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Federal Home Loan Banks

Demand Drives Advance Growth for FHLBanks

Federal Home Loan Banks – Combined

The Federal Home Loan Banks (FHLBanks) reported fourth quarter net income of $550 million, compared with $678 million in the year-ago quarter. The decrease resulted primarily from declines in non-interest income and increases in non-interest expense, partially offset by increases in net interest income. Multiple banks had lower gains from private label MBS litigation settlement activity in the fourth quarter of 2014 compared to the year-ago quarter.

Net income fell 11% for the year ended 31 December 2014. Net income was $2.2 billion in 2014, compared with $2.5 billion in 2013. The decline was driven by a $312 million reduction in non-interest income and a $103 million increase in non-interest expense, partly offset by a $124 million increase in net interest income. The reduction in non-interest income arose from net losses on derivatives, hedging activities and lower gains on litigation settlements, partially offset by increases in the fair values of trading securities and lower net losses on debt extinguishments. The rise in net interest income was primarily due to lower yields on consolidated obligations and higher average balances of advances and investments, which outweighed lower yields on interest-earning assets, increases in the average balance of consolidated obligations, and decreases in the average balance of mortgage loans.

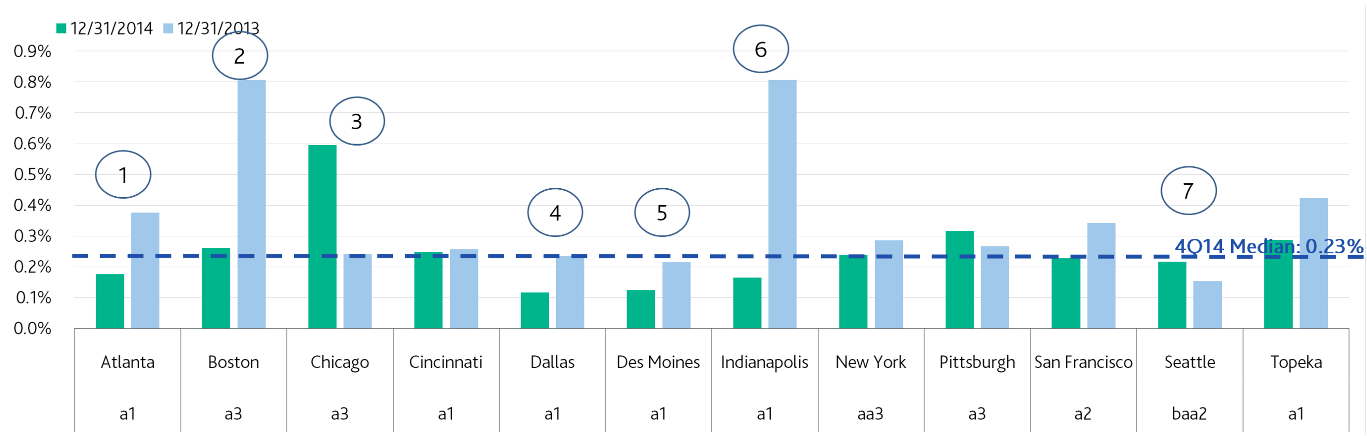
Continued growth in retained earnings and an improvement in accumulated other comprehensive income resulted in a $2.0 billion, or 4%, increase in GAAP capital as of 31 December 2014, compared with a year earlier. Retained earnings increased 9% in 2014, from $2.2 billion of net income, offset by $1.2 billion of dividends. We expect growth in retained earnings to continue through 2015.

Total assets as of 31 December 2014 were $913.3 billion, up from $834.2 billion a year earlier. The 9% increase in total assets was driven by $72.1 billion of advance growth from higher demand. Consolidated obligations rose 11%, primarily consisting of an increase in discount notes, due to the growth in advances.

Exhibits 1 through 4 illustrate individual bank performance, capital and balance sheet ratios comparing the fourth quarter of 2014 to the fourth quarter of 2013, annualized. Material changes are described below each exhibit. Only material changes in the ratios are addressed so not every ratio for every FHLBank is focused on below.

Exhibit 1

Return on Average Assets



* Baseline Credit Assessments are listed for all banks

** ROAA was calculated using the average of asset balances as of 9/30 and 12/31 and net income during the quarter annualized

1. **Atlanta**: Return on assets decreased due to a $52 million decrease in net income (-47%). The decrease in net income was due to settlements related to MBS litigation received in the fourth quarter of 2013 and a decrease in long-term interest rates during 2014. Total assets increased $16.0 billion (+13%) led by a $10.1 billion increase (+11%) in advances, a $9.6 billion increase (+35%) in investments, and a $3.4 billion decline (-70%) in other assets.

