b>		<b>\$ 26,889</b>	<b>\$ 6,902</b>

<sup>(1)</sup> Derivatives designated as fair value hedges.

<sup>(2)</sup> Derivatives designated as cash flow hedges.

<sup>(3)</sup> Amounts represent the effect of legally enforceable master netting agreements or other legally enforceable arrangements between the Bank and its derivative counterparties that allow the Bank to offset positive and negative positions as well as any cash collateral held or placed with those same counterparties.

The following table presents the components of net gains (losses) on qualifying fair value and cash flow hedging relationships for the years ended December 31, 2023, 2022 and 2021 (in thousands). Gains and losses on derivatives in fair value hedging relationships include the change in fair value of the derivatives and the net interest income/expense associated with those derivatives.

	Interest Income (Expense)				Other Comprehensive Income (Loss)
	Advances	Available- for-Sale Securities	Consolidated Obligation Bonds	Consolidated Obligation Discount Notes	
<b>Year ended December 31, 2023</b>					
<b>Total amount of the financial statement line item</b>	<u>\$ 5,734,400</u>	<u>\$ 993,496</u>	<u>\$ (5,453,341)</u>	<u>\$ (1,775,820)</u>	<u>\$ (73,677)</u>
<b>Gains (losses) on fair value hedging relationships included in the financial statement line item</b>					
Interest rate contracts					
Derivatives	\$ 421,682	\$ 117,144	\$ (237,947)	\$ —	\$ —
Hedged items	199,811	305,821	(883,252)	—	—
Net gains (losses) on fair value hedging relationships	<u>\$ 621,493</u>	<u>\$ 422,965</u>	<u>\$ (1,121,199)</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Gains (losses) on cash flow hedging relationships included in the financial statement line item</b>					
Interest rate contracts					
Reclassified from AOCI into interest expense	\$ —	\$ —	\$ —	\$ 28,717	\$ (28,717)
Recognized in OCI	—	—	—	—	8,612
Net gains (losses) on cash flow hedging relationships	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 28,717</u>	<u>\$ (20,105)</u>
<b>Year ended December 31, 2022</b>					
<b>Total amount of the financial statement line item</b>	<u>\$ 1,070,013</u>	<u>\$ 397,823</u>	<u>\$ (888,774)</u>	<u>\$ (470,740)</u>	<u>\$ (244)</u>
<b>Gains (losses) on fair value hedging relationships included in the financial statement line item</b>					
Interest rate contracts					
Derivatives	\$ 758,156	\$ 1,470,182	\$ (2,379,685)	\$ —	\$ —
Hedged items	(746,421)	(1,507,918)	2,235,081	—	—
Net gains (losses) on fair value hedging relationships	<u>\$ 11,735</u>	<u>\$ (37,736)</u>	<u>\$ (144,604)</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Gains (losses) on cash flow hedging relationships included in the financial statement line item</b>					
Interest rate contracts					
Reclassified from AOCI into interest expense	\$ —	\$ —	\$ —	\$ (5,711)	\$ 5,711
Recognized in OCI	—	—	—	—	126,793
Net gains (losses) on cash flow hedging relationships	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (5,711)</u>	<u>\$ 132,504</u>

	Interest Income (Expense)				Other Comprehensive Income (Loss)
	Advances	Available- for-Sale Securities	Consolidated Obligation Bonds	Consolidated Obligation Discount Notes	
<b>Year ended December 31, 2021</b>					
<b>Total amount of the financial statement line item</b>	\$ 119,754	\$ 151,684	\$ (70,916)	\$ (29,635)	\$ 135,510
<b>Gains (losses) on fair value hedging relationships included in the financial statement line item</b>					
Interest rate contracts					
Derivatives	\$ 235,243	\$ 473,271	\$ (200,839)	\$ —	\$ —
Hedged items	(335,583)	(749,714)	401,649	—	—
Net gains (losses) on fair value hedging relationships	\$ (100,340)	\$ (276,443)	\$ 200,810	\$ —	\$ —
<b>Gains (losses) on cash flow hedging relationships included in the financial statement line item</b>					
Interest rate contracts					
Reclassified from AOCI into interest expense	\$ —	\$ —	\$ —	\$ (22,345)	\$ 22,345
Recognized in OCI	—	—	—	—	42,418
Net gains (losses) on cash flow hedging relationships	\$ —	\$ —	\$ —	\$ (22,345)	\$ 64,763

For the years ended December 31, 2023, 2022 and 2021, there were no amounts reclassified from AOCI into earnings as a result of the discontinuance of cash flow hedges because the original forecasted transactions occurred by the end of the originally specified time periods or within two-month periods thereafter. At December 31, 2023, \$29,440,000 of deferred net gains on derivative instruments in AOCI are expected to be reclassified to earnings during the next 12 months. At that same date, the maximum length of time over which the Bank is hedging its exposure to the variability in future cash flows for forecasted transactions is 6.1 years.

The following table presents the cumulative basis adjustments on hedged items either designated or previously designated as fair value hedges and the related amortized cost of those items as of December 31, 2023 and 2022 (in thousands).

Line Item in Statement of Condition of Hedged Item	Amortized Cost of Hedged Asset/ (Liability) <sup>(1)</sup>	Basis Adjustments for Active Hedging Relationships Included in Amortized Cost	Basis Adjustments for Discontinued Hedging Relationships Included in Amortized Cost	Total Fair Value Hedging Basis Adjustments <sup>(2)</sup>
<b>December 31, 2023</b>				
Advances	\$ 53,387,467	\$ (283,161)	\$ (22,480)	\$ (305,641)
Available-for-sale securities	17,640,544	(604,482)	(12,031)	(616,513)
Consolidated obligation bonds	(69,859,709)	1,579,847	5,467	1,585,314
<b>December 31, 2022</b>				
Advances	18,917,426	(514,280)	3,671	(510,609)
Available-for-sale securities	14,999,406	(940,566)	(9,978)	(950,544)
Consolidated obligation bonds	(41,373,828)	2,508,704	(344)	2,508,360

<sup>(1)</sup> Reflects the amortized cost of hedged items in active or discontinued fair value hedging relationships, which includes fair value hedging basis adjustments.

<sup>(2)</sup> Reflects the cumulative life-to-date unamortized hedging gains (losses) on the hedged items.

The following table presents the components of net gains (losses) on derivatives and hedging activities that are reported in other income (loss) for the years ended December 31, 2023, 2022 and 2021 (in thousands).

	<b>Gain (Loss) Recognized in Other Income (Loss) for the Year Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Derivatives not designated as hedging instruments</b>			
Interest rate swaps	\$ 15,145	\$ (8,490)	\$ (10,256)
Net interest income (expense) on interest rate swaps	831	(4,861)	5,542
Interest rate swaptions	(3,688)	(11,536)	5,307
Mortgage delivery commitments	3,338	(306)	(1,848)
<b>Total net gain (loss) related to derivatives not designated as hedging instruments</b>	<b>15,626</b>	<b>(25,193)</b>	<b>(1,255)</b>
<b>Price alignment amount on variation margin for daily settled derivative contracts<sup>(1)</sup></b>	<b>15,068</b>	<b>2,377</b>	<b>3</b>
<b>Net gains (losses) on derivatives and hedging activities reported in other income (loss)</b>	<b>\$ 30,694</b>	<b>\$ (22,816)</b>	<b>\$ (1,252)</b>

<sup>(1)</sup> Reflects the price alignment amounts on variation margin for daily settled derivative contracts that are not designated as hedging instruments. The price alignment amounts on variation margin for daily settled derivative contracts that are designated as hedging instruments are recorded in the same line item as the earnings effect of the hedged item.

**Credit Risk Related to Derivatives.** The Bank is subject to credit risk due to the risk of nonperformance by counterparties to its derivative agreements. The Bank manages derivative counterparty credit risk through the use of master netting agreements or other similar collateral exchange arrangements, credit analysis, and adherence to the requirements set forth in the Bank's Enterprise Market Risk Management Policy, Enterprise Credit Risk Management Policy and Finance Agency regulations. Approximately 47 percent of the Bank's derivative contracts (based on notional value) have been cleared through third-party central clearinghouses (as of December 31, 2023, the notional balance of cleared transactions outstanding totaled \$76.9 billion). With cleared transactions, the Bank is exposed to credit risk in the event that the clearinghouse or the clearing member fails to meet its obligations to the Bank. The remainder of the Bank's derivative contracts have been transacted bilaterally with large financial institutions under master netting agreements or, to a much lesser extent, with member institutions (as of December 31, 2023, the notional balance of outstanding transactions with non-member bilateral counterparties and member counterparties (including mortgage delivery commitments) totaled \$87.2 billion and \$0.02 billion, respectively). Some of these institutions (or their affiliates) buy, sell, and distribute consolidated obligations.

