



FHLBank Atlanta Insurance Company Membership and Benefits

February 10, 2021

FEDERAL HOME LOAN BANK
OF ATLANTA

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- Federal Home Loan Bank Overview
- Proposed Changes to State Receivership Laws

FEDERAL HOME LOAN BANK OVERVIEW

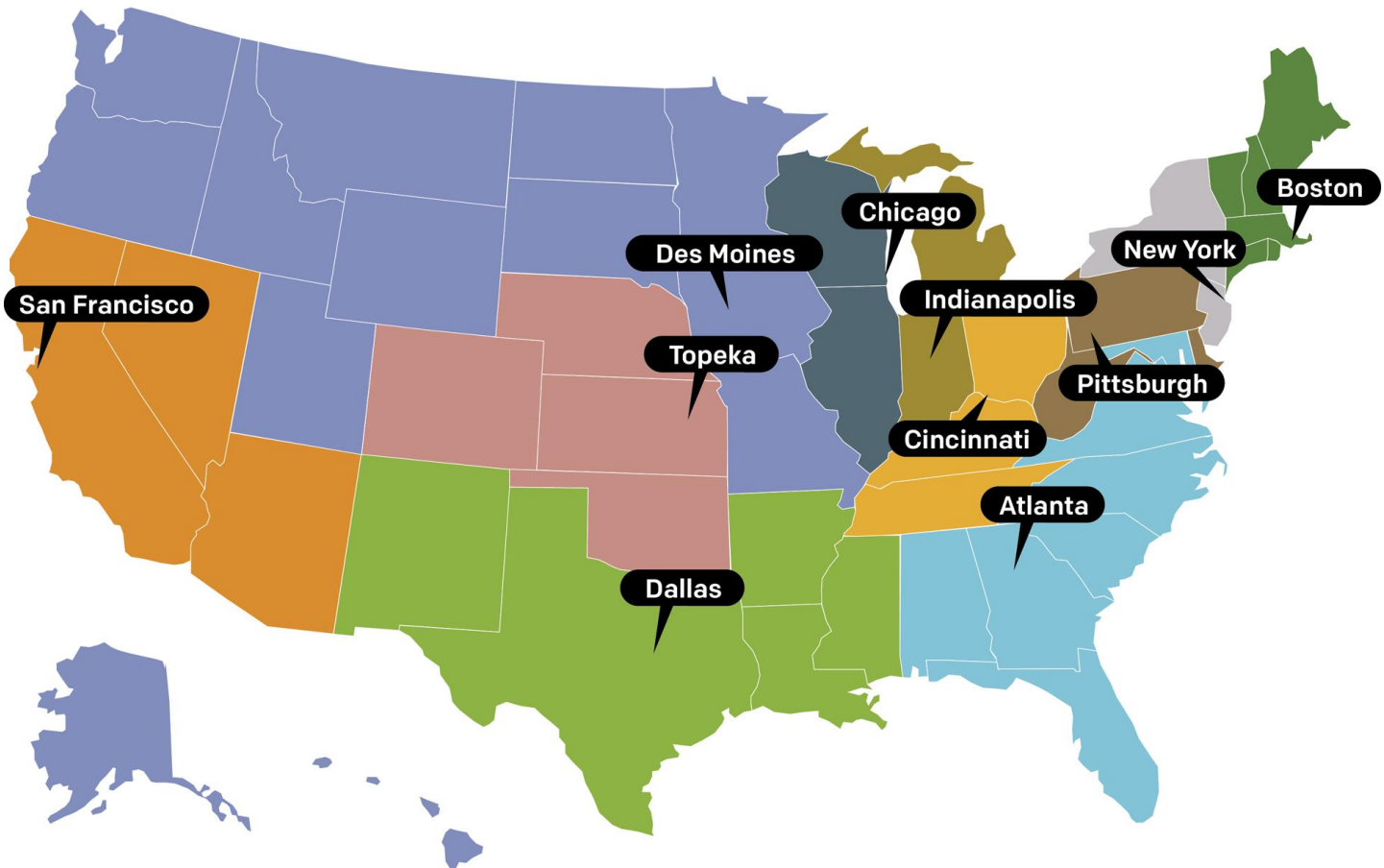
The Federal Home Loan Banks – System Background



- The Federal Home Loan Banks were created by Congress via the FHLBank Act of 1932
- Eleven independent regional Banks structured as cooperatives, owned by their respective member financial institutions (insurance companies*, commercial banks, credit unions, savings associations*, and community development financial institutions). No taxpayer funds are involved in the operation of the cooperatively owned FHLBanks.
- Nearly \$1 trillion in combined assets at September 30, 2020
- Funded primarily via debt issuance, referred to as consolidated obligations, for which the 11 banks are jointly and severally liable
 - Centralized debt issuer for FHLBank System: Office of Finance (Reston, VA)
 - Consolidated obligations rated Aaa and P-1 by Moody's and AA+ and A-1+ by Standard & Poor's
- Offer competitively priced financing (advances), affordable housing and community development grants, and other banking services for member financial institutions
- Regulated by the Federal Housing Finance Agency (FHFA)

