

**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 September 30, 2023**

**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 September 30, 2023, the registrant had 37,284,895 total outstanding shares of Class B Capital Stock, including mandatorily redeemable capital stock.



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Chicago

Federal Home Loan Bank of Chicago

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## 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)

	September 30, 2023	December 31, 2022
<b>Assets</b>		
Cash and due from banks	\$ 38	\$ 35
Interest-bearing deposits	2,570	2,570
Federal funds sold	9,158	6,443
Securities purchased under agreements to resell	13,150	18,500
<b>Investment debt securities -</b>		
Trading, \$— and \$— pledged as collateral that may be repledged	1,738	3
Available-for-sale, \$22,139 and \$20,879 amortized cost, includes \$853 and \$692 pledged as collateral that may be repledged	21,916	20,700
Held-to-maturity, \$747 and \$1,419 at fair value	762	1,431
<b>Investment debt securities</b>	<b>24,416</b>	<b>22,134</b>
Advances, \$145 and \$661 carried at fair value	74,963	66,288
MPF Loans held in portfolio, net of \$(5) and \$(5) allowance for credit losses	11,064	10,160
Derivative assets	155	25
Other assets, \$79 and \$109 carried at fair value	731	698
net of \$(7) and \$(7) allowance for credit losses		
<b>Assets</b>	<b>\$ 136,245</b>	<b>\$ 126,853</b>
<b>Liabilities</b>		
<b>Deposits -</b>		
Demand and overnight - noninterest-bearing	\$ 126	\$ 94
Demand and overnight - interest-bearing, \$11 and \$11 from other FHLBs	564	477
<b>Deposits</b>	<b>690</b>	<b>571</b>
<b>Consolidated obligations, net -</b>		
Discount notes, \$3,542 and \$253 carried at fair value	42,088	59,531
Bonds, \$600 and \$718 carried at fair value	83,830	58,116
<b>Consolidated obligations, net</b>	<b>125,918</b>	<b>117,647</b>
Derivative liabilities	69	10
Affordable Housing Program assessment payable	129	99
Mandatorily redeemable capital stock	185	248
Other liabilities	938	813
<b>Liabilities</b>	<b>127,929</b>	<b>119,388</b>
Commitments and contingencies - see notes to the condensed financial statements		
<b>Capital</b>		
Class B1 activity stock, 29 and 23 million shares issued and outstanding	2,906	2,310
Class B2 membership stock, 6 and 7 million shares issued and outstanding	638	679
<b>Capital stock - putable, \$100 and \$100 par value per share</b>	<b>3,544</b>	<b>2,989</b>
Retained earnings - unrestricted	4,000	3,778
Retained earnings - restricted	884	786
<b>Retained earnings</b>	<b>4,884</b>	<b>4,564</b>
Accumulated other comprehensive income (loss) (AOCI)	(112)	(88)
<b>Capital</b>	<b>8,316</b>	<b>7,465</b>
<b>Liabilities and capital</b>	<b>\$ 136,245</b>	<b>\$ 126,853</b>

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



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## Federal Home Loan Bank of Chicago

### Condensed Statements of Income (unaudited)

(U.S. Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Interest income	\$ 1,993	\$ 688	\$ 5,478	\$ 1,272
Interest expense	1,696	546	4,705	821
<b>Net interest income</b>	<b>297</b>	<b>142</b>	<b>773</b>	<b>451</b>
Provision for (reversal of) credit losses	—	1	—	2
<b>Net interest income after provision for (reversal of) credit losses</b>	<b>297</b>	<b>141</b>	<b>773</b>	<b>449</b>
<b>Noninterest income -</b>				
Trading securities	4	3	(4)	1
Derivatives	(16)	19	(38)	65
Instruments held under the fair value option	(12)	(6)	(8)	(52)
MPF fees, \$7, \$6, \$19 and \$18 from other FHLBs	9	8	25	27
Other, net	(1)	3	5	1
<b>Noninterest income (loss)</b>	<b>(16)</b>	<b>27</b>	<b>(20)</b>	<b>42</b>
<b>Noninterest expense -</b>				
Compensation and benefits	35	31	98	88
Nonpayroll operating expenses	22	23	72	67
Voluntary Community Investment contributions	17	3	17	4
Federal Housing Finance Agency and Office of Finance	5	4	14	14
Other, net	(1)	1	3	5
<b>Noninterest expense</b>	<b>78</b>	<b>62</b>	<b>204</b>	<b>178</b>
<b>Income before assessments</b>	<b>203</b>	<b>106</b>	<b>549</b>	<b>313</b>
Affordable Housing Program assessment	20	11	56	32
<b>Net income</b>	<b>\$ 183</b>	<b>\$ 95</b>	<b>\$ 493</b>	<b>\$ 281</b>

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



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**Condensed Statements of Comprehensive Income (unaudited)**

(U.S. Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
<b>Net income</b>	<b>\$ 183</b>	<b>\$ 95</b>	<b>\$ 493</b>	<b>\$ 281</b>
<b>Other comprehensive income (loss) -</b>				
Net unrealized gain (loss) available-for-sale debt securities	(64)	(152)	(44)	(532)
Net unrealized gain (loss) cash flow hedges	5	34	(1)	115
Postretirement plans	—	1	21	(2)
<b>Other comprehensive income (loss)</b>	<b>(59)</b>	<b>(117)</b>	<b>(24)</b>	<b>(419)</b>
<b>Comprehensive income (loss)</b>	<b>\$ 124</b>	<b>\$ (22)</b>	<b>\$ 469</b>	<b>\$ (138)</b>

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



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**Condensed Statements of Capital (unaudited)**

(U.S. Dollars and shares in millions)

	Capital Stock - Putable - B1 Activity		Capital Stock - Putable - B2 Membership		Retained Earnings		AOCI	Total
	Shares	Value	Shares	Value	Unrestricted	Restricted		
<b>June 30, 2023</b>	<b>29</b>	<b>\$ 2,920</b>	<b>6</b>	<b>\$ 616</b>	<b>\$ 3,923</b>	<b>\$ 848</b>	<b>\$ (53)</b>	<b>\$ 8,254</b>
Comprehensive income					147	36	(59)	124
Issuance of capital stock	10	997	—	1				998
Repurchases of capital stock	—	—	(10)	(987)				(987)
Capital stock reclassified to mandatorily redeemable capital stock liability	—	(3)	—	—				(3)
Transfers between classes of capital stock	(10)	(1,008)	10	1,008				
Cash dividends - class B1 annualized rate and amount		8.00 %			(66)			(66)
Cash dividends - class B2 annualized rate and amount				5.00 %	(4)			(4)
Total change in period, excl. cumulative effect	—	(14)	—	22	77	36	(59)	62
<b>September 30, 2023</b>	<b>29</b>	<b>\$ 2,906</b>	<b>6</b>	<b>\$ 638</b>	<b>\$ 4,000</b>	<b>\$ 884</b>	<b>\$ (112)</b>	<b>\$ 8,316</b>
June 30, 2022	17	\$ 1,672	8	\$ 773	\$ 3,661	\$ 740	\$ 40	\$ 6,886
Comprehensive income					76	19	(117)	(22)
Issuance of capital stock	7	755	—	3				758
Repurchases of capital stock	—	—	(6)	(524)				(524)
Capital stock reclassified to mandatorily redeemable capital stock liability	—	1	—	(1)				—
Transfers between classes of capital stock	(4)	(396)	4	396				
Cash dividends - class B1 annualized rate and amount		5.75 %			(26)			(26)
Cash dividends - class B2 annualized rate and amount				2.38 %	(3)			(3)
Total change in period, excl. cumulative effect	3	360	(2)	(126)	47	19	(117)	183
September 30, 2022	20	\$ 2,032	6	\$ 647	\$ 3,708	\$ 759	\$ (77)	\$ 7,069



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## Federal Home Loan Bank of Chicago

	Capital Stock - Putable - B1 Activity		Capital Stock - Putable - B2 Membership		Retained Earnings		AOCI	Total
	Shares	Value	Shares	Value	Unrestricted	Restricted		
<b>December 31, 2022</b>	<b>23</b>	<b>\$ 2,310</b>	<b>7</b>	<b>\$ 679</b>	<b>\$ 3,778</b>	<b>\$ 786</b>	<b>\$ (88)</b>	<b>\$ 7,465</b>
Comprehensive income (loss)					395	98	(24)	469
Issuance of capital stock	32	3,239	—	10				3,249
Repurchases of capital stock	—	—	(27)	(2,690)				(2,690)
Capital stock reclassified to mandatorily redeemable capital stock liability	—	(3)	—	(1)				(4)
Transfers between classes of capital stock	(26)	(2,640)	26	2,640				
Cash dividends - class B1 annualized rate and amount		7.50 %			(163)			(163)
Cash dividends - class B2 annualized rate and amount				3.75 %	(10)			(10)
Total change in period excl. cumulative effect	6	596	(1)	(41)	222	98	(24)	851
<b>September 30, 2023</b>	<b>29</b>	<b>\$ 2,906</b>	<b>6</b>	<b>\$ 638</b>	<b>\$ 4,000</b>	<b>\$ 884</b>	<b>\$ (112)</b>	<b>\$ 8,316</b>
December 31, 2021	14	\$ 1,409	7	\$ 740	\$ 3,558	\$ 703	\$ 342	\$ 6,752
Comprehensive income (loss)					225	56	(419)	(138)
Issuance of capital stock	16	1,602	—	19				1,621
Repurchases of capital stock	—	—	(10)	(1,034)				(1,034)
Capital stock reclassified to mandatorily redeemable capital stock liability	(1)	(54)	—	(3)				(57)
Transfers between classes of capital stock	(9)	(925)	9	925				
Cash dividends - class B1 annualized rate and amount		5.29 %			(68)			(68)
Cash dividends - class B2 annualized rate and amount				2.17 %	(7)			(7)
Total change in period excl. cumulative effect	6	623	(1)	(93)	150	56	(419)	317
September 30, 2022	20	\$ 2,032	6	\$ 647	\$ 3,708	\$ 759	\$ (77)	\$ 7,069

