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

# FORM 10-Q

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

**For the quarterly period ended September 30, 2024**

**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** | **71-6013989** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **8500 Freeport Parkway South, Suite 600** | |
| **Irving, TX** | **75063-2547** |
| (Address of principal executive offices) | (Zip code) |

**(214) 441-8500**

(Registrant's telephone number, including area code)

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

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

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 (17 C.F.R. §232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated Filer | ☑ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
At November 6, 2024, the registrant had outstanding 42,352,291 shares of its Class B Capital Stock, $100 par value per share.

**FEDERAL HOME LOAN BANK OF DALLAS**

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# PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**FEDERAL HOME LOAN BANK OF DALLAS**
**STATEMENTS OF CONDITION**
**(Unaudited; in thousands, except share data)**

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 29,645 | $ 49,885 |
| Interest-bearing deposits (Notes 8 and 9) | 2,928,554 | 2,297,225 |
| Securities purchased under agreements to resell (Notes 8, 9 and 12) | 10,350,000 | 14,750,000 |
| Federal funds sold (Notes 8 and 9) | 11,606,000 | 6,368,000 |
| Trading securities (Notes 3, 8, 12 and 17) ($87,176 and $67,284 pledged at September 30, 2024 and December 31, 2023, respectively, which could not be rehypothecated) | 3,282,472 | 1,271,943 |
| Available-for-sale securities [(a)] (Notes 4, 8, 9, 12 and 17) ($637,948 and $821,812 pledged at September 30, 2024 and December 31, 2023, respectively, of which $582,347 and $767,368, respectively, could be rehypothecated) | 18,953,139 | 17,690,722 |
| Held-to-maturity securities [(b)] (Notes 5, 8 and 9) | 231,000 | 253,302 |
| Advances (Notes 6, 8 and 9) | 71,357,743 | 79,951,855 |
| Mortgage loans held for portfolio, net of allowance for credit losses of $7,110 and $7,768 at September 30, 2024 and December 31, 2023, respectively (Notes 7, 8 and 9) | 5,574,177 | 5,088,642 |
| Accrued interest receivable (Note 8) | 402,162 | 426,243 |
| Premises and equipment, net | 13,483 | 14,449 |
| Derivative assets (Notes 12 and 13) | 89,886 | 17,604 |
| Other assets (Note 9) (including $19,795 and $16,546 of securities held at fair value at September 30, 2024 and December 31, 2023, respectively) | 53,832 | 84,742 |
| **TOTAL ASSETS** | $ 124,872,093 | $ 128,264,612 |
| **LIABILITIES AND CAPITAL** | | |
| Deposits (including $1 of non-interest bearing deposits at September 30, 2024 and December 31, 2023) | $ 1,628,585 | $ 1,427,843 |
| Consolidated obligations (Note 10) | | |
| Discount notes | 26,969,170 | 8,598,022 |
| Bonds | 87,878,910 | 109,536,207 |
| Total consolidated obligations | 114,848,080 | 118,134,229 |
| Mandatorily redeemable capital stock | 184 | 506 |
| Accrued interest payable | 604,533 | 883,353 |
| Affordable Housing Program (Note 11) | 183,587 | 150,431 |
| Derivative liabilities (Notes 12 and 13) | 11,363 | 21,575 |
| Other liabilities (Notes 3 and 4) | 371,043 | 387,455 |
| Total liabilities | 117,647,375 | 121,005,392 |
| Commitments and contingencies (Notes 9 and 17) | | |
| **CAPITAL (Note 14)** | | |
| Capital stock | | |
| Capital stock — Class B-1 putable ($100 par value) issued and outstanding shares: 14,574,881 and 15,107,202 shares at September 30, 2024 and December 31, 2023, respectively | 1,457,488 | 1,510,720 |
| Capital stock — Class B-2 putable ($100 par value) issued and outstanding shares: 28,732,865 and 32,266,682 shares at September 30, 2024 and December 31, 2023, respectively | 2,873,287 | 3,226,668 |
| Total Class B Capital Stock | 4,330,775 | 4,737,388 |
| Retained earnings | | |
| Unrestricted | 2,127,375 | 1,907,882 |
| Restricted | 615,552 | 505,101 |
| Total retained earnings | 2,742,927 | 2,412,983 |
| Accumulated other comprehensive income (Note 20) | 151,016 | 108,849 |
| Total capital | 7,224,718 | 7,259,220 |
| **TOTAL LIABILITIES AND CAPITAL** | $ 124,872,093 | $ 128,264,612 |

(a) Amortized cost: $18,840,160 and $17,640,544 at September 30, 2024 and December 31, 2023, respectively.

(b) Fair values: $228,145 and $247,126 at September 30, 2024 and December 31, 2023, respectively.

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

# FEDERAL HOME LOAN BANK OF DALLAS
## STATEMENTS OF INCOME
## (Unaudited, in thousands)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| **INTEREST INCOME** | | | | |
| Advances | $ 1,090,134 | $ 1,512,958 | $ 3,383,132 | $ 4,384,490 |
| Prepayment fees on advances, net | 476 | 6,538 | 1,577 | 6,624 |
| Interest-bearing deposits | 53,541 | 80,891 | 164,292 | 223,472 |
| Securities purchased under agreements to resell | 59,416 | 122,039 | 185,548 | 289,037 |
| Federal funds sold | 170,178 | 187,436 | 474,938 | 557,463 |
| Trading securities | 30,720 | 2,545 | 83,846 | 7,905 |
| Available-for-sale securities | 300,516 | 268,331 | 871,631 | 715,444 |
| Held-to-maturity securities | 3,468 | 3,818 | 10,755 | 11,623 |
| Mortgage loans held for portfolio | 58,546 | 46,645 | 166,193 | 128,067 |
| Other | 24 | — | 91 | — |
| Total interest income | 1,767,019 | 2,231,201 | 5,342,003 | 6,324,125 |
| **INTEREST EXPENSE** | | | | |
| Consolidated obligations | | | | |
| Bonds | 1,257,504 | 1,573,564 | 4,037,500 | 3,891,610 |
| Discount notes | 260,749 | 354,608 | 564,539 | 1,610,649 |
| Deposits | 21,700 | 18,022 | 61,096 | 51,748 |
| Mandatorily redeemable capital stock | — | 70 | 46 | 383 |
| Other borrowings | 4 | 6 | 19 | 529 |
| Total interest expense | 1,539,957 | 1,946,270 | 4,663,200 | 5,554,919 |
| **NET INTEREST INCOME** | 227,062 | 284,931 | 678,803 | 769,206 |
| Provision (reversal) for credit losses | 509 | 80 | (335) | 2,686 |
| **NET INTEREST INCOME AFTER PROVISION (REVERSAL) FOR CREDIT LOSSES** | 226,553 | 284,851 | 679,138 | 766,520 |
| **OTHER INCOME (LOSS)** | | | | |
| Net gains (losses) on trading securities | 16,487 | (147) | 11,487 | 441 |
| Net gains (losses) on derivatives and hedging activities | (4,515) | 14,882 | 9,896 | 28,680 |
| Net gains (losses) on other assets carried at fair value | 934 | (381) | 2,293 | 773 |
| Realized gains on sales of held-to-maturity securities | — | — | — | 1,081 |
| Gains on early extinguishment of debt | — | — | — | 23,396 |
| Letter of credit fees | 5,409 | 4,516 | 17,220 | 12,989 |
| Other, net | 343 | 1,311 | 2,843 | 4,126 |
| Total other income | 18,658 | 20,181 | 43,739 | 71,486 |
| **OTHER EXPENSE** | | | | |
| Compensation and benefits | 14,640 | 12,778 | 43,495 | 49,999 |
| Other operating expenses | 12,356 | 11,564 | 38,611 | 34,961 |
| Finance Agency | 3,270 | 2,069 | 9,810 | 6,208 |
| Office of Finance | 1,805 | 1,542 | 5,429 | 5,613 |
| Voluntary grants, donations and Affordable Housing Program contributions | 7,987 | 1,364 | 10,833 | 3,869 |
| Derivative clearing fees | 266 | 457 | 1,074 | 1,713 |
| Total other expense | 40,324 | 29,774 | 109,252 | 102,363 |
| **INCOME BEFORE ASSESSMENTS** | 204,887 | 275,258 | 613,625 | 735,643 |
| Affordable Housing Program assessment | 20,489 | 27,533 | 61,367 | 73,603 |
| **NET INCOME** | $ 184,398 | $ 247,725 | $ 552,258 | $ 662,040 |

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

**FEDERAL HOME LOAN BANK OF DALLAS**
**STATEMENTS OF COMPREHENSIVE INCOME**
**(Unaudited, in thousands)**

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| **NET INCOME** | $ 184,398 | $ 247,725 | $ 552,258 | $ 662,040 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| 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 | (54,257) | (55,336) | 62,801 | (24,061) |
| Unrealized gains (losses) on cash flow hedges | (22,363) | 19,957 | 4,134 | 34,719 |
| Reclassification adjustment for gains on cash flow hedges included in net income | (8,484) | (7,844) | (24,717) | (20,578) |
| 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 |
| Postretirement benefit plan | | | | |
| Amortization of prior service cost included in net periodic benefit cost/credit | 5 | 5 | 15 | 15 |
| Amortization of net actuarial gain included in net periodic benefit cost/credit | (22) | (24) | (66) | (72) |
| Total other comprehensive income (loss) | (85,121) | (43,242) | 42,167 | (6,549) |
| **TOTAL COMPREHENSIVE INCOME** | $ 99,277 | $ 204,483 | $ 594,425 | $ 655,491 |

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

# FEDERAL HOME LOAN BANK OF DALLAS
## STATEMENTS OF CAPITAL
## FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023
## (Unaudited, 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 | | |
| **BALANCE, JULY 1, 2024** | 15,228 | $ 1,522,889 | 30,592 | $ 3,059,190 | $ 2,050,277 | $ 578,673 | $ 2,628,950 | $ 236,137 | $ 7,447,166 |
| Net transfers of shares between Class B-1 and Class B-2 Stock | 9,797 | 979,698 | (9,797) | (979,698) | — | — | — | — | — |
| Proceeds from sale of capital stock | 7 | 646 | 7,938 | 793,795 | — | — | — | — | 794,441 |
| Repurchase/redemption of capital stock | (11,161) | (1,116,096) | — | — | — | — | — | — | (1,116,096) |
| Comprehensive income (loss) | | | | | | | | | |
| Net income | — | — | — | — | 147,519 | 36,879 | 184,398 | — | 184,398 |
| Other comprehensive loss | — | — | — | — | — | — | — | (85,121) | (85,121) |
| Dividends on capital stock [(a)] | | | | | | | | | |
| Cash | — | — | — | — | (66) | — | (66) | — | (66) |
| Mandatorily redeemable capital stock | — | — | — | — | (4) | — | (4) | — | (4) |
| Stock | 704 | 70,351 | — | — | (70,351) | — | (70,351) | — | — |
| **BALANCE, SEPTEMBER 30, 2024** | 14,575 | $ 1,457,488 | 28,733 | $ 2,873,287 | $ 2,127,375 | $ 615,552 | $ 2,742,927 | $ 151,016 | $ 7,224,718 |
| | | | | | | | | | |
| **BALANCE, JULY 1, 2023** | 17,891 | $ 1,789,039 | 44,270 | $ 4,426,997 | $ 1,726,619 | $ 413,074 | $ 2,139,693 | $ 219,219 | $ 8,574,948 |
| Net transfers of shares between Class B-1 and Class B-2 Stock | 11,783 | 1,178,297 | (11,783) | (1,178,297) | — | — | — | — | — |
| Proceeds from sale of capital stock | 19 | 1,939 | 4,669 | 466,908 | — | — | — | — | 468,847 |
| Repurchase/redemption of capital stock | (15,788) | (1,578,853) | — | — | — | — | — | — | (1,578,853) |
| Comprehensive income (loss) | | | | | | | | | |
| Net income | — | — | — | — | 198,181 | 49,544 | 247,725 | — | 247,725 |
| Other comprehensive loss | — | — | — | — | — | — | — | (43,242) | (43,242) |
| Dividends on capital stock [(b)] | | | | | | | | | |
| Cash | — | — | — | — | (65) | — | (65) | — | (65) |
| Mandatorily redeemable capital stock | — | — | — | — | (13) | — | (13) | — | (13) |
| Stock | 984 | 98,454 | — | — | (98,454) | — | (98,454) | — | — |
| **BALANCE, SEPTEMBER 30, 2023** | 14,889 | $ 1,488,876 | 37,156 | $ 3,715,608 | $ 1,826,268 | $ 462,618 | $ 2,288,886 | $ 175,977 | $ 7,669,347 |

# FEDERAL HOME LOAN BANK OF DALLAS
## STATEMENTS OF CAPITAL
## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023
## (Unaudited, 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 | | |
| **BALANCE, JANUARY 1, 2024** | 15,107 | $ 1,510,720 | 32,267 | $ 3,226,668 | $ 1,907,882 | $ 505,101 | $ 2,412,983 | $ 108,849 | $ 7,259,220 |
| Net transfers of shares between Class B-1 and Class B-2 Stock | 27,246 | 2,724,597 | (27,246) | (2,724,597) | — | — | — | — | — |
| Proceeds from sale of capital stock | 41 | 4,092 | 23,712 | 2,371,216 | — | — | — | — | 2,375,308 |
| Repurchase/redemption of capital stock | (30,031) | (3,003,117) | — | — | — | — | — | — | (3,003,117) |
| Shares reclassified to mandatorily redeemable capital stock | (9) | (905) | — | — | — | — | — | — | (905) |
| Comprehensive income | | | | | | | | | |
| Net income | — | — | — | — | 441,807 | 110,451 | 552,258 | — | 552,258 |
| Other comprehensive income | — | — | — | — | — | — | — | 42,167 | 42,167 |
| Dividends on capital stock [a] | | | | | | | | | |
| Cash | — | — | — | — | (197) | — | (197) | — | (197) |
| Mandatorily redeemable capital stock | — | — | — | — | (16) | — | (16) | — | (16) |
| Stock | 2,221 | 222,101 | — | — | (222,101) | — | (222,101) | — | — |
| **BALANCE, SEPTEMBER 30, 2024** | 14,575 | $ 1,457,488 | 28,733 | $ 2,873,287 | $ 2,127,375 | $ 615,552 | $ 2,742,927 | $ 151,016 | $ 7,224,718 |
| **BALANCE, JANUARY 1, 2023** | 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 | 39,495 | 3,949,462 | (39,495) | (3,949,462) | — | — | — | — | — |
| Proceeds from sale of capital stock | 140 | 13,990 | 49,165 | 4,916,490 | — | — | — | — | 4,930,480 |
| Repurchase/redemption of capital stock | (39,156) | (3,915,618) | — | — | — | — | — | — | (3,915,618) |
| Shares reclassified to mandatorily redeemable capital stock | (18) | (1,837) | — | — | — | — | — | — | (1,837) |
| Comprehensive income (loss) | | | | | | | | | |
| Net income | — | — | — | — | 529,632 | 132,408 | 662,040 | — | 662,040 |
| Other comprehensive loss | — | — | — | — | — | — | — | (6,549) | (6,549) |
| Dividends on capital stock [b] | | | | | | | | | |
| Cash | — | — | — | — | (199) | — | (199) | — | (199) |
| Mandatorily redeemable capital stock | — | — | — | — | (47) | — | (47) | — | (47) |
| Stock | 2,073 | 207,354 | — | — | (207,354) | — | (207,354) | — | — |
| **BALANCE, SEPTEMBER 30, 2023** | 14,889 | $ 1,488,876 | 37,156 | $ 3,715,608 | $ 1,826,268 | $ 462,618 | $ 2,288,886 | $ 175,977 | $ 7,669,347 |

[a] Dividends were paid at annualized rates of 5.42 percent and 6.42 percent on Class B-1 Stock and Class B-2 Stock, respectively, in the first quarter of 2024, at annualized rates of 5.41 percent and 6.41 percent on Class B-1 Stock and Class B-2 Stock, respectively, in the second quarter of 2024 and at annualized rates of 5.42 percent and 6.42 percent on Class B-1 Stock and Class B-2 Stock, respectively, in the third quarter of 2024.

[b] Dividends were paid at annualized rates of 3.89 percent and 4.89 percent on Class B-1 Stock and Class B-2 Stock, respectively, in the first quarter of 2023, at annualized rates of 4.60 percent and 5.60 percent on Class B-1 Stock and Class B-2 Stock, respectively, in the second quarter of 2023 and at annualized rates of 5.07 percent and 6.07 percent on Class B-1 Stock and Class B-2 Stock, respectively, in the third quarter of 2023.

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

# FEDERAL HOME LOAN BANK OF DALLAS
## STATEMENTS OF CASH FLOWS
## (Unaudited, in thousands)

| | For the Nine Months Ended September 30, 2024 | 2023 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | $ 552,258 | $ 662,040 |
| 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 | 25,644 | 83,780 |
| Concessions on consolidated obligations | 4,441 | 6,164 |
| Premises, equipment and computer software costs | 1,885 | 3,073 |
| Non-cash interest on mandatorily redeemable capital stock | 51 | 323 |
| Gains on early extinguishment of debt | — | (23,396) |
| Provision (reversal) for credit losses | (335) | 2,686 |
| Realized gains on sales of held-to-maturity securities | — | (1,081) |
| Net gains on other assets carried at fair value | (2,293) | (773) |
| Net gains on trading securities | (11,487) | (441) |
| Net change in derivative and hedging activities | (230,296) | 127,774 |
| Decrease (increase) in accrued interest receivable | 24,731 | (142,970) |
| Decrease (increase) in other assets | 37,635 | (27,146) |
| Increase in Affordable Housing Program (AHP) liability | 33,156 | 54,078 |
| Increase (decrease) in accrued interest payable | (278,725) | 683,302 |
| Increase (decrease) in other liabilities | (40,942) | 4,507 |
| Total adjustments | (436,535) | 769,880 |
| Net cash provided by operating activities | 115,723 | 1,431,920 |
| **INVESTING ACTIVITIES** | | |
| Net increase in interest-bearing deposits, including swap collateral pledged | (514,128) | (567,988) |
| Net decrease (increase) in securities purchased under agreements to resell | 4,400,000 | (7,200,000) |
| Net increase in federal funds sold | (5,238,000) | (126,000) |
| Purchases of trading securities | (6,693,424) | (994,458) |
| Proceeds from maturities of trading securities | 525,000 | 1,000,000 |
| Proceeds from sales of trading securities | 4,048,249 | — |
| Purchases of available-for-sale securities | (2,228,767) | (2,442,028) |
| Principal collected on available-for-sale securities | 1,582,082 | 416,031 |
| Proceeds from sales of held-to-maturity securities | — | 29,025 |
| Principal collected on held-to-maturity securities | 22,296 | 29,332 |
| Net decrease (increase) in advances | 8,919,904 | (22,991,636) |
| Principal collected on mortgage loans held for portfolio | 320,509 | 254,755 |
| Purchases of mortgage loans held for portfolio | (810,773) | (849,427) |
| Purchases of premises, equipment and computer software | (4,398) | (3,459) |
| Net cash provided by (used in) investing activities | 4,328,550 | (33,445,853) |

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2024 | 2023 |
| **FINANCING ACTIVITIES** | | |
| Net increase in deposit liabilities, including swap collateral held | 208,142 | 125,379 |
| Net proceeds from derivative contracts with financing elements | 10,258 | 62,738 |
| Net proceeds from issuance of consolidated obligations | | |
| Discount notes | 85,189,786 | 375,542,829 |
| Bonds | 99,432,174 | 117,112,660 |
| Proceeds from assumption of debt from other Federal Home Loan Bank | — | 999,987 |
| Debt issuance costs | (4,847) | (6,275) |
| Payments for maturing and retiring consolidated obligations | | |
| Discount notes | (66,875,646) | (400,978,802) |
| Bonds | (121,795,080) | (61,841,614) |
| Proceeds from issuance of capital stock | 2,375,308 | 4,930,480 |
| Payments for redemption of mandatorily redeemable capital stock | (1,294) | (9,091) |
| Payments for repurchase/redemption of capital stock | (3,003,117) | (3,915,618) |
| Cash dividends paid | (197) | (199) |
| Net cash provided by (used in) financing activities | (4,464,513) | 32,022,474 |
| | | |
| Net increase (decrease) in cash and cash equivalents | (20,240) | 8,541 |
| Cash and cash equivalents at beginning of the period | 49,885 | 27,826 |
| Cash and cash equivalents at end of the period | $ 29,645 | $ 36,367 |
| | | |
| **Supplemental Disclosures:** | | |
| Interest paid | $ 4,684,724 | $ 5,020,826 |
| AHP payments, net | $ 29,317 | $ 19,525 |
| Stock dividends issued | $ 222,101 | $ 207,354 |
| Dividends paid through issuance of mandatorily redeemable capital stock | $ 16 | $ 47 |
| Net capital stock reclassified to mandatorily redeemable capital stock | $ 905 | $ 1,837 |
| Right-of-use assets acquired by lease | $ 1,364 | $ — |

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

**FEDERAL HOME LOAN BANK OF DALLAS**

**NOTES TO INTERIM UNAUDITED FINANCIAL STATEMENTS**

## Note 1—Basis of Presentation

The accompanying interim financial statements of the Federal Home Loan Bank of Dallas (the "Bank") are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions provided by Article 10, Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. The financial statements contain all adjustments that are, in the opinion of management, necessary for a fair statement of the Bank's financial position, results of operations and cash flows for the interim periods presented. All such adjustments were of a normal recurring nature. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full fiscal year or any other interim period.

