BOSTON, Oct. 25, 2013 /PRNewswire/ -- The Federal Home Loan Bank of Boston announced its preliminary, unaudited third quarter results for 2013, reporting net income of
$38.1 million
for the quarter compared with net income of
$50.8 million
for the same period in 2012. The Bank expects to file its quarterly report with the Securities and Exchange Commission on Form 10-Q for the quarter ending September 30, 2013, next month.

The Bank's board of directors also declared a dividend equal to an annual yield of 0.37 percent, the approximate daily average three-month LIBOR yield for the third quarter of 2013 plus 10 basis points. The dividend, based on average stock outstanding for the third quarter of 2013, will be paid on November 4, 2013.

The Bank's board of directors also reduced the Bank's retained earnings target from $825 million to $
700 million
, citing the ongoing reduction of risk associated with private-label mortgage-backed securities as the primary reason for the reduction. Total retained earnings were
$705.7 million
at

September 30, 2013
, exceeding the retained earnings target.

"The Bank's retained earnings now exceed the board's target, and this marks a significant milestone after more than four years of effort," stated President and CEO Edward A. Hjerpe III. "Quarterly earnings increased by 7.0 percent compared with last quarter, and as expected, prepayment fees declined once again compared with 2012. Advances grew by 5.1 percent during the quarter, demonstrating that members continue to rely on our funding to meet their communities' credit needs."

Third Quarter 2013 Operating Highlights

Net income for the three months ending September 30, 2013, was $38.1 million, compared with net income of $
50.8 million
for the same period in 2012. These results led to a
$4.3 million
contribution to the Bank's Affordable Housing Program for the quarter. The Bank's third quarter 2013 income was less than the third quarter of 2012 primarily due to the
$8.6 million
decrease in net prepayment fees from investments and advances
(1)
.

Net interest income after provision for credit losses for the quarter ending September 30, 2013, was $58.3 million, compared with $73.3 million for the third quarter of 2012. Contributing to the
$15.0 million
decrease in net interest income after provision for credit losses was a decrease in net prepayment fees of
$8.6 million
, from
$12.0 million
in the third quarter of 2012 to
$3.4 million
in the third quarter of 2013. Additionally, the decline in net interest income after provision for credit losses was due to a drop in average earning assets, which declined
$6.4 billion
from

$47.1 billion
for the third quarter of 2012, to
$40.7 billion
for the third quarter of 2013. The decline in average earning assets was driven by a
$3.3 billion
drop in average investments balances and a
$3.2 billion
decrease in average advances balances.

Additionally, $5.9 million of the Bank's interest income represented the accretion of discount from securities that were other-than-temporarily impaired in prior quarters, but for which a significant improvement in projected cash flows [(2)] has subsequently been recognized, an increase of
$3.3 million
from
$2.6 million
recorded the third quarter of 2012.

Net interest spread was 0.49 percent for the quarter ended September 30, 2013, a 4 basis point decrease from the same period in 2012, and net interest margin was 0.57 percent, a 4 basis point decrease from the same period in 2012. The decrease in net interest spread reflects a 15 basis point decrease in the average yield on earning assets offset by the 11 basis point decrease in average yield on interest-bearing liabilities. The decreases in net interest margin and net interest spread reflect the decline in prepayment fees.

The Bank expects net interest margin and net interest spread to continue to decline based on the continuing low interest-rate environment. The decline in the Bank's average earning assets over the last few years is likely to negatively impact future earnings, particularly since reinvestment opportunities are not as profitable in this low interest-rate environment.

Because prepayment-fee income recognized during these periods does not necessarily represent a trend that will continue in future periods, and due to the fact that prepayment-fee income represents a one-time fee recognized in the period in which the corresponding advance or investment security is prepaid, the Bank believes it is important to review the results of net interest spread and net interest margin excluding the impact of prepayment-fee income. These results are presented in the following table (dollars in thousands).

