First Quarter 2020 Member Conference Call

May 5, 2020, at 9 a.m. Eastern

Winthrop Watson

Good morning. This is Winthrop Watson, and I'd like to thank you for joining our quarterly member call. Today I am joined by Ted Weller, our Chief Accounting Officer, and David Paulson, our Chief Operating Officer. Together, we'll review the Bank's first quarter performance.

For our agenda, I will begin by talking about the current state of the Bank. Ted will then follow with a review of our first quarter financial performance. Dave will provide insight into the financial outlook for the remainder of the year. He will then review highlights of the Bank's business and discuss the impact of COVID-19 and the actions that we've taken to ensure business continuity so that we can continue to serve members.

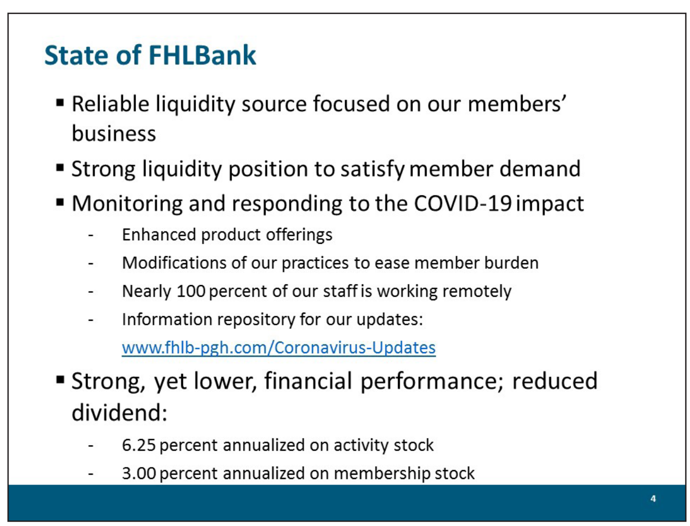
Finally, I will provide some closing comments ahead of my opening the call to any questions or comments you may have.

Our remarks will be accompanied by slides. If you are unable to access our slides, please email "marketing (at) f-h-l-b (hyphen) p-g-h (dot) com" and we'll send them to you.

As always, please note that elements of this call are forward-looking, based on our view of market conditions and our business as we see it today. These elements can change due to changes in our business environment or in market conditions. Please interpret them in that light.

Also note that a transcript of this call will be available tomorrow in the "Financial Performance" area of our website.

It goes without saying that we are experiencing unprecedented times. I want to first express our sincere hope that you and your employees remain healthy.



As we at the Bank begin our eighth week of working remotely, we know that many of our members are also working in similar environments. It is evident that the financial services industry is functioning well and that you are continuing to provide services to your customers in this extraordinarily challenging time.

In addition to supporting core functions, many of our depository members have also taken significant steps to support the Small Business Administration's Paycheck Protection Program, or

"PPP," loans. I am so impressed with your commitment and actions to support PPP lending. We too are doing our best to serve you in this area.

As I expressed on our COVID-19 update call last month, one of my primary objectives for the Bank is to remain a reliable source of liquidity for you, our members. I am pleased that we have been able to do just that and that we have maintained a strong liquidity position to satisfy member demand.

We continue to monitor the ongoing impact of COVID-19 and have made some enhancements to our advance products in the form of a short-term pricing special and increased community lending program funds availability. There have also been some helpful modifications to the Mortgage Finance, or MPF, Program.

Similarly, we have made some operational changes to ease the burden on our members. We broadened some collateral acceptance criteria, began completing collateral verification reviews electronically and recently began to accept PPP loans as eligible collateral, to name a few.

In addition to providing readily available liquidity to our members, my other top priority remains the health and safety of our staff and their families. I was very pleased that by the end of March, we were able to support having nearly all of our staff working remotely. This quick response was facilitated by several years of business continuity exercises that prepared us well to work in this environment.

We've been making changes, as I've mentioned, and I want you to understand our determination to meet your dynamic needs. All the changes that we have already made, and any future pandemic-related changes and announcements, will be posted and archived in the "Coronavirus Updates" section of our website.