* Original FHLBank members under the FHLBank Act of 1932

The Federal Home Loan Banks – System Geography



- Federal statute and regulations require members to purchase capital stock in the FHLBank to join, and activity-based capital stock to borrow
 - Capital stock is purchased and redeemed at par
 - Shareholders may receive dividends on capital stock
 - Membership capital stock is redeemable after five years if an institution exits FHLBank membership; excess stock may be repurchased earlier
- FHLBank Act and FHFA regulations require all obligations of members (advances, funding agreements and letters of credit) be secured with eligible collateral
 - Eligible collateral includes securities and certain types of mortgage loans, but not capital stock
 - May require third-party custodian to hold collateral

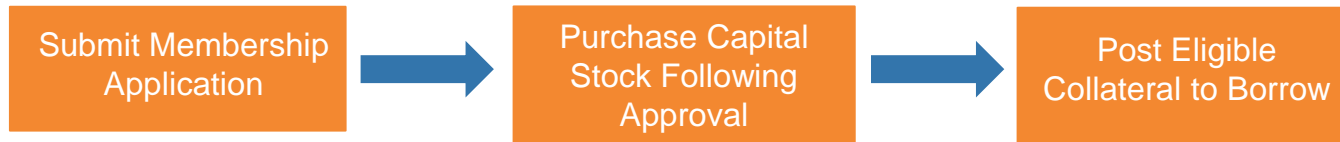
B1 (Membership Stock)

- Lesser of 9 basis points of total assets or \$15 million as of most recent year end
- Recalculated every year

B2 (Activity Stock)

- 4.25 percent of total advances
- Repurchased on a daily basis (with \$100k threshold)

FHLBank Atlanta Membership and Collateral Eligibility



Collateral Eligibility

Securities Collateral	Eligible	Ineligible	Whole Loans*	Eligible	Ineligible
US Treasury Securities	●		Residential 1 – 4	●	
Agency Securities	●		Commercial Mortgages	●	
Agency MBS	●		Multifamily	●	
Private Label	●		Farmland Mortgages	●	
CMBS	●				
Municipals	●				
Private Placements	●				

*Whole loan eligibility subject to state of domicile and FHLBank Atlanta specific underwriting criteria.

- **Contingent Liquidity**
 - Manage unanticipated claims or other liquidity events without liquidating high-quality assets
 - Low-cost, same-day access
- **Asset Liability Management**
 - Match-fund asset cash flows
 - Manage duration and maturity gaps
- **Operational Liquidity**
 - Short-term funding for normal business activities
 - More efficient cash management to improve returns
- **Investment Portfolio Management**
 - Optimize portfolio composition for enhanced income and liquidity
 - Advances and/or funding agreements available

- FHLBank Atlanta currently has five insurance company members that are domiciled in Maryland
 - These include Property and Casualty, Life, and Health companies
 - Banner Life Insurance Company
 - Union Labor Life Insurance Company
 - Baltimore Life Insurance Company
 - Chesapeake Employers' Insurance Company
 - CareFirst of Maryland, Inc.

PROPOSED CHANGES TO STATE RECEIVERSHIP LAWS

Overview of Suggested Legislative Changes



- Specifically recognize FHLBank membership and advances
 - FHLBanks are unique from other secured lenders
- Limit automatic stay and injunction provisions to seven days
- Require repurchase of excess capital stock if FHLBank exercises its right to collateral
- Clarify that collateral pledged to FHLBank is not a voidable transfer
- Clarify that receiver will not attempt to void a capital stock redemption or repurchase
- Include NAIC suggested provisions
 - Require FHLBank on request of receiver to provide a process and timeline for
 - Release of collateral in excess of collateral required to support secured obligations remaining after repayment of loans
 - Release of remaining collateral in FHLBank's possession after repayment of all secured obligations
 - Payment of fees owed by the insured-member to FHLBank
 - Operation of accounts of the insured-member with FHLBank
 - Possible redemption or repurchase of stock or excess stock of a class the insurer-member is required to own
 - Require FHLBank on the request of the receiver to provide options to renew or restructure loans
 - Limit transfers that may not be voided under FHLBank agreements to those made in the ordinary course of business

Benefits to Receivership Process Without Altering Claim Priority

- The proposed legislation will not have a material impact on the assets available to the receiver and may benefit the receiver in ways that enhance operating flexibility, increase available assets and reduce the overall costs of receivership by
 - Allowing lending to insurance companies with less onerous collateral requirements could leave more assets available to the receiver in the event of an insurance company insolvency
 - Increasing the possibility of continued/additional FHLBank lending during a receivership
 - Requiring FHLBank to provide the receiver options to renew or restructure loans for the insurer-member
 - Allowing adequately secured FHLBank advances to remain outstanding and be repaid in an orderly manner. As the advances are repaid, FHLBank will release its rights in the pledged collateral allowing the receiver to deal with the assets and maximize their value
 - Reducing risk that FHLBank will be forced to seek a sale of the underlying collateral to protect FHLBank's interest
 - Requiring FHLBank to provide the receiver a process and timeline for release of collateral in excess of secured obligations, the payment of fees, the operation of FHLBank accounts and the possible redemption or repurchase of stock or excess stock of a class the insurer-member is required to own