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



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Federal Home Loan Bank of Chicago

**Condensed Statements of Cash Flows (unaudited)**

(U.S. Dollars in millions)

Nine months ended September 30,		2023	2022
<b>Operating</b>	<b>Net cash provided by (used in) operating activities</b>	<b>\$ 1,975</b>	<b>\$ 1,498</b>
<b>Investing</b>	Net change interest-bearing deposits	—	(325)
	Net change federal funds sold	(2,715)	(2,929)
	Net change securities purchased under agreements to resell	5,350	(2,010)
	<b>Trading debt securities -</b>		
	Proceeds from maturities and paydowns	—	752
	Purchases	(1,749)	—
	<b>Available-for-sale debt securities -</b>		
	Proceeds from maturities and paydowns	802	4,383
	Purchases	(3,125)	(4,215)
	<b>Held-to-maturity debt securities -</b>		
	Proceeds from maturities and paydowns	3,351	3,462
	Purchases	(2,682)	(2,272)
	<b>Advances -</b>		
	Principal collected	1,718,861	609,571
	Issued	(1,727,742)	(622,719)
	<b>MPF Loans held in portfolio -</b>		
	Principal collected	683	1,034
	Purchases	(1,605)	(1,296)
	Other investing activities	(9)	(13)
	<b>Net cash provided by (used in) investing activities</b>	<b>(10,580)</b>	<b>(16,577)</b>
<b>Financing</b>	Net change deposits, \$— and \$1 from other FHLBs	119	(359)
	<b>Discount notes -</b>		
	Net proceeds from issuance	607,418	610,091
	Payments for maturing and retiring	(629,156)	(594,286)
	Proceeds on discount note transfers from other FHLBs	4,266	—
	<b>Consolidated obligation bonds -</b>		
	Net proceeds from issuance	40,556	17,287
	Payments for maturing and retiring	(14,914)	(18,109)
	<b>Capital stock -</b>		
	Proceeds from issuance	3,249	1,621
	Repurchases	(2,690)	(1,034)
	Cash dividends paid	(173)	(75)
	Other financing activities	(67)	(57)
	<b>Net cash provided by (used in) financing activities</b>	<b>8,608</b>	<b>15,079</b>
	<b>Net increase (decrease) in cash and due from banks</b>	<b>3</b>	<b>—</b>
	Cash and due from banks at beginning of period	35	45
	<b>Cash and due from banks at end of period</b>	<b>\$ 38</b>	<b>\$ 45</b>

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





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## Federal Home Loan Bank of Chicago

### 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).

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, 2022, included in our 2022 Annual Report on Form 10-K (2022 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 2022 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 2022 Form 10-K. Refer to **Note 1- Background and Basis of Presentation** to the financial statements in our 2022 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.



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Federal Home Loan Bank of Chicago

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

**Note 2 – Summary of Significant Accounting Policies**

During March of 2020, the Financial Accounting Standards Board (FASB) issued ASU 2020-04, *Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This guidance provides relief for qualifying contract modifications related to reference rate reform related to receivables, payables and hedging relationships. The guidance was effective upon issuance and through December 31, 2024, as amended, except for certain optional expedients elected for hedging relationships, which should be retained for the duration of the hedge term. As of June 30, 2023, the Bank has transitioned all outstanding LIBOR-indexed instruments to reference SOFR, with the implementation of such fallback effective either immediately following June 30, 2023 or at the beginning of the instrument's next reset period. As a result of finalizing transition, we adopted certain practical expedients in ASC 848 for qualifying contract modifications related to reference rate reform, including with respect to qualifying hedge relationships. Application of this guidance did not have a material impact on the financial statements. For qualifying hedge relationships, the Bank does not expect that the practical expedients elected for the duration of the hedge term will have material impact on the financial statements. The Bank does not expect to further elect this guidance through its ending date, December 31, 2024.

During March 2022, the 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. The Bank has not elected to apply this guidance as of this reporting period, but may do so in the future.

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 required enhanced disclosures about loan modifications for borrowers experiencing financial difficulty and required the presentation of gross write-offs by year of origination. ASU 2022-02 was effective for the Bank starting January 1, 2023. The Bank elected to implement the guidance prospectively. The adoption of the ASU did not have a material impact on the financial statements.

Our significant accounting policies adopted through December 31, 2022, can be found in **Note 2 – Summary of Significant Accounting Policies** to the financial statements in our 2022 Form 10-K including details on any cumulative effect adjustments.

**Note 3 – Recently Issued but Not Yet Adopted Accounting Standards**

No relevant accounting standards were recently issued but not yet adopted.



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**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 September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
<b>Interest income -</b>				
Trading	\$ 16	\$ 1	\$ 21	\$ 1
Available-for-sale interest income	381	150	\$ 1,021	\$ 259
Available-for-sale prepayment fees	1	2	1	43
Available-for-sale	382	152	1,022	302
Held-to-maturity	22	10	54	24
<b>Investment debt securities</b>	420	163	1,097	327
Advances interest income	1,204	365	3,316	610
Advances prepayment fees	—	1	—	12
<b>Advances</b>	1,204	366	3,316	622
MPF Loans held in portfolio	91	73	253	207
Federal funds sold	131	48	400	65
Securities purchased under agreements to resell	88	21	244	28
Interest-bearing deposits	58	16	165	21
Other	1	1	3	2
<b>Interest income</b>	1,993	688	5,478	1,272
<b>Interest expense -</b>				
<b>Consolidated obligations -</b>				
Discount notes	607	196	1,894	259
Bonds	1,068	341	2,756	544
Other	21	9	55	18
<b>Interest expense</b>	1,696	546	4,705	821
<b>Net interest income</b>	\$ 297	\$ 142	\$ 773	\$ 451



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## Federal Home Loan Bank of Chicago

**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 GSEs; debt issued by the Tennessee Valley Authority; and securities guaranteed by the Small Business Administration (SBA).
- 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. 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	September 30, 2023	December 31, 2022
U.S. Government & other government related	\$ 1,735	\$ —
<b>MBS</b>		
GSE	\$ 3	\$ 3
<b>Trading debt securities</b>	<b>\$ 1,738</b>	<b>\$ 3</b>

The following table presents our gains and losses on trading debt securities recorded in noninterest income - other, net.

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net unrealized gains (losses) on securities held at period end	\$ 4	\$ 3	\$ (4)	\$ 1
<b>Net gains (losses) on trading debt securities</b>	<b>\$ 4</b>	<b>\$ 3</b>	<b>\$ (4)</b>	<b>\$ 1</b>



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### Available-for-Sale Debt Securities (AFS)

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

	Amortized Cost Basis <sup>a</sup>	Gross Unrealized Gains in AOCI	Gross Unrealized (Losses) in AOCI	Net Carrying Amount and Fair Value
<b>As of September 30, 2023</b>				
U.S. Government & other government related	\$ 2,119	\$ 3	\$ (162)	\$ 1,960
State or local housing agency	9	—	(1)	8
FFELP ABS	1,969	53	(4)	2,018
<b>MBS</b>				
GSE	17,973	47	(160)	17,860
Government guaranteed	69	1	—	70
<b>Available-for-sale debt securities</b>	<b>\$ 22,139</b>	<b>\$ 104</b>	<b>\$ (327)</b>	<b>\$ 21,916</b>
<b>As of December 31, 2022</b>				
U.S. Government & other government related	\$ 2,219	\$ 1	\$ (132)	\$ 2,088
State or local housing agency	8	—	—	8
FFELP ABS	2,253	61	(10)	2,304
<b>MBS</b>				
GSE	16,285	45	(145)	16,185
Government guaranteed	114	1	—	115
<b>Available-for-sale debt securities</b>	<b>\$ 20,879</b>	<b>\$ 108</b>	<b>\$ (287)</b>	<b>\$ 20,700</b>

<sup>a</sup> Includes adjustments made to the cost basis of an investment for accretion, amortization, and fair value hedge accounting adjustments.