The Bank's significant accounting policies and certain other disclosures are set forth in the notes to the audited financial statements for the year ended December 31, 2023. The interim financial statements presented herein should be read in conjunction with the Bank's audited financial statements and notes thereto, which are included in the Bank's Annual Report on Form 10-K for the year ended December 31, 2023 filed with the SEC on March 21, 2024 (the "2023 10-K"). The notes to the interim financial statements update and/or highlight significant changes to the notes included in the 2023 10-K.

The Bank is one of 11 district 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." The Office of Finance manages the sale and servicing of the FHLBanks' consolidated obligations. The Federal Housing Finance Agency ("Finance Agency"), an independent agency in the executive branch of the U.S. government, supervises and regulates the housing government-sponsored enterprises ("GSEs"), including the FHLBanks and the Office of Finance.

**Use of Estimates and Assumptions.** The preparation of financial statements in conformity with 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 (including, but not limited to, its investments in mortgage-backed securities ("MBS")), as well as its derivative instruments and any associated hedged items. Actual results could differ from these estimates.

## Note 2—Recently Issued Accounting Guidance

**Segment Reporting.** On November 27, 2023, the Financial Accounting Standards Board issued Accounting Standards Update ("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 September 30, 2024 and December 31, 2023 were as follows (in thousands):

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| U.S Treasury Notes | $ 2,799,179 | $ 1,271,943 |
| U.S. Treasury Bills | 483,293 | — |
| Total | $ 3,282,472 | $ 1,271,943 |

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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 nine months ended September 30, 2024 and 2023 included changes in net unrealized holding gain (loss) of $11,497,000 and $441,000 for securities that were held on September 30, 2024 and 2023, respectively.

**Note 4—Available-for-Sale Securities**

**Major Security Types.** Available-for-sale securities as of September 30, 2024 were as follows (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Debentures | | | | |
| U.S. government-guaranteed obligations | $ 85,472 | $ 44 | $ — | $ 85,516 |
| GSE obligations | 2,064,602 | 21,120 | — | 2,085,722 |
| | 2,150,074 | 21,164 | — | 2,171,238 |
| GSE commercial MBS | 16,690,086 | 109,754 | 17,939 | 16,781,901 |
| Total | $ 18,840,160 | $ 130,918 | $ 17,939 | $ 18,953,139 |

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 |
|---|---|---|---|---|
| Debentures | | | | |
| 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 |
| Total | $ 17,640,544 | $ 95,663 | $ 45,485 | $ 17,690,722 |

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 $67,084,000 and $70,460,000 at September 30, 2024 and December 31, 2023, respectively. Included in the tables above are GSE commercial MBS ("CMBS") that were purchased but which had not yet settled as of September 30, 2024 and December 31, 2023. The aggregate amounts due of $321,777,000 and $148,865,000, respectively, are included in other liabilities on the statement of condition at those dates.

The following table summarizes (in thousands) the available-for-sale securities with unrealized losses (all of which were GSE CMBS) as of September 30, 2024. The unrealized losses are aggregated by 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 |
| Total | $ 2,680,745 | $ 12,263 | $ 566,995 | $ 5,676 | $ 3,247,740 | $ 17,939 |

The following table summarizes (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 debentures | $ — | $ — | $ 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 |
| Total | $ 5,224,152 | $ 26,892 | $ 925,117 | $ 18,593 | $ 6,149,269 | $ 45,485 |

**Redemption Terms.** The amortized cost and estimated fair value of available-for-sale securities by contractual maturity at September 30, 2024 and December 31, 2023 are presented below (in thousands).

| | September 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| Maturity | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Debentures | | | | |
| Due in one year or less | $ 626,732 | $ 629,604 | $ 1,256,186 | $ 1,261,769 |
| Due after one year through five years | 1,481,309 | 1,498,294 | 1,967,570 | 1,991,058 |
| Due after five years through ten years | 42,033 | 43,340 | 123,770 | 126,346 |
| | 2,150,074 | 2,171,238 | 3,347,526 | 3,379,173 |
| GSE CMBS | 16,690,086 | 16,781,901 | 14,293,018 | 14,311,549 |
| Total | $ 18,840,160 | $ 18,953,139 | $ 17,640,544 | $ 17,690,722 |

**Interest Rate Payment Terms.** At September 30, 2024 and December 31, 2023, 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.** There were no sales of available-for-sale securities during the nine months ended September 30, 2024 or 2023.

### Note 5—Held-to-Maturity Securities

**Major Security Types.** Held-to-maturity securities as of September 30, 2024 were as follows (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| GSE residential MBS | $ 231,000 | $ 174 | $ 3,029 | $ 228,145 |
| Total | $ 231,000 | $ 174 | $ 3,029 | $ 228,145 |

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 debenture | $ 374 | $ 1 | $ — | $ 375 |
| GSE residential MBS | 252,928 | 55 | 6,232 | 246,751 |
| Total | $ 253,302 | $ 56 | $ 6,232 | $ 247,126 |

In the tables above, amortized cost includes premiums and discounts. Amortized cost excludes accrued interest of $365,000 and $404,000 at September 30, 2024 and December 31, 2023, respectively.

**Redemption Terms.** The amortized cost and estimated fair value of held-to-maturity securities by contractual maturity at September 30, 2024 and December 31, 2023 are presented below (in thousands).

| | September 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| Maturity | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Debenture due in one year or less | $ — | $ — | $ 374 | $ 375 |
| Mortgage-backed securities | 231,000 | 228,145 | 252,928 | 246,751 |
| Total | $ 231,000 | $ 228,145 | $ 253,302 | $ 247,126 |

The amortized cost of the Bank's mortgage-backed securities classified as held-to-maturity includes net purchase discounts of $64,000 and $57,000 at September 30, 2024 and December 31, 2023, respectively.

**Interest Rate Payment Terms.** At September 30, 2024 and December 31, 2023, 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 2023 or the nine months ended September 30, 2024.

**Sales of Securities.** There were no sales of held-to-maturity securities during the nine months ended September 30, 2024. On May 4, 2023, the Bank sold all of its non-agency residential MBS investments. Proceeds from the sale totaled $29,025,000, resulting in a net realized gain of $1,081,000. For each of these securities, 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.

## Note 6—Advances

**Redemption Terms.** At September 30, 2024 and December 31, 2023, the Bank had advances outstanding at interest rates ranging from 0.46 percent to 6.46 percent and 0.39 percent to 8.27 percent, as summarized below (dollars in thousands).

| | September 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| Contractual Maturity | Amount | Weighted Average Interest Rate | Amount | Weighted Average Interest Rate |
| Overdrawn demand deposit accounts | $ 29,624 | 5.25 % | $ — | — % |
| Due in one year or less | 38,074,097 | 5.14 | 44,567,898 | 5.36 |
| Due after one year through two years | 7,703,969 | 4.56 | 4,689,293 | 4.40 |
| Due after two years through three years | 13,875,637 | 3.65 | 6,435,369 | 4.48 |
| Due after three years through four years | 5,882,930 | 4.94 | 12,535,123 | 3.58 |
| Due after four years through five years | 1,586,346 | 4.56 | 5,776,581 | 5.06 |
| Due after five years through fifteen years | 4,161,291 | 3.21 | 6,228,089 | 3.45 |
| Due after fifteen years | 26,809 | 2.50 | 28,254 | 2.39 |
| Total par value | 71,340,703 | 4.65 % | 80,260,607 | 4.78 % |
| Deferred net prepayment fees | (2,348) | | (3,079) | |
| Commitment fees | — | | (32) | |
| Hedging adjustments | 19,388 | | (305,641) | |
| Total | $ 71,357,743 | | $ 79,951,855 | |

Advances presented in the table above exclude accrued interest of $252,032,000 and $295,802,000 at September 30, 2024 and December 31, 2023, 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 September 30, 2024 and December 31, 2023, the Bank had aggregate prepayable and callable advances totaling $6,113,305,000 and $6,237,407,000, 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 September 30, 2024 and December 31, 2023, 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 | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Overdrawn demand deposit accounts | $ 29,624 | $ — |
| Due in one year or less | 43,741,151 | 49,152,564 |
| Due after one year through two years | 6,500,479 | 4,125,832 |
| Due after two years through three years | 13,415,740 | 5,816,165 |
| Due after three years through four years | 2,365,880 | 12,279,074 |
| Due after four years through five years | 1,151,434 | 2,688,446 |
| Due after five years | 4,136,395 | 6,198,526 |
| Total par value | $ 71,340,703 | $ 80,260,607 |

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 September 30, 2024 and December 31, 2023, the Bank had putable advances outstanding totaling $4,568,750,000 and $5,130,000,000, respectively.

The following table summarizes advances outstanding at September 30, 2024 and December 31, 2023, by the earlier of contractual maturity or next possible put date (in thousands):

| Contractual Maturity or Next Put Date | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Overdrawn demand deposit accounts | $ 29,624 | $ — |
| Due in one year or less | 41,817,847 | 48,325,898 |
| Due after one year through two years | 7,496,469 | 5,213,793 |
| Due after two years through three years | 14,041,971 | 6,415,369 |
| Due after three years through four years | 5,653,764 | 12,947,623 |
| Due after four years through five years | 1,871,679 | 5,416,331 |
| Due after five years | 429,349 | 1,941,593 |
| Total par value | $ 71,340,703 | $ 80,260,607 |

**Interest Rate Payment Terms.** The following table provides interest rate payment terms for advances outstanding at September 30, 2024 and December 31, 2023 (in thousands):

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Fixed-rate | | |
| Due in one year or less | $ 37,448,800 | $ 40,590,309 |
| Due after one year | 27,628,849 | 29,984,969 |
| Total fixed-rate | 65,077,649 | 70,575,278 |
| Variable-rate | | |
| Due in one year or less | 654,921 | 3,977,589 |
| Due after one year | 5,608,133 | 5,707,740 |
| Total variable-rate | 6,263,054 | 9,685,329 |
| Total par value | $ 71,340,703 | $ 80,260,607 |

At both September 30, 2024 and December 31, 2023, 76 percent 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. The Bank records prepayment fees received from members/borrowers on prepaid advances net of any associated hedging adjustments on those advances. These fees are reflected as interest income 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 and the advance meets the accounting criteria to qualify as a modification of the prepaid advance, the net prepayment fee on the prepaid advance is deferred, recorded in the basis of the modified advance, and amortized into interest income on advances over the life of the modified advance using the level-yield method. During the three and nine months ended September 30, 2024, gross advance prepayment fees received from members/borrowers were $311,000 and $395,000, respectively, none of which were deferred. During the three and nine months ended September 30, 2023, gross advance prepayment fees received from members/ borrowers were $1,702,000 and $1,787,000, respectively, none of which 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. 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 nine months ended September 30, 2024 and 2023.

**Note 7—Mortgage Loans Held for Portfolio**

Mortgage loans held for portfolio represent held-for-investment loans acquired through the Mortgage Partnership Finance® ("MPF"®) program. The following table presents information as of September 30, 2024 and December 31, 2023 for mortgage loans held for portfolio (in thousands):

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Fixed-rate medium-term* single-family mortgages | $ 102,954 | $ 108,718 |
| Fixed-rate long-term single-family mortgages | 5,414,957 | 4,932,497 |
| Premiums | 74,015 | 66,823 |
| Discounts | (17,763) | (18,730) |
| Deferred net derivative gains associated with mortgage delivery commitments | 7,124 | 7,102 |
| Total mortgage loans held for portfolio | 5,581,287 | 5,096,410 |
| Less: allowance for credit losses on mortgage loans | (7,110) | (7,768) |
| Total mortgage loans held for portfolio, net of allowance for credit losses | $ 5,574,177 | $ 5,088,642 |

*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 $36,418,000 and $31,054,000 at September 30, 2024 and December 31, 2023, respectively.

The unpaid principal balance of mortgage loans held for portfolio at September 30, 2024 and December 31, 2023 was comprised of conventional loans totaling $5,513,047,000 and $5,035,553,000, respectively, and government-guaranteed/insured loans totaling $4,864,000 and $5,662,000, respectively.

**Note 8—Accrued Interest Receivable**

The components of accrued interest receivable as of September 30, 2024 and December 31, 2023 were as follows (in thousands):

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Advances | $ 252,032 | $ 295,802 |
| Investment securities | | |
| Trading | 34,776 | 9,734 |
| Available-for-sale | 67,084 | 70,460 |
| Held-to-maturity | 365 | 404 |
| Mortgage loans held for portfolio | 36,418 | 31,054 |
| Interest-bearing deposits | 8,546 | 9,425 |
| Securities purchased under agreements to resell | 1,386 | 6,530 |
| Federal funds sold | 1,555 | 2,834 |
| Total | $ 402,162 | $ 426,243 |

**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-sale 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 purchased under agreements to resell. These investments provide short-term liquidity and are carried at amortized cost. All investments in Federal Funds sold, interest-bearing deposits and securities purchased under agreements to resell that were outstanding at September 30, 2024 were repaid according to their contractual terms. Accordingly, no allowance for credit losses was recorded on these assets at September 30, 2024.

**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 September 30, 2024, the gross unrealized losses on the Bank's available-for-sale securities and held-to-maturity securities were $17,939,000 and $3,029,000, respectively, all of which related to securities that are issued and guaranteed by GSEs.

As of September 30, 2024, the U.S. government and the issuers of the Bank's holdings of GSE debentures, GSE 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 September 30, 2024, 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 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 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 GSE investments, if any, would be insignificant and, therefore, the Bank did not provide an allowance for credit losses on these investments at September 30, 2024.

**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 September 30, 2024.

**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 secured extensions of credit to members/borrowers, collectively referred to as “secured extensions of credit to members”; (2) government-guaranteed/insured mortgage loans held for portfolio; (3) conventional mortgage loans held for portfolio and (4) unsecured loans to members under voluntary community investment programs.

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 Secured Extensions of Credit to Members.*** In accordance with federal statutes, including the Federal Home Loan Bank Act of 1932, as amended (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 secured extensions of credit to protect against losses. The Bank makes advances and otherwise extends secured credit only against eligible collateral, as defined by regulation. To ensure the value of collateral pledged to the Bank is sufficient to secure its advances and other secured 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.

On at least a quarterly basis, the Bank evaluates all outstanding secured 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 secured extensions of credit to members/borrowers that were classified as substandard, doubtful or loss at September 30, 2024 or December 31, 2023.

The Bank considers the amount, type and performance of collateral to be the primary indicator of credit quality with respect to its secured extensions of credit to members/borrowers. At September 30, 2024 and December 31, 2023, the Bank had rights to collateral on a borrower-by-borrower basis with an estimated value in excess of each borrower’s outstanding secured extensions of credit.

The Bank continues to evaluate and, as necessary, modify its credit extension and collateral policies based on market conditions. At September 30, 2024 and December 31, 2023, 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 secured 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 secured 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 Federal Housing Administration or the Department of Veterans Affairs and were acquired through the MPF program (as more fully described in the 2023 10-K) in periods prior to 2004. 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. Government-guaranteed or government-insured loans are not placed on nonaccrual status.

***Mortgage Loans — Conventional Mortgage Loans.*** The Bank's conventional mortgage loans have also been acquired through the MPF program. 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 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 September 30, 2024 and December 31, 2023, interest payments received on nonaccrual loans and recorded as a reduction of principal totaled $5,751,000 and $5,051,000, respectively.

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 credit enhancements. A charge-off is recorded if the amount expected to be collected on the loan is less than its amortized cost.

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 the three months ended September 30, 2024, 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 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 September 30, 2024 and December 31, 2023 (dollars in thousands).

| | September 30, 2024 | | | | |
|---|---|---|---|---|---|
| | Conventional Loans Originated Prior to 2020 | Conventional Loans Originated in 2020-2024 | Total Conventional Loans | Government-Guaranteed/ Insured Loans [1] | Total |
| **Mortgage loans:** | | | | | |
| 30-59 days delinquent | $ 14,711 | $ 46,230 | $ 60,941 | $ 238 | $ 61,179 |
| 60-89 days delinquent | 3,758 | 15,099 | 18,857 | 26 | 18,883 |
| 90 days or more delinquent | 8,671 | 18,021 | 26,692 | 74 | 26,766 |
| Total past due | 27,140 | 79,350 | 106,490 | 338 | 106,828 |
| Total current loans | 984,493 | 4,485,426 | 5,469,919 | 4,540 | 5,474,459 |
| Total mortgage loans | $ 1,011,633 | $ 4,564,776 | $ 5,576,409 | $ 4,878 | $ 5,581,287 |

| | December 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Conventional Loans Originated Prior to 2019 | Conventional Loans Originated in 2019-2023 | Total Conventional Loans | Government-Guaranteed/ Insured Loans [1] | Total |
| **Mortgage loans:** | | | | | |
| 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 | $ 386,303 | $ 4,704,428 | $ 5,090,731 | $ 5,679 | $ 5,096,410 |

(1) 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 September 30, 2024 and December 31, 2023 (dollars in thousands).

| | September 30, 2024 | | | December 31, 2023 | | |
|---|---|---|---|---|---|---|
| | Total Conventional Loans | Government-Guaranteed/ Insured Loans | Total | Total Conventional Loans | Government-Guaranteed/ Insured Loans | Total |
| In process of foreclosure [(1)] | $ 3,017 | $ 34 | $ 3,051 | $ 3,404 | $ 19 | $ 3,423 |
| Serious delinquency rate [(2)] | 0.5 % | 1.5 % | 0.5 % | 0.3 % | 1.1 % | 0.3 % |
| Past due 90 days or more and still accruing interest [(3)] | $ — | $ 74 | $ 74 | $ — | $ 62 | $ 62 |
| Nonaccrual loans [(4)] | $ 35,085 | $ — | $ 35,085 | $ 21,105 | $ — | $ 21,105 |

(1) Includes loans where the decision of foreclosure or similar alternative such as pursuit of deed-in-lieu has been made.

(2) Loans that are 90 days or more past due or in the process of foreclosure expressed as a percentage of the loan portfolio.

(3) Only government-guaranteed/insured mortgage loans continue to accrue interest after they become 90 days or more past due.`

(4) The Bank did not have any specific allowance for credit losses on nonaccrual loans at September 30, 2024.

At September 30, 2024 and December 31, 2023, the Bank's other assets included $951,000 and $705,000 of real estate owned.

The Bank individually reviews each seriously delinquent mortgage loan for credit losses. At September 30, 2024 and December 31, 2023, 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 September 30, 2024 was $7,110,000.

The following table presents the activity in the allowance for credit losses on conventional mortgage loans held for portfolio during the three and nine months ended September 30, 2024 and 2023 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Balance, beginning of period | $ 6,711 | $ 7,471 | $ 7,768 | $ 4,865 |
| Provision (reversal) for credit losses | 399 | 80 | (658) | 2,686 |
| Balance, end of period | $ 7,110 | $ 7,551 | $ 7,110 | $ 7,551 |

***Unsecured Loans to Members under Voluntary Community Investment Programs***. The Bank offers a volume-limited Small Business Boost ("SBB") Program, which is designed to provide recoverable assistance to small businesses. Under the SBB Program, the Bank makes unsecured loans to participating member institutions which, in turn, fund members' secondary, unsecured loans to small businesses. As these loans are offered separately from the Bank's advances, they are not subject to the statutory and regulatory requirements that apply to secured extensions of credit. The allowance for credit losses on SBB loans is calculated based on expected default rates for similar commercial loans and the presumption of a total loss upon default. The Bank records a charge-off on an SBB loan when the loan becomes 180 days or more past due or when a member informs the Bank that the small business is unable to repay the member's secondary loan, whichever occurs first. As of September 30, 2024 and December 31, 2023, SBB loans outstanding totaled $13,705,000 and $11,872,000, respectively. SBB loans are included in other assets and are presented net of an allowance for credit losses.

The following table presents the activity in the allowance for credit losses on SBB loans during the three and nine months ended September 30, 2024 and 2023 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Balance, beginning of period | $ 1,682 | $ 1,350 | $ 1,552 | $ 1,255 |
| Chargeoffs | — | — | (83) | (20) |
| Provision for credit losses | 110 | 14 (*) | 323 | 129 (*) |
| Balance, end of period | $ 1,792 | $ 1,364 | $ 1,792 | $ 1,364 |

(*) The provision for credit losses on SBB loans was recorded in "other, net" in other income (loss) during 2023.

