

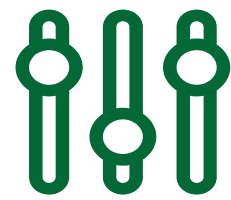


FHLB DES MOINES Regional Member Meeting

AGENDA



1. FHLB DES MOINES OVERVIEW



2. MEMBER STRATEGIES AND MEMBER SOLUTIONS

OVERVIEW: WHO IS FHLB DES MOINES?

FHLB DES MOINES OVERVIEW

Power of Partnership

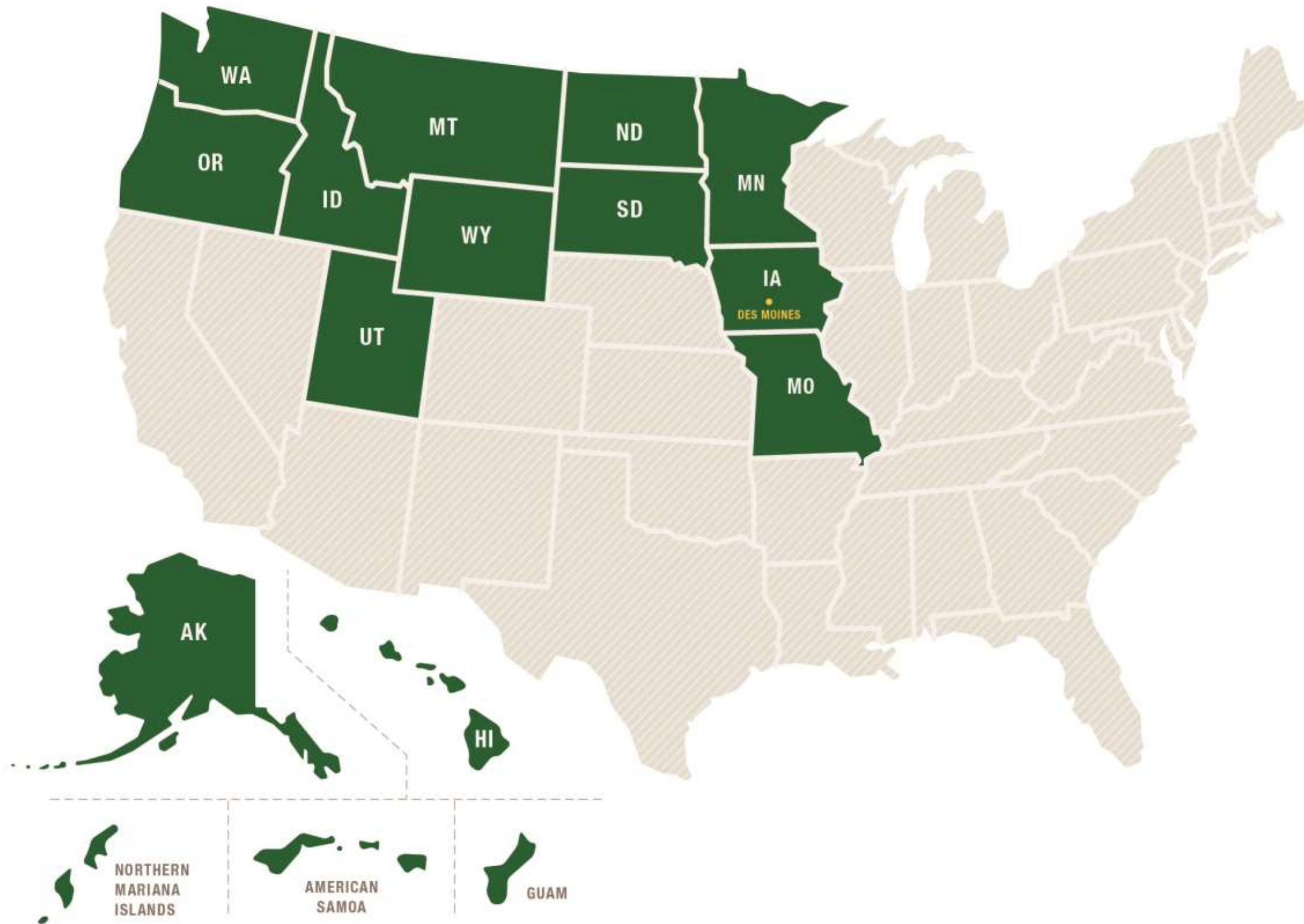
Welcome and Thank you

- 2016 was an excellent year for the FHLB Des Moines driven by record advances and broad utilization of our products and services
- Nearly **66%** of our members utilized at least one product from the Bank
- Member penetration rate of **2.87%** suggests FHLB Des Moines is funding almost 3.0% of depository balance sheets
- Record advances of **\$131.6 billion** and a growing MPF footprint
- 27 new members and **\$75 million** contributed to our Affordable Housing Program
- Bank is scaled to contemplate increases and decreases in member demand for advances



FHLB DES MOINES OVERVIEW

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- Headquartered in Des Moines, Iowa
- Western Office in Seattle, Washington
- District includes 13 states and three U.S. Pacific Territories
- 1,445 members
- Supports mortgage lending, economic development and affordable housing
- Represented by 74 Members of Congress

\$131.6 billion of
Advances

\$6.9 billion of
Mortgages

\$8.1 billion of
Capital



Data as of December 31, 2016, unless noted differently. Data subject to rounding.

FHLB DES MOINES OVERVIEW

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Statement of Condition Period Ended	March 31, 2017 (\$ Millions)	March 31, 2016 (\$ Millions)
Outstanding Advances	\$123,609	\$131,601
Investments	\$41,792	\$41,218
Mortgage Loans	\$6,870	\$6,913
Total Assets	\$172,918	\$180,605
Retained Earnings	\$1,590	\$1,450
Total Regulatory Capital	\$7,896	\$8,083

- 75.5% of Bank assets in form of advances and mortgages
- Bank is well capitalized, 4.57% Regulatory Capital Ratio as of March 31, 2017

- Rising rates and higher average advance balances beneficial to net interest income
- PLMBS settlements continue
- Slight asset sensitivity source of margin improvement

Operating Results Three Months Ended	March 31, 2017 (\$ Millions)	March 31, 2016 (\$ Millions)
Net interest income	\$153	\$103
Net Income	\$140	\$187
Net Interest Margin	.35%	.28%
Return on Average Equity	7.52%	12.92%
Return on Average Capital Stock	9.49%	15.39%
Return on Average Assets	.31%	.50%
Regulatory Capital Ratio	4.57%	4.48%

