UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2022

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____ to ____

Commission File No. 000-51401

FHLBank Chicago

Federal Home Loan Bank of Chicago

(Exact name of registrant as specified in its charter)

Federally chartered corporation	**36-6001019**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
433 West Van Buren Street, Suite 501S	
Chicago, IL	**60607**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(312) 565-5700**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2022, including mandatorily redeemable capital stock, registrant had 27,179,010 total outstanding shares of Class B Capital Stock.

FHLBank Chicago

Federal Home Loan Bank of Chicago

TABLE OF CONTENTS

FHLBank Chicago

Federal Home Loan Bank of Chicago

PART I - FINANCIAL INFORMATION
Item 1. Condensed Financial Statements
Condensed Statements of Condition (unaudited)
(U.S. Dollars in millions, except capital stock par value)

	June 30, 2022	December 31, 2021
Assets		
Cash and due from banks	$ 49	$ 45
Interest bearing deposits	855	855
Federal funds sold	5,335	3,527
Securities purchased under agreements to resell	14,745	8,740
Investment debt securities -		
Trading, 616 and 645 pledged	951	954
Available-for-sale, 18,639 and 22,340 amortized cost	18,625	22,706
Held-to-maturity, 1,206 and 1,832 fair value	1,206	1,801
Investment debt securities	20,782	25,461
Advances, 1,597 and 1,173 carried at fair value	52,811	48,049
MPF Loans held in portfolio, net of (5) and (5) allowance for credit losses	9,953	9,843
Derivative assets	127	14
Other assets, 86 and 104 carried at fair value net of (7) and (7) allowance for credit losses	497	420
Assets	$ 105,154	$ 96,954
Liabilities		
Deposits -		
Demand and overnight - noninterest bearing	$ 127	$ 205
Demand and overnight - interest bearing, 10 and 11 from other FHLBs	528	829
Deposits	655	1,034
Consolidated obligations, net -		
Discount notes, 865 and — carried at fair value	31,525	24,563
Bonds, 661 and 665 carried at fair value	64,519	63,373
Consolidated obligations, net	96,044	87,936
Derivative liabilities	152	32
Affordable Housing Program assessment payable	88	85
Mandatorily redeemable capital stock	273	247
Other liabilities	1,056	868
Liabilities	98,268	90,202
Commitments and contingencies - see notes to the condensed financial statements		
Capital		
Class B1 activity stock, 17 and 14 million shares issued and outstanding	1,672	1,409
Class B2 membership stock, 8 and 7 million shares issued and outstanding	773	740
Capital stock - putable, $100 and $100 par value per share	2,445	2,149
Retained earnings - unrestricted	3,661	3,558
Retained earnings - restricted	740	703
Retained earnings	4,401	4,261
Accumulated other comprehensive income (loss) (AOCI)	40	342
Capital	6,886	6,752
Liabilities and capital	$ 105,154	$ 96,954

The accompanying notes are an integral part of these condensed financial statements (unaudited).

FHLBank Chicago

Federal Home Loan Bank of Chicago

Condensed Statements of Income (unaudited)
(U.S. Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Interest income	**$ 357**	$ 225	**$ 584**	$ 417
Interest expense	**203**	72	**275**	154
Net interest income	**154**	153	**309**	263
Provision for (reversal of) credit losses	**—**	1	**1**	1
Net interest income after provision for (reversal of) credit losses	**154**	152	**308**	262
Noninterest income -				
Trading securities	**1**	(13)	**(2)**	(31)
Derivatives	**17**	(13)	**46**	7
Instruments held under the fair value option	**(18)**	3	**(46)**	(26)
MPF fees, **6** , 6 , **12** and 13 from other FHLBs	**9**	13	**19**	25
Other, net	**(4)**	—	**(2)**	2
Noninterest income (loss)	**5**	(10)	**15**	(23)
Noninterest expense -				
Compensation and benefits	**28**	25	**57**	53
Nonpayroll operating expenses	**24**	20	**45**	40
Federal Housing Finance Agency and Office of Finance	**4**	3	**10**	8
Other, net	**2**	7	**4**	15
Noninterest expense	**58**	55	**116**	116
Income before assessments	**101**	87	**207**	123
Affordable Housing Program assessment	**10**	9	**21**	13
Net income	**$ 91**	$ 78	**$ 186**	$ 110

The accompanying notes are an integral part of these condensed financial statements (unaudited).

FHLBank Chicago

Federal Home Loan Bank of Chicago

Condensed Statements of Comprehensive Income (unaudited)
(U.S. Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Net income	**$ 91**	$ 78	**$ 186**	$ 110
Other comprehensive income (loss) -				
Net unrealized gain (loss) available-for-sale debt securities	**(162)**	54	**(380)**	252
Net unrealized gain (loss) cash flow hedges	**25**	(9)	**81**	32
Postretirement plans	**—**	1	**(3)**	(4)
Other comprehensive income (loss)	**(137)**	46	**(302)**	280
Comprehensive income	**$ (46)**	$ 124	**$ (116)**	$ 390

The accompanying notes are an integral part of these condensed financial statements (unaudited).

Condensed Statements of Capital (unaudited)
(U.S. Dollars and shares in millions)

	Capital Stock - Putable - B1 Activity		Capital Stock - Putable - B2 Membership		Retained Earnings			
	Shares	Value	Shares	Value	Unrestricted	Restricted	AOCI	Total
March 31, 2022	**13**	**$ 1,334**	**8**	**$ 798**	**$ 3,612**	**$ 722**	**$ 177**	**$ 6,643**
Comprehensive income					**73**	**18**	**(137)**	**(46)**
Issuance of capital stock	**6**	**560**	**—**	**16**				**576**
Repurchases of capital stock	**—**	**—**	**(2)**	**(262)**				**(262)**
Capital stock reclassed to mandatorily redeemable capital stock liability	**—**	**(1)**	**—**	**—**				**(1)**
Transfers between classes of capital stock	**(2)**	**(221)**	**2**	**221**				
Cash dividends - class B1 annualized rate and amount		**5.13 %**			**(22)**			**(22)**
Cash dividends - class B2 annualized rate and amount				**2.13 %**	**(2)**			**(2)**
Total change in period, excl. cumulative effect	**4**	**338**	**—**	**(25)**	**49**	**18**	**(137)**	**243**
June 30, 2022	**17**	**$ 1,672**	**8**	**$ 773**	**$ 3,661**	**$ 740**	**$ 40**	**$ 6,886**
March 31, 2021	13	$ 1,312	7	$ 707	$ 3,428	$ 654	$ 441	$ 6,542
Comprehensive income					62	16	46	124
Issuance of capital stock	1	92	—	13				105
Repurchases of capital stock	—	—	(1)	(112)				(112)
Capital stock reclassed to mandatorily redeemable capital stock liability	—	—	—	(5)				(5)
Transfers between classes of capital stock	(1)	(121)	1	121				
Cash dividends - class B1 annualized rate and amount		5.00 %			(19)			(19)
Cash dividends - class B2 annualized rate and amount				2.00 %	(2)			(2)
Total change in period, excl. cumulative effect	—	(29)	—	17	41	16	46	91
June 30, 2021	13	$ 1,283	7	$ 724	$ 3,469	$ 670	$ 487	$ 6,633

	Capital Stock - Putable - B1 Activity		Capital Stock - Putable - B2 Membership		Retained Earnings			
	Shares	Value	Shares	Value	Unrestricted	Restricted	AOCI	Total
December 31, 2021	**14**	**$ 1,409**	**7**	**$ 740**	**$ 3,558**	**$ 703**	**$ 342**	**$ 6,752**
Comprehensive income					**149**	**37**	**(302)**	**(116)**
Issuance of capital stock	**9**	**847**	**—**	**16**				**863**
Repurchases of capital stock	**—**	**—**	**(4)**	**(510)**				**(510)**
Capital stock reclassed to mandatorily redeemable capital stock liability	**(1)**	**(55)**	**—**	**(2)**				**(57)**
Transfers between classes of capital stock	**(5)**	**(529)**	**5**	**529**				
Cash dividends - class B1 annualized rate and amount		**5.07 %**			**(42)**			**(42)**
Cash dividends - class B2 annualized rate and amount				**2.07 %**	**(4)**			**(4)**
Total change in period excl. cumulative effect	**3**	**263**	**1**	**33**	**103**	**37**	**(302)**	**134**
June 30, 2022	**17**	**$ 1,672**	**8**	**$ 773**	**$ 3,661**	**$ 740**	**$ 40**	**$ 6,886**
December 31, 2020	13	$ 1,257	8	$ 753	$ 3,424	$ 648	$ 207	$ 6,289
Comprehensive income					88	22	280	390
Issuance of capital stock	2	260	—	13				273
Repurchases of capital stock	—	—	(3)	(270)				(270)
Capital stock reclassed to mandatorily redeemable capital stock liability	—	(1)	—	(5)				(6)
Transfers between classes of capital stock	(2)	(233)	2	233				
Cash dividends - class B1 annualized rate and amount		5.00 %			(38)			(38)
Cash dividends - class B2 annualized rate and amount				2.00 %	(5)			(5)
Total change in period excl. cumulative effect	—	26	(1)	(29)	45	22	280	344
June 30, 2021	13	$ 1,283	7	$ 724	$ 3,469	$ 670	$ 487	$ 6,633

The accompanying notes are an integral part of these condensed financial statements (unaudited).

Federal Home Loan Bank of Chicago

Condensed Statements of Cash Flows (unaudited)
(U.S. Dollars in millions)

	Six months ended June 30,	2022	2021
Operating	**Net cash provided by (used in) operating activities**	**$ 1,065**	$ 296
Investing	Net change federal funds sold	**(1,808)**	(650)
	Net change securities purchased under agreements to resell	**(6,005)**	(1,625)
	Trading debt securities -		
	Proceeds from maturities and paydowns	**1**	1,751
	Available-for-sale debt securities -		
	Sales	**—**	20
	Proceeds from maturities and paydowns	**4,046**	259
	Purchases	**(1,887)**	(759)
	Held-to-maturity debt securities -		
	Proceeds from maturities and paydowns	**2,156**	1,239
	Purchases	**(1,561)**	(1,239)
	Advances -		
	Principal collected	**243,750**	247,898
	Issued	**(249,574)**	(247,793)
	MPF Loans held in portfolio -		
	Principal collected	**750**	1,890
	Purchases	**(886)**	(1,662)
	Other investing activities	**(8)**	(7)
	Net cash provided by (used in) investing activities	**(11,026)**	(678)
Financing	Net change deposits, (1) and — from other FHLBs	**(379)**	(161)
	Discount notes -		
	Net proceeds from issuance	**435,410**	300,754
	Payments for maturing and retiring	**(428,474)**	(303,665)
	Consolidated obligation bonds -		
	Net proceeds from issuance	**12,781**	21,133
	Payments for maturing and retiring	**(9,649)**	(20,704)
	Capital stock -		
	Proceeds from issuance	**863**	273
	Repurchases	**(510)**	(270)
	Cash dividends paid	**(46)**	(43)
	Other financing activities	**(31)**	(36)
	Net cash provided by (used in) financing activities	**9,965**	(2,719)
	Net increase (decrease) in cash and due from banks	**4**	(3,101)
	Cash and due from banks at beginning of period	**45**	3,541
	Cash and due from banks at end of period	**$ 49**	$ 440

The accompanying notes are an integral part of these condensed financial statements (unaudited).

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 1 – Background and Basis of Presentation

The Federal Home Loan Bank of Chicago is a federally chartered corporation and one of 11 Federal Home Loan Banks (the FHLBs) that, with the Office of Finance, comprise the Federal Home Loan Bank System (the System). The FHLBs are government sponsored enterprises (GSE) of the United States of America and were organized under the Federal Home Loan Bank Act of 1932, as amended (FHLB Act), in order to improve the availability of funds to support home ownership. We are supervised and regulated by the Federal Housing Finance Agency (FHFA), an independent federal agency in the executive branch of the United States (U.S.) government.

Each FHLB is a member-owned cooperative with members from a specifically defined geographic district. Our defined geographic district is Illinois and Wisconsin. All federally-insured depository institutions, insurance companies engaged in residential housing finance, credit unions and community development financial institutions located in our district are eligible to apply for membership with us. All our members are required to purchase our capital stock as a condition of membership. Our capital stock is not publicly traded, and is issued, repurchased or redeemed at par value, \$100 per share, subject to certain statutory and regulatory limits. As a cooperative, we do business with our members, and former members (under limited circumstances). Specifically, we provide credit principally in the form of secured loans called advances. We also provide liquidity for home mortgage loans to members approved as Participating Financial Institutions (PFIs) through the Mortgage Partnership Finance® (MPF®) Program.

Our accounting and financial reporting policies conform to generally accepted accounting principles in the United States of America (GAAP). Amounts in prior periods may be reclassified to conform to the current presentation and, if material, are disclosed in the following notes.

In the opinion of management, all normal recurring adjustments have been included for a fair statement of this interim financial information. These unaudited condensed financial statements and the accompanying notes should be read in conjunction with the audited financial statements and footnotes for the year ended December 31, 2021, included in our 2021 Annual Report on Form 10-K (2021 Form 10-K) starting on page F-1, as filed with the Securities and Exchange Commission (SEC).

Unless otherwise specified, references to we, us, our, and the Bank are to the Federal Home Loan Bank of Chicago.

“Mortgage Partnership Finance”, “MPF”, “MPF Xtra”, "Downpayment Plus", "DPP", Downpayment Plus Advantage", "DPP Advantage", and "Community First" are federally registered trademarks of the Federal Home Loan Bank of Chicago.

Refer to the **Glossary of Terms** starting on page 60 for the definitions of certain terms used herein.

Use of Estimates and Assumptions

We are required to make estimates and assumptions when preparing our condensed financial statements in accordance with GAAP. The most significant of these estimates and assumptions applies to fair value measurements, which includes derivative instruments. Our actual results may differ from the results reported in our condensed financial statements due to such estimates and assumptions. This includes the reported amounts of assets and liabilities, the reported amounts of income and expense, and the disclosure of contingent assets and liabilities.

Basis of Presentation

The basis of presentation pertaining to the consolidation of our variable interest entities has not changed since we filed our 2021 Form 10-K. The basis of presentation pertaining to our gross versus net presentation of derivative financial instruments also has not changed since we filed our 2021 Form 10-K. Refer to **Note 1- Background and Basis of Presentation** to the financial statements in our 2021 Form 10-K with respect to our basis of presentation for consolidation of variable interest entities and our gross versus net presentation of financial instruments for further details.

Note 2 – Summary of Significant Accounting Policies

Our significant accounting policies adopted through December 31, 2021, can be found in **Note 2 – Summary of Significant Accounting Policies** to the financial statements in our 2021 Form 10-K including details on any cumulative effect adjustments. We have not yet adopted any significant new policies in 2022.

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 3 – Recently Issued but Not Yet Adopted Accounting Standards

During March 2022, the Financial Accounting Standards Board (FASB) issued ASU 2022-01 Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method. This ASU broadens the availability of fair value hedging to non-prepayable and prepayable portfolios. The guidance on hedging multiple layers in a closed portfolio is applied prospectively. The guidance on the accounting for fair value basis adjustments is applied on a modified retrospective basis. Further, an entity may reclassify debt securities from held-to-maturity to available for sale if it includes them in a closed portfolio that is hedged under the portfolio layer method. This ASU is effective for the Bank starting January 1, 2023, with early adoption permitted. The Bank is in the process of evaluating the impact of adoption of this ASU.

Also during March 2022, the FASB issued ASU 2022-02 Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures to eliminate the recognition and measurement guidance for troubled debt restructurings for creditors that have adopted Current Expected Credit Losses (CECL) methodology. The ASU also requires enhanced disclosures about loan modifications for borrowers experiencing financial difficulty and requires the presentation of gross write-offs by year of origination. This ASU is effective starting January 1, 2023, with early adoption permitted. The Bank is evaluating the impact of adoption of this ASU.

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 4 – Interest Income and Interest Expense

The following table presents interest income and interest expense for the periods indicated.

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Interest income -				
Trading	**$ —**	$ 13	**$ —**	$ 34
Available-for-sale interest income	**81**	74	**109**	95
Available-for-sale prepayment fees	**5**	—	**41**	—
Available-for-sale	**86**	74	**150**	95
Held-to-maturity	**7**	7	**14**	15
Investment debt securities	**93**	94	**164**	144
Advances interest income	**168**	60	**245**	131
Advances prepayment fees	**1**	7	**11**	12
Advances	**169**	67	**256**	143
MPF Loans held in portfolio	**69**	60	**134**	123
Federal funds sold	**15**	1	**17**	2
Securities purchased under agreements to resell	**6**	—	**7**	1
Interest earning deposits	**4**	1	**5**	1
Other	**1**	2	**1**	3
Interest income	**357**	225	**584**	417
Interest expense -				
Consolidated obligations -				
Discount notes	**51**	10	**63**	25
Bonds	**147**	59	**203**	123
Other	**5**	3	**9**	6
Interest expense	**203**	72	**275**	154
Net interest income	**$ 154**	$ 153	**$ 309**	$ 263

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 5 – Investment Debt Securities

We classify debt securities as either trading, held-to-maturity (HTM), or available-for-sale (AFS). Our security disclosures within these classifications are disaggregated by major security types as shown below. Our major security types are based on the nature and risks of the security:

- U.S. Government & other government related - may consist of the sovereign debt of the United States; debt issued by GSE; debt issued by the Tennessee Valley Authority; and securities guaranteed by the Small Business Administration.
- Federal Family Education Loan Program - asset-backed-securities (FFELP ABS).
- GSE mortgage-backed securities (MBS) - issued by Fannie Mae and Freddie Mac.
- Government guaranteed MBS.
- State or local housing agency obligations.