For the Quarter Ended September 30, 2013

With Net Prepayment Fees

Without Net Prepayment Fees

Average Balance

Interest Income/ Expense

Average Yield [3]

Average Balance

Interest Income/ Expense

Average Yield [3]

Total interest-earning assets

$

40,729,303

$

139,879

1.36

%

$

40,729,303

$

136,453

1.33

%

Total interest-bearing liabilities

37,365,096

81,476

0.87

%

37,365,096

81,476

0.87

%

Net interest income

$

58,403

$

54,977

Net interest spread

0.49

%

0.46

%

Net interest margin

0.57

%

0.54

%

For the Quarter Ended September 30, 2012

With Net Prepayment Fees

Without Net Prepayment Fees

Average Balance

Interest Income/ Expense

Average Yield (3)

Average Balance

Interest Income/ Expense

Average Yield (3)

Total interest-earning assets

$

47,129,969

$

178,383

1.51

%

$

47,129,969

$

166,370

1.40

%

Total interest-bearing liabilities

42,791,824

105,582

0.98

%

42,791,824

105,582

0.98

%

Net interest income

$

72,801

$

60,788

Net interest spread

0.53

%

0.42

%

Net interest margin

0.61

%

0.51

%

Credit-related other-than-temporary impairment charges on certain private-label MBS were $1.5 million for the third quarter of 2013, compared with the $1.1 million recorded for such charges in the third quarter of 2012. The charges were attributable to projected incremental credit losses on the collateral underlying certain private-label MBS with a combined par value of $75.6 million at September 30, 2013. Offsetting the modest increase in other-than-temporary impairment charges was an increase in net other income of $2.1 million, from a loss of $698,000 in the third quarter of 2012 to income of $1.4 million in the third quarter of 2013. The increase in net other income was due primarily to a decrease of $4.4 million in expense on the early retirement of debt and a decrease in net losses on derivatives and hedging activities of $1.0 million in the third quarter of 2013. These increases to other income were offset by a decrease in the net unrealized gains on trading securities of $3.9 million.

Third Quarter 2013 Balance-Sheet Highlights

Total assets declined 1.2 percent to $39.7 billion at September 30, 2013, down from $40.2 billion at year-end 2012. During the nine months ended September 30, 2013, investments declined by $5.1 billion, or 32.7 percent, and advances increased $1.8 billion, or 8.5 percent, to $22.6 billion

, compared with
$20.8 billion
at year-end 2012. Demand for advances continues to be somewhat muted, although the Bank has experienced some growth in balances during 2013. However, member demand for advances could continue to be constrained as depository members continue to experience relatively high levels of deposits, which generally represent the primary form of funding for these members. Additionally, the Bank's membership has experienced only modest growth in demand for new mortgage loans. The Bank does not expect advances balances to rise significantly so long as deposit levels at members remain high in the absence of any other changes that would generally cause demand for advances to grow, such as stronger demand for loans. Member loan growth in 2013 is unpredictable due to continued uncertainty about the economy, despite some positive signs in housing and labor markets.

Total investments were $10.5 billion at September 30, 2013, a decrease of $5.1 billion, or 32.7 percent, compared with
$15.6 billion
at December 31, 2012. This decline is primarily attributable to the Bank's placement of
$2.9 billion
with the Federal Reserve Bank of
Boston
on
September 30, 2013
, as offered yields on overnight money market investments approached zero on that day. The par value of private-label MBS was
$2.0 billion
at September 30, 2013, a drop of
$210.5 million
from December 31, 2012, while the carrying value of private-label MBS was
$1.2 billion
at September 30, 2013, a decline of
$126.2 million
from December 31, 2012. The private-label MBS portfolio principal balance has declined significantly from its peak par value of
$6.4 billion
in
September 2007
.

Investments in mortgage loans totaled $3.4 billion at September 30, 2013, a decrease of $77.8 million
from year-end 2012.