The notional amount of the Bank's interest rate exchange agreements does not reflect its credit risk exposure, which is much less than the notional amount. The Bank's net credit risk exposure is based on the current estimated cost, on a present value basis, of replacing at current market rates all interest rate exchange agreements with individual counterparties, if those counterparties were to default, after taking into account the value of any cash and/or securities collateral held or remitted by the Bank. For counterparties with which the Bank is in a net gain position, the Bank has credit exposure when the collateral it is holding (if any) has a value less than the amount of the gain. For counterparties with which the Bank is in a net loss position, the Bank has credit exposure when it has delivered collateral with a value greater than the amount of the loss position. The net exposure on derivative agreements is presented in Note 13. Based on the netting provisions and collateral requirements associated with its derivative agreements and the creditworthiness of its derivative counterparties, Bank management does not currently anticipate any credit losses on its derivative agreements.

## Note 15—Capital

Under the Gramm-Leach-Bliley Act of 1999 (the "GLB Act") and the Finance Agency's capital regulations, each FHLBank may issue Class A stock or Class B stock, or both, to its members. The Bank's Capital Plan provides that it will issue only Class B capital stock. The Class B stock has a par value of \$100 per share and is purchased, redeemed, repurchased and, with the prior approval of the Bank, transferred only at its par value. As required by statute and regulation, members may request the Bank to redeem excess Class B stock, or withdraw from membership and request the Bank to redeem all outstanding capital stock, with five years' written notice to the Bank. The regulations also allow the Bank, in its sole discretion, to repurchase members' excess stock at any time without regard for the five-year notification period as long as the Bank continues to meet its regulatory capital requirements following any stock repurchases, as described below.

Members are required to maintain an investment in Class B Stock equal to the sum of a membership investment requirement and an activity-based investment requirement. The membership investment requirement is currently 0.04 percent of each member's total assets as of the previous calendar year-end, subject to a minimum of \$1,000 and a maximum of \$7,000,000. Under the Bank's Capital Plan, the permissible range for the advances-based component of the activity-based

investment requirement is a range of 2.0 percent to 5.0 percent of members' advances outstanding. Except as described below, the activity-based investment requirement is (and has been) 4.1 percent of outstanding advances.

On April 19, 2021, the Bank implemented an amendment to its Capital Plan. The amended Capital Plan provides for the imposition of an activity-based investment requirement ranging from 0.10 percent to 2.00 percent of members' outstanding letters of credit (the "LC Percentage"), as specified from time to time by the Bank's Board of Directors. The Board of Directors has established an LC Percentage of 0.10 percent which applies only to letters of credit that are issued or renewed on and after April 19, 2021. The LC Percentage is applied to the issued amount of the letter of credit rather than, if applicable, the amount of the letter of credit that is used from time to time during the term of the letter of credit. Further, renewals for this purpose include amendments that extend the expiration date of the letter of credit.

Members and institutions that acquire members must comply with the activity-based investment requirements for as long as the relevant activity remains outstanding. The Bank's Board of Directors has the authority to adjust these requirements periodically within the ranges established in the Capital Plan, as amended from time to time, to ensure that the Bank remains adequately capitalized.

The Bank has two sub-classes of Class B Stock. Class B-1 Stock is used to meet the membership investment requirement and Class B-2 Stock is used to meet the activity-based investment requirement. Daily, subject to the limitations in the Capital Plan, the Bank converts shares of one sub-class of Class B Stock to the other sub-class of Class B Stock under the following circumstances: (i) shares of Class B-2 Stock held by a shareholder in excess of its activity-based investment requirement are converted into Class B-1 Stock, if necessary, to meet that shareholder's membership investment requirement and (ii) shares of Class B-1 Stock held by a shareholder in excess of the amount required to meet its membership investment requirement are converted into Class B-2 Stock as needed in order to satisfy that shareholder's activity-based investment requirement.

The Bank's Board of Directors may establish one or more separate advances investment requirement percentages (each an "advance type specific percentage") within the range described above to be applied to a specific category of advances in lieu of the generally applicable advances-related investment requirement percentage in effect at the time. Such category of advances may be defined as a particular advances product offering, advances with particular maturities or other features, advances that represent an increase in member borrowing, or such other criteria as the Bank's Board of Directors may determine. Any advance type specific percentage may be established for an indefinite period of time, or for a specific time period, at the discretion of the Bank's Board of Directors. Any changes to the activity-based investment requirement require at least 30 days advance notice to the Bank's members.

On September 21, 2015, the Bank announced a Board-authorized reduction in the activity-based stock investment requirement from 4.1 percent to 2.0 percent for certain advances that were funded during the period from October 21, 2015 through December 31, 2015. To be eligible for the reduced activity-based investment requirement, advances funded during this period had to have a minimum maturity of one year or greater, among other things. The standard activity-based stock investment requirement of 4.1 percent continued to apply to all other advances that were funded during the period from October 21, 2015 through December 31, 2015. All other minimum investment requirements also continued to apply.

On February 28, 2020, the Bank announced another Board-authorized reduction in the activity-based stock investment requirement from 4.1 percent to 2.0 percent for up to \$5.0 billion of advances that: (1) were funded during the period from April 1, 2020 through December 31, 2020 and (2) had a maturity of one year or greater. On July 1, 2020, the Bank announced a Board-authorized modification to this special advances offering. As modified, the Bank's activity-based capital stock investment requirement was reduced from 4.1 percent to 2.0 percent for advances that: (1) were funded during the period from August 1, 2020 through December 31, 2020 and (2) had a maturity of 28 days or greater. On December 7, 2020, the Bank announced that its Board of Directors had authorized the Bank to extend the expiration date of the special advances offering from December 31, 2020 to June 30, 2021. On March 17, 2021, the Bank announced another Board-authorized modification and extension to this special advances offering. As modified and extended, the Bank's activity-based capital stock investment requirement was reduced from 4.1 percent to 2.0 percent for advances that: (1) were funded during the period from April 19, 2021 through December 31, 2021 and (2) had a maturity of 32 days or greater. For advances that were funded on or prior to April 18, 2021, the reduced activity-based capital stock investment requirement continued to apply to advances that had a maturity of 28 days or greater. On December 8, 2021, the Bank announced that its Board of Directors had authorized the Bank to extend the expiration date of the special advances offering from December 31, 2021 to December 31, 2022. Under the special advances offering described in this paragraph, the maximum balance of advances to which the reduced activity-based stock investment requirement could be applied was \$5.0 billion. Except as described in this paragraph, the standard activity-based stock investment requirement of 4.1 percent continued to apply to all other advances that were funded during the period from April 1, 2020 through December 31, 2022.

Excess stock is defined as the amount of stock held by a member (or former member) in excess of that institution's minimum investment requirement (i.e., the amount of stock held in excess of its activity-based investment requirement and, in the case of a member, its membership investment requirement). All excess stock is held as Class B-1 Stock at all times. At any time, shareholders may request the Bank to repurchase excess capital stock. Although the Bank is not obligated to repurchase excess stock prior to the expiration of a five-year redemption or withdrawal notification period, it will typically endeavor to honor such requests within a reasonable period of time (generally not exceeding 30 days) so long as the Bank will continue to meet its regulatory capital requirements following the repurchase.

The Bank's Member Products and Credit Policy provides that the Bank may periodically repurchase a portion of members' excess capital stock. The Bank generally repurchases surplus stock quarterly. For the repurchases that occurred during 2023, 2022 and 2021, surplus stock was defined as the amount of stock held by a shareholder in excess of 125 percent of the shareholder's minimum investment requirement. For the repurchases that occurred during 2023, 2022 and 2021, a shareholder's surplus stock was not repurchased if: (1) the amount of that shareholder's surplus stock was \$2,000,000 or less, (2) the shareholder elected to opt out of the repurchase, or (3) the shareholder was on restricted collateral status (subject to certain exceptions). During the years ended December 31, 2023, 2022 and 2021, the Bank repurchased surplus stock totaling \$1,393,337,000, \$469,798,000 and \$153,087,000, respectively, none of which was classified as mandatorily redeemable capital stock at the time of repurchase. From time to time, the Bank may modify the definition of surplus stock or the timing and/or frequency of surplus stock repurchases.

Concurrent with the quarterly repurchases of surplus stock that occurred in 2023, 2022 and 2021, the Bank also repurchased all excess stock held by non-member shareholders as of the repurchase dates. This excess stock, all of which was classified as mandatorily redeemable capital stock at those dates, totaled \$3,926,000, \$10,163,000 and \$7,049,000, respectively.