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



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### 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	<sup>a</sup> Gross Unrecognized Holding Gains	Gross Unrecognized Holding (Losses)	Fair Value
<b>As of September 30, 2023</b>				
U.S. Government & other government related	\$ 583	\$ —	\$ (14)	\$ 569
<b>MBS</b>				
GSE	144	—	(1)	143
Government guaranteed	29	—	—	29
Other	6	—	—	6
<b>Held-to-maturity debt securities</b>	<b>\$ 762</b>	<b>\$ —</b>	<b>\$ (15)</b>	<b>\$ 747</b>
<b>As of December 31, 2022</b>				
U.S. Government & other government related	\$ 1,210	\$ —	\$ (14)	\$ 1,196
<b>MBS</b>				
GSE	164	3	—	167
Government guaranteed	49	—	—	49
Other	8	—	(1)	7
<b>Held-to-maturity debt securities</b>	<b>\$ 1,431</b>	<b>\$ 3</b>	<b>\$ (15)</b>	<b>\$ 1,419</b>

<sup>a</sup> 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 periods 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. MBS and FFELP ABS 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	
	Amortized Cost Basis	Net Carrying Amount and Fair Value	Amortized Cost and Net Carrying Amount	Fair Value
<b>As of September 30, 2023</b>				
<b>Non MBS and FFELP ABS Year of Maturity -</b>				
Due in one year or less	\$ 3	\$ 3	\$ 369	\$ 369
Due after one year through five years	1,057	1,052	49	47
Due after five years through ten years	301	262	165	153
Due after ten years	767	651	—	—
MBS and FFELP ABS	20,011	19,948	179	178
<b>Total debt securities</b>	<b>\$ 22,139</b>	<b>\$ 21,916</b>	<b>\$ 762</b>	<b>\$ 747</b>



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### 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)
<b>Available-for-sale debt securities</b>						
<b>As of September 30, 2023</b>						
U.S. Government & other government related	\$ —	\$ —	\$ 1,355	\$ (162)	\$ 1,355	\$ (162)
State or local housing agency	—	—	8	(1)	8	(1)
FFELP ABS	—	—	321	(4)	321	(4)
<b>MBS</b>						
GSE	5,312	(22)	6,151	(138)	11,463	(160)
Government guaranteed	15	—	7	—	22	—
<b>Available-for-sale debt securities</b>	<b>\$ 5,327</b>	<b>\$ (22)</b>	<b>\$ 7,842</b>	<b>\$ (305)</b>	<b>\$13,169</b>	<b>\$ (327)</b>
<b>As of December 31, 2022</b>						
U.S. Government & other government related	\$ 1,130	\$ (60)	\$ 386	\$ (72)	\$ 1,516	\$ (132)
State or local housing agency	8	—	—	—	8	—
FFELP ABS	347	(10)	—	—	347	(10)
<b>MBS</b>						
GSE	8,922	(89)	992	(56)	9,914	(145)
Government guaranteed	33	—	—	—	33	—
<b>Available-for-sale debt securities</b>	<b>\$ 10,440</b>	<b>\$ (159)</b>	<b>\$ 1,378</b>	<b>\$ (128)</b>	<b>\$11,818</b>	<b>\$ (287)</b>

### Credit Loss Analysis

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



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### 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.

<b>As of September 30, 2023</b>	<b>Par Value Amount</b>	<b>Weighted Average Contractual Interest Rate</b>
Due in one year or less	\$ 30,557 <sup>a</sup>	5.22 %
One to two years	19,551 <sup>a</sup>	4.72 %
Two to three years	8,434	4.37 %
Three to four years	4,413	3.60 %
Four to five years	4,033	3.80 %
Five to fifteen years	8,842	2.91 %
More than fifteen years	508	5.13 %
<b>Total</b>	<b>\$ 76,338</b>	<b>4.56 %</b>

<sup>a</sup> Of the advances due in one year or less and one to two years, \$3.9 billion and \$4.0 billion, respectively, remain outstanding 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.

<b>As of</b>	<b>September 30, 2023</b>	<b>December 31, 2022</b>
<b>Par value</b>	<b>\$ 76,338</b>	<b>\$ 67,457</b>
Fair value hedging adjustments	(1,392)	(1,191)
Other adjustments	17	22
<b>Advances</b>	<b>\$ 74,963</b>	<b>\$ 66,288</b>

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

<b>As of September 30, 2023</b>	<b>Par Value</b>	<b>% of Total Outstanding</b>
BMO Harris Bank, NA	\$ 12,566	16.5 %
The Northern Trust Company	8,505	11.1 %
JPMorgan Chase Bank, NA	7,900 <sup>a</sup>	10.3 %

<sup>a</sup> We terminated One Mortgage Partners Corp.'s (OMP) membership in connection with the FHFA rule that made captive insurance companies ineligible for FHLB membership, and OMP later 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.





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### Note 7 – MPF Loans Held in Portfolio

We acquire MPF Loans from PFIs to hold in our portfolio. 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.

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	September 30, 2023	December 31, 2022
Medium term (15 years or less)	\$ 1,461	\$ 1,521
Long term (greater than 15 years)	9,465	8,502
<b>Unpaid principal balance</b>	<b>10,926</b>	<b>10,023</b>
Net premiums, credit enhancement, and/or deferred loan fees	165	163
Fair value hedging and delivery commitment basis adjustments	(22)	(21)
<b>MPF Loans held in portfolio, before allowance for credit losses</b>	<b>11,069</b>	<b>10,165</b>
Allowance for credit losses on MPF Loans	(5)	(5)
<b>MPF Loans held in portfolio, net</b>	<b>\$ 11,064</b>	<b>\$ 10,160</b>
Conventional mortgage loans	\$ 10,160	\$ 9,221
Government Loans	766	802
<b>Unpaid principal balance</b>	<b>\$ 10,926</b>	<b>\$ 10,023</b>

The above table excludes MPF Loans acquired under the MPF Xtra<sup>®</sup> and MPF Government MBS products. See **Note 2 - Summary of Significant Accounting Policies** in our 2022 Form 10-K for information related to the accounting treatment of these off-balance sheet MPF Loan products.



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### Note 8 – Allowance for Credit Losses

See **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2022 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 2022 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.

For the periods ending	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
<b>Allowance for MPF credit losses beginning balance</b>	\$ 5	\$ 5	\$ 5	\$ 5
MPF credit losses charged-off	(1)	(1)	(1)	(2)
Credit loss recovery	1	—	1	—
Provision for (reversal of) MPF for credit losses	—	1	—	2
<b>Allowance for MPF credit losses ending balance</b>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 5</u>

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

As of September 30, 2023 and at December 31, 2022, we had \$47 million in Fund loans outstanding, recorded in Other assets in our **Condensed Statements of Condition**.

As of September 30, 2023, all Fund loans were current.

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

For the periods ending	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
<b>Allowance for Fund loan credit losses beginning balance</b>	\$ 7	\$ 7	\$ 7	\$ 7
<b>Allowance for Fund loan credit losses ending balance</b>	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ 7</u>



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

As of	September 30, 2023			December 31, 2022		
	Conventional MPF Amortized Cost by Origination Year			Conventional MPF Amortized Cost by Origination Year		
	2019 to 2023	Prior to 2019	Total	2018 to 2022	Prior to 2018	Total
Past due 30-59 days	\$ 27	\$ 25	\$ 52	\$ 34	\$ 21	\$ 55
Past due 60-89 days	6	6	12	7	6	13
Past due 90 days or more	4	18	22	17	18	35
<b>Past due</b>	<b>37</b>	<b>49</b>	<b>86</b>	<b>58</b>	<b>45</b>	<b>103</b>
Current	8,963	1,245	10,208	8,246	1,003	9,249
<b>Total outstanding</b>	<b>\$ 9,000</b>	<b>\$ 1,294</b>	<b>\$ 10,294</b>	<b>\$ 8,304</b>	<b>\$ 1,048</b>	<b>\$ 9,352</b>

As of	September 30, 2023			December 31, 2022		
	Amortized Cost			Amortized Cost		
	Conventional	Government	Total	Conventional	Government	Total
In process of foreclosure	\$ 14	\$ 3	\$ 17	\$ 19	\$ 5	\$ 24
Serious delinquency rate	0.26 %	1.48 %	0.34 %	0.42 %	1.90 %	0.54 %
Past due 90 days or more and still accruing interest	\$ 3	\$ 11	\$ 14	\$ 3	\$ 15	\$ 18
Loans on nonaccrual status	26	—	26	39	—	39
Loans on nonaccrual status with no allowance for credit losses	14	—	14	15	—	15

### 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	September 30, 2023	December 31, 2022
MPF Loans held in portfolio	\$ 58	\$ 51
HTM securities	3	9
AFS securities	86	81
Interest-bearing deposits	10	7
Federal funds sold	3	2
Securities purchased under agreements to resell	4	4
Advances	262	197
<b>Accrued interest receivable</b>	<b>\$ 426</b>	<b>\$ 351</b>



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**Note 9 – Derivatives and Hedging Activities**

Refer to **Note 2 - Summary of Significant Accounting Policies** in our 2022 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 the Secured Overnight Financing Rate (SOFR). We use cash flow hedges 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, but may elect to do so in the future.

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 to hedge securities in our trading portfolio, 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 September 30, 2023, 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** to the financial statements in our 2022 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.

Our bilateral derivative transactions are subject to variation margin requirements and are fully collateralized with a zero unsecured threshold. We pledged no investment securities for variation margin on our bilateral derivative transactions (that can be sold or repledged by our counterparty) as of September 30, 2023.