Before I turn the line over to Ted, I want to acknowledge the Bank's strong, yet lower, financial performance. As our dividend was paid last week, you likely noted that both the activity and membership stock dividends were reduced by 150 basis points. Our dividend payments were 6.25 percent annualized on activity stock and 3.00 percent annualized on membership stock. These levels are reflective of current market and operating conditions, and Ted and Dave will discuss the specific performance drivers in greater detail.

As we have stated over time, our intention has been to establish and maintain a consistent dividend rate throughout the year, assuming that earnings and market conditions supported that practice. Unfortunately, the sudden market change necessitated a deviation from that practice.

And now, to review our financial performance, I'd like to turn the call over to Ted.

Ted Weller

Thanks, Winthrop, and good morning everyone.

I am glad to be with you today to provide an overview of our financial results and the key drivers behind them.

The Bank recorded net income of $35.9 million in the first quarter of 2020 compared to $98 million in the first quarter of 2019. This decrease was primarily driven by lower net interest income and other non-interest income.

The provision for credit losses was $3.4 million for the first quarter of 2020, compared to $0.4 million in the first quarter of 2019. The increase was primarily due to OTTI credit losses on the Bank's private label Mortgage Backed Securities, which under the new "CECL" accounting standard now are recorded in the provision for credit losses.

Financial Highlights – Statement of Income

(in millions)	Three months ended March 31, 2020	2019	Over/ (Under)
Net interest income	$ 95.7	$ 129.9	$ (34.2)
Provision for credit losses	3.4	0.4	3.0
Other noninterest income	(31.3)	4.1	(35.4)
Other expense	20.4	24.6	(4.2)
Income before assessment	40.6	109.0	(68.4)
Affordable Housing Program (AHP) assessment	4.7	11.0	(6.3)
Net income	$ 35.9	$ 98.0	$ (62.1)
Net interest margin (bps)	41	51	(10)

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For the first quarter of 2020, net interest income was $95.7 million, a decrease of $34.2 million compared to $129.9 million for 2019. The year-over-year decrease was primarily due to lower interest rates and a decrease in outstanding average advance balances.

The net interest margin decreased 10 basis points.

Other non-interest income was a loss of $31.3 million in the first quarter of 2020, compared to a gain of $4.1 million in the same prior-year period. This 34 – I'm sorry – this $35.4 million decrease was driven primarily by mark-to-market adjustments to derivatives and trading securities, which netted to a $34.9 million loss in 2020 compared to a $2.9 million loss in 2019. The higher mark-to-market net loss is a non-cash item that largely reflects the significant decline in interest rates in 2020.

Other expense decreased $4.2 million to $20.4 million for the first quarter of 2020 compared to the first quarter of 2019. The decrease was primarily due to lower compensation and benefit-related expenses, including a $2.0 million voluntary contribution to the Bank's defined benefit pension plan in the first quarter of 2019, compared to no voluntary contribution in the first quarter of 2020.

These results allowed the Bank to set aside $4.7 million for affordable housing programs.

Total average assets for the quarter were $94.0 billion, down $9.6 billion or 9 percent from 2019 due to lower average advances, partially offset by an increase in average investments.

Average advances were $59.6 billion in 2020, a decrease of $17.4 billion, or 23 percent, from 2019.

Average investments increased $7.4 billion or 35 percent due to additional short-term liquidity balances.

At March 31, 2020, total advances were $78.1 billion, up 19 percent from $65.6 billion at December 31, 2019.

Financial Highlights – Selected Balance Sheet

(in millions)	Three months ended March 31, 2020	2019	Over/(Under) Amount	Percent
Average:				
Total assets	$ 94,036	$ 103,591	$ (9,555)	(9) %
Advances	59,615	77,020	(17,405)	(23)
Total investments	28,478	21,107	7,371	35

(in millions)	Mar 31, 2020	Dec 31, 2019	Over/(Under) Amount	Percent
Spot:				
Advances	$ 78,093	$ 65,610	$ 12,483	19 %
Capital stock	3,630	3,055	575	19
Retained earnings	1,306	1,326	(20)	(2)