2. **Boston**: Return on assets decreased due to a $51 million decrease in net income (-60%). The decrease in net income was due to a $52.5 million decrease in litigation settlement income in the fourth quarter of 2014. Total assets increased $10.5 billion (+23%) led by a $6.0 billion increase (+22%) in advances and a $3.9 billion increase (+30%) in investments. The increase in advances was concentrated primarily in lower-margin short term floating rate advances. Investment growth was concentrated in a $3.2 billion increase in short-term money-market investments and a $1.5 billion increase in MBS.

3. **Chicago**: Return on assets increased due to a $68 million increase in net income (+174%). Non-interest income was $17 million for the fourth quarter of 2014 compared to a $46 million loss for the year-ago quarter. During 2013, losses on early extinguishment of higher cost debt outweighed non-interest income items such as private-label MBS settlements.

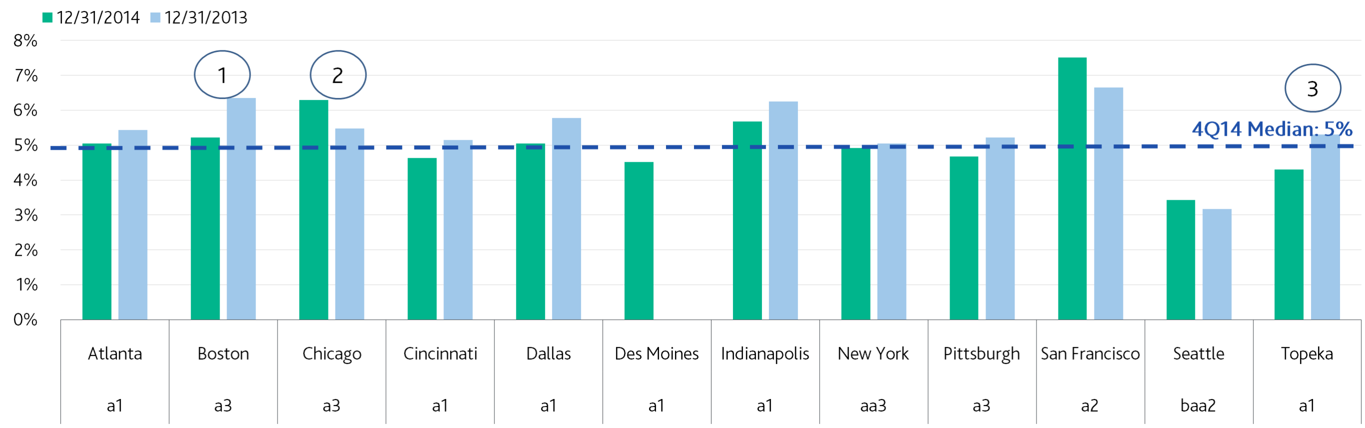
4. **Dallas**: Net income was $11 million for the fourth quarter of 2014 compared to $18 million for the fourth quarter of 2013. Net interest income and non-interest expense were generally stable for both quarters. Non-interest income for the fourth quarter of 2013 of $4 million was driven by a combination of letter of credit fees and gains on early extinguishment of debt. Non-interest loss items were more prominent in the fourth quarter of 2014 more than offsetting non-interest income activities.

5. **Des Moines**: Return on assets for the fourth quarter of 2014 decreased when compared to the same period last year due to an increase in average assets and a decline in net income. Net income was $7 million lower (-19%) in the fourth quarter of 2014 due in part to a decline in other income (loss). The fourth quarter of 2014 included $22.0 million of other losses compared to $3.7 million of other losses incurred in the same period in 2013. Items typically included in other income (loss) include gains and losses on derivatives and hedging activities and losses on the extinguishment of debt, with offsets from gains or losses on trading securities being hedged. Net interest income was $74 million, up $15.6 million (+27%) over prior year due to higher advance and mortgage-backed security volumes.