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Bilateral derivative transactions executed on or after September 1, 2022, are subject to two-way initial margin requirements if our aggregate uncleared derivative transactions exposure to a counterparty exceeds a specified threshold. The initial margin is required to be held at a third-party custodian and does not change ownership. Rather, the party in respect of which the initial margin has been posted to a third-party custodian will have a security interest in the amount of initial margin required to be posted and can only take ownership upon the occurrence of certain events, including an event of default due to bankruptcy, insolvency, or similar proceeding. As of September 30, 2023, we did not pledge and/or receive initial margin with our bilateral derivative counterparties.

**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 2022 Form 10-K for further discussion. We post our initial margin collateral payments and make variation margin settlement payments 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 \$853 million of investment securities (that can be sold or repledged) as part of our initial margin related to cleared derivative transactions at September 30, 2023. 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 September 30, 2023.

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	September 30, 2023			December 31, 2022		
	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
<b>Derivatives in hedge accounting relationships-</b>						
Interest rate contracts	\$ 129,174	\$ 1,701	\$ 2,880	\$ 90,805	\$ 1,092	\$ 2,825
<b>Derivatives not in hedge accounting relationships-</b>						
Interest rate contracts	6,798	22	40	2,420	17	47
Mortgage delivery commitments	289	—	2	142	—	—
Other	161	1	—	119	2	—
<b>Derivatives not in hedge accounting relationships</b>	<b>7,248</b>	<b>23</b>	<b>42</b>	<b>2,681</b>	<b>19</b>	<b>47</b>
<b>Gross derivative amount before netting adjustments and cash collateral</b>	<b>\$ 136,422</b>	<b>1,724</b>	<b>2,922</b>	<b>\$ 93,486</b>	<b>1,111</b>	<b>2,872</b>
Netting adjustments and cash collateral		(1,569)	(2,853)		(1,086)	(2,862)
<b>Derivatives on Condensed Statements of Condition</b>		<b>\$ 155</b>	<b>\$ 69</b>		<b>\$ 25</b>	<b>\$ 10</b>
	<b>Cash Collateral</b>			<b>Cash Collateral</b>		
Cash collateral posted and related accrued interest	\$ 1,698			\$ 2,124		
Cash collateral received and related accrued interest	414			348		



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

	Three months ended September 30,		Nine months ended September 30,	
For the periods ending	<b>2023</b>	2022	<b>2023</b>	2022
<b>Economic hedges -</b>				
Interest rate contracts	\$ 13	\$ 23	\$ 23	\$ 65
Mortgage delivery commitments	(4)	(3)	(3)	(11)
Other	3	5	4	18
<b>Economic hedges</b>	<b>12</b>	<b>25</b>	<b>24</b>	<b>72</b>
Variation margin on daily settled cleared derivatives	(28)	(6)	(62)	(7)
<b>Noninterest income - Derivatives and hedging activities</b>	<b>\$ (16)</b>	<b>\$ 19</b>	<b>\$ (38)</b>	<b>\$ 65</b>

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, as applicable, 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 September 30, 2023			As of December 31, 2022		
	Bilateral	Cleared	Total	Bilateral	Cleared	Total
<b>Derivatives with legal right of offset -</b>						
Gross recognized amount	\$ 1,599	\$ 125	\$ 1,724	\$ 1,004	\$ 107	\$ 1,111
Netting adjustments and cash collateral	(1,444)	(125)	(1,569)	(999)	(87)	(1,086)
<b>Derivatives with legal right of offset - net</b>	<b>155</b>	<b>—</b>	<b>155</b>	<b>5</b>	<b>20</b>	<b>25</b>
<b>Derivatives on Condensed Statements of Condition</b>	<b>155</b>	<b>—</b>	<b>155</b>	<b>5</b>	<b>20</b>	<b>25</b>
<b>Less:</b>						
Noncash collateral received or pledged and can be sold or repledged	127	—	127	—	—	—
<b>Net amount</b>	<b>\$ 28</b>	<b>\$ —</b>	<b>\$ 28</b>	<b>\$ 5</b>	<b>\$ 20</b>	<b>\$ 25</b>

	Derivative Liabilities					
	As of September 30, 2023			As of December 31, 2022		
	Bilateral	Cleared	Total	Bilateral	Cleared	Total
<b>Derivatives with legal right of offset -</b>						
Gross recognized amount	\$ 2,733	\$ 187	\$ 2,920	\$ 2,785	\$ 87	\$ 2,872
Netting adjustments and cash collateral	(2,728)	(125)	(2,853)	(2,775)	(87)	(2,862)
<b>Derivatives with legal right of offset - net</b>	<b>5</b>	<b>62</b>	<b>67</b>	<b>10</b>	<b>—</b>	<b>10</b>
Derivatives without legal right of offset	2	—	2	—	—	—
<b>Derivatives on Condensed Statements of Condition</b>	<b>7</b>	<b>62</b>	<b>69</b>	<b>10</b>	<b>—</b>	<b>10</b>
<b>Less:</b>						
Noncash collateral received or pledged and can be sold or repledged	—	62	62	—	—	—
<b>Net amount</b>	<b>\$ 7</b>	<b>\$ —</b>	<b>\$ 7</b>	<b>\$ 10</b>	<b>\$ —</b>	<b>\$ 10</b>

At September 30, 2023 and December 31, 2022, we had \$790 million and \$692 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.



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### 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 September 30, 2023 we did not have any active fair value hedges on our MPF Loans.

	Three months ended September 30, 2023			Three months ended September 30, 2022		
	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	\$ 877	\$ (721)	\$ 156	\$ 831	\$ (832)	\$ (1)
Advances	391	(188)	203	479	(452)	27
Consolidated obligation bonds	(492)	90	(402)	(1,127)	1,032	(95)
<b>Total</b>	<b>\$ 776</b>	<b>\$ (819)</b>	<b>\$ (43)</b>	<b>\$ 183</b>	<b>\$ (252)</b>	<b>\$ (69)</b>

  

	Nine months ended September 30, 2023			Nine months ended September 30, 2022		
	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	\$ 1,137	\$ (749)	\$ 388	\$ 2,303	\$ (2,443)	\$ (140)
Advances	717	(201)	516	1,457	(1,442)	15
Consolidated obligation bonds	(1,058)	(51)	(1,109)	(2,945)	2,999	54
Other	—	1	1	—	—	—
<b>Total</b>	<b>\$ 796</b>	<b>\$ (1,000)</b>	<b>\$ (204)</b>	<b>\$ 815</b>	<b>\$ (886)</b>	<b>\$ (71)</b>

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 September 30, 2023	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	\$ 18,662	\$ (2,625)	\$ 206	\$ (2,419)
Advances	31,024	(1,391)	(1)	(1,392)
Consolidated obligation bonds	71,234	(3,052)	(11)	(3,063)
Other	186	—	3	3

  

As of December 31, 2022				
Available-for-sale securities	\$ 16,918	\$ (2,016)	\$ 345	\$ (1,671)
Advances	19,790	(1,192)	2	(1,190)
Consolidated obligation bonds	47,416	(3,102)	(12)	(3,114)
Other	211	—	4	4



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### Cash Flow Hedges

For cash flow hedges, the entire change in the fair value of the hedging instrument is recorded in accumulated other comprehensive income (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 7 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. There were no deferred net gains (losses) on derivative instruments in AOCI that are expected to be reclassified to earnings during the next twelve months as of September 30, 2023. We are not using the cash flow hedge strategy for new transactions at this time, but may elect to do so in the future.

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 September 30, 2023		Three months ended September 30, 2022	
	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	\$ 16	\$ 11	\$ 36	\$ 2
	Nine months ended September 30, 2023		Nine months ended September 30, 2022	
	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	\$ 30	\$ 31	\$ 110	\$ (4)
Bonds	—	—	—	(1)
<b>Total</b>	<b>\$ 30</b>	<b>\$ 31</b>	<b>\$ 110</b>	<b>\$ (5)</b>





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### 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 obligation 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	September 30, 2023	December 31, 2022
Consolidated obligation discount notes - carrying amount	\$ 42,088	\$ 59,531
Consolidated obligation discount notes - principal amount	42,382	59,814
Weighted Average Interest Rate	5.23 %	4.15 %

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 September 30, 2023	Contractual Maturity	Weighted Average Interest Rate	By Maturity or Next Call Date
Due in one year or less	\$ 34,927	3.91 %	\$ 73,091
One to two years	15,673	1.95 %	6,412
Two to three years	12,326	1.36 %	2,730
Three to four years	9,967	1.91 %	2,920
Four to five years	4,032	1.92 %	1,025
Thereafter	9,995	2.23 %	742
<b>Total par value</b>	<b>\$ 86,920</b>	<b>2.68 %</b>	<b>\$ 86,920</b>

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

As of	September 30, 2023	December 31, 2022
Noncallable	\$ 23,097	\$ 16,775
Callable	63,823	44,499
<b>Par value</b>	<b>86,920</b>	<b>61,274</b>
Fair value hedging adjustments	(3,063)	(3,114)
Other adjustments	(27)	(44)
<b>Consolidated obligation bonds</b>	<b>\$ 83,830</b>	<b>\$ 58,116</b>

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 September 30, 2023, and December 31, 2022. See **Note 16 - Commitments and Contingencies** in our 2022 Form 10-K for further details.