The following table presents total excess stock at December 31, 2023 and 2022 (in thousands).

	<u>2023</u>	<u>2022</u>
Excess stock		
Capital stock	\$ 1,012,007	\$ 761,005
Mandatorily redeemable capital stock	50	2,237
Total	<u>\$ 1,012,057</u>	<u>\$ 763,242</u>

Under the Finance Agency's regulations, the Bank is subject to three capital requirements. First, the Bank must maintain at all times permanent capital (defined under the Finance Agency's rules and regulations as retained earnings and all Class B stock regardless of its classification for financial reporting purposes) in an amount at least equal to its risk-based capital requirement, which is the sum of its credit risk capital requirement, its market risk capital requirement, and its operations risk capital requirement, calculated in accordance with the rules and regulations of the Finance Agency. The Finance Agency may require the Bank to maintain a greater amount of permanent capital than is required by the risk-based capital requirements as defined. Second, the Bank must, at all times, maintain total capital in an amount at least equal to 4.0 percent of its total assets (capital-to-assets ratio). For the Bank, total capital is defined by Finance Agency rules and regulations as the Bank's permanent capital and the amount of any general allowance for losses (i.e., those reserves that are not held against specific assets). Finally, the Bank is required to maintain at all times a minimum leverage capital-to-assets ratio in an amount at least equal to 5.0 percent of its total assets. In applying this requirement to the Bank, leverage capital includes the Bank's permanent capital multiplied by a factor of 1.5 plus the amount of any general allowance for losses. The Bank did not have any general reserves at December 31, 2023 or 2022. Under the regulatory definitions, total capital and permanent capital exclude AOCI. Additionally, mandatorily redeemable capital stock is considered capital for purposes of determining the Bank's compliance with its regulatory capital requirements.



At all times during the three years ended December 31, 2023, the Bank was in compliance with the aforementioned capital requirements. The following table summarizes the Bank's compliance with the Finance Agency's capital requirements as of December 31, 2023 and 2022 (dollars in thousands):

	December 31, 2023		December 31, 2022	
	Required	Actual	Required	Actual
<b>Regulatory capital requirements:</b>				
Risk-based capital	\$1,496,484	\$7,150,877	\$ 1,034,303	\$5,826,004
Total capital	\$5,130,584	\$7,150,877	\$ 4,573,942	\$5,826,004
Total capital-to-assets ratio	4.00 %	5.58 %	4.00 %	5.09 %
Leverage capital	\$6,413,231	\$10,726,316	\$ 5,717,428	\$8,739,006
Leverage capital-to-assets ratio	5.00 %	8.36 %	5.00 %	7.64 %

Pursuant to an Advisory Bulletin issued by the Finance Agency, the Bank must also maintain a minimum capital stock-to-assets ratio of 2.0 percent, as measured on a daily average basis at each month end. The Bank was in compliance with this requirement at each month end in 2023, 2022 and 2021.

On August 4, 2009, the Finance Agency adopted a final rule establishing capital classifications and critical capital levels for the FHLBanks. The rule defines critical capital levels for the FHLBanks and establishes criteria for each of the following capital classifications identified in the Safety and Soundness Act, as amended by the Housing and Economic Recovery Act of 2008: adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. An adequately capitalized FHLBank meets all existing risk-based and minimum capital requirements. An undercapitalized FHLBank does not meet one or more of its risk-based or minimum capital requirements, but nonetheless has total capital equal to or greater than 75 percent of all capital requirements. A significantly undercapitalized FHLBank does not have total capital equal to or greater than 75 percent of all capital requirements, but the FHLBank does have total capital greater than 2 percent of its total assets. A critically undercapitalized FHLBank has total capital that is less than or equal to 2 percent of its total assets. The Bank has been classified as adequately capitalized since the rule became effective.

In addition to restrictions on capital distributions by a FHLBank that does not meet all of its risk-based and minimum capital requirements, a FHLBank that is classified as undercapitalized, significantly undercapitalized or critically undercapitalized is required to take certain actions, such as submitting a capital restoration plan to the Director of the Finance Agency for approval. Additionally, with respect to a FHLBank that is less than adequately capitalized, the Director of the Finance Agency may take other actions that he or she determines will help ensure the safe and sound operation of the FHLBank and its compliance with its risk-based and minimum capital requirements in a reasonable period of time.

The GLB Act made membership voluntary for all members. Members that withdraw from membership may not be readmitted to membership in any FHLBank for at least five years following the date that their membership was terminated and all of their shares of stock were redeemed or repurchased.

Effective February 28, 2011, the Bank entered into a Joint Capital Enhancement Agreement (the "JCE Agreement") with the other FHLBanks. Effective August 5, 2011, the FHLBanks amended the JCE Agreement, and the Finance Agency approved an amendment to the Bank's capital plan to incorporate its provisions on that same date. The amended JCE Agreement provides that the Bank (and each of the other FHLBanks) will, on a quarterly basis, allocate at least 20 percent of its net income to a restricted retained earnings account ("RRE Account"). Pursuant to the provisions of the amended JCE Agreement, the Bank is required to build its RRE Account to an amount equal to one percent of its total outstanding consolidated obligations, which for this purpose is based on the most recent quarter's average carrying value of all outstanding consolidated obligations, excluding hedging adjustments. Amounts allocated to the Bank's RRE Account are not available to pay dividends.

The Bank's Board of Directors may declare dividends at the same rate for all shares of Class B Stock, or at different rates for Class B-1 Stock and Class B-2 Stock, provided that in no event can the dividend rate on Class B-2 Stock be lower than the dividend rate on Class B-1 Stock. Dividend payments may be made in the form of cash, additional shares of either, or both, subclasses of Class B Stock, or a combination thereof as determined by the Bank's Board of Directors and can be paid only from unrestricted retained earnings or a portion of current earnings. The Bank's Board of Directors may not declare or pay a dividend if the Bank is not in compliance with its minimum capital requirements or if the Bank would fail to meet its minimum capital requirements after paying such dividend. In addition, the Bank's Board of Directors may not declare or pay a dividend based on projected or anticipated earnings; further, the Bank may not declare or pay any dividends in the form of capital stock if its excess stock is greater than 1 percent of its total assets or if, after the issuance of such shares, the Bank's outstanding excess stock would be greater than 1 percent of its total assets.



**Mandatorily Redeemable Capital Stock.** As discussed in Note 1, the Bank’s capital stock is classified as equity (capital) for financial reporting purposes until either a written redemption or withdrawal notice is received from a member or a membership withdrawal or termination is otherwise initiated, at which time the capital stock is reclassified to liabilities. The Finance Agency has confirmed that the accounting classification of certain shares of its capital stock as liabilities does not affect the definition of capital for purposes of determining the Bank’s compliance with its regulatory capital requirements.

At December 31, 2023, the Bank had \$506,000 in outstanding capital stock subject to mandatory redemption held by 3 institutions. As of December 31, 2022, the Bank had \$7,453,000 in outstanding capital stock subject to mandatory redemption held by 4 institutions. These amounts are classified as liabilities in the statements of condition. During the years ended December 31, 2023, 2022 and 2021, dividends on mandatorily redeemable capital stock in the amount of \$406,000, \$169,000 and \$17,000, respectively, were recorded as interest expense in the statements of income.

The Bank is not required to redeem or repurchase activity-based stock until the later of the expiration of a notice of redemption or withdrawal or the date the activity no longer remains outstanding. If activity-based stock becomes excess stock as a result of reduced activity, the Bank, in its discretion and subject to certain regulatory restrictions, may repurchase excess stock prior to the expiration of the notice of redemption or withdrawal. The Bank will generally repurchase such excess stock as long as it expects to continue to meet its minimum capital requirements following the repurchase.

The following table summarizes the Bank’s mandatorily redeemable capital stock at December 31, 2023 by year of earliest mandatory redemption (in thousands). The earliest mandatory redemption reflects the earliest time at which the Bank is required to redeem the shareholder’s capital stock, and is based on the assumption that the activities associated with the activity-based stock have concluded by the time the notice of redemption or withdrawal expires.

2027	\$ 456
2028	50
Total	<u>\$ 506</u>

The following table summarizes the Bank’s mandatorily redeemable capital stock activity during 2023, 2022 and 2021 (in thousands).