GAAP capital at September 30, 2013, was $2.7 billion, a decrease of $901.4 million from $3.6 billion at year-end 2012. Capital stock declined by $1.0 billion due to the reclassification of capital stock to mandatorily redeemable capital stock amounting to $859.5 million and the repurchase of $300.0 million of excess capital stock (of which $25.0 million was mandatorily redeemable capital stock). The reclassification of capital stock to mandatorily redeemable capital stock primarily resulted from the merger of Bank of America, Rhode Island into its parent Bank of America, N.A., which is ineligible for Bank membership. Offsetting these decreases was the issuance of $120.4 million of capital stock. Restricted retained earnings totaled $89.8 million at September 30, 2013, while total retained earnings at September 30, 2013, grew to $705.7 million, an increase of $118.2 million from December 31, 2012. Accumulated other comprehensive loss totaled $482.1 million at September 30, 2013, an increase of $5.5 million from December 31, 2012.

The Bank remained in compliance with all regulatory capital ratios at September 30, 2013, and in the most recent information available was classified "adequately capitalized" by its regulator, the Federal Housing Finance Agency, based on the Bank's financial information at June 30, 2013.[(4)] At September 30, 2013, the Bank's total regulatory capital-to-assets ratio was 10.4 percent, exceeding the 4.0 percent minimum regulatory requirement, and its permanent capital was $4.1 billion, exceeding its $702.3 million minimum regulatory risk-based capital requirement. Additionally, the Bank's internal minimum capital requirement, which is the sum of the Bank's 4.0 percent minimum regulatory capital requirement plus its retained earnings target, equaled $2.4 billion at September 30, 2013, which also was satisfied by the Bank's actual regulatory capital of

$4.1 billion
. The ratio of the Bank's market value of equity to its par value of capital stock was 117.1 percent at September 30, 2013, compared with 107.6 percent at December 31, 2012.

Satisfaction of the Retained Earnings Target

As discussed above, total retained earnings now exceed the retained earnings target. Accordingly, the board may determine to declare larger dividends and/or complete larger and/or more frequent repurchases of excess stock, subject to applicable restrictions. The Bank notes that the quarterly dividend payout restriction of 40 percent of a quarter's earnings in the Bank's retained earnings policy will not constrain the board's ability to declare dividends so long as the retained earnings target is satisfied. Restrictions on our board's ability to declare dividends are discussed under Item 5 — Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities in the Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on March 26, 2013 (the 2012 Annual Report).

About the Bank

The Federal Home Loan Bank of Boston is a cooperatively owned wholesale bank for housing finance in the six New England states. Its mission is to support the residential-mortgage and community-development lending activities of its members, which include 449 financial institutions across New England. To accomplish its mission, the Bank utilizes private-sector capital to provide members and other qualified customers with reliable access to low-cost wholesale funds, liquidity, a competitive outlet for the sale of loans, special lending programs, technical assistance, and other products and services.

Federal Home Loan Bank of Boston

Balance Sheet Highlights

(Dollars in thousands)

(Unaudited)

9/30/2013

6/30/2013

12/31/2012

ASSETS

Advances

$

22,555,122

$

21,463,205

$

20,789,704

Investments [5]

10,471,910

13,897,870

15,554,057

Mortgage loans held for portfolio, net

3,401,111

3,474,211

3,478,896

Other assets

3,292,517

505,780

386,360

Total assets

$

39,720,660

$

39,341,066

$

40,209,017

LIABILITIES

Consolidated obligations, net

$

34,677,608

$

34,296,536

$

34,758,896

Deposits

570,356

604,130

594,968

Mandatorily redeemable capital stock

977,390

977,390

215,863

Other liabilities

830,618

865,981

1,073,191

CAPITAL

Class B capital stock

2,441,028

2,401,209

3,455,165

Retained earnings - unrestricted

615,993

587,786

523,203

Retained earnings - restricted[6]

89,752

82,136

64,351

Total retained earnings

705,745

669,922

587,554

Accumulated other comprehensive loss

(482,085)