We have no allowance for credit losses on our investment debt securities and we have elected to exclude accrued interest receivable from the amortized cost in the following AFS and HTM tables. Prior to 2022, we included accrued interest in the carrying value of our AFS securities. See **Note 8 - Allowance for Credit Losses** for further details on these amounts.

Pledged Collateral

We disclose the amount of investment debt securities pledged as collateral pertaining to our derivatives activity on our **Condensed Statements of Condition**. See **Note 9 - Derivatives and Hedging Activities** for further details.

Trading Debt Securities

The following table presents the fair value of our trading debt securities.

As of	**June 30, 2022**	December 31, 2021
U.S. Government & other government related	**$ 947**	$ 948
MBS		
GSE	**4**	6
Trading debt securities	**$ 951**	$ 954

The following table presents our gains and losses on trading debt securities recorded in Noninterest Income - Other, net.

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Net unrealized gains (losses) on securities held at period end	**$ 1**	$ (9)	**$ (2)**	$ (11)
Net realized gains (losses) on securities sold/matured during the period	**—**	(4)	**—**	(20)
Net gains (losses) on trading debt securities	**$ 1**	$ (13)	**$ (2)**	$ (31)

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Available-for-Sale Debt Securities (AFS)

The following table presents the amortized cost and fair value of our AFS debt securities.

	Amortized Cost Basis [a]	Gross Unrealized Gains in AOCI	Gross Unrealized (Losses) in AOCI	Net Carrying Amount and Fair Value
As of June 30, 2022				
U.S. Government & other government related	**$ 1,292**	**$ 2**	**$ (89)**	**$ 1,205**
State or local housing agency	**8**	**—**	**—**	**8**
FFELP ABS	**2,468**	**81**	**(10)**	**2,539**
MBS				
GSE	**14,723**	**92**	**(92)**	**14,723**
Government guaranteed	**148**	**2**	**—**	**150**
Available-for-sale debt securities	**$ 18,639**	**$ 177**	**$ (191)**	**$ 18,625**
As of December 31, 2021				
U.S. Government & other government related	$ 4,659	$ 34	$ (12)	$ 4,681
State or local housing agency	8	1	—	9
FFELP ABS	2,642	130	—	2,772
MBS				
GSE	14,849	234	(26)	15,057
Government guaranteed	182	5	—	187
Available-for-sale debt securities	$ 22,340	$ 404	$ (38)	$ 22,706

[a] Includes adjustments made to the cost basis of an investment for accretion, amortization, and fair value hedge accounting adjustments. This also includes accrued interest receivable of $54 million at December 31, 2021.

We had no sales of AFS debt securities for the periods presented. Any gains or losses are determined on a specific identification basis.

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Held-to-Maturity Debt Securities (HTM)

The following table presents the amortized cost, carrying amount, and fair value of our HTM debt securities.

	Amortized Cost and Net Carrying Amount [a]	Gross Unrecognized Holding Gains	Gross Unrecognized Holding (Losses)	Fair Value
As of June 30, 2022				
U.S. Government & other government related	**$ 953**	**$ —**	**$ (8)**	**$ 945**
MBS				
GSE	**184**	**8**	**—**	**192**
Government guaranteed	**60**	**—**	**—**	**60**
Other	**9**	**—**	**—**	**9**
Held-to-maturity debt securities	**$ 1,206**	**$ 8**	**$ (8)**	**$ 1,206**
As of December 31, 2021				
U.S. Government & other government related	$ 1,506	$ 11	$ —	$ 1,517
MBS				
GSE	214	19	—	233
Government guaranteed	71	1	—	72
Other	10	—	—	10
Held-to-maturity debt securities	$ 1,801	$ 31	$ —	$ 1,832

[a] Includes adjustments made to the cost basis of an investment for accretion, and/or amortization.

We had no sales of HTM debt securities for the period presented. Any gains or losses are determined on a specific identification basis.

Contractual Maturity

The maturity of our AFS and HTM debt securities is detailed in the following table. FFELP ABS/MBS are not presented by contractual maturity because their expected maturities will likely differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

	Available-for-Sale		Held-to-Maturity	
As of June 30, 2022	**Amortized Cost Basis**	**Net Carrying Amount and Fair Value**	**Amortized Cost and Net Carrying Amount**	**Fair Value**
Non FFELP ABS/MBS Year of Maturity -				
Due in one year or less	**$ —**	**$ —**	**$ 710**	**$ 709**
Due after one year through five years	**6**	**6**	**21**	**20**
Due after five years through ten years	**419**	**395**	**222**	**216**
Due after ten years	**875**	**812**	**—**	**—**
FFELP ABS and MBS	**17,339**	**17,412**	**253**	**261**
Total debt securities	**$ 18,639**	**$ 18,625**	**$ 1,206**	**$ 1,206**

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

AFS Securities in a Continuous Unrealized Loss Position

The following table presents unrealized losses on our AFS portfolio for periods less than 12 months and for 12 months or more. These losses are considered temporary as we expect to recover the entire amortized cost basis and neither intend to sell these securities nor consider it more likely than not that we will be required to sell these securities before the anticipated recovery of each security's remaining amortized cost basis. In the tables below, in cases where the gross unrealized losses for an investment category are less than $1 million, the losses are not reported.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Available-for-sale debt securities						
As of June 30, 2022						
U.S. Government & other government related	$ 906	$ (53)	$ 238	$ (36)	$ 1,144	$ (89)
State or local housing agency	5	—	—	—	5	—
FFELP ABS	390	(10)	—	—	390	(10)
MBS						
GSE	4,719	(74)	246	(18)	4,965	(92)
Government guaranteed	11	—	—	—	11	—
Available-for-sale debt securities	$ 6,031	$ (137)	$ 484	$ (54)	$ 6,515	$ (191)
As of December 31, 2021						
U.S. Government & other government related	$ 3,764	$ (12)	$ —	$ —	$ 3,764	$ (12)
MBS						
GSE	1,549	(23)	54	(3)	1,603	(26)
Available-for-sale debt securities	$ 5,313	$ (35)	$ 54	$ (3)	$ 5,367	$ (38)

Credit Loss Analysis

We recognized no credit losses on HTM or AFS debt securities for the periods presented.

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 6 – Advances

We offer a wide range of fixed and variable-rate advance products with different maturities, interest rates, payment characteristics and options.

We have no allowance for credit losses on our advances and we have elected to exclude accrued interest receivable from the amortized cost in the following tables. See **Note 8 - Allowance for Credit Losses** for further details on these amounts.

The following table presents our advances by terms of contractual maturity and the related weighted average contractual interest rate. For amortizing advances, contractual maturity is determined based on the advance's amortization schedule. Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay advances with or without penalties.

As of June 30, 2022	Par Value Amount	Weighted Average Contractual Interest Rate
Due in one year or less	$ 21,261	1.50 %
One to two years	9,851 [a]	1.30 %
Two to three years	7,284 [a]	1.31 %
Three to four years	3,019	1.40 %
Four to five years	3,965	1.83 %
Five to fifteen years	7,644	1.75 %
More than fifteen years	507	5.13 %
Total	**$ 53,531**	**1.53 %**

[a] Of the advances due in one to two years and two to three years, $7.0 billion and $4.0 billion, respectively, were issued to One Mortgage Partners Corp. (now JPMorgan Chase Bank NA), our former captive insurance company member, whose membership was terminated in 2021 in connection with an FHFA rule.

The following table reconciles the par value of our advances to the carrying amount on our **Condensed Statements of Condition** as of the dates indicated.

As of	June 30, 2022	December 31, 2021
Par value	$ 53,531	$ 47,708
Fair value hedging adjustments	(763)	227
Other adjustments	43	114
Advances	$ 52,811	$ 48,049

The following advance borrowers exceeded 10% of our advances outstanding.

As of June 30, 2022	Par Value	% of Total Outstanding
JPMorgan Chase Bank NA	$ 11,000 [a]	20.5 %
BMO Harris Bank NA	5,500	10.3 %

[a] Effective February 19, 2021, we terminated One Mortgage Partners Corp.'s ("OMP") membership in connection with the FHFA rule that made captive insurance companies ineligible for FHLB membership. In December 2021, OMP merged with and into its parent company, JPMorgan Chase Bank NA ("JPM"). For details on the contractual maturity terms of JPM's advances, see the table above presenting advances by terms of contractual maturity.

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 7 – MPF Loans Held in Portfolio

We acquire MPF Loans from PFIs to hold in our portfolio and historically purchased participations in pools of eligible mortgage loans from other FHLBs (MPF Banks). MPF Loans that are held in portfolio are fixed-rate conventional and Government Loans secured by one-to-four family residential properties with maturities ranging from 5 years to 30 years or participations in pools of similar eligible mortgage loans from other MPF Banks.

The following table presents information on MPF Loans held in portfolio by contractual maturity at the time of purchase. We have an allowance for credit losses on our MPF Loans and we have elected to exclude accrued interest receivable from the amortized cost in the following tables. See **Note 8 - Allowance for Credit Losses** for further details on these amounts.

As of	June 30, 2022	December 31, 2021
Medium term (15 years or less)	$ 1,591	$ 1,653
Long term (greater than 15 years)	8,218	8,031
Unpaid principal balance	9,809	9,684
Net premiums, credit enhancement, and/or deferred loan fees	166	174
Fair value hedging and delivery commitment basis adjustments	(17)	(10)
MPF Loans held in portfolio, before allowance for credit losses	9,958	9,848
Allowance for credit losses on MPF Loans	(5)	(5)
MPF Loans held in portfolio, net	$ 9,953	$ 9,843
Conventional mortgage loans	$ 8,996	$ 8,845
Government Loans	813	839
Unpaid principal balance	$ 9,809	$ 9,684

The above table excludes MPF Loans acquired under the MPF Xtra® and MPF Government MBS products. See **Note 2 - Summary of Significant Accounting Policies** in our 2021 Form 10-K for information related to the accounting treatment of these off-balance sheet MPF Loan products.

Coronavirus Disease 2019 (COVID-19) Forbearance

Section 4013 of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") provided temporary relief from the accounting and reporting requirements for troubled debt restructurings (TDRs) for certain loan modifications related to COVID-19. Specifically, the CARES Act provided that a qualifying financial institution may elect to suspend (1) the requirements under U.S. GAAP for certain loan modifications that would otherwise be categorized as a TDR, and (2) any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes. Section 4013 of the CARES Act applied to any modification related to an economic hardship as a result of the COVID-19 pandemic, including a forbearance arrangement, an interest rate modification, a repayment plan, or any similar arrangement that defers or delays payment of principal or interest, that occurred during the period beginning on March 1, 2020 and ending on the earlier of December 31, 2020 or the date that is 60 days after the declaration of the national emergency related to the COVID-19 pandemic ends for a loan that was not more than 30 days past due as of December 31, 2019. On December 27, 2020, the Consolidated Appropriations Act, 2021, was signed into law, which extended the applicable end period to the earlier of January 1, 2022, or 60 days following the termination of the national emergency related to the COVID-19 pandemic. We elected to suspend TDR accounting for eligible modifications under Section 4013 of the CARES Act. We resumed TDR accounting when this section of the CARES Act expired on January 1, 2022.

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 8 – Allowance for Credit Losses

See **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2021 Form 10-K for further details regarding our accounting policies pertaining to allowances for credit losses.

Our allowances for credit losses are immaterial due to the nature of our credit enhancements, collateral support, and/or credit worthiness of our counterparties. See **Note 8 - Allowance for Credit Losses** to the financial statements in our 2021 Form 10-K for more information.

Allowance for Credit Losses on MPF Loans

The following table presents the activity in our allowance for credit losses for MPF Loans.

	Three months ended June 30,		Six months ended June 30,	
For the periods ending	**2022**	2021	**2022**	2021
Allowance for MPF credit losses beginning balance	**$ 5**	$ 3	**$ 5**	$ 3
MPF credit losses charged-off	**—**	(2)	**(1)**	(2)
Provision for (reversal of) MPF for credit losses	**—**	1	**1**	1
Allowance for MPF credit losses ending balance	**$ 5**	$ 3	**$ 5**	$ 3

Allowance for Credit Losses on Community First® Fund (the Fund)

As of June 30, 2022 we had $47 million in Fund loans outstanding compared to $45 million at December 31, 2021, recorded in Other assets in our **Condensed Statements of Condition**.

As of June 30, 2022, all Fund loans were current.

The following table details our allowance for credit losses on Fund loans.

	Three months ended June 30,		Six months ended June 30,	
For the periods ending	**2022**	2021	**2022**	2021
Allowance for Fund loan credit losses beginning balance	**$ 7**	$ 7	**$ 7**	$ 7
Allowance for Fund loan credit losses ending balance	**$ 7**	$ 7	**$ 7**	$ 7

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

The following tables summarize our conventional MPF Loans by our key credit quality indicators.

As of	**June 30, 2022**			December 31, 2021		
	Conventional MPF Amortized Cost by Origination Year			Conventional MPF Amortized Cost by Origination Year		
	2018 to 2022	**Prior to 2018**	**Total**	2017 to 2021	Prior to 2017	Total
Past due 30-59 days	**$ 28**	**$ 17**	**$ 45**	$ 23	$ 18	$ 41
Past due 60-89 days	**5**	**5**	**10**	8	6	14
Past due 90 days or more	**21**	**27**	**48**	43	30	73
Past due	**54**	**49**	**103**	74	54	128
Current	**7,938**	**1,093**	**9,031**	7,883	987	8,870
Total outstanding	**$ 7,992**	**$ 1,142**	**$ 9,134**	$ 7,957	$ 1,041	$ 8,998

As of	**June 30, 2022**			December 31, 2021		
	Amortized Cost			Amortized Cost		
	Conventional	**Government**	**Total**	Conventional	Government	Total
In process of foreclosure	**$ 23**	**$ 7**	**$ 30**	$ 6	$ 3	$ 9
Serious delinquency rate	**0.55 %**	**2.00 %**	**0.67 %**	0.82 %	2.33 %	0.95 %
Past due 90 days or more and still accruing interest	**$ 3**	**$ 14**	**$ 17**	$ 30	$ 19	$ 49
Loans on nonaccrual status	**50**	**—**	**50**	47	—	47
Loans on nonaccrual status with no allowance for credit losses	**15**	**—**	**15**	11	—	11

Accrued interest receivable

We present accrued interest receivable separately for loans and AFS/HTM debt securities. We do not measure an allowance for credit losses on loan related accrued interest receivables as we reverse accrued interest on a monthly basis when the loan is placed on nonaccrual status.

The following table summarizes our accrued interest receivable by portfolio segment.

Financial instrument type	**June 30, 2022**	December 31, 2021
MPF Loans held in portfolio	**$ 44**	$ 45
HTM securities	**5**	4
AFS securities	**59**	—
Interest bearing deposits	**1**	—
Securities purchased under agreements to resell	**1**	—
Advances	**61**	34
Accrued interest receivable	**$ 171**	$ 83

The above table excludes accrued interest of $54 million on AFS securities at December 31, 2021. Prior to 2022, we included accrued interest in the carrying value of our AFS securities. See **Note 5 - Investment Debt Securities** for 2021 AFS carrying values.

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 9 – Derivatives and Hedging Activities

Refer to **Note 2 - Summary of Significant Accounting Policies** in our 2021 Form 10-K for our accounting policies for derivatives.

We transact most of our derivatives with large banks and major broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell, and distribute consolidated obligations. We are not a derivatives dealer and do not trade derivatives for speculative purposes. We enter into derivative transactions through either of the following:

- A bilateral agreement with an individual counterparty for over-the-counter derivative transactions.
- Clearinghouses classified as Derivatives Clearing Organizations (DCOs) through Futures Commission Merchants (FCMs), which are clearing members of the DCOs, for cleared derivative transactions.

Managing Interest Rate Risk

We use fair value hedges to manage our exposure to changes in the fair value of (1) a recognized asset or liability or (2) an unrecognized firm commitment, attributable to changes in a benchmark interest rate, such as SOFR. Our cash flow hedge strategy is to hedge the variability in the total proceeds received from rolling forecasted zero-coupon discount note issuance, attributable to changes in the benchmark interest rate, by entering into pay-fixed interest rate swaps. We are not using the cash flow hedge strategy for new transactions at this time, as we used LIBOR as the benchmark interest rate for cash flow hedges and we are not entering into new LIBOR-linked transactions.

We may elect the fair value option for financial instruments, such as advances, MPF Loans held for sale, and consolidated obligation discount notes and bonds, in cases where hedge accounting treatment may not be achieved due to the inability to meet the hedge effectiveness testing criteria, or in certain cases where we wish to mitigate the risk associated with selecting the fair value option for other instruments. We may also use economic hedges when hedge accounting is not permitted or hedge effectiveness is not achievable.

Managing Credit Risk on Derivative Agreements

Over-the-counter (bilateral) Derivative Transactions: We are subject to credit risk due to the risk of nonperformance by counterparties to our derivative agreements. For bilateral derivative agreements, the degree of counterparty risk depends on the extent to which master netting arrangements, collateral requirements and other credit enhancements are included in such contracts to mitigate the risk. We manage counterparty credit risk through credit analysis, collateral requirements and adherence to the requirements set forth in our policies and FHFA regulations. We require collateral agreements on all over-the-counter derivatives. Additionally, collateral related to over-the-counter derivatives with member institutions includes collateral assigned to us, as evidenced by a written security agreement, and which may be held by the member institution for our benefit. As of June 30, 2022, based on credit analyses and collateral requirements, we have not recorded a credit loss on our over-the-counter derivative agreements. See **Note 15 - Fair Value** in our 2021 Form 10-K for discussion regarding our fair value methodology for over-the-counter derivative assets and liabilities, including an evaluation of the potential for the fair value of these instruments to be affected by counterparty credit risk.

