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NEWS RELEASE

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FEDERAL HOME LOAN BANK OF BOSTON ANNOUNCES 2014 SECOND QUARTER RESULTS AND DECLARES DIVIDEND

BOSTON - The Federal Home Loan Bank of Boston announced its preliminary, unaudited second quarter results for 2014, reporting net income of $31.3 million for the quarter compared with net income of $35.6 million for the second quarter of 2013. The Bank expects to file its quarterly report with the Securities and Exchange Commission on Form 10-Q for the quarter ending June 30, 2014, next month.

The Bank's board of directors also declared a dividend equal to an annual yield of 1.48 percent, the approximate daily average three-month LIBOR yield for the second quarter of 2014 plus 125 basis points. The dividend, based on average stock outstanding for the second quarter of 2014, will be paid on August 4, 2014. The board stated that it anticipates cash dividends will be generally consistent with this dividend through 2014, although a quarterly loss or a significant adverse event or trend would cause a dividend to be suspended.

As previously announced, the Bank plans to repurchase $500 million of excess capital stock from our shareholders on July 31, 2014, the second repurchase of excess stock this year. We do not anticipate additional excess stock repurchases in 2014.

Additionally, on July 17, 2014, the Bank released the results of its 2014 Annual Stress Testing, as required by the Dodd-Frank Act and the Federal Housing Finance Agency. Results indicate that the Bank remains in compliance with all regulatory capital requirements throughout all nine quarters of the stress testing period under the FHFA's severely adverse scenario. These results are posted on the Bank's web site, and can be found at the following address: http://www.fhlbboston.com/downloads/aboutus/stress_test.pdf.

“We are pleased to report our fifth consecutive quarter of modest growth in advances and assets,” said President and Chief Executive Officer Edward A. Hjerpe III.

Second Quarter 2014 Operating Highlights

Net income for the quarter ending June 30, 2014, was $31.3 million, compared with net income of $35.6 million for the same period in 2013. These results led to a $3.8 million contribution to the Bank's Affordable Housing Program for the quarter.

Net interest income after provision for credit losses for the quarter ending June 30, 2014, was $49.8 million, compared with $61.9 million for the same period in 2013. Contributing to the $12.1 million decrease in net interest income after provision for credit losses was a decrease in net prepayment fees(1) of

$4.0 million, from $5.7 million in 2013 to $1.7 million in 2014, as well as a narrowing of the spread between interest earned on assets and interest paid on liabilities. Additionally, interest expense on mandatorily redeemable capital stock is linked to our dividend rate, which has increased 110 basis points from the second quarter of 2013 to the second quarter of 2014, and contributed to a $1.7 million increase in interest expense quarter-over-quarter. Partially offsetting these decreases to net interest income after provision for credit losses was an increase in interest income resulting from a $15.1 billion increase in average earning assets, from $37.5 billion for 2013, to $52.6 billion for 2014. The increase in average earning assets was driven by a $10.3 billion increase in average advances balances and a $5.0 billion increase in average investments balances. However, growth in these asset categories was concentrated in low-margin, short-term maturities.

Additionally, $8.6 million of the Bank's interest income for the quarter ended June 30, 2014, was from the accretion of the discount on 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. This represents an increase of $4.2 million, from $4.4 million recorded in the second quarter of 2013.

Net interest spread was 0.33 percent for the quarter ended June 30, 2014, a 23 basis point decrease from the same period in 2013, and net interest margin was 0.38 percent, a 27 basis point decrease from the same period in 2013. The decrease in net interest spread reflects a 51 basis point decrease in the average yield on earning assets and a 28 basis point decrease in the average yield on interest-bearing liabilities. Approximately one-fifth of the decline in net interest spread is attributable to the decline of prepayment fees. The remainder is attributable to a narrowing of the spread between interest earned on assets and interest paid on liabilities due to the repayment of higher yielding mortgage loans and advances, which have been replaced primarily with lower yielding short-term investments and advances. The Bank had expected this compression in net interest margin and net interest spread due to the prolonged low interest-rate environment, and expects such compression to continue.

Credit-related other-than-temporary impairment charges on certain private-label mortgage-backed securities totaled $399,000 for the second quarter of 2014, compared with $394,000 recorded for such charges in the second quarter of 2013. The charges were attributable to projected incremental credit losses on the collateral underlying certain private-label MBS with a combined par value of $27.2 million at June 30, 2014.

June 30, 2014 Balance-Sheet Highlights

Total assets increased 22.3 percent to $54.6 billion at June 30, 2014, up from $44.6 billion at year-end 2013. During the six months ended June 30, 2014, advances increased $4.8 billion, or 17.4 percent, to $32.3 billion, compared with $27.5 billion at year-end 2013. The increase of advances during 2014 was concentrated primarily in short-term advances. We cannot predict whether this trend will continue.

Total investments were $18.5 billion at June 30, 2014, an increase of $5.6 billion, or 42.8 percent, compared with $13.0 billion at December 31, 2013. Short-term money market investments increased by $5.2 billion and MBS increased by $1.2 billion, offset by a decrease of $811.3 million in agency debentures. The par value of private-label MBS was $1.8 billion at June 30, 2014, a decrease of $96.9 million from December 31, 2013, while the carrying value of these investments was $1.1 billion at June 30, 2014, a decline of $44.6 million from December 31, 2013.

Investments in mortgage loans totaled $3.4 billion at June 30, 2014, a decrease of $14.5 million from year-end 2013.

Mandatorily redeemable capital stock declined $373.4 million to $604.0 million as of June 30, 2014, from $977.3 million as of year-end 2013, primarily due to the Bank's repurchase of excess capital stock. GAAP capital at June 30, 2014, was $2.9 billion, an increase of $44.3 million from $2.8 billion at year-end 2013. Capital stock decreased by $40.6 million due to the repurchase of $126.3 million of capital stock offset by the issuance of $86.0 million of capital stock. Restricted retained earnings totaled $120.3 million at June 30, 2014, while total retained earnings at June 30, 2014, grew to $837.6 million, an increase of $48.8 million from December 31, 2013. Accumulated other comprehensive loss totaled $445.4 million at June 30, 2014, an improvement of $36.1 million from December 31, 2013.

The Bank was in compliance with all regulatory capital ratios as well as internal capital requirements at June 30, 2014, 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 March 31, 2014.(3)

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 more than 440 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)

	6/30/2014	3/31/2014	12/31/2013
ASSETS			
Advances	$ 32,299,253	$ 29,699,600	$ 27,516,678
Investments [4]	18,533,830	16,878,224	12,981,340
Mortgage loans held for portfolio, net	3,353,946	3,347,987	3,368,476
Other assets	395,678	135,432	771,582
Total assets	$ 54,582,707	$ 50,061,243	$ 44,638,076
LIABILITIES			
Consolidated obligations, net	$ 49,858,515	$ 44,725,807	$ 39,526,687
Deposits	466,755	522,003	517,565
Mandatorily redeemable capital stock	603,987	977,685	977,348
Other liabilities	771,419	927,289	778,731
CAPITAL			
Class B capital stock	2,489,859	2,562,857	2,530,471
Retained earnings - unrestricted	717,271	701,567	681,978
Retained earnings - restricted [5]	120,288	114,026	106,812
Total retained earnings	837,559	815,593	788,790
Accumulated other comprehensive loss	(445,387)	(469,991)	(481,516)
Total capital	2,882,031	2,908,459	2,837,745
Total liabilities and capital	$ 54,582,707	$ 50,061,243	$ 44,638,076
Total regulatory capital-to-assets ratio	7.2%	8.7%	9.6%
Ratio of market value of equity (MVE) to par value of capital stock [6]	124.4%	119.8%	119.4%

Income Statement Highlights
(Dollars in thousands)
(Unaudited)