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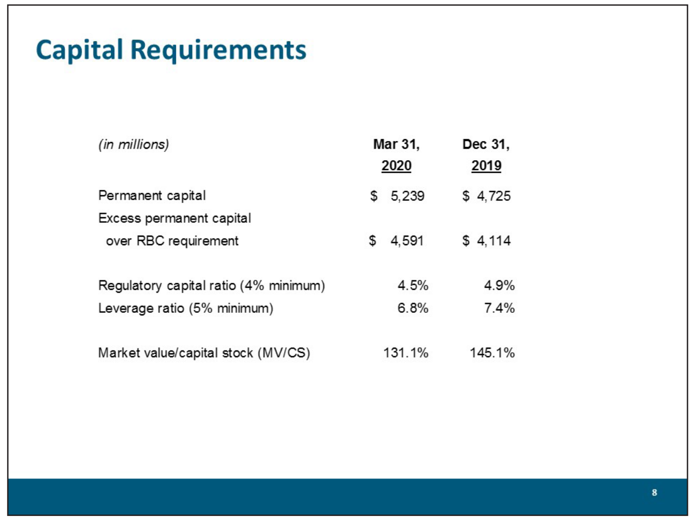
It's common for the Bank to experience fluctuation in the overall advance portfolio driven primarily by changes in member needs. In a moment, Dave will discuss our first quarter advance activity further.

Retained earnings at March 31, 2020, totaled $1.3 billion, a decrease of $20 million from December 31, 2019, reflecting earnings for the first quarter of 2020 less dividends paid.

This slide provides a summary of the Bank's capital requirements.



At March 31, 2020, the Bank continues to be in full compliance with all regulatory ratios and permanent capital exceeds the risk-based requirement.

Also, at March 31, 2020, the ratio of Market Value of Equity to Capital Stock was 131.1 percent; down from 145.1 percent at year-end 2019. This decrease was primarily due to the increase in capital stock balances as a result of higher advances.

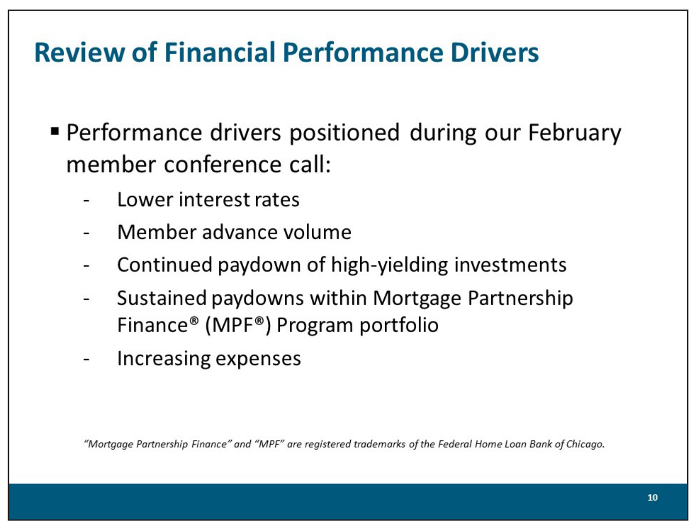
This concludes my portion of the presentation. And I'll now turn the call over to Dave for the financial outlook.

Dave Paulson

Thank you, Ted.

These results demonstrate the Bank's strong, yet lower, financial performance, which correlates to the current operating environment.

As we look ahead, I thought it would be valuable to review the performance drivers that we positioned with the membership during our full-year 2019 earnings call in February of this year. These drivers impact the Bank's overall performance in both up and down environments.



Specifically, we discussed the potential impact of interest rate and advance volume changes, paydowns of high-yielding investments and the MPF portfolio, as well as the potential for increased expenses.

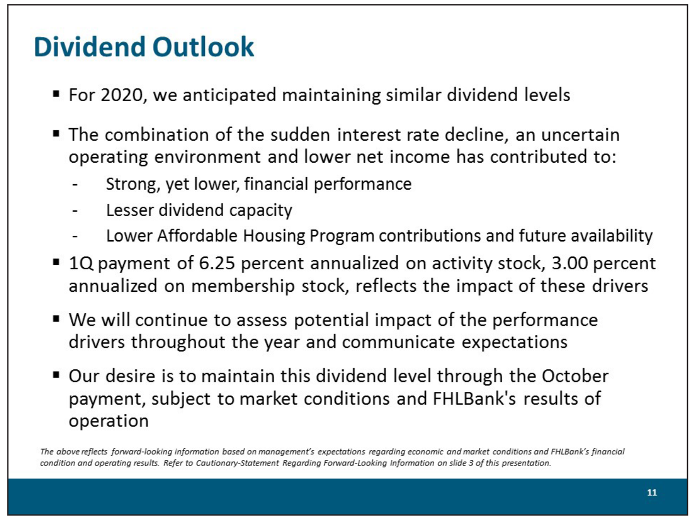
The Bank had originally anticipated the recent trend towards lower advance levels to continue. However, in response to the COVID-19 pandemic, member advance demand increased during the first quarter. The expectation of prolonged lower interest rates will likely result in lower net income.

