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## Federal Home Loan Bank of Des Moines

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<u>Major Rating Factors</u>	<b>CREDIT RATING</b>	AAA/Negative/A-1+
<u>Rationale</u>		
<u>Outlook</u>		
<u>Profile</u>	<b>Outstanding Rating(s)</b>	
<u>Ownership and Legal Status</u>	Counterparty Credit	AAA/Negative/A-1+
<u>Strategy</u>	LOC evaluation	
<u>Asset Quality</u>	<i>Local currency</i>	AAA/A-1+
<u>Profitability</u>	<b>Credit Rating History</b>	
<u>Asset-Liability Management</u>	Nov. 15, 1994	AAA/A-1+
<u>Capital</u>	<b>Sovereign Rating</b>	
	United States of America	AAA/Stable/A-1+

### Major Rating Factors

#### Strengths:

- Strong funding and liquidity
- Low credit risk

#### Weaknesses:

- Weak profitability

### Rationale

The ratings on the Federal Home Loan Bank of Des Moines (FHLB-Des Moines) reflect the bank's outstanding asset quality, strong balance-sheet liquidity, and sufficient risk-adjusted capital levels. Also reflected in the strong credit ratings are the benefits of the bank's membership in the FHLB system and its access to low-cost funding.

FHLB-Des Moines has been participating in the Mortgage Partnership Finance® (MPF) program since 1999. The MPF program, developed by FHLB-Chicago in 1997, allows members to sell fixed-rate, conforming, single-family mortgage loans to the FHLBs. The amount generated on FHLB-Des Moines' balance sheet under this program has grown rapidly and has accounted for over one-third of total assets for the past three quarters.

This rapid growth of the MPF loans reflects the changing business mix that includes a large exposure to high-credit-quality, fixed-rate, longer-dated residential mortgage loans purchased through the bank's MPF program. This changing business profile has led to higher interest rate risk exposure and higher demands for risk management. FHLB-Des Moines has grown the MPF loans in line with its ability to hedge the loans with interest rate swaps that effectively convert the loans to LIBOR floating rate assets. Nevertheless, the bank has been among the most active in growing its mortgage loan portfolio as part of the system's MPF program. This change in business mix and the

degree of hedging required to facilitate the growth of MPF loans versus advances to its members, is a critical change in the bank's credit profile.

Because the MPF program is an important business line for the bank and its members, there is likelihood of continued growth in MPF loans given the interest from the bank's members. With the large proportion of MPF loans, Standard & Poor's Rating Services will continue to monitor the MPF program closely, given the risks it entails relative to the bank's current ratings.

## **Outlook**

The negative outlook on the FHLB-Des Moines reflects the changing business mix that includes a large exposure to high-credit-quality, fixed-rate, longer-dated residential mortgage loans purchased through the bank's MPF program. The growth in MPF loans at the bank has increased its exposure to complex interest rate risk and placed higher demands on risk management to manage these portfolios in a rising or volatile interest rate environment.

## **Profile**

With \$47.4 billion in total assets, FHLB-Des Moines is among the smallest of the 12 district banks in the FHLB system. The bank operates as a cooperative and serves member institutions—which primarily include regulated financial depositories and insurance companies engaged in residential housing finance—located in the eighth district, which includes Iowa, Minnesota, Missouri, North Dakota, and South Dakota. At March 31, 2004, there were 1,234 institutions comprising FHLB-Des Moines' membership base, which is the largest in the system. Membership was slightly down from 1,238 at year-end 2003 and has fluctuated in a tight range since year-end 2001. Membership includes predominately commercial banks and savings institutions, and to a lesser extent credit unions and insurance companies.

The bank's primary business is to provide liquidity to its membership to facilitate residential mortgage lending. The bank accomplishes this mission by providing liquidity in the form of attractively priced short- and long-term loans (advances) as a supplement to deposit flows in meeting residential mortgage credit and other funding needs of member institutions in its district. The bank structures these advances, along with their pricing, to meet the needs of its membership base. Advances offered by the bank include fixed- and variable-rate advances, callable advances, and convertible (putable) advances. In addition to advances, FHLB-Des Moines offers other credit-related services, such as stand-by LOCs, and wire transfer and safekeeping services.

