

Rating Action: Moody's affirms FHLBank's Aaa debt and deposit ratings and FHLBank of Chicago's A2 sub debt

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New York, April 20, 2016 -- Moody's Investors Service, ("Moody's") affirmed the Aaa senior debt and Prime-1 ratings of the Federal Home Loan Bank System (FHLBank System). Moody's also affirmed the Aaa bank deposit and Prime-1 ratings of all eleven Federal Home Loan Banks (FHLBanks) and the A2 subordinated debt for the FHLBank of Chicago. These ratings were affirmed based both on Moody's view that these institutions benefit from a very high degree of government support due to their role as liquidity providers to US financial institutions as well as on our a1 standalone baseline credit assessment of the FHLBank System. The outlook on the FHLB System's and FHLBanks' ratings is stable, reflecting the stable outlook on the US government's Aaa rating.

RATINGS RATIONALE

BASELINE CREDIT ASSESSMENTS (BCAs) FOR FHLBANK BOSTON, CHICAGO, PITTSBURGH AND SAN FRANCISCO RAISED DUE TO IMPROVED EXPOSURES TO PRIVATE-LABEL SECURITIES AND INCREASED ADVANCES

BCAs for Boston, Chicago, Pittsburgh and San Francisco were all raised to a1. Prior to today's action, Boston, Chicago and Pittsburgh had BCAs of a3, and San Francisco had a BCA of a2. The convergence of BCAs among these four FHLBanks is due to the declining risk associated with their private-label securities exposures that has occurred since the credit crisis. In addition, these FHLBanks have maintained or increased their advance portfolios, thereby positively influencing their respective risk profiles. With the exception of FHLBank New York, which has a BCA of aa3, all of the individual FHLBanks now have BCAs of a1. The FHLBank System has an a1 BCA as well. The BCA is intended to express an opinion about the institutions' intrinsic or stand-alone financial strength and specifically excludes an assessment of the probability of extraordinary support.

The FHLBank System's BCA reflects the individual FHLBanks' financial strength, earnings stability, excellent asset quality and special role as a provider of liquidity to US financial institutions. The FHLBank System's BCA incorporates the joint and several liability of all FHLBank consolidated obligations. The FHLBank System's senior unsecured debt ratings of Aaa and P-1 are derived by (1) evaluating the stand-alone financial strength of each FHLBank exclusive of cooperative or government support, (2) incorporating cooperative support from the remaining FHLBanks and (3) incorporating US government support. The FHLBanks' deposit ratings do not have the joint and several protections of the FHLBank System but do benefit from being a senior liability, in addition to US government support, and are rated Aaa and P-1 as well. The A2 subordinated debt rating for FHLBank of Chicago takes into account Chicago's a1 BCA, the subordinated nature of this obligation and the absence of joint and several protection.

What Could Change the Rating -- Down

Any rating actions on the US Government would likely result in all individual FHLBanks' long-term deposit ratings and the FHLBank System's long-term bond rating moving in lock step with any US sovereign rating action.

Barring a downgrade of the US sovereign rating or a material downgrade of FHLBank system's BCA, Moody's does not expect changes to the FHLBanks' ratings. This is due to the fact that that rating incorporates an expectation of a very high degree of US Government support.

Factors that could lead to a downgrade of individual FHLBanks' BCAs include a material decline in profitability (quarterly net losses over four quarters) or significant asset-liability mismatches. The BCA for the FHLBank System could then be downgraded based on downgraded BCAs at individual FHLBanks.

The methodologies used in these ratings were Banks published in January 2016, and Government-Related Issuers published in October 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of these methodologies.

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