Paydown of the high-yielding mortgage-backed securities and MPF portfolios will also weigh on financial performance. The significance of the impact will be influenced over time by borrowers' ability to refinance mortgages.

The continued longer-term potential of increasing expenses and changes in the Bank's operating landscape as a result of legislative and regulatory actions remains.

We continue to prudently manage expenses and stand well-capitalized with significant retained earnings.

For 2020, we had anticipated maintaining similar dividend levels throughout the entire year. That has historically been our practice for the last several years.



However, the combination of the sudden interest rate decline and an uncertain operating environment has led to performance that directly correlates to a lesser dividend and lower Affordable Housing Program contribution that will impact the program in 2021.

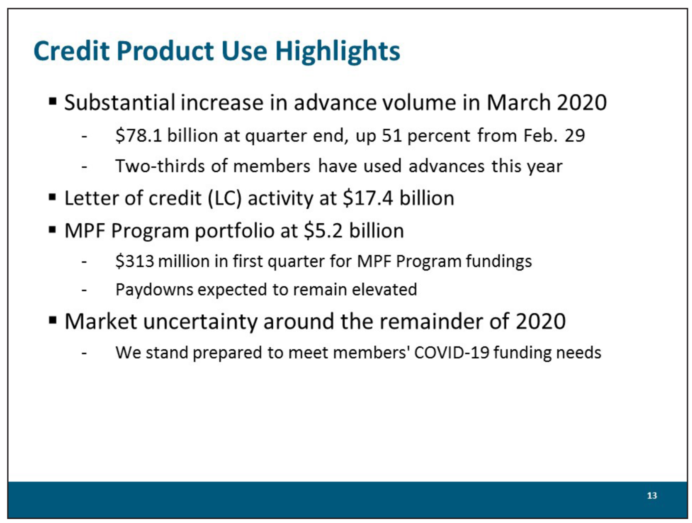
As Winthrop noted, our first quarter dividend payment of 6.25 percent annualized on activity stock and 3.00 percent annualized on membership stock reflects the impact of these drivers.

We will continue to assess the potential for further impact of these performance drivers throughout the year and communicate expectations on future calls.

It is certainly our desire to maintain the current dividend level through the October payment, subject to market conditions and the Bank's results of operations.

Transitioning to a review of the Bank's business, I want to share some member product highlights.

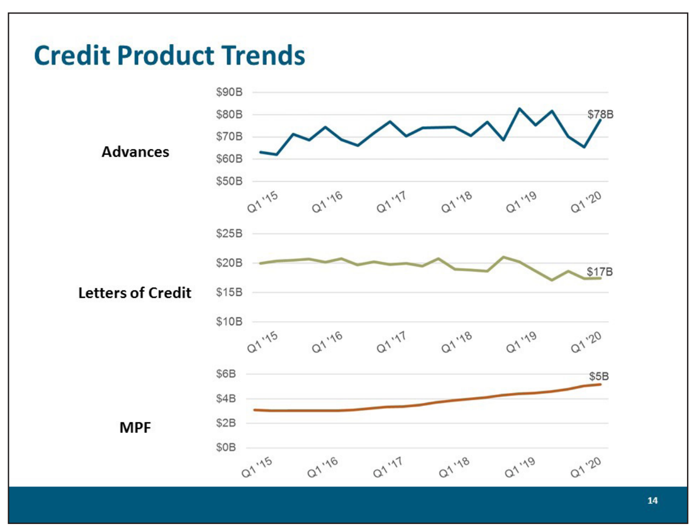
We saw a substantial increase in advance volume in March that was largely attributable to the increase in member need associated with COVID-19. We ended the quarter at $78.1 billion, up 51 percent from February. Nearly two-thirds of the Bank's members had borrowed at some point during the quarter, which is reflective of our members' reliance on the Bank as a consistent and stable liquidity source.