For nearly all of our bilateral derivative transactions executed prior to March 1, 2017, and for all transactions entered into on or after March 1, 2017, our bilateral derivative agreements are fully collateralized with a zero unsecured threshold in accordance with variation margin requirements issued by the U.S. federal bank regulatory agencies and the Commodity Futures Trading Commission (CFTC). We pledged no investment securities on our bilateral derivative transactions (that can be sold or repledged by our counterparty) as of June 30, 2022.

For certain transactions executed prior to March 1, 2017, we may be required to post net additional collateral with our counterparties if there is deterioration in our credit rating. If our credit rating had been lowered from its current rating to the next lower rating by a major credit rating agency, such as Standard and Poor's or Moody's, the amount of collateral we would have been required to deliver would have been immaterial at June 30, 2022.

Cleared Derivative Transactions: Cleared derivative transactions are subject to variation and initial margin requirements established by the DCO and its clearing members. Variation margin payments are characterized as settlement of a derivative's mark-to-market exposure and not as collateral against the derivative's mark-to-market exposure. See **Note 1 - Background and Basis of Presentation** and **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2021 Form 10-K for further discussion. We post our initial margin collateral payments and make variation margin settlement payments

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

through our FCMs, on behalf of the DCO, which could expose us to institutional credit risk in the event that the FCMs or the DCO fail to meet their obligations. Clearing derivatives through a DCO mitigates counterparty credit risk exposure because the DCO is substituted for individual counterparties and variation margin settlement payments are made daily through the FCMs for changes in the value of cleared derivatives. The DCO determines initial margin requirements for cleared derivatives. We pledged $616 million of investment securities (that can be sold or repledged) as part of our initial margin related to cleared derivative transactions at June 30, 2022. Additionally, an FCM may require additional initial margin to be posted based on credit considerations, including but not limited to, if our credit rating downgrades. We had no requirement to post additional initial margin by our FCMs at June 30, 2022.

The following table presents details on the notional amounts, and cleared and bilateral derivative assets and liabilities on our **Condensed Statements of Condition**. The netting adjustment amount includes cash collateral (either received or paid by us) and related accrued interest in cases where we have a legal right, by contract (e.g., master netting agreement) or otherwise, to offset cash flow obligations between us and our counterparty into a single net payable or receivable.

As of	**June 30, 2022**			December 31, 2021		
	Notional Amount	**Derivative Assets**	**Derivative Liabilities**	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives in hedge accounting relationships-						
Interest rate contracts	**$ 79,172**	**$ 677**	**$ 2,030**	$ 70,321	$ 58	$ 466
Derivatives not in hedge accounting relationships-						
Interest rate contracts	**4,711**	**12**	**31**	2,772	10	59
Mortgage delivery commitments	**390**	**1**	**1**	625	2	2
Other	**128**	**1**	**—**	148	—	—
Derivatives not in hedge accounting relationships	**5,229**	**14**	**32**	3,545	12	61
Gross derivative amount before netting adjustments and cash collateral	**$ 84,401**	**691**	**2,062**	$ 73,866	70	527
Netting adjustments and cash collateral		**(564)**	**(1,910)**		(56)	(495)
Derivatives on Condensed Statements of Condition		**$ 127**	**$ 152**		$ 14	$ 32
	Cash Collateral			**Cash Collateral**		
Cash collateral posted and related accrued interest	**$ 1,601**			$ 447		
Cash collateral received and related accrued interest	**256**			8		

The following table presents the noninterest income - derivatives and economic hedging activities as presented in the **Condensed Statements of Income**.

	Three months ended June 30,		Six months ended June 30,	
For the periods ending	**2022**	2021	**2022**	2021
Economic hedges -				
Interest rate contracts	**$ 15**	$ (11)	**$ 42**	$ 16
Mortgage delivery commitments	**(3)**	1	**(8)**	(12)
Other	**6**	(3)	**13**	3
Economic hedges	**18**	(13)	**47**	7
Variation margin on daily settled cleared derivatives	**(1)**	—	**(1)**	—
Noninterest income - Derivatives and hedging activities	**$ 17**	$ (13)	**$ 46**	$ 7

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

The following tables present details regarding the offsetting of our cleared and bilateral derivatives on our **Condensed Statements of Condition**. The netting adjustment amount includes cash collateral (either received or paid by us) and related accrued interest in cases where we have a legal right, by contract (e.g., master netting agreement) or otherwise, to offset cash flow obligations between us and our counterparty into a single net payable or receivable.

	Derivative Assets					
	As of June 30, 2022			As of December 31, 2021		
	Bilateral	Cleared	Total	Bilateral	Cleared	Total
Derivatives with legal right of offset -						
Gross recognized amount	$ 632	$ 58	$ 690	$ 61	$ 7	$ 68
Netting adjustments and cash collateral	(506)	(58)	(564)	(49)	(7)	(56)
Derivatives with legal right of offset - net	126	—	126	12	—	12
Derivatives without legal right of offset	1	—	1	2	—	2
Derivatives on Condensed Statements of Condition	127	—	127	14	—	14
Net amount	$ 127	$ —	$ 127	$ 14	$ —	$ 14

	Derivative Liabilities					
	As of June 30, 2022			As of December 31, 2021		
	Bilateral	Cleared	Total	Bilateral	Cleared	Total
Derivatives with legal right of offset -						
Gross recognized amount	$ 1,876	$ 185	$ 2,061	$ 495	$ 30	$ 525
Netting adjustments and cash collateral	(1,852)	(58)	(1,910)	(487)	(8)	(495)
Derivatives with legal right of offset - net	24	127	151	8	22	30
Derivatives without legal right of offset	1	—	1	2	—	2
Derivatives on Condensed Statements of Condition	25	127	152	10	22	32
Less:						
Noncash collateral received or pledged and cannot be sold or repledged	—	127	127	—	22	22
Net amount	$ 25	$ —	$ 25	$ 10	$ —	$ 10

At June 30, 2022 and December 31, 2021, we had $489 million and $622 million of additional credit exposure due to pledging of noncash collateral to our counterparties, which exceeded our net derivative position for combined cleared and bilateral derivatives.

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Fair Value Hedges

The following table presents our fair value hedging results by the type of hedged item. We had no net gain or loss on hedged firm commitments that no longer qualified as a fair value hedge. Changes in fair value of the derivative and the hedged item attributable to the hedged risk for designated fair value hedges are recorded in net interest income in the same line as the earnings effect of the hedged item. Gains (losses) on derivatives include unrealized changes in fair value, as well as net interest settlements. The line for Other relates to discontinued closed fair value hedges on MPF Loans held for portfolio that are being amortized over the remaining life of the loans. As of June 30, 2022 we did not have any active fair value hedges on our MPF Loans.

	Three months ended June 30, 2022			Three months ended June 30, 2021		
	Gain (Loss) on Derivative	**Gain (Loss) on Hedged Item**	**Amount Recorded in Net Interest Income**	**Gain (Loss) on Derivative**	**Gain (Loss) on Hedged Item**	**Amount Recorded in Net Interest Income**
Available-for-sale debt securities	**$ 597**	**$ (644)**	**$ (47)**	$ (354)	$ 310	$ (44)
Advances	**325**	**(316)**	**9**	(124)	77	(47)
Consolidated obligation bonds	**(543)**	**595**	**52**	135	(76)	59
Total	**$ 379**	**$ (365)**	**$ 14**	$ (343)	$ 311	$ (32)

	Six months ended June 30, 2022			Six months ended June 30, 2021		
	Gain (Loss) on Derivative	**Gain (Loss) on Hedged Item**	**Amount Recorded in Net Interest Income**	**Gain (Loss) on Derivative**	**Gain (Loss) on Hedged Item**	**Amount Recorded in Net Interest Income**
Available-for-sale debt securities	**$ 1,472**	**$ (1,611)**	**$ (139)**	$ 381	$ (521)	$ (140)
Advances	**978**	**(990)**	**(12)**	212	(298)	(86)
Consolidated obligation bonds	**(1,818)**	**1,967**	**149**	(70)	176	106
Other	**—**	**—**	**—**	—	(1)	(1)
Total	**$ 632**	**$ (634)**	**$ (2)**	$ 523	$ (644)	$ (121)

The following table presents the cumulative basis adjustments on hedged items designated as fair value hedges and the related amortized cost of the hedged items.

As of June 30, 2022	**Amortized cost of hedged asset/ liability**	**Basis adjustments active hedges included in amortized cost**	**Basis adjustments discontinued hedges included in amortized cost**	**Total amount of fair value hedging basis adjustments**
Available-for-sale securities	**$ 14,270**	**$ (1,247)**	**$ 392**	**$ (855)**
Advances	**15,847**	**(765)**	**2**	**(763)**
Consolidated obligation bonds	**44,446**	**(2,162)**	**(14)**	**(2,176)**
Other	**233**	**—**	**5**	**5**
As of December 31, 2021				
Available-for-sale securities	$ 14,412	$ 335	$ 421	$ 756
Advances	19,720	225	2	227
Consolidated obligation bonds	36,335	(192)	(16)	(208)
Other	265	—	6	6

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Cash Flow Hedges

For cash flow hedges the entire change in the fair value of the hedging instrument is recorded in AOCI and reclassified into earnings (net interest income) as the hedged item affects earnings. Hedge effectiveness testing is performed to determine whether hedge accounting is qualified.

We are exposed to the variability in the total net proceeds received from forecasted zero-coupon discount note issuances, which is attributable to changes in the benchmark interest rate. As a result, we enter into cash flow hedge relationships utilizing derivative agreements to hedge the total net proceeds received from our "rolling" forecasted zero-coupon discount note issuances attributable to changes in the benchmark interest rate. The maximum length of time over which we are hedging this exposure is 8 years. We reclassify amounts in AOCI into our **Condensed Statements of Income** in the same periods during which the hedged forecasted transaction affects our earnings. We had no discontinued cash flow hedges for the periods presented. The deferred net gains (losses) on derivative instruments in AOCI that are expected to be reclassified to earnings during the next twelve months were immaterial as of June 30, 2022. We are not using the cash flow hedge strategy for new transactions at this time, as we used LIBOR as the benchmark interest rate for cash flow hedges and we are not entering into new LIBOR-linked transactions.

The following table presents our cash flow hedging results by type of hedged item. Additionally, the table indicates where cash flow hedging results are classified in our **Condensed Statements of Income**. In this regard, the **Amount Reclassified from AOCI into Net Interest Income** column below includes the following:

- The amortization of closed cash flow hedging adjustments, which are reclassified from AOCI into the interest income/expense line item of the respective hedged item type.
- The effect of net interest settlements attributable to open derivative hedging instruments, which are initially recorded in AOCI and are reclassified to the interest income/expense line item of the respective hedged item type.

	Three months ended June 30, 2022		Three months ended June 30, 2021	
	Gross Amount Initially Recognized in AOCI	**Amount Reclassified from AOCI into Net Interest Income**	**Gross Amount Initially Recognized in AOCI**	**Amount Reclassified from AOCI into Net Interest Income**
Discount notes	**$ 22**	**$ (2)**	$ (14)	$ (4)
Bonds	**—**	**(1)**	—	(1)
Total	**$ 22**	**$ (3)**	$ (14)	$ (5)

	Six months ended June 30, 2022		Six months ended June 30, 2021	
	Gross Amount Initially Recognized in AOCI	**Amount Reclassified from AOCI into Net Interest Income**	**Gross Amount Initially Recognized in AOCI**	**Amount Reclassified from AOCI into Net Interest Income**
Discount notes	**$ 74**	**$ (6)**	$ 23	$ (8)
Bonds	**—**	**(1)**	—	(1)
Total	**$ 74**	**$ (7)**	$ 23	$ (9)

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 10 – Consolidated Obligations

The FHLBs issue consolidated obligations through the Office of Finance as their agent. Consolidated obligations consist of discount notes and consolidated obligation bonds. Consolidated discount notes are issued to raise short-term funds, are issued at less than their face amount and redeemed at par value when they mature. The maturity of consolidated obligation bonds may range from less than one year to over 20 years, but they are not subject to any statutory or regulatory limits on maturity.

The following table presents our consolidated obligation discount notes for which we are the primary obligor. All are due in one year or less.

As of	June 30, 2022	December 31, 2021
Consolidated obligation discount notes - carrying amount	$ 31,525	$ 24,563
Consolidated obligation discount notes - principal amount	31,602	24,565
Weighted Average Interest Rate	1.32 %	0.05 %

The following table presents the remaining life of our consolidated obligation bonds by contractual maturity and the related weighted average interest rate, for which we are the primary obligor, including callable bonds that are redeemable in whole, or in part, at our discretion on predetermined call dates.

As of June 30, 2022	Contractual Maturity	Weighted Average Interest Rate	By Maturity or Next Call Date
Due in one year or less	$ 19,209	1.52 %	$ 57,243
One to two years	8,267	1.13 %	4,382
Two to three years	10,868	1.25 %	2,554
Three to four years	8,474	1.03 %	617
Four to five years	9,570	1.51 %	1,177
Thereafter	10,347	1.83 %	762
Total par value	$ 66,735	1.41 %	$ 66,735

The following table presents consolidated obligation bonds outstanding by call feature.

As of	June 30, 2022	December 31, 2021
Noncallable	$ 17,420	$ 24,516
Callable	49,315	39,087
Par value	66,735	63,603
Fair value hedging adjustments	(2,175)	(208)
Other adjustments	(41)	(22)
Consolidated obligation bonds	$ 64,519	$ 63,373

The following table summarizes the consolidated obligations of the FHLBs and those for which we are the primary obligor. We did not accrue a liability for our joint and several liability related to the other FHLBs' share of the consolidated obligations as of June 30, 2022, and December 31, 2021. See **Note 16 - Commitments and Contingencies** in our 2021 Form 10-K for further details.

	June 30, 2022			December 31, 2021		
Par values as of	Bonds	Discount Notes	Total	Bonds	Discount Notes	Total
FHLB System total consolidated obligations	$468,699	$413,782	$882,481	$441,936	$210,926	$ 652,862
FHLB Chicago as primary obligor	66,735	31,602	98,337	63,603	24,565	88,168
As a percent of the FHLB System	14 %	8 %	11 %	14 %	12 %	14 %

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 11 – Capital and Mandatorily Redeemable Capital Stock (MRCS)

Under our Capital Plan our stock consists of two sub-classes of stock, Class B1 activity stock and Class B2 membership stock (together, Class B stock), both with a par value of $100 and redeemable on five years' written notice, subject to certain conditions. Under the Capital Plan, each member is required to own capital stock in an amount equal to the greater of a membership stock requirement or an activity stock requirement. All stock that supports a member's activity stock requirement with the Bank is classified as Class B1 activity stock. Any additional amount of stock necessary for the total amount of Class B stock held to equal a member's minimum investment amount will be classified as Class B2 membership stock. Members purchase Class B2 membership stock to satisfy their membership stock requirement with the Bank. Stock held in excess of a member's minimum investment requirement is classified as Class B2 excess capital stock. See **Note 12 – Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements in our 2021 Form 10-K for further information on our capital stock and MRCS.

Minimum Capital Requirements

For details on our minimum capital requirements, including how the ratios below were calculated, see **Minimum Capital Requirements** in **Note 12 – Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements in our 2021 Form 10-K. We complied with our minimum regulatory capital requirements as shown below.

As of	**June 30, 2022**		December 31, 2021	
	Requirement	**Actual**	Requirement	Actual
Total regulatory capital	**$ 4,206**	**$ 7,119**	$ 3,878	$ 6,656
Total regulatory capital ratio	**4.00 %**	**6.77 %**	4.00 %	6.87 %
Leverage capital	**$ 5,258**	**$ 10,678**	$ 4,848	$ 9,984
Leverage capital ratio	**5.00 %**	**10.16 %**	5.00 %	10.30 %
Risk-based capital	**$ 1,436**	**$ 7,119**	$ 1,297	$ 6,656

Total regulatory capital and leverage capital includes mandatorily redeemable capital stock (MRCS) but does not include AOCI. Under the FHFA regulation on capital classifications and critical capital levels for the FHLBs, we are adequately capitalized.

Additionally, an FHFA Advisory Bulletin sets forth guidance for each FHLB to maintain a ratio of at least two percent of capital stock to total assets. In accordance with this guidance, the FHFA considers the proportion of capital stock to assets, measured on a daily average basis at month end, when assessing each FHLB's capital management practices.

None of our members (including any successor) had regulatory capital stock exceeding 10% of our total regulatory capital stock outstanding (which includes MRCS) as of June 30, 2022.

Dividends

Our ability to pay dividends is subject to the FHLB Act and FHFA regulations. On July 28, 2022 our Board of Directors declared a 5.750% dividend (annualized) for Class B1 activity stock and a 2.375% dividend (annualized) for Class B2 membership stock based on our preliminary financial results for the second quarter of 2022. This dividend totaled $33 million (recorded as $29 million dividends on capital stock and $4 million interest expense on mandatorily redeemable capital stock) and is scheduled for payment on August 15, 2022. Any future dividend payment remains subject to declaration by the Board and will depend on future operating results, our Retained Earnings and Dividend Policy and any other factors the Board determines to be relevant.