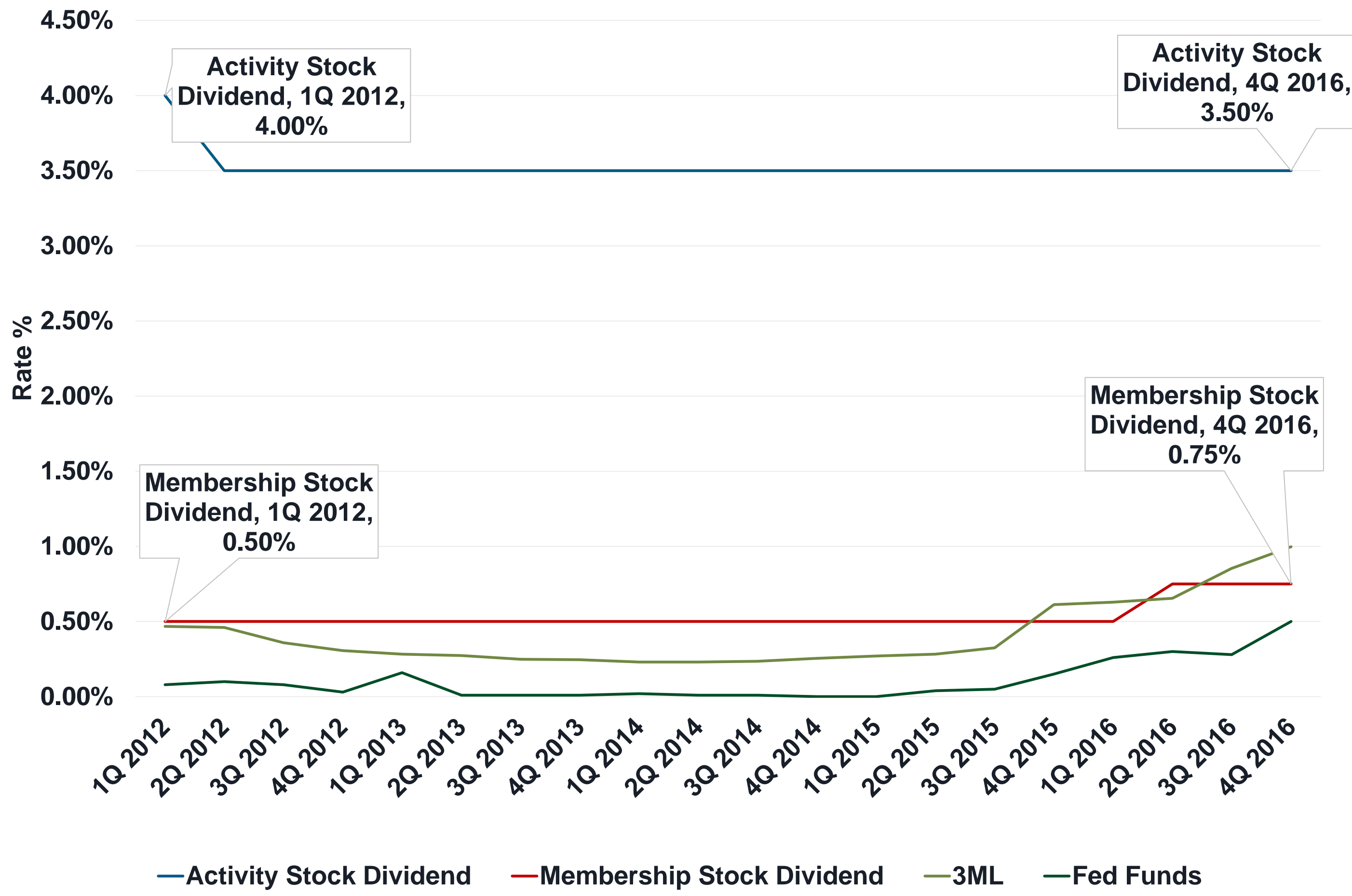


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FHLB DES MOINES OVERVIEW

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FHLB Des Moines Dividend Rate



Stable Dividend History

- Activity stock dividend level a deliberate measure to pay shareholders for using cooperative
- Membership stock dividend commensurate with benchmark rate of interest, such as 3-Month Libor