**Note 10—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. 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 17.

The par amounts of the 11 FHLBanks' outstanding consolidated obligations, including consolidated obligations held as investments by other FHLBanks, were approximately $1.173 trillion and $1.204 trillion at September 30, 2024 and December 31, 2023, respectively. The Bank was the primary obligor on $116.0 billion and $119.8 billion (at par value), respectively, of these consolidated obligations.

**Interest Rate Payment Terms.** The following table summarizes the Bank's consolidated obligation bonds outstanding by interest rate payment terms at September 30, 2024 and December 31, 2023 (in thousands, at par value).

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Fixed-rate | $ 46,783,290 | $ 69,150,410 |
| Variable-rate SOFR-indexed | 36,439,500 | 35,499,000 |
| Step-up | 5,507,000 | 6,445,750 |
| Step-down | 15,000 | 15,000 |
| Total par value | $ 88,744,790 | $ 111,110,160 |

At September 30, 2024 and December 31, 2023, 91 percent and 94 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 September 30, 2024 and December 31, 2023, by contractual maturity (dollars in thousands):

| | September 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| Contractual Maturity | Amount | Weighted Average Interest Rate | Amount | Weighted Average Interest Rate |
| Due in one year or less | $ 58,918,315 | 4.55 % | $ 79,593,685 | 4.99 % |
| Due after one year through two years | 11,585,525 | 1.90 | 8,366,470 | 3.25 |
| Due after two years through three years | 7,208,495 | 2.57 | 10,524,685 | 1.52 |
| Due after three years through four years | 2,948,015 | 3.48 | 6,076,530 | 2.39 |
| Due after four years through five years | 2,819,440 | 4.13 | 2,744,660 | 3.82 |
| Due after five years | 5,265,000 | 3.40 | 3,804,130 | 2.10 |
| Total par value | 88,744,790 | 3.93 % | 111,110,160 | 4.25 % |
| Premiums | 15,287 | | 15,026 | |
| Discounts | (2,472) | | (1,351) | |
| Debt issuance costs | (2,721) | | (2,314) | |
| Hedging adjustments | (875,974) | | (1,585,314) | |
| Total | $ 87,878,910 | | $ 109,536,207 | |

At September 30, 2024 and December 31, 2023, the Bank's consolidated obligation bonds outstanding included the following (in thousands, at par value):

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Non-callable bonds | $ 50,089,985 | $ 53,052,780 |
| Callable bonds | 38,654,805 | 58,057,380 |
| Total par value | $ 88,744,790 | $ 111,110,160 |

The following table summarizes the Bank's consolidated obligation bonds outstanding at September 30, 2024 and December 31, 2023, by the earlier of contractual maturity or next possible call date (in thousands, at par value):

| Contractual Maturity or Next Call Date | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Due in one year or less | $ 80,906,215 | $ 104,490,185 |
| Due after one year through two years | 3,535,525 | 2,362,870 |
| Due after two years through three years | 2,316,595 | 2,282,685 |
| Due after three years through four years | 1,088,015 | 1,218,630 |
| Due after four years through five years | 867,440 | 629,660 |
| Due after five years | 31,000 | 126,130 |
| Total par value | $ 88,744,790 | $ 111,110,160 |

**Discount Notes.** At September 30, 2024 and December 31, 2023, the Bank's consolidated obligation discount notes, all of which are due within one year, were as follows (dollars in thousands):

| | Book Value | Par Value | Weighted Average Implied Interest Rate |
|---|---|---|---|
| September 30, 2024 | $ 26,969,170 | $ 27,231,252 | 4.80 % |
| December 31, 2023 | $ 8,598,022 | $ 8,658,784 | 5.10 % |

**Note 11—Affordable Housing Program ("AHP")**

The following table summarizes the changes in the Bank's AHP liability during the nine months ended September 30, 2024 and 2023 (in thousands):

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2024 | 2023 |
| Balance, beginning of period | $ 150,431 | $ 76,794 |
| AHP assessment | 61,367 | 73,603 |
| Voluntary AHP contributions | 1,106 | — |
| Grants funded, net of recaptured amounts | (29,317) | (19,525) |
| Balance, end of period | $ 183,587 | $ 130,872 |

Voluntary AHP contributions are recorded in voluntary grants, donations and Affordable Housing Program contributions on the statement of income.

**Note 12—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 September 30, 2024 or December 31, 2023.

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 (variation margin) 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. The Bank is also subject to initial margin requirements for bilaterally traded derivatives that are transacted on and after September 1, 2022 provided certain thresholds are met.

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 September 30, 2024 and December 31, 2023 (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 [(1)] | Net Unsecured Amount |
|---|---|---|---|---|---|
| **September 30, 2024** | | | | | |
| **Assets** | | | | | |
| Derivatives | | | | | |
| Bilateral derivatives | $ 394,515 | $ (362,337) | $ 32,178 | $ (29,948) [(2)] | $ 2,230 |
| Cleared derivatives | 76,431 | (18,723) | 57,708 | — | 57,708 |
| Total derivatives | 470,946 | (381,060) | 89,886 | (29,948) | 59,938 |
| Securities purchased under agreements to resell | 10,350,000 | — | 10,350,000 | (10,350,000) | — |
| **Total assets** | $ 10,820,946 | $ (381,060) | $ 10,439,886 | $ (10,379,948) | $ 59,938 |
| **Liabilities** | | | | | |
| Derivatives | | | | | |
| Bilateral derivatives | $ 1,271,867 | $ (1,260,504) | $ 11,363 | $ — [(2)] | $ 11,363 |
| Cleared derivatives | 18,682 | (18,682) | — | — [(3)] | — |
| **Total liabilities** | $ 1,290,549 | $ (1,279,186) | $ 11,363 | $ — | $ 11,363 |
| **December 31, 2023** | | | | | |
| **Assets** | | | | | |
| Derivatives | | | | | |
| Bilateral derivatives | $ 760,465 | $ (744,226) | $ 16,239 | $ (3,644) [(2)] | $ 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) | — |
| **Total assets** | $ 15,518,240 | $ (750,636) | $ 14,767,604 | $ (14,753,644) | $ 13,960 |
| **Liabilities** | | | | | |
| Derivatives | | | | | |
| Bilateral derivatives | $ 1,780,309 | $ (1,767,740) | $ 12,569 | $ (1,061) [(2)] | $ 11,508 |
| Cleared derivatives | 13,892 | (4,886) | 9,006 | (9,006) [(3)] | — |
| **Total liabilities** | $ 1,794,201 | $ (1,772,626) | $ 21,575 | $ (10,067) | $ 11,508 |

(1) 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.

(2) Includes 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 September 30, 2024 and December 31, 2023, the Bank had pledged excess non-cash collateral with fair values of $142,777,000 and $120,667,000, respectively, and the Bank had received excess non-cash collateral with fair values of $97,052,000 and $81,340,000, respectively, from its bilateral counterparties.

(3) Consists of securities pledged by the Bank. In addition to the amount needed to secure the counterparties' exposure to the Bank, the Bank had pledged securities with aggregate fair values of $582,347,000 and $758,362,000 at September 30, 2024 and December 31, 2023, respectively, to further secure its cleared derivatives, which is a result of the initial margin requirements imposed upon the Bank.

## Note 13—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 2022, 2023 and the nine months ended September 30, 2024, 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 fixed-rate U.S. Treasury Bills. To convert some of its fixed-rate U.S. Treasury securities to a short-term floating rate, the Bank enters into fixed-for-floating interest rate exchange agreements that are indexed to either the overnight index swap ("OIS") rate or the secured overnight financing rate ("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 putable 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 putable 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 putable advance and offer, subject to certain conditions, replacement funding at prevailing market rates.

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 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.

**Accounting for 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 highly 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."

**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 September 30, 2024 and December 31, 2023 (in thousands).

| | September 30, 2024 | | | December 31, 2023 | | |
|---|---|---|---|---|---|---|
| | Notional Amount of Derivatives | Estimated Fair Value | | Notional Amount of Derivatives | Estimated Fair Value | |
| | | Derivative Assets | Derivative Liabilities | | Derivative Assets | Derivative Liabilities |
| **Derivatives designated as hedging instruments** | | | | | | |
| Interest rate swaps | | | | | | |
| Advances [1] | $ 44,171,060 | $ 85,280 | $ 75,705 | $ 52,539,282 | $ 78,178 | $ 70,360 |
| Available-for-sale securities [1] | 18,998,677 | 101,914 | 174,043 | 17,987,464 | 138,600 | 66,469 |
| Consolidated obligation bonds [1] | 47,434,805 | 137,221 | 1,022,870 | 70,233,175 | 258,148 | 1,654,346 |
| Consolidated obligation discount notes [2] | 1,066,000 | 2,477 | — | 1,066,000 | 49 | 116 |
| **Total derivatives designated as hedging instruments** | 111,670,542 | 326,892 | 1,272,618 | 141,825,921 | 474,975 | 1,791,291 |
| **Derivatives not designated as hedging instruments** | | | | | | |
| Interest rate swaps | | | | | | |
| Advances | 5,000,000 | 1,331 | — | 1,108,500 | 238 | — |
| Available-for-sale securities | 7,656 | 5 | 6 | 2,049 | — | — |
| Mortgage loans held for portfolio | 850,600 | 2,937 | 629 | 812,975 | 3,690 | 2,028 |
| Consolidated obligation bonds | 136,445 | 133 | 282 | 1,021,445 | 8,401 | 474 |
| Consolidated obligation discount notes | 10,297,500 | 58 | 1,742 | 1,521,000 | 19 | 104 |
| Trading securities | 2,353,000 | 3,277 | — | 400,000 | — | 146 |
| Counterparty exposure | 15,300,000 | 130,727 | 14,451 | 15,300,000 | 275,027 | — |
| Intermediary transactions | 18,558 | 101 | 89 | 18,558 | 123 | 108 |
| Other | 400,000 | — | 732 | 400,000 | — | 50 |
| Interest rate swaptions | | | | | | |
| Available-for-sale securities | 1,150,000 | 1,883 | — | 1,150,000 | 3,058 | — |
| Mortgage loans held for portfolio | 775,000 | 3,585 | — | 550,000 | 2,642 | — |
| Mortgage delivery commitments | 21,947 | 17 | — | 14,410 | 67 | — |
| **Total derivatives not designated as hedging instruments** | 36,310,706 | 144,054 | 17,931 | 22,298,937 | 293,265 | 2,910 |
| **Total derivatives before collateral and netting adjustments** | $147,981,248 | 470,946 | 1,290,549 | $164,124,858 | 768,240 | 1,794,201 |
| Cash collateral and related accrued interest | | (422) | (898,589) | | (14,738) | (1,038,247) |
| Cash received or remitted in excess of variation margin requirements | | (41) | — | | 120 | 1,639 |
| Netting adjustments | | (380,597) | (380,597) | | (736,018) | (736,018) |
| **Total collateral and netting adjustments** [3] | | (381,060) | (1,279,186) | | (750,636) | (1,772,626) |
| **Net derivative balances reported in statements of condition** | | $ 89,886 | $ 11,363 | | $ 17,604 | $ 21,575 |

(1) Derivatives designated as fair value hedges.

(2) Derivatives designated as cash flow hedges.

(3) 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 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 three and nine months ended September 30, 2024 and 2023 (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) | | | | |
|---|---|---|---|---|---|
| | Advances | Available-for-Sale Securities | Consolidated Obligation Bonds | Consolidated Obligation Discount Notes | Other Comprehensive Income (Loss) |
| **Three Months Ended September 30, 2024** | | | | | |
| **Total amount of the financial statement line item** | $1,090,134 | $ 300,516 | $ (1,257,504) | $ (260,749) | $ (85,121) |
| **Gains (losses) on fair value hedging relationships included in the financial statement line item** | | | | | |
| Interest rate contracts | | | | | |
| Derivatives | $ (506,793) | $ (505,288) | $ 407,994 | $ — | $ — |
| Hedged items | 665,983 | 632,231 | (658,723) | — | — |
| Net gains (losses) on fair value hedging relationships | $ 159,190 | $ 126,943 | $ (250,729) | $ — | $ — |
| **Gains (losses) on cash flow hedging relationships included in the financial statement line item** | | | | | |
| Interest rate contracts | | | | | |
| Reclassified from AOCI into interest expense | $ — | $ — | $ — | $ 8,484 | $ (8,484) |
| Recognized in OCI | — | — | — | — | (22,363) |
| Net gains (losses) on cash flow hedging relationships | $ — | $ — | $ — | $ 8,484 | $ (30,847) |
| **Three Months Ended September 30, 2023** | | | | | |
| **Total amount of the financial statement line item** | $1,512,958 | $ 268,331 | $ (1,573,564) | $ (354,608) | $ (43,242) |
| **Gains (losses) on fair value hedging relationships included in the financial statement line item** | | | | | |
| Interest rate contracts | | | | | |
| Derivatives | $ 386,555 | $ 440,637 | $ (328,054) | $ — | $ — |
| Hedged items | (198,758) | (320,222) | 25,191 | — | — |
| Net gains (losses) on fair value hedging relationships | $ 187,797 | $ 120,415 | $ (302,863) | $ — | $ — |
| **Gains (losses) on cash flow hedging relationships included in the financial statement line item** | | | | | |
| Interest rate contracts | | | | | |
| Reclassified from AOCI into interest expense | $ — | $ — | $ — | $ 7,844 | $ (7,844) |
| Recognized in OCI | — | — | — | — | 19,957 |
| Net gains on cash flow hedging relationships | $ — | $ — | $ — | $ 7,844 | $ 12,113 |

| | Interest Income (Expense) | | | | |
|---|---|---|---|---|---|
| | Advances | Available-for-Sale Securities | Consolidated Obligation Bonds | Consolidated Obligation Discount Notes | Other Comprehensive Income (Loss) |
| **Nine Months Ended September 30, 2024** | | | | | |
| **Total amount of the financial statement line item** | $ 3,383,132 | $ 871,631 | $ (4,037,500) | $ (564,539) | $ 42,167 |
| **Gains (losses) on fair value hedging relationships included in the financial statement line item** | | | | | |
| Interest rate contracts | | | | | |
| Derivatives | $ 185,721 | $ (7,852) | $ (114,328) | $ — | $ — |
| Hedged items | 323,830 | 385,529 | (709,340) | — | — |
| Net gains (losses) on fair value hedging relationships | $ 509,551 | $ 377,677 | $ (823,668) | $ — | $ — |
| **Gains (losses) on cash flow hedging relationships included in the financial statement line item** | | | | | |
| Interest rate contracts | | | | | |
| Reclassified from AOCI into interest expense | $ — | $ — | $ — | $ 24,717 | $ (24,717) |
| Recognized in OCI | — | — | — | — | 4,134 |
| Net gains (losses) on cash flow hedging relationships | $ — | $ — | $ — | $ 24,717 | $ (20,583) |
| **Nine Months Ended September 30, 2023** | | | | | |
| **Total amount of the financial statement line item** | $ 4,384,490 | $ 715,444 | $ (3,891,610) | $ (1,610,649) | $ (6,549) |
| **Gains (losses) on fair value hedging relationships included in the financial statement line item** | | | | | |
| Interest rate contracts | | | | | |
| Derivatives | $ 1,008,556 | $ 661,637 | $ (707,975) | $ — | $ — |
| Hedged items | (581,069) | (358,776) | (111,794) | — | — |
| Net gains (losses) on fair value hedging relationships | $ 427,487 | $ 302,861 | $ (819,769) | $ — | $ — |
| **Gains (losses) on cash flow hedging relationships included in the financial statement line item** | | | | | |
| Interest rate contracts | | | | | |
| Reclassified from AOCI into interest expense | $ — | $ — | $ — | $ 20,578 | $ (20,578) |
| Recognized in OCI | — | — | — | — | 34,719 |
| Net gains on cash flow hedging relationships | $ — | $ — | $ — | $ 20,578 | $ 14,141 |

For the three and nine months ended September 30, 2024 and 2023, 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 September 30, 2024, $19,995,000 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 5.3 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 September 30, 2024 and December 31, 2023 (in thousands).

| Line Item in Statement of Condition of Hedged Item | Amortized Cost of Hedged Asset/ (Liability) [(1)] | 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 [(2)] |
|---|---|---|---|---|
| **September 30, 2024** | | | | |
| Advances | $ 44,590,519 | $ 25,826 | $ (6,438) | $ 19,388 |
| Available-for-sale securities | 18,840,160 | (217,606) | (8,634) | (226,240) |
| Consolidated obligation bonds | (47,201,344) | 874,780 | 1,194 | 875,974 |
| | | | | |
| **December 31, 2023** | | | | |
| 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 |

(1) Reflects the amortized cost of hedged items in active or discontinued fair value hedging relationships, which includes fair value hedging basis adjustments.

(2) 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 three and nine months ended September 30, 2024 and 2023 (in thousands).

| | Gain (Loss) Recognized in Other Income (Loss) for the Three Months Ended September 30, | | Gain (Loss) Recognized in Other Income (Loss) for the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| **Derivatives not designated as hedging instruments** | | | | |
| Interest rate swaps | $ (11,141) | $ 11,973 | $ (9,378) | $ 23,123 |
| Net interest income (expense) on interest rate swaps | 3,322 | 707 | 9,743 | (1,829) |
| Interest rate swaptions | 83 | (3,801) | (3,797) | (5,777) |
| Mortgage delivery commitments | 214 | 953 | 792 | 3,003 |
| **Total net gains (losses) related to derivatives not designated as hedging instruments** | (7,522) | 9,832 | (2,640) | 18,520 |
| **Price alignment amount on variation margin for daily settled derivative contracts[(1)]** | 3,007 | 5,050 | 12,536 | 10,160 |
| **Net gains (losses) on derivatives and hedging activities reported in other income (loss)** | $ (4,515) | $ 14,882 | $ 9,896 | $ 28,680 |

(1) 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 55 percent of the Bank's derivative contracts (based on notional value) have been cleared through third-party central clearinghouses (as of September 30, 2024, the notional balance of cleared transactions outstanding totaled $80.67 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

September 30, 2024, the notional balance of outstanding transactions (including mortgage delivery commitments) with non-member bilateral counterparties and member counterparties totaled $67.28 billion and $0.03 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 12. 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 14—Capital**

At all times during the nine months ended September 30, 2024, the Bank was in compliance with all applicable statutory and regulatory capital requirements. The following table summarizes the Bank’s compliance with those capital requirements as of September 30, 2024 and December 31, 2023 (dollars in thousands):

| | September 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| | Required | Actual | Required | Actual |
| Regulatory capital requirements: | | | | |
| Risk-based capital | $ 1,249,557 | $ 7,073,886 | $ 1,496,484 | $ 7,150,877 |
| Total capital | $ 4,994,884 | $ 7,073,886 | $ 5,130,584 | $ 7,150,877 |
| Total capital-to-assets ratio | 4.00 % | 5.66 % | 4.00 % | 5.58 % |
| Leverage capital | $ 6,243,605 | $ 10,610,829 | $ 6,413,231 | $10,726,316 |
| Leverage capital-to-assets ratio | 5.00 % | 8.50 % | 5.00 % | 8.36 % |

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 of the month ends during the nine months ended September 30, 2024 and 2023.

Members are required to maintain an investment in Class B Capital 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 December 31, 2023, subject to a minimum of $1,000 and a maximum of $7,000,000. The activity-based investment requirement is 4.1 percent of outstanding advances and 0.1 percent of outstanding letters of credit, except as described below.

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 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.

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 were funded during the period from April 1, 2020 through December 31, 2020 and that had a maturity of one year or greater. Pursuant to several Board-authorized extensions and modifications to this program, the Bank's activity-based capital stock investment requirement was reduced from 4.1 percent to 2.0 percent for (1) advances that were funded during the period from August 1, 2020 through April 18, 2021 and that had a maturity of 28 days or greater and (2) advances that were funded during the period from April 19, 2021 through December 31, 2022 and had a maturity of 32 days or greater. 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.

The activity-based investment requirement relating to letters of credit was implemented on April 19, 2021 and it applies only to letters of credit that are issued or renewed on and after that date. The stock requirement 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.

The Bank generally repurchases surplus stock quarterly. For the repurchases that occurred during the nine months ended September 30, 2024, surplus stock was defined as the amount of stock held by a member shareholder in excess of 125 percent of the shareholder’s minimum investment requirement. For those repurchases, which occurred on March 26, 2024, June 25, 2024 and September 25, 2024, a member 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 was on restricted collateral status (subject to certain exceptions), or (3) for the repurchases that occurred on March 26, 2024 and June 25, 2024, the shareholder elected to opt-out of the repurchase. Shareholders were not permitted to opt out of the repurchase that occurred on September 25, 2024. On March 26, 2024, June 25, 2024 and September 25, 2024, the Bank repurchased surplus stock totaling $166,651,000, $130,259,000 and $261,974,000, respectively, none of which was classified as mandatorily redeemable capital stock at those dates. From time to time, the Bank may modify the definition of surplus stock or the timing and/or frequency of surplus stock repurchases.

