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Federal Home Loan Bank of Des Moines to Restate Financial Results to Correct Accounting for Certain Derivative Instruments under SFAS 133

(Des Moines, Iowa) - The Federal Home Loan Bank of Des Moines (Bank) announced today that it plans to restate its financial statements for the years 2001 through 2004. The primary purpose of the restatement is to correct certain errors related to the application of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). In light of this announcement, readers should no longer rely on the Bank's previously released financial statements for the periods being restated.

For known items, management believes that the restatement could result in a net cumulative gain in retained earnings of $100 million or more, net of assessments for the Resolution Funding Corporation and the Affordable Housing Program, as of September 30, 2005. The Bank is continuing to review several other accounting issues, the outcome of which could result in a material change to this estimate for known items to date. However, in all outcomes evaluated by management to date, the Bank's current retained earnings are expected to be positive, although prior and future (until the relevant derivative positions are closed out as discussed below) income statements will likely reflect a significant increase in earnings volatility and the exact amount of the restatement for each affected quarterly and annual period is not known at this time.

The Bank misapplied SFAS 133 accounting rules for certain derivatives used to hedge fixed-rate mortgage loans and incorrectly used the "short-cut" method of accounting as provided for under SFAS 133 for certain other hedging relationships.

“The purpose of the restatement is to ensure that we have properly applied the SFAS 133 accounting rules,” stated Patrick J. Conway, President and CEO of the Bank. He added that “Management believes these accounting issues will not have a material negative or positive impact on the market value of the Bank’s assets and liabilities. We are pleased that we have moved toward final resolution of the Bank’s accounting issues, and believe that the accounting revisions announced today will not affect the core business of the Bank or our ability to serve the Bank’s members.”

Background Information on SFAS 133

SFAS 133 requires that all derivatives be carried on the Bank’s balance sheet at fair value, and that periodic changes in their fair value be recorded in earnings. If hedging relationships meet certain criteria specified in SFAS 133, they are eligible for hedge accounting and the offsetting changes in fair value of the hedged items are recorded in earnings. The application of hedge accounting generally requires the Bank to evaluate the effectiveness of the hedging relationships on an ongoing basis and to calculate the changes in fair value of the derivatives and related hedged items independently. This is known as the “long-haul” method of hedge accounting.

Transactions that meet more stringent criteria qualify for the “short-cut” method of hedge accounting in which an assumption can be made that the change in fair value of a hedged item exactly offsets the change in value of the related derivative.

The need for restatement results from the incorrect application of hedge accounting under SFAS 133 and the corresponding loss of hedge accounting treatment in two areas: fixed-rate mortgage loan hedges for which the Bank applied the “long haul” accounting treatment and certain other hedges for which the Bank applied the “short-cut” accounting treatment.

The larger of the two issues is the Bank's mortgage hedging strategy, which has had the economic effect of converting long-term fixed-rate mortgage loans into variable-rate loans for significant portions of their remaining lives. From an accounting standpoint, both the derivative instruments and the underlying mortgage loans were being marked-to-market through the income statement under “long-haul” accounting. Management believes that this hedging strategy has been an effective tool for managing financial risk and preserving the Bank’s market value; however, it has been determined that the specific techniques applied do not satisfy the requirements for hedge accounting treatment under SFAS 133. These derivative positions must be marked-to-market, but the underlying changes in fair value of the mortgage portfolio do not qualify for the same treatment.

The second area for which hedge accounting will no longer be applied to certain hedging relationships pertains to the use of the "short-cut" method of hedge accounting. Certain transactions for which the Bank should have used the "long-haul" method but instead designated under the "short-cut" method, either do not qualify for “short-cut” hedge accounting or have deficiencies in certain documentation and reporting requirements, even though the hedges were highly effective in an economic sense. These derivative positions must be marked-to-market, but the underlying changes in fair value of the hedged positions do not qualify for the same treatment.

As of September 30, 2005, the Bank had approximately $6 billion of derivatives hedging fixed rate mortgage loans on its books, and these derivatives will continue to be marked-to-market for purposes of determining GAAP net income. Management plans to close out these derivative positions over the next several months by terminating the derivatives and funding the mortgage loans with long term fixed rate debt such as callable and non-callable bonds. As a result, the Bank could experience additional large gains or losses until the positions are completely closed out. To provide illustrations of this potential for volatility in GAAP net income, management estimates that a 50 basis point increase in swap rates could result in a gain of approximately $80 million, while a 50 basis point decrease in swap rates could result in a loss of approximately $75 million.

To the extent the Bank recognizes a one time cumulative net gain in retained earnings from the combination of the restatement discussed above and the close out of the mortgage loan derivative positions, GAAP net income in the future is expected to be lower than it otherwise would have been considering the expected funding strategy. This acceleration of current period income and related reduction in future period income will be considered by the Bank in establishing any new target level of retained earnings and in declaring future dividends.

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Statements contained in this announcement, including statements describing the objectives, projections, estimates or future predictions in our operations, may be forward-looking statements.

These statements may be identified by the use of forward-looking terminology, such as plans, anticipates, believes, could, estimate, may, should and will or their negatives or other variations on these terms. By their nature forward-looking statements involve risk or uncertainty and actual results could differ materially from those expressed or implied or could affect the extent to which a particular objective, projection, estimate or prediction is realized.

The Federal Home Loan Bank of Des Moines is an AAA-rated wholesale bank that provides low-cost short and long-term funding and community lending to more than 1,200 stockholder commercial banks, saving institutions, credit unions and insurance companies. The Bank is wholly owned by its members and receives no taxpayer funding. The Des Moines Bank serves Iowa, Minnesota, Missouri, North Dakota and South Dakota and is one of twelve regional Banks that make up the Federal Home Loan Bank System.