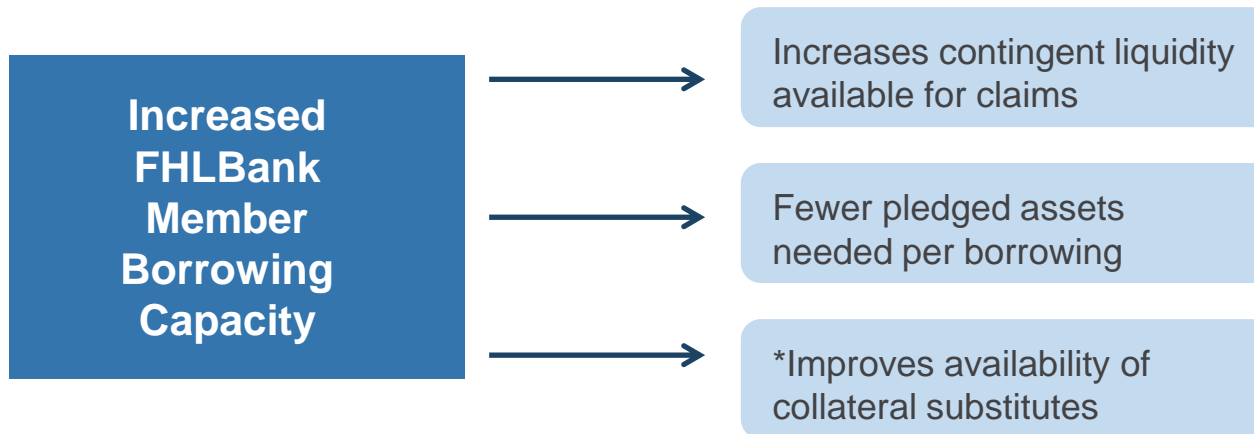
Benefits to Receivership Process Without Altering Claim Priority, cont.

- FHLBank monitors credit quality of members and can work with the receiver to identify concerns
- FHLBank may be able to establish lesser asset restrictions (such as having third party custodians hold collateral) instead of selling deteriorating assets
- The proposed legislation does not alter FHLBank's priority in a receivership proceeding
 - FHLBank is already a secured creditor under Insurance Article, § 9-227(f)
 - The seven-day stay limitation affects only the timing of FHLBank's right to collateral in which it has a perfected security interest
- Maryland's receivership laws currently prohibit a person from being stayed or otherwise prohibited from exercising any right under a pledge, security or collateral agreement relating to netting agreements or qualified financial contracts and limit voidable transfers with respect to such contracts under Insurance Article, §§ 9-229.1(b) and (f)
 - FHLBank's proposed fourteen day limit on automatic stays and injunctions affords the receiver a protection that does not exist for netting agreements and qualified financial contracts under which a party may immediately exercise its rights

Benefits to Maryland-Domestic Insurance Company Members

- Increases access to safe and reliable funding source because legislation is necessary for FHLBank to accept certain collateral and provide more favorable terms for currently permitted collateral
- Increases asset classes that may serve as collateral for FHLBank loans and funding agreements
 - Broadens collateral availability to include whole loans
- Allows Maryland-domestic insurers to obtain more favorable terms for currently permitted collateral
 - FHLBank recognizes a higher collateral valuation for certain existing assets classes
 - Reduces collateral required for FHLBank loans and funding agreements
 - Frees up capital for other investments
- Allows for issuance of additional funding agreements as a portfolio diversifier and to obtain funds to be used to generate positive spread under agreements receiving deposit-type contract accounting treatment
- Promotes parity across membership
 - Federal banking laws contain specific provisions regarding the treatment of FHLBank advances in delinquency proceedings
 - Proposed changes would create greater parity between insured depository members and insurance company members

Potential Insurer-Member Benefits of Additional Available Collateral



*Securities collateral may be readily substituted with other eligible collateral

Example of Benefits to a Maryland-Domestic Insurance Company Member

A Maryland-domestic insurer estimates that the proposed legislation will:

- Increase its current FHLBank borrowing/funding agreement capacity by approximately \$75 million and its borrowing/funding agreement capacity as of December 31, 2020 by approximately \$150 million by permitting new asset classes
 - Amounts based on current commercial mortgage loans and estimated commercial mortgage loans as of the end of the 4th Quarter, and the estimated market value assigned to the commercial mortgage loan collateral
- Reduce the required collateral for currently permitted asset classes (i.e. securities) by \$400,000

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Thank You