Balance, January 1, 2021	\$ 13,864
Capital stock that became subject to mandatory redemption during the year	40
Redemption/repurchase of mandatorily redeemable capital stock	(7,294)
Mandatorily redeemable capital stock issued during the year	22
Stock dividends classified as mandatorily redeemable	25
Balance, December 31, 2021	6,657
Capital stock that became subject to mandatory redemption during the year	11,051
Redemption/repurchase of mandatorily redeemable capital stock	(10,468)
Mandatorily redeemable capital stock issued during the year	13
Stock dividends classified as mandatorily redeemable	200
Balance, December 31, 2022	7,453
Capital stock that became subject to mandatory redemption during the year	3,489
Redemption/repurchase of mandatorily redeemable capital stock	(10,900)
Stock dividends classified as mandatorily redeemable	464
Balance, December 31, 2023	<u>\$ 506</u>

A member may cancel a previously submitted redemption or withdrawal notice by providing a written cancellation notice to the Bank prior to the expiration of the five-year redemption/withdrawal notice period. A member that cancels a stock redemption or withdrawal notice more than 30 days after it is received by the Bank and prior to its expiration is subject to a cancellation fee equal to a percentage of the par value of the capital stock subject to the cancellation notice.

The following table provides the number of institutions that held mandatorily redeemable capital stock and the number that submitted a withdrawal notice or otherwise initiated a termination of their membership and the number of terminations completed during 2023, 2022 and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Number of institutions, beginning of year	4	3	6
Due to mergers and acquisitions	2	3	—
Due to liquidation	—	—	1
Terminations completed during the year	(3)	(2)	(4)
Number of institutions, end of year	<u>3</u>	<u>4</u>	<u>3</u>

The Bank did not receive any stock redemption notices in 2023, 2022 or 2021.

**Limitations on Redemption or Repurchase of Capital Stock.** The GLB Act imposes the following restrictions on the redemption or repurchase of the Bank's capital stock.

- In no event may the Bank redeem or repurchase capital stock if the Bank is not in compliance with its minimum capital requirements or if the redemption or repurchase would cause the Bank to be out of compliance with its minimum capital requirements, or if the redemption or repurchase would cause the member to be out of compliance with its minimum investment requirement. In addition, the Bank's Board of Directors may suspend redemption of capital stock if the Bank reasonably believes that continued redemption of capital stock would cause the Bank to fail to meet its minimum capital requirements in the future, would prevent the Bank from maintaining adequate capital against a potential risk that may not be adequately reflected in its minimum capital requirements, or would otherwise prevent the Bank from operating in a safe and sound manner.
- In no event may the Bank redeem or repurchase capital stock without the prior written approval of the Finance Agency if the Finance Agency or the Bank's Board of Directors has determined that the Bank has incurred, or is likely to incur, losses that result in, or are likely to result in, charges against the capital of the Bank. For this purpose, charges against the capital of the Bank means an other than temporary decline in the Bank's total equity that causes the value of total equity to fall below the Bank's aggregate capital stock amount. Such a determination may be made by the Finance Agency or the Board of Directors even if the Bank is in compliance with its minimum capital requirements.
- The Bank may not repurchase any capital stock without the written consent of the Finance Agency during any period in which the Bank has suspended redemptions of capital stock. The Bank is required to notify the Finance Agency if it suspends redemptions of capital stock and set forth its plan for addressing the conditions that led to the suspension. The Finance Agency may require the Bank to reinstate redemptions of capital stock.
- In no event may the Bank redeem or repurchase shares of capital stock if the principal and interest due on any FHLBank System consolidated obligations issued through the Office of Finance have not been paid in full or, under certain circumstances, if the Bank becomes a non-complying FHLBank under Finance Agency regulations as a result of its inability to comply with regulatory liquidity requirements or to satisfy its current obligations.
- If at any time the Bank determines that the total amount of capital stock subject to outstanding stock redemption or withdrawal notices with expiration dates within the following 12 months exceeds the amount of capital stock the Bank could redeem and still comply with its minimum capital requirements, the Bank will determine whether to suspend redemption and repurchase activities altogether, to fulfill requests for redemption sequentially in the order in which they were received, to fulfill the requests on a pro rata basis, or to take other action deemed appropriate by the Bank.

#### **Note 16—Employee Retirement Plans**

The Bank participates in the Pentegra Defined Benefit Plan for Financial Institutions ("Pentegra DB Plan"), a tax-qualified defined benefit pension plan. The Pentegra DB Plan covers substantially all officers and employees of the Bank who were hired prior to January 1, 2007, and any new employee of the Bank who was hired on or after January 1, 2007, provided that the employee had prior service with a financial services institution that participated in the Pentegra DB Plan, during which service the employee was covered by such plan. In addition, effective July 1, 2015, coverage was extended to include all of the Bank's non-highly compensated employees (as defined by Internal Revenue Service rules) who were hired on and after January 1, 2007 but before August 1, 2010. The Pentegra 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 ("ERISA") and the Internal Revenue Code. As a result, certain multiemployer plan disclosures, including the certified zone status, are not applicable to the Pentegra DB Plan. Under the Pentegra 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 only to employees of that employer. In addition, in the event a participating employer is unable

to meet its contribution requirements, the required contributions for the other participating employers could increase proportionately.

The Pentegra DB Plan operates on a fiscal year from July 1 through June 30. The Pentegra DB Plan files one Form 5500 on behalf of all employers who participate in the plan. The Employer Identification Number is 13-5645888 and the three-digit plan number is 333. There are no collective bargaining agreements in place at the Bank.

The Pentegra DB Plan's annual valuation process includes separate calculations of the plan's funded status as well as the funded status of each participating employer. Participating employers in an under-funded position are billed for their required contributions while those in an over-funded position can use their surplus to offset all or a portion of their contribution requirement. The funded status is defined as the market value of assets divided by the funding target (an amount equal to 100 percent of the present value of all benefit liabilities accrued at the valuation date) and is calculated as of the beginning of the Pentegra DB Plan year. As permitted by ERISA, the Pentegra DB Plan accepts contributions for a plan year up to eight and a half months after the end of that plan year and, as a result, the market value of assets at the valuation date (July 1) is increased by any subsequent contributions that are designated for the immediately preceding plan year ended June 30.

The most recent Form 5500 available for the Pentegra DB Plan is for the year ended June 30, 2022. The Bank's contributions for the year ended December 31, 2021 represented 3.6 percent of the total contributions to the plan for the plan year ended June 30, 2022.

The following table presents the Bank's net pension cost and its funded status, as well as the funded status of the Pentegra DB Plan (dollars in thousands, including amounts presented in the footnotes to the table).

	<b>2023</b>	<b>2022</b>	<b>2021</b>
Net pension cost charged to compensation and benefit expense for the year ended December 31	\$ 10,551	\$ 3,679	\$ 7,677
Pentegra DB Plan funded status as of July 1	113.6 % <sup>(a)</sup>	119.1 % <sup>(b)</sup>	130.6 %
Bank's funded status as of July 1	121.4 %	116.2 %	123.5 %

<sup>(a)</sup> The Pentegra DB Plan's funded status as of July 1, 2023 is preliminary and may increase because the plan's participants were permitted to make contributions for the plan year ended June 30, 2023 through March 15, 2024. Contributions made during the period from July 1, 2023 through March 15, 2024 and designated for the plan year ended June 30, 2023 will be included in the final valuation as of July 1, 2023. The final funded status as of July 1, 2023 will not be available until the Form 5500 for the plan year July 1, 2023 through June 30, 2024 is filed (this Form 5500 is due to be filed no later than April 2025).

<sup>(b)</sup> The Pentegra DB Plan's funded status as of July 1, 2022 is preliminary and may increase because the plan's participants were permitted to make contributions for the plan year ended June 30, 2022 through March 15, 2023. Contributions made during the period from July 1, 2022 through March 15, 2023 and designated for the plan year ended June 30, 2022 will be included in the final valuation as of July 1, 2022. The final funded status as of July 1, 2022 will not be available until the Form 5500 for the plan year July 1, 2022 through June 30, 2023 is filed (this Form 5500 is due to be filed no later than April 2024).

Substantially all employees are eligible to participate in the FHLBank of Dallas 401(k) Retirement Plan (the "FHLB Dallas DC Plan"), a tax-qualified defined contribution plan. The Bank's contributions to the FHLB Dallas DC Plan are equal to a percentage of voluntary employee contributions, subject to certain limitations. During the years ended December 31, 2023, 2022 and 2021, the Bank contributed \$1,897,000, \$1,822,000 and \$1,911,000, respectively, to this plan.

Additionally, the Bank maintains a non-qualified deferred compensation plan that is available to some employees, which is, in substance, an unfunded supplemental retirement plan. The Bank's liability, which consists of the accumulated employee compensation deferrals, accrued earnings (or losses) on those deferrals and matching Bank contributions corresponding to the contribution percentages applicable to the defined contribution plan, was \$11,037,000 and \$9,549,000 at December 31, 2023 and 2022, respectively. Compensation and benefits expense includes accrued earnings (or losses) on deferred employee compensation and Bank contributions totaling \$1,568,000, \$(1,407,000) and \$1,382,000 for the years ended December 31, 2023, 2022 and 2021, respectively.