6. **Indianapolis**: Net income was $61 million lower (-78%) in the latest quarter due to higher net proceeds from litigation settlements in 2013 related to private label MBS, unrealized losses on derivatives and hedging activities in 2014, and lower prepayment fees on advances in 2014. As a result, the fourth quarter of 2013 posted $41 million of non-interest income while the 2014 quarter had a $10 million non-interest loss. 2013 also recognized $63 million of net interest income after provision for credit losses compared to $48 million for 2014.

7. **Seattle**: Net income was $5 million higher (+36%) in the latest quarter. Net interest income improved by $8 million compared to the year-ago quarter likely due to increased income on investments and lower cost of funds. The fourth quarter of 2014 also had a $4 million reduction in non-interest expense from a year earlier. Non-interest gains/losses had a $7 million swing from a $6 million gain in the fourth quarter of 2013 to a $1 million loss in the fourth quarter of 2014. Total assets were $35.1 billion in 2014, a 2% decline from a year earlier primarily due to a decrease in advances and mortgage loans outstanding.

Exhibit 2
Capital (GAAP) / Total Assets



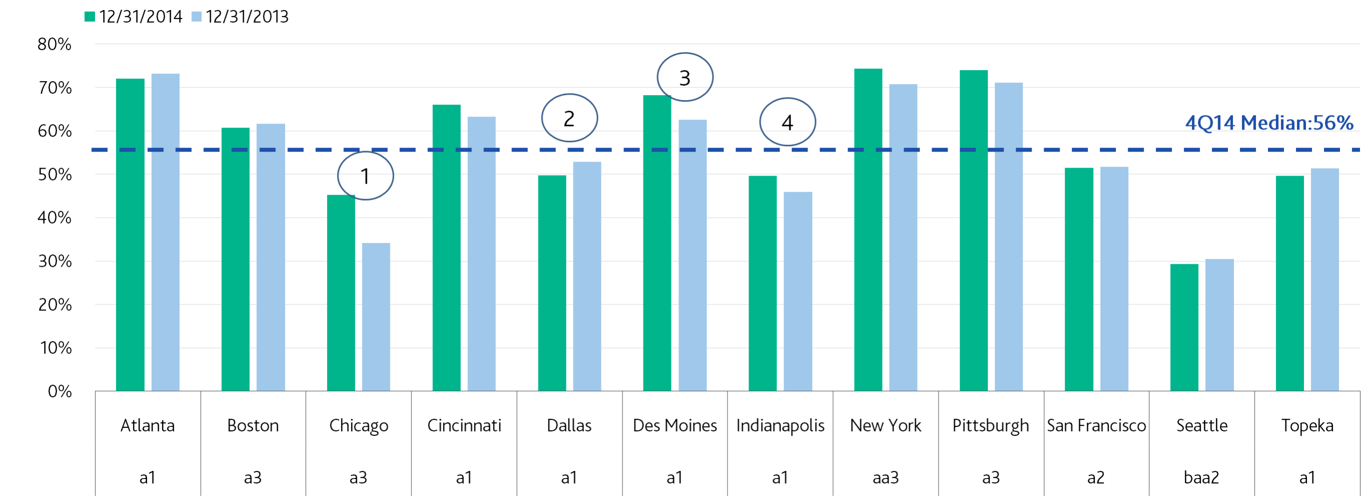
* Baseline Credit Assessments are listed for all banks
** Capital (GAAP) to Total Assets was calculated using quarter end balances

1. **Boston**:Capital rose $40 million (+1%), driven primarily by a $113 million increase (+14%) in retained earnings, a $117 million decrease (-5%) in capital stock and a $45 million reduction (+9%) in accumulated other comprehensive loss. The decrease in capital stock was primarily due to the repurchase of excess capital stock and the reclassification of capital stock to mandatorily redeemable capital stock. Total assets increased $10.5 billion (+23%).

2. **Chicago**: Capital increased $760 million (+20%), driven by a $378 million increase (+19%) in retained earnings, a $232 million increase (+14%) in capital stock and a $150 million increase (+224%) in accumulated other comprehensive income. Total assets increased $3.0 billion (+4%).

3. **Topeka**: Capital declined $216 million (-12%), driven by a $60 million increase (+11%) in retained earnings, a $278 million decrease (-22%) in capital stock and a $2 million reduction (+11%) in accumulated other comprehensive loss. Total assets increased $2.9 billion (+9%).

