



Federal Home Loan Bank of Des Moines
2006 Annual Report

Our Members

Build the Future



Introduction

Our members build the future.

We provide attractively priced advances and our members provide opportunities for individuals, families and communities. We are proud to partner with our members to meet the housing and economic development needs of the communities we serve together. Our goal is to become the model for excellence as a cooperative, member-owned Bank. It is only through our members' success that we can succeed.

Contents

Letter To Our Members	3
Financial Highlights	6
Member Highlight: Decorah Bank and Trust, Decorah, Iowa	8
Member Highlight: Bank of Washington, Washington, Missouri	10
Member Highlight: Gate City Bank, Fargo, North Dakota	12
Statements of Condition	14
Statements of Income	15
Board of Directors	16

*Cover Photo: Thomas Jefferson, Jr. and Taliyah Jefferson, Portland Village Apartments –
FHLB Des Moines Affordable Housing Program grant, Minneapolis, Minnesota*

Inside Front Cover: Peter Goche "Community"



Left to Right

Richard S. Swanson
President & CEO

Randy L. Newman
Chairman

To Our Members

The Federal Home Loan Bank of Des Moines embarked on a new era in 2006, one that is grounded in a member-centric cooperative business model and the solid foundation we've built over 75 years.

Talented new leaders joined our team, bringing a wealth of experience and ideas to the Bank. We built the framework for new governance including closer alignment of management and the Board of Directors, and developed an in-depth strategic plan for the three-year period beginning in 2007. We completed our registration with the Securities and Exchange Commission, and we prepared to move to new offices, which are designed for efficiency and operational effectiveness.

Throughout, the Bank maintained the focus on its primary mission, on its cooperative structure and its shareholder-members. We are proud to have the largest number of members of the 12 Federal Home Loan Banks (FHLBanks). We had almost 1,250 members as of year-end 2006, and 76 percent of those members are borrowing from the Bank. Significantly, nearly 90 percent of those members are defined as Community Financial Institutions – small- to mid-size institutions dedicated to the well being of their local communities. As the

preferred provider of financial services to those institutions, we are the quintessential FHLBank.

The Des Moines Bank is well positioned for the future. With an overarching goal to become the model for excellence as a cooperative, member-owned bank, our broad emphasis will be to strengthen the connection we have with all members. The Bank's performance must be measured on the diversity and utility of the products and services we offer, the pricing we can deliver on these products, the efficiency of our delivery channels, and the dividend that we pay on our low-risk capital stock.

We have an ambitious agenda for the Bank in 2007 and beyond. We want to share some of its key components with you.

- **Deliver Member Value.** We will research and develop competitive advances and deposit products, expand community investment and affordable housing programs, and create processes to gather member intelligence to adequately address member needs.
- **Develop Needed Capabilities.** We will work to align the Bank's organizational structure, departments, and individual roles with our forward-looking vision and goals.

- **Achieve Financial and Operational Excellence.** We will develop and align our financial and operational metrics to focus on maximum operational efficiency.
- **Assure Strength and Stability.** We will establish a culture in which effective internal controls and enterprise risk management are valued as sound and integrated business practices.
- **Inspire Confidence.** We will position the Bank as a leading expert and dynamic resource on housing finance, community banking and rural economic development.

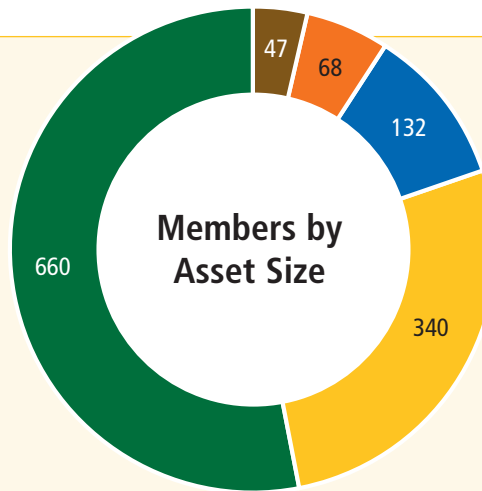
We will achieve these strategic imperatives with the Board of Directors and the Bank's management team working closely together. We want to acknowledge the service of Louis K. Ahlemeyer, chairman of Excel Bank in Sedalia, Missouri. Louis completed nine years on the board in 2006, and we are grateful for his stalwart support of the Bank and its mission. All of our directors give tirelessly of their time and talent because they recognize the value of our members and the significant role they play in housing and economic development in communities across the heartland.