In 1999, FHLB-Des Moines began to participate in the MPF program. Under the MPF program, the bank funds or purchases whole loan mortgages originated by its member financial institutions. Member institutions manage the credit risk, underwrite, originate, and service the mortgages. In turn, the FHLB manages the interest rate and other financial risks on these loans. Although the member banks' credit enhances MPF loans to an 'AA' rated level, these loans nonetheless add incremental interest and credit risks. At March 31, 2004, FHLB-Des Moines had \$16.3 billion of MPF loans outstanding, net of loan-loss reserves of approximately \$6.0 million, which is slightly up from the year-end 2003 balance of \$16.0 billion. MPF loans continue to represent a larger portion of the balance sheet, currently amounting to 34.3% of total assets. This proportion had steadily increased throughout 2003 when it peaked at 35.5% at Dec. 31, 2003, but is still significantly up from 13.4% at year-end 2002.

FHLB-Des Moines also makes funding available specifically for low- and moderate-income housing programs. This is accomplished through contributions to its FIRREA-mandated Affordable Housing Program (AHP), which includes its Rural Homeownership and Native American Homeownership Initiative. The bank's Community Investment Cash Advance Program provides below-market advances to assist in the funding of both

community development and affordable housing projects.

### **Ownership and Legal Status**

Congress created the FHLBs in 1932 to improve the availability of funds to support home ownership, and they are organized under the authority of the Federal Home Loan Bank Act of 1932. The Office of Finance is a joint office of the FHLBs established by the Federal Housing Finance Board (Finance Board) to facilitate issuing and servicing of consolidated obligations of the FHLBs. The Finance Board is an independent agency in the executive branch of the U.S. government, charged with establishing policies and the regulation of the FHLBs and the Office of Finance. Operating as a cooperative, FHLB-Des Moines' shareholders are all member financial institutions.

The Gramm-Leach-Bliley Act, enacted in November 1999, and the final Finance Board regulations issued during 2000, led to a number of changes for the FHLBs, including changes to their capital structure, a move to risk-based capital, minimum capital-to-asset ratio of 4.0%, and capital stock purchase requirements for member institutions. FHLB-Des Moines submitted its plan to the Finance Board and received approval to implement the plan. On July 1, 2003, the bank implemented its new capital plan converting from a subscription capital structure to a new permanent capital structure.

### **Strategy**

FHLB-Des Moines' primary business strategy is to provide a reliable source of liquidity to its members for their residential and community lending activities for the promotion of home ownership by providing readily available low-cost funds to its member institutions. The bank primarily achieves this strategy by making advances to its members, purchasing MBS, and acquiring whole loans through the MPF program.

Since the Finance Board supervises all FHLBs, the implementation of their business strategies is closely monitored. The Finance Board establishes broad policies and regulations governing the operations of the 12 district FHLBs.

### **Asset Quality**

Asset quality measures at FHLB-Des Moines remain solid as they reflect the bank's collateralized-based lending, overall conservative underwriting policies, and high-quality investment purchases. Total assets of \$47.4 billion at March 31, 2004, rose about 5% on a linked quarter basis from year-end 2003. The quarterly growth is attributed to across-the-board earning asset growth, which includes growth in MPF loans, advances, and the investment portfolio.

FHLB-Des Moines operates with negligible credit risk given the fully collateralized nature of its primary lending business, advances to members. In addition, credit analysis and ongoing surveillance of members is used to monitor credit risk. Since its inception, FHLB-Des Moines has not had a credit loss on an advance. Due to the collateralized lending standards and its credit history, the bank does not maintain a loss reserve for advances.

Nevertheless, the bank has some level of concentration risk; at March 31, 2004, the bank had advances totaling \$5.4 billion, or 22.2% of total advances, outstanding to one member institution, Wells Fargo Bank N.A. This concentration has increased from year-end 2003, when \$4.5 billion, or 20% of total advances, was outstanding to the same organization. At March 31, 2004, advances totaled \$24.8 billion, a 6.3% quarter-to-quarter increase from \$23.3 billion at year-end 2003, and an increase of 9.8% year-over-year from \$22.6 billion at March 31, 2003. At March 31, 2004, advances continue to represent the majority of the bank's total assets (52.3%), up from 51.7% at year-end 2003. Growth in advances is derived from two main central member pursuits. Members have prepared for a rising rate environment by locking in low fixed rates and increasing long-term borrowings instead of shorter-term maturities. The other reason is a large member of the bank had increased its fixed-rate

convertible (putable) advances, whereby the member would obtain a lower interest rate than a comparable-maturity advance that does not include the put option. This permits the bank to terminate the advance on predetermined put dates if interest rates rise above a prespecified level, thus allowing the bank to reinvest the proceeds at higher market rates.