The Bank's non-qualified deferred compensation plan is also available to all of its directors. The Bank's liability for directors' deferred compensation, which consists of the accumulated compensation deferrals (representing directors' fees) and the accrued earnings (or losses) on those deferrals, was \$3,551,000 and \$3,171,000 at December 31, 2023 and 2022, respectively. Other operating expense includes accrued earnings (or losses) on deferred director compensation totaling \$328,000, \$(347,000) and \$296,000 for the years ended December 31, 2023, 2022 and 2021, respectively.

The Bank maintains a Special Non-Qualified Deferred Compensation Plan (the "SERP"), a defined contribution plan that was established primarily to provide supplemental retirement benefits to those employees who were serving as the Bank's executive officers at the time the SERP was established. Each participant's benefit under the SERP consists of contributions

that were made by the Bank on the participant's behalf, plus an allocation of the investment gains or losses on the assets used to fund the SERP. Contributions to the SERP are determined solely at the discretion of the Bank's Board of Directors. During the years ended December 31, 2023, 2022 and 2021, the Bank did not make any contributions to the SERP. The Bank's accrued liability under this plan was \$1,780,000 and \$1,624,000 at December 31, 2023 and 2022, respectively. Recently, the SERP was amended and restated principally to provide supplemental retirement benefits to those employees who are currently serving as the Bank's executive officers. To that end, the Bank expects to resume making contributions to the SERP beginning in 2024.

The Bank sponsors a retirement benefits program that includes health care and life insurance benefits for eligible retirees. The health care portion of the program is contributory while the life insurance benefits, which are available to retirees with at least 20 years of service, are offered on a noncontributory basis. Prior to January 1, 2005, retirees were eligible to remain enrolled in the Bank's health care benefits plan if age 50 or older with at least 10 years of service at the time of retirement. In December 2004, the Bank modified the eligibility requirements relating to retiree health care continuation benefits. Effective January 1, 2005, retirees are eligible to remain enrolled in the Bank's health care benefits plan if age 55 or older with at least 15 years of service at the time of retirement. Employees who were age 50 or older with 10 years of service and those who had 20 years of service as of December 31, 2004 were not subject to the revised eligibility requirements. Additionally, then current retiree benefits were unaffected by these modifications. In October 2005, the Bank modified the participant contribution requirements relating to its retirement benefits program. Effective December 31, 2005, retirees who are age 55 or older with at least 15 years of service at the time of retirement can remain enrolled in the Bank's health care benefits program by paying 100% of the expected plan cost. Previously, participant contributions were subsidized by the Bank; this subsidy was based upon the Bank's COBRA premium rate and the employee's age and length of service with the Bank. Then current retirees, employees who were hired prior to January 1, 1991 and those who, as of December 31, 2004, had at least 20 years of service or were age 50 or older with 10 years of service are not subject to these revised contribution requirements prior to age 65. Under the revised plan, at age 65, all plan participants are required to pay 100% of the expected plan cost. The Bank does not have any plan assets set aside for the retirement benefits program.

The Bank uses a December 31 measurement date for its retirement benefits program. A reconciliation of the accumulated postretirement benefit obligation ("APBO") and funding status of the retirement benefits program for the years ended December 31, 2023 and 2022 is as follows (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Change in APBO</b>		
APBO at beginning of year	\$ 246	\$ 575
Service cost	19	33
Interest cost	13	9
Actuarial loss (gain)	43	(281)
Participant contributions	147	170
Benefits paid	(147)	(260)
APBO at end of year	<u>321</u>	<u>246</u>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	—	—
Benefits paid by the Bank	—	90
Participant contributions	147	170
Benefits paid	(147)	(260)
Fair value of plan assets at end of year	<u>—</u>	<u>—</u>
Funded status recognized in other liabilities at end of year	<u>\$ (321)</u>	<u>\$ (246)</u>

Amounts recognized in AOCI at December 31, 2023 and 2022 consist of the following (in thousands):

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Net actuarial gain	\$ 1,118	\$ 1,264
Prior service cost	(7)	(27)
	<u>\$ 1,111</u>	<u>\$ 1,237</u>

The amounts in AOCI include \$20,000 of prior service cost and \$89,000 of net actuarial gains that are expected to be recognized as components of net periodic benefit credit in 2024.

The actuarial assumptions used in the measurement of the Bank's benefit obligation included a gross health care cost trend rate of 6.5 percent for 2024. For 2023, 2022 and 2021, gross health care cost trend rates of 6.8 percent, 5.4 percent and 7.5 percent, respectively, were used. The gross health care cost trend rate is assumed to decline by 0.14 percent per year to a final rate of 4.1 percent in 2041 and thereafter. To compute the APBO at December 31, 2023 and 2022, weighted average discount rates of 4.91 percent and 5.08 percent were used. Weighted average discount rates of 5.08 percent, 2.95 percent and 2.61 percent were used to compute the net periodic benefit cost (credit) for 2023, 2022 and 2021, respectively.

Components of net periodic benefit cost (credit) for the years ended December 31, 2023, 2022 and 2021 were as follows (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Service cost	\$ 19	\$ 33	\$ 41
Interest cost	13	9	12
Amortization of prior service cost	20	21	21
Amortization of net actuarial gain	(103)	(99)	(91)
Net periodic benefit credit	<u>\$ (51)</u>	<u>\$ (36)</u>	<u>\$ (17)</u>

The Bank reports the service cost component of its net periodic postretirement benefit cost (credit) in compensation and benefits expense and the other components of net periodic postretirement benefit cost (credit) in "other, net" in the other income (loss) section of the statement of income.

Under U.S. GAAP, the Bank is required to recognize the overfunded or underfunded status of its retirement benefits program as an asset or liability in its statement of condition and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. Changes in benefit obligations recognized in other comprehensive income during the years ended December 31, 2023, 2022 and 2021 were as follows (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Amortization of prior service cost included in net periodic benefit cost	\$ 20	\$ 21	\$ 21
Actuarial gain (loss)	(43)	281	201
Amortization of net actuarial gain included in net periodic benefit cost	(103)	(99)	(91)
Total changes in benefit obligations recognized in other comprehensive income	<u>\$ (126)</u>	<u>\$ 203</u>	<u>\$ 131</u>

A 1 percent increase or decrease in the health care cost trend rate would have had an insignificant effect on the APBO at December 31, 2023 and the aggregate of the service and interest cost components of the net periodic benefit cost for the year ended December 31, 2023.

The following net postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

<b>Year Ended December 31,</b>	<b>Expected Benefits Payments, Net of Participant Contributions</b>
2024	\$ 18
2025	25
2026	18
2027	19
2028	7
2029-2033	32
	<u>\$ 119</u>

## Note 17—Estimated Fair Values

Fair value is defined under U.S. GAAP 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. U.S. GAAP establishes a fair value hierarchy and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. U.S. GAAP also requires an entity to disclose the level within the fair value hierarchy in which each measurement is classified. The fair value hierarchy prioritizes the inputs used to measure fair value into three broad levels:

**Level 1 Inputs** — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

**Level 2 Inputs** — Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following: (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in markets that are not active or in which little information is released publicly; (3) 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 (4) inputs that are derived principally from or corroborated by observable market data (e.g., implied spreads).

**Level 3 Inputs** — Unobservable inputs for the asset or liability that are supported by little or no market activity. None of the Bank's assets or liabilities that are recorded at fair value on a recurring basis were measured using significant Level 3 inputs.

For financial instruments carried at fair value, the Bank reviews the fair value hierarchy classifications on a quarterly basis. Changes in the observability of the valuation inputs may result in a reclassification of certain assets or liabilities. For the years ended December 31, 2023 and 2022, the Bank did not reclassify any fair value measurements.

The following estimated fair value amounts have been determined by the Bank using available market information and management's best judgment of appropriate valuation methods. These estimates are based on pertinent information available to the Bank as of December 31, 2023 and 2022. Although management uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique or valuation methodology. For example, because an active secondary market does not exist for many of the Bank's financial instruments (e.g., advances, mortgage loans held for portfolio and, prior to May 2023, non-agency RMBS), in certain cases their fair values are not subject to precise quantification or verification. Therefore, the estimated fair values presented below in the Fair Value Summary Tables may not be indicative of the amounts that would have been realized in market transactions at the reporting dates. Further, the fair values do not represent an estimate of the overall market value of the Bank as a going concern, which would take into account future business opportunities.

The valuation techniques used to measure the fair values of the Bank's financial instruments that are measured at fair value on the statement of condition are described below.