Repurchase of Excess Capital Stock

Members may request repurchase of excess stock on any business day. Additionally, on a monthly basis, the Bank repurchases excess capital stock held by each member or former member that exceeds certain limits set by the Bank. All repurchases of excess capital stock, including any future monthly repurchases, will continue until otherwise announced, but remain subject to our regulatory requirements, certain financial and capital thresholds, and prudent business practices.

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 12 - Accumulated Other Comprehensive Income (Loss)

The following table summarizes the gains (losses) in AOCI for the reporting periods indicated.

	Net Unrealized - Available-for-sale Debt Securities	Net Unrealized - Cash Flow Hedges	Post - Retirement Plans	Total in AOCI
Three months ended June 30, 2022				
Beginning balance	**$ 148**	**$ 45**	**$ (16)**	**$ 177**
Other comprehensive income before reclassification - recorded to the Condensed Statements of Condition	**(162)**	**22**	**—**	**(140)**
Amounts reclassified in period to Condensed Statements of Income:				
Net interest income	**—**	**3**		**3**
Ending balance	**$ (14)**	**$ 70**	**$ (16)**	**$ 40**
Three months ended June 30, 2021				
Beginning balance	$ 490	$ (24)	$ (25)	$ 441
Other comprehensive income before reclassification - recorded to the Condensed Statements of Condition	55	(14)	—	41
Amounts reclassified in period to Condensed Statements of Income:				
Net interest income	(1)	5		4
Noninterest expense			1	1
Ending balance	$ 544	$ (33)	$ (24)	$ 487
Six months ended June 30, 2022				
Beginning balance	**$ 366**	**$ (11)**	**$ (13)**	**$ 342**
Other comprehensive income before reclassification - recorded to the Condensed Statements of Condition	**(380)**	**74**	**(4)**	**(310)**
Amounts reclassified in period to Condensed Statements of Income:				
Net interest income	**—**	**7**		**7**
Noninterest expense			**1**	**1**
Ending balance	**$ (14)**	**$ 70**	**$ (16)**	**$ 40**
Six months ended June 30, 2021				
Beginning balance	$ 292	$ (65)	$ (20)	$ 207
Other comprehensive income before reclassification - recorded to the Condensed Statements of Condition	253	23	(10)	266
Amounts reclassified in period to Condensed Statements of Income:				
Net interest income	(1)	9		8
Noninterest expense			6	6
Ending balance	$ 544	$ (33)	$ (24)	$ 487

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 13 - Fair Value

The following table is a summary of the fair value estimates and related levels in the hierarchy. The carrying amounts are per the **Condensed Statements of Condition**. Fair value estimates represent the exit prices that we would receive to sell assets or pay to transfer liabilities in an orderly transaction with market participants at the measurement date. They do not represent an estimate of our overall market value as a going concern, as they do not take into account future business opportunities or profitability of assets and liabilities. We measure instrument-specific credit risk attributable to our consolidated obligations based on our nonperformance risk, which includes the credit risk associated with the joint and several liability of other FHLBs (see **Note 16 - Commitments and Contingencies** in our 2021 Form 10-K). As a result, we did not recognize any instrument-specific credit risk attributable to our consolidated obligations that are carried at fair value. See **Note 2 - Summary of Significant Accounting Policies** in our 2021 Form 10-K for our fair value policies and **Note 15 - Fair Value** in our 2021 Form 10-K for our valuation techniques and significant inputs. See **Note 9 - Derivatives and Hedging Activities** for more information on the Netting and Cash Collateral amounts. The net carrying amount in the below table is net of any allowance for credit losses.

	Net Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Netting & Cash Collateral
June 30, 2022						
Carried at amortized cost						
Cash and due from banks and interest bearing deposits	$ 904	$ 904	$ 904			
Federal funds sold and securities purchased under agreements to resell	20,080	20,080		$ 20,080		
Held-to-maturity debt securities	1,206	1,206		1,197	$ 9	
Advances	51,214	51,253		51,253		
MPF Loans held in portfolio, net	9,946	9,190		9,180	10	
Other assets	171	171		171		
Carried at fair value on a recurring basis						
Trading debt securities	951	951		951		
Available-for-sale debt securities	18,625	18,625		18,625		
Advances	1,597	1,597		1,597		
Derivative assets	127	127		691		$ (564)
Other assets	86	86		86		
Carried at fair value on a nonrecurring basis						
MPF Loans held in portfolio, net	7	7			7	
Financial assets	104,914	$ 104,197	$ 904	$ 103,831	$ 26	$ (564)
Other non financial assets	240					
Assets	$ 105,154					
Carried at amortized cost						
Deposits	$ (655)	$ (655)		$ (655)		
Consolidated obligation discount notes	(30,660)	(30,654)		(30,654)		
Consolidated obligation bonds	(63,858)	(62,486)		(62,486)		
Mandatorily redeemable capital stock	(273)	(273)	$ (273)			
Other liabilities	(177)	(177)		(177)		
Carried at fair value on a recurring basis						
Consolidated obligation discount notes	(865)	(865)		(865)		
Consolidated obligation bonds	(661)	(661)		(661)		
Derivative liabilities	(152)	(152)		(2,062)		$ 1,910
Financial liabilities	(97,301)	$ (95,923)	$ (273)	$ (97,560)	$ —	$ 1,910
Other non financial liabilities	(967)					
Liabilities	$ (98,268)					

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

	Net Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Netting & Cash Collateral
December 31, 2021						
Carried at amortized cost						
Cash and due from banks and interest bearing deposits	$ 900	$ 900	$ 900			
Federal funds sold and securities purchased under agreements to resell	12,267	12,267		$ 12,267		
Held-to-maturity debt securities	1,801	1,832		1,822	$ 10	
Advances	46,876	47,108		47,108		
MPF Loans held in portfolio, net	9,839	9,908		9,900	8	
Other assets	83	83		83		
Carried at fair value on a recurring basis						
Trading debt securities	954	954		954		
Available-for-sale debt securities	22,706	22,706		22,706		
Advances	1,173	1,173		1,173		
Derivative assets	14	14		70		$ (56)
Other assets	104	104		104		
Carried at fair value on a nonrecurring basis						
MPF Loans held in portfolio, net	4	4			4	
Financial assets	96,721	$ 97,053	$ 900	$ 96,187	$ 22	$ (56)
Other non financial assets	233					
Assets	$ 96,954					
Carried at amortized cost						
Deposits	$ (1,034)	$ (1,034)		$ (1,034)		
Consolidated obligation discount notes	(24,563)	(24,563)		(24,563)		
Consolidated obligation bonds	(62,708)	(62,585)		(62,585)		
Mandatorily redeemable capital stock	(247)	(247)	$ (247)			
Other liabilities	(116)	(116)		(116)		
Carried at fair value on a recurring basis						
Consolidated obligation bonds	(665)	(665)		(665)		
Derivative liabilities	(32)	(32)		(527)		$ 495
Financial liabilities	(89,365)	$ (89,242)	$ (247)	$ (89,490)	$ —	$ 495
Other non financial liabilities	(837)					
Liabilities	$ (90,202)					

We had no transfers between levels for the periods shown.

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Fair Value Option

We may elect the fair value option for financial instruments, such as advances, MPF Loans held for sale, and consolidated obligation discount notes and bonds, in cases where hedge accounting treatment may not be achieved due to the inability to meet the hedge effectiveness testing criteria, or in certain cases where we wish to mitigate the risk associated with selecting the fair value option for other instruments. Financial instruments for which we elected the fair value option along with their related fair value are shown on our **Condensed Statements of Condition**. Refer to our **Note 2 – Summary of Significant Accounting Policies** to the financial statements in our 2021 Form 10-K for further details.

The following table presents the gains (losses) in fair values of financial assets and liabilities carried at fair value under the fair value option, which are recognized in noninterest income - instruments held under the fair value option in our **Condensed Statements of Income.**

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Advances	**$ (24)**	$ 2	**$ (63)**	$ (26)
Discount notes	**4**	—	**4**	—
Bonds	**6**	1	**20**	2
Other	**(4)**	—	**(7)**	(2)
Noninterest income - Instruments held under the fair value option	**$ (18)**	$ 3	**$ (46)**	$ (26)

The following table reflects the difference between the aggregate unpaid principal balance (UPB) outstanding and the aggregate fair value for our long term financial instruments for which the fair value option has been elected. None of the advances were 90 days or more past due and none were on nonaccrual status.

As of	**June 30, 2022**		December 31, 2021	
	Advances	**Consolidated Obligation Bonds**	Advances	Consolidated Obligation Bonds
Unpaid principal balance	**$ 1,603**	**$ 681**	$ 1,117	$ 666
Fair value over (under) UPB	**(6)**	**(20)**	56	(1)
Fair value	**$ 1,597**	**$ 661**	$ 1,173	$ 665

Notes to Condensed Financial Statements - (Unaudited)
(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 14 – Commitments and Contingencies

The following table shows our commitments outstanding, which represent off-balance sheet obligations.

As of	**June 30, 2022**			December 31, 2021		
	Expire within one year	**Expire after one year**	**Total**	Expire within one year	Expire after one year	Total
Member standby letters of credit	**$ 4,032**	**$ 9,048** [a]	**$ 13,080**	$ 4,285	$ 7,032 [a]	$ 11,317
MPF delivery commitments	**265**	**—**	**265**	366	—	366
Advance commitments	**697**	**2**	**699**	43	2	45
Housing authority standby bond purchase agreements	**15**	**498**	**513**	25	477	502
Unsettled consolidated obligation discount notes	**602**	**—**	**602**	—	—	—
Unsettled consolidated obligation bonds	**405**	**—**	**405**	378	—	378
Other	**2**	**—**	**2**	3	—	3
Commitments	**$ 6,018**	**$ 9,548**	**$ 15,566**	$ 5,100	$ 7,511	$ 12,611

[a] Contains $7.9 billion and $6.1 billion of member standby letters of credit as of June 30, 2022, and December 31, 2021, which were renewable annually.

For a description of defined terms see **Note 16 - Commitments and Contingencies** to the financial statements in our 2021 Form 10-K.

Note 15 – Transactions with Related Parties and Other FHLBs

We define related parties as either members whose officers or directors serve on our Board of Directors, or members that control more than 10% of our total voting interests. We did not have any members that controlled more than 10% of our total voting interests for the periods presented in these condensed financial statements.

In the normal course of business, we may extend credit to or enter into other transactions with a related party. These transactions are done at market terms that are no more favorable than the terms of comparable transactions with other members who are not considered related parties.

Members

The following table summarizes material balances we had with our members who are related parties as defined above (including their affiliates) as of the dates presented. The related net income impacts to our **Condensed Statements of Income** were not material.

As of	**June 30, 2022**	December 31, 2021
Assets - Advances	**$ 133**	$ 235
Liabilities - Deposits	**10**	15
Equity - Capital Stock	**17**	18

Other FHLBs

From time to time, we may loan to, or borrow from, other FHLBs. These transactions are done at market terms that are no more favorable than the terms of comparable transactions with other counterparties. These transactions are overnight, maturing the following business day.

In addition, we provide programmatic and operational support in our role as the administrator of the MPF Program on behalf of the other MPF Banks for a fee.

Material transactions with other FHLBs are identified on the face of our **Condensed Financial Statements.**

FHLBank Chicago

Federal Home Loan Bank of Chicago

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Below are selected financial data for the last five quarters.

	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
Other selected data at period end					
Member standby letters of credit outstanding	**$ 13,080**	$ 11,157	$ 11,317	$ 13,116	$ 12,773
MPF Loans par value outstanding - FHLB System [a]	**65,889**	65,867	66,297	67,217	67,673
MPF Loans par value outstanding - FHLB Chicago PFIs [a]	**18,455**	18,434	18,600	18,716	18,718
Number of members	**669**	670	676	674	678
Total employees (full and part time)	**479**	476	466	466	451
Other selected MPF data [a]					
MPF Loans par value amounts funded - FHLB System	**$ 2,358**	$ 2,462	$ 3,152	$ 4,027	$ 4,535
Quarterly number of PFIs funding MPF products - FHLB System	**576**	612	654	678	687
MPF Loans par value amounts funded - FHLB Chicago PFIs	**$ 636**	$ 602	$ 938	$ 1,150	$ 1,379
Quarterly number of PFIs funding MPF products - FHLB Chicago	**167**	172	179	178	177
Selected ratios (rates annualized)					
Total regulatory capital to assets ratio	**6.77 %**	6.95 %	6.87 %	6.50 %	6.56 %
Market value of equity to book value of equity	**109 %**	106 %	107 %	106 %	106 %
Primary mission asset ratio [b]	**73.1 %**	73.2 %	70.3 %	70.7 %	70.5 %
Dividend rate class B1 activity stock-period paid	**5.13 %**	5.00 %	5.00 %	5.00 %	5.00 %
Dividend rate class B2 membership stock-period paid	**2.13 %**	2.00 %	2.00 %	2.00 %	2.00 %
Return on average assets	**0.36 %**	0.37 %	0.35 %	0.31 %	0.32 %
Return on average equity	**5.33 %**	5.61 %	5.31 %	4.54 %	4.59 %
Average equity to average assets	**6.75 %**	6.60 %	6.59 %	6.83 %	6.97 %
Net yield on average interest-earning assets	**0.61 %**	0.62 %	0.58 %	0.58 %	0.64 %
Cash dividends	**$ 24**	$ 22	$ 21	$ 22	$ 21
Dividend payout ratio	**26.37 %**	23.16 %	23.86 %	28.57 %	26.92 %

[a] Includes all MPF products, whether on or off our balance sheet. See **Mortgage Partnership Finance Program** beginning on page 8 in our 2021 Form 10-K for details on our various MPF products.

[b] Annual average year to date basis. The FHFA issued an advisory bulletin that provides guidance relating to a primary mission asset ratio by which the FHFA will assess each FHLB's core mission achievement. See **Mission Asset Ratio** on page 5 in our 2021 Form 10-K for more information.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Forward-Looking Information

Statements contained in this report, including statements describing the plans, objectives, projections, estimates, strategies, or future predictions of management, statements of belief, any projections or guidance on dividends or other financial items, or any statements of assumptions underlying the foregoing, may be “forward-looking statements.” These statements may use forward-looking terminology, such as “anticipates,” “believes,” “expects,” “could,” "plans," “estimates,” “may,” “should,” “will,” their negatives, or other variations of these terms. We caution that, by their nature, forward-looking statements involve risks and uncertainties related to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. These risks and uncertainties could cause actual results to differ materially from those expressed or implied in these forward-looking statements and could affect the extent to which a particular objective, projection, estimate, or prediction is realized. As a result, undue reliance should not be placed on such statements.

These forward-looking statements involve risks and uncertainties including, but not limited to, the following:

- the impact of the coronavirus disease 2019 (COVID-19) pandemic on the global and national economies and on our and our members’ businesses;

- the loss or changes in business activities with significant members; changes in the demand by our members for advances, including as a result of the Federal Reserve’s emergency actions to increase liquidity along with market conditions resulting from the COVID-19 pandemic (or changes to, or the cessation of such actions), the impact of pricing increases, and the availability of other sources of funding for our members, such as deposits;

- regulatory limits on our investments;

- the impact of new business strategies, including our ability to develop and implement business strategies focused on maintaining net interest income; our ability to successfully maintain our balance sheet and cost infrastructure at an appropriate composition and size scaled to member demand; our ability to execute our business model, implement business process improvements and scale our size to our members' borrowing needs; the extent to which our members use our advances as part of their core financing rather than just as a back-up source of liquidity; and our ability to implement product enhancements and new products and generate enough volume in new products to cover our costs related to developing such products;

- the extent to which changes in our current capital stock requirements and/or our ability to continue to offer the Reduced Capitalization Advance Program for certain future advance borrowings, our ability to continue to pay enhanced dividends on our activity stock or our ability to maintain current levels of dividends, and any amendments to our capital plan, impact Bank product usage and activity with members;

- our ability to meet required conditions to repurchase and redeem capital stock from our members (including maintaining compliance with our minimum regulatory capital requirements and determining that our financial condition is sound enough to support such repurchases), the amount and timing of such repurchases or redemptions, any changes in our repurchase processes, and our ability to maintain compliance with regulatory and statutory requirements relating to our dividend payments;

- general economic and market conditions, including the timing and volume of market activity, inflation, unemployment rates, housing prices, the condition of the mortgage and housing markets, increased delinquencies and/or loss rates on mortgages, prolonged or delayed foreclosure processes, and the effects on, among other things, mortgage backed securities; volatility resulting from the effects of, and changes in, various monetary or fiscal policies and regulations, such as those determined by the Federal Reserve Board and Federal Deposit Insurance Corporation; impacts from various measures to stimulate the economy and help borrowers refinance home mortgages; disruptions in the credit and debt markets and the effect on future funding costs, sources, and availability; the impact of the occurrence of a major natural or other disaster, a pandemic such as the COVID-19 pandemic or other disruptive event; the impact of climate change; the impact of geopolitical uncertainties or conflicts, such as the conflict in Ukraine;

- volatility of market prices, rates, and indices, or other factors, such as natural disasters, that could affect the value of our investments or collateral; changes in the value or liquidity of collateral securing advances to our members;

- changes in the value of and risks associated with our investments in mortgage loans, mortgage backed securities and the related credit enhancement protections;

- changes in our ability or intent to hold mortgage backed securities to maturity;
- changes in mortgage interest rates and prepayment speeds on mortgage assets;
- membership changes, including the loss of members through mergers and consolidations or as a consequence of regulatory requirements; changes in the financial health of our members, including the resolution of some members; risks related to expanding our membership to include more institutions with regulators and resolution processes with which we have less experience;
- increased reliance on short-term funding and changes in investor demand and capacity for consolidated obligations and/or the terms of interest rate derivatives and similar agreements, including changes in the relative attractiveness of consolidated obligations as compared to other investment opportunities; changes in our cost of funds due to concerns over U.S. fiscal policy, and any related rating agency actions impacting FHLB consolidated obligations;
- uncertainties relating to the scheduled phase-out of the London Interbank Offered Rate (LIBOR);
- political events, including legislative, regulatory, judicial, or other developments that affect us, our members, our counterparties and/or investors in consolidated obligations, including, among other things, changes in the proposals and legislation related to housing finance and GSE reform; changes in the Presidential Administration and the Congress; changes in our regulator or changes affecting our regulator and changes in the FHLB Act or applicable regulations as a result of the Housing and Economic Recovery Act of 2008 or as may otherwise be issued by our regulator; the potential designation of us as a nonbank financial company for supervision by the Federal Reserve;
- regulatory changes to FHLB membership requirements, capital requirements, MPF program requirements, and liquidity requirements by the FHFA, and increased guidance from the FHFA impacting our balance sheet management, product structures, and collateral practices;
- the ability of each of the other FHLBs to repay the principal and interest on consolidated obligations for which it is the primary obligor and with respect to which we have joint and several liability;
- the pace of technological change and our ability to develop and support technology and information systems, including our ability to protect the security of our information systems and manage any failures, interruptions or breaches in our information systems or technology services provided to us through third party vendors;
- our ability to recruit and retain qualified personnel;
- the impact of new material accounting standards and the application of accounting rules, including the impact of regulatory guidance on our application of such standards and rules;
- the volatility of reported results due to changes in the fair value of certain assets and liabilities;
- our ability to identify, manage, mitigate, and/or remedy internal control weaknesses and other operational risks; and
- the reliability of our projections, assumptions, and models on our future financial performance and condition, including dividend projections.