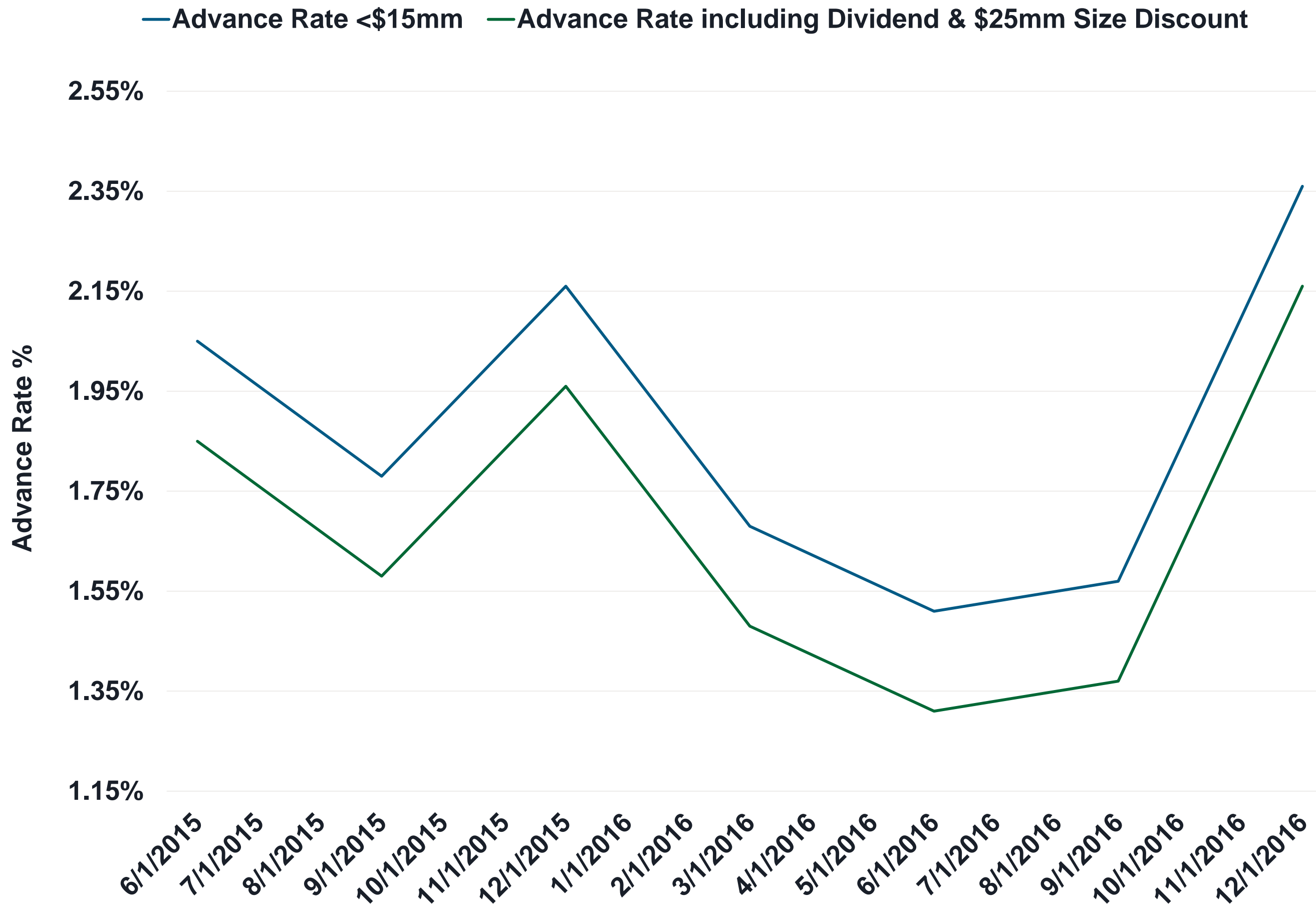


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FHLB DES MOINES OVERVIEW

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Value of Borrowing in Size & Dividend: 5Yr Bullet