Par value as of	September 30, 2023			December 31, 2022		
	Bonds	Discount Notes	Total	Bonds	Discount Notes	Total
FHLB System total consolidated obligations	\$921,761	\$308,114	\$1,229,875	\$712,178	\$469,565	\$1,181,743
FHLB Chicago as primary obligor	86,920	42,382	129,302	61,274	59,814	121,088
As a percent of the FHLB System	9 %	14 %	11 %	9 %	13 %	10 %



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### 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 2022 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 2022 Form 10-K. We complied with our minimum regulatory capital requirements as shown below.

As of	September 30, 2023		December 31, 2022	
	Requirement	Actual	Requirement	Actual
Total regulatory capital	\$ 5,450	\$ 8,613	\$ 5,074	\$ 7,801
Total regulatory capital ratio	4.00 %	6.32 %	4.00 %	6.15 %
Leverage capital	\$ 6,812	\$ 12,918	\$ 6,343	\$ 11,701
Leverage capital ratio	5.00 %	9.48 %	5.00 %	9.22 %
Risk-based capital	\$ 2,019	\$ 8,613	\$ 1,786	\$ 7,801

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.

The following member(s) (including any successor) had regulatory capital stock exceeding 10% of our total regulatory capital stock outstanding (which includes MRCS) as of September 30, 2023.

As of September 30, 2023	Regulatory Capital Stock Outstanding	% of Total Outstanding	Amount of Which is Classified as a Liability (MRCS)
BMO Harris Bank, NA	\$ 570	15.3 %	\$ —

#### Repurchase of Excess Capital Stock

Members may request repurchases 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.



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### Dividends

Our ability to pay dividends is subject to the FHLB Act and FHFA regulations. On October 24, 2023 our Board of Directors declared a 8.25% dividend (annualized) for Class B1 activity stock and a 5.125% dividend (annualized) for Class B2 membership stock based on our preliminary financial results for the third quarter of 2023. This dividend totaled \$76 million (recorded as \$72 million dividends on capital stock and \$4 million interest expense on mandatorily redeemable capital stock) and is scheduled for payment on November 15, 2023. 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.

### 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
<b>Three months ended September 30, 2023</b>				
<b>Beginning balance</b>	\$ (159)	\$ 96	\$ 10	\$ (53)
Other comprehensive income before reclassification - recorded to the Condensed Statements of Condition	(64)	16	—	(48)
<b>Amounts reclassified in period to Condensed Statements of Income:</b>				
Net interest income	—	(11)		(11)
<b>Ending balance</b>	<u>\$ (223)</u>	<u>\$ 101</u>	<u>\$ 10</u>	<u>\$ (112)</u>
<b>Three months ended September 30, 2022</b>				
<b>Beginning balance</b>	\$ (14)	\$ 70	\$ (16)	\$ 40
Other comprehensive income before reclassification - recorded to the Condensed Statements of Condition	(152)	36	—	(116)
<b>Amounts reclassified in period to Condensed Statements of Income:</b>				
Net interest income	—	(2)		(2)
Noninterest expense			1	1
<b>Ending balance</b>	<u>\$ (166)</u>	<u>\$ 104</u>	<u>\$ (15)</u>	<u>\$ (77)</u>
<b>Nine months ended September 30, 2023</b>				
<b>Beginning balance</b>	\$ (179)	\$ 102	\$ (11)	\$ (88)
Other comprehensive income before reclassification - recorded to the Condensed Statements of Condition	(44)	30	22	8
<b>Amounts reclassified in period to Condensed Statements of Income:</b>				
Net interest income	—	(31)		(31)
Noninterest expense			(1)	(1)
<b>Ending balance</b>	<u>\$ (223)</u>	<u>\$ 101</u>	<u>\$ 10</u>	<u>\$ (112)</u>
<b>Nine months ended September 30, 2022</b>				
<b>Beginning balance</b>	\$ 366	\$ (11)	\$ (13)	\$ 342
Other comprehensive income before reclassification - recorded to the Condensed Statements of Condition	(532)	110	(4)	(426)
<b>Amounts reclassified in period to Condensed Statements of Income:</b>				
Net interest income	—	5		5
Noninterest expense			2	2
<b>Ending balance</b>	<u>\$ (166)</u>	<u>\$ 104</u>	<u>\$ (15)</u>	<u>\$ (77)</u>



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### 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 2022 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 2022 Form 10-K for our fair value policies and **Note 15 - Fair Value** in our 2022 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
<b>September 30, 2023</b>						
<b>Carried at amortized cost</b>						
Cash and due from banks and interest-bearing deposits	\$ 2,608	\$ 2,608	\$ 2,608			
Federal funds sold and securities purchased under agreements to resell	22,308	22,308		\$ 22,308		
Held-to-maturity debt securities	762	747		741	\$ 6	
Advances	74,818	74,843		74,843		
MPF Loans held in portfolio, net	11,057	9,505		9,497	8	
Other assets	426	426		426		
<b>Carried at fair value on a recurring basis</b>						
Trading debt securities	1,738	1,738		1,738		
Available-for-sale debt securities	21,916	21,916		21,916		
Advances	145	145		145		
Derivative assets	155	155		1,724		\$ (1,569)
Other assets	79	79		79		
<b>Carried at fair value on a nonrecurring basis</b>						
MPF Loans held in portfolio, net	7	7			7	
<b>Financial assets</b>	<b>136,019</b>	<b>\$ 134,477</b>	<b>\$ 2,608</b>	<b>\$ 133,417</b>	<b>\$ 21</b>	<b>\$ (1,569)</b>
Other nonfinancial assets	226					
<b>Assets</b>	<b>\$ 136,245</b>					
<b>Carried at amortized cost</b>						
Deposits	\$ (690)	\$ (690)		\$ (690)		
Consolidated obligation discount notes	(38,546)	(38,536)		(38,536)		
Consolidated obligation bonds	(83,230)	(81,560)		(81,560)		
Mandatorily redeemable capital stock	(185)	(185)	\$ (185)			
Other liabilities	(727)	(727)		(727)		
<b>Carried at fair value on a recurring basis</b>						
Consolidated obligation discount notes	(3,542)	(3,542)		(3,542)		
Consolidated obligation bonds	(600)	(600)		(600)		
Derivative liabilities	(69)	(69)		(2,922)		\$ 2,853
<b>Financial liabilities</b>	<b>(127,589)</b>	<b>\$ (125,909)</b>	<b>\$ (185)</b>	<b>\$ (128,577)</b>	<b>\$ —</b>	<b>\$ 2,853</b>
Other nonfinancial liabilities	(340)					
<b>Liabilities</b>	<b>\$ (127,929)</b>					



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	<u>Net Carrying Amount</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Netting &amp; Cash Collateral</u>
December 31, 2022						
<b>Carried at amortized cost</b>						
Cash and due from banks and interest-bearing deposits	\$ 2,605	\$ 2,605	\$ 2,605			
Federal funds sold and securities purchased under agreements to resell	24,943	24,943		\$ 24,943		
Held-to-maturity debt securities	1,431	1,419		1,412	\$ 7	
Advances	65,627	65,581		65,581		
MPF Loans held in portfolio, net	10,154	8,973		8,962	11	
Other assets	351	351		351		
<b>Carried at fair value on a recurring basis</b>						
Trading debt securities	3	3		3		
Available-for-sale debt securities	20,700	20,700		20,700		
Advances	661	661		661		
Derivative assets	25	25		1,111		\$ (1,086)
Other assets	109	109		109		
<b>Carried at fair value on a nonrecurring basis</b>						
MPF Loans held in portfolio, net	6	6			6	
<b>Financial assets</b>	<u>126,615</u>	<u>\$ 125,376</u>	<u>\$ 2,605</u>	<u>\$ 123,833</u>	<u>\$ 24</u>	<u>\$ (1,086)</u>
Other nonfinancial assets	238					
<b>Assets</b>	<u>\$ 126,853</u>					
<b>Carried at amortized cost</b>						
Deposits	\$ (571)	\$ (571)		\$ (571)		
Consolidated obligation discount notes	(59,278)	(59,264)		(59,264)		
Consolidated obligation bonds	(57,398)	(55,766)		(55,766)		
Mandatorily redeemable capital stock	(248)	(248)	\$ (248)			
Other liabilities	(240)	(240)		(240)		
<b>Carried at fair value on a recurring basis</b>						
Consolidated obligation discount notes	(253)	(253)		(253)		
Consolidated obligation bonds	(718)	(718)		(718)		
Derivative liabilities	(10)	(10)		(2,872)		\$ 2,862
<b>Financial liabilities</b>	<u>(118,716)</u>	<u>\$ (117,070)</u>	<u>\$ (248)</u>	<u>\$ (119,684)</u>	<u>\$ —</u>	<u>\$ 2,862</u>
Other nonfinancial liabilities	(672)					
<b>Liabilities</b>	<u>\$ (119,388)</u>					

We had no transfers between levels for the periods shown.