For a more detailed discussion of the risk factors applicable to us, see **Risk Factors** starting on page 22 in our 2021 Form 10-K.

These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events, changed circumstances, or any other reason.

FHLBank Chicago

Federal Home Loan Bank of Chicago

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Executive Summary

Second Quarter 2022 Financial Highlights

- Advances outstanding increased to $52.8 billion at June 30, 2022, compared to $48.0 billion at December 31, 2021, attributable to increased borrowings from our depository members.
- MPF Loans held in portfolio continued to remain steady at $10.0 billion at June 30, 2022, compared to $9.8 billion at December 31, 2021.
- Total investment securities decreased 18% to $20.8 billion at June 30, 2022, compared to $25.5 billion at December 31, 2021, attributable to a reduction in investment in U.S. Treasuries and a decline in the fair value of our available-for-sale (AFS) portfolio driven by rising market interest rates.
- Total liquid assets increased to $21.0 billion at June 30, 2022, compared to $13.2 billion at December 31, 2021. We strive to maintain a sufficient pool of liquidity to support anticipated member demand for advances and letters of credit.
- Total assets increased to $105.2 billion as of June 30, 2022, compared to $97.0 billion as of December 31, 2021.
- Letters of credit commitments increased to $13.1 billion at June 30, 2022, compared to $11.3 billion at December 31, 2021.
- We recorded net income of $91 million in the second quarter of 2022, up $13 million compared to the second quarter of 2021, with the increase primarily driven by increased returns on our liquid assets as interest rates rose during the period.
- In the second quarter of 2022, noninterest income was $5 million, an increase of $15 million when compared to a $(10) million (loss) for the second quarter of 2021. Gains from derivatives used to hedge our market risk exposure was the primary driver of this increase. There was also a significant decline in the average balance of our trading securities outstanding for the period resulting from a decline in investment in U.S. Treasuries, which in turn reduced the amount of losses incurred on our trading portfolio.
- We remained in compliance with all of our regulatory capital requirements as of June 30, 2022.

Summary and Outlook

Second Quarter 2022 Dividends and Dividend Guidance

On July 28, 2022, the Board of Directors declared a dividend of 5.75% (annualized) for Class B1 activity stock and a dividend of 2.375% (annualized) for Class B2 membership stock based on preliminary financial results for the second quarter of 2022, an increase on the levels declared in the first quarter of 2022. The dividend for the second quarter of 2022 will be paid by crediting members' DID accounts on August 15, 2022. The Bank pays a higher dividend per share on Class B1 activity stock to recognize members that support the entire cooperative through the use of Bank products. We expect to maintain a dividend of at least 5.75% (annualized) for Class B1 activity stock through the third and fourth quarters of 2022, reviewed quarterly and based on current projections and assumptions regarding our financial condition. We are providing this information to assist members in planning their activity with us. Any future dividend payments remain subject to determination and declaration by our Board of Directors and may be impacted by further changes in financial or economic conditions, regulatory and statutory limitations, and any other relevant factors.

A Source of Stability for 90 Years and Counting

As the month of July marks the 90th anniversary of the Federal Home Loan Bank System, as well as the 25th anniversary of our MPF Program, we proudly express our appreciation to our members, and reflect on the critical role the FHLBs play in supporting the U.S. economy with liquidity in all economic cycles. Uncertainty in the market brings challenges and opportunities – and we strive to remain steadfast in our commitment to being a trusted advisor in helping members achieve their goals.

- We ended the second quarter of 2022 with $52.8 billion in advances outstanding, our highest quarter-end advance balance since the first quarter of 2020.
  - During the second quarter of 2022, we saw increased liquidity and funding needs from our members as loan growth increased and deposit growth slowed. We are supporting these needs with attractively priced advances and discounts on certain advances.

- On June 29, 2022, the Bank and Ginnie Mae announced that the total issuance under the MPF Program surpassed $3 billion in mortgage-backed securities (MBS). The MPF Government MBS product resulted from a relationship forged by the Bank and Ginnie Mae to issue securities guaranteed by Ginnie Mae and backed by mortgages originated by FHLB member financial institutions. The MPF Government MBS product provides participating members, particularly smaller institutions, direct access to the secondary mortgage market.

- Recently, inflationary pressures, along with the Federal Reserve's quantitative tightening actions, have resulted in substantially increased home prices and mortgage rates in a short time frame, impacting home affordability for many buyers. To help alleviate some of the overall market pressures, the Bank is offering summer pricing specials for our MPF Traditional product to enhance member profitability while potentially offering lower mortgage rates to members' customers.

- We offer SOFR-linked products to support our members' LIBOR transition efforts. In addition to our popular Discount Note Floater Advance (A382), we now offer a Callable Floating Rate Advance (A380), which supports the flexible liquidity needs of our members.

- In May 2022, we offered our 2022 COVID-19 Recovery Advance to support our members as they recovered from the pandemic. We are pleased to share that 119 members took advantage of the opportunity, executing a total of $528 million in significantly-below-market rate advances.

Providing Support for Members' Communities

We remain focused on how we can create and promote equitable opportunities across our district through our product offerings and have some updates to share on both our longstanding and newly created community investment programs:

- Our new Community First® Accelerate Grants for Small Business, a pivot from our previous Community First Capacity-Building Grant Program, provide flexible grant funds to strengthen small businesses in Illinois and Wisconsin. We continue to offer our Community Small Business Advance with an initial rate of 0% to support local economies and community revitalization across our district.

- Our inaugural Community First Diverse Developer Initiative received 32 applications, requesting over $5 million. This competitive grant program provides nonprofit and for-profit organizations, in collaboration with our members, with funding for career and talent development initiatives supporting diverse developers of affordable housing across Illinois and Wisconsin.

- Our Downpayment Plus® (DPP®) Programs continue to provide our members easy-to-access downpayment and closing cost assistance to help their income-eligible customers achieve homeownership. In honor of National Homeownership Month in June, we hosted a special DPP webinar on June 16. We anticipate providing $18 million in downpayment assistance throughout 2022.

- Our 2022 Affordable Housing Program (AHP) General Fund closed on June 10, 2022. Forty members and 48 sponsors jointly submitted 67 applications for approximately $41.9 million in subsidy to support the construction, acquisition, and/or rehabilitation of more than 3,500 housing units. We expect to award approximately $20.7 million this year.

Critical Accounting Policies and Estimates

For a detailed description of our **Critical Accounting Policies and Estimates** see page 42 in our 2021 Form 10-K.

There have been no significant changes to our critical accounting estimates subsequent to December 31, 2021.

Results of Operations

Net Interest Income

Net interest income is the difference between the amount we recognize into interest income on our interest earning assets and the amount we recognize into interest expense on our interest bearing liabilities. These amounts were determined in accordance with GAAP and were based on the underlying contractual interest rate terms of our interest earning assets and interest bearing liabilities as well as the following items:

- Amortization of premiums;
- Accretion of discounts;
- Hedge ineffectiveness, which represents the difference between changes in fair value of the derivative hedging instrument and the related change in fair value of the hedged item is recognized into either interest income or interest expense, whichever is appropriate. For cash flow hedges, recognition occurs only when amounts are reclassified out of accumulated other comprehensive income. Such recognition occurs when earnings are affected by the hedged item;
- Net interest paid or received on interest rate swaps that are accounted for as fair value or cash flow hedges;
- Amortization of fair value and cash flow closed hedge adjustments;
- Advance and investment prepayment fees; and
- MPF credit enhancement fees.

The following table presents the increase or decrease in interest income and expense due to volume or rate variances. The calculation of these components includes the following considerations:

- *Average Balance:* Average balances are calculated using daily balances. Amortized cost is used to compute the average balances for most of our financial instruments, including MPF Loans held in portfolio (including those that are on nonaccrual status) and available-for-sale debt securities. Fair value is used to compute average balances for our trading debt securities and financial instruments carried at fair value under the fair value option.
- *Total Interest:* Total interest includes the net interest income components, as discussed above, applicable to our interest earning assets and interest bearing liabilities.
- *Yield/Rate:* Effective yields/rates are based on total interest and average balances as defined above. Yields/rates are calculated on an annualized basis. The calculation of the yield on our available-for-sale securities does not give effect to changes in fair value that are reflected as a component of AOCI.
- The change in volume is calculated as the change in average balance multiplied by the current year yield. The change in rate is calculated as the change in yield multiplied by the prior year average balance. Any changes due to the combined volume/rate variance have been allocated to volume.

FHLBank Chicago

Federal Home Loan Bank of Chicago

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Increase or decrease in interest income and expense due to volume or rate variance

	June 30, 2022			June 30, 2021			**Increase (decrease) due to**		
	Average Balance	**Interest Income/ Expense**	**Yield/ Rate**	Average Balance	Interest Income/ Expense	Yield/ Rate	**Volume**	**Rate**	**Net Change**
For the three months ended									
Investment debt securities	**$ 21,686**	**$ 93**	**1.72 %**	$ 21,106	$ 94	1.78 %	**$ 2**	**$ (3)**	**$ (1)**
Advances	**56,854**	**169**	**1.19 %**	52,237	67	0.51 %	**13**	**89**	**102**
MPF Loans held in portfolio	**9,872**	**69**	**2.80 %**	9,792	60	2.45 %	**—**	**9**	**9**
Federal funds sold	**7,615**	**15**	**0.79 %**	7,480	1	0.05 %	**—**	**14**	**14**
Securities purchased under agreements to resell	**3,235**	**6**	**0.74 %**	4,041	—	— %	**(1)**	**7**	**6**
Interest earning deposits	**2,185**	**4**	**0.73 %**	1,177	1	0.34 %	**2**	**1**	**3**
Other interest earning assets	**90**	**1**	**4.44 %**	130	2	6.15 %	**—**	**(1)**	**(1)**
Interest earning assets	**101,537**	**357**	**1.41 %**	95,963	225	0.94 %	**19**	**113**	**132**
Noninterest earning assets	**602**			2,499					
Total assets	**102,139**			98,462					
Consolidated obligation discount notes	**28,580**	**51**	**0.71 %**	48,477	10	0.08 %	**(35)**	**76**	**41**
Consolidated obligation bonds	**62,952**	**147**	**0.93 %**	40,600	59	0.58 %	**52**	**36**	**88**
Other interest bearing liabilities	**1,255**	**5**	**1.59 %**	1,172	3	1.02 %	**—**	**2**	**2**
Interest bearing liabilities	**92,787**	**203**	**0.88 %**	90,249	72	0.32 %	**5**	**126**	**131**
Noninterest bearing liabilities	**2,505**			1,376					
Total liabilities	**95,292**			91,625					
Net yield interest earning assets	**$ 101,537**	**$ 154**	**0.61 %**	$ 95,963	$ 153	0.64 %	**$ 8**	**$ (7)**	**$ 1**
For the six months ended									
Investment debt securities	**$ 22,947**	**$ 164**	**1.43 %**	$ 21,867	$ 144	1.32 %	**$ 8**	**$ 12**	**$ 20**
Advances	**55,978**	**256**	**0.91 %**	51,645	143	0.55 %	**20**	**93**	**113**
MPF Loans held in portfolio	**9,837**	**134**	**2.72 %**	9,837	123	2.50 %	**—**	**11**	**11**
Federal funds sold	**6,268**	**17**	**0.54 %**	6,934	2	0.06 %	**(2)**	**17**	**15**
Securities purchased under agreements to resell	**3,633**	**7**	**0.39 %**	4,525	1	0.04 %	**(2)**	**8**	**6**
Interest earning deposits	**1,852**	**5**	**0.54 %**	1,048	1	0.19 %	**2**	**2**	**4**
Other interest earning assets	**86**	**1**	**2.33 %**	133	3	4.51 %	**(1)**	**(1)**	**(2)**
Interest earning assets	**100,601**	**584**	**1.16 %**	95,989	417	0.87 %	**28**	**139**	**167**
Noninterest earning assets	**1,174**			2,401					
Total assets	**$ 101,775**			$ 98,390					
Consolidated obligation discount notes	**$ 27,907**	**63**	**0.45 %**	$ 48,105	25	0.10 %	**(46)**	**84**	**38**
Consolidated obligation bonds	**63,518**	**203**	**0.64 %**	40,909	123	0.60 %	**72**	**8**	**80**
Other interest bearing liabilities	**1,295**	**9**	**1.39 %**	1,211	6	0.99 %	**1**	**2**	**3**
Interest bearing liabilities	**92,720**	**275**	**0.59 %**	90,225	154	0.34 %	**8**	**113**	**121**
Noninterest bearing liabilities	**2,244**			1,527					
Total liabilities	**$ 94,964**			$ 91,752					
Net yield on interest earning assets	**$ 100,601**	**$ 309**	**0.61 %**	$ 95,989	$ 263	0.55 %	**$ 17**	**$ 29**	**$ 46**

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

The following analysis and comparisons apply to the periods presented in the above table unless otherwise indicated.

- Interest income from investment debt securities for the three months ended June 30, 2022 was comparable to the same period in 2021 due to increased interest income from our AFS portfolio, despite a significant decline in the average balance of our trading securities outstanding for the period reducing the amount of interest income earned on our trading portfolio. Interest income from investment debt securities for the six months ended June 30, 2022 increased primarily due to prepayment fee income of $41 million compared to no such income during the same period in 2021, despite a significant decline in the average balance of our trading securities outstanding for the period reducing the amount of interest income earned on our trading portfolio. To a lesser extent, hedge ineffectiveness gains, rising market interest rates, and an increase in volume also contributed to the increase in interest income.
- Interest income from advances increased primarily due to higher market interest rates in 2022 compared to the same period in 2021. In addition, increased borrowing from our depository members contributed to the increase in interest income.
- Interest income from MPF Loans held in portfolio slightly increased primarily due to a reduction in premium amortization expense in 2022 compared to 2021 as loan prepayments slowed in 2022.
- Interest income from overnight federal funds sold, securities purchased under agreements to resell, and interest earning deposits increased due to higher market interest rates in 2022 compared to the same period in 2021.
- Interest expense on our shorter-termed consolidated obligation discount notes increased due to higher market interest rates in 2022 compared to the same period in 2021, despite a decline in volume.
- Interest expense on our longer-termed consolidated obligation bonds primarily increased due to increased volume. Higher market interest rates in 2022 compared to the same period in 2021 also contributed to the increase in interest expense.
- For details of the effect our fair value and cash flow hedge activities had on our net interest income see **Total Net Effect Gain (Loss) of Hedging Activities** table on page 40.

Noninterest Income

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Trading securities	**$ 1**	$ (13)	**$ (2)**	$ (31)
Derivatives	**17**	(13)	**46**	7
Instruments held under the fair value option	**(18)**	3	**(46)**	(26)
MPF fees, **6** 6 **12** and 13 from other FHLBs	**9**	13	**19**	25
Other, net	**(4)**	—	**(2)**	2
Noninterest income (loss)	**$ 5**	$ (10)	**$ 15**	$ (23)

The following analysis and comparisons apply to the periods presented in the above table.

Trading Securities, Derivatives and Hedging Activities, and Instruments Held Under the Fair Value Option

A decrease in losses experienced on our trading securities was the primary driver of our increase in noninterest income for 2022, attributable to a significant decline in the average balance of our trading securities outstanding for the periods presented, which in turn reduced the amount of losses incurred on our trading portfolio. The corresponding gains and losses for derivatives and instruments held under fair value option were attributable to different positions and the movement in market interest rates in 2022 compared to 2021.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

The following table details the effect of hedging transactions recorded in the various line items in our **Condensed Statements of Income**. Hedge ineffectiveness on hedges qualifying for hedge accounting are recorded in net interest income rather than recorded in derivatives, as noted in the table below.

Total Net Effect Gain (Loss) of Hedging Activities

	Advances	Investments	MPF Loans	Discount Notes	Bonds	Other	Total
Three months ended June 30, 2022							
Recorded in net interest income	**$ 9**	**$ (47)**	**$ —**	**$ (2)**	**$ 51**	**$ 1**	**$ 12**
Recorded in derivatives	**17**	**1**	**7**	**(1)**	**(6)**	**(1)**	**17**
Recorded in trading securities	**—**	**1**	**—**	**—**	**—**	**—**	**1**
Recorded on instruments held under the fair value option	**(24)**	**—**	**(4)**	**4**	**6**	**—**	**(18)**
Total net effect gain (loss) of hedging activities	**$ 2**	**$ (45)**	**$ 3**	**$ 1**	**$ 51**	**$ —**	**$ 12**
Three months ended June 30, 2021							
Recorded in net interest income	$ (47)	$ (44)	$ —	$ (4)	$ 58	$ (1)	$ (38)
Recorded in derivatives	(8)	—	(5)	—	—	—	(13)
Recorded in trading securities	—	(13)	—	—	—	—	(13)
Recorded on instruments held under the fair value option	2	—	—	—	1	—	3
Total net effect gain (loss) of hedging activities	$ (53)	$ (57)	$ (5)	$ (4)	$ 59	$ (1)	$ (61)
Six months ended June 30, 2022							
Recorded in net interest income	**$ (12)**	**$ (139)**	**$ —**	**$ (6)**	**$ 148**	**$ 1**	**$ (8)**
Recorded in derivatives	**49**	**3**	**14**	**(1)**	**(18)**	**(1)**	**46**
Recorded in trading securities	**—**	**(2)**	**—**	**—**	**—**	**—**	**(2)**
Recorded on instruments held under the fair value option	**(63)**	**—**	**(7)**	**4**	**20**	**—**	**(46)**
Total net effect gain (loss) of hedging activities	**$ (26)**	**$ (138)**	**$ 7**	**$ (3)**	**$ 150**	**$ —**	**$ (10)**
Six months ended June 30, 2021							
Recorded in net interest income	$ (86)	$ (140)	$ (1)	$ (8)	$ 105	$ (1)	$ (131)
Recorded in derivatives	21	—	(14)	—	—	—	7
Recorded in trading securities	—	(28)	—	—	—	—	(28)
Recorded on instruments held under the fair value option	(26)	—	(2)	—	2	—	(26)
Total net effect gain (loss) of hedging activities	$ (91)	$ (168)	$ (17)	$ (8)	$ 107	$ (1)	$ (178)

MPF fees (including from other FHLBs)

A majority of MPF fees are from other FHLBs that pay us a fixed membership fee to participate in the MPF Program and a volume-based fee for us to provide services related to MPF Loans carried on their balance sheets. MPF fees also include income from other third party off-balance sheet MPF Loan products and other related transaction fees. These fees are designed to compensate us for the expenses we incur to administer the program. Decreases in our 2022 MPF fees were primarily driven by a decrease in volume in off-balance sheet MPF Loan products resulting in a decline in fee income.

Other, net

Other, net includes fee income we earn from member standby letters of credit products.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Noninterest Expense

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Compensation and benefits	**$ 28**	$ 25	**$ 57**	$ 53
Nonpayroll operating expenses	**24**	20	**45**	40
Federal Housing Finance Agency and Office of Finance	**4**	3	**10**	8
Other, net	**2**	7	**4**	15
Noninterest expense	**$ 58**	$ 55	**$ 116**	$ 116

The following analysis and comparisons apply to the periods presented in the above table.

Compensation and benefits increased primarily due to increased employee headcount. We had 479 employees as of June 30, 2022, compared to 451 as of June 30, 2021.

Nonpayroll operating expenses increased primarily due to our planned investment in information technology, specifically applications, infrastructure and resiliency.

Federal Housing Finance Agency and Office of Finance expenses consist of our share of the funding for the FHFA, our regulator, and the Office of Finance, which manages the consolidated obligation debt issuances of the FHLBs.

Other, net expenses primarily decreased due to reduced non-qualified defined benefit plan expenses.

As noted in **Noninterest Income** on page 39, we earn MPF fees from the MPF Program, a majority of which are from other FHLBs, but also include income from other third party investors. These fees are designed to compensate us for the expenses we incur to administer the program. Our expenses relating to the MPF fees earned are included in the relevant line items in the noninterest expense table shown above. The following table summarizes MPF related fees and expenses.

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
MPF fees earned	**$ 9**	$ 13	**$ 19**	$ 25
Expenses related to MPF fees earned	**9**	11	**18**	20

Assessments

We record the AHP assessment expense at a rate of 10% of income before assessments, excluding interest expense on MRCS. See **Note 11 - Affordable Housing Program** to the financial statements in our 2021 Form 10-K for further details.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Other Comprehensive Income (Loss)

	Three months ended June 30,		Six months ended June 30,		**Balance remaining in AOCI as of**
	2022	2021	**2022**	2021	**June 30, 2022**
Net unrealized gain (loss) available-for-sale debt securities	**$ (162)**	$ 54	**$ (380)**	$ 252	**$ (14)**
Net unrealized gain (loss) cash flow hedges	**25**	(9)	**81**	32	**70**
Postretirement plans	**—**	1	**(3)**	(4)	**(16)**
Other comprehensive income (loss)	**$ (137)**	$ 46	**$ (302)**	$ 280	**$ 40**

The following analysis and comparisons apply to the periods presented in the above table.

Net unrealized gain (loss) on available-for-sale debt securities

The net unrealized loss on our AFS portfolio for 2022 was primarily due to an increase in market interest rates in 2022. As these securities approach maturity, we expect the net unrealized losses in our AOCI as of June 30, 2022 to reverse over the remaining life of these securities (since we expect to receive par value at maturity).

Net unrealized gain (loss) on cash flow hedges

The net unrealized gain on cash flow hedges for 2022 was primarily driven by an increase in market interest rates in 2022.

We did not recognize any instrument-specific credit risk in our **Condensed Statements of Comprehensive Income** as of June 30, 2022 due to our credit standing. For further details on the activity in our Other Comprehensive Income (Loss) see **Note 12 - Accumulated Other Comprehensive Income (Loss)** to the condensed financial statements.

FHLBank Chicago

Federal Home Loan Bank of Chicago

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Statement of Condition

	June 30, 2022	December 31, 2021
Cash and due from banks, interest bearing deposits, federal funds sold, and securities purchased under agreements to resell	$ 20,984	$ 13,167
Investment debt securities	20,782	25,461
Advances	52,811	48,049
MPF Loans held in portfolio, net of allowance for credit losses	9,953	9,843
Other, net of allowance for credit losses	624	434
Assets	$ 105,154	$ 96,954
Consolidated obligation discount notes	$ 31,525	$ 24,563
Consolidated obligation bonds	64,519	63,373
Other	2,224	2,266
Liabilities	98,268	90,202
Capital stock	2,445	2,149
Retained earnings	4,401	4,261
Accumulated other comprehensive income (loss)	40	342
Capital	6,886	6,752
Total liabilities and capital	$ 105,154	$ 96,954

The following is an analysis of the above table and comparisons apply to June 30, 2022 compared to December 31, 2021.

Cash and due from banks, interest bearing deposits, federal funds sold, and securities purchased under agreements to resell

Amounts held in these typically overnight accounts will vary each day based on the following:

- Interest rate spreads between federal funds sold and securities purchased under agreements to resell and our debt;
- Liquidity requirements;
- Counterparties available; and
- Collateral availability on securities purchased under agreements to resell.

In the second quarter of 2022, we maintained a sufficient pool of liquidity to support anticipated member demand for advances and letters of credit.

Investment Debt Securities

Investment debt securities decreased at the end of second quarter 2022 compared to year end 2021 attributable to a reduction in investment in U.S. Treasuries and a decline in the fair value of our AFS portfolio due to rising market interest rates.

Advances

Advance balances increased at the end of second quarter 2022 compared to year end 2021 attributable to increased borrowings from our depository members. Advance balances will vary based primarily on member demand or need for wholesale funding and the underlying cost of the advance to the member. It is possible that member demand for our advances could decline in future periods should their funding needs change, or to the extent they elect alternative funding resources. In addition, as our advances with our former captive insurance company members mature, our total advance levels may decrease. For a discussion of risks relating to our former captive insurance company members see **Risk Factors** starting on page 22 of our 2021 Form 10-K. For details on our advances with our former captive insurance company members, see **Note 6 - Advances**.

MPF Loans Held in Portfolio, Net of Allowance for Credit Losses

MPF Loans held in portfolio increased slightly as new-acquisition volume outpaced paydown and maturity activity. In addition to our MPF Loans held in portfolio, we have MPF off-balance sheet products, where we buy and concurrently resell MPF Loans to Fannie Mae or other third party investors or pool and securitize them into Ginnie Mae MBS.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Liquidity, Funding, & Capital Resources

Liquidity

For the period ending June 30, 2022, we maintained a liquidity position in accordance with FHFA regulations and guidance, and policies established by our Board of Directors. Based upon our excess liquidity position described below, we anticipate remaining in compliance with our current liquidity requirements. See **Liquidity, Funding, & Capital Resources** on page 54 in our 2021 Form 10-K for a detailed description of our current liquidity requirements. We use different measures of liquidity as follows:

Overnight Liquidity – Our policy requires us to maintain overnight liquid assets at least equal to 3.5% or $3.7 billion of total assets. As of June 30, 2022, our overnight liquidity was $24.0 billion or 23% of total assets, giving us an excess overnight liquidity of $20.3 billion.

Deposit Coverage – To support our member deposits, FHFA regulations require us to have an amount equal to the current deposits received from our members invested in obligations of the U.S. Government, deposits in eligible banks or trust companies, or advances with maturities not exceeding five years. As of June 30, 2022, we had excess liquidity of $46.3 billion to support member deposits.

Liquidity Reserves – As discussed on page 54 in the **Liquidity, Funding, & Capital Resources** section of our 2021 Form 10-K, FHFA guidance on liquidity (the "Liquidity AB") requires that we hold positive cash flow assuming no access to the capital markets for a period of between ten to thirty calendar days, and assuming the renewal of all maturing advances. The Liquidity AB also requires the Bank to maintain liquidity reserves between one and 20 percent of our outstanding letter of credit commitments.

In an effort to satisfy our current liquidity requirements, we generally maintain increased balances in short-term or liquid investments. Depending on market conditions, the Liquidity AB may require the Bank to hold an additional amount of liquid assets, which could reduce the Bank's ability to invest in higher-yielding assets, and may in turn negatively impact net interest income. To the extent that the Bank adjusts pricing for its short-term advances and letters of credit, these products may become less competitive, which may adversely affect advance and capital stock levels as well as letters of credit levels. For additional discussion of how our liquidity requirements may impact our earnings, see **Risk Factors** section starting on page 22 of our 2021 Form 10-K.

In addition, we fund certain shorter-term or overnight investments and advances with debt that has a maturity that extends beyond the maturities of the related investments or advances. The Liquidity AB provides guidance on maintaining appropriate funding gaps for three-month (-10% to -20%) and one-year (-25% to -35%) maturity horizons. Subject to market conditions, our cost of funding may increase if we are required to achieve the appropriate funding gap by using longer term funding, on which we generally pay higher interest than on our short-term funding.

We are sensitive to maintaining an appropriate liquidity and funding balance between our financial assets and liabilities, and we measure and monitor the risk of refunding such assets as liabilities mature (refunding risk). In measuring the level of assets requiring refunding, we take into account their contractual maturities, as further described in the notes to the condensed financial statements. In addition, we make certain assumptions about their expected cash flows. These assumptions include: calls for assets with such features, projected prepayments and scheduled amortizations for our MPF Loans held in portfolio, MBS and ABS investments.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

The following table presents the unpaid principal balances of (1) MPF Loans held in portfolio, (2) AFS securities, and (3) HTM securities (including ABS and MBS investments), by expected principal cash flows. The table is illustrative of our assumptions about the expected cash flow of our assets, including prepayments made in advance of maturity.

	MPF Loans Held in Portfolio	Investment Debt Securities	
As of June 30, 2022		**Available-for Sale**	**Held-to-Maturity**
Year of Expected Principal Cash Flows			
One year or less	$ 1,162	$ 862	$ 859
After one year through five years	3,939	2,655	234
After five years through ten years	2,528	12,842	104
After ten years	2,180	3,053	8
Total	$ 9,809	$ 19,412	$ 1,205

We consider our liabilities available to fund assets until their contractual maturity. For further discussion of the liquidity risks related to our access to funding, see the **Risk Factors** section starting on page 22 in our 2021 Form 10-K.

Funding

Conditions in Financial Markets

The dominant themes of the second quarter of 2022 were market volatility, concerns about rising inflation and recession risks, and interest rate hikes by the Federal Reserve. At its May 2022 meeting, the Federal Open Market Committee (FOMC) raised the federal funds rate target range by 50 basis points to a target range between 0.75%-1.00%, noting factors such as rising inflation, the conflict in Ukraine, and supply and demand pressures related to the COVID-19 pandemic.

At its meeting in June 2022, the FOMC raised the target federal funds rate by 75 basis points to a target range between 1.50%-1.75%—the largest increase since 1994, noting in its statement concerns about inflation, higher energy prices, the conflict in Ukraine, and supply chain pressures related to the COVID-19 pandemic. In addition, the Federal Reserve began reducing its balance sheet. U.S. Treasury yields finished the second quarter of 2022 higher than prevailing yields at the end of the first quarter of 2022. U.S. Gross Domestic Product fell by 1.6% in the first quarter of 2022. The U.S. stock market declined in the second quarter of 2022, as the Dow Jones Industrial Average stood at 30,775 points on June 30, 2022 versus 34,678 points on March 31, 2022.

For a discussion of risks to the Bank relating to market and other economic conditions and related government policies, including risks related to prolonged inflation, see **Risk Factors** starting on page 22 of our 2021 Form 10-K.

We maintained ready access to funding throughout the second quarter of 2022.

LIBOR Transition

Following the United Kingdom's (U.K.) Financial Conduct Authority (FCA)’s 2017 announcement of its intention to cease sustaining the LIBOR indices after 2021, the Alternative Reference Rates Committee (ARRC) identified the Secured Overnight Financing Rate (SOFR) as its recommended alternative rate. SOFR is based on a broad segment of the overnight Treasuries repurchase market and is intended to be a measure of the cost of borrowing cash overnight collateralized by Treasury securities. The FHLB System issued its first SOFR-linked debt in the market on November 13, 2018.

On March 5, 2021, the FCA announced the cessation of the 1 week and 2 month USD LIBOR effective December 31, 2021, and the cessation of the remaining USD LIBOR tenors effective immediately after June 30, 2023. The FCA announced that it would consult whether to require LIBOR’s administrator (the Intercontinental Exchange Benchmark Administration Limited) to publish certain frequently used USD LIBOR tenors on a non-representative, synthetic basis after June 30, 2023. FCA’s announcement constituted an index cessation event under the International Swaps and Derivatives Association's (ISDA) 2020 IBOR Fallbacks Protocol and IBOR Fallbacks Supplement, and as a result, the fallback spread adjustment for derivatives is fixed as of the date of the announcement. We do not have assets indexed to the 1 week and 2 month USD LIBOR, although many of our assets and liabilities are indexed to the remaining USD LIBOR tenors, which will no longer be provided after June 30, 2023.

Additionally, in accordance with a 2019 FHFA supervisory letter, we ceased entering into option embedded advance products that reference LIBOR and ceased purchasing investments that reference LIBOR and matured after December 31, 2021. We also suspended transactions in certain structured advances and advances with terms directly linked to LIBOR and we no longer enter into consolidated obligation bonds and derivatives with swaps, caps, or floors indexed to LIBOR. Further, on July 1, 2021, the FHFA issued an additional supervisory letter setting forth its expectations that the FHLBs should be prudent in their use of non-SOFR based alternative reference rates, and should avoid use of alternative reference rates that are not based on underlying transactions or that introduce further model risk. The letter also requires that an FHLB provide advance notice to its examiner-in-charge of its plans to use a non-SOFR alternative reference rate. For further discussion of the risks related to the replacement of LIBOR, see the **Risk Factors** section starting on page 22 in our 2021 Form 10-K.

In keeping with ARRC's recommendation and industry developments, the Bank has selected SOFR as its preferred primary replacement rate for investments and advances. We have developed a LIBOR transition action plan and our Asset-Liability Management Committee (ALCO) is the management committee responsible for overseeing the transition from LIBOR. In assessing our current exposure to LIBOR, we developed an inventory of financial instruments impacted and identified contracts that would require adding or adjusting the "fallback" language which provides for contractual alternatives to the use of LIBOR when LIBOR cannot be determined based on the method provided in the agreement. We have amended the terms of certain advance products to include fallback language. On March 15, 2022, the Adjustable Interest Rate (LIBOR) Act (“LIBOR Act”) was signed into law. The LIBOR Act creates a uniform process to incorporate a replacement benchmark rate for LIBOR-indexed contracts that either do not contain a LIBOR fallback provision or contain an insufficient LIBOR fallback provision. On July 19, 2022, the Federal Reserve Board issued proposed implementing regulations under the LIBOR Act, as further discussed in **Legislative and Regulatory Developments** starting on page 55.

For over-the-counter derivatives, we adhered to the ISDA 2020 IBOR Fallbacks Protocol. For cleared derivatives, as part of the transition from LIBOR to SOFR, our clearinghouses revised their discounting methodology used to calculate the present value of future cash flows and price alignment on variation margin for USD cleared swaps from the daily effective federal funds rate (EFFR) to SOFR. Both of our clearinghouses have implemented their own unique cash and basis swap compensation mechanisms for market participants to neutralize any value transfer discrepancies from the LIBOR to SOFR conversion. Further, each clearinghouse announced its own proposal for the conversion process of LIBOR-linked cleared derivatives to risk-free rates, which is expected to occur predominantly at or shortly before the effective date of LIBOR discontinuation for all LIBOR swaps for each clearinghouse with the exceptions of CME Clearing which proposes to convert zero coupon swaps and any remaining LIBOR swaps with non-representative fixings on July 3, 2023. We continue to monitor the market-wide efforts to address fallback language related to cleared derivatives and investment securities as well as fallback language for new activities and issuances of financial instruments. We continue to assess our operational readiness, including updating our processes and information technology systems to support the transition from LIBOR to SOFR.

Market activity in SOFR-indexed financial instruments continues to increase and we continue to participate in the issuance of SOFR-indexed consolidated bonds. We are using federal funds overnight index swaps (Fed Funds OIS) and SOFR indexed swaps as an interest rate hedging strategy for financial instruments that do not have embedded options, as an alternative to using LIBOR when entering into new derivative transactions. We are offering SOFR-linked advances to our members, and for the six months ended June 30, 2022, have issued $9.3 billion in SOFR-linked advances. For a discussion of risks relating to our use of SOFR-linked consolidated obligations and advances, see **Risk Factors** starting on page 22 of our 2021 Form 10-K. We also offer Discount Note-index floater advances, which some members have used as alternatives to LIBOR-linked advance products.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Variable-Rate Financial Instruments by Interest-Rate Index and LIBOR-Indexed Financial Instruments

We have LIBOR exposure related to advances, investment securities, consolidated bonds, and derivatives with interest rates indexed to LIBOR. The following tables present our variable rate financial instruments by interest-rate index at June 30, 2022 and may not include instruments that indirectly incorporate LIBOR or another interest rate index. The tables also do not consider the impact of any fallback language contained in our financial products. ABS and MBS are presented by contractual maturity; however, their expected maturities will likely differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

As of June 30, 2022	Advances	Investments	Consolidated Obligations
Principal amount of variable rate instruments outstanding [a]			
LIBOR	$ 372	$ 2,657	$ —
SOFR	3,765	507	10,810
Treasury	—	95	—
Consolidated obligation yields	19,046	—	—
Other	149	1	—
Total	$ 23,332	$ 3,260	$ 10,810
Overnight, 1 month, 3 month, 6 month and 12-Month US Dollar LIBOR that cease or will no longer be representative immediately after June 30, 2023			
Due in 2022	$ 42	$ —	$ —
Due through June 30, 2023	36	—	—
Due thereafter	294	2,657	—
Total	$ 372	$ 2,657	$ —
Principal amount of SOFR-linked instruments issued YTD through June 30, 2022	$ 9,306	$ —	$ —

[a] With respect to advances, includes fixed rate advances that have cap/floor optionality linked to an interest rate index.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

The following table details our variable rate financial instruments by pay or receive leg and whether cleared or uncleared.

As of June 30, 2022	**Derivative Notional Amount Outstanding**	
	Pay Leg	**Receive Leg**
Interest rate swaps outstanding		
Fixed rate	**$ 35,977**	**$ 47,904**
LIBOR	**1,958**	**12,504**
SOFR	**25,047**	**10,556**
OIS	**20,900**	**12,918**
Total interest rate swaps	**$ 83,882**	**$ 83,882**

Breakdown of above LIBOR interest rate swaps by termination date and type	**Pay Leg**		**Receive Leg**	
	Cleared	**Uncleared**	**Cleared**	**Uncleared**
Overnight, 1 month, 3 month, 6 month and 12 month US Dollar LIBOR that cease or will no longer be representative immediately after June 30, 2023				
Terminates in 2022	**$ 899**	**$ 15**	**$ 226**	**$ 211**
Terminates through June 30, 2023	**767**	**35**	**274**	**65**
Terminates thereafter	**241**	**1**	**8,600**	**3,128**
Total	**$ 1,907**	**$ 51**	**$ 9,100**	**$ 3,404**

Condensed Statements of Cash Flows

Net cash flows from operating activities

Six months ended June 30,	**2022**	2021
Net cash provided by (used in) operating activities	**$ 1,065**	$ 296

In both 2022 and 2021, the majority of our operating cash inflows were related to cash received from clearinghouses to settle market-to market positions; these inflows reversed the $1.9 billion of cash outflows we experienced in the first quarter of 2020 due to market volatility as a result of the COVID-19 pandemic.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Net cash flows from investing activities with significant activity

Six months ended June 30,	2022	2021
Liquid assets consisting of interest bearing deposits, federal funds sold, and securities purchased under agreements to resell	**$ (7,813)**	$ (2,275)
Investment debt securities	**2,755**	1,271
Advances	**(5,824)**	105
MPF Loans held in portfolio	**(136)**	228
Other	**(8)**	(7)
Net cash provided by (used in) investing activities	**$ (11,026)**	$ (678)

Our investing activities consist predominantly of investments in liquid assets, investment debt securities, advances, and MPF Loans held in portfolio. The reasons for the changes in net cash provided by (used in) investing activities and changes in allocation within investing activities are discussed below for the six months ended June 30, unless otherwise stated.

- The cash flows relating to our liquid assets fluctuate depending on the needs of our members, our investing strategy, the economic environment, and/or regulatory requirements. We maintain a sufficient pool of liquidity to support anticipated member demand for advances and letters of credit.
- In 2022 and 2021 our net cash inflows from investment debt securities was attributable to a reduction in investment in U.S. Treasuries.
- In 2022 our net cash outflows for advances was attributable to increased borrowing from our depository members. In 2021 our net cash outflow for advances resulted from an increase in advance borrowing by insurance company members that more than offset reduced depository member demand for funding.
- In 2022 our net cash outflows for MPF Loans held in portfolio was due to new-acquisition volume that outpaced paydown and maturity activity. In 2021 our net cash inflows from MPF Loans held in portfolio was due to new-acquisition volume that was outpaced by paydown and maturity activity.

Net cash flows from financing activities with significant activity

Six months ended June 30,	2022	2021
Consolidated obligation discount notes	**$ 6,935**	$ (2,911)
Consolidated obligation bonds	**3,132**	429
Other	**(102)**	(237)
Net cash provided by (used in) financing activities	**$ 9,965**	$ (2,719)

Our financing activities primarily reflect cash flows related to issuing and repaying consolidated obligation bonds and discount notes. The change in net cash provided by (used in) financing activities and change in funding allocations are discussed below for the six months ended June 30, unless otherwise stated.

- In 2022 our net cash inflows from both discount notes and bonds reflects an increase in debt financing to match the overall increase in assets outstanding as discussed in investing activities above. In 2021 we paid down our discount notes and increased our use of bonds to align with advantageous funding opportunities and a smaller balance sheet.
- In 2022 and 2021 our net cash outflows for Other was primarily due to members withdrawing from their deposit accounts.

Capital Resources

Capital Rules

Under our amended and restated Capital Plan, effective May 3, 2021 (the Capital Plan), our stock consists of two sub-classes of stock, Class B1 stock and Class B2 stock (together, Class B stock), both with a par value of $100 per share and redeemable on five years' written notice, subject to certain conditions. Under the Capital Plan, each member is required to own capital stock in an amount equal to the greater of a membership stock requirement or an activity stock requirement. All stock that supports a member’s activity stock requirement with the Bank is classified as Class B1 activity stock. Any additional amount of stock necessary for the total amount of Class B stock held to equal a member’s minimum investment amount will be classified as Class B2 membership stock. Members purchase Class B2 membership stock to satisfy their membership stock requirement with the Bank. Stock held in excess of a member’s minimum investment requirement is classified as Class B2 excess capital stock. Any dividend declared on Class B1 activity stock must be greater than or equal to the dividend on Class B2 membership stock for the same period. The higher dividend paid on Class B1 activity stock since late 2013 acknowledges that members, through their utilization of Bank products, provide support to the entire cooperative.

Under the Capital Plan, each member’s activity stock requirement is set at 4.5% for advances other than those borrowed under the Reduced Capitalization Advance Program (RCAP) as further discussed below. The Capital Plan provides that the Board of Directors may periodically adjust members' activity stock requirement for advances between a range of 2% and 5% of a member's outstanding advances.

Additionally, for MPF on-balance sheet products (which includes MPF Original, MPF 125, MPF 35, and MPF Government loans), the activity stock requirement is 2% of the principal loan amount sold into master commitments opened or amended beginning in May 2021. Under the Capital Plan, the range within which our Board may adjust this requirement is between 0% and 5%. For letters of credit, the activity stock requirement is 0.10% of the notional amount of all new letters of credit issued, and all existing letters of credit renewed, extended or increased. Under the Capital Plan, the range for the letter of credit activity stock requirement is 0.10% to 2%.

Under the Capital Plan, each member’s membership stock requirement is the greater of either $10,000 or 0.40% of a member's mortgage assets. The Capital Plan provides that the Board may periodically adjust members’ membership stock requirement between a range of 0.20% to 1% of a member’s mortgage assets. A member’s investment in membership stock is capped at $5 million, subject to adjustment by the Board within a range between $1 million and $25 million.

Membership stock requirements are recalculated annually, whereas the activity stock requirement and any automatic conversion of Class B2 membership stock to Class B1 activity stock related to activity continue to apply on a daily basis.

We may only redeem or repurchase capital stock from a member if, following the redemption or repurchase, the member continues to meet its minimum investment requirement and we remain in compliance with our regulatory capital requirements as discussed in **Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the condensed financial statements. Members that withdraw from membership must wait at least five years after their membership was terminated and all of their capital stock was redeemed or repurchased before being readmitted to membership in any FHLB.

For details on our capital stock requirements under our capital plan for year-end 2021, see **Capital Resources** on page 62 of our 2021 Form 10-K. Under the terms of our Capital Plan, our Board of Directors is authorized to amend the Capital Plan, and the FHFA must approve all such amendments before they become effective.

For details on our minimum regulatory capital requirements see **Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the condensed financial statements in this Form 10-Q, and **Minimum Capital Requirements** in **Note 12 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements of our 2021 Form 10-K.

Reduced Capitalization Advance Program (RCAP)

RCAP allows members to borrow one or more advances with an activity stock requirement of only 2% for the life of the advance instead of the current 4.5% requirement under our Capital Plan’s general provisions. At June 30, 2022, RCAP advances outstanding total $20.3 billion to 185 members compared to $20.6 billion to 351 members at December 31, 2021. The advances issued through our COVID-19 relief and recovery programs are all RCAP advances. We may implement future programs for advances with a reduced activity stock requirement that may or may not have the same characteristics as current RCAP offerings.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Repurchase of Excess Capital Stock

Members may request repurchase of excess capital stock on any business day. Additionally, on a monthly basis, the Bank will repurchase excess capital stock held by each member or former member that exceeds certain thresholds set by the Bank. All repurchases of excess capital stock, including any future monthly repurchases, will continue until otherwise announced, but remain subject to our regulatory requirements, certain financial and capital thresholds, and prudent business practices. For details on the financial and capital thresholds relating to repurchases, see **Repurchase of Excess Capital Stock** on page 66 of our 2021 Form 10-K.

Capital Amounts

The following table reconciles our capital reported in our **Condensed Statements of Condition** to the amount of capital stock reported for regulatory purposes. MRCS is included in the calculation of the regulatory capital and leverage ratios but is recorded in liabilities in our **Condensed Statements of Condition**.

	June 30, 2022	December 31, 2021
Capital Stock	**$ 2,445**	$ 2,149
Mandatorily redeemable capital stock (MRCS) recorded as a liability	**273**	247
Regulatory capital stock	**2,718**	2,396
Retained earnings	**4,401**	4,261
Regulatory capital	**$ 7,119**	$ 6,657
Capital stock	**$ 2,445**	$ 2,149
Retained earnings	**4,401**	4,261
Accumulated other comprehensive income (loss)	**40**	342
GAAP capital	**$ 6,886**	$ 6,752

Accumulated other comprehensive income (loss) in the above table consists of changes in market value of various balance sheet accounts where the change is not recorded in earnings but is instead recorded in equity capital as the income (loss) is not yet realized. For details on these changes please see **Note 12 - Accumulated Other Comprehensive Income (Loss)** to the condensed financial statements.

We may not pay dividends if we fail to satisfy our minimum capital and liquidity requirements under the FHLB Act and FHFA regulations. On July 28, 2022, our Board of Directors declared a 5.750% dividend (annualized) for Class B1 activity stock and a 2.375% dividend (annualized) for Class B2 membership stock based on our preliminary financial results for the second quarter of 2022. This dividend totaled $33 million (recorded as $29 million dividends on capital stock and $4 million interest expense on mandatorily redeemable capital stock) and is scheduled for payment on August 15, 2022.

Although we continue to work to maintain our financial strength to support a reasonable dividend, any future dividend payment remains subject to declaration by our Board and will depend on future operating results, our Retained Earnings and Dividend Policy and any other factors the Board determines to be relevant. For further information on our Retained Earnings and Dividend Policy, see our Form 10-Q for the quarter ended March 31, 2022.

We continue to allocate 20% of our net income each quarter to a restricted retained earnings account in accordance with the Joint Capital Enhancement Agreement that we entered into with the other FHLBs, as further discussed in **Joint Capital Enhancement Agreement** in **Note 12 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements of our 2021 Form 10-K.

Additionally, an FHFA Advisory Bulletin sets forth guidance for each FHLB to maintain a ratio of at least two percent of capital stock to total assets. In accordance with this guidance, the FHFA considers the proportion of capital stock to assets, measured on a daily average basis at month end, when assessing each FHLB's capital management practices.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Credit Risk Management

Managing Our Credit Risk Exposure Related to Member Credit Products

Our credit risk rating system focuses primarily on our members' overall financial health and takes into account the member's asset quality, earnings, and capital position. For further information please see **Credit Risk** starting on page 69 in our 2021 Form 10-K.

The following table presents the number of members and related credit outstanding to them by credit risk rating. Credit outstanding consists primarily of outstanding advances and letters of credit. MPF credit enhancement obligations, member derivative exposures, and other obligations make up the rest. Of the total credit outstanding, $53.5 billion were advances (par value) and $13.1 billion were letters of credit at June 30, 2022, compared to $47.7 billion and $11.3 billion at December 31, 2021.

	June 30, 2022			December 31, 2021		
Rating	**Borrowing Members**	**Credit Outstanding**	**Collateral Loan Value**	Borrowing Members	Credit Outstanding	Collateral Loan Value
1-3	**506**	**$ 66,387**	**$ 137,638**	545	$ 58,542	$ 131,923
4	**8**	**402**	**562**	6	464	611
5	**7**	**64**	**138**	7	30	44
Total	**521**	**$ 66,853**	**$ 138,338**	558	$ 59,036	$ 132,578

Members assigned a 4 rating in the above table were required to submit specific collateral listings and the members assigned a 5 rating were required to deliver collateral to us or to a third party custodian on our behalf.

MPF Loans and Related Exposures

For details on our allowance for credit losses on MPF Loans, please see **Note 8 - Allowance for Credit Losses** to the condensed financial statements.

Credit Risk Exposure - Our credit risk exposure on conventional MPF Loans held in portfolio is the potential for financial loss due to borrower default and depreciation in the value of the real estate collateral securing the MPF Loan, offset by our ability to recover losses from PMI, Recoverable CE Fees, and the CE Amount which may include SMI. The PFI is required to pledge collateral to secure any portion of its CE Amount that is a direct obligation of the PFI. For further details see **Loss Structure for Credit Risk Sharing Products** on page 9 of our 2021 Form 10-K, and **Credit Risk Exposure** and **Setting Credit Enhancement Levels** starting on page 72 of our 2021 Form 10-K.

Under our MPF Program for conventional loans held in our portfolio, the loan payment forbearance offered to borrowers impacted by the COVID-19 pandemic allows a borrower to defer loan payments for up to a total cumulative forbearance period of 24 months.

For Government Loans held in our portfolio, the forbearance plan requirements of the insuring or guarantying agency must be followed. For MPF Xtra loans that are serviced by PFIs or a servicing aggregator approved by the MPF Program, Fannie Mae's forbearance plan requirements must be followed, which allows a borrower to defer loan payments for up to a total cumulative forbearance period of 18 months.

Borrowers who are in existing forbearance plans are evaluated for reinstatement, repayment, deferment, permanent loan modification, or liquidation options, as appropriate for their situation.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Mortgage Repurchase Risk

We are exposed to mortgage repurchase risk in connection with our sale of MPF Loans to Fannie Mae under the MPF Xtra product and to Ginnie Mae for MPF Loans securitized in Ginnie Mae MBS if a loan eligibility requirement or other representation or warranty is breached. We may require the PFI from which we purchased the ineligible MPF Loan to repurchase that loan from us or indemnify us for related losses or request indemnification from the PFI's MPF Bank. Of these two products, our MPF Xtra product is our most popular, and during the six months ended June 30, 2022 and 2021, we purchased and concurrently delivered $1.0 billion and $4.5 billion, respectively, in unpaid principal balance of these loans to Fannie Mae.