Size Discount worth 4bps to 8bps

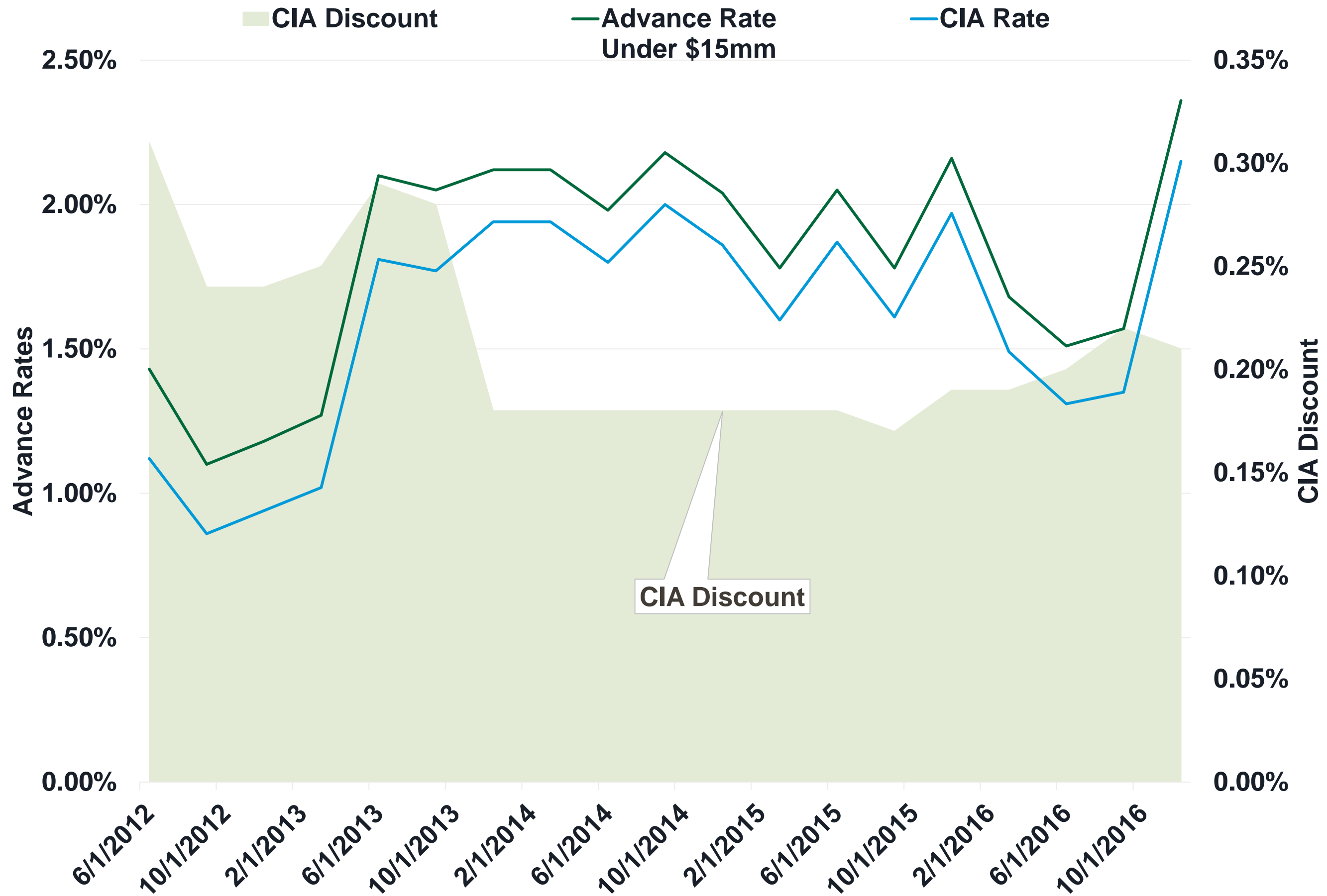
- \$15mm to \$25mm, 4bps discount
- >\$25mm, another 4bps discount, totaling 8bps from posted rates
- Dividend worth approximately 12bps annually