On March 26, 2024, June 25, 2024 and September 25, 2024, the Bank also repurchased all excess stock held by non-member shareholders as of those dates. This excess stock, all of which was classified as mandatorily redeemable capital stock at those dates, totaled $4,000, $266,000 and $112,000, respectively.

**Note 15—Employee Retirement Plans**

The Bank sponsors a retirement benefits program that includes health care and limited life insurance benefits for eligible retirees. Components of net periodic benefit cost (credit) related to this program for the three and nine months ended September 30, 2024 and 2023 were as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Service cost | $ 5 | $ 5 | $ 16 | $ 15 |
| Interest cost | 4 | 3 | 12 | 9 |
| Amortization of prior service cost | 5 | 5 | 15 | 15 |
| Amortization of net actuarial gain | (22) | (24) | (66) | (72) |
| Net periodic benefit credit | $ (8) | $ (11) | $ (23) | $ (33) |

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.

**Note 16—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 within 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 nine months ended September 30, 2024, 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 September 30, 2024 and December 31, 2023. 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 and mortgage loans held for portfolio), 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.

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 September 30, 2024 and December 31, 2023, 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 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).

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 12), 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 September 30, 2024 (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**

| | | Estimated Fair Value | | | | |
|---|---|---|---|---|---|---|
| **Financial Instruments** | **Carrying Value** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Netting Adjustment[2]** |
| **Assets:** | | | | | | |
| Cash and due from banks | $ 29,645 | $ 29,645 | $ 29,645 | $ — | $ — | $ — |
| Interest-bearing deposits | 2,928,554 | 2,928,554 | — | 2,928,554 | — | — |
| Securities purchased under agreements to resell | 10,350,000 | 10,350,000 | — | 10,350,000 | — | — |
| Federal funds sold | 11,606,000 | 11,606,000 | — | 11,606,000 | — | — |
| Trading securities [1] | 3,282,472 | 3,282,472 | — | 3,282,472 | — | — |
| Available-for-sale securities [1] | 18,953,139 | 18,953,139 | — | 18,953,139 | — | — |
| Held-to-maturity securities | 231,000 | 228,145 | — | 228,145 | — | — |
| Advances | 71,357,743 | 71,441,180 | — | 71,441,180 | — | — |
| Mortgage loans held for portfolio, net | 5,574,177 | 5,282,421 | — | 5,282,421 | — | — |
| Accrued interest receivable | 402,162 | 402,162 | — | 402,162 | — | — |
| Derivative assets [1] | 89,886 | 89,886 | — | 470,946 | — | (381,060) |
| Other assets held at fair value [1] | 19,795 | 19,795 | 19,795 | — | — | — |
| **Liabilities:** | | | | | | |
| Deposits | 1,628,585 | 1,628,590 | — | 1,628,590 | — | — |
| Consolidated obligations | | | | | | |
| Discount notes | 26,969,170 | 26,980,844 | — | 26,980,844 | — | — |
| Bonds | 87,878,910 | 87,504,531 | — | 87,504,531 | — | — |
| Mandatorily redeemable capital stock | 184 | 184 | 184 | — | — | — |
| Accrued interest payable | 604,533 | 604,533 | — | 604,533 | — | — |
| Derivative liabilities [1] | 11,363 | 11,363 | — | 1,290,549 | — | (1,279,186) |

(1) Financial instruments measured at fair value on a recurring basis as of September 30, 2024.

(2) 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 (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, 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**

| | | Estimated Fair Value | | | | |
|---|---|---|---|---|---|---|
| **Financial Instruments** | **Carrying Value** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Netting Adjustment[(2)]** |
| **Assets:** | | | | | | |
| 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 [(1)] | 1,271,943 | 1,271,943 | — | 1,271,943 | — | — |
| Available-for-sale securities [(1)] | 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 [(1)] | 17,604 | 17,604 | — | 768,240 | — | (750,636) |
| Other assets held at fair value [(1)] | 16,546 | 16,546 | 16,546 | — | — | — |
| **Liabilities:** | | | | | | |
| Deposits | 1,427,843 | 1,427,830 | — | 1,427,830 | — | — |
| Consolidated obligations | | | | | | |
| 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 [(1)] | 21,575 | 21,575 | — | 1,794,201 | — | (1,772,626) |

(1) Financial instruments measured at fair value on a recurring basis as of December 31, 2023.
(2) 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 17—Commitments and Contingencies

**Joint and several liability.** 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 September 30, 2024, the par amount of the other 10 FHLBanks' outstanding consolidated obligations was approximately $1.057 trillion. 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. 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 September 30, 2024 and December 31, 2023, the Bank had commitments to make additional advances totaling approximately $2,454,000 and $592,000, respectively. In addition, outstanding standby letters of credit totaled $31,511,162,000 and $33,308,221,000 at September 30, 2024 and December 31, 2023, 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 September 30, 2024 and December 31, 2023, the Bank had outstanding standby bond purchase agreements totaling $796,692,000 and $777,870,000, respectively. At September 30, 2024, standby bond purchase agreements totaling $39,788,000, $189,765,000, $125,953,000, $141,313,000, $162,986,000 and $136,887,000 expire in 2024, 2025, 2026, 2027, 2028 and 2029, respectively. The Bank was not required to purchase any bonds under these agreements during the nine months ended September 30, 2024 or the year ended December 31, 2023.

At September 30, 2024 and December 31, 2023, the Bank had commitments to purchase conventional mortgage loans totaling $21,947,000 and $14,410,000, respectively, from certain of its members that participate in the MPF program.

At September 30, 2024 and December 31, 2023, the Bank had commitments to issue $90,000,000 and $33,700,000 (par values), respectively, of consolidated obligation bonds, of which $65,000,000 and $25,000,000, respectively, were swapped to SOFR. In addition, as of September 30, 2024, the Bank had commitments to issue $500,000 (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 as of 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 September 30, 2024 and December 31, 2023, the Bank had pledged cash collateral of $931,226,000 and $1,048,427,000, 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 September 30, 2024 and December 31, 2023, the Bank had pledged securities with carrying values (and fair values) of $725,124,000 and $889,096,000, 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 statements of condition.

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.

**Note 18— Transactions with Shareholders**

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.

**Note 19 — Transactions with Other FHLBanks**

Occasionally, the Bank loans (or borrows) short-term federal funds to (or from) other FHLBanks. During the nine months ended September 30, 2024, the Bank did not loan any short-term federal funds to other FHLBanks. During the nine months ended September 30, 2023, interest income on loans to other FHLBanks totaled $148,000. The following table summarizes the Bank's loans to other FHLBanks during the nine months ended September 30, 2023 (in thousands).

| | Nine Months Ended September 30, 2023 |
|---|---|
| Balance at January 1, | $ — |
| Loans made to FHLBank of Chicago | 1,000,000 |
| Collections from FHLBank of Chicago | (1,000,000) |
| Balance at September 30, | $ — |

During the nine months ended September 30, 2024 and 2023, interest expense on borrowings from other FHLBanks totaled $6,000 and $520,000, respectively. The following table summarizes the Bank's borrowings from other FHLBanks during the nine months ended September 30, 2024 and 2023 (in thousands).

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2024 | 2023 |
| Balance at January 1, | $ — | $ — |
| Borrowings from: | | |
| FHLBank of San Francisco | — | 300,000 |
| FHLBank of Indianapolis | 40,000 | 20,000 |
| FHLBank of Boston | — | 1,000,000 |
| Repayments to: | | |
| FHLBank of San Francisco | — | (300,000) |
| FHLBank of Indianapolis | (40,000) | (20,000) |
| FHLBank of Boston | — | (1,000,000) |
| Balance at September 30, | $ — | $ — |

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 September 30, 2024 or the six months ended September 30, 2023.

### Note 20 — Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in the components of AOCI for the three and nine months ended September 30, 2024 and 2023 (in thousands).

| | Net Unrealized Gains (Losses) on Available-for-Sale Securities [1] | 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 |
|---|---|---|---|---|---|
| **Three Months Ended September 30, 2024** | | | | | |
| Balance at July 1, 2024 | $ 167,236 | $ 67,824 | $ — | $ 1,077 | $ 236,137 |
| Reclassifications from AOCI to net income | | | | | |
| Gains on cash flow hedges included in interest expense | — | (8,484) | — | — | (8,484) |
| Amortization of prior service costs and net actuarial gains recognized in other income (loss) | — | — | — | (17) | (17) |
| Other amounts of other comprehensive income (loss) | | | | | |
| Net unrealized losses on available-for-sale securities | (54,257) | — | — | — | (54,257) |
| Unrealized losses on cash flow hedges | — | (22,363) | — | — | (22,363) |
| Total other comprehensive loss | (54,257) | (30,847) | — | (17) | (85,121) |
| Balance at September 30, 2024 | $ 112,979 | $ 36,977 | $ — | $ 1,060 | $ 151,016 |
| | | | | | |
| **Three Months Ended September 30, 2023** | | | | | |
| Balance at July 1, 2023 | $ 138,327 | $ 79,693 | $ — | $ 1,199 | $ 219,219 |
| Reclassifications from AOCI to net income | | | | | |
| Gains on cash flow hedges included in interest expense | — | (7,844) | — | — | (7,844) |
| Amortization of prior service costs and net actuarial gains recognized in other income (loss) | — | — | — | (19) | (19) |
| Other amounts of other comprehensive income (loss) | | | | | |
| Net unrealized losses on available-for-sale securities | (55,336) | — | — | — | (55,336) |
| Unrealized gains on cash flow hedges | — | 19,957 | — | — | 19,957 |
| Total other comprehensive income (loss) | (55,336) | 12,113 | — | (19) | (43,242) |
| Balance at September 30, 2023 | $ 82,991 | $ 91,806 | $ — | $ 1,180 | $ 175,977 |

[1] 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.

| | Net Unrealized Gains (Losses) on Available-for-Sale Securities [1] | 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 |
|---|---|---|---|---|---|
| **Nine Months Ended September 30, 2024** | | | | | |
| Balance at January 1, 2024 | $ 50,178 | $ 57,560 | $ — | $ 1,111 | $ 108,849 |
| Reclassifications from AOCI to net income | | | | | |
| Gains on cash flow hedges included in interest expense | — | (24,717) | — | — | (24,717) |
| Amortization of prior service costs and net actuarial gains recognized in other income (loss) | — | — | — | (51) | (51) |
| Other amounts of other comprehensive income (loss) | | | | | |
| Net unrealized gains on available-for-sale securities | 62,801 | — | — | — | 62,801 |
| Unrealized gains on cash flow hedges | — | 4,134 | — | — | 4,134 |
| Total other comprehensive income (loss) | 62,801 | (20,583) | — | (51) | 42,167 |
| Balance at September 30, 2024 | $ 112,979 | $ 36,977 | $ — | $ 1,060 | $ 151,016 |
| | | | | | |
| **Nine Months Ended September 30, 2023** | | | | | |
| 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 | — | (20,578) | — | — | (20,578) |
| Amortization of prior service costs and net actuarial gains recognized in other income (loss) | — | — | — | (57) | (57) |
| Other amounts of other comprehensive income (loss) | | | | | |
| Net unrealized losses on available-for-sale securities | (24,061) | — | — | — | (24,061) |
| Unrealized gains on cash flow hedges | — | 34,719 | — | — | 34,719 |
| 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 |
| Total other comprehensive income (loss) | (24,061) | 14,141 | 3,428 | (57) | (6,549) |
| Balance at September 30, 2023 | $ 82,991 | $ 91,806 | $ — | $ 1,180 | $ 175,977 |

[1] 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.

## ITEM 2. 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 financial statements and notes thereto included in “Item 1. Financial Statements.”

### Forward-Looking Information

This quarterly report contains forward-looking statements that reflect current beliefs and expectations of the Federal Home Loan Bank of Dallas (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 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 these 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 or other events could possibly lead to changes in the Bank’s regulatory environment or its status as a government-sponsored enterprise (“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” in the Bank’s Annual Report on Form 10-K for the year ended December 31, 2023, which was filed with the Securities and Exchange Commission (“SEC”) on March 21, 2024 (the “2023 10-K”). 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

#### *Business*

The Bank 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. The FHLBanks serve the public by enhancing the availability of credit for residential mortgages, community lending and targeted community development. As independent, member-owned cooperatives, the FHLBanks seek to maintain a balance between their public purpose and their ability to provide adequate returns on the capital supplied by their members. 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 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, credit unions, and Community Development Financial Institutions that are certified under the Community Development Banking and Financial Institutions Act of 1994 ("CDFIs"). 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 were acquired through the Mortgage Partnership Finance® (“MPF”®) Program administered by the FHLBank of Chicago, substantially all of which are conventional loans. The Bank also offers an Affordable Housing Program ("AHP"), as required by the Federal Home Loan Bank Act of 1932, as amended, and a number of voluntary loan and grant programs that are designed to meet specific community investment needs in its district. Shareholders’ return on their investment includes the value derived from access to the Bank’s products and services and, to a far 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 slightly 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 capital stock is not publicly traded and can be held only 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. All members must hold stock in the Bank. The Bank’s capital stock has a par value of $100 per share and is 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, that 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 FHLBanks’ debt instruments (known as consolidated obligations) are their primary source of funds and are the joint and several obligations of all 11 FHLBanks. Consolidated obligations are issued through the Office of Finance (acting as agent for the FHLBanks) and generally are publicly traded in the over-the-counter market. The Bank records on its statements of condition only those consolidated obligations for which it receives the proceeds. Although consolidated obligations are not obligations of or guaranteed by the U.S. government, FHLBanks are considered to be 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 FHLBank 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 commitments to pay principal and interest 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 capital stock issued to members are also sources of funds for the Bank.

In addition to 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 September 30, 2024, 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.

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

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.

The Bank’s profitability objective is to generate sufficient earnings to allow the Bank to continue to increase its retained earnings and pay dividends on capital stock at rates that meet the Bank's dividend targets. 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 the Secured Overnight Financing Rate ("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 and financial market conditions on both the near-term and longer-term demand for the Bank’s credit products.

Beginning with the quarterly dividends that were paid in the second quarter of 2023, the Bank's target range for quarterly dividends on Class B-1 Stock is an annualized rate that approximates the average overnight SOFR rate for the immediately preceding quarter 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 for the preceding quarter plus 1.0 - 1.5 percent. While the Bank has had a longstanding practice of paying quarterly dividends, future dividend payments cannot be assured. Dividends paid in the first quarter of 2023 were indexed to average one-month LIBOR.

The Bank operates in only one reportable segment. All of the Bank's revenues are derived from U.S. operations.

The following table summarizes the Bank's membership, by type of institution, as of September 30, 2024 and December 31, 2023.

**MEMBERSHIP SUMMARY**

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Commercial banks | 536 | 537 |
| Credit unions | 136 | 135 |
| Insurance companies | 63 | 61 |
| Savings institutions | 50 | 51 |
| CDFIs | 10 | 7 |
| Total members | 795 | 791 |
| Housing associates | 8 | 8 |
| Non-member borrowers | 1 | 2 |
| Total | 804 | 801 |
| Community Financial Institutions ("CFIs") [1] | 485 | 496 |

[1] The figures shown reflect the number of members that were CFIs as of September 30, 2024 and December 31, 2023 based upon the definitions of CFIs that applied as of those dates.

For 2024, Community Financial Institutions ("CFIs") are defined to include all institutions insured by the Federal Deposit Insurance Corporation ("FDIC") with average total assets as of December 31, 2023, 2022 and 2021 of less than $1.461 billion. For 2023, CFIs were defined as FDIC-insured institutions with average total assets as of December 31, 2022, 2021 and 2020 of less than $1.417 billion.

***Financial Market Conditions***

During the first nine months of 2024, economic growth in the United States remained modest. The gross domestic product increased at an annual rate of 2.8 percent during the third quarter of 2024 according to the advance estimate reported by the Bureau of Economic Analysis, after increasing at annual rates of 3.0 percent during the second quarter of 2024, 1.6 percent during the first quarter of 2024 and 2.9 percent during the year ended December 31, 2023. According to the Bureau of Labor Statistics, the U.S. unemployment rate was 4.1 percent at both September 30, 2024 and June 30, 2024, up from 3.8 percent at March 31, 2024 and 3.7 percent at December 31, 2023. The Bureau of Labor Statistics also reported that the unadjusted U.S. consumer price index increased 2.4 percent for the 12 months ended September 30, 2024, compared to increases of 3.0 percent for the 12 months ended June 30, 2024, 3.5 percent for the 12 months ended March 31, 2024 and 3.4 percent for the 12 months ended December 31, 2023.

In an effort to combat inflation, the Federal Open Market Committee ("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 range between 5.25 percent and 5.50 percent. This target range was maintained until the September 17/18, 2024 FOMC meeting. At this meeting, the FOMC lowered the target range for the federal funds rate to a range between 4.75 percent and 5.00 percent, stating that it had gained greater confidence that inflation is moving sustainably toward the FOMC's target rate of 2 percent. At its November 6/7, 2024 meeting, the FOMC further lowered the target range for the federal funds rate to a range between 4.50 percent and 4.75 percent, stating that recent indicators suggest that economic activity has continued to expand at a solid pace, labor market conditions have generally eased, the unemployment rate has moved up but remains low and inflation has made progress toward the Committee's 2 percent objective but remains somewhat elevated. The FOMC indicated that in considering additional 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.

The FOMC began reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities ("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. During 2023 and the first three months of 2024, the caps were set at $60 billion per month for Treasury securities and $35 billion per month for agency debt and agency MBS. At its April 30/May 1, 2024 meeting, the FOMC announced that it would slow the pace of decline of its securities holdings by reducing the monthly redemption cap on Treasury securities from $60 billion to $25 billion. It maintained the monthly redemption cap on agency debt and agency MBS at $35 billion and will reinvest any principal payments in excess of this cap into Treasury securities.

The following table presents information on various market interest rates at September 30, 2024 and December 31, 2023 and various average market interest rates for the three and nine-month periods ended September 30, 2024 and 2023.

| | Ending Rate | | Average Rate | | Average Rate | |
|---|---|---|---|---|---|---|
| | September 30, 2024 | December 31, 2023 | Third Quarter 2024 | Third Quarter 2023 | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
| Federal Funds Target [(1)] | 5.00% | 5.50% | 5.43% | 5.43% | 5.48% | 5.10% |
| Average Effective Federal Funds Rate [(2)] | 4.83% | 5.33% | 5.26% | 5.26% | 5.31% | 4.92% |
| Overnight SOFR [(3)] | 4.96% | 5.38% | 5.28% | 5.24% | 5.30% | 4.90% |
| 1-month SOFR [(3)] | 5.16% | 5.34% | 5.33% | 5.20% | 5.33% | 4.85% |
| 3-month SOFR [(3)] | 5.31% | 5.36% | 5.36% | 5.14% | 5.36% | 4.70% |
| 2-year SOFR [(3)] | 3.44% | 4.07% | 3.87% | 4.84% | 4.32% | 4.48% |
| 5-year SOFR [(3)] | 3.25% | 3.53% | 3.51% | 4.10% | 3.86% | 3.72% |
| 10-year SOFR [(3)] | 3.32% | 3.47% | 3.50% | 3.87% | 3.78% | 3.51% |
| 3-month U.S. Treasury [(3)] | 4.73% | 5.40% | 5.23% | 5.54% | 5.38% | 5.20% |
| 2-year U.S. Treasury [(3)] | 3.66% | 4.23% | 4.04% | 4.92% | 4.45% | 4.51% |
| 5-year U.S. Treasury [(3)] | 3.58% | 3.84% | 3.80% | 4.31% | 4.13% | 3.94% |
| 10-year U.S. Treasury [(3)] | 3.81% | 3.88% | 3.95% | 4.15% | 4.19% | 3.80% |

(1) Source: Bloomberg (reflects upper end of target range)

(2) Source: Federal Reserve Statistical Release

(3) Source: Bloomberg

***Year-to-Date 2024 Summary***

- The Bank ended the third quarter of 2024 with total assets of $124.9 billion compared with $128.3 billion at the end of 2023. The $3.4 billion decrease in total assets for the nine months ended September 30, 2024 was attributable primarily to a decrease in the Bank's advances ($8.6 billion), partially offset by increases in its short-term liquidity holdings ($3.5 billion), long-term investments ($1.2 billion), and mortgage loans held for portfolio ($0.5 billion).
- Total advances decreased from $80.0 billion at December 31, 2023 to $71.4 billion at September 30, 2024. For the nine months ended September 30, 2024, the Bank's average advances were $79.1 billion.
- Mortgage loans held for portfolio increased from $5.1 billion at December 31, 2023 to $5.6 billion at September 30, 2024.
- The Bank's net income for the three and nine months ended September 30, 2024 was $184.4 million and $552.3 million, respectively, as compared to $247.7 million and $662.0 million, respectively, during the corresponding periods in 2023. For discussion and analysis of the changes in net income, see the section entitled "Results of Operations" beginning on page 59 of this report.
- At all times during the first nine months of 2024, the Bank was in compliance with all of its regulatory capital requirements. In addition, the Bank's retained earnings increased to $2.743 billion at September 30, 2024 from $2.413 billion at December 31, 2023. Retained earnings was 2.2 percent and 1.9 percent of total assets at September 30, 2024 and December 31, 2023, respectively.
- During the first nine months of 2024, the Bank paid dividends totaling $222.3 million. The Bank's first quarter 2024 dividends on Class B-1 Stock and Class B-2 Stock were paid 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 Bank's second quarter 2024 dividends on Class B-1 Stock and Class B-2 Stock were paid at annualized rates of 5.41 percent (a rate equal to average overnight SOFR for the first quarter of 2024 plus 0.1 percent) and 6.41 percent (a rate equal to average overnight SOFR for the first quarter of 2024 plus 1.1 percent), respectively. The Bank's third quarter 2024 dividends on Class B-1 Stock and Class B-2 Stock were paid at annualized rates of 5.42 percent (a rate equal to average

overnight SOFR for the second quarter of 2024 plus 0.1 percent) and 6.42 percent (a rate equal to average overnight SOFR for the second quarter of 2024 plus 1.1 percent), respectively.