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### 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 **Note 2 – Summary of Significant Accounting Policies** to the financial statements in our 2022 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 September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Advances	\$ (2)	\$ (12)	\$ 5	\$ (75)
Discount notes	(3)	1	4	5
Bonds	(7)	6	(17)	26
Other	—	(1)	—	(8)
<b>Noninterest income - Instruments held under the fair value option</b>	<b>\$ (12)</b>	<b>\$ (6)</b>	<b>\$ (8)</b>	<b>\$ (52)</b>

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	September 30, 2023		December 31, 2022	
	Advances	Consolidated Obligation Bonds	Advances	Consolidated Obligation Bonds
Unpaid principal balance	\$ 160	\$ 606	\$ 680	\$ 741
Fair value over (under) UPB	(15)	(6)	(19)	(23)
Fair value	<b>\$ 145</b>	<b>\$ 600</b>	<b>\$ 661</b>	<b>\$ 718</b>



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### Note 14 – Commitments and Contingencies

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

As of	September 30, 2023			December 31, 2022		
	Expire within one year	Expire after one year	Total	Expire within one year	Expire after one year	Total
Member standby letters of credit	\$ 5,786	\$ 7,645 <sup>a</sup>	\$ 13,431	\$ 4,485	\$ 6,265 <sup>a</sup>	\$ 10,750
MPF delivery commitments	234	—	234	93	—	93
Advance commitments	141	5	146	76	5	81
Housing authority standby bond purchase agreements	80	450	530	56	485	541
Unsettled consolidated obligation bonds	661	—	661	65	—	65
Other	—	—	—	2	—	2
<b>Commitments</b>	<b>\$ 6,902</b>	<b>\$ 8,100</b>	<b>\$ 15,002</b>	<b>\$ 4,777</b>	<b>\$ 6,755</b>	<b>\$ 11,532</b>

<sup>a</sup> Contains \$6.7 billion and \$5.8 billion of member standby letters of credit as of September 30, 2023, and December 31, 2022, which were renewable annually.

For a description of defined terms see **Note 16 - Commitments and Contingencies** to the financial statements in our 2022 Form 10-K.



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### 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	September 30, 2023	December 31, 2022
Assets - Advances	\$ 579	\$ 386
Liabilities - Deposits	5	3
Equity - Capital Stock	28	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.

We have also, from time to time, assumed the outstanding consolidated obligations of another FHLB rather than issue new consolidated obligations. In connection with these transactions, the Bank becomes the primary obligor for the transferred debt. During the three months ended September 30, 2023, the Bank did not assume consolidated obligation discount notes from another FHLB. During the nine months ended September 30, 2023 the Bank assumed consolidated obligation discount notes with a par value of \$4.32 billion from the FHLB of Atlanta with a corresponding transfer of funds to the Bank from the FHLB of Atlanta. The Bank did not assume any debt from other FHLBs during the three and nine months ended September 30, 2022.

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 which we receive a membership and volume-based administration fee.

Material transactions with other FHLBs are identified on the face of our condensed financial statements.





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

Below are selected financial data for the last five quarters.

	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
<b>Other selected data at period end</b>					
Member standby letters of credit outstanding	\$ 13,431	\$ 13,053	\$ 10,465	\$ 10,750	\$ 12,999
MPF Loans par value outstanding - FHLB System <sup>a</sup>	67,583	66,294	65,420	65,562	65,853
MPF Loans par value outstanding - FHLB Chicago PFIs <sup>a</sup>	18,853	18,458	18,232	18,331	18,404
Number of members	652	656	660	671	668
Total employees (full and part time)	498	491	499	495	493
<b>Other selected MPF data <sup>a</sup></b>					
MPF Loans par value amounts funded - FHLB System	\$ 2,954	\$ 2,345	\$ 1,152	\$ 1,321	\$ 1,985
Quarterly number of PFIs funding MPF products - FHLB System	577	553	479	485	554
MPF Loans par value amounts funded - FHLB Chicago PFIs	\$ 865	\$ 640	\$ 266	\$ 387	\$ 497
Quarterly number of PFIs funding MPF products - FHLB Chicago	168	161	148	154	171
<b>Selected ratios (rates annualized)</b>					
Total regulatory capital to assets ratio	6.32 %	6.26 %	6.21 %	6.15 %	6.77 %
Market value of equity to book value of equity	102 %	106 %	107 %	105 %	105 %
Primary mission asset ratio <sup>b</sup>	72.7 %	72.4 %	71.5 %	72.0 %	72.9 %
Dividend rate class B1 activity stock-period paid	8.00 %	7.38 %	7.13 %	6.50 %	5.75 %
Dividend rate class B2 membership stock-period paid	5.00 %	3.19 %	3.06 %	2.75 %	2.38 %
Return on average assets	0.51 %	0.45 %	0.42 %	0.43 %	0.34 %
Return on average equity	8.71 %	8.12 %	7.31 %	7.33 %	5.39 %
Average equity to average assets	5.86 %	5.54 %	5.75 %	5.87 %	6.31 %
Net yield on average interest-earning assets	0.84 %	0.70 %	0.67 %	0.71 %	0.52 %
Cash dividends	\$ 70	\$ 55	\$ 48	\$ 37	\$ 29
Dividend payout ratio	38.25 %	32.93 %	33.57 %	27.61 %	30.53 %

<sup>a</sup> Includes all MPF products, whether on or off our balance sheet. See **Mortgage Partnership Finance Program** beginning on page 8 in our 2022 Form 10-K for details on our various MPF products.

<sup>b</sup> 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 2022 Form 10-K for more information.



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### **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:

- general economic and market conditions, including the timing and volume of market activity, recession, prolonged 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; disruptions in the credit and debt markets and the effect on future funding costs, sources, and availability; volatility resulting from the effects of, and changes in, various monetary or fiscal policies and regulations or programs, 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; 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;
- 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 guidance, regulation, and legislation related to the *FHLB System at 100: Focusing on the Future* initiative, 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 (Housing Act) or as may otherwise be issued by our regulator; the potential designation of us as a nonbank financial company subject to supervision by the Federal Reserve; any government failure to raise the U.S. Treasury debt ceiling;
- the loss of or changes in business activities with significant members; changes in the demand by our members for advances, 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, our ability to maintain current levels of dividends, our ability to meet dividend guidance, 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;



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- 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 or otherwise; 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;
- 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 20 in our 2022 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.



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## **Executive Summary**

### **Third Quarter 2023 Financial Highlights**

- Advances outstanding increased to \$75.0 billion at September 30, 2023, compared to \$66.3 billion at December 31, 2022, primarily attributable to increased borrowings from our depository institutions.
- MPF Loans held in portfolio increased to \$11.1 billion at September 30, 2023, compared to \$10.2 billion at December 31, 2022, primarily attributable to increased volume in loans sold into our MPF Program due to competitive pricing offered on our products and to a lesser extent increased loan origination due to homebuyer demand.
- Total investment securities increased to \$24.4 billion at September 30, 2023, compared to \$22.1 billion at December 31, 2022, primarily attributable to an increase in investment in GSE mortgage-backed securities and U.S. treasuries.
- Total liquid assets decreased to \$24.9 billion at September 30, 2023, compared to \$27.5 billion at December 31, 2022. We intend to maintain a sufficient pool of liquidity to support anticipated member demand for advances and letters of credit.
- Total assets increased to \$136.2 billion as of September 30, 2023, compared to \$126.9 billion as of December 31, 2022.
- Letters of credit commitments increased to \$13.4 billion at September 30, 2023, compared to \$10.8 billion at December 31, 2022, attributable to increased usage from our members for public unit deposits.
- We recorded net income of \$183 million in the third quarter of 2023, up \$88 million compared to the third quarter of 2022. The increase was primarily due to increased returns on our liquid assets as interest rates rose compared to the prior year period.
- In the third quarter of 2023, noninterest income (loss) was \$(16) million, a decrease of \$43 million when compared to a \$27 million gain for the third quarter of 2022. Losses from derivatives used to hedge our market risk exposure were the primary driver of this decrease.
- We remained in compliance with all of our regulatory capital requirements as of September 30, 2023.

## **Summary and Outlook**

### *Third Quarter 2023 Dividends and Dividend Guidance*

On October 24, 2023, the Board of Directors declared a dividend of 8.25% (annualized) for Class B1 activity stock and a dividend of 5.125% (annualized) for Class B2 membership stock based on preliminary financial results for the third quarter of 2023. The dividend for the third quarter of 2023 will be paid by crediting members' DID accounts on November 15, 2023. The Bank pays a higher dividend per share on activity stock compared to membership stock to recognize members' support of the cooperative through the use of our products. We expect to maintain a dividend of at least 8.25% (annualized) for Class B1 activity stock for the fourth quarter of 2023 and the first quarter of 2024, 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.

### *FHLBank System at 100: Focusing on the Future Report*

The Federal Housing Finance Agency (FHFA) has released its FHLBank System at 100: Focusing on the Future Report. The Bank is reviewing the recommendations and will engage with the FHFA, Congress, our Board, our members, and employees in the weeks and months ahead to continue delivering on our mission. We are unable to determine at this time the impact that the report's recommendations will have on our financial condition and results of operations. We will be engaging with the FHFA and other stakeholders over the coming weeks and months to ensure that the FHLB System remains well positioned to serve our members and their communities.

For further discussion on the report, see **Legislative and Regulatory Developments** on page 55.

### *Increasing Our Support for Community Development*

The Bank continues to support mission-driven activities across Illinois and Wisconsin for our member's liquidity needs, affordable housing, equity and community building.



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Last quarter, we announced increased support for small businesses – the engines of economic growth in our members' communities who are facing challenges with growing or enhancing their operations due to surging borrowing costs. Our two-pronged approach provides discounted lending and grants for qualifying small businesses.