(474,102)

(476,620)

Total capital

2,664,688

2,597,029

3,566,099

Total liabilities and capital

$

39,720,660

$

39,341,066

$

40,209,017

Total regulatory capital-to-assets ratio

10.4

%

10.3

%

10.6

%

Ratio of market value of equity (MVE) to par value of capital stock [7]

117.1

%

116.3

%

107.6

%

Federal Home Loan Bank of Boston

Income Statement Highlights

(Dollars in thousands)

(Unaudited)

For the Three Months Ended

For the Nine Months Ended

9/30/2013

6/30/2013

9/30/2012

9/30/2013

9/30/2012

Total interest income

$

139,879

$

145,273

$

178,383

$

445,729

$

551,738

Total interest expense

81,476

84,563

105,582

250,268

321,043

Net interest income

58,403

60,710

72,801

195,461

230,695

Net interest income after provision for credit losses

58,320

61,900

73,324

197,655

232,752

Net other-than-temporary impairment losses on investment securities recognized in income

(1,528)

(394)

(1,092)

(2,343)

(5,544)

Other income (loss)

1,404

(6,466)

(698)

(7,338)

(9,984)

Operating expense

13,855

13,214

12,785

40,065

39,165

Other expense

1,929

2,176

2,254

6,564

7,291

AHP assessment

4,333

4,061

5,675

14,343

17,160

Net income

$

38,079

$

35,589

$

50,820

$

127,002

$

153,608

Performance Ratios:

Return on average assets

0.37

%

0.38

%

0.43

%

0.43

%

0.43

%

Return on average equity[8]

5.73

%

5.55

%

5.92

%

5.83

%

6.01

%

Net interest spread

0.49

%

0.56

%

0.53

%

0.58

%

0.56

%

Net interest margin

0.57

%

0.65

%

0.61

%

0.67

%

0.65

%

(1)

Prepayment fees received from borrowers on prepaid advances are presented net of any associated ba

(2)

Upon subsequent evaluation of a debt security when there is no additional other-than-temporary impairm

(3)

Yields are annualized.

(4)

For additional information on the Bank's capital requirements, see Item 7 — Management's Discussion a

(5)

Investments include available-for-sale securities, held-to-maturity securities, trading securities, interest-b

(6)

The Bank's capital plan and a joint capital enhancement agreement among all Federal Home Loan Bank

(7)

MVE equals the difference between the theoretical market value of assets and the theoretical market va

(8)

Return on average equity is net income divided by the total of the average daily balance of outstanding C

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This release, including the unaudited balance sheet highlights and income statement highlights, uses forward-looking statements within the meaning of the "safe harbor" provisions of the

Private Securities Litigation Reform Act of 1995 and are based on the Bank's expectations as of the date hereof. The words "preliminary," "expects," "anticipates," "is likely," "will," and similar statements and their plural and negative forms are used in this notification to identify some, but not all, of such forward-looking statements. For example, statements about future declarations of dividends, future excess stock repurchases, and expectations for advances balances and mortgage-loan investments are forward-looking statements, among other forward-looking statements herein. The Bank cautions that, by their nature, forward-looking statements involve risks and uncertainties, including, but not limited to, the application of accounting standards relating to, among other things, the amortization of discounts and premiums on financial assets, financial liabilities, and certain fair value gains and losses; hedge accounting of derivatives and underlying financial instruments; the fair values of financial instruments, including investment securities and derivatives; and other-than-temporary impairment of investment securities, in addition to instability in the credit and debt markets, economic conditions (including effects on, among other things, MBS), changes in interest rates, and prepayment speeds on mortgage assets. Accordingly, the Bank cautions that actual results could differ materially from those expressed or implied in these forward-looking statements or could impact the extent to which a particular objective, projection, estimate or prediction is realized and you are cautioned not to place undue reliance on such statements. The Bank does not undertake to update any forward-looking statement herein or that may be made from time to time on behalf of the Bank.

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