## Selected Financial Data

**SELECTED FINANCIAL DATA**
*(dollars in thousands)*

| | 2024 | | | 2023 | |
|---|---|---|---|---|---|
| | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter |
| **Balance sheet** (at quarter end) | | | | | |
| Advances | $ 71,357,743 | $ 75,225,134 | $ 69,089,394 | $ 79,951,855 | $ 91,338,176 |
| Investments [1] | 47,351,165 | 45,042,311 | 50,283,307 | 42,631,192 | 50,707,609 |
| Mortgage loans held for portfolio | 5,581,287 | 5,416,150 | 5,242,560 | 5,096,410 | 4,989,752 |
| Allowance for credit losses on mortgage loans | 7,110 | 6,711 | 6,859 | 7,768 | 7,551 |
| Total assets | 124,872,093 | 126,231,583 | 125,138,618 | 128,264,612 | 147,613,554 |
| Consolidated obligations — discount notes | 26,969,170 | 19,009,983 | 14,464,671 | 8,598,022 | 20,930,677 |
| Consolidated obligations — bonds | 87,878,910 | 96,906,629 | 100,725,004 | 109,536,207 | 116,303,450 |
| Total consolidated obligations[2] | 114,848,080 | 115,916,612 | 115,189,675 | 118,134,229 | 137,234,127 |
| Mandatorily redeemable capital stock[3] | 184 | 296 | 453 | 506 | 568 |
| Capital stock — putable | 4,330,775 | 4,582,079 | 4,367,775 | 4,737,388 | 5,204,484 |
| Unrestricted retained earnings | 2,127,375 | 2,050,277 | 1,971,641 | 1,907,882 | 1,826,268 |
| Restricted retained earnings | 615,552 | 578,673 | 541,218 | 505,101 | 462,618 |
| Total retained earnings | 2,742,927 | 2,628,950 | 2,512,859 | 2,412,983 | 2,288,886 |
| Accumulated other comprehensive income | 151,016 | 236,137 | 237,679 | 108,849 | 175,977 |
| Total capital | 7,224,718 | 7,447,166 | 7,118,313 | 7,259,220 | 7,669,347 |
| Dividends paid[3] | 70,421 | 71,181 | 80,712 | 88,314 | 98,532 |
| **Income statement** (for the quarter) | | | | | |
| Net interest income after provision (reversal) for credit losses[4] | $ 226,553 | $ 229,087 | $ 223,498 | $ 251,393 | $ 284,851 |
| Other income | 18,658 | 14,616 | 10,465 | 20,232 | 20,181 |
| Other expense | 40,324 | 35,622 | 33,306 | 35,611 | 29,774 |
| AHP assessment | 20,489 | 20,809 | 20,069 | 23,603 | 27,533 |
| Net income | 184,398 | 187,272 | 180,588 | 212,411 | 247,725 |
| **Performance ratios** | | | | | |
| Net interest margin[4][5] | 0.73 % | 0.72 % | 0.71 % | 0.73 % | 0.72 % |
| Net interest spread [4][6] | 0.36 | 0.34 | 0.32 | 0.36 | 0.37 |
| Return on average assets | 0.59 | 0.60 | 0.58 | 0.61 | 0.62 |
| Return on average equity | 9.97 | 10.08 | 9.88 | 10.90 | 11.98 |
| Return on average capital stock [7] | 16.44 | 16.34 | 15.54 | 16.18 | 17.10 |
| Total average equity to average assets | 5.88 | 5.92 | 5.86 | 5.58 | 5.21 |
| Regulatory capital ratio[8] | 5.66 | 5.71 | 5.50 | 5.58 | 5.08 |
| Dividend payout ratio [3][9] | 38.19 | 38.01 | 44.69 | 41.58 | 39.77 |

(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 September 30, 2024, June 30, 2024, March 31, 2024, December 31, 2023 and September 30, 2023, the outstanding consolidated obligations (at par value) of all of the FHLBanks totaled approximately $1.173 trillion, $1.192 trillion, $1.172 trillion, $1.204 trillion and $1.230 trillion, respectively. As of those dates, the Bank's outstanding consolidated obligations (at par value) were $116 billion, $118 billion, $117 billion, $120 billion and $140 billion, respectively.

(3) Mandatorily redeemable capital stock represents capital stock that is classified as a liability under accounting principles generally accepted in the United States of America ("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 $13 thousand, $7 thousand, $30 thousand, $85 thousand and $102 thousand for the quarters ended September 30, 2024, June 30, 2024, March 31, 2024, December 31, 2023 and September 30, 2023, 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 reduced net interest income by $8.2 million, $21.4 million, $23.5 million, $28.0 million and $19.9 million for the quarters ended September 30, 2024, June 30, 2024, March 31, 2024, December 31, 2023 and September 30, 2023, respectively. Included in the fair value ineffectiveness amounts are price alignment amounts on cleared derivatives totaling ($11.3 million), ($20.1 million), ($18.4 million), ($23.2 million) and ($24.0 million) for the quarters ended September 30, 2024, June 30, 2024, March 31, 2024, December 31, 2023 and September 30, 2023, respectively. For additional discussion, see the section entitled "Results of Operations" beginning on page 59 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 quarter-end.

(9) Dividend payout ratio is computed by dividing dividends paid by net income for each quarter.

## Legislative and Regulatory Developments

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

As more fully discussed on pages 18-19 of the 2023 10-K, the Finance Agency issued a report on November 7, 2023 entitled *FHLBank System at 100: Focusing on the Future*. The report sets forth the actions that the Finance Agency intends to take or consider based on a comprehensive review and analysis of the FHLBank System that it conducted over the 15 months preceding the report's issuance. 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.

On April 3, 2024, the Finance Agency provided an update on its plan to implement the report's recommendations and announced its key priorities for 2024 which include: (i) clarifying the FHLBank System mission; (ii) aligning and strengthening membership eligibility requirements for different types of FHLBank members; and (iii) streamlining Affordable Housing Program regulatory requirements. As currently listed on its website, the Finance Agency's top priorities for implementation in 2024 include:

- clarifying the mission statement for the FHLBank System and setting forth criteria for assessing mission achievement by the FHLBanks (As further discussed below, the Finance Agency issued a Request for Input: Federal Home Loan Bank Core Mission Activities and Mission Achievement on May 16, 2024.)
- establishing an incentive structure for FHLBank members to support the housing and community development mission of the FHLBanks
- enhancing the scope of the FHLBanks' Targeted Community Lending Plans
- increasing limits on maximum unsecured extensions of credit for overnight assets of similar risk profile (As further discussed below, on October 3, 2024, the Finance Agency issued a notice of proposed rulemaking on unsecured credit limits.)
- improving FHLBank evaluation of member creditworthiness (As further discussed below, the Finance Agency issued Advisory Bulletin ("AB") 2024-03: FHLBank Member Credit Risk Management on September 27, 2024.)

- improving climate risk assessments (As further discussed below, the Finance Agency issued AB 2024-04: Federal Home Loan Bank System Climate-Related Risk Management on September 30, 2024.)
- increasing support to mission-oriented organizations
- establishing mission-oriented collateral programs that incentivize use of collateral with a strong connection to the mission of the FHLBank System
- streamlining AHP regulatory requirements (As further discussed below, the Finance Agency issued a Request for Input: Federal Home Loan Bank Affordable Housing Program Competitive Application Process on June 20, 2024. On October 31, 2024, the Finance Agency issued AB 2024-05: Affordable Housing Program: Determining the Need for Affordable Housing Program Subsidy in Rental Projects.)
- revising the maturity term for the definition of a long-term advance
- enhancing support for prudently structured voluntary and pilot programs (See pages 21-22 of the 2023 10-K for a discussion of AB 2023-06: FHLBank Framework for Pilot and Voluntary Programs.)
- standardizing and strengthening membership eligibility requirements across member types
- expanding the list of expertise for independent directors (As further discussed below, on October 21, 2024, the Finance Agency issued a notice of proposed rulemaking on boards of directors and executive management.)
- clarifying board of director responsibility for mission performance, including through ties to executive compensation

In its announcement on April 3, 2024, the Finance Agency indicated that it would continue a robust stakeholder engagement process as it proceeds to implement the recommendations in the report.

The Bank is unable at this time to predict all of the actions that 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.

***FHLBank Mission Activity Request for Input***

On May 16, 2024, the Finance Agency issued a Request for Input on FHLBank core mission activities and mission achievement. As it considers potential mission-related rulemakings, the Finance Agency sought input on three categories of questions: (1) updating and clarifying the regulatory statement of the FHLBank System's mission to better reflect its role in the broader housing finance system; (2) developing metrics and thresholds to evaluate the FHLBanks' mission achievement; and (3) identifying responsible financial incentives that the FHLBanks could provide to members with a strong and demonstrable connection to the FHLBank System's mission. Comments were due by July 15, 2024.

***FHLBank AHP Program Request for Input***

On June 20, 2024, the Finance Agency issued a Request for Input regarding the FHLBanks' AHP competitive application programs. Seeking to streamline the AHP competitive application process, the Finance Agency requested input on the efficiency and effectiveness of the FHLBanks' current processes, as well as suggestions for potential improvements. Comments were due by August 19, 2024.

***AB 2024-03: FHLBank Member Credit Risk Management***

On September 27, 2024, the Finance Agency issued an advisory bulletin setting forth its expectations that a FHLBank's underwriting and credit decisions should reflect a member's financial condition and not rely solely on the collateral securing the member's credit obligations. The advisory bulletin provides guidance for the FHLBanks to implement policies for credit risk governance, member credit assessment and monitoring of credit conditions, among other considerations. It also provides guidance on the oversight of members in financial distress by recommending implementation of escalation policies, processes for coordination with members' prudential regulators, and Bank policies addressing default, failure, and insolvency situations. Although the Bank is not yet able to determine the extent to which this advisory bulletin will require it to modify any of its existing member credit risk management policies or practices, any significant changes could potentially limit members' use of the Bank's advances and/or the Bank's ability to lend to members, and either or both of these outcomes could have a negative impact on the Bank's business, financial condition and results of operations.

***AB 2024-04: Federal Home Loan Bank System Climate-Related Risk Management***

On September 30, 2024, the Finance Agency issued an advisory bulletin setting forth the its expectation that each FHLBank should integrate climate-related risk management into its existing enterprise risk management framework. The advisory bulletin provides that an effective framework should address climate-related risk governance, which includes defining the Bank's climate-related risk appetite, setting strategy and objectives, establishing and implementing plans to monitor and mitigate exposures to material climate-related risks, and establishing roles and responsibilities for the board of directors and management. The advisory bulletin further requires the FHLBanks to: establish metrics that track exposure to climate-related risks; collect data to quantify risk exposures; conduct climate-related scenario analyses; and implement processes to report and communicate relevant climate-related risks to appropriate internal stakeholders. Finally, the advisory bulletin encourages each FHLBank to have a plan for responding to natural disasters. The Bank is evaluating the potential impact that this advisory bulletin could have on its operations and operating costs.

***Finance Agency Proposed Rule on Unsecured Credit Limits for Federal Home Loan Banks***

On October 3, 2024, the Finance Agency published a proposed rule that would amend the Finance Agency's regulation on capital requirements ("Capital Regulation") to modify certain unsecured credit limits for FHLBanks. The proposed rule would include interest bearing deposit accounts ("IBDAs") in a category of authorized overnight investments that would be excluded from the general limit on unsecured credit to a single counterparty. Among other things, the proposed rule would increase the frequency of certain capital calculations and clarify that certain non-interest bearing deposit accounts (such as settlement, payment or other transactional accounts) are to be considered unsecured extensions of credit subject to the Capital Regulation's general unsecured limit. Although excluding IBDAs from the general unsecured credit limit could provide greater flexibility for the Bank's liquidity management, several of the other changes, if adopted, could result in significant changes to the Bank's current business processes. Comments on the proposed rule are due by December 2, 2024. The Bank is evaluating the potential impact that this proposed rule could have on its operations.

***Finance Agency Proposed Rule on Federal Home Loan Bank System Boards of Directors and Executive Management***

On October 21, 2024, the Finance Agency proposed revisions to its regulations that address boards of directors and overall corporate governance of the FHLBanks and the Office of Finance. If adopted as proposed, the rule would, among other things: (1) impact director compensation by allowing the Director of the Finance Agency to establish an annual amount of director compensation that the Director determines is reasonable; (2) require the Bank to complete and submit background checks to the Finance Agency on every nominee for a directorship; (3) impact public interest independent director qualifications, in part by requiring a person to have advocated for, or otherwise acted primarily on behalf of or for the direct benefit of, consumers or the community to meet the representation requirement; (4) expand the list of qualifying experiences for all Bank independent directors to include artificial intelligence, information technology and security, climate-related risk, CDFIs, business models, and modeling; and (5) establish a review process for director performance and participation, together with a process for removing Bank directors for cause. The rule would also address conflict of interest policies applicable to all Bank employees, including specific limitations for executive officers and senior management. While some proposed revisions would codify existing guidance and practice, several of the proposed revisions could result in significant changes to the nomination, election and retention of the Bank's board of directors. Additional director eligibility requirements and potential reductions to or limitations on director compensation could hinder the Bank's ability to recruit and retain directors with the requisite expertise to oversee the Bank's operations. Comments on the proposed rule are due by February 3, 2025.

***AB 2024-05: Affordable Housing Program: Determining the Need for Affordable Housing Subsidy in Rental Projects***

On October 31, 2024, the Finance Agency issued an advisory bulletin that simplifies the application process for AHP funding that is designed to expand the number of project sponsors and improve the FHLBanks' ability to address affordable housing needs in their districts. The advisory bulletin reinforces the importance of scrutinizing funding requests, using rigorous feasibility guidelines based on sound reasoning, to ensure that AHP funds support projects that are most in need. The advisory bulletin provides for a streamlined compliance process and eliminates uncertainty for project sponsors about the amount of their AHP award. The advisory bulletin also provides additional clarity to the FHLBanks with respect to the determination of the need for an AHP subsidy when a rental project includes capitalized reserves and supportive services.

***SEC 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 final 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. As a non-accelerated filer, the final rule's disclosure requirements are applicable to the Bank beginning with its Annual Report on Form 10-K for the year ending December 31, 2027.

Shortly after its adoption, petitions seeking review of the final rule's validity were filed in multiple jurisdictions. On April 4, 2024, the SEC issued an order to stay the final rule in part to facilitate the orderly judicial resolution of those challenges and allow the court of appeals to focus on deciding the merits. Further, the stay avoids potential regulatory uncertainty for registrants that might become subject to the rule's requirements while it awaits judicial review.

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

On April 29, 2024, the Finance Agency released its final rule that specifies requirements related to FHLBanks' compliance with fair housing and fair lending laws and related regulations, including the Fair Housing Act, the Equal Credit Opportunity Act, and prohibitions on unfair or deceptive acts or practices under the Federal Trade Commission Act. The final rule (i) articulates standards related to the board of directors' oversight of fair housing, fair lending, and principles of equitable housing and (ii) requires each FHLBank to annually report actions it voluntarily takes to address barriers to sustainable housing opportunities for underserved communities ("Equitable Housing Report Requirements"). The final rule became effective on July 15, 2024, except for the Equitable Housing Report Requirements, which will become effective on February 15, 2026. The Bank is currently evaluating the potential impact that the final rule could have on its business and operations.

## Financial Condition

The following table provides selected period-end balances as of September 30, 2024 and December 31, 2023, as well as selected average balances for the nine-month period ended September 30, 2024 and the year ended December 31, 2023. As shown in the table, the Bank's total assets decreased by 2.6 percent between December 31, 2023 and September 30, 2024, due primarily to a decrease in the Bank's advances, partially offset by increases in the Bank's short-term liquidity holdings, long-term investments and mortgage loans held for portfolio. Total consolidated obligations decreased by $3.3 billion during the nine months ended September 30, 2024 as consolidated obligation bonds decreased by $21.7 billion and consolidated obligation discount notes increased by $18.4 billion. The activity in each of the major balance sheet captions is discussed in the sections following the table.

**SUMMARY OF CHANGES IN FINANCIAL CONDITION**
*(dollars in millions)*

| | September 30, 2024 | | | Balance at |
|---|---|---|---|---|
| | | Increase (Decrease) | | |
| | Balance | Amount | Percentage | December 31, 2023 |
| Advances | $ 71,358 | $ (8,594) | (10.7)% | $ 79,952 |
| Short-term liquidity holdings | | | | |
| Interest-bearing deposits | 2,929 | 632 | 27.5 % | 2,297 |
| Securities purchased under agreements to resell | 10,350 | (4,400) | (29.8)% | 14,750 |
| Federal funds sold | 11,606 | 5,238 | 82.3 % | 6,368 |
| Trading securities | | | | |
| U.S. Treasury Bills | 483 | 483 | * | — |
| U.S. Treasury Notes | 2,696 | 1,525 | 130.2 % | 1,171 |
| Total short-term liquidity holdings | 28,064 | 3,478 | 14.1 % | 24,586 |
| Long-term investments | | | | |
| Trading securities (U.S. Treasury Note) | 103 | 2 | 2.0 % | 101 |
| Available-for-sale securities | 18,953 | 1,262 | 7.1 % | 17,691 |
| Held-to-maturity securities | 231 | (22) | (8.7)% | 253 |
| Total long-term investments | 19,287 | 1,242 | 6.9 % | 18,045 |
| | | | | |
| Mortgage loans held for portfolio, net | 5,574 | 485 | 9.5 % | 5,089 |
| Total assets | 124,872 | (3,393) | (2.6)% | 128,265 |
| | | | | |
| Consolidated obligations | | | | |
| Consolidated obligations — bonds | 87,879 | (21,657) | (19.8)% | 109,536 |
| Consolidated obligations — discount notes | 26,969 | 18,371 | 213.7 % | 8,598 |
| Total consolidated obligations | 114,848 | (3,286) | (2.8)% | 118,134 |
| | | | | |
| Mandatorily redeemable capital stock | — | (1) | (100.0)% | 1 |
| Capital stock | 4,331 | (406) | (8.6)% | 4,737 |
| Retained earnings | 2,743 | 330 | 13.7 % | 2,413 |
| | | | | |
| Average total assets | 125,641 | (28,798) | (18.6)% | 154,439 |
| Average capital stock | 4,582 | (1,090) | (19.2)% | 5,672 |
| Average mandatorily redeemable capital stock | 1 | (5) | (83.3)% | 6 |

* The percentage increase is not meaningful.

***Advances***

The Bank's advances balances (at par value) decreased by $8.9 billion (11 percent) during the first nine months of 2024. Demand for the Bank's advances was extraordinary during the first quarter of 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 in March 2023. 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. As market liquidity began to normalize in the second quarter of 2023, member demand moderated and, correspondingly, advances balances began to decline toward the end of that period. Advances balances continued to decline in the second half of 2023 and the first nine months of 2024, notwithstanding a quarterly increase during the second quarter of 2024. The largest decreases in advances during the first nine months of 2024 were to Comerica Bank ($3.6 billion) and Charles Schwab Bank, SSB ($3.0 billion). While advances demand is difficult to predict, the Bank currently expects that advances will likely decline during the remainder of 2024 in the absence of some type of destabilizing event.

The following table presents advances outstanding, by type of institution, as of September 30, 2024 and December 31, 2023.