Exhibit 3
Advance / Total Assets



* Baseline Credit Assessments are listed for all banks

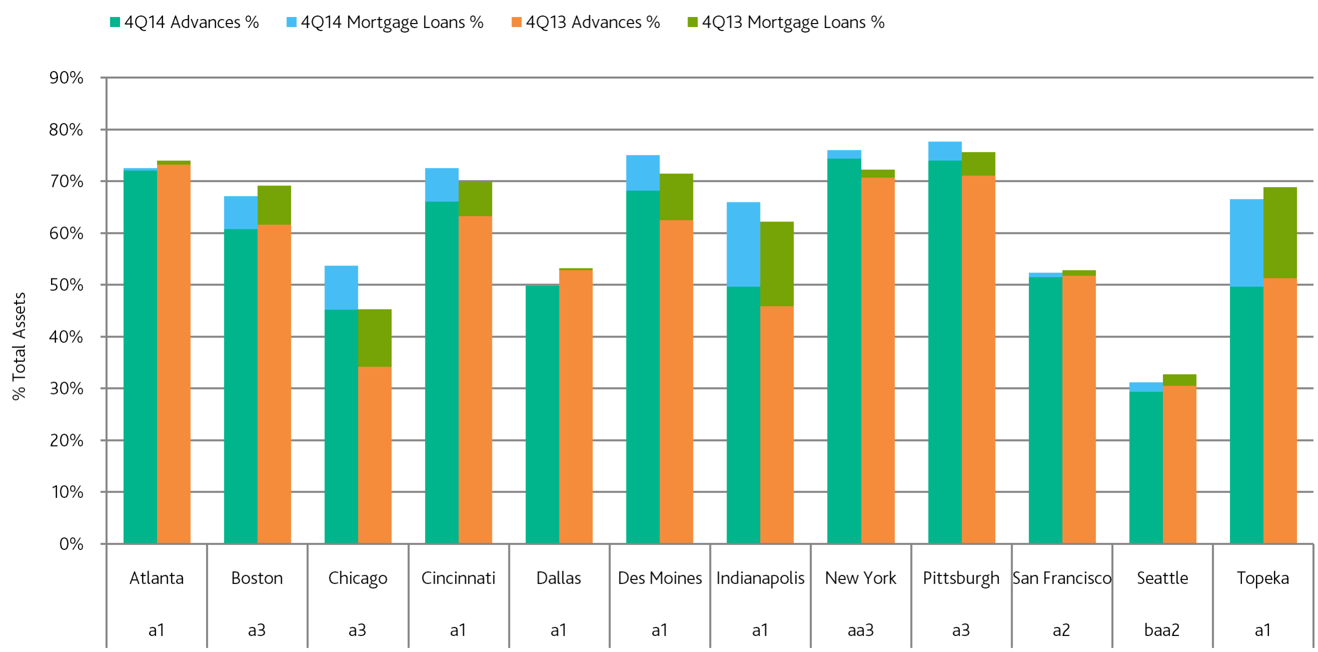
1. **Chicago**: Total assets increased $3.0 billion (+4%) in 2014 led by a $9.0 billion increase (+38%) in advances and a $3.7 billion reduction (-10%) in investments. Chicago experienced the largest change in the composition of advances to total assets from 2013 to 2014 as members increasingly use advances to meet liquidity and funding needs. Advances were 45% of total assets at year end 2014 compared to 34% for 2013.

2. **Dallas**: Total assets increased $7.8 billion (+26%) in 2014. Investments accounted for $4.3 billion of the asset growth and advance growth was $3 billion. As a result, advances to total assets declined to 50%.

3. **Des Moines**: Total assets were $95.5 billion as of 31 December 2014, a 31% increase from a year earlier. Des Moines' advances as a percent of total assets increased from 63% in 2013 to 68% in 2014. Advances increased from a wide range of members. The most significant increase occurred from a large depository institution.

4. **Indianapolis**: Total assets were $41.9 billion as of 31 December 2014, an 11% increase from a year earlier which was primarily attributable to a $3.5 billion increase in advances. Indianapolis' composition of advances to total assets was 50% in 2014, an improvement compared to 46% from a year earlier.

Exhibit 4
Advances + Mortgage Loans % Total Assets



* Baseline Credit Assessments are listed for all banks

Sources

1. Office of Finance Announces Fourth Quarter and Annual 2014 Combined Operating Highlights for the Federal Home Loan Banks, February 20, 2015
2. Quarterly earnings releases
3. Form 10-Qs

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» Federal Home Loan Banks: Continued Growth in Capital and Advances

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