We increased our 0% interest-rate subsidy to \$10 million from \$2 million through year-end for our Community Small Business Advance. Members may borrow up to \$250,000 at an initial rate of 0% and pass on a discounted interest rate to their customers of up to 3.5%. We also made \$7.5 million available for our 2023 Community First® Accelerate Grants for Small Business (Accelerate Grants), which closed in October 2023.

In recognition of the important role diverse real estate developers play in the mission of creating equitable, affordable housing in our district, we doubled our annual support to \$2 million in the second year of our Community First Diverse Developer Initiative. With this investment, we intend to fund more than 30 fellowships and internships for 10 beneficiary organizations in 2023.

In addition, the demand for homeownership remains high, but is out of reach to many very low to moderate-income households throughout our district. One way we are combating this challenge is through our Downpayment Plus® (DPP®) program. This year, we increased the maximum grant amount to \$10,000 to provide down payment and closing cost assistance to members' income-eligible customers. To meet the increased demand we saw at the start of the year, we also expanded our program budget to \$42 million, a 133% increase over 2022 grant assistance program funding for qualified home buyers. During the first nine months of this year, we have helped 2,942 homebuyers achieve the American dream through our partnership with our members.

#### *Ongoing Support and Improving Members' Experience*

While our members continue to face a complex economic cycle this year, we've looked for opportunities to help them navigate the evolving market dynamics. Additionally, we are focused on improving our members' experience through technology initiatives and are responding to feedback received through member technology focus groups. Earlier this year, we launched a multi-year project to make long-term improvements to our eBanking application to update the look and feel, simplify navigation, and provide the best possible user experience to support members in day-to-day tasks. After releasing centralized access to all reports in July 2023, we are rolling out a new capital stock page with additional features on eBanking later this year. As eBanking improvements are implemented, we believe our members will experience a more modern interface and save time through improved functionality and features. We look forward to sharing more technological advancement milestones with our members during the remainder of this year and into 2024.



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### **Critical Accounting Policies and Estimates**

For a detailed description of our **Critical Accounting Policies and Estimates** see page 39 in our 2022 Form 10-K.

There have been no significant changes to our critical accounting estimates subsequent to December 31, 2022.

There have been no recently issued but not yet effective accounting standards updates that we expect to have a material impact on our financial statements.

### **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.





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

	September 30, 2023			September 30, 2022			Increase (decrease) due to		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate	Volume	Rate	Net Change
<b>For the three months ended</b>									
Investment debt securities	\$ 25,747	\$ 420	6.53 %	\$ 21,875	\$ 163	2.98 %	\$ 28	\$ 229	\$ 257
Advances	84,199	1,204	5.72 %	62,442	366	2.34 %	127	711	838
MPF Loans held in portfolio	10,824	91	3.36 %	10,030	73	2.91 %	6	12	18
Federal funds sold	9,805	131	5.34 %	8,693	48	2.21 %	6	77	83
Securities purchased under agreements to resell	6,527	88	5.39 %	3,757	21	2.24 %	16	51	67
Interest-bearing deposits	4,196	58	5.53 %	2,739	16	2.34 %	9	33	42
Other interest-earning assets	70	1	5.71 %	71	1	5.63 %	—	—	—
<b>Interest-earning assets</b>	<b>141,368</b>	<b>1,993</b>	<b>5.64 %</b>	<b>109,607</b>	<b>688</b>	<b>2.51 %</b>	<b>199</b>	<b>1,106</b>	<b>1,305</b>
Noninterest-earning assets	1,861			667					
<b>Total assets</b>	<b>\$ 143,229</b>			<b>\$110,274</b>					
Consolidated obligation discount notes	46,717	607	5.20 %	37,469	196	2.09 %	48	363	411
Consolidated obligation bonds	82,952	1,068	5.15 %	61,440	341	2.22 %	119	608	727
Other interest-bearing liabilities	1,477	21	5.69 %	1,118	9	3.22 %	3	9	12
<b>Interest-bearing liabilities</b>	<b>131,146</b>	<b>1,696</b>	<b>5.17 %</b>	<b>100,027</b>	<b>546</b>	<b>2.18 %</b>	<b>170</b>	<b>980</b>	<b>1,150</b>
Noninterest-bearing liabilities	3,687			3,225					
<b>Total liabilities</b>	<b>\$ 134,833</b>			<b>\$103,252</b>					
<b>Net yield on interest earning assets</b>	<b>\$ 141,368</b>	<b>\$ 297</b>	<b>0.84 %</b>	<b>\$109,607</b>	<b>\$ 142</b>	<b>0.52 %</b>	<b>\$ 42</b>	<b>\$ 113</b>	<b>\$ 155</b>
<b>For the nine months ended</b>									
Investment debt securities	\$ 24,116	\$ 1,097	6.07 %	\$ 22,590	\$ 327	1.93 %	\$ 21	\$ 749	\$ 770
Advances	83,790	3,316	5.28 %	58,133	622	1.43 %	275	2,419	2,694
MPF Loans held in portfolio	10,433	253	3.23 %	9,901	207	2.79 %	12	34	46
Federal funds sold	10,793	400	4.94 %	7,076	65	1.22 %	34	301	335
Securities purchased under agreements to resell	6,556	244	4.96 %	3,674	28	1.02 %	22	194	216
Interest-bearing deposits	4,294	165	5.12 %	2,148	21	1.30 %	21	123	144
Other interest-earning assets	90	3	4.44 %	81	2	3.29 %	—	1	1
<b>Interest-earning assets</b>	<b>140,072</b>	<b>5,478</b>	<b>5.21 %</b>	<b>103,603</b>	<b>1,272</b>	<b>1.64 %</b>	<b>456</b>	<b>3,750</b>	<b>4,206</b>
Noninterest-earning assets	1,661			1,005					
<b>Total assets</b>	<b>\$ 141,733</b>			<b>\$104,608</b>					
Consolidated obligation discount notes	52,707	1,894	4.79 %	31,095	259	1.11 %	180	1,455	1,635
Consolidated obligation bonds	75,995	2,756	4.84 %	62,825	544	1.15 %	109	2,103	2,212
Other interest-bearing liabilities	1,331	55	5.51 %	1,236	18	1.94 %	1	36	37
<b>Interest-bearing liabilities</b>	<b>130,033</b>	<b>4,705</b>	<b>4.82 %</b>	<b>95,156</b>	<b>821</b>	<b>1.15 %</b>	<b>305</b>	<b>3,579</b>	<b>3,884</b>
Noninterest-bearing liabilities	3,547			2,571					
<b>Total liabilities</b>	<b>\$ 133,580</b>			<b>\$ 97,727</b>					
<b>Net yield on interest-earning assets</b>	<b>\$ 140,072</b>	<b>\$ 773</b>	<b>0.74 %</b>	<b>\$103,603</b>	<b>\$ 451</b>	<b>0.58 %</b>	<b>\$ 154</b>	<b>\$ 168</b>	<b>\$ 322</b>



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

- Interest income from investment debt securities increased primarily due to higher market interest rates in 2023 compared to the same period in 2022.
- Interest income from advances increased primarily due to higher market interest rates in 2023 compared to the same period in 2022. In addition, increased borrowing from our depository members contributed to the increase in interest income.
- Interest income from MPF Loans held in portfolio increased primarily due to the higher mortgage rate environment increasing the yield earned on new loan originations in 2023 compared to the same period in 2022. Secondly, increased volume also contributed to this increase in interest income. To a lesser extent, interest income from MPF Loans increased due to a reduction in premium amortization expense in 2023 compared to 2022 as loan prepayments slowed in 2023.
- Interest income from federal funds sold, securities purchased under agreements to resell, and interest-bearing deposits increased primarily due to higher market interest rates in 2023 compared to the same period in 2022. To a lesser extent, increased volume also contributed to this increase in interest income.
- Interest expense on our shorter-termed consolidated obligation discount notes and longer-termed consolidated obligation bonds increased primarily due to higher market interest rates in 2023 compared to the same period in 2022. To a lesser extent, increased volume also contributed to this increase in interest expense.
- For details of the effect our fair value and cash flow hedge activities had on our net interest income see the **Total Net Effect Gain (Loss) of Hedging Activities** table on page 41.

### Noninterest Income

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Trading securities	\$ 4	\$ 3	\$ (4)	\$ 1
Derivatives	(16)	19	(38)	65
Instruments held under the fair value option	(12)	(6)	(8)	(52)
MPF fees, \$7, \$6, \$19 and \$18 from other FHLBs	9	8	25	27
Other, net	(1)	3	5	1
<b>Noninterest income (loss)</b>	<b>\$ (16)</b>	<b>\$ 27</b>	<b>\$ (20)</b>	<b>\$ 42</b>

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

#### *Trading Securities, Derivatives, and Instruments Held Under the Fair Value Option*

Unrealized losses from our derivatives were the primary driver of our decrease in noninterest income. The unrealized losses in our derivatives were primarily attributable to the movement in market interest rates in 2023 compared to 2022.