*Trading and available-for-sale securities.* To value its trading and available-for-sale securities, the Bank obtains prices from three designated third-party pricing vendors when available.

The pricing vendors use various proprietary models to price these securities. 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. Because many securities do not trade on a daily basis, the pricing vendors use available information as applicable such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing to determine the prices for individual securities. Each pricing vendor has an established challenge process in place for all security valuations, which facilitates resolution of potentially erroneous prices identified by the Bank.

Recently, the Bank conducted reviews of the three pricing vendors to reconfirm its understanding of the vendors' pricing processes, methodologies and control procedures and was satisfied that those processes, methodologies and control procedures were adequate and appropriate.

A "median" price is first established for each security using a formula that is based upon the number of prices received. If three prices are received, the middle price is the median price; if two prices are received, the average of the two prices is the median price; and if one price is received, it is the median price (and also the final price) subject to some type of validation similar to the evaluation of outliers described below. All prices that are within a specified tolerance threshold of the median price are included in the "cluster" of prices that are averaged to compute a "default" price. All prices that are outside the threshold ("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 an outlier (or some other price identified in the analysis) is determined to be a better

estimate of fair value, then the outlier (or the other price, as appropriate) is used as the final price rather than the default price. If, on the other hand, the analysis confirms that an outlier (or outliers) is (are) in fact not representative of fair value and the default price is the best estimate, then the default price is used as the final price. In all cases, the final price is used to determine the fair value of the security.

If all prices received for a security are outside the tolerance threshold level of the median price, then there is no default price, and the final price is determined by an evaluation of all outlier prices as described above.

As of December 31, 2023 and 2022, three vendor prices were received for substantially all of the Bank's trading and available-for-sale securities and the final prices for substantially all of those securities were computed by averaging the three prices. Based on the Bank's understanding of the pricing methods employed by the third-party pricing vendors and the relative lack of dispersion among the vendor prices (or, in those instances in which there were outliers, the Bank's additional analyses), the Bank believes its final prices result in reasonable estimates of the fair values and that the fair value measurements are classified appropriately in the fair value hierarchy.

*Derivative assets/liabilities.* The fair values of the Bank's interest rate swap and swaption agreements are estimated using a pricing model with inputs that are observable in the market (e.g., the relevant interest rate curves (that is, the relevant LIBOR swap curve, the SOFR curve or the OIS curve and, for purposes of discounting, either the OIS curve for bilateral contracts or the SOFR curve for cleared contracts) and, for agreements containing options, swaption volatility). Prior to their maturity, the fair values of the Bank's interest rate caps were also estimated using a pricing model with inputs that were observable in the market (that is, cap volatility, the relevant LIBOR swap curve and, for purposes of discounting, the OIS curve).

As the collateral (or variation margin in the case of daily settled contracts) and netting provisions of the Bank's arrangements with its derivative counterparties significantly reduce the risk from nonperformance (see Note 13), the Bank does not consider its own nonperformance risk or the nonperformance risk associated with each of its counterparties to be a significant factor in the valuation of its derivative assets and liabilities. The Bank compares the fair values obtained from its pricing model to clearinghouse valuations (in the case of cleared derivatives) and non-binding dealer estimates (in the case of bilateral derivatives) and may also compare its fair values to those of similar instruments to ensure that the fair values are reasonable.

The fair values of the Bank's derivative assets and liabilities include accrued interest receivable/payable and cash collateral remitted to/received from counterparties; the estimated fair values of the accrued interest receivable/payable and cash collateral approximate their carrying values due to their short-term nature. The fair values of the Bank's bilateral derivatives are netted by counterparty pursuant to the provisions of the credit support annexes to the Bank's master netting agreements with its non-member bilateral derivative counterparties. The Bank's cleared derivative transactions with each clearing member of each clearinghouse are netted pursuant to the Bank's arrangements with those parties. In each case, if the netted amounts are positive, they are classified as an asset and, if negative, as a liability.

The Bank estimates the fair values of mortgage delivery commitments based upon the prices for to-be-announced ("TBA") securities, which represent quoted market prices for forward-settling agency MBS. The prices are adjusted for differences in coupon, cost to carry, vintage, remittance type and product type between the Bank's mortgage loan commitments and the referenced TBA MBS.

*Other assets held at fair value.* To value its mutual fund investments included in other assets, the Bank obtains quoted prices for the mutual funds.



The following table presents the carrying values and estimated fair values of the Bank's financial instruments at December 31, 2023 (in thousands), as well as the level within the fair value hierarchy in which the measurements are classified. Financial assets and liabilities are classified in their entirety based on the lowest level input that is significant to the fair value estimate.

#### FAIR VALUE SUMMARY TABLE

Financial Instruments	Carrying Value	Estimated Fair Value				Netting Adjustment <sup>(2)</sup>
		Total	Level 1	Level 2	Level 3	
<b>Assets:</b>						
Cash and due from banks	\$ 49,885	\$ 49,885	\$ 49,885	\$ —	\$ —	\$ —
Interest-bearing deposits	2,297,225	2,297,225	—	2,297,225	—	—
Securities purchased under agreements to resell	14,750,000	14,750,000	—	14,750,000	—	—
Federal funds sold	6,368,000	6,368,000	—	6,368,000	—	—
Trading securities <sup>(1)</sup>	1,271,943	1,271,943	—	1,271,943	—	—
Available-for-sale securities <sup>(1)</sup>	17,690,722	17,690,722	—	17,690,722	—	—
Held-to-maturity securities	253,302	247,126	—	247,126	—	—
Advances	79,951,855	79,963,694	—	79,963,694	—	—
Mortgage loans held for portfolio, net	5,088,642	4,701,659	—	4,701,659	—	—
Accrued interest receivable	426,243	426,243	—	426,243	—	—
Derivative assets <sup>(1)</sup>	17,604	17,604	—	768,240	—	(750,636)
Other assets held at fair value <sup>(1)</sup>	16,546	16,546	16,546	—	—	—
<b>Liabilities:</b>						
Deposits	1,427,843	1,427,830	—	1,427,830	—	—
<b>Consolidated obligations</b>						
Discount notes	8,598,022	8,594,261	—	8,594,261	—	—
Bonds	109,536,207	108,972,660	—	108,972,660	—	—
Mandatorily redeemable capital stock	506	506	506	—	—	—
Accrued interest payable	883,353	883,353	—	883,353	—	—
Derivative liabilities <sup>(1)</sup>	21,575	21,575	—	1,794,201	—	(1,772,626)

<sup>(1)</sup> Financial instruments measured at fair value on a recurring basis as of December 31, 2023.

<sup>(2)</sup> Amounts represent the impact of legally enforceable master netting agreements or other legally enforceable arrangements between the Bank and its derivative counterparties that allow the Bank to offset positive and negative positions (inclusive of variation margin for daily settled contracts) as well as any cash collateral held or placed with those same counterparties.



The following table presents the carrying values and estimated fair values of the Bank's financial instruments at December 31, 2022 (in thousands), as well as the level within the fair value hierarchy in which the measurements are classified. Financial assets and liabilities are classified in their entirety based on the lowest level input that is significant to the fair value estimate.

#### FAIR VALUE SUMMARY TABLE

Financial Instruments	Carrying Value	Estimated Fair Value				Netting Adjustment <sup>(4)</sup>
		Total	Level 1	Level 2	Level 3	
<b>Assets:</b>						
Cash and due from banks	\$ 27,826	\$ 27,826	\$ 27,826	\$ —	\$ —	\$ —
Interest-bearing deposits	3,020,217	3,020,217	—	3,020,217	—	—
Securities purchased under agreements to resell	12,200,000	12,200,000	—	12,200,000	—	—
Federal funds sold	9,784,000	9,784,000	—	9,784,000	—	—
Trading securities <sup>(1)</sup>	188,164	188,164	—	188,164	—	—
Available-for-sale securities <sup>(1)</sup>	15,106,457	15,106,457	—	15,106,457	—	—
Held-to-maturity securities	314,674	314,373	—	283,811 <sup>(2)</sup>	30,562 <sup>(3)</sup>	—
Advances	68,921,869	68,805,071	—	68,805,071	—	—
Mortgage loans held for portfolio, net	4,395,175	3,899,143	—	3,899,143	—	—
Accrued interest receivable	291,682	291,682	—	291,682	—	—
Derivative assets <sup>(1)</sup>	26,889	26,889	—	571,823	—	(544,934)
Other assets held at fair value <sup>(1)</sup>	16,089	16,089	16,089	—	—	—
<b>Liabilities:</b>						
Deposits	1,338,160	1,338,140	—	1,338,140	—	—
<b>Consolidated obligations</b>						
Discount notes	46,270,265	46,229,686	—	46,229,686	—	—
Bonds	59,946,458	59,145,795	—	59,145,795	—	—
Mandatorily redeemable capital stock	7,453	7,453	7,453	—	—	—
Accrued interest payable	307,288	307,288	—	307,288	—	—
Derivative liabilities <sup>(1)</sup>	6,902	6,902	—	2,494,767	—	(2,487,865)

<sup>(1)</sup> Financial instruments measured at fair value on a recurring basis as of December 31, 2022.