Letter of credit activity remains stable at $17.4 billion.

Our MPF Program recorded a solid quarter, and the portfolio sits at $5.2 billion. Program fundings for the quarter were $313 million. We anticipate mortgage paydowns to remain elevated through the remainder of the year considering the current mortgage market.

There remains a tremendous amount of uncertainty around the reminder of the year with respect to the sustained impact of COVID-19. We stand ready to meet member funding needs.



Slide 14 presents historical trends for advances, letters of credit and the MPF Program. There are a few notable items that I would like to discuss.

Looking back, the Bank experienced consistent growth in all product areas through 2019. Advances continue to be our primary product and make up approximately 75 percent of our balance sheet.

As you'll note in the trend graph, advances have hovered between $60 and $80 billion over the last five years. The volume of advances expands and contracts as our members have need, and that was evident with the sharp increase during the first quarter of the year.

MPF offers members liquidity on their 30-year residential mortgages. MPF represents about 5 percent of our balance sheet, and with the Bank's risk management practices, it provides a consistent income stream that complements our advances. We've seen steady growth in the MPF Program since 2015, and that trend continues.

Our members continue to find value in our letters of credit, also known as LCs. LCs are most often used to secure public unit deposits, which eliminates the need for members to pledge investment securities to support these deposits. That business has been very stable for the Bank over time.

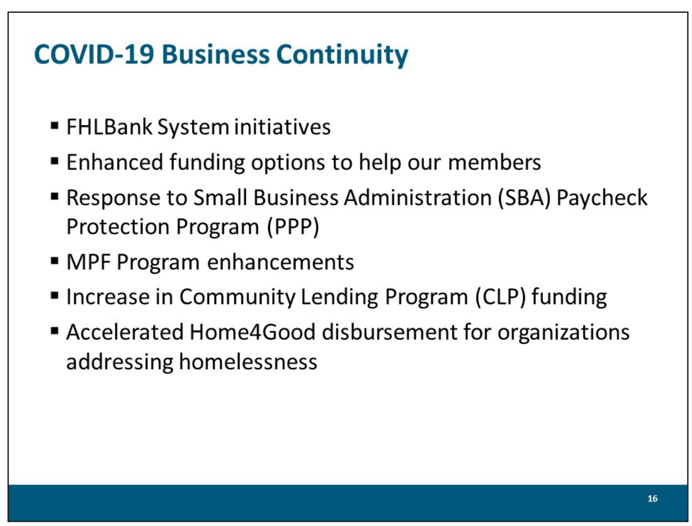
The Bank continues to offer our suite of community investment products, all of which have been widely used by members. The products include:

- the Affordable Housing Program,
- Banking On Business,
- Blueprint Communities,
- the Community Lending Program,
- First Front Door and
- Home4Good.

If you have any specific questions about any of our products, please contact your Business Development Manager to ensure that you are taking full advantage of our product offerings.

As we continue to evaluate the impact of COVID-19 on the Bank and our membership base, we have been taking steps to ensure that we remain a valued business partner.

Slide 16. Throughout the crisis, the Federal Home Loan Bank System has continued its focus on the orderly transition away from LIBOR. The System also remains the largest issuer of SOFR debt.



The System also continues our collaborative effort to accept eNotes as collateral. We remain engaged with industry participants and advisors in that pursuit.

Earlier in the year, the Federal Housing Finance Agency issued a Request for Input as it relates to FHLBank membership. That is also moving forward and has a June 23, 2020, response deadline.

The 11 Federal Home Loan Banks submitted a joint, principles-based response letter to the Agency in late April. We are prepared to offer guidance and technical assistance to our members and other stakeholders throughout the response process, if they so desire.

To meet member funding needs, the Bank offered enhanced funding through a short-term advance special at the end of April. That special was meant to help members with immediate short-term funding needs related to the SBA's Paycheck Protection Program. To further support that program, we began accepting the PPP loans as eligible collateral, which was announced to the membership just last week. Please see our member communication for more details regarding eligibility and lending values.

For the MPF Program, there have been enhancements regarding delinquent loans, forbearance and other program parameters as it relates to troubled borrowers.

We increased the amount of funds available in our Community Lending Program and adjusted the per-member limits.