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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
<b>Three months ended September 30, 2023</b>							
Recorded in net interest income	\$ 203	\$ 156	\$ —	\$ 11	\$ (402)	\$ —	\$ (32)
Recorded in derivatives	4	5	4	—	(1)	(28)	(16)
Recorded in trading securities	—	4	—	—	—	—	4
Recorded on instruments held under the fair value option	(2)	—	—	(3)	(7)	—	(12)
<b>Total net effect gain (loss) of hedging activities</b>	<b>\$ 205</b>	<b>\$ 165</b>	<b>\$ 4</b>	<b>\$ 8</b>	<b>\$ (410)</b>	<b>\$ (28)</b>	<b>\$ (56)</b>
<b>Three months ended September 30, 2022</b>							
Recorded in net interest income	\$ 27	\$ (1)	\$ —	\$ 2	\$ (95)	\$ (1)	\$ (68)
Recorded in derivatives	15	8	12	(3)	(7)	(6)	19
Recorded in trading securities	—	3	—	—	—	—	3
Recorded on instruments held under the fair value option	(12)	—	(1)	1	6	—	(6)
<b>Total net effect gain (loss) of hedging activities</b>	<b>\$ 30</b>	<b>\$ 10</b>	<b>\$ 11</b>	<b>\$ —</b>	<b>\$ (96)</b>	<b>\$ (7)</b>	<b>\$ (52)</b>
<b>Nine months ended September 30, 2023</b>							
Recorded in net interest income	\$ 516	\$ 388	\$ 1	\$ 31	\$ (1,109)	\$ —	\$ (173)
Recorded in derivatives	6	15	10	(4)	(3)	(62)	(38)
Recorded in trading securities	—	(4)	—	—	—	—	(4)
Recorded on instruments held under the fair value option	5	—	—	4	(17)	—	(8)
<b>Total net effect gain (loss) of hedging activities</b>	<b>\$ 527</b>	<b>\$ 399</b>	<b>\$ 11</b>	<b>\$ 31</b>	<b>\$ (1,129)</b>	<b>\$ (62)</b>	<b>\$ (223)</b>
<b>Nine months ended September 30, 2022</b>							
Recorded in net interest income	\$ 15	\$ (140)	\$ —	\$ (4)	\$ 53	\$ —	\$ (76)
Recorded in derivatives	64	11	26	(4)	(25)	(7)	65
Recorded in trading securities	—	1	—	—	—	—	1
Recorded on instruments held under the fair value option	(75)	—	(8)	5	26	—	(52)
<b>Total net effect gain (loss) of hedging activities</b>	<b>\$ 4</b>	<b>\$ (128)</b>	<b>\$ 18</b>	<b>\$ (3)</b>	<b>\$ 54</b>	<b>\$ (7)</b>	<b>\$ (62)</b>

### 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 administration 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 administration fees. These administration and membership fees are designed to compensate us for the expenses we incur to administer the program. MPF fees for the three months ended September 30, 2023 were comparable to the prior period in 2022. MPF fees for the nine months ended September 30, 2023 decreased compared to the prior period in 2022, 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.



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### Noninterest Expense

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Compensation and benefits	\$ 35	\$ 31	\$ 98	\$ 88
Nonpayroll operating expenses	22	23	72	67
Voluntary Community Investment contributions	17	3	17	4
Federal Housing Finance Agency and Office of Finance	5	4	14	14
Other, net	(1)	1	3	5
<b>Noninterest expense</b>	<b>\$ 78</b>	<b>\$ 62</b>	<b>\$ 204</b>	<b>\$ 178</b>

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

Compensation and benefits increased primarily due to increased employee headcount and increases in salaries, severance-related expenses and pension-related expenses. We had 498 employees as of September 30, 2023, compared to 493 employees as of September 30, 2022.

Nonpayroll operating expenses for the three months ended September 30, 2023 were comparable to the prior period in 2022 and increased for the nine months ended September 30, 2023 compared to the comparable period in 2022, as we continued our planned investment in information technology, specifically applications, infrastructure, and resiliency.

Voluntary Community Investment contributions increased primarily due to additional commitments to our Downpayment Plus Programs above the regulatory amounts. For more information on these voluntary contributions, see **Executive Summary** on page 36.

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.

As noted in **Noninterest Income** on page 41, 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 September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
MPF fees earned	\$ 9	\$ 8	\$ 25	\$ 27
Expenses related to MPF fees earned	9	9	26	27

### 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 2022 Form 10-K for further details.



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#### Other Comprehensive Income (Loss)

	Three months ended September 30,		Nine months ended September 30,		Balance remaining in AOCI as of
	2023	2022	2023	2022	September 30, 2023
Net unrealized gain (loss) available-for-sale debt securities	\$ (64)	\$ (152)	\$ (44)	\$ (532)	\$ (223)
Net unrealized gain (loss) cash flow hedges	5	34	(1)	115	101
Postretirement plans	—	1	21	(2)	10
<b>Other comprehensive income (loss)</b>	<b>\$ (59)</b>	<b>\$ (117)</b>	<b>\$ (24)</b>	<b>\$ (419)</b>	<b>\$ (112)</b>

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 2023 was primarily due to rising market interest rates and widening spreads to SOFR, partially offset by gains on our hedges driven by rising market interest rates. As these securities approach maturity, we expect the net unrealized losses in our AOCI as of September 30, 2023 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 third quarter net unrealized gain on cash flow hedges for 2023 and the year to date net unrealized loss on cash flow hedges for 2023 was primarily driven by the change in market interest rates in 2023.

#### *Postretirement plans*

The gain recorded for the nine months ended September 30, 2023 was primarily due to an actuarial adjustment resulting from an increase in the discount rate used to calculate postretirement benefits.

We did not recognize any instrument-specific credit risk in our **Condensed Statements of Comprehensive Income** as of September 30, 2023 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.



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### Statements of Condition

	September 30, 2023	December 31, 2022
Cash and due from banks, interest-bearing deposits, federal funds sold, and securities purchased under agreements to resell	\$ 24,916	\$ 27,548
Investment debt securities	24,416	22,134
Advances	74,963	66,288
MPF Loans held in portfolio, net of allowance for credit losses	11,064	10,160
Other, net of allowance for credit losses	886	723
<b>Assets</b>	<b>\$ 136,245</b>	<b>\$ 126,853</b>
Consolidated obligation discount notes	\$ 42,088	\$ 59,531
Consolidated obligation bonds	83,830	58,116
Other	2,011	1,741
<b>Liabilities</b>	<b>127,929</b>	<b>119,388</b>
Capital stock	3,544	2,989
Retained earnings	4,884	4,564
Accumulated other comprehensive income (loss)	(112)	(88)
<b>Capital</b>	<b>8,316</b>	<b>7,465</b>
<b>Total liabilities and capital</b>	<b>\$ 136,245</b>	<b>\$ 126,853</b>

The following is an analysis of the above table and comparisons apply to September 30, 2023 compared to December 31, 2022.

### 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 third quarter of 2023, we maintained a sufficient pool of liquidity to support anticipated member demand for advances and letters of credit.

### Investment Debt Securities

Investment debt securities increased at the end of third quarter 2023 compared to year end 2022 with the change primarily attributable to an increase in investment in GSE mortgage-backed securities and U.S. treasuries.

### Advances

Advance balances increased at the end of third quarter 2023 compared to year end 2022. This was primarily 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 20 in our 2022 Form 10-K. For details on our advances with our former captive insurance company members, see **Note 6 - Advances**.



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

MPF Loans held in portfolio increased at the end of third quarter 2023 compared to year end 2022. This was primarily attributable to increased volume in loans sold into our MPF Program due to competitive pricing offered on our products and to a lesser extent increased loan origination due to homebuyer demand. 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 pool and securitize them into Ginnie Mae MBS.



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## Liquidity, Funding, & Capital Resources

### Liquidity

For the period ending September 30, 2023, we maintained a liquidity position in accordance with FHFA regulations and guidance, which may be amended from time to time, 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 51 in our 2022 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% of total assets (or \$4.8 billion). As of September 30, 2023, our overnight liquidity was \$31.2 billion or 23% of total assets, giving us an excess overnight liquidity of \$26.4 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 September 30, 2023, we had excess liquidity of \$70.9 billion to support member deposits.

Liquidity Reserves – As discussed on page 51 in the **Liquidity, Funding, & Capital Resources** section in our 2022 Form 10-K, the FHFA advisory bulletin on FHLB liquidity (the "Liquidity AB") requires that: (i) we hold positive cash flow assuming no access to the capital markets for a period of between ten to thirty calendar days and assuming renewal of all maturing advances, and (ii) we 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** on page 20 in our 2022 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.



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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 flows of our assets, including prepayments made in advance of maturity.

	MPF Loans	Investment Debt Securities	
	Held in Portfolio	Available-for-Sale	Held-to-Maturity
<b>As of September 30, 2023</b>			
<b>Year of Expected Principal Cash Flows</b>			
One year or less	\$ 1,232	\$ 852	\$ 477
After one year through five years	4,129	5,170	197
After five years through ten years	2,991	16,074	86
After ten years	2,574	2,592	5
<b>Total</b>	<b>\$ 10,926</b>	<b>\$ 24,688</b>	<b>\$ 765</b>

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 **Risk Factors** on page 20 in our 2022 Form 10-K.

### Funding

#### *Conditions in Financial Markets*

At its July 2023 meeting, the Federal Open Market Committee (FOMC) raised the target fed funds rate, as expected, by 25 basis points to a range of 5.25-5.50%. At the Federal Reserve's Jackson Hole Economic Symposium in August 2023, Chairman Powell remarked that the FOMC would continue to target 2% