



FEDERAL
HOME LOAN BANK
DES MOINES

In Review

Capitalizing on Rural America

community

economic development

growth

renewal

Chairman's Letter

We are pleased to report that we have successfully met the challenges of 2005 and have set a steady course for 2006 and beyond. On May 19, 2006, the Board of Directors announced Richard S. Swanson was elected president and CEO of the Federal Home Loan Bank of Des Moines, successfully completing a six-month leadership transition period. And on July 11, 2006, the Des Moines Bank



Randy L. Newman
Chairman

became a Securities and Exchange Commission (SEC) registrant – a milestone in the Bank's history and a monumental achievement.

There were many steps and stages along the way as the Bank transitioned to where it is today. One of those steps was for the Bank to restate its financial statements for the years 2001 through 2004. The primary purpose of the restatement was to correct certain errors related to the application of

Statement of Financial Accounting Standard (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities*. We encourage our shareholders to review the complete results of the restatement and our detailed financial statements on our website (www.fhlbdm.com) or the website for the SEC (www.sec.gov).

As a result of the restatement, the Bank's net income was \$227.7 million in 2005 compared with \$99.5 million in 2004. The increase of \$128.2 million resulted primarily because of increased net gains on derivatives and hedging activities of \$391.3 million. Another result of the restatement was an increase in the Bank's retained earnings to \$329.2 million at December 31, 2005. A significant portion of our retained earnings relates to the acceleration of income related to the loss of hedge accounting for certain hedging relationships involving mortgage loans. The acceleration is expected to result in a corresponding reduction of earnings in future periods.



The Bank paid annualized dividend rates of 2.82% in 2005 versus 2.13% during the year of 2004. The dividend rate paid in 2005 was LIBOR less 62 basis points because, at that time, it was necessary to limit our dividends in an effort to increase retained earnings. In June 2006, the Board of Directors revised the retained earnings policy to establish retained earnings minimum balances. If the Bank's retained earnings falls below the established minimum, the Board of Directors will evaluate the need to reduce dividend payments until retained earnings return to the minimum required balance.

The Bank's new president, Dick Swanson, comes to Des Moines from Seattle, Washington where he was a principal of a law firm providing business counsel in the areas of corporate finance and banking laws. He is the former chairman and CEO of HomeStreet Bank, which grew to be the largest privately held bank in the Coastal Pacific Northwest under his leadership from 1990 to 2003. We believe Dick's extensive financial and legal experience will bring great balance and vision to the Bank.

Your Board of Directors is very vigilant and diligent when it comes to their responsibilities as directors. At the end of 2005, four of our directors' terms expired. We want to express our heartfelt gratitude to Barbara Everist, Jeffrey Hassel and Timothy Owens for their tireless efforts on behalf of the Bank and to Dan Williams who not only served on the Board but also worked as a consultant for the Bank providing invaluable service during the transition period. We want to particularly thank Neil N. Fruechte who resigned his position on our Board of Directors to serve as the acting president and CEO of the Bank. His many years of experience in the financial services industry and as a leader in his community in Waseca, Minnesota, were a great benefit to guiding the Bank to a new era.

And a new era it is. As an SEC registrant, the Bank will continue to provide our shareholders enhanced financial disclosures and under the new leadership of CEO Dick Swanson, the Bank is poised to reach its highest levels of performance and customer service ever.

A handwritten signature in black ink that reads "Randy L. Newman". The signature is fluid and cursive.

Randy L. Newman
Chairman

Acting President's Letter

At the Board's request, I resigned my position as a board member to serve as acting president and CEO when the former president, Pat Conway, retired. As a long-time board member of the Des Moines Bank, and the former president of member bank Roundbank in Waseca, Minnesota, I have been involved with the Federal Home Loan Bank since 1991. I have a special appreciation for the important role the Bank plays in the success of its members.



Neil N. Fruechte
Acting President and CEO

As a bank president and CEO, I learned, first hand, the value of Home Loan Bank membership. When Congress approved the legislation that permitted community banks to become members of the Home Loan Bank, it provided Roundbank with a pipeline to the capital markets. Advances from the Home Loan Bank funded about 20% of our balance sheet and contributed substantially to our steady growth – taking our bank from

assets of \$70 million in 1991 to more than \$190 million in a small, mature market when I retired as Roundbank president in 2003.

A great many things have changed since 1991 but the Bank's mission to help members better manage liquidity and interest rate risk and to provide advances to fund loans has not. We are acutely aware of the significant role the Bank plays in supporting our members' balance sheets. The Des Moines Bank not only has the largest number of members in the Home Loan Bank System – 1,251 – but also the highest percentage of borrowers in the System – 79%. We believe this clearly demonstrates how important the Home Loan Bank is to community bank members.