FHLB DES MOINES OVERVIEW

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5-Year Advance CIA Advance Benefits



Community Investment Advances

- Available from 1-year to 30-years
- Approximately 20bps discount from posted rates
- Maximum dollar amount of \$10 million outstanding



Data as of December 31, 2016, unless noted differently

FHLB DES MOINES OVERVIEW

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Commitment to Diversity and Inclusion



At FHLB Des Moines, our diversity & inclusion journey reaches beyond the walls of our organization. Led and supported by our Board of Directors, our diversity practices apply to every aspect of our business with the needs of our members and the diverse business communities they serve our central focus.



MEMBER STRATEGIES AND MEMBER SOLUTIONS

FHLB DES MOINES OVERVIEW

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The Top Six Reasons to use FHLB Advances & Letters of Credit

1. Employ **Marginal Cost of Funds** when pricing liabilities
2. Hedge unwanted interest rate risk using **term FHLB Advances**
3. Lock net interest spreads, pay for it later using **Forward Settling Advances**
4. Improve balance sheet liquidity by using **FHLB Letters of Credit**
5. Benefit when interest rates rise by utilizing **FHLB Symmetrical Prepayment Advances**
6. **Test your lines** at least twice a year

MEMBER STRATEGIES AND SOLUTIONS

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Member Strategies

- Dedicated professionals available to assess asset and liability strategies using complex financial tools
- Consultative approach allows members to utilize the power of our partnership and conduct pre-purchase analysis on both sides of the balance sheet
- Examples include:
 - Funding longer-term commercial real estate loans to hedge cash flow and interest rate risk
 - Assessing duration sensitivities in mortgage backed securities in a rising rate environment
 - Executive summary on earnings and risk profile to make decision regarding holding SFR mortgages on balance sheet, or selling into secondary market
 - Dynamically modeling deposit behaviors to determine marginal cost of offensive and defensive deposit campaigns
- Work with your Relationship Manager and Strategies Team to discuss opportunities