And finally, the Bank has accelerated the disbursement of funds to organizations addressing homelessness through our

Home4Good product. We anticipate those disbursements, in coordination with our three state housing finance agencies, this month.

As Winthrop mentioned earlier, more information regarding each of these initiatives can be found in the "Coronavirus Updates" section of our website.

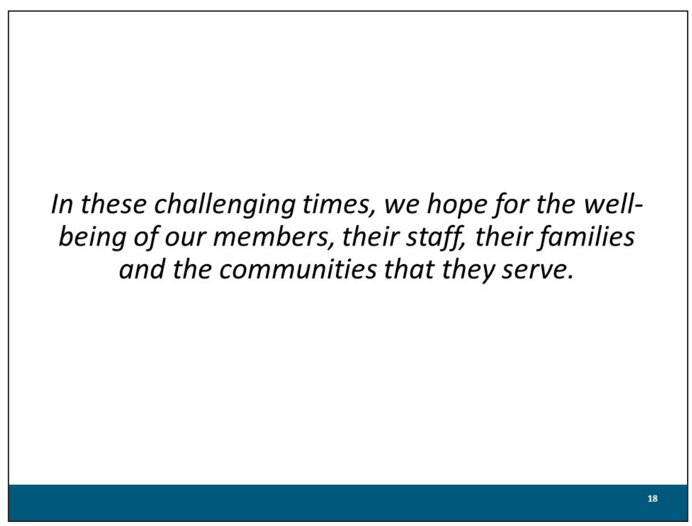
Now, I will turn the call back to Winthrop for some final comments.

Winthrop Watson

Thanks, Dave.

Before we conclude today's call, I want to again express my sincere hope for the well-being of our members, their staff and the communities that they serve.

You and your organizations are doing exceptional work that is vitally important to your communities and our economy. Our intention at the Bank is to support you as best we can.

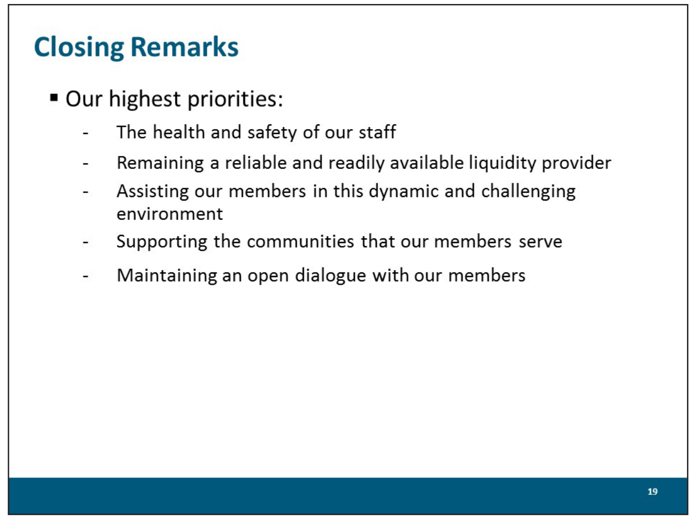


Before we open the line to questions, I'd like to spend a minute on the Bank's highest priorities in this uncertain environment.

The first is, the health and safety of our staff and the second is remaining a reliable and readily available liquidity provider. I believe that with those as our top priorities, we can best help our members and their communities.

Maintaining an open dialogue with our members is an important priority, and the last page of the presentation contains the contact information for our team. Please feel free to contact any of us, at any time.

We did receive one question prior to this call regarding the Bank having a definitive answer on whether it will offer a lending facility similar to the Fed's PPLF. Dave is going to answer that question, Dave.



Dave Paulson

First, the Bank does have a PPP lending program. Also, any lending that the Bank does has to fall within the terms of permissible FHLBank lending, which is recourse only. The special FRB PPP lending facility is non-recourse. The FHLBanks are not permitted to make non-recourse advances.

Our regulator has issued a supervisory letter on the terms of which FHLBanks can lend against PPP loans as collateral and the program we're offering is consistent with those supervisory guidelines.

Winthrop Watson

Thanks, Dave.

I'd like to thank everyone for attending today's call and for your continued business and support. Please stay well.

Winthrop Watson
President and
Chief Executive Officer

Dave Paulson
Chief Operting Officer

Edward Weller
Chief Accounting Officer

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