For additional details on our mortgage repurchase risk in connection with our sale of MPF Loans to third party investors and MPF Loans securitized into MBS when a loan eligibility requirement or other warranty is breached, see **Mortgage Repurchase Risk** on page 74 in our 2021 Form 10-K.

Investment Debt Securities

We hold a variety of investment debt securities, mostly government backed or insured securities, and we believe these investments are currently low risk. Except for an immaterial amount, all are rated at least AA and there were no material changes in the credit ratings of these securities since December 31, 2021. For further details see **Investment Debt Securities** on page 77 in our 2021 Form 10-K.

Unsecured Short-Term Investments

See **Unsecured Short-Term Investments** on page 79 in our 2021 Form 10-K for further details on our unsecured short-term investments as well as policies and procedures to limit and monitor our unsecured credit risk exposure.

The following table presents the credit ratings of our unsecured investment counterparties, organized by the domicile of the counterparty or, where the counterparty is a U.S. branch or agency office of a foreign commercial bank, by the domicile of the counterparty's parent. This table does not reflect the foreign sovereign government's credit rating. The rating used was the lowest rating among the three largest NRSROs. The unsecured investment credit exposure presented in the table may not reflect the average or maximum exposure during the period as the table reflects only the balances at period end.

As of June 30, 2022	AA	A	Total
Domestic U.S.			
Interest-Bearing Deposits	$ —	$ 855	$ 855
Fed Funds Sold	—	1,100	1,100
Total Domestic U.S.	—	1,955	1,955
Foreign commercial banks - federal funds sold:			
Australia	—	1,000	1,000
Canada	—	2,325	2,325
Finland	560	—	560
Netherlands	—	350	350
Total U.S. branches and agency offices of foreign commercial banks	560	3,675	4,235
Total unsecured credit exposure	$ 560	$ 5,630	$ 6,190

All $6.190 billion of the unsecured credit exposure shown in the above table were overnight investments.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Managing Our Credit Risk Exposure Related to Derivative Agreements

See **Note 9 - Derivatives and Hedging Activities** to the condensed financial statements for a discussion of how we manage our credit risk exposure related to derivative agreements. We have credit exposure on net asset positions where we have not received adequate collateral from our counterparties. We also have credit exposure on net liability positions where we have pledged collateral in excess of our liability to a counterparty.

The following table presents our derivative positions where we have such credit exposures. The rating used was the lowest rating among the three largest NRSROs. Non-cash collateral pledged consists of initial margin we posted through our FCMs, on behalf of the DCOs for cleared derivatives and is included in our derivative positions with credit exposure. We had no material concentration of credit risk with any one bilateral derivative counterparty.

	Net Derivative Fair Value Before Collateral	Cash Collateral Pledged	Noncash Collateral Pledged	Net Credit Exposure to Counterparties [a]
As of June 30, 2022				
Nonmember counterparties -				
Overcollateralized liability positions -				
Bilateral derivatives -				
A	$ (681)	$ 746	$ —	$ 65
BBB	(796)	844	—	48
Cleared derivatives	(127)	—	616	489
Nonmember counterparties	(1,604)	1,590	616	602
CO bond firm commitments	1	12	—	13
Member counterparties	1	—	—	1
Total	$ (1,602)	$ 1,602	$ 616	$ 616

[a] Less than $1 million is shown as zero.

<u>Legislative and Regulatory Developments</u>

Significant regulatory actions and developments are summarized below.

FHFA Director's Testimony to the House Financial Services Committee on on a Planned Review of the FHLB System. On July 20, 2022, FHFA Director Sandra L. Thompson gave testimony to the House Financial Services Committee indicating that the FHFA intends to review the FHLB System. Director Thompson's testimony indicated that the FHFA plans to engage a variety of stakeholders in addition to holding public listening sessions throughout the country as part of the review. Director Thompson's testimony also indicated that the analysis would examine matters ranging from the FHLBs' membership base, operational efficiency, and effectiveness to more foundational questions about our mission, purpose, and organization. At this time, it is not possible to determine when these events will occur, whether any actions will result from these events, and how these events will ultimately impact the FHLBs.

Proposed Rule Implementing the Adjustable Interest Rate (LIBOR) Act. On July 28, 2022, the Board of Governors of the Federal Reserve System (the Board) published a proposed rule with a comment deadline of August 29, 2022 that would implement the Adjustable Interest Rate (LIBOR) Act. The proposed rule would provide default rules for certain contracts (covered contracts) that reference LIBOR, are governed by U.S. law, do not mature on or before the LIBOR replacement date, and lack adequate provisions to identify a replacement rate for LIBOR. The LIBOR replacement date is currently July 3, 2023. The proposed rule identifies separate Board-selected replacement rates for derivatives transactions, covered GSE contracts, and all other covered contracts. The proposed rule defines covered GSE contracts to include FHLB advances. We are reviewing the proposed rule, however it is not yet possible to determine the extent to which the rule will be adopted as proposed and, as a result, the impact the final rule may have on us.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our Asset/Liability Management Committee and its subcommittees provide oversight of our risk management practices and policies. This includes routine reporting to senior Bank management and the Board of Directors, as well as maintaining the Income and Market Value Risk Policy, which defines our interest rate risk limits. The table below reflects the expected change in market value of equity for the stated increase or decrease in interest rates based on our models and related loss limit for each scenario established in the policy. For our down scenario shock analysis, the down shocks are constrained by scenarios provided by our regulator, which currently are limited so that shocked rates will not go negative but are subject to change. As a result, we floored the down shock scenario at 10 bps. Due to the low rate environment, this floor setting was triggered for some down shock scenarios presented below.

	June 30, 2022		December 31, 2021	
Scenario as of	**Change in Market Value of Equity**	**Loss Limit**	Change in Market Value of Equity	Loss Limit
-200 bp	**$ (226)**	**$ (450)**	$ 487	$ (450)
-100 bp	**(61)**	**(200)**	(44)	(200)
-50 bp	**(20)**	**(90)**	(19)	(90)
-25 bp	**(8)**	**(45)**	(11)	(45)
+25 bp	**4**	**(45)**	(11)	(45)
+50 bp	**5**	**(90)**	(28)	(90)
+100 bp	**—**	**(200)**	(75)	(200)
+200 bp	**(30)**	**(450)**	(181)	(450)

Measurement of Market Risk Exposure

To measure our exposure, we discount the cash flows generated from modeling the terms and conditions of all interest rate-sensitive securities using current interest rates to determine their fair values or spreads to the swap curve for securities where third party prices are used. This includes considering explicit and embedded options using a lattice model or Monte Carlo simulation. We estimate yield curve, option, and basis risk exposures by calculating the fair value change in relation to various parallel changes in interest rates, implied volatility, prepayment speeds, spreads to the swap curve and mortgage rates.

The table below summarizes our sensitivity to various interest rate risk exposures in terms of changes in market value.

	As of June 30, 2022	As of December 31, 2021
Yield Curve Risk	**$ 4**	$ 4
Option Risk		
Implied Volatility	**2**	5
Basis Risk		
Spread to Swap Curve	**(4)**	(12)

Yield curve risk – Change in market value for a one basis point parallel increase in the swap curve.
Option risk (implied volatility) – Change in market value for a one percent parallel increase in the swaption volatility.
Option risk (prepayment speeds) – Change in market value for a one percent increase in prepayment speeds.
Basis risk (spread to swap curve) – Change in market value for a one basis point parallel increase in the spread to the swap curve.
Basis risk (mortgage spread) – Change in market value for a one basis point increase in mortgage rates.

As of June 30, 2022, our sensitivity to changes in implied volatility using a lattice model and Monte Carlo simulation was $2 million, unchanged from $5 million at December 31, 2021. These sensitivities are limited in that they do not incorporate other risks, including but not limited to non-parallel changes in yield curves, prepayment speeds, and basis risk related to differences between the swap and the other curves. Option positions embedded in our mortgage assets and callable debt impact our yield curve risk profile, such that swap curve changes significantly greater than one basis point cannot be linearly interpolated from the table above.

(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)

Duration of equity is another measure to express interest rate sensitivity. We report the results of our duration of equity calculations to the FHFA each quarter. We measure duration of equity in a base case using the actual yield curve as of a specified date and then shock it with an instantaneous shift of the entire curve.

The following table presents the duration of equity reported by us to the FHFA in accordance with the FHFA's guidance, which prescribes that down and up interest-rate shocks equal 200 basis points. The results are shown by duration of equity in years. We continue to monitor impacts of the COVID-19 pandemic and inflation trends on the markets and the economy which may impact our mortgage prepayment speed projections and duration of equity in 2022.

	Duration of equity in years	
Scenario as of	**June 30, 2022**	December 31, 2021
Down 200 bps	**-2.7**	1.1
Base	**-0.3**	0.4
Up 200 bps	**0.5**	1.5

As of June 30, 2022, on a U.S. GAAP basis, our fair value surplus (relative to book value) was $679 million, and our market value of equity to book value of equity ratio was 109%, compared to $458 million and 107% at December 31, 2021. Our market to book value of total capital for regulatory risk-based capital purposes differs from this GAAP calculation, as discussed in **Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the condensed financial statements.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report (the Evaluation Date). Based on this evaluation, the principal executive officer and principal financial officer concluded as of the Evaluation Date that the disclosure controls and procedures were effective such that information relating to us that is required to be disclosed in reports filed with the SEC (i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

For the most recent quarter presented in this Form 10-Q, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Consolidated Obligations

Our disclosure controls and procedures include controls and procedures for accumulating and communicating information relating to our joint and several liability for the consolidated obligations of other FHLBs. For further information, see **Item 9A. Controls and Procedures** on page 88 of our 2021 Form 10-K.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The Bank may be subject to various legal proceedings arising in the normal course of business. After consultation with legal counsel, management is not aware of any proceedings that might have a material effect on the Bank's financial condition or results of operations.

Item 1A. Risk Factors.

In addition to the information presented in this report, readers should carefully consider the factors set forth in the **Risk Factors** section starting on page 22 in our 2021 Form 10-K, which could materially affect our business, financial condition, or future results. These risks are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also severely affect us.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

FHLBank Chicago

Federal Home Loan Bank of Chicago

Item 6. Exhibits.

31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer [a]
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer [a]
32.1	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer [a]
32.2	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer [a]
101.INS	Inline XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document. [a]
101.SCH	Inline XBRL Taxonomy Extension Schema Document [a]
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document [a]
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document [a]
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document [a]
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document [a]
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) [a]

[a] Filed herewith.

FHLBank Chicago

Federal Home Loan Bank of Chicago

Glossary of Terms

Advances: Secured loans to members.

ABS: Asset backed securities.

AFS: Available-for-sale debt securities.

AOCI: Accumulated Other Comprehensive Income.

Capital Plan: Capital Plan of the Federal Home Loan Bank of Chicago, effective May 3, 2021.

CARES Act: The Coronavirus, Aid, Relief, and Economic Security Act, enacted March 27, 2020.

CE Amount: A PFI's assumption of credit risk, beyond any Recoverable CE Fees in the FLA, on conventional MPF Loan products held in an MPF Bank's portfolio that are funded by, or sold to, an MPF Bank by providing credit enhancement either through a direct liability to pay credit losses up to a specified amount or through a contractual obligation to provide SMI. Does not apply to the MPF Government, MPF Xtra, MPF Direct or MPF Government MBS product.

CE Fee: Credit enhancement fee. PFIs are paid a credit enhancement fee for managing credit risk and in some instances, all or a portion of the CE Fee may be performance based.

CFTC: Commodity Futures Trading Commission.

Consolidated Obligations (CO): FHLB debt instruments (bonds and discount notes) which are the joint and several liability of all FHLBs; issued by the Office of Finance.

Consolidated obligation bonds: Consolidated obligations that make periodic interest payments with a term generally over one year, although we have issued for terms of less than one year.

DCO: Derivatives Clearing Organization. A clearinghouse, clearing association, clearing corporation, or similar entity that enables each party to an agreement, contract, or transaction to substitute, through novation or otherwise, the credit of the DCO for the credit of the parties; arranges or provides, on a multilateral basis, for the settlement or netting of obligations; or otherwise provides clearing services or arrangements that mutualize or transfer credit risk among participants.

Discount notes: Consolidated obligations with a term of one year or less, which sell at less than their face amount and are redeemed at par value when they mature.

Excess capital stock: Capital stock held by members in excess of their minimum investment requirement.

Fannie Mae: Federal National Mortgage Association.

FASB: Financial Accounting Standards Board.

FCM: Futures Commission Merchant.

FFELP: Federal Family Education Loan Program.

FHFA: Federal Housing Finance Agency - The Housing and Economic Recovery Act of 2008 enacted on July 30, 2008 created the Federal Housing Finance Agency which became the regulator of the FHLBs.

FHLB Act: The Federal Home Loan Bank Act of 1932, as amended.

FHLBs: The 11 Federal Home Loan Banks or subset thereof.

FHLB System: The 11 FHLBs and the Office of Finance.

FHLB Chicago: The Federal Home Loan Bank of Chicago.

FLA: First loss account is a memo account used to track the MPF Bank's exposure to losses until the CE Amount is available to cover losses.

Freddie Mac: Federal Home Loan Mortgage Corporation.

GAAP: Generally Accepted Accounting Principles in the United States of America.

Ginnie Mae: Government National Mortgage Association.

Ginnie Mae MBS: Mortgage backed securities guaranteed by Ginnie Mae.

Government Loans: Mortgage loans insured or guaranteed by the Federal Housing Administration (FHA), the Department of Housing and Urban Development (HUD), the Department of Veteran Affairs (VA) or Department of Agriculture Rural Housing Service (RHS).

GSE: Government sponsored enterprise.

HFS: Held for sale.

HTM: Held-to-maturity debt securities.

LIBOR: London Interbank Offered Rate.

Liquidity AB: Advisory Bulletin 2018-07 Liquidity Guidance, issued by the FHFA on August 23, 2018.

Master Commitment (MC): Pool of MPF Loans purchased or funded by an MPF Bank.

MBS: Mortgage backed securities.

Moody's: Moody's Investors Service.

MPF®: Mortgage Partnership Finance.

MPF Banks: FHLBs that participate in the MPF program.

MPF Direct product: The MPF Program product under which we acquire non-conforming (jumbo) MPF Loans from PFIs without any CE Amount and concurrently resell them to a third party investor.

MPF Government MBS product: The MPF Program product under which we aggregate Government Loans acquired from PFIs in order to issue securities guaranteed by the Ginnie Mae that are backed by such Government Loans.

MPF Loans: Conventional and government mortgage loans secured by one-to-four family residential properties with maturities from five to 30 years or participations in such mortgage loans that are acquired under the MPF Program.

MPF Program: A secondary mortgage market structure that provides liquidity to FHLB members that are PFIs through the purchase or funding by an FHLB of MPF Loans.

MPF Xtra® product: The MPF Program product under which we acquire MPF Loans from PFIs without any CE Amount and concurrently resell them to Fannie Mae.

MRCS: Mandatorily redeemable capital stock.

NRSRO: Nationally Recognized Statistical Rating Organization.

Office of Finance: A joint office of the FHLBs established by the Finance Board to facilitate issuing and servicing of consolidated obligations.

OIS: Overnight Index Swap.

OTTI: Other-than-temporary impairment.

PFI: Participating Financial Institution. A PFI is a member (or eligible housing associate) of an MPF Bank that has applied to and been accepted to do business with its MPF Bank under the MPF Program.

PLMBS: Private label mortgage backed securities.

PMI: Primary Mortgage Insurance.

PPP: Paycheck Protection Program.

RCAP: Reduced Capitalization Advance Program.

Recorded Investment: Recorded investment in a loan is its amortized cost plus related accrued interest receivable, if any. Recorded investment is not net of an allowance for credit losses but is net of any direct charge-off on a loan. Amortized cost is defined as either the amount funded or the cost to purchase MPF Loans. Specifically, the amortized cost includes the initial fair value amount of the delivery commitment as of the purchase or settlement date, agent fees (i.e., market risk premiums or discounts paid to or received from PFIs), if any, subsequently adjusted, if applicable, for accretion, amortization, collection of cash, charge-offs, and cumulative basis adjustments related to fair value hedges.

Recoverable CE Fee: Under the MPF Program, the PFI may receive a contingent performance based credit enhancement fee whereby such fees are reduced up to the amount of the FLA by losses arising under the Master Commitment.

Regulatory capital: Regulatory capital stock plus retained earnings.

Regulatory capital stock: The sum of the paid-in value of capital stock and mandatorily redeemable capital stock.

REO: Real estate owned.

SEC: Securities and Exchange Commission.

SOFR: Secured Overnight Financing Rate.

SOFR SARM MBS: SOFR Structured Adjustable Rate Mortgage MBS.

SMI: Supplemental mortgage insurance.

System or FHLB System: The Federal Home Loan Bank System consisting of the 11 Federal Home Loan Banks and the Office of Finance.

UPB: Unpaid Principal Balance.

U.S.: United States.

FHLBank Chicago

Federal Home Loan Bank of Chicago

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FEDERAL HOME LOAN BANK OF CHICAGO

	/s/ Michael A. Ericson	
	Name:	Michael A. Ericson
	Title:	President and Chief Executive Officer
Date: August 9, 2022		(Principal Executive Officer)
	/s/ Roger D. Lundstrom	
	Name:	Roger D. Lundstrom
	Title:	Executive Vice President and Chief Financial Officer
Date: August 9, 2022		(Principal Financial Officer and Principal Accounting Officer)