

August 12, 2009

TO: Member CEOs and CFOs

The Federal Home Loan Bank of Boston (the Bank) today filed its quarterly report on Form 10-Q for the period ending June 30, 2009, with the Securities and Exchange Commission. I encourage you to read this report, which is available at www.sec.gov. We have also enclosed a copy of the Bank's unaudited second quarter financial results for your reference.

In today's filing, the Bank announced a net loss of \$4.2 million for the second quarter of 2009, compared with net income of \$52.5 million for the same period in 2008. The \$56.7 million decrease was primarily driven by the other-than-temporary impairment of certain private-label mortgage-backed securities, resulting in a credit loss of \$70.5 million for the quarter ending June 30, 2009. The net loss for the quarter left the Bank with \$241.7 million in retained earnings at June 30, 2009, down from \$245.9 million at March 31, 2009. The Bank remains in compliance with all regulatory capital ratios as of June 30, 2009.

Next Steps

The underlying credit quality of certain investments in the Bank's portfolio remains vulnerable to potential volatility in the housing and capital markets, which could result in additional losses. To protect our capital base and build the Bank's retained earnings, the moratorium on excess stock repurchases and the quarterly dividend payout suspension remain in place at this time. While such actions support the shared interests of our cooperative in the long run, we recognize and regret that this continues to have a negative current impact on our membership.

My first six weeks back at the Bank have certainly been busy. It's been good to have a chance to visit with members and hear your concerns firsthand. Our primary challenge over the coming months is to work with the board of directors in setting a course that allows us to resume normal operations. Management is currently working to develop a plan that gets us to that position as rapidly as we can in a prudent manner. We are scrutinizing every aspect of our operations as part of this process, including products and services, potential new members, investments, the Bank's capital plan, and potential operational efficiencies that might be achieved without compromising our service to members.

While we work through this process, I can assure you that the interests and needs of our members will be foremost in our minds. As always, you can continue to rely on the Bank as a

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solid source of low-cost funding regardless of the direction of the economy. If you have any questions regarding the Bank's quarterly report, please contact Chief Financial Officer Frank Nitkiewicz (617-292-9624) or me (617-292-9610). Thank you for your continued patience and support.

Regards,

Edward A. Hjerpe III
President and Chief Executive Officer

Enclosure

Forward-Looking Statements

This letter includes forward-looking statements based on the Bank's expectations as of the date hereof. The Bank cautions that, by their nature, forward-looking statements involve risks and uncertainties, including, but not limited to, instability in the credit and debt markets, economic conditions (including effects on, among other things, mortgage-backed securities), changes in interest rates, and prepayment spreads on mortgage assets. 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.

Federal Home Loan Bank of Boston
Second Quarter 2009 Results
(unaudited)

Second Quarter 2009 Balance-Sheet Highlights:

- Total assets fell 2.8 percent to \$78.1 billion at June 30, 2009, down from \$80.4 billion at December 31, 2008.
- Advances decreased 26.5 percent to \$41.9 billion at June 30, 2009, down from \$56.9 billion at December 31, 2008, and represent 53.6 percent of total assets. The decline in advances is attributable primarily to a significant increase in deposits held by member financial institutions, the de-levering of members' balance sheets, and members' participation in various federally sponsored funding initiatives that were created in response to the credit crisis.
- Investments and short-term money-market instruments totaled \$32.1 billion at June 30, 2009, up from \$18.9 billion at December 31, 2008. The growth in investments helped offset the decline in advances and was primarily due to an increase of \$15.6 billion in interest-bearing deposits that was partially offset by a \$1.8 billion decline in held-to-maturity securities.
- Mortgage assets were \$3.8 billion at June 30, 2009, compared with \$4.2 billion at December 31, 2008.
- Total capital fell 24.2 percent to \$2.6 billion at June 30, 2009, compared with \$3.4 billion at December 31, 2008. This decline reflects the cumulative impact on retained earnings and accumulated other comprehensive loss of fair-value declines associated with securities deemed to be other-than-temporarily impaired. Due to the recapture of \$349.1 million of retained earnings as a result of our adoption of the FASB's new accounting guidance for other-than-temporary impairments, regulatory capital rose 7.9 percent to \$3.9 billion at June 30, 2009, compared with \$3.7 billion at December 31, 2008.

Second Quarter 2009 Operating Highlights:

- Net income for the second quarter of 2009 fell to a net loss of \$4.2 million, compared with net income of \$52.5 million for the same period in 2008. This \$56.7 million decrease was primarily driven by the other-than-temporary impairment of certain private-label mortgage-backed securities, resulting in a credit (or economic) loss of \$70.5 million for the quarter ending June 30, 2009.
- Net interest income was \$84.8 million for the quarter ended June 30, 2009, compared with \$84.5 million for the same period in 2008. Despite the decline in advances and lower interest rates, net interest income remained stable due to an increase in prepayment fee income as well as an increase in our net interest spread.