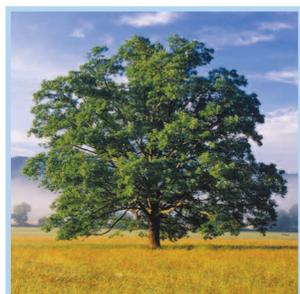
During my time at the Bank, I gained a real appreciation for the all-out effort that the Bank staff makes to ensure safety and soundness while meeting our members' needs. There is an increasing emphasis in controlling and managing all forms of risk. Enterprise risk management has become a major component of the Bank's operations. We have developed and devoted substantial resources to meet our risk management responsibilities, and I expect that this trend will continue.

Fortunately, the Bank has been able to meet all of these requirements and still maintain its quality customer service. We know how important our customers are to their communities and the individuals and families they serve. I commend the Bank staff for their diligent efforts to help our members meet their community lending needs. The variety of financial instruments available today places many choices in front of our members and increases the complexity of designing products to fit our members' needs.

Working side by side with the Bank employees and meeting members from all of the five states in the District are highlights of the time I spent as acting president. But now I am very pleased to turn over the leadership of the Bank to the highly qualified and capable new president and CEO, Dick Swanson, and ... I will have a lot more time for hunting and fishing.

A handwritten signature in black ink that reads "Neil N. Fruechte". The signature is fluid and cursive, written in a professional style.

Neil N. Fruechte
Acting President and CEO

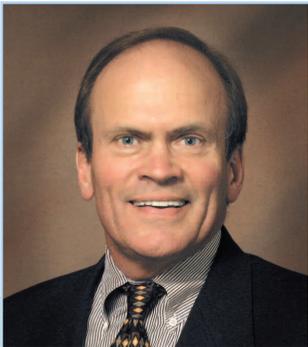


conomic development

renew
growth

President and CEO Letter

The Home Loan Bank of Des Moines has facilitated the flow of credit into businesses, homes and lives of Midwest citizens for almost 75 years. For all those years, the Bank and its members have faithfully and consistently helped thousands and thousands of individuals and families realize their dreams across the landscapes of Iowa, Minnesota, Missouri, North Dakota and South Dakota. It was an honor for



Richard S. Swanson
President and CEO

me to be called to serve as president and CEO of the Des Moines Bank and a privilege to begin to do my small part to contribute to the Bank's extraordinary history.

The Bank's mission has remained constant over the years, but how that mission is fulfilled has changed significantly. Demographics, technology, the market place, the economy, laws and regulations have molded and altered the way we do business but

have not shaken the fundamental purpose of the Bank to help our members meet their funding needs for housing and community development lending. At year end, we had more members than ever before. The Bank's membership was comprised of 1,094 commercial banks, 77 savings and loan associations and savings banks, 55 credit unions and 25 insurance companies. As of December 31, 2005, approximately 90 percent of our members were community financial institutions with average total assets of \$567 million or less. Today, as in the past, we work with our community financial institution members to help them and their communities realize success.

One of the Bank's greatest achievements is its Affordable Housing Program (AHP). In 2005, the Bank awarded a total of 48 projects more than \$9 million in AHP grants to help build, revitalize or purchase 1,652 housing units. Since 1990, the Bank has awarded more than \$112 million in AHP grants throughout the District.

Last year, at our Capitalizing on Rural America Policy Forum in Washington, DC, the Bank announced its Rural Capital Advance and pledged to set aside \$100 million a year for five years for a total of \$500 million to provide economic support and

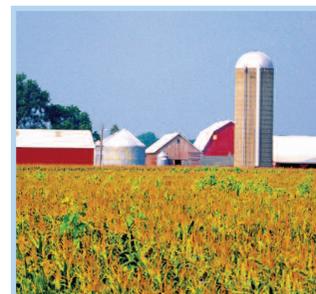
development in rural America. Bank members' enthusiastic response used the entire \$100 million in seven short months to stimulate growth and encourage development in their rural communities. Additionally, 280 communities received nearly \$415 million in discounted funding through the Bank's Community Investment Advance program.

While we know and understand yesterday and today, tomorrow is always a little unpredictable. Congress is considering legislation that would restructure yet again the regulation of the housing government-sponsored enterprises including the Federal Home Loan Bank System. As the legislative proposals are not final, it is impossible to know what the full impact on the Bank might be. Also, the Federal Housing Finance Board has proposed a new regulation, *Excess Stock Restrictions and Retained Earnings Requirements for Federal Home Loan Banks* that may impact the Bank and our members. And finally, as an SEC registrant, the Bank will be providing extensive financial and operating information to the public but will also be subject to a complex regime of regulatory and disclosure requirements, including compliance with the Sarbanes-Oxley Act.

Part of my vision for the Des Moines Bank is to assemble and energize a team of professionals who can adjust to these kinds of changes in our environment and never lose sight of the most important element of the Bank – our shareholders and customers. As a cooperative, we will strive to maintain a balance between delivering attractively priced products and providing a reasonable return on capital. We realize that we can only be as successful as our member partners, and we want to work by your side to provide innovation, growth and value. I look forward to meeting you personally in the months and years ahead.