	For the Three Months Ended			For the Six Months Ended	
	6/30/2014	3/31/2014	6/30/2013	6/30/2014	6/30/2013
Total interest income	$ 136,812	$ 136,701	$ 145,273	$ 273,513	$ 305,850
Total interest expense	86,765	82,132	84,563	168,897	168,792
Net interest income	50,047	54,569	60,710	104,616	137,058
Net interest income after provision for credit losses	49,804	54,891	61,900	104,695	139,335
Net other-than-temporary impairment losses on investment securities recognized in income	(399)	(458)	(394)	(857)	(815)
Litigation settlements	159	4,310	—	4,469	—
Other income (loss)	1,900	(1,318)	(6,466)	582	(8,742)
Operating expense	14,309	14,860	13,214	29,169	26,210
Other expense	2,064	2,094	2,176	4,158	4,635
AHP assessment	3,778	4,406	4,061	8,184	10,010
Net income	$ 31,313	$ 36,065	$ 35,589	$ 67,378	$ 88,923
Performance Ratios: [7]					
Return on average assets	0.24%	0.31%	0.38%	0.27%	0.47%
Return on average equity [8]	4.38%	5.10%	5.55%	4.73%	5.87%
Net interest spread	0.33%	0.41%	0.56%	0.37%	0.62%
Net interest margin	0.38%	0.46%	0.65%	0.42%	0.73%

(1) Prepayment fees received from borrowers on prepaid advances are presented net of any associated basis adjustments related to hedging activities on those advances and net of deferred prepayment fees on advance prepayments considered to be loan modifications. Additionally, for certain advances products, the prepayment-fee provisions of the advance agreement could result in either a payment from the borrower or to the borrower when such an advance is prepaid, based upon market conditions at the time of prepayment (referred to as a symmetrical prepayment fee). Advances with a symmetrical prepayment-fee provision are hedged with derivatives containing offsetting terms, so that we are financially indifferent to the borrowers' decision to prepay such advances. The net amount of prepayment fees is reflected as interest income in the statement of operations.

(2) Upon subsequent evaluation of a debt security when there is no additional other-than-temporary impairment, we adjust the accretable yield on a prospective basis if there is a significant increase in the security's expected cash flows. The adjusted yield is used to calculate the amount to be recognized into income over the remaining life of the security so as to match the amount and timing of future cash flows expected to be collected. Subsequent changes in estimated cash flows that are deemed significant will change the accretable yield on a prospective basis.

(3) For additional information on the Bank's capital requirements, see Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital in the Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 24, 2014 (the 2013 Annual Report).

(4) Investments include available-for-sale securities, held-to-maturity securities, trading securities, interest-bearing deposits, securities purchased under agreements to resell, and federal funds sold.

(5) The Bank's capital plan and a joint capital enhancement agreement among all Federal Home Loan Banks require the Bank to allocate a certain percentage of quarterly net income to a restricted retained earnings account until a total required allocation is met. The allocation percentage is typically 20 percent of quarterly net income. Amounts in the restricted retained earnings account are unavailable to be paid as dividends. For additional information, see Item 5 — Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities in the 2013 Annual Report.

(6) MVE equals the difference between the theoretical market value of assets and the theoretical market value of liabilities, and the ratio of MVE to par value of Bank capital stock can be an indicator of future net income to the extent that it demonstrates the impact of prior interest-rate movements on the capacity of the current balance sheet to generate net interest income. However, this ratio does not always provide an accurate indication of future net income. Accordingly, investors should not place undue reliance on this ratio and are encouraged to read the Bank's discussion of MVE, including discussion of the limitations of MVE as a metric, in Item 7A — Quantitative and Qualitative Disclosures About Market Risk — Measurement of Market and Interest Rate Risk in the 2013 Annual Report.

(7) Yields for quarterly periods are annualized.

(8) Return on average equity is net income divided by the total of the average daily balance of outstanding Class B capital stock, accumulated other comprehensive loss, and total retained earnings.

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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,” “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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