Randy L. Newman

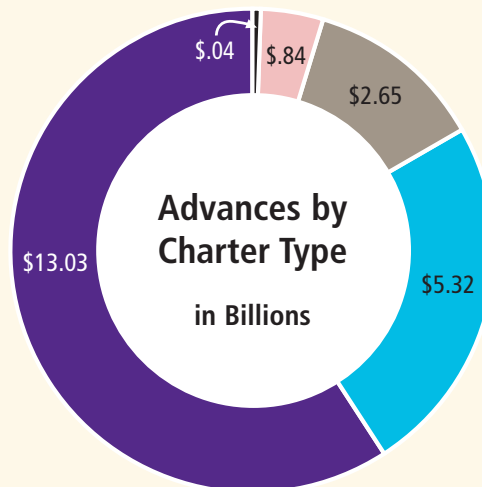
Randy L. Newman
Chairman

Richard S. Swanson

Richard S. Swanson
President & CEO



- Over \$1 Billion
- \$500 Million to \$1 Billion
- \$250 Million to \$500 Million
- \$100 Million to \$250 Million
- Below \$100 Million



- Bank
- Insurance Company
- Thrift
- Credit Union
- Housing Associate



Left to Right

S. Bryan Cook
Human Resources and
Compensation Committee
FHLB Des Moines Director

Nancy L. Betz
FHLB Des Moines
Director of Human Resources

Michael K. Gutttau
Vice Chair
FHLB Des Moines Director

Michael L. Wilson
FHLB Des Moines
Chief Business Officer

Financial Highlights

	2006	2005	2004 (as restated)	2003 (as restated)	2002 (as restated)
Statement of Condition					
(In Millions)					
Advances	\$21,855	\$22,283	\$27,175	\$23,272	\$23,971
Mortgage loans, net	11,775	13,018	15,193	16,052	5,661
Total Assets	\$42,041	\$45,722	\$49,048	\$45,073	\$42,217
Capital Stock	1,906	1,932	2,232	2,117	1,858
Retained Earnings	344	329	163	109	31
Capital-to-Asset Ratio	5.35%	4.94%	4.88%	4.94%	4.46%
Operating Results and Performance Ratios					
(In Millions)					
Net Interest Income	\$154	\$294	\$499	\$303	\$138
Net Income	89	228	100	136	46
Return on Average Assets	0.20%	0.48%	0.21%	0.32%	0.12%
Return on Average Capital	3.91%	9.57%	4.30%	6.80%	2.69%
Net Interest Margin	0.35%	0.62%	1.03%	0.72%	0.37%
Operating Expenses to Average Assets	0.09%	0.08%	0.06%	0.06%	0.06%
Dividend Rate (annualized)	3.83%	2.82%	2.13%	3.00%	3.00%
Cash Dividends declared and paid	74	61	46	57	49

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 Operation" included in the Bank's Form 10-K. **FHLB Des Moines' Form 10-K may be viewed by going to www.fhlbdm.com or www.sec.gov.**

The Bank's total assets were \$42 billion at December 31, 2006 compared to \$45.7 billion at year end in 2005. Average assets decreased to \$43.8 billion in 2006 from \$47.2 billion in 2005. The Bank's advance portfolio decreased to \$21.9 billion at December 31, 2006 from \$22.3 billion at December 31, 2005, or approximately 2 percent. Average advances decreased to \$22.2 billion in 2006 from \$25.7 billion in 2005.