Richard S. Swanson
President and CEO



Capitalizing on
Rural America

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Financial Highlights*

Statements of Condition	March 31, 2006	December 31, 2005	December 31, 2004
(Dollars in millions)			(as restated)
Advances	\$ 22,024	22,283	27,175
Mortgage loans, net	12,713	13,018	15,193
Total Assets	44,278	45,722	49,048
Capital stock – Class B putable	1,918	1,932	2,232
Retained earnings	336	329	163
Capital-to-asset ratio	5.09%	4.94%	4.88%

Operating Results and Performance Ratios	Three Months Ended March 31,		Years Ended December 31,	
(Dollars in millions)	2006	2005	2005	2004
				(as restated)
Net interest income	\$ 37.5	98.7	293.6	498.6
Net income	21.3	155.2	227.7	99.5
Return on average assets	0.19%	1.27%	0.48%	0.21%
Return on average capital	3.82	25.5	9.57	4.30
Net interest margin	0.34	0.81	0.62	1.03
Operating expenses to average assets	0.09	0.07	0.08	0.06
Annualized dividend rate	3.00	3.30	2.82	2.13
Dividend rate spread (under) over average three-month LIBOR	(1.68)	0.60	(0.62)	0.60
Cash dividends declared and paid	\$ 14.3	\$ 18.3	\$ 61.2	\$ 46.1

The selected financial data above should be read in conjunction with the financial statements and notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the Bank’s registration statement. The financial position data at December 31, 2005, and 2004, and results of operations data for the three years ended December 31, 2005, 2004, and 2003, are derived from the financial statements and notes included in the Bank’s registration statement. We have restated our previously reported financial statements for the years ended December 31, 2004, 2003, 2002, and 2001. See the “Restatement of Financial Statements” of the Bank’s registration statement for a reconciliation of previously

reported results to restated results. The financial position data at March 31, 2006, and the results of operations data for the three months ended March 31, 2006, and 2005, were derived from unaudited financial statements and condensed notes included in the Bank’s amended registration statement. In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, for a fair statement of results for the interim periods and is in conformity with GAAP (Generally Accepted Accounting Principles). The results of operations for the three months ended March 31, 2006, are not necessarily indicative of the results that may be achieved for the full year.

*For complete financial results, please refer to the Form 10 and Amendment No. 1 to Form 10 available at www.sec.gov.

2006 Board of Directors¹

Randy L. Newman (Chair)

Chairman/CEO

Alerus Financial
Grand Forks, North Dakota

Committees: Executive, Ad Hoc Legislative, Audit, Bank Operations, Compensation, Diversity and Governance, Housing and Economic Development
Elected ~ Term Expires 12/31/07

Michael K. Guttau (Vice Chair)

Chairman/President

Treynor State Bank
Treynor, Iowa

Committees: Executive, Ad Hoc Legislative, Audit, Compensation, Diversity and Governance, Election Oversight Subcommittee
Elected ~ Term Expires 12/31/08

Louis K. Ahlemeyer

Chairman

Excel Bank
Sedalia, Missouri

Committees: Audit, Housing and Economic Development
Elected ~ Term Expires 12/31/06

S. Bryan Cook

Chairman/CEO

First National Bank of St. Louis
St. Louis, Missouri

Committees: Executive, Bank Operations, Compensation, Diversity and Governance, Election Oversight Subcommittee
Elected ~ Term Expires 12/31/07

Gerald D. Eid

President/CEO

Eid-Co Buildings, Inc.
Fargo, North Dakota

Committees: Compensation, Diversity and Governance, Housing and Economic Development, Election Oversight Subcommittee
Appointed ~ Term Expires 12/31/06

Michael J. Finley

President

Janesville State Bank
Janesville, Minnesota

Committees: Audit, Housing and Economic Development
Elected ~ Term Expires 12/31/07

David R. Frauenshuh

CEO/Owner

Frauenshuh Companies
Bloomington, Minnesota

Committees: Audit, Bank Operations
Appointed ~ Term Expires 12/31/06

D.R. Landwehr

Chairman/President/CEO

Community Bank of Missouri
Richmond, Missouri

Committees: Audit, Bank Operations
Elected ~ Term Expires 12/31/06

Clair J. Lensing

President/CEO

Security State Bank
Waverly, Iowa

Committees: Executive, Compensation, Diversity and Governance, Housing and Economic Development
Elected ~ Term Expires 12/31/06

Dennis A. Lind

Chairman

Midwest Bank
Detroit Lakes, Minnesota

Committees: Bank Operations, Housing and Economic Development
Elected ~ Term Expires: 12/31/08

Kevin E. Pietrini

Chairman

Queen City Federal Savings Bank
Virginia, Minnesota

Committees: Audit, Bank Operations
Elected ~ Term Expires: 12/31/08

Lynn V. Schneider

President/CEO

American Bank & Trust
Huron, South Dakota

Committees: Executive, Bank Operations, Compensation, Diversity and Governance
Elected ~ Term Expires 12/31/06

¹As of March 31, 2006



FEDERAL
HOME LOAN BANK
DES MOINES

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