Supplementing FHLB-Des Moines' earning asset base is a high-quality investment portfolio, which totaled \$6.1 billion at March 31, 2004, up from \$5.5 billion at Dec. 31, 2003, but down dramatically from \$12.3 billion at Dec. 31, 2002. The 9.7% increase from year-end 2003, mainly an increase in short-term investments, reversed a year-long contraction of the portfolio as a result of a lower leverage target after implementing the bank's capital plan and the growth of the mortgage loans. The investment portfolio, at approximately 12.8% of total assets at Mar. 31, 2004, is a smaller proportion of the bank's balance sheet lower compared to historical measures of 30%. At March 31, 2004, the portfolio was comprised of high-quality U.S. agency securities (\$1.5 billion), Fed funds (\$1.2 billion), Money Market investments (\$1.1 billion), and MBS (\$2.2 billion). The Finance Board regulations limit the bank's investment in MBS to 300% of equity, and at March 31, 2004, MBS represented 98% of equity. FHLB-Des Moines made a conscious decision during 2003 and 2002 to reduce the MBS portfolio given the growth in the MPF program. At March 31, 2004, MBS represented 4.7% of total assets, which was down from 5.5% at year-end 2003 and down dramatically from 13.5% at Dec. 31, 1998. The investment portfolio is used primarily to provide liquidity and to generate incremental income.

FHLB-Des Moines operates with a fairly high degree of asset liquidity. As with advances to members, the bank's investment criteria are well outlined and comprehensive. Counterparty relationships, credit ratings, and duration levels are firmly defined in the bank's internal and system-wide Finance Board criteria and financial management policy and regulations, thereby minimizing credit, liquidity, and interest rate risks. To limit credit risk, the bank invests only in very liquid and highly rated long-term securities and short-term instruments.

In addition to the traditional earning asset mix, the bank holds \$16.3 billion, or 34.3% of total assets, in MPF loans at March 31, 2004. MPF loans grew at an annualized rate of 6.3% through the first three months of 2004, which is much slower than the tremendous growth of 183% and 51% exhibited in 2003 and 2002, respectively. This asset class has added incremental credit and operational risks. Management, as expected, has prudently added to the loan-loss reserve that, in order to protect against credit loss, totaled \$6.0 million, or 0.04% of MPF loans at March 31, 2004, up from \$5.9 million, or 0.04% of MPF loans at Dec. 31, 2003. Loan-loss reserves have grown in conjunction with retained earnings, as both serve as a buffer for credit volatility and to lend stability to capital measures. Loan-loss reserves and retained earnings have grown 84% and 67% compared to first-quarter 2003, respectively. Net charge-offs have been negligible thus far, amounting to less than one basis point (bp) of average mortgage loans in each period of the program's existence. The bank's investment in the MPF loans is considered its highest credit risk exposure.

### **Profitability**

Since the bank maintains a very short duration of equity, its net interest income bears a direct relationship to the level of short-term interest rates. Through first-quarter 2004, the prevailing low interest rate environment continues to depress the bank's earnings. During the past three years, net interest income-to-operating revenues averaged 85%, indicating net interest income is the predominant source of revenues. Moreover, this three-year average is low compared to the 90%-plus historical perspective, since the amount of prepayment fees surged as members prepaid higher yielding FHLB advances in favor of low-cost financing.

FHLB-Des Moines' annualized return on average assets was 14 bps through the three months ended March 31, 2004, down from 22 bps for the same period a year ago. Net income in first-quarter 2004 of \$15.8 million was down 28% from first-quarter 2003. The decrease in profitability was a result of decreased net interest income, decreased prepayment fees, and an increase in derivative and hedge accounting loss. Net interest income remained flat in first-quarter 2004 compared to the same period a year ago as increased revenues from higher average earning asset balances were offset by lower market interest rates. As such, FHLB-Des Moines saw its net interest margin compress to 0.25% in first-quarter 2004 from 0.33% in first-quarter 2003.