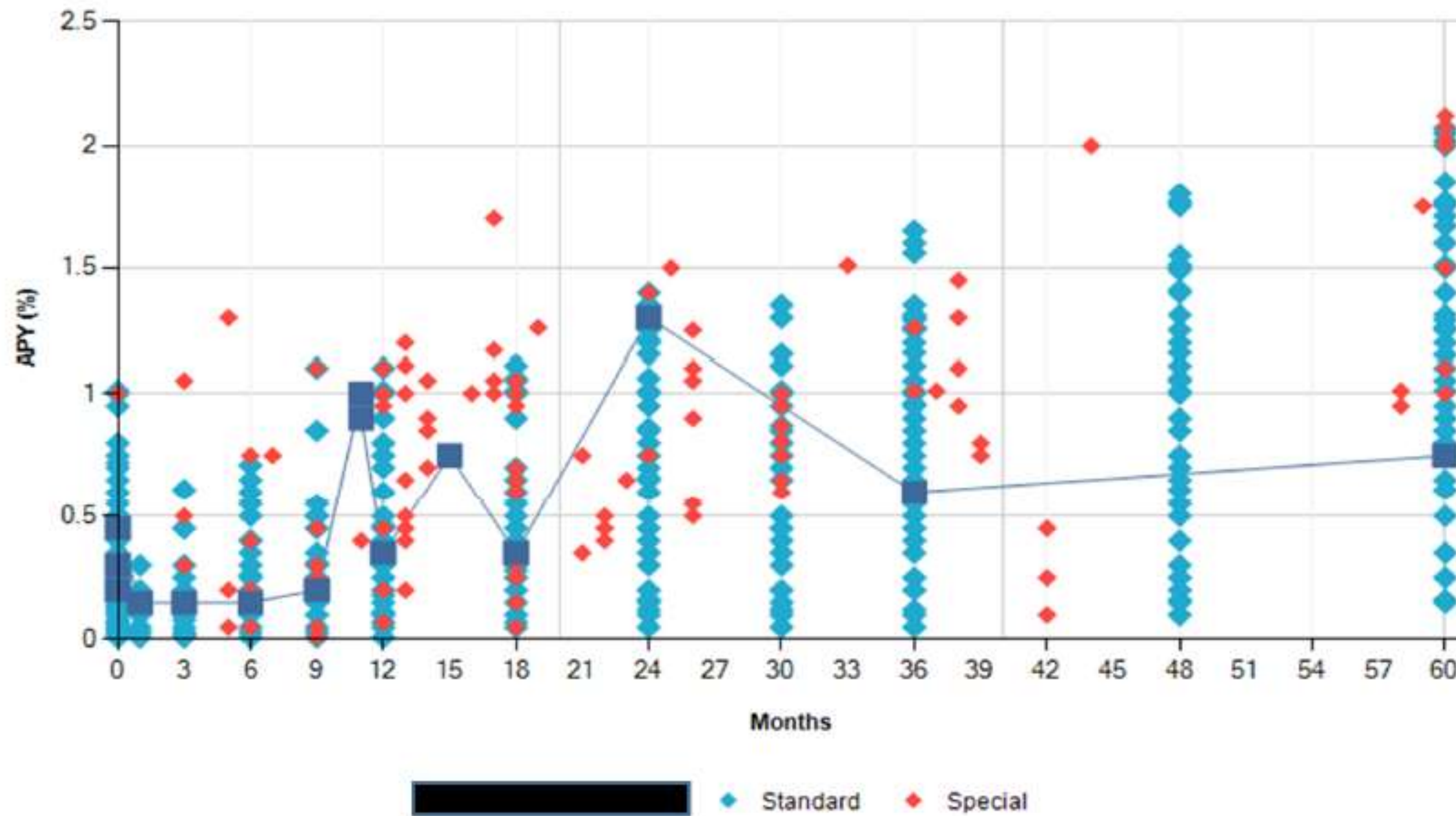
MEMBER STRATEGIES AND SOLUTIONS

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Marginal Cost of Funds

Savings Products - Time Deposit, Checking, Money Market, Savings

As of 3/14/2017 - 3/28/2017, includes King, WA (County) Market Rates



- Marginal Cost of Funds approach to managing retail deposit costs

- 
 - Offensive strategies
 - Defensive strategies
 - Capture and consider hidden costs of deposit market

MEMBER STRATEGIES AND SOLUTIONS

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Two-Step Process: Step 1

Marginal Cost of Funds Tool

[Retention Analysis](#)[Print Report](#)[Main Menu](#)[Exit](#)

Step 1:

Enter values for all parameters in the yellow cells in the Parameters Values section below. Hovering over a cell will display a brief description of the variable and the appropriate format with which the parameter should be entered. Once the initial parameters are entered, changing any one parameter may change the resulting analysis of the superior funding strategy.