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

| | September 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Savings institutions | $ 34,110 | 48 % | $ 36,893 | 46 % |
| Commercial banks | 20,501 | 29 | 26,654 | 33 |
| Insurance companies | 8,951 | 12 | 8,952 | 11 |
| Credit unions | 7,643 | 11 | 7,599 | 10 |
| Community Development Financial Institutions | 30 | — | 28 | — |
| Total member advances | 71,235 | 100 | 80,126 | 100 |
| Housing associates | 100 | — | 117 | — |
| Non-member borrowers | 6 | — | 18 | — |
| Total par value of advances | $ 71,341 | 100 % | $ 80,261 | 100 % |
| Total par value of advances outstanding to CFIs [(1)] | $ 5,261 | 7 % | $ 5,675 | 7 % |

(1) The figures shown reflect the advances outstanding to CFIs as of September 30, 2024 and December 31, 2023 based upon the definitions of CFIs that applied as of those dates.

At September 30, 2024, advances outstanding to the Bank’s five largest borrowers totaled $38.8 billion, representing 54.4 percent of the Bank’s total outstanding advances as of that date. In comparison, advances outstanding to the Bank’s five largest borrowers as of December 31, 2023 totaled $45.4 billion, representing 56.6 percent of the total outstanding advances at that date. The following table presents the Bank’s five largest borrowers as of September 30, 2024.

**FIVE LARGEST BORROWERS AS OF SEPTEMBER 30, 2024**
*(par value, dollars in millions)*

| Name | Par Value of Advances | Percent of Total Par Value of Advances |
|---|---|---|
| Charles Schwab Bank, SSB | $ 21,000 | 29.4 % |
| USAA Federal Savings Bank | 6,000 | 8.4 |
| American General Life Insurance Company | 4,423 | 6.2 |
| Comerica Bank | 4,000 | 5.6 |
| Beal Bank USA | 3,400 | 4.8 |
| | $ 38,823 | 54.4 % |

With outstanding advances of $1.6 billion as of September 30, 2024 (representing 2.2 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 ninth largest borrower.

The following table presents information regarding the composition of the Bank’s advances by product type as of September 30, 2024 and December 31, 2023.

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

| | September 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| | Balance | Percentage of Total | Balance | Percentage of Total |
| Fixed-rate | $ 64,092 | 89.8 % | $ 69,559 | 86.7 % |
| Adjustable/variable-rate indexed | 6,263 | 8.8 | 9,685 | 12.1 |
| Amortizing | 986 | 1.4 | 1,017 | 1.2 |
| Total par value | $ 71,341 | 100.0 % | $ 80,261 | 100.0 % |

The Bank is required by statute and regulation to obtain sufficient collateral from members/borrowers to fully secure all advances and other secured 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 the 2023 10-K. 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.

In addition, as described in the 2023 10-K, 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 credit losses on advances.

***Short-Term Liquidity Holdings***

At September 30, 2024, the Bank’s short-term liquidity holdings were comprised of $10.4 billion of overnight reverse repurchase agreements (of which $8.2 billion was transacted with the Federal Reserve Bank of New York), $11.6 billion of overnight federal funds sold, $2.9 billion of overnight interest-bearing deposits, $2.7 billion of U.S.Treasury Notes and $0.5 billion of U.S. Treasury Bills. 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. All of the Bank's federal funds sold during the nine months ended September 30, 2024 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.

As of September 30, 2024, the Bank’s overnight federal funds sold consisted of $8.4 billion transacted with counterparties rated double-A and $3.2 billion transacted with counterparties rated single-A. At that same date, substantially all of the Bank's 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 maturities and 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 - Core Mission Achievement in the 2023 10-K. For the nine months ended September 30, 2024, the Bank's core mission asset ("CMA") ratio was 73.9 percent. In comparison, the Bank's CMA ratio was 76.7 percent for the year ended December 31, 2023. The decrease in the Bank's CMA ratio was due to the decrease in its advances balance during the nine months ended September 30, 2024.

***Long-Term Investments***

The composition of the Bank's long-term investment portfolio at September 30, 2024 and December 31, 2023 is set forth in the table below.

**COMPOSITION OF LONG-TERM INVESTMENT PORTFOLIO**
*(in millions)*

| | Balance Sheet Classification | | | Total Long-Term | |
|---|---|---|---|---|---|
| **September 30, 2024** | **Held-to-Maturity (at amortized cost)** | **Available-for-Sale (at fair value)** | **Trading (at fair value)** | **Investments (at carrying value)** | **Held-to-Maturity (at fair value)** |
| Debentures | | | | | |
| U.S. government-guaranteed obligations | $ — | $ 85 | $ 103 | $ 188 | $ — |
| GSE obligations | — | 2,086 | — | 2,086 | — |
| Total debentures | — | 2,171 | 103 | 2,274 | — |
| | | | | | |
| MBS portfolio | | | | | |
| GSE residential MBS | 231 | — | — | 231 | 228 |
| GSE commercial MBS | — | 16,782 | — | 16,782 | — |
| Total MBS | 231 | 16,782 | — | 17,013 | 228 |
| Total long-term investments | $ 231 | $ 18,953 | $ 103 | $ 19,287 | $ 228 |

| | Balance Sheet Classification | | | Total Long-Term | |
|---|---|---|---|---|---|
| **December 31, 2023** | **Held-to-Maturity (at amortized cost)** | **Available-for-Sale (at fair value)** | **Trading (at fair value)** | **Investments (at carrying value)** | **Held-to-Maturity (at fair value)** |
| Debentures | | | | | |
| U.S. government-guaranteed obligations | $ — | $ 264 | $ 101 | $ 365 | $ — |
| GSE obligations | — | 3,115 | — | 3,115 | — |
| Total debentures | — | 3,379 | 101 | 3,480 | — |
| | | | | | |
| MBS portfolio | | | | | |
| GSE residential MBS | 253 | — | — | 253 | 247 |
| GSE commercial MBS | — | 14,312 | — | 14,312 | — |
| Total MBS | 253 | 14,312 | — | 14,565 | 247 |
| Total long-term investments | $ 253 | $ 17,691 | $ 101 | $ 18,045 | $ 247 |

During the nine months ended September 30, 2024, proceeds from maturities, prepayments and paydowns of held-to-maturity securities and available-for-sale securities totaled approximately $22 million and $1.582 billion, respectively. During the nine months ended September 30, 2023, proceeds from maturities, prepayments and paydowns of held-to-maturity securities and available-for-sale securities totaled approximately $29 million and $416 million, respectively.

During the three and nine months ended September 30, 2024, four and six GSE commercial MBS ("CMBS") with aggregate par values of $117.3 million and $151.0 million, respectively, were prepaid. In connection with one of the GSE CMBS prepayments that occurred during the three months ended September 30, 2024, the Bank received a yield maintenance fee of $1.0 million. Yield maintenance fees are recorded in interest income on available-for-sale-securities, net of unamortized purchase premiums or discounts and hedge basis adjustments. The net amounts recorded as an increase in interest income on available-for-sale securities totaled $2.8 million and $4.6 million for the three and nine months ended September 30, 2024, respectively. During the three and nine months ended September 30, 2023, four and eleven GSE CMBS with aggregate par values of $97.1 million and $321.2 million, respectively, 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 $7.6 million and $18.5 million for the three and nine months ended September 30, 2023, respectively, and were recorded as an increase in interest income on available-for-sale securities.

During the three months ended June 30, 2023, the Bank sold all of its non-agency residential MBS ("RMBS"). Proceeds from the sale totaled $29.025 million, resulting in a net realized gain of $1.1 million. For each of these securities, 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. The Bank did not sell any other long-term investments during the nine months ended September 30, 2024 or 2023.

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 $17.1 billion as of September 30, 2024, which represented 241 percent of its total regulatory capital at that date. With capacity to purchase MBS and its CMA ratio above 70 percent, the Bank acquired (based on trade date) $2.4 billion (par value) of GSE CMBS during the nine months ended September 30, 2024. The Bank acquired (based on trade date) $2.3 billion (par value) of GSE CMBS during the nine months ended September 30, 2023. 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 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 September 30, 2024, was $21.2 billion.

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.

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 September 30, 2024, 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 "Item 1. Financial Statements" (specifically, Note 9 beginning on page 14 of this report).

As of September 30, 2024, 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 ($231 million par value at September 30, 2024). 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 September 30, 2024, one-month SOFR was 5.16 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 ($225 million) was below 6.5 percent. As of September 30, 2024, one-month SOFR rates were 68 basis points below the lowest effective interest rate cap embedded in the CMO floaters.

***Mortgage Loans Held For Portfolio***

As of September 30, 2024 and December 31, 2023, mortgage loans held for portfolio (net of allowance for credit losses) were $5.6 billion and $5.1 billion, respectively, representing approximately 4.5 percent and 4.0 percent, respectively, of the Bank's total assets at those dates. Through the MPF program, the Bank currently invests in only conventional residential mortgage loans originated by its participating financial institutions ("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. Substantially all of the mortgage loans on the Bank's balance sheet at September 30, 2024 were conventional loans, almost all of which were acquired since 2016.

During the three and nine months ended September 30, 2024, the Bank acquired mortgage loans totaling $282 million ($276 million unpaid principal balance) and $811 million ($797 million unpaid principal balance), respectively. In comparison, the Bank acquired mortgage loans totaling $309 million ($307 million unpaid principal balance) and $849 million ($841 million unpaid principal balance) during the three and nine months ended September 30, 2023, respectively. All of the acquired mortgage loans were originated by certain of the Bank's PFIs and the Bank acquired a 100 percent interest in such loans. During the three and nine months ended September 30, 2024, mortgage loan prepayments totaled $75 million and $203 million, respectively, compared to $72 million and $154 million during the three and nine months ended September 30, 2023, respectively.

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"). The FLA is a memo account that is used to track the Bank's exposure to losses until the CE Obligation is available to cover losses. 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 by 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.

Under the Finance Agency's Acquired Member Asset regulation (12 C.F.R. part 1268), 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. Accordingly, 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 credit enhancement fees ("CE fees") as compensation for retaining a portion of the credit risk on the loans sold to the Bank, as an incentive to minimize credit losses on those loans, to share in the risk of loss on MPF loans and, in limited cases related to loans acquired prior to 2016, 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 during the applicable month. CE fees are recorded as a reduction to mortgage loan interest income when paid by the Bank. Mortgage loan interest income was reduced by CE fees totaling $644,000 and $621,000 during the three months ended September 30, 2024 and 2023, respectively, and $1,903,000 and $1,845,000 for the nine months ended September 30, 2024 and 2023, respectively. The Bank's allowance for loan losses, which factors in the CE obligation, was $7,110,000 and $7,768,000 at September 30, 2024 and December 31, 2023, respectively.

As more fully discussed in the 2023 10-K, the Bank is subject to two annual housing goals relating to its purchases of mortgage loans. First, at least 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. Second, at least 50 percent of the Bank's members that are selling mortgage loans to the Bank in a calendar year must be small members. During the first nine months of 2024, approximately 24 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 approximately 60 percent of members that sold mortgage loans to the Bank were small members.

***Consolidated Obligations and Deposits***

During the nine months ended September 30, 2024, the Bank's outstanding consolidated obligation bonds (at par value) decreased by $22.4 billion and its outstanding consolidated obligation discount notes (at par value) increased by $18.6 billion. The following table presents the composition of the Bank's outstanding bonds at September 30, 2024 and December 31, 2023.

**COMPOSITION OF CONSOLIDATED OBLIGATION BONDS OUTSTANDING**

*(par value, dollars in millions)*

| | September 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| | Balance | Percentage of Total | Balance | Percentage of Total |
| Non-callable variable-rate SOFR-indexed | $ 36,440 | 41.1 % | $ 35,499 | 31.9 % |
| Fixed-rate | | | | |
| Callable | 35,068 | 39.5 | 53,550 | 48.2 |
| Non-callable | 11,715 | 13.2 | 15,600 | 14.1 |
| Step-up | | | | |
| Callable | 3,572 | 4.0 | 4,492 | 4.0 |
| Non-callable | 1,935 | 2.2 | 1,954 | 1.8 |
| Callable step-down | 15 | — | 15 | — |
| Total par value | $ 88,745 | 100.0 % | $ 111,110 | 100.0 % |

During the first nine months of 2024, the Bank issued $99.4 billion of consolidated obligation bonds and approximately $42.1 billion of consolidated obligation discount notes (excluding those with overnight terms), the proceeds of which were used primarily to replace maturing and called consolidated obligations. At September 30, 2024 and December 31, 2023, discount notes comprised approximately 23 percent and 7 percent, respectively, of the Bank's total consolidated obligations. During the nine months ended September 30, 2024, the Bank's bond issuance (based on trade date and par value) consisted of approximately $68.1 billion of SOFR-indexed bonds, $26.7 billion of swapped fixed-rate callable bonds (including step-up bonds) and $4.4 billion of fixed-rate, predominately short-term non-callable bonds (which were not swapped).

The weighted average SOFR-equivalent cost of swapped and variable-rate consolidated obligation bonds issued by the Bank approximated SOFR minus 0.2 basis points during the three months ended September 30, 2024, compared to SOFR minus 1 basis point during the three months ended June 30, 2024 and SOFR plus 0.3 basis points during the three months ended September 30, 2023.

Demand and term deposits were approximately $1.6 billion and $1.4 billion at September 30, 2024 and December 31, 2023, 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.

***Capital***

The Bank’s outstanding capital stock (excluding mandatorily redeemable capital stock) was $4.3 billion and $4.7 billion at September 30, 2024 and December 31, 2023, respectively. The Bank’s average outstanding capital stock (excluding mandatorily redeemable capital stock) was approximately $4.6 billion and $5.7 billion for the nine months ended September 30, 2024 and the year ended December 31, 2023, respectively.

Mandatorily redeemable capital stock outstanding at September 30, 2024 and December 31, 2023 was $0.2 million and $0.5 million, respectively. Although mandatorily redeemable capital stock is excluded from capital (equity) for financial reporting purposes, it is considered capital for regulatory purposes.

At September 30, 2024 and December 31, 2023, the Bank’s five largest shareholders collectively held $1.662 billion and $1.929 billion, respectively, of capital stock, which represented 38.4 percent and 40.8 percent, respectively, of the Bank’s total outstanding capital stock (including mandatorily redeemable capital stock) as of those dates. The following table presents the Bank’s five largest shareholders as of September 30, 2024.

**FIVE LARGEST SHAREHOLDERS AS OF SEPTEMBER 30, 2024**

*(par value, dollars in thousands)*

| Name | Par Value of Capital Stock | Percent of Total Par Value of Capital Stock |
|---|---|---|
| Charles Schwab Bank, SSB | $ 884,207 | 20.4 % |
| USAA Federal Savings Bank | 276,679 | 6.4 |
| American General Life Insurance Company | 205,207 | 4.7 |
| Comerica Bank | 171,000 | 4.0 |
| Beal Bank USA | 125,400 | 2.9 |
| | $ 1,662,493 | 38.4 % |

As of September 30, 2024, 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 $73,328,000 and $4,195,000, respectively, of the Bank's capital stock as of September 30, 2024, representing 1.7 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 $961,730,000 of the Bank's capital stock as of September 30, 2024, representing 22.2 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 $31,521,000 of the Bank's capital stock as of September 30, 2024 and the Variable Annuity Life Insurance Company, an affiliate of American General Life Insurance Company, held $57,928,000 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 $308,200,000 and $263,135,000, respectively, of the Bank's capital stock as of September 30, 2024, representing 7.1 percent and 6.1 percent, respectively, of the Bank's total outstanding capital stock (including mandatorily redeemable capital stock) as of that date.

The following table presents outstanding capital stock, by type of institution, as of September 30, 2024 and December 31, 2023.

**CAPITAL STOCK OUTSTANDING BY INSTITUTION TYPE**
*(par value, dollars in millions)*

| | September 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| | Par Value of Capital Stock | Percent of Total Par Value of Capital Stock | Par Value of Capital Stock | Percent of Total Par Value of Capital Stock |
| Commercial banks | $ 1,580 | 36 % | $ 1,954 | 41 % |
| Savings institutions | 1,492 | 35 | 1,600 | 34 |
| Credit unions | 750 | 17 | 699 | 15 |
| Insurance companies | 508 | 12 | 483 | 10 |
| CDFIs | 1 | — | 1 | — |
| Total capital stock classified as capital | 4,331 | 100 | 4,737 | 100 |
| Mandatorily redeemable capital stock | — | — | 1 | — |
| Total regulatory capital stock | $ 4,331 | 100 % | $ 4,738 | 100 % |

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. During the nine months ended September 30, 2024, the activity-based investment requirement was 4.1 percent of outstanding advances, except as described below, and 0.1 percent of outstanding letters of credit that were issued or renewed on and after April 19, 2021 (the "LC Percentage"). 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. 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.

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. At September 30, 2024, the remaining balance of advances funded under this special reduced stock advances offering totaled approximately $411 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 were funded during the period from April 1, 2020 through December 31, 2020 and that had a maturity of one year or greater. Pursuant to several Board-authorized extensions and modifications to this program, the Bank's activity-based capital stock investment requirement was reduced from 4.1 percent to 2.0 percent for: (1) advances that were funded during the period from August 1, 2020 through April 18, 2021 and that had a maturity of 28 days or greater and (2) advances that were funded during the period from April 19, 2021 through December 31, 2022 and that had a maturity of 32 days or greater. 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. At September 30, 2024, advances outstanding under this program totaled approximately $3.3 billion.

Quarterly, the Bank typically repurchases a portion of members’ excess capital stock. Excess capital 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 the nine months ended September 30, 2024, 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 those repurchases, which occurred on March 26, 2024, June 25, 2024 and September 25, 2024, 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 was on restricted collateral status (subject to certain exceptions), or (3) for the repurchases that occurred on March 26, 2024 and June 25, 2024, the shareholder elected to opt-out of the repurchase. Shareholders were not permitted to opt out of the repurchase that occurred on September 25, 2024. On

March 26, 2024, June 25, 2024 and September 25, 2024, the Bank repurchased surplus stock totaling $166.7 million, $130.3 million and $262.0 million, respectively, none of which was classified as mandatorily redeemable capital stock at those dates.

On March 26, 2024, June 25, 2024 and September 25, 2024, the Bank also repurchased all excess stock held by non-member shareholders as of those dates. This excess stock, all of which was classified as mandatorily redeemable capital stock at those dates, totaled $4,000, $266,000 and $112,000, respectively.

At September 30, 2024, the Bank's excess stock totaled $0.9 billion, which represented 0.75 percent of the Bank's total assets as of that date.

During the nine months ended September 30, 2024, the Bank's retained earnings increased by $330 million, from $2.413 billion at December 31, 2023 to $2.743 billion at September 30, 2024. During this same period, the Bank paid dividends on capital stock totaling $222.3 million, which represented a weighted average annualized dividend rate of 6.13 percent. These dividends were paid in the form of capital stock with any fractional shares paid in cash. The Bank's first quarter dividends on Class B-1 Stock and Class B-2 Stock were paid 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 dividends, which were applied to average Class B-1 Stock and average Class B-2 Stock held during the period from October 1, 2023 through December 31, 2023, were paid on March 27, 2024. The Bank's second quarter dividends on Class B-1 Stock and Class B-2 Stock were paid at annualized rates of 5.41 percent (a rate equal to average overnight SOFR for the first quarter of 2024 plus 0.1 percent) and 6.41 percent (a rate equal to average overnight SOFR for the first quarter of 2024 plus 1.1 percent), respectively. The second quarter dividends, which were applied to average Class B-1 Stock and average Class B-2 Stock held during the period from January 1, 2024 through March 31, 2024, were paid on June 26, 2024. The Bank's third quarter dividends on Class B-1 Stock and Class B-2 Stock were paid at annualized rates of 5.42 percent (a rate equal to average overnight SOFR for the second quarter of 2024 plus 0.1 percent) and 6.42 percent (a rate equal to average overnight SOFR for the second quarter of 2024 plus 1.1 percent), respectively. The third quarter dividends, which were applied to average Class B-1 Stock and average Class B-2 Stock held during the period from April 1, 2024 through June 30, 2024, were paid on September 26, 2024.

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.

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.

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 in the 2023 10-K. 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. At September 30, 2024, the Bank's total risk-based capital requirement was $1.250 billion, comprised of credit risk, market risk and operations risk capital requirements of $446 million, $515 million and $289 million, respectively, and its permanent capital was $7.074 billion.

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 allowance for losses at September 30, 2024 or December 31, 2023. 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. At all times during the nine months ended September 30, 2024, the Bank was in compliance with all of its regulatory capital requirements. At September 30, 2024, the Bank's total capital-to-assets and leverage capital-to-assets ratios were 5.66 percent and 8.50 percent, respectively. The Bank's capital stock-to-assets ratio was 3.59 percent for the month ended September 30, 2024. For a summary of the Bank's compliance with the Finance Agency's capital requirements as of September 30, 2024 and December 31, 2023, see "Item 1. Financial Statements" (specifically, Note 14 on page 30 of this report).

***Derivatives and Hedging Activities***

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 and/or to adjust the effective maturity, repricing index and/or frequency or option characteristics of financial instruments. 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. For additional discussion, see "Item 1. Financial Statements" (specifically, Note 13 beginning on page 22 of this report).