Net income has increasingly become volatile from period to period due to the 2001 implementation of Statement of Financial Accounting Standards No. 133 (SFAS 133). The volatility created by SFAS 133 causes noninterest income levels to vary greatly quarter-to-quarter, because it reflects the net gain or loss of financial instruments due to the bank's hedging activities. In first-quarter 2004, FHLB-Des Moines reported a \$7.4 million net realized and unrealized loss on derivatives and hedging activities, whereas in fourth-quarter 2003 and first-quarter 2003, the bank reported a \$4.0 million gain and a \$0.6 million loss, respectively.

General competitive pressures and the low interest rate environment have narrowed the spreads that the bank earns on its advances and investment portfolio, and aside from possible relief from rising interest rates, it does not appear that the spreads will widen. Mitigating some of these concerns, however, are the bank's low funding costs, low operating costs, and minimal credit costs given the high credit quality of assets. All these help support the bank's core profitability measures, especially on a risk-adjusted basis.

### **Asset-Liability Management**

As with all of the individual FHLBs, FHLB-Des Moines enjoys an attractive funding structure due to advantageous pricing derived from its GSE status. Consolidated obligations (COs)—the joint and several obligations of the 12 district banks, consisting of the proceeds raised through the issuance of bonds and discount notes issued by the Office of Finance on behalf of the FHLBs—remain the primary funding vehicle for all district FHLBs. At March 31, 2004, the bank had COs of \$42.0 billion, which made up 93.2% of total liabilities. Discount notes, which have maturities of less than one year and are issued at a discount from their face value, totaled \$5.0 billion, or 12.0% of the bank's total COs. Supplementing COs as a funding source were deposits of \$1.5 billion, or 3.2% of liabilities. The bank's deposits typically are overnight or short-term deposits from its member banks.

FHLB-Des Moines follows a strict asset-liability management policy and employs numerous risk management techniques to manage interest rate risk. These include measurements of Net Market Value of Capital Stock, Value-at-Risk, and the bank's main policy, Duration Gap. In each technique, the bank stresses the duration of its portfolio equity under many different interest rate scenarios. The Duration Gap was -0.1 months at March 31, 2004, and is within the bank's policy of a Duration Gap of +/- six months. In addition, the bank is an active user of interest rate swaps and other derivative transactions to minimize interest rate, prepayment, and other types of risk and to change the cash flow and duration characteristics of its assets and liabilities. Interest rate swaps are typically used to swap its fixed-rate assets and liabilities to floating rate. At Mar. 31, 2004, 70% of the fixed-rate mortgage portfolio was hedged with interest rate swaps and funded with variable rate debt to provide a more stable net interest income spread. Given this use of derivatives, Standard & Poor's expects some volatility in earnings due to SFAS 133 GAAP accounting requirements.

### **Capital**

Capitalization measures are relatively strong on a risk-adjusted basis given

the bank's low asset-risk profile. At March 31, 2004, FHLB-Des Moines had total capital of \$2.3 billion, which represented a 3.8% increase from year-end 2003 and a 22.2% increase from March 31, 2003. Of that amount, capital stock was \$2.2 billion, retained earnings were \$98 million, and negative \$3 million accumulated other comprehensive income relating to net unrealized losses on AFS securities and hedging activities. The main factors of capital growth are related to activity-based stock purchase requirements to support increased advance and mortgage loan activity by the members, and an increase in retained earnings.

As the bank focuses on building retained earnings, capital ratios continue to rise after reaching a trough during fiscal 2002. At March 31, 2004, even though capital-to-assets declined to 4.84% from 4.90% at year-end 2003, the ratio is significantly up from 4.52% at year-end 2002. Although this leverage appears aggressive, given the low credit risk profile of FHLB-Des Moines, capital ratios remain adequate, especially when risk-adjusted.

FHLB-Des Moines continues to pay a dividend to its members. The bank pays a quarterly dividend that is indexed to the average yield of the three-month LIBOR rate. For first-quarter 2004, the bank paid a cash dividend of 1.76%, or 60 bps over the LIBOR index, compared to the cash dividend for first-quarter 2003 of 3.0%, or 161 bps over the LIBOR index. For fiscal 2004, the bank is targeting a spread to the index of 60 bps. Dividends can be paid, at the discretion of the board of directors, in the form of cash and/or stock.