PARAMETER VALUES	
Existing Total Deposits	\$446,529,555
Net New Funds To Be Raised	\$10,000,000
FHLB Des Moines Advance Rate	1.45%
Current Rate on Existing Deposits	0.54%
Promotional Rate	1.30%
Cannibalization Rate	2.00%
Total Amount (New + Cannibalized)	\$18,930,591

Parameter Calc Table

Breakeven Current Rate

Break Promotional Rate

Breakeven Cannibalization Rate

First step is to consider four assumptions:

- How much are you looking to raise?
- Promotional rate, what will you pay for your new account?
- What does the alternative cost you?
- Cannibalization... The **hidden** costs of deposit pricing and promotional campaigns
 - Even low rates of cannibalization can significantly diminish the economics of promotions



MEMBER STRATEGIES AND SOLUTIONS

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Two-Step Process: Step 2

Step 2:

Review the analysis of the two funding strategies.

Strategy 1: Funding Through Deposits With Promotional Rates

Source of Funds	Amount	Current Rate	New Rate	Rate Increase	Cost
Cannibalized Deposits	8,930,591	0.54%	1.30%	0.76%	67,872
Net New Deposits	10,000,000	0.00%	1.30%	1.30%	130,000
Totals	\$18,930,591				\$197,872

Strategy 2: Funding Through a FHLB Des Moines Advance

Source of Funds	Amount	Current Rate	New Rate	Rate Increase	Cost
FHLB Des Moines Advance	\$10,000,000	0.00%	1.45%	1.45%	\$145,000

Marginal Cost of Raising \$10,000,000 of Net New Deposits **1.98%**

Cost of Comparable FHLB Des Moines Advance **1.45%**

The FHLB Des Moines Advance Strategy is the Best Alternative!

Annual Cost Savings of FHLB Des Moines Advance Strategy \$52,872.49

Second step is to review analysis

- You had planned on raising \$10 million in new deposits...
- **Cannibalization...** But, you ended up with nearly \$19 million
- Cannibalization cost you 53 basis points, easily making the FHLB the better option



MEMBER STRATEGIES AND SOLUTIONS

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Two-Step Process: Step 2

Hidden costs of cannibalization can be very expensive

- You had planned on raising \$10 million in new deposits...
- But, a 2.00% cannibalization rate on \$446.5 million of deposits is expensive
 - Cannibalized balances totaling \$8.9 million, repriced from .54% to 1.30%, or +76bps

PARAMETER VALUES		Parameter Calc Table	
Existing Total Deposits	\$446,529,555		
Net New Funds To Be Raised	\$10,000,000	Breakeven	
FHLB Des Moines Advance Rate	1.45%	Breakeven Rates	
Current Rate on Existing Deposits	0.54%	0.601%	Breakeven Current Rate
Promotional Rate	1.30%	1.188%	Break Promotional Rate
Cannibalization Rate	2.00%	0.998%	Breakeven Cannibalization Rate
Total Amount (New + Cannibalized)	\$18,930,591		

- The breakeven rates can be helpful to set parameters on balances and pricing
 - Based on 2.00% cannibalization:
 - The cannibalized balances can only increase 6bps, not 76bps, or
 - The promotional rate can only be 1.19%, or
 - The cannibalization rate can only be 1.00%



MEMBER STRATEGIES AND SOLUTIONS

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Letters of Credit (LOC)

- Credit instrument issued by the Bank
 - Guarantees payment on behalf of member to a beneficiary for a stated period of time when certain conditions are met.
- Trustworthy counterparty and power of FHLB Des Moines AAA credit rating
- Reduces transaction and finance costs; promotes operational efficiency
- Earning efficiency-maximize earning assets
- Enhances member liquidity ratios by keeping highly liquid securities unencumbered
- All FHLB Des Moines eligible collateral is available for use as collateral for LOCs
- Fees range from 5.50bps to 12.50bps depending on size and structure
- No stock requirement to utilize product





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