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FOR IMMEDIATE RELEASE:

FHLBanks Issue Annual Stress Test Disclosures for Severely Adverse Scenario

Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires certain financial companies with total consolidated assets of more than \$10 billion that are regulated by a primary Federal financial regulatory agency to conduct annual stress tests to determine whether those companies have the capital necessary to absorb losses under adverse economic conditions.

The Federal Housing Finance Agency (FHFA), regulator of the Federal Home Loan Banks (FHLBanks), implemented annual stress testing for the FHLBanks as required by the Dodd-Frank Act. The FHLBanks reported the results of their stress tests to the FHFA by August 31, 2019, and publicly disclosed their results of the Severely Adverse economic scenario on November 15, 2019.

Requirements

The FHFA provided the inputs and key assumptions for the Severely Adverse scenario. The stress tests are based on the portfolios of the FHLBanks as of December 31, 2018. The time horizon for the stress tests is nine quarters starting with the first quarter of 2019 and extending through the first quarter of 2021, but the results do not reflect the impact of the new accounting standards that become effective during the period.

The stress test results under the FHFA's Severely Adverse scenario, as disclosed in this document, as well as by the FHLBanks, are not forecasts of expected or likely outcomes during the time horizon. Rather, these are modeled simulations based solely on the FHFA's Severely Adverse scenario and other specific required assumptions.

Results

Each FHLBank's stress test results demonstrate capital adequacy under the FHFA's Severely Adverse economic scenario as of March 31, 2021, and compliance with all regulatory capital requirements throughout all nine quarters covered by the stress tests. Under the simulations, the FHLBanks' combined regulatory capital ratio is 5.7% at March 31, 2021, compared to the minimum regulatory requirement of 4.0%. Total combined regulatory capital is \$47.5 billion and total combined GAAP¹ capital is \$43.7 billion at March 31, 2021.

Use and Governance

Stress testing has evolved as an important analytical tool for evaluating capital adequacy under Severely Adverse economic conditions. Each FHLBank regularly uses such stress tests, including those annual stress tests required by the Dodd-Frank Act, in its capital planning to measure its exposure to material risks and evaluate the adequacy of its capital resources available to absorb potential losses arising from those risks.

Each FHLBank takes its stress test results into account when making changes to its capital structure; when assessing its exposures, concentrations, and risk positions; and when evaluating its overall risk profile.

1. Accounting principles generally accepted in the United States of America

Stress Test Components

The FHLBanks performed the stress test including the following components:

- *Net interest income and other non-interest income, net* - Net interest income (expense), operating expenses, and other non-interest income (expense).
- *(Provision) benefit for credit losses on mortgage loans* - Provision for credit losses related to mortgage loans held for portfolio.
- *OTTI credit losses* - Other-than-temporary impairment (OTTI) credit losses for investment securities.
- *Mark-to-market gains (losses)* - Mark-to-market gains (losses) related to changes in fair value of derivatives, trading securities, and other gains (losses) on assets and liabilities held at fair value.
- *Global market shocks* - Instantaneous global shocks of interest rates, volatility, agency mortgage-backed-securities (MBS) option-adjusted spreads, and non-agency MBS prices applied to trading securities, available-for-sale securities, and held-to-maturity securities that are deemed to have OTTI losses in the stress test scenario. Global shocks applied to available-for-sale and OTTI held-to-maturity securities are included in other comprehensive income (loss).
- *Counterparty default losses* - Instantaneous and unexpected default of largest counterparty across secured and unsecured lending, repurchase/reverse repurchase agreements, derivatives exposures, single-family mortgage insurance providers, and multifamily credit enhancements, but excludes advances and certain overnight positions.

FHLBanks Dodd-Frank Stress Test - Severely Adverse Scenario Results

(dollars in millions)

	Cumulative Projected Financial Metrics Q1 2019 - Q1 2021 (1)
Net interest income + other non-interest income, net	\$ 4,374
(Provision) benefit for credit losses on mortgage loans	(113)
OTTI credit losses	(281)
Mark-to-market gains (losses)	(154)
Global market shock impact on trading securities	(122)
Counterparty default losses	(1,591)
Affordable housing program assessments	(341)
Net income (loss)	1,772
Other comprehensive income (loss)	(3,721)
Total comprehensive income (loss)	\$ (1,949)
Total capital (GAAP) - starting (12/31/2018)	\$ 58,344
Total capital (GAAP) - ending (3/31/2021)	\$ 43,667
Regulatory capital ratio - starting (12/31/2018)	5.4%
Regulatory capital ratio - ending (3/31/2021)	5.7%

(1) Data represents an aggregation of each component as presented in the individual FHLBanks' stress test results and has not been adjusted for interbank activities. The regulatory capital ratio is calculated based on the FHLBanks' combined regulatory capital as a percentage of combined total assets.

These simulations represent each FHLBank's hypothetical internal estimates based on applying rules and conditions set forth in the FHFA's Severely Adverse scenario. These estimates are not forecasts of the FHLBanks' expected results. See each individual FHLBank's web site for its stress test results, key assumptions, risks considered, and other information.

About the FHLBanks

The FHLBanks are cooperatives and each FHLBank manages its operations independently. Consolidated bonds and consolidated discount notes are the joint and several obligations of all FHLBanks, even though each FHLBank is a separately chartered entity with its own board of directors and management. Each FHLBank is required to meet the capital requirements under its capital plan and the FHFA rules and regulations. Although there is no regulatory capital requirement for the FHLBank system, each FHLBank is required to maintain a minimum regulatory capital ratio of 4.0%. Each FHLBank is responsible for performing its stress test based on assumptions provided by the FHFA under the Severely Adverse scenario and other specific required assumptions.

The FHLBanks have delivered innovation and service to the U.S. housing market since 1932, and currently have approximately 6,800 members serving all 50 states, the District of Columbia, and U.S. territories. Please contact Nancy Nowalk at 703-467-3608 or nnowalk@fhlb-of.com for additional information.

This release contains forward-looking statements and projections that involve risk or uncertainty. Forward-looking statements in this release include projections of the FHLBanks' financial results and conditions under a hypothetical scenario incorporating a set of assumed economic conditions prescribed by the FHLBanks' regulator. These projections are not intended to be the FHLBanks' forecast of expected future economic or financial conditions or a forecast of the FHLBanks' expected future financial results or conditions, but rather reflect possible results under the prescribed hypothetical scenario. The FHLBanks' future financial results and conditions will be influenced by actual economic and financial conditions and various other factors, including but not limited to, those described in reports filed by each FHLBank with the U. S. Securities and Exchange Commission. Any duty to update these forward-looking statements is disclaimed.