Table 1 Balance Sheet Statistics													
	--Year ended Dec. 31--						Breakdown as a % of assets (adj.)						
(Mil. \$)	2004*	2003	2002	2001	2000	1999	-	2004*	2003	2002	2001	2000	1999
<b>Assets</b>													
Cash and money market instruments	1,864	1,843	6,348	5,669	5,097	7,106		3.94	4.09	15.02	16.28	14.34	18.84
Cash and reserves at central bank	113	57	103	64	72	181		0.24	0.13	0.24	0.18	0.20	0.48
Interbank deposits	1,446	1,481	6,245	1,605	4,225	6,925		3.05	3.29	14.78	4.61	11.89	18.36
Reverse repurchase agreements	305	305	0	4,000	800	0		0.64	0.68	0.00	11.49	2.25	0.00
Securities	4,311	3,738	6,098	4,374	5,264	6,928		9.10	8.30	14.43	12.56	14.81	18.37
Domestic government securities (long term)	1,514	1,218	635	424	1,119	1,169		3.20	2.70	1.50	1.22	3.15	3.10
State and municipal securities	14	19	28	34	45	50		0.03	0.04	0.07	0.10	0.13	0.13
Mortgage - backed securities	2,236	2,494	4,104	3,840	4,094	4,871		4.72	5.54	9.71	11.02	11.52	12.91
Corporate bonds	540	0	1,324	70	0	832		1.14	0.00	3.13	0.20	0.00	2.21
Other securities	7	7	7	6	6	6		0.01	0.02	0.02	0.02	0.02	0.02
Customer loans (gross)	41,024	39,307	29,672	24,501	24,455	23,030		86.65	87.25	70.22	70.35	68.83	61.06
Advances	24,768	23,303	24,008	20,756	21,158	22,949		52.31	51.72	56.82	59.60	59.55	60.85
Mortgage loans	16,256	16,005	5,664	3,745	3,297	80		34.33	35.53	13.40	10.75	9.28	0.21
Loan loss reserves	6	6	3	3	2	0		0.01	0.01	0.01	0.01	0.01	0.00
General reserves	6	6	3	3	2	0		0.01	0.01	0.01	0.01	0.01	0.00
Customer loans (net)	41,018	39,301	29,669	24,498	24,453	23,030		86.63	87.24	70.21	70.34	68.82	61.06
Earning assets	47,086	44,831	42,015	34,481	34,744	36,883		99.45	99.51	99.43	99.01	97.78	97.79
Derivatives credit amount	24	43	48	210	N.A.	N.A.		0.05	0.10	0.11	0.60	N.A.	N.A.
Fixed assets	2	2	7	7	7	7		0.00	0.00	0.02	0.02	0.02	0.02

Accrued receivables	96	97	66	56	685	629		0.20	0.22	0.16	0.16	1.93	1.67
Total reported assets	47,347	45,051	42,254	34,827	35,531	37,717		100.00	100.00	100.00	100.00	100.00	100.00
Adjusted assets	47,347	45,051	42,254	34,827	35,531	37,717		100.00	100.00	100.00	100.00	100.00	100.00
								<b>Breakdown as a % of liabilities + equity</b>					
	<b>2004*</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>		<b>2004*</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>Liabilities</b>													
Total deposits	1,458	1,002	1,634	1,978	1,135	914		3.08	2.22	3.87	5.68	3.20	2.42
Demand/current	1,433	968	1,610	1,817	1,048	795		3.03	2.15	3.81	5.22	2.95	2.11
Time deposits	25	34	24	161	87	119		0.05	0.07	0.06	0.46	0.25	0.32
Core/customer deposits	1,458	1,002	1,634	1,978	1,135	914		3.08	2.22	3.87	5.68	3.20	2.42
Repurchase agreements	500	500	300	0	0	0		1.06	1.11	0.71	0.00	0.00	0.00
Other borrowings	42,009	40,352	37,381	30,805	32,148	33,930		88.73	89.57	88.47	88.45	90.48	89.96
Other short-term debt	4,999	5,472	7,758	7,316	8,084	9,479		10.56	12.15	18.36	21.01	22.75	25.13
Long-term debt--senior	37,010	34,880	29,573	23,439	24,014	24,400		78.17	77.42	69.99	67.30	67.59	64.69
Other funding	0	0	50	50	50	50		0.00	0.00	0.12	0.14	0.14	0.13
Other liabilities	1,089	989	1,034	462	474	609		2.30	2.20	2.45	1.33	1.34	1.62
Derivative liabilities	780	692	710	129	0	N.A.		1.65	1.54	1.68	0.37	0.00	N.A.
Other other liabilities	309	298	324	332	474	609		0.65	0.66	0.77	0.95	1.34	1.62
Total liabilities	45,056	42,844	40,349	33,245	33,758	35,453		95.16	95.10	95.49	95.46	95.01	94.00
Total shareholders' equity	2,291	2,207	1,905	1,582	1,773	2,264		4.84	4.90	4.51	4.54	4.99	6.00
Common shareholders' equity (reported)	2,291	2,207	1,905	1,582	1,773	2,264		4.84	4.90	4.51	4.54	4.99	6.00
Share capital and surplus	2,196	2,117	1,858	1,539	1,744	2,229		4.64	4.70	4.40	4.42	4.91	5.91
Revaluation reserve	(3)	0	(3)	0	N.A.	N.A.		(0.01)	0.00	(0.01)	0.00	N.A.	N.A.
Retained profits	98	91	50	43	29	35		0.21	0.20	0.12	0.12	0.08	0.09
Total liabilities and equity	47,347	45,051	42,254	34,827	35,531	37,717		100.00	100.00	100.00	100.00	100.00	100.00
Less revaluation reserve, intangibles	3	0	3	0	0	0							
Tangible total equity	2,294	2,207	1,908	1,582	1,773	2,264							
Tangible common equity	2,294	2,207	1,908	1,582	1,773	2,264							
Adjusted common equity	2,294	2,207	1,908	1,582	1,773	2,264							
Plus general reserves	6	6	3	3	2	0							
Adjusted total equity	2,300	2,213	1,912	1,585	1,775	2,264							
*Data as of March 31, 2004. Ratios annualized where appropriate. N.A.--Not available. Certain raw data items used within the above financial spreads have been obtained from SNL Financial LC.													