<sup>(2)</sup> Consists of the Bank's holdings of U.S. government-guaranteed debentures and GSE RMBS.

<sup>(3)</sup> Consists of the Bank's holdings of non-agency RMBS.

<sup>(4)</sup> Amounts represent the impact of legally enforceable master netting agreements or other legally enforceable arrangements between the Bank and its derivative counterparties that allow the Bank to offset positive and negative positions (inclusive of variation margin for daily settled contracts) as well as any cash collateral held or placed with those same counterparties.

#### Note 18—Commitments and Contingencies

**Joint and several liability.** As described in Note 11, the Bank is jointly and severally liable with the other 10 FHLBanks for the payment of principal and interest on all of the consolidated obligations issued by the FHLBanks. At December 31, 2023 and 2022, the par amounts of the other 10 FHLBanks' outstanding consolidated obligations totaled \$1.085 trillion and \$1.073 trillion, respectively. The Finance Agency, in its discretion, may require any FHLBank to make principal or interest payments due on any consolidated obligation, regardless of whether there has been a default by a FHLBank having primary liability. To the extent that a FHLBank makes any consolidated obligation payment on behalf of another FHLBank, the paying FHLBank is entitled to reimbursement from the FHLBank with primary liability. However, if the Finance Agency determines that the primary obligor is unable to satisfy its obligations, then the Finance Agency may allocate the outstanding liability among the remaining FHLBanks on a pro rata basis in proportion to each FHLBank's participation in all consolidated obligations outstanding, or on any other basis that the Finance Agency may determine. No FHLBank has ever failed to make any payment on a consolidated obligation for which it was the primary obligor; as a result, the regulatory provisions for directing other

FHLBanks to make payments on behalf of another FHLBank or allocating the liability among other FHLBanks have never been invoked.

The joint and several obligations are mandated by Finance Agency regulations and are not the result of arms-length transactions among the FHLBanks. As described above, the FHLBanks have no control over the amount of the guaranty or the determination of how each FHLBank would perform under the joint and several liability. If the Bank expected that it would be required to pay any amounts on behalf of its co-obligors under its joint and several liability, the Bank would charge to income the amount of the expected payment. Based upon the creditworthiness of the other FHLBanks, the Bank currently believes that the likelihood that it would have to pay any amounts beyond those for which it is primarily liable is remote.

**Other commitments and contingencies.** At December 31, 2023 and 2022, the Bank had commitments to make additional advances totaling approximately \$592,000 and \$11,136,000, respectively. At December 31, 2023, all of the outstanding commitments to make additional advances expire in 2024.

The Bank issues standby letters of credit for a fee on behalf of its members. Standby letters of credit serve as performance guarantees. If the Bank is required to make payment for a beneficiary's draw on the letter of credit, the amount funded is converted into a collateralized advance to the member. Letters of credit are fully collateralized in the same manner as advances (see Note 6). Outstanding standby letters of credit totaled \$33,308,221,000 and \$21,483,119,000 at December 31, 2023 and 2022, respectively. At December 31, 2023, outstanding letters of credit had original terms of up to 15 years with a final expiration in 2038. Unearned fees on standby letters of credit are recorded in other liabilities and totaled \$5,963,000 and \$4,597,000 at December 31, 2023 and 2022, respectively. Based on management's credit analyses and collateral requirements, the Bank does not deem it necessary to have any provision for credit losses on these letters of credit (see Note 9).

The Bank has entered into standby bond purchase agreements with a state housing finance agency within its district whereby, for a fee, the Bank agrees to serve as a standby liquidity provider. If required, the Bank will purchase and hold the housing finance agency's bonds until the designated marketing agent can find a suitable investor or the housing finance agency repurchases the bonds according to a schedule established by the agreement. Each standby bond purchase agreement includes the provisions under which the Bank would be required to purchase the bonds. At December 31, 2023 and 2022, the Bank had outstanding standby bond purchase agreements totaling \$777,870,000 and \$854,470,000, respectively. At December 31, 2023, standby bond purchase agreements totaling \$41,162,000, \$199,976,000, \$219,084,000, \$145,962,000 and \$171,686,000 expire in 2024, 2025, 2026, 2027 and 2028, respectively. The Bank was not required to purchase any bonds under these agreements during the years ended December 31, 2023 or 2022.

At December 31, 2023 and 2022, the Bank had commitments to purchase conventional mortgage loans totaling \$14,410,000 and \$8,473,000, respectively, from certain of its PFIs.

At December 31, 2023 and 2022, the Bank had commitments to issue \$33,700,000 and \$375,000,000 (par value), respectively, of consolidated obligation bonds, of which \$25,000,000 and \$375,000,000, respectively, were swapped to SOFR. In addition, at December 31, 2022, the Bank had commitments to issue \$32,290,000 (par value) of consolidated obligation discount notes, none of which were hedged. The Bank did not have any commitments to issue consolidated obligation discount notes at December 31, 2023.

The Bank has transacted interest rate exchange agreements with large financial institutions and third-party clearinghouses that are subject to collateral exchange arrangements. As of December 31, 2023 and 2022, the Bank had pledged cash collateral of \$1,048,427,000 and \$1,936,496,000, respectively, to those parties that had credit risk exposure to the Bank related to interest rate exchange agreements. The pledged cash collateral (i.e., interest-bearing deposit asset) is netted against derivative assets and liabilities in the statements of condition. In addition, as of December 31, 2023 and 2022, the Bank had pledged securities with carrying values (and fair values) of \$889,096,000 and \$434,756,000, respectively, to parties that had credit risk exposure to the Bank related to interest rate exchange agreements. None of the pledged securities are netted against derivative assets and liabilities in the statement of condition.

During the years ended December 31, 2023, 2022 and 2021, the Bank charged to operating expenses net rental costs of approximately \$409,000, \$373,000 and \$390,000, respectively. Future minimum rentals at December 31, 2023 were as follows (in thousands):

Year	Premises	Equipment	Total
2024	\$ 510	\$ 26	\$ 536
2025	263	13	276
2026	264	—	264
2027	268	—	268
2028	216	—	216
Thereafter	493	—	493
Total	<u>\$ 2,014</u>	<u>\$ 39</u>	<u>\$ 2,053</u>

Lease agreements for Bank premises generally provide for increases in the base rentals resulting from increases in property taxes and maintenance expenses. These increases are not expected to have a material effect on the Bank.

The Bank has entered into certain lease agreements to rent space to outside parties in its building. Future minimum rentals under these operating leases at December 31, 2023 were as follows (in thousands):

Year	Total
2024	\$ 1,351
2025	239
2026	243
2027	247
2028	188
Total	<u>\$ 2,268</u>

In the ordinary course of its business, the Bank is subject to the risk that litigation may arise. Currently, the Bank is not a party to any material pending legal proceedings.

For a discussion of other commitments and contingencies, see Notes 12, 13 and 16.

#### Note 19 — Transactions with Shareholders

As a cooperative, the Bank's capital stock is owned by its members, by former members that retain the stock as provided in the Bank's Capital Plan or by non-member institutions that have acquired members and must retain the stock to support advances or other activities with the Bank. No shareholder owns more than 10% of the voting interests of the Bank due to statutory limits on members' voting rights. As of December 31, 2023, nine of the Bank's directors were member directors. By law, member directors must be officers or directors of a member of the Bank.

Substantially all of the Bank's advances are made to its shareholders (while eligible to borrow from the Bank, housing associates are not required or allowed to hold capital stock). In addition, substantially all of its mortgage loans held for portfolio were purchased from certain of its shareholders. The Bank maintains demand deposit accounts for shareholders primarily as an investment alternative for their excess cash and to facilitate settlement activities that are directly related to advances. As an additional service to members, the Bank also offers term deposit accounts. Further, the Bank previously offered interest rate exchange agreements to its members. Periodically, the Bank may sell (or purchase) federal funds to (or from) shareholders and/or their affiliates. These transactions are executed on terms that are the same as those with other eligible third-party market participants, except that the Bank's underwriting guidelines specify a lower minimum threshold for the amount of capital that members must have to be an eligible federal funds counterparty than non-members. The Bank has never held any direct equity investments in its shareholders or their affiliates.