The following table provides the notional balances of the Bank's derivative instruments, by balance sheet category and accounting designation, as of September 30, 2024 and December 31, 2023.

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

| | Fair Value Hedges | | | | |
|---|---|---|---|---|---|
| | Shortcut Method | Long-Haul Method | Cash Flow Hedges | Economic Hedges | Total |
| **September 30, 2024** | | | | | |
| Advances | $ 41,441 | $ 2,730 | $ — | $ 5,000 | $ 49,171 |
| Investments | — | 18,999 | — | 3,510 | 22,509 |
| Mortgage loans held for portfolio | — | — | — | 1,647 | 1,647 |
| Consolidated obligation bonds | — | 47,435 | — | 136 | 47,571 |
| Consolidated obligation discount notes | — | — | 1,066 | 10,298 | 11,364 |
| Intermediary positions | — | — | — | 19 | 19 |
| Counterparty exposures | — | — | — | 15,300 | 15,300 |
| Other | — | — | — | 400 | 400 |
| Total notional balance | $ 41,441 | $ 69,164 | $ 1,066 | $ 36,310 | $ 147,981 |
| **December 31, 2023** | | | | | |
| 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 | $ 50,880 | $ 89,880 | $ 1,066 | $ 22,299 | $ 164,125 |

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 September 30, 2024, the Bank had cleared trades outstanding with notional amounts totaling $80.7 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 also transacted 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 thresholds 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 September 30, 2024, the notional balance of outstanding interest rate exchange agreements transacted with non-member bilateral counterparties totaled $67.3 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 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 unmargined exposure (excluding legacy derivatives) exceeds $50 million on a counterparty-by-counterparty basis.

As of September 30, 2024 and December 31, 2023, cash collateral totaling $931 million and $1.0 billion, respectively, had been delivered by the Bank to its non-member bilateral derivative counterparties under the terms of the collateral exchange agreements. At September 30, 2024, the Bank had pledged securities with a carrying value (and fair value) of $143 million to four bilateral derivative counterparties to meet is initial margin requirements. Further, as of September 30, 2024, the Bank had pledged $582 million (carrying value and fair value) of securities to satisfy initial margin requirements associated with its cleared derivatives. In addition, as of September 30, 2024 and December 31, 2023, the Bank had received $360 million and $832 million, respectively, in cash variation margin to settle its cleared derivatives with its clearinghouse counterparties.

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.

The following table provides information regarding the Bank's derivative counterparty credit exposure as of September 30, 2024.

**DERIVATIVES COUNTERPARTY CREDIT EXPOSURE**
*(dollars in millions)*

| Credit Rating[1] | Number of Bilateral Counterparties | Notional Principal[2] | Net Derivatives Fair Value Before Collateral | Cash Collateral Pledged To (From) Counterparty | Net Other Collateral Pledged To (From) Counterparty | Net Credit Exposure |
|---|---|---|---|---|---|---|
| **Non-member counterparties** | | | | | | |
| Asset positions with credit exposure | | | | | | |
| Single-A | 2 | $ 321.7 | $ 4.4 | $ (4.0) | $ — | $ 0.4 |
| Cleared derivatives [4] | — | 80,672.6 | 57.7 | — | 582.3 | 640.0 |
| Liability positions with credit exposure | | | | | | |
| Single-A[3] | 6 | 51,590.9 | (617.2) | 649.0 | 15.9 | 47.7 |
| **Total derivative positions with non-member counterparties to which the Bank had credit exposure** | 8 | 132,585.2 | (555.1) | 645.0 | 598.2 | 688.1 |
| Asset positions without credit exposure | 2 | 5,654.9 | 28.1 | (32.9) | — | — |
| Liability positions without credit exposure | 7 | 9,709.9 | (292.7) | 286.1 | — | — |
| **Total derivative positions with non-member counterparties to which the Bank did not have credit exposure** | 9 | 15,364.8 | (264.6) | 253.2 | — | — |
| **Total non-member counterparties** | 17 | 147,950.0 | (819.7) | $ 898.2 | $ 598.2 | $ 688.1 |
| **Member institutions** | | | | | | |
| Interest rate exchange agreements [5] | | | | | | |
| Asset positions | 1 | 9.3 | 0.1 | | | |
| Mortgage delivery commitments | — | 21.9 | — | | | |
| **Total member institutions** | 1 | 31.2 | 0.1 | | | |
| **Total** | 18 | $ 147,981.2 | $ (819.6) | | | |

(1) Credit ratings shown in the table reflect the lowest rating from Moody's or S&P and are as of September 30, 2024.
(2) Includes amounts that had not settled as of September 30, 2024.
(3) 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 $6.2 billion and a net credit exposure of $6.9 million.
(4) The Bank's cleared derivatives were transacted with clearinghouses that are rated double-A.
(5) 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.

## Results of Operations

### *Net Income*

Net income for the three months ended September 30, 2024 and 2023 was $184.4 million and $247.7 million, respectively. The Bank's net income for the three months ended September 30, 2024 represented an annualized return on average capital stock ("ROCS") of 16.44 percent. In comparison, the Bank's ROCS was 17.10 percent for the three months ended September 30, 2023. Net income for the nine months ended September 30, 2024 and 2023 was $552.3 million and $662.0 million, respectively. The Bank's net income for the nine months ended September 30, 2024 represented an annualized ROCS of 16.10 percent. In comparison, the Bank's ROCS was 15.19 percent for the nine months ended September 30, 2023. 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 are discussed below.

***Income Before Assessments***

During the three months ended September 30, 2024 and 2023, the Bank’s income before assessments was $204.9 million and $275.3 million, respectively. As discussed in more detail below, the $70.4 million decrease in income before assessments from period to period was attributable to a $58.3 million decrease in net interest income after provision (reversal) for credit losses, a $10.6 million increase in other expense and a $1.5 million decrease in other income.

During the nine months ended September 30, 2024 and 2023, the Bank’s income before assessments was $613.6 million and $735.6 million, respectively. As discussed in more detail below, the $122.0 million decrease in income before assessments from period to period was attributable to a $87.4 million decrease in net interest income after provision (reversal) for credit losses, a $27.7 million decrease in other income and a $6.9 million increase in other expense.

The components of income before assessments (net interest income, other income/loss and other expense) are discussed in more detail in the following sections.

***Net Interest Income After Provision (Reversal) for Credit Losses***

For the three months ended September 30, 2024, the Bank’s net interest income after provision (reversal) for credit losses was $226.6 million compared to $284.9 million for the comparable period in 2023. The $58.3 million decrease in net interest income for the three months ended September 30, 2024, as compared to the corresponding period in 2023, was due largely to the significant decrease in the average balances of the Bank's interest-earning assets from $158.1 billion during the three months ended September 30, 2023 to $125.3 billion during the comparable period in 2024, a $6.0 million decrease in net prepayment fees on advances, a $4.8 million decrease in net gains recorded in connection with GSE CMBS prepayments (as previously discussed in the Long-Term Investments section beginning on page 51 of this report) and a $1.0 million unfavorable change in fair value hedge ineffectiveness gains and losses from period to period, partially offset by a $12.7 million decrease in net price alignment expense on cleared derivatives and slightly higher rates of return on the Bank's invested capital.

For the nine months ended September 30, 2024, the Bank’s net interest income after provision (reversal) for credit losses was $679.1 million compared to $766.5 million for the comparable period in 2023. The $87.4 million decrease in net interest income for the nine months ended September 30, 2024, as compared to the corresponding period in 2023, was due largely to the significant decrease in the average balances of the Bank's interest-earning assets from $160.6 billion during the nine months ended September 30, 2023 to $125.9 billion during the comparable period in 2024, a $13.9 million decrease in net gains recorded in connection with GSE CMBS prepayments (as previously discussed in the Long-Term Investments section beginning on page 51 of this report) and a $5.0 million decrease in net prepayment fees on advances, partially offset by a $1.5 million favorable change in fair value hedge ineffectiveness gains and losses from period to period, a $0.6 million decrease in net price alignment expense on cleared derivatives and higher rates of return on the Bank's invested capital.

The Bank’s net interest margin was 73 basis points and 72 basis points for the three and nine months ended September 30, 2024, respectively, and 72 basis points and 64 basis points for the three and nine months ended September 30, 2023, respectively. 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 was 36 basis points and 37 basis points for the three months ended September 30, 2024 and 2023, respectively, and 34 basis points and 32 basis points for the nine months ended September 30, 2024 and 2023, respectively. 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. 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 gains recorded on GSE CMBS prepayments.

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. For the three months ended September 30, 2024 and 2023, the fair value hedge ineffectiveness amounts reported in net interest income (excluding the price alignment amount on cleared derivatives) reduced interest income on advances by $1,019,000 and $906,000, respectively, increased (reduced) interest income on available-for-sale securities by ($695,000) and $819,000, respectively, and reduced interest expense on consolidated obligations by $4,825,000 and $4,204,000, respectively. In aggregate, these amounts increased net interest income by $3,111,000 and $4,117,000 for the three months ended September 30, 2024 and 2023, respectively. For the nine months ended September 30, 2024 and 2023, the fair value hedge ineffectiveness amounts reported in net interest income (excluding the price alignment amount on cleared derivatives) reduced interest income on advances by $455,000 and $3,917,000, respectively, reduced interest income on available-for-sale securities by $1,777,000 and $6,677,000, respectively, and increased (reduced) interest expense on consolidated obligations by $981,000 and ($5,882,000), respectively.

In aggregate, these amounts reduced net interest income by $3,213,000 and $4,712,000 for the nine months ended September 30, 2024 and 2023, 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 are 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 overnight index swap 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 intends 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 after January 1, 2022 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 three and nine months ended September 30, 2024, the fair value hedge ineffectiveness gains (losses) associated with the Bank's available-for-sale benchmark component hedging relationships totaled $1,732,000 and $1,109,000 respectively, compared to ($534,000) and ($924,000) for the three and nine months ended September 30, 2023, respectively. The notional amount of interest rate swaps in benchmark component hedging relationships totaled $9.2 billion and $6.1 billion at September 30, 2024 and 2023, respectively.

The contribution of earnings from the Bank's invested capital to the net interest margin (the impact of non-interest bearing funds) increased from 35 basis points and 32 basis points during the three and nine months ended September 30, 2023, respectively, to 37 basis points and 38 basis points during the three and nine months ended September 30, 2024, respectively. The increase in the impact of non-interest bearing funds for the three and nine months ended September 30, 2024, as compared to the corresponding periods in 2023, was primarily due to the increase in short-term interest rates between the periods.

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 the three months ended September 30, 2024 and 2023.

**YIELD AND SPREAD ANALYSIS**
*(dollars in millions)*

| | For the Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2024 | | | 2023 | | |
| | Average Balance | Interest Income/ Expense | Average Rate[1] | Average Balance | Interest Income/ Expense | Average Rate[1] |
| **Assets** | | | | | | |
| Interest-bearing deposits [2] | $ 3,954 | $ 53 | 5.39 % | $ 5,989 | $ 81 | 5.36 % |
| Securities purchased under agreements to resell | 4,407 | 59 | 5.36 % | 9,053 | 122 | 5.35 % |
| Federal funds sold | 12,640 | 170 | 5.36 % | 14,006 | 187 | 5.31 % |
| Investments | | | | | | |
| Trading | 2,646 | 31 | 4.64 % | 320 | 3 | 3.19 % |
| Available-for-sale [3] | 19,096 | 301 | 6.29 % | 16,539 | 268 | 6.49 % |
| Held-to-maturity [3] | 235 | 4 | 5.90 % | 266 | 4 | 5.74 % |
| Advances [4] | 76,852 | 1,091 | 5.68 % | 107,062 | 1,519 | 5.68 % |
| Mortgage loans held for portfolio [5] | 5,500 | 58 | 4.26 % | 4,899 | 47 | 3.81 % |
| Total earning assets | 125,330 | 1,767 | 5.64 % | 158,134 | 2,231 | 5.64 % |
| Cash and due from banks | 84 | | | 43 | | |
| Other assets | 486 | | | 616 | | |
| Derivatives netting adjustment [2] | (844) | | | (1,343) | | |
| Fair value adjustment on available-for-sale securities [3] | 126 | | | 104 | | |
| Total assets | $ 125,182 | 1,767 | 5.65 % | $ 157,554 | 2,231 | 5.66 % |
| **Liabilities and Capital** | | | | | | |
| Interest-bearing deposits [2] | $ 1,634 | 22 | 5.28 % | $ 1,365 | 18 | 5.24 % |
| Consolidated obligations | | | | | | |
| Bonds | 94,291 | 1,257 | 5.33 % | 117,781 | 1,573 | 5.34 % |
| Discount notes | 20,738 | 261 | 5.03 % | 28,639 | 355 | 4.95 % |
| Mandatorily redeemable capital stock and other borrowings | 1 | — | 2.30 % | 6 | — | 5.15 % |
| Total interest-bearing liabilities | 116,664 | 1,540 | 5.28 % | 147,791 | 1,946 | 5.27 % |
| Other liabilities | 2,000 | | | 2,904 | | |
| Derivatives netting adjustment [2] | (844) | | | (1,343) | | |
| Total liabilities | 117,820 | 1,540 | 5.23 % | 149,352 | 1,946 | 5.21 % |
| Total capital | 7,362 | | | 8,202 | | |
| Total liabilities and capital | $ 125,182 | | 4.92 % | $ 157,554 | | 4.94 % |
| Net interest income | | $ 227 | | | $ 285 | |
| | | | | | | |
| Net interest margin | | | 0.73 % | | | 0.72 % |
| Net interest spread | | | 0.36 % | | | 0.37 % |
| Impact of non-interest bearing funds | | | 0.37 % | | | 0.35 % |

(1) Percentages are annualized figures. 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.

(2) 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 three months ended September 30, 2024 and 2023 in the table above include $0.810 billion and $1.290 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 three months ended September 30, 2024 and 2023 in the table above include $32 million and $50 million, respectively, which are classified as derivative assets/liabilities on the statements of condition.

(3) Average balances for available-for-sale and held-to-maturity securities are calculated based upon amortized cost.

(4) Interest income and average rates include net prepayment fees on advances.

(5) The average balances for mortgage loans held for portfolio in the table above include $25 million and $20 million of non-accruing loans for the three months ended September 30, 2024 and 2023, 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 the nine months ended September 30, 2024 and 2023.

**YIELD AND SPREAD ANALYSIS**
*(dollars in millions)*

| | For the Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2024 | | | 2023 | | |
| | Average Balance | Interest Income/ Expense | Average Rate (1) | Average Balance | Interest Income/ Expense | Average Rate (1) |
| **Assets** | | | | | | |
| Interest-bearing deposits (2) | $ 4,039 | $ 164 | 5.44 % | $ 5,905 | $ 224 | 5.06 % |
| Securities purchased under agreements to resell | 4,595 | 185 | 5.39 % | 7,516 | 289 | 5.14 % |
| Federal funds sold | 11,753 | 475 | 5.40 % | 14,888 | 557 | 5.01 % |
| Investments | | | | | | |
| Trading | 2,386 | 84 | 4.68 % | 339 | 8 | 3.11 % |
| Available-for-sale (3) | 18,403 | 872 | 6.32 % | 16,177 | 715 | 5.90 % |
| Held-to-maturity (3) | 243 | 11 | 5.91 % | 289 | 12 | 5.36 % |
| Advances (4) | 79,106 | 3,385 | 5.70 % | 110,838 | 4,391 | 5.28 % |
| Mortgage loans held for portfolio (5) | 5,334 | 166 | 4.15 % | 4,678 | 128 | 3.65 % |
| Total earning assets | 125,859 | 5,342 | 5.66 % | 160,630 | 6,324 | 5.25 % |
| Cash and due from banks | 51 | | | 44 | | |
| Other assets | 514 | | | 638 | | |
| Derivatives netting adjustment (2) | (917) | | | (1,603) | | |
| Fair value adjustment on available-for-sale securities (3) | 134 | | | 81 | | |
| Adjustment for net non-credit portion of other-than-temporary impairments on held-to-maturity securities (3) | — | | | (2) | | |
| Total assets | $ 125,641 | 5,342 | 5.67 % | $ 159,788 | 6,324 | 5.28 % |
| **Liabilities and Capital** | | | | | | |
| Interest-bearing deposits (2) | $ 1,531 | 61 | 5.33 % | $ 1,416 | 52 | 4.89 % |
| Consolidated obligations | | | | | | |
| Bonds | 100,316 | 4,037 | 5.37 % | 103,243 | 3,891 | 5.03 % |
| Discount notes | 15,062 | 565 | 5.00 % | 45,581 | 1,611 | 4.71 % |
| Mandatorily redeemable capital stock and other borrowings | 1 | — | 8.43 % | 21 | 1 | 5.67 % |
| Total interest-bearing liabilities | 116,910 | 4,663 | 5.32 % | 150,261 | 5,555 | 4.93 % |
| Other liabilities | 2,253 | | | 3,053 | | |
| Derivatives netting adjustment (2) | (917) | | | (1,603) | | |
| Total liabilities | 118,246 | 4,663 | 5.26 % | 151,711 | 5,555 | 4.88 % |
| Total capital | 7,395 | | | 8,077 | | |
| Total liabilities and capital | $ 125,641 | | 4.95 % | $ 159,788 | | 4.64 % |
| Net interest income | | $ 679 | | | $ 769 | |
| | | | | | | |
| Net interest margin | | | 0.72 % | | | 0.64 % |
| Net interest spread | | | 0.34 % | | | 0.32 % |
| Impact of non-interest bearing funds | | | 0.38 % | | | 0.32 % |

(1) Percentages are annualized figures. 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.

(2) 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 nine months ended September 30, 2024 and 2023 in the table above include $0.866 billion and $1.582 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 nine months ended September 30, 2024 and 2023 in the table above include $49 million and $18 million, respectively, which are classified as derivative assets/liabilities on the statements of condition.

(3) Average balances for available-for-sale and held-to-maturity securities are calculated based upon amortized cost.

(4) Interest income and average rates include net prepayment fees on advances.

(5) The average balances for mortgage loans held for portfolio in the table above include $24 million and $20 million of non-accruing loans for the nine months ended September 30, 2024 and 2023, respectively.