<b>Table 2 Profit and Loss Statement Statistics</b>													
	--Year ended Dec. 31--							Adj. avg. assets (%)					
(Mil. \$)	2004*	2003	2002	2001	2000	1999	-	2004*	2003	2002	2001	2000	1999
<b>Profitability</b>													
Interest income	228	976	1,135	1,711	2,224	1,655		1.97	2.32	3.06	4.92	6.39	4.86
Interest income on loans	0	0	0	0	0	0		0.00	0.00	0.00	0.00	0.00	0.00
Interest income on securities	20	124	191	230	380	338		0.18	0.29	0.52	0.66	1.09	0.99

Advances	102	461	594	1,012	1,427	1,055		0.88	1.10	1.60	2.91	4.10	3.09
Mortgage loans	99	347	263	259	180	1		0.85	0.82	0.71	0.75	0.52	0.00
Interest income on other assets	6	44	87	209	237	262		0.05	0.11	0.23	0.60	0.68	0.77
Interest expense	199	843	1,018	1,597	2,035	1,492		1.72	2.00	2.74	4.59	5.84	4.38
Interest expense on deposits	3	15	26	72	48	46		0.02	0.04	0.07	0.21	0.14	0.14
Interest expense on other liabilities	197	828	992	1,525	1,987	1,446		1.69	1.97	2.67	4.38	5.71	4.24
Net interest income	29	133	118	114	189	163		0.25	0.32	0.32	0.33	0.54	0.48
Operating noninterest income	5	25	11	29	5	1		0.05	0.06	0.03	0.08	0.01	0.00
Fees and commissions	1	22	9	20	4	4		0.01	0.05	0.02	0.06	0.01	0.01
Other fees and commissions (net)	1	22	9	20	4	4		0.01	0.05	0.02	0.06	0.01	0.01
Other market-sensitive income	4	N.A.	N.A.	N.A.	N.A.	N.A.		0.03	N.A.	N.A.	N.A.	N.A.	N.A.
Other noninterest income	1	3	3	9	1	(2)		0.01	0.01	0.01	0.03	0.00	(0.01)
Operating revenues	34	158	129	143	194	164		0.29	0.38	0.35	0.41	0.56	0.48
Noninterest expenses	7	26	25	25	23	23		0.06	0.06	0.07	0.07	0.07	0.07
Other noninterest expense	7	26	25	25	23	23		0.06	0.06	0.07	0.07	0.07	0.07
Net operating income before loss provisions	27	132	104	118	171	141		0.23	0.31	0.28	0.34	0.49	0.41
Credit loss provisions (net new)	0	3	0	1	2	0		0.00	0.01	0.00	0.00	0.01	0.00
Net operating income after loss provisions	27	130	104	117	169	141		0.23	0.31	0.28	0.34	0.49	0.41
<b>AHP</b>	11	6	9	14	12		0.02	0.03	0.02	0.03	0.04	0.03	
Refcorp	4	24	14	20	31	0		0.03	0.06	0.04	0.06	0.09	0.00
Net gain on derivatives/hedging	(7)	4	(24)	0	0	0		(0.06)	0.01	(0.07)	0.00	0.00	0.00
Net gain on held-at-fair-value securities	2	(1)	(2)	1	N.A.	N.A.		0.02	0.00	(0.01)	0.00	N.A.	N.A.
Pretax profit	16	98	57	88	124	130		0.14	0.23	0.15	0.25	0.36	0.38
Net income before minority interest	16	98	57	88	124	130		0.14	0.23	0.15	0.25	0.36	0.38
Net income before extraordinary	16	98	57	88	124	130		0.14	0.23	0.15	0.25	0.36	0.38
Extraordinary Income	0	0	0	(6)	0	2		0.00	0.00	0.00	(0.02)	0.00	0.01
Net income after extraordinary	16	98	57	82	124	132		0.14	0.23	0.15	0.23	0.36	0.39
	<b>2004*</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>							
<b>Asset Quality</b>													
Net charge-offs	0	0	0	0	0	0							
<b>Average balance sheet</b>													