Net income was \$89.4 million for the year ended December 31, 2006, compared with \$227.7 million in 2005 with a significant portion of the difference in net income attributable to the Bank's loss of hedge accounting for the derivative structures used to hedge market risk exposure on its mortgage portfolio. This accounting change, reflected in the Bank's restatement of financial reports completed in connection with its

SEC registration in 2006, resulted in the acceleration of income into 2005 that otherwise would have been recorded in future years. Due to the high level of income volatility resulting from the loss of hedge accounting for its hedging structures, the Bank discontinued its prior hedging strategy in late 2005 in order to improve stability of future earnings.

We paid cash dividends to our stockholders of \$74.4 million during 2006 compared to \$61.2 million during 2005. This resulted in an increase in the annualized dividend rate from 2.82 percent in 2005 to 3.83 percent in 2006 while also enabling the Bank to strengthen its retained earnings position from \$329 million at December 31, 2005, to \$344 million at December 31, 2006.



Left to Right

Edward J. McGreen
FHLB Des Moines
Chief Capital Markets Officer

Steven T. Schuler
FHLB Des Moines
Chief Financial Officer

Kevin E. Pietrini
Audit Committee Chair
FHLB Des Moines Director



**Decorah Bank & Trust
Decorah, Iowa**

Left to Right

Michael D. Huinker
Vice President
Real Estate Lender

Dawn E. Muhlbauer
Chief Financial Officer

Ben D. Grimstad
President and
Chief Executive Officer

Decorah Bank & Trust

Decorah, Iowa

“The greatest advantage of membership in the Des Moines Bank is the many options it offers to assist in management of Decorah’s assets and liabilities.”

*Dawn E. Muhlbauer
CFO*

Decorah Bank & Trust considers its FHLB Des Moines representative to be one of its most valuable resources. Cited as an important partner in Decorah’s business plan, he has provided the bank with models, analysis and insight.

In addition to tapping into the Bank’s knowledge base, the northeast Iowa financial institution uses a broad range of products. “The greatest advantage of membership in the Des Moines Bank is the many options it offers to assist in management of Decorah’s assets and liabilities,” says CFO Dawn Muhlbauer.

The bank uses advances as a secondary source of liquidity and the advance rates as a benchmark in deposit pricing. The Mortgage Partnership Finance® program has helped Decorah provide competitive fixed rate home loans in the community, and Rural Homeownership Fund grants have enabled the bank to assist a number of first time homebuyers with financing and education.

Decorah Bank & Trust is clearly one of the community’s leading corporate citizens. Owned by the Grimstad family and employees through an Employee Stock Ownership Plan, there’s a bank representative on practically every board in the area.

“Our bank, directors, officers and staff are committed to giving back to the community with their time, talent and resources,” says Muhlbauer.



**Decorah Bank & Trust
Decorah, Iowa**

“Mortgage Partnership Finance” and “MPF” are registered trademarks of Federal Home Loan Bank of Chicago.

Bank of Washington

Washington, Missouri

The Bank of Washington believes that bringing “outside” money into the community enhances the growth and prosperity of its entire area. For this reason, the bank depends on its partnership with FHLB Des Moines.

With an aggressive loan growth plan, the Missouri bank needs more funds than are available through local deposit sources. “The greatest advantage to

FHLB membership is that it provides a rapid and convenient source of fixed rate money,” says Chairman L.B. Eckelkamp, Jr.

Most often the Washington bank uses five- and ten-year advances to match customer requests for medium term, fixed rate loans. On occasion the bank uses Mortgage Matched Advances to amortize fixed rate loans, and the Bank’s letters of credit for pledging against public funds.

FHLB’s Community Investment Advance helped Washington fund the purchase and renovation of a local hotel which in turn provided construction and service jobs.

“Because we know our customers well, we are able to fund many small businesses and start-up ventures in the community,” says Eckelkamp. As the largest bank in its community, Washington leads the way in financial contributions, as well as major commitments of staff time and energy.

“Because we know our customers well, we are able to fund many small businesses and start-up ventures in the community,”

*L.B. Eckelkamp, Jr.
Chairman*



The Bank of Washington was one of the first banking facilities to offer a drive-through automation system in Missouri.



**Bank of Washington
Washington, Missouri**

Left to Right

Michael J. Sinnott
Assistant Controller

William W. Eckelkamp
Chief Financial Officer

Louis B. "Buzz" Eckelkamp, III
Vice President

L. B. Eckelkamp, Jr.
Chairman of the Board
and Chief Executive Officer

Richard F. Mayer
President

Robert M. Tobben
Cashier



Gate City Bank
Fargo, North Dakota
Steven J. Swiontek
President

Gate City Bank

Fargo, North Dakota

“FHLB Des Moines advances provide Gate City Bank with a dependable, reasonably priced alternative source of funds.”

*Steven J. Swiontek
President*

Gate City Bank uses FHLB Des Moines Fed Funds Overnight Advance to manage its cash needs rather than maintaining a portfolio of low yielding short-term securities. This allows the Fargo, North Dakota, bank to make additional higher yielding mortgage loans that meet customer needs.

Access to advances is one of the main advantages to Bank membership according to Gate City’s president, Steve Swiontek. “FHLB Des Moines advances provide Gate City Bank with a dependable, reasonably priced alternative source of funds,” says Swiontek.

Community is Gate City’s middle name. As an \$877 million mutual community bank founded in 1923, Gate City focuses on customers, communities and employees. Last year, the bank contributed more than three quarters of a million dollars in charitable donations, including college scholarships to high school seniors across North Dakota and western Minnesota. In addition, Gate City employees volunteered thousands of hours of their time and talent to charitable organizations in 2006.

In Fargo and Wahpeton, North Dakota, and Moorhead, Minnesota, the bank invested \$6.5 million in housing programs as part of Neighborhood Revitalization efforts to enhance inner city housing. This included low interest loans and \$150,000 in grants to help these communities acquire and rebuild rundown homes.

The bank has also made low interest loans to community organizations such as the YWCA to build a new shelter for women and children in crisis.



**Gate City Bank
Fargo, North Dakota**

Statements of Condition (In thousands, except shares)

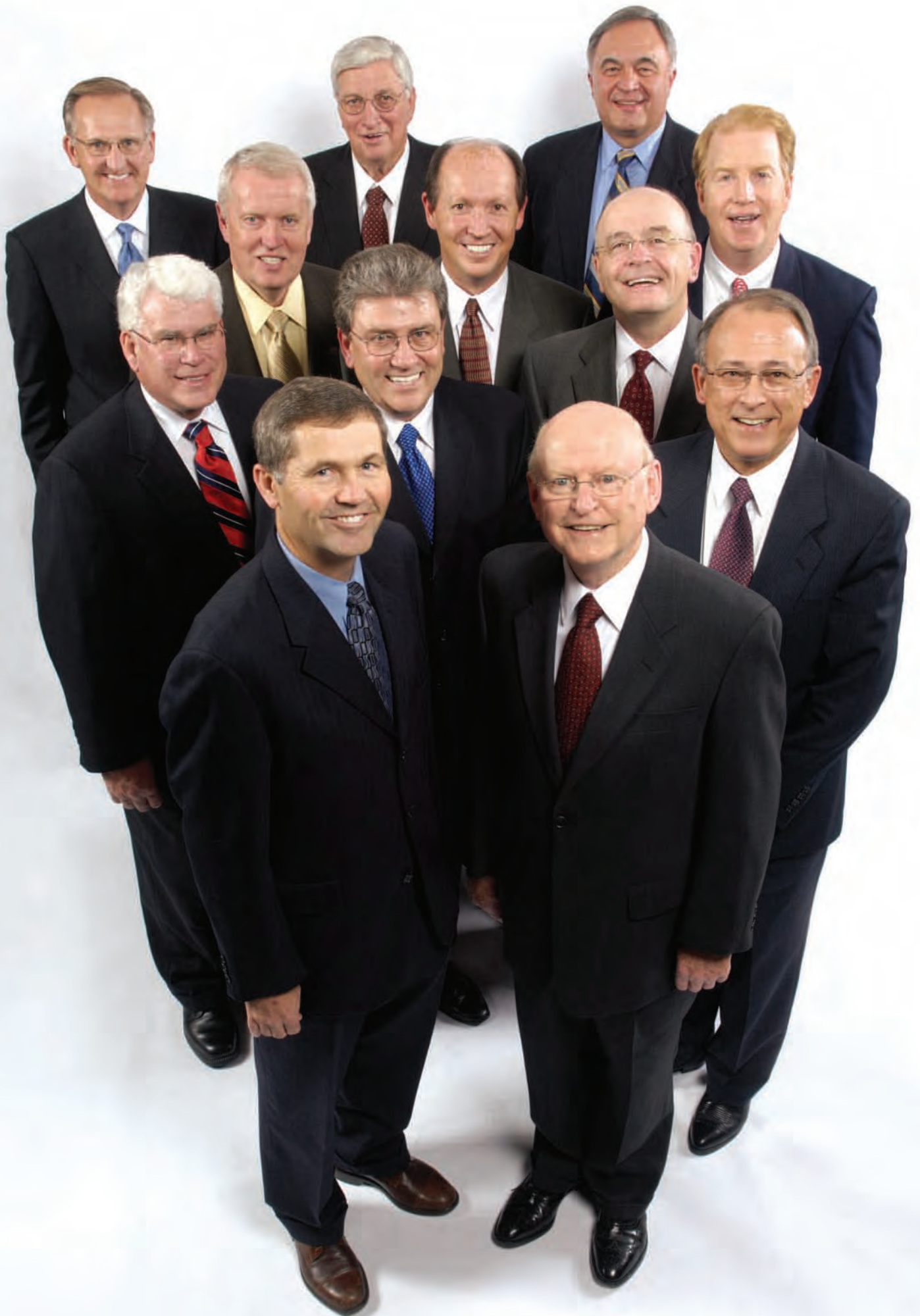
	December 31,	
	2006	2005
ASSETS		
Cash and due from banks (Note 3)	\$ 30,181	\$ 42,366
Interest-bearing deposits	11,392	700,025
Securities purchased under agreements to resell (Note 4)	305,000	305,000
Federal funds sold	1,625,000	2,985,000
Investments		
Trading securities (Note 5)	-	8,693
Available-for-sale securities include \$513,457 and \$222,709 pledged as collateral in 2006 and 2005 that may be repledged (Note 6)	562,165	250,235
Held-to-maturity securities include \$0 and \$297,314 pledged as collateral in 2006 and 2005 that may be repledged (estimated fair value of \$5,685,809 and \$5,961,978 in 2006 and 2005) (Note 7)	5,715,161	5,978,367
Advances (Note 8)	21,854,991	22,283,315
Mortgage loans held for portfolio, net of allowance for credit losses on mortgage loans of \$250 and \$763 in 2006 and 2005 (Note 11)	11,775,042	13,018,030
Accrued interest receivable	92,932	99,732
Premises and equipment, net	6,244	1,734
Derivative assets (Note 18)	36,119	18,440
Other assets	27,184	31,542
Total assets	\$ 42,041,411	\$ 45,722,479
LIABILITIES AND CAPITAL		
LIABILITIES		
Deposits (Note 12)		
Interest-bearing	\$ 899,520	\$ 827,068
Noninterest-bearing demand	41,929	37,640
Total deposits	941,449	864,708
Securities sold under agreements to repurchase (Note 13)	500,000	500,000
Consolidated obligations, net (Note 14)		
Discount notes	4,684,714	4,066,732
Bonds	33,066,286	37,129,784
Total consolidated obligations, net	37,751,000	41,196,516
Mandatorily redeemable capital stock (Note 15)	64,852	85,084
Accrued interest payable	300,139	315,657
Affordable Housing Program (Note 9)	44,714	46,654
Payable to REFCORP (Note 10)	5,945	50,944
Derivative liabilities (Note 18)	163,505	379,524
Other liabilities	20,836	22,924
Total liabilities	39,792,440	43,462,011
Commitments and contingencies (Note 20)		
CAPITAL (Note 15)		
Capital stock – Class B putable (\$100 par value) issued and outstanding 19,058,783 and 19,320,536 shares in 2006 and 2005	1,905,878	1,932,054
Retained earnings	344,246	329,241
Accumulated other comprehensive income (loss)		
Net unrealized gain (loss) on available-for-sale securities (Note 6)	188	(58)
Other (Note 16)	(1,341)	(769)
Total capital	2,248,971	2,260,468
Total liabilities and capital	\$ 42,041,411	\$ 45,722,479

Statements of Income

(In thousands)

	For the Years Ended December 31,		
	2006	2005	2004
INTEREST INCOME			
Advances	\$ 1,136,091	\$ 901,248	\$ 512,741
Advance prepayment fees, net	514	294	945
Interest-bearing deposits	10,986	12,415	3,935
Securities purchased under agreements to resell	15,457	10,030	4,275
Federal funds sold	138,716	53,357	25,685
Investments			
Trading securities	311	481	1,482
Available-for-sale securities	21,939	17,877	17,477
Held-to-maturity securities	272,647	193,800	102,659
Mortgage loans held for portfolio	614,753	688,474	759,097
Loans to other FHLBanks	7	-	38
Total interest income	<u>2,211,421</u>	<u>1,877,976</u>	<u>1,428,334</u>
INTEREST EXPENSE			
Consolidated obligations			
Discount notes	269,278	160,223	78,392
Bonds	1,721,022	1,378,239	827,588
Deposits	35,173	24,338	12,449
Borrowings from other FHLBanks	147	132	15
Securities sold under agreements to repurchase	28,462	19,393	10,156
Mandatorily redeemable capital stock	2,972	2,029	1,133
Other borrowings	31	4	58
Total interest expense	<u>2,057,085</u>	<u>1,584,358</u>	<u>929,791</u>
NET INTEREST INCOME	154,336	293,618	498,543
Reversal of (provision for) credit losses on mortgage loans (Note 11)	513	-	5,048
NET INTEREST INCOME AFTER MORTGAGE LOAN CREDIT LOSS PROVISION	<u>154,849</u>	<u>293,618</u>	<u>503,591</u>
OTHER INCOME			
Service fees	2,423	2,500	2,286
Net (loss) gain on trading securities (Note 5)	(17)	14	(841)
Net realized gain on available-for-sale securities (Note 6)	-	2,683	5,518
Net realized (loss) gain on held-to-maturity securities (Note 7)	-	(7)	4,039
Net gain (loss) on derivatives and hedging activities (Note 18)	2,278	38,947	(352,382)
Other, net	4,003	2,677	4,574
Total other income	<u>8,687</u>	<u>46,814</u>	<u>(336,806)</u>
OTHER EXPENSE (Note 23)			
Compensation and benefits	22,577	20,259	17,310
Operating	16,478	15,992	11,508
Federal Housing Finance Board	1,530	1,733	1,331
Office of Finance	982	1,021	972
Total other expense	<u>41,567</u>	<u>39,005</u>	<u>31,121</u>
INCOME BEFORE ASSESSMENTS	<u>121,969</u>	<u>301,427</u>	<u>135,664</u>
Affordable Housing Program	10,260	24,905	11,197
REFCORP	22,342	55,304	24,894
Total assessments	<u>32,602</u>	<u>80,209</u>	<u>36,091</u>
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	89,367	221,218	99,573
Cumulative effect of change in accounting principle (Note 2)	-	6,444	(53)
NET INCOME	<u>\$ 89,367</u>	<u>\$ 227,662</u>	<u>\$ 99,520</u>
Pro forma amounts assuming retroactive application of change in accounting principle for amortization and accretion of premiums, discounts and other nonrefundable fees on mortgage loans and mortgage-backed securities:			
NET INCOME	<u>\$ 89,367</u>	<u>\$ 221,218</u>	<u>\$ 102,939</u>

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 Operation" included in the Bank's Form 10-K. **FHLB Des Moines' Form 10-K may be viewed by going to www.fhlbdm.com or www.sec.gov.**



2006 Board of Directors¹

Louis K. Ahlemeyer

Chairman
Excel Bank
Sedalia, Missouri

S. Bryan Cook

Chairman/CEO
First National Bank of St. Louis
St. Louis, Missouri

Gerald D. Eid

President/CEO
Eid-Co Buildings, Inc.
Fargo, North Dakota

Michael J. Finley

President
Janesville State Bank
Janesville, Minnesota

David R. Frauenshuh

CEO/Owner
Frauenshuh Companies
Bloomington, Minnesota

Michael K. Guttau (Vice Chair)

Chairman/President
Treydor State Bank
Treydor, Iowa

D.R. Landwehr

President
Community Bank of Missouri
Richmond, Missouri

Clair J. Lensing

President
Security State Bank
Waverly, Iowa

Dennis A. Lind

Senior Vice President
The Marshall Group
Minneapolis, Minnesota

Randy L. Newman (Chair)

Chairman/CEO
Alerus Financial
Grand Forks, North Dakota

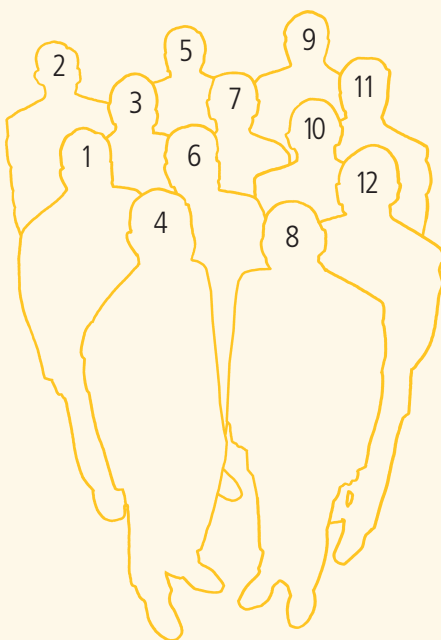
Kevin E. Pietrini

Chairman
Queen City Federal Savings Bank
Virginia, Minnesota

Lynn V. Schneider

President
American Bank & Trust
Huron, South Dakota

¹ As of December 31, 2006



1. David R. Frauenshuh
2. Dennis A. Lind
3. Gerald D. Eid
4. Michael J. Finley
5. Louis K. Ahlemeyer
6. Lynn V. Schneider
7. Randy L. Newman (Chair)
8. Clair J. Lensing
9. Michael K. Guttau (Vice Chair)
10. Kevin E. Pietrini
11. S. Bryan Cook
12. D.R. Landwehr

Executive Officers

Richard S. Swanson

President & CEO

Edward J. McGreen

*Senior Vice President
Chief Capital Markets Officer*

Steven T. Schuler

*Senior Vice President
Chief Financial Officer*

Michael L. Wilson

*Senior Vice President
Chief Business Officer*



Federal Home Loan Bank of Des Moines

Skywalk Level

801 Walnut Street, Suite 200

Des Moines, IA 50309-3513

515.281.1000

800.544.3452

www.fhlbdm.com