An affiliate of one of the Bank's derivative counterparties (Wells Fargo) acquired a member institution on October 1, 2006. Since the acquisition was completed, the Bank has continued to enter into interest rate exchange agreements with Wells Fargo in the normal course of business and under the same terms and conditions as before. In addition, the Bank maintains interest-bearing deposits with an affiliate of Wells Fargo.

The Bank did not purchase any debt or equity securities issued by any of its shareholders or their affiliates during the years ended December 31, 2023, 2022 or 2021.

All transactions with shareholders are entered into in the ordinary course of business. The Bank provides the same pricing for advances and other services to all similarly situated members regardless of asset or transaction size, charter type, or geographic location.

The Bank provides, in the ordinary course of its business, products and services to members whose officers or directors may serve as directors of the Bank (“Directors’ Financial Institutions”). Finance Agency regulations require that transactions with Directors’ Financial Institutions be made on the same terms as those with any other member. As of December 31, 2023 and 2022, advances outstanding to Directors’ Financial Institutions aggregated \$399,314,000 and \$487,156,000, respectively, representing 0.5 percent and 0.7 percent, respectively, of the Bank’s total outstanding advances as of those dates. The Bank did not acquire any mortgage loans from Directors’ Financial Institutions during the years ended December 31, 2023, 2022 or 2021. As of December 31, 2023 and 2022, capital stock outstanding to Directors’ Financial Institutions aggregated \$41,460,000 and \$35,346,000, respectively, representing 0.9 percent of the Bank’s outstanding capital stock at each of those dates. For purposes of this determination, the Bank’s outstanding capital stock includes those shares that are classified as mandatorily redeemable.

**Note 20 — Transactions with Other FHLBanks**

Occasionally, the Bank loans (or borrows) short-term federal funds to (from) other FHLBanks. During the years ended December 31, 2023 and 2022, interest income on loans to other FHLBanks totaled \$148,000 and \$182,000, respectively; these amounts are reported as interest income from federal funds sold in the statements of income. The Bank did not loan any short-term federal funds to other FHLBanks during the year ended December 31, 2021. The following table summarizes the Bank’s loans to other FHLBanks during the years ended December 31, 2023 and 2022 (in thousands).

	Year Ended December 31,	
	2023	2022
Balance at January 1,	\$ —	\$ —
Loans made to:		
FHLBank of San Francisco	—	1,000,000
FHLBank of Atlanta	—	750,000
FHLBank of Pittsburgh	1,000	500,000
FHLBank of Chicago	1,000,000	—
Collections from:		
FHLBank of San Francisco	—	(1,000,000)
FHLBank of Atlanta	—	(750,000)
FHLBank of Pittsburgh	(1,000)	(500,000)
FHLBank of Chicago	(1,000,000)	—
Balance at December 31,	<u>\$ —</u>	<u>\$ —</u>

During the years ended December 31, 2023, 2022 and 2021, interest expense on borrowings from other FHLBanks totaled \$521,000, \$122,000 and \$77, respectively. The following table summarizes the Bank's borrowings from other FHLBanks during the years ended December 31, 2023, 2022 and 2021 (in thousands).

	Year Ended December 31,		
	2023	2022	2021
Balance at January 1,	\$ —	\$ —	\$ —
Borrowings from:			
FHLBank of Indianapolis	30,000	40,000	40,000
FHLBank of Boston	1,000,000	400,000	—
FHLBank of Pittsburgh	—	1,000,000	—
FHLBank of San Francisco	300,000	—	—
Repayments to:			
FHLBank of Indianapolis	(30,000)	(40,000)	(40,000)
FHLBank of Boston	(1,000,000)	(400,000)	—
FHLBank of Pittsburgh	—	(1,000,000)	—
FHLBank of San Francisco	(300,000)	—	—
Balance at December 31,	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The Bank has, from time to time, assumed the outstanding debt of another FHLBank rather than issue new debt. In connection with these transactions, the Bank becomes the primary obligor for the transferred debt. During the three months ended March 31, 2023, the Bank assumed one SOFR-indexed consolidated obligation bond with a par value of \$1,000,000,000 from the FHLBank of Topeka. The bond matured and was repaid during the three months ended June 30, 2023. The Bank did not assume any debt from other FHLBanks during the nine months ended December 31, 2023 or the years ended December 31, 2022 or 2021. When they occur, the Bank accounts for these transfers in the same manner as it accounts for new debt issuances (see Note 1).

Occasionally, the Bank transfers debt that it no longer needs to other FHLBanks. In connection with these transactions, the assuming FHLBanks become the primary obligors for the transferred debt. The Bank did not transfer any debt to other FHLBanks during the years ended December 31, 2023, 2022 or 2021.

## Note 21 — Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in the components of AOCI for the years ended December 31, 2023, 2022 and 2021 (in thousands).

	Net Unrealized Gains (Losses) on Available-for-Sale Securities <sup>(1)</sup>	Net Unrealized Gains (Losses) on Cash Flow Hedges	Non-Credit Portion of Other-than-Temporary Impairment Losses on Held-to-Maturity Securities	Postretirement Benefits	Total AOCI
<b>Year ended December 31, 2023</b>					
Balance at January 1, 2023	\$ 107,052	\$ 77,665	\$ (3,428)	\$ 1,237	\$ 182,526
Reclassifications from AOCI to net income					
Gains on cash flow hedges included in interest expense	—	(28,717)	—	—	(28,717)
Amortization of prior service costs and net actuarial gains recognized in other income (loss)	—	—	—	(83)	(83)
Other amounts of other comprehensive income (loss)					
Net unrealized losses on available-for-sale securities	(56,874)	—	—	—	(56,874)
Unrealized gains on cash flow hedges	—	8,612	—	—	8,612
Reversal of non-credit other-than-temporary impairment losses upon sale of held-to-maturity securities	—	—	3,338	—	3,338
Accretion of non-credit portion of other-than-temporary impairment losses to the carrying value of held-to-maturity securities	—	—	90	—	90
Actuarial loss	—	—	—	(43)	(43)
Total other comprehensive income (loss)	(56,874)	(20,105)	3,428	(126)	(73,677)
Balance at December 31, 2023	\$ 50,178	\$ 57,560	\$ —	\$ 1,111	\$ 108,849
<b>Year ended December 31, 2022</b>					
Balance at January 1, 2022	\$ 241,060	\$ (54,839)	\$ (4,485)	\$ 1,034	\$ 182,770
Reclassifications from AOCI to net income					
Losses on cash flow hedges included in interest expense	—	5,711	—	—	5,711
Amortization of prior service costs and net actuarial gains recognized in other income (loss)	—	—	—	(78)	(78)
Other amounts of other comprehensive income (loss)					
Net unrealized losses on available-for-sale securities	(134,008)	—	—	—	(134,008)
Unrealized gains on cash flow hedges	—	126,793	—	—	126,793
Accretion of non-credit portion of other-than-temporary impairment losses to the carrying value of held-to-maturity securities	—	—	1,057	—	1,057
Actuarial gain	—	—	—	281	281
Total other comprehensive income (loss)	(134,008)	132,504	1,057	203	(244)
Balance at December 31, 2022	\$ 107,052	\$ 77,665	\$ (3,428)	\$ 1,237	\$ 182,526

	Net Unrealized Gains (Losses) on Available-for-Sale Securities <sup>(1)</sup>	Net Unrealized Gains (Losses) on Cash Flow Hedges	Non-Credit Portion of Other-than-Temporary Impairment Losses on Held-to-Maturity Securities	Postretirement Benefits	Total AOCI
<b>Year ended December 31, 2021</b>					
Balance at January 1, 2021	\$ 172,361	\$ (119,602)	\$ (6,402)	\$ 903	\$ 47,260
Reclassifications from AOCI to net income					
Losses on cash flow hedges included in interest expense	—	22,345	—	—	22,345
Amortization of prior service costs and net actuarial gains recognized in other income (loss)	—	—	—	(70)	(70)
Other amounts of other comprehensive income (loss)					
Net unrealized gains on available-for-sale securities	68,699	—	—	—	68,699
Unrealized gains on cash flow hedges	—	42,418	—	—	42,418
Accretion of non-credit portion of other-than-temporary impairment losses to the carrying value of held-to-maturity securities	—	—	1,917	—	1,917
Actuarial gain	—	—	—	201	201
Total other comprehensive income	68,699	64,763	1,917	131	135,510
Balance at December 31, 2021	\$ 241,060	\$ (54,839)	\$ (4,485)	\$ 1,034	\$ 182,770

<sup>(1)</sup> Net unrealized gains (losses) on available-for-sale securities are net of unrealized gains and losses relating to hedged interest rate risk included in net income.