Average advances	23,587	23,169	22,382	20,957	22,054	20,811							
Average mortgage loans	16,026	10,096	4,704	3,521	1,689	43							
Average customer loans	39,613	33,265	26,326	24,769	24,477	20,854							
Average earning assets	46,114	41,781	36,731	34,330	34,048	33,419							
Average assets	46,408	42,069	37,122	34,782	34,826	34,085							
Average total deposits	1,378	1,318	1,806	1,557	1,025	1,233							
Average interest-bearing liabilities	43,169	38,987	34,784	32,603	32,356	31,622							

Average common equity	2,223	1,988	1,714	1,696	1,928	1,895						
Average adjusted assets	46,408	42,069	37,122	34,782	34,826	34,085						
<b>Other data</b>												
Number of members (end of period, actual)	1,234	1,238	1,233	1,227	1,213	1,083						
*Data as of March 31, 2004. Ratios annualized where appropriate. N.A.--Not available. Certain raw data items used within the above financial spreads have been obtained from SNL Financial LC.												

<b>Table 3 Ratio Analysis</b>							
	<b>--Year ended Dec. 31--</b>						
	<b>2004*</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	
<b>ANNUAL GROWTH (%)</b>							
Advances	25.16	(2.94)	15.67	(1.90)	(7.81)	22.90	
Mortgage loans (gross)	6.28	182.57	51.24	13.57	3996.48	1423.08	
Customer loans (gross)	17.47	32.47	21.11	0.19	6.19	23.30	
Loss reserves	5.76	81.44	4.93	52.36	13473.33	1400.00	
Adjusted assets	20.38	6.62	21.33	(1.98)	(5.80)	23.86	
Customer deposits	181.91	(38.68)	(17.38)	74.19	24.19	(41.11)	
Tangible common equity	15.65	15.68	20.64	(10.81)	(21.68)	48.35	
Total equity	15.17	15.86	20.40	(10.79)	(21.68)	48.35	
Operating revenues	(13.47)	22.29	(9.62)	(26.30)	18.04	14.04	
Noninterest expense	15.73	2.79	1.24	7.20	0.15	52.55	
Net operating income before provisions	(19.16)	26.99	(11.89)	(30.82)	20.96	9.53	
Loan loss provisions	(82.54)	1655.84	(85.88)	(46.02)	14335.71	N.M.	
Net operating income after provisions	(17.84)	24.57	(11.20)	(30.64)	19.54	9.52	
Pretax profit	(35.25)	71.54	(35.46)	(28.92)	(4.35)	12.37	
Net income	(35.25)	71.54	(35.46)	(28.92)	(4.35)	12.37	
	<b>2004*</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>	
<b>PROFITABILITY (%)</b>							
<b>Interest Margin Analysis</b>							
Net interest income (taxable equiv.)/avg. earning assets	0.25	0.32	0.32	0.33	0.56	0.49	
Net interest spread	0.13	0.17	0.17	0.09	0.24	0.23	
Interest income (taxable equiv.)/avg. earning assets	1.98	2.34	3.09	4.98	6.53	4.95	
Interest income on loans/avg. total loans	0.00	0.00	0.00	0.00	0.00	0.00	
Interest expense/avg. interest-bearing liabilities	1.85	2.16	2.93	4.90	6.29	4.72	
Interest expense on deposits/avg. deposits	0.74	1.14	1.42	4.64	4.71	3.75	
<b>Revenue Analysis</b>							
Net interest income/revenues	84.52	84.45	91.18	79.67	97.58	99.25	
Fee income/revenues	1.71	13.65	6.87	14.22	2.11	2.15	