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 the three- and nine-month periods ended September 30, 2024 and 2023. 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)*

| | For the Three Months Ended September 30, 2024 vs. 2023 | | | For the Nine Months Ended September 30, 2024 vs. 2023 | | |
|---|---|---|---|---|---|---|
| | Volume | Rate | Total | Volume | Rate | Total |
| **Interest income** | | | | | | |
| Interest-bearing deposits | $ (28) | $ — | $ (28) | $ (76) | $ 16 | $ (60) |
| Securities purchased under agreements to resell | (63) | — | (63) | (118) | 14 | (104) |
| Federal funds sold | (18) | 1 | (17) | (124) | 42 | (82) |
| Investments | | | | | | |
| Trading | 27 | 1 | 28 | 70 | 6 | 76 |
| Available-for-sale | 41 | (8) | 33 | 104 | 53 | 157 |
| Held-to-maturity | — | — | — | (2) | 1 | (1) |
| Advances | (428) | — | (428) | (1,336) | 330 | (1,006) |
| Mortgage loans held for portfolio | 6 | 5 | 11 | 19 | 19 | 38 |
| Total interest income | (463) | (1) | (464) | (1,463) | 481 | (982) |
| **Interest expense** | | | | | | |
| Interest-bearing deposits | 4 | — | 4 | 4 | 5 | 9 |
| Consolidated obligations | | | | | | |
| Bonds | (313) | (3) | (316) | (113) | 259 | 146 |
| Discount notes | (99) | 5 | (94) | (1,138) | 92 | (1,046) |
| Mandatorily redeemable capital stock and other borrowings | — | — | — | (1) | — | (1) |
| Total interest expense | (408) | 2 | (406) | (1,248) | 356 | (892) |
| **Changes in net interest income** | $ (55) | $ (3) | $ (58) | $ (215) | $ 125 | $ (90) |

***Other Income (Loss)***

The following table presents the various components of other income (loss) for the three and nine months ended September 30, 2024 and 2023.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Net interest income (expense) associated with: | | | | |
| Member/offsetting derivatives | $ 1 | $ 1 | $ 5 | $ 8 |
| Economic hedge derivatives related to advances | 2,197 | 2,592 | 8,640 | 5,621 |
| Economic hedge derivatives related to trading securities | 3,130 | (30) | 5,009 | (94) |
| Economic hedge derivatives related to available-for-sale securities | 263 | 10 | 270 | 28 |
| Economic hedge derivatives related to consolidated obligation bonds | (517) | 138 | (1,295) | 258 |
| Economic hedge derivatives related to consolidated obligation discount notes | (2,326) | (3,010) | (4,339) | (10,555) |
| Economic hedge derivatives related to mortgage loans held for portfolio | 4,363 | 4,726 | 12,771 | 12,934 |
| Other stand-alone economic hedge derivatives | (3,789) | (3,720) | (11,318) | (10,029) |
| **Total net interest income (expense) associated with economic hedge derivatives** | 3,322 | 707 | 9,743 | (1,829) |
| Gains (losses) related to economic hedge derivatives | | | | |
| Interest rate swaps | | | | |
| Advances | (11,647) | (1,764) | (13,096) | 4,936 |
| Available-for-sale securities | (90) | 14 | (71) | 18 |
| Trading securities | (9,587) | 19 | (5,363) | — |
| Mortgage loans held for portfolio | (12,690) | 12,876 | (9,420) | 13,121 |
| Consolidated obligation bonds | 2,616 | (405) | 1,847 | (1,926) |
| Consolidated obligation discount notes | 10,183 | 2,840 | 8,133 | 6,695 |
| Other stand-alone economic hedge derivatives | 10,075 | (1,606) | 8,595 | 286 |
| Interest rate swaptions | | | | |
| Available-for-sale securities | 438 | (1,047) | (1,176) | (2,146) |
| Mortgage loans held for portfolio | (355) | (2,754) | (2,621) | (3,631) |
| Mortgage delivery commitments | 214 | 953 | 792 | 3,003 |
| Member/offsetting swaps and caps | (1) | (1) | (3) | (7) |
| **Total fair value gains (losses) related to economic hedge derivatives** | (10,844) | 9,125 | (12,383) | 20,349 |
| **Price alignment amount on daily settled derivative contracts** | 3,007 | 5,050 | 12,536 | 10,160 |
| **Total net gains (losses) on derivatives and hedging activities** | (4,515) | 14,882 | 9,896 | 28,680 |
| Net gains (losses) on trading securities | 16,487 | (147) | 11,487 | 441 |
| Net gains (losses) on other assets carried at fair value | 934 | (381) | 2,293 | 773 |
| Gains on early extinguishment of debt | — | — | — | 23,396 |
| Realized gains on sales of held-to-maturity securities | — | — | — | 1,081 |
| Service fees | (181) | 842 | 1,181 | 2,407 |
| Letter of credit fees | 5,409 | 4,516 | 17,220 | 12,989 |
| Standby bond purchase agreement fees | 388 | 418 | 1,169 | 1,264 |
| Other, net | 136 | 51 | 493 | 455 |
| **Total other** | 23,173 | 5,299 | 33,843 | 42,806 |
| **Total other income** | $ 18,658 | $ 20,181 | $ 43,739 | $ 71,486 |

*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 $(9.1) million and $(2.2) million for the three months ended September 30, 2024 and 2023, respectively, and totaled $(11.3) million and $3.0 million for the nine months ended September 30, 2024 and 2023, 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 both September 30, 2024 and December 31, 2023, the notional balance of these derivatives totaled $400 million. For the three months ended September 30, 2024 and 2023, the gains (losses) associated with these stand-alone economic hedge derivatives were $10.1 million and $(1.6) million, respectively. The gains associated with these stand-alone economic hedge derivatives were $8.6 million and $0.3 million for the nine months ended September 30, 2024 and 2023, respectively.

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 gains (losses) on these interest rate swaps and swaptions were $(13.0) million and $10.1 million for the three months ended September 30, 2024 and 2023, respectively, and $(12.0) million and $9.5 million for the nine months ended September 30, 2024 and 2023, 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/losses from the commitment date to the settlement date) were $0.2 million and $0.9 million for the three months ended September 30, 2024 and 2023, respectively, and $0.8 million and $3.0 million for the nine months ended September 30, 2024 and 2023, 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 three months ended September 30, 2024 and 2023, the gains (losses) associated with these stand-alone economic hedge derivatives were $0.4 million and $(1.0) million, respectively. For the nine months ended September 30, 2024 and 2023, the losses associated with these stand-alone economic hedge derivatives were $1.2 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 three months ended September 30, 2024 and 2023, the gains associated with these stand-alone economic hedge derivatives were $10.2 million and $2.8 million, respectively, and for the nine months ended September 30, 2024 and 2023, the gains associated with these stand-alone economic hedge derivatives were $8.1 million and $6.7 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 three and nine months ended September 30, 2024 and 2023.

*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 derivative 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*

During the nine months ended September 30, 2024 and 2023, the Bank held U.S. Treasury Notes and U.S Treasury Bills, all of which were classified as trading securities. Due to fluctuations in interest rates, the aggregate gains (losses) on these investments were $16.5 million and $(0.2) million for the three months ended September 30, 2024 and 2023, respectively, and $11.5 million and $0.4 million for the nine months ended September 30, 2024 and 2023, respectively. The Bank occasionally hedges the risk of changes in the fair value of some of the U.S. Treasury Notes and U.S Treasury Bills held in its short-term liquidity portfolio. The gains (losses) associated with these stand-alone derivatives were $(9.6) million and $0.02 million for the three months ended September 30, 2024 and 2023, respectively, and $(5.4) million for the nine months ended September 30, 2024. There were no net gains or losses associated with these stand-alone derivatives for the nine months ended September 30, 2023.

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 $0.9 million and $(0.4) million for the three months ended September 30, 2024 and 2023, respectively, and $2.3 million and $0.8 million for the nine months ended September 30, 2024 and 2023, 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 three months ended March 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 nine months ended September 30, 2024 or the six months ended September 30, 2023.

During the three months ended June 30, 2023, the Bank sold all of its non-agency RMBS that had been classified as held-to-maturity securities. Proceeds from the sale totaled $29,025,000, resulting in a net realized gain of $1,081,000. For each of these securities, 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. The Bank did not sell any available-for-sale securities or any other held-to-maturity securities during the nine months ended September 30, 2024 or 2023.

Letter of credit fees totaled $5.4 million and $17.2 million for the three and nine months ended September 30, 2024, respectively, compared to $4.5 million and $13.0 million for the corresponding periods in 2023. At September 30, 2024 and 2023, outstanding letters of credit totaled $31.5 billion and $29.1 billion, respectively.

Standby bond purchase agreement fees totaled $0.4 million for both the three months ended September 30, 2024 and 2023 and $1.2 million for both the nine months ended September 30, 2024 and 2023. At September 30, 2024 and 2023, outstanding standby bond purchase agreements totaled $797 million and $814 million, respectively.

***Other Expense***

Total other expense includes the Bank's compensation and benefits; other operating expenses; voluntary grants, donations and Affordable Housing Program contributions; derivative clearing fees and its proportionate share of the costs of operating the Finance Agency and the Office of Finance. For the three and nine months ended September 30, 2024, these expenses totaled $40.3 million and $109.3 million, respectively, compared to $29.8 million and $102.4 million for the corresponding periods in 2023.

Compensation and benefits were $14.6 million and $43.5 million for the three and nine months ended September 30, 2024, respectively, compared to $12.8 million and $50.0 million for the corresponding periods in 2023. The increase in compensation and benefits for the three months ended September 30, 2024, as compared to the corresponding period in 2023, totaled $1.8 million and was due largely to an increase in expenses related to the Bank's nonqualified deferred compensation plans, as well as cost-of-living and merit increases and higher average headcount. The decrease in compensation and benefits for the nine months ended September 30, 2024, as compared to the corresponding period in 2023, totaled $6.5 million and was due largely to a decrease in expenses related to the Bank's defined benefit pension plan, partially offset by an increase in expenses related to its supplemental executive retirement plan ("SERP") and nonqualified deferred compensation plans, as well as cost-of-living and merit increases and higher average headcount. In March 2023, the Bank made a $10.0 million voluntary contribution to the multiemployer defined benefit pension plan in which it participates. The Bank did not make any voluntary contributions to this plan during the nine months ended September 30, 2024. During the three months ended June 30, 2024, the Bank made initial contributions to its recently reactivated SERP. Expenses related to employees' participation in the Bank's nonqualified deferred compensation plans were $1.1 million and $1.3 million higher during the three and nine months ended September 30, 2024, respectively, as compared to the corresponding periods in 2023 due to favorable changes in the fair values of the assets associated with those plans. The Bank's average headcount was 212 and 203 employees for the nine months ended September 30, 2024 and 2023, respectively. At September 30, 2024, the Bank employed 215 people, an increase of 11 employees from December 31, 2023.

Other operating expenses for the three and nine months ended September 30, 2024 were $12.4 million and $38.6 million, respectively, compared to $11.6 million and $35.0 million, respectively, for the corresponding periods in 2023, representing increases of $0.8 million and $3.6 million, respectively. The increases in other operating expenses for the three and nine months ended September 30, 2024, as compared to the corresponding periods in 2023, resulted primarily from increased usage of independent contractors to support information technology initiatives at the Bank, as well as increases in professional services and mortgage program expenses. In addition, expenses related to directors' participation in the Bank's nonqualified deferred compensation plans were $0.2 million higher during both the three and nine months ended September 30, 2024, respectively, as compared to the corresponding periods in 2023 due to favorable changes in the fair values of the assets associated with those plans.

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 these expenses totaled approximately $5.1 million and $15.2 million for the three and nine months ended September 30, 2024, respectively, as compared to $3.6 million and $11.8 million, respectively, for the corresponding periods in 2023.

Voluntary grants, donations and Affordable Housing Program contributions totaled $8.0 million and $10.8 million for the three and nine months ended September 30, 2024, respectively, as compared to $1.4 million and $3.9 million for the three and nine months ended September 30, 2023, respectively. As more fully discussed below in the section entitled "Voluntary Community Investment Programs," the Bank expanded its voluntary community investment program offerings in 2024 (as compared to 2023) and concurrently made more monies available in support of the programs. In addition, as explained below, the Bank did not make any voluntary AHP contributions prior to January 1, 2024. Voluntary grants, donations and Affordable Housing Program contributions during the three and nine months ended September 30, 2023 consisted largely of disaster relief that was provided in response to severe storms and tornados in Mississippi and Arkansas, as well as approximately $0.4 million and $0.5 million, respectively, for its voluntary community investment programs.

Derivative clearing fees were $0.3 million and $1.1 million for the three and nine months ended September 30, 2024, respectively, compared to $0.5 million and $1.7 million for the corresponding periods in 2023. The decline in derivative clearing fees was due in part to the additional fees associated with the derivative modifications that were entered into during the six months ended June 30, 2023 in preparation for the phase-out of LIBOR after June 30, 2023.

***AHP Assessments***

While the Bank is exempt from all federal, state and local income taxes, it is obligated to set aside amounts for its AHP.

As required by statute, each year the Bank contributes 10 percent of its earnings (as adjusted for interest expense on mandatorily redeemable capital stock) to 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. The Bank’s AHP assessments totaled $20.5 million and $27.5 million for the three months ended September 30, 2024 and 2023, respectively, and $61.4 million and $73.6 million for the nine months ended September 30, 2024 and 2023, respectively.

**Voluntary Community Investment Programs**

The Bank offers a number of voluntary loan and grant programs that are designed to meet specific community investment needs in its district, all but two of which are discussed in the 2023 10-K.

In April 2024, the Bank introduced two new voluntary programs, each of which will operate as a pilot program. First, the Community Advancement through New Opportunities & Partnerships Yielding Results Fund (“CANOPY Fund”) was developed to provide long-term, unsecured loans to non-depository CDFI members for use in supporting underserved, rural and low- to moderate-income communities and populations within the Bank’s district. Permissible uses for the loan proceeds include affordable housing and community investment activities. Second, the Native American Housing Opportunities Fund was created to provide housing-related grants to federally recognized Native American tribes and Tribally Designated Housing Entities that provide housing services to tribal members residing in the Bank’s district. Grant recipients must be sponsored by one of the Bank’s member institutions.

In 2024 and subsequent years, the Bank intends to make available for its voluntary loan and grant programs an amount that equals or exceeds five percent of its prior year income before assessments as adjusted for interest expense on mandatorily redeemable capital stock and the income statement effects of voluntary programs and AHP make-whole contributions (“Adjusted Income Before Assessments”). The income statement effects of voluntary programs are comprised of grants, donations, and interest income and the provision (reversal) for credit losses on the Bank's voluntary program loans. Make-whole contributions to the Bank's AHP are disclosed in Note 11 to the Bank's financial statements and are more fully discussed in the paragraph immediately following the table below. By adjusting for these items, the amount to be made available for the Bank's voluntary loan and grant programs in the following year is not affected by interest expense on mandatorily redeemable capital stock, the income statement effects of voluntary programs or AHP make-whole contributions that are recorded in the Bank's current year earnings.

For the year ended December 31, 2023, the Bank's Adjusted Income Before Assessments was $977,622,000, which resulted in a target minimum allocation of $48,881,000 to its voluntary loan and grant programs for 2024. As shown in the table below, the Bank also intends to make available for its voluntary loan and grant programs any receipts of principal and interest on voluntary program loans from the prior year. Using its best efforts, the Bank will endeavor to award or loan these funds in 2024. Due to the recent introduction of some programs and the application periods that applied to other programs, the Bank's voluntary loan and grant fundings were higher in the third quarter as compared to the first half of the year and are currently expected to be even higher in the fourth quarter. Unused funds, if any, at the end of 2024 will be carried forward to 2025 to support the program(s) for which the funds were initially designated or, alternatively, reallocated to other voluntary programs. This process is expected to be repeated in each subsequent year.

The following table sets forth a summary of the amounts that the Bank has made available for its voluntary loan and grant programs in 2024 and the loans/grants funded during the nine months ended September 30, 2024 (in thousands).

| | Amount from 2023 Made Available in 2024 | Receipts of Principal and Interest from 2023 | Reallocations | Total Available in 2024 | Loans/Grants Funded During the Nine Months Ended September 30, 2024 | Amount Remaining |
|---|---|---|---|---|---|---|
| ***Loan Programs*** | | | | | | |
| CANOPY Fund | $ 35,000 | $ — | $ (399) | $ 34,601 | $ — | $ 34,601 |
| Small Business Boost | 3,000 | 1,270 | — | 4,270 | 3,016 | 1,254 |
| Total Loan Programs | 38,000 | 1,270 | (399) | 38,871 | 3,016 | 35,855 |
| | | | | | | |
| ***Grant Programs*** | | | | | | |
| FORTIFIED Fund | 4,000 | — | — | 4,000 | 2,977 * | 1,023 |
| Capacity Building and Growth Grant | 3,000 | — | 399 | 3,399 | 3,399 | — |
| Heirs' Property Program | 2,000 | — | — | 2,000 | — | 2,000 |
| Partnership Grant Program | 1,000 | — | — | 1,000 | 1,000 | — |
| Native American Housing Opportunities Fund | 1,000 | — | — | 1,000 | 1,000 | — |
| Housing Assistance for Veterans | 300 | — | — | 300 | 300 | — |
| Total Grant Programs | 11,300 | — | 399 | 11,699 | 8,676 | 3,023 |
| | | | | | | |
| Total Voluntary Community Investment Programs | $ 49,300 | $ 1,270 | $ — | $ 50,570 | $ 11,692 | $ 38,878 |

* In addition, the Bank funded and expensed $1,051,000 of FORTIFIED Fund grants in 2024 that related to conditional grants made in 2023.

Overall, the income statement effects of the voluntary programs discussed above reduce the Bank's reported income before assessments which, in turn, reduces the Bank's statutory AHP assessment. To fully restore the Bank's total AHP contribution to the dollar amount it would be in the absence of these effects, the Bank contributes a make-whole amount to its AHP. By resolution of the Bank's Board of Directors, this obligation became effective on January 1, 2024. During the three and nine months ended September 30, 2024, the AHP make-whole amounts were $807,000 and $1,106,000, respectively. These amounts, which are recorded in "Voluntary grants, donations and Affordable Housing Program contributions" in the Bank's Statement of Income, were derived by aggregating the income statement effects of the voluntary programs which, in total, reduced the Bank's reported income before assessments for the three and nine months ended September 30, 2024 by $7,265,000 and $9,958,000, respectively, and then multiplying the total by the percentage needed to fully restore the Bank's AHP contribution.

## Critical Accounting Estimates

A discussion of the Bank's critical accounting estimates is provided in the 2023 10-K. During the nine months ended September 30, 2024, there were no substantive changes to the methods used by the Bank to calculate its critical accounting estimates.

## 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 September 30, 2024, the Bank's short-term liquidity holdings were comprised of $10.4 billion of overnight reverse repurchase agreements (of which $8.2 billion was transacted with the Federal Reserve Bank of New York), $11.6 billion of overnight federal funds sold, $2.9 billion of overnight interest-bearing deposits, $2.7 billion of U.S.Treasury Notes and $0.5 billion of U.S. Treasury Bills.

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 U.S. Treasury securities, 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 may be in the form of discount notes or bonds. 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 three months ended March 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 the three months ended June 30, 2023. The Bank did not assume any other consolidated obligations from other FHLBanks during the nine months ended September 30, 2024 or 2023.

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. The Liquidity AB does not preclude a FHLBank from temporarily reducing its liquidity position, in a safe and sound manner, below the prescribed levels, as necessary to provide unanticipated advances to members or to fund draws on standby letters of credit.

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. In addition, pursuant to Finance Agency guidance, 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. Prior to January 1, 2024, securities meeting this criteria were included as a cash inflow one business day 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 the FHLBank maintains 20 calendar days of positive daily cash balances. Further, the Finance Agency considers a FHLBank to have adequate liquidity to address funding gap risks if, on and after December 31, 2022, 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 nine months ended September 30, 2024.

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.

## Recently Issued Accounting Guidance

For a discussion of recently issued accounting guidance, see "Item 1. Financial Statements" (specifically, Note 2 beginning on page 8 of this report).

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following quantitative and qualitative disclosures about market risk should be read in conjunction with the quantitative and qualitative disclosures about market risk that are included in the 2023 10-K. The information provided in this item is intended to update the disclosures made in the 2023 10-K.

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 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'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.

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. As reflected in the table below entitled "Market Value of Equity," the Bank was in compliance with this limit at September 30, 2024, June 30, 2024, March 31, 2024 and December 31, 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.

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) as of December 31, 2023, March 31, 2024, June 30, 2024 and September 30, 2024. In addition, the table provides the percentage change in estimated market value of equity under each of these shock scenarios as of those dates.

**MARKET VALUE OF EQUITY**

*(dollars in billions)*

| | | Up 200 Basis Points[1] | | Down 200 Basis Points[2] | | Up 100 Basis Points[1] | | Down 100 Basis Points[2] | |
|---|---|---|---|---|---|---|---|---|---|
| | Base Case Market Value of Equity | 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 2023 | $ 7.445 | $ 7.404 | (0.55)% | $ 7.453 | 0.11 % | $ 7.440 | (0.07)% | $ 7.454 | 0.12 % |
| March 2024 | 7.242 | 7.217 | (0.35)% | 7.282 | 0.55 % | 7.231 | (0.15)% | 7.260 | 0.25 % |
| June 2024 | 7.492 | 7.485 | (0.09)% | 7.540 | 0.64 % | 7.494 | 0.03 % | 7.509 | 0.23 % |
| September 2024 | 7.376 | 7.427 | 0.69 % | 7.399 | 0.31 % | 7.398 | 0.30 % | 7.389 | 0.18 % |

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

(2) In the down 100 and down 200 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 as of December 31, 2023, March 31, 2024, June 30, 2024 and September 30, 2024.

**DURATION ANALYSIS**

*(expressed in years)*

| | Base Case Interest Rates | | | | Duration of Equity | | | |
|---|---|---|---|---|---|---|---|---|
| | Asset Duration | Liability Duration | Duration Gap | Duration of Equity | Up 100[1] | Up 200[1] | Down 100[2] | Down 200[2] |
| December 2023 | 0.17 | (0.18) | (0.01) | (0.02) | 0.18 | 0.59 | 0.04 | (0.28) |
| March 2024 | 0.19 | (0.19) | — | 0.18 | 0.11 | 0.24 | 0.27 | 0.22 |
| June 2024 | 0.20 | (0.21) | (0.01) | (0.04) | — | 0.17 | 0.35 | 0.37 |
| September 2024 | 0.20 | (0.21) | (0.01) | 0.01 | (0.58) | (0.31) | 0.09 | (0.02) |

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

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

## ITEM 4. 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.

**Changes in Internal Control Over Financial Reporting**

On July 1, 2024, the Bank replaced a customized front- and back-office trade processing system with a new cloud-based solution. As a result, during its fiscal quarter ended September 30, 2024, the Bank automated, modified, implemented, or replaced some of its internal controls over financial reporting to address the new control environment and processes associated with the replacement system.

There were no other 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 September 30, 2024 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 6. EXHIBITS

| | |
|---|---|
| 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. |
| EX-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. |
| EX-101.SCH | Inline XBRL Taxonomy Extension Schema Document. |
| EX-101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| EX-101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document. |
| EX-101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
| EX-101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| EX-104 | The cover page of this Quarterly Report on Form 10-Q, formatted in inline XBRL and contained in Exhibit 101. |

**SIGNATURES**

Pursuant to the requirements 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.

| | | |
|---|---|---|
| November 12, 2024 | By | /s/ Tom Lewis |
| Date | | Tom Lewis |
| | | Executive Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) |