Market-sensitive income/revenues	11.80	0.00	0.00	0.00	0.00	0.00
Noninterest income/revenues	15.48	15.55	8.82	20.33	2.42	0.75
Noninterest expense/revenues	21.81	16.30	19.40	17.32	11.91	14.03
Noninterest expense/revenues less investment gains	24.72	16.30	19.40	17.32	11.91	14.03
Expense less amortization of intangibles/revenues	21.81	16.30	19.40	17.32	11.91	14.03
Expense less all amortizations/revenues	21.81	16.30	19.40	17.32	11.91	14.03
Net operating income before provision/revenues	78.19	83.70	80.60	82.68	88.09	85.97
Net operating income after provisions/revenues	77.85	81.99	80.48	81.92	87.05	85.96
New loan loss provisions/revenues	0.35	1.71	0.12	0.76	1.04	0.01
Pretax profit/revenues	46.22	61.77	44.03	61.66	63.94	78.90
Net income/revenues	46.22	61.77	44.03	61.66	63.94	78.90
	<b>2004*</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>OTHER RETURNS</b>						
Net income/avg. assets + securitized assets	0.14	0.23	0.15	0.25	0.36	0.38
Cash earnings/avg. tang. common equity (ROE) (%)	2.81	4.74	3.26	5.26	6.15	6.84
	<b>2004*</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>FUNDING AND LIQUIDITY (%)</b>						
Customer deposits/funding base	3.32	2.39	4.16	6.03	3.41	2.62
Total loans/customer deposits + long-term funds	100.65	103.20	89.61	90.75	90.83	83.51
Customer loans (net)/assets (adj.)	86.63	87.24	70.21	70.34	68.82	61.06
Mortgage loans/assets (adj.)	34.33	35.53	13.40	10.75	9.28	0.21
	<b>2004*</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>CAPITALIZATION (%)</b>						
Adjusted common equity/adjusted assets	4.84	4.90	4.52	4.54	4.99	6.00
Adjusted common equity/adjusted assets + securitization	4.84	4.90	4.52	4.54	4.99	6.00
Adjusted common equity/customer loans (net)	5.59	5.62	6.43	6.46	7.25	9.83
Internal capital generation/prior year's equity	2.86	5.13	3.60	4.97	5.48	8.50
Adjusted total equity/adjusted assets	4.86	4.91	4.52	4.55	5.00	6.00
Adjusted total equity/adjusted assets + securitizations	4.86	4.91	4.52	4.55	5.00	6.00
	<b>2004*</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>ASSET QUALITY (%)</b>						
New loan loss provisions/avg. customer loans (net)	0.00	0.01	0.00	0.00	0.01	0.00
Net charge-offs/avg. mortgage loans	0.00	0.00	0.00	0.00	0.00	0.00
Net charge-offs/avg. customer loans (net)	0.00	0.00	0.00	0.00	0.00	0.00
Loan loss reserves/mortgage loans (gross)	0.04	0.04	0.06	0.08	0.06	0.02
Loan loss reserves/customer loans (gross)	0.01	0.02	0.01	0.01	0.01	0.00
Gen. loan loss reserves/customer loans (net of specifics)	0.01	0.02	0.01	0.01	0.01	0.00

Net NPA/mortgage loans (net) + ORE	(0.04)	(0.04)	(0.06)	(0.08)	(0.06)	(0.02)
Net NPA/customer loans (net) + ORE	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.00)
*Data as of March 31, 2004. Ratios annualized where appropriate. N.M.--Not meaningful. Certain raw data items used within the above financial spreads have been obtained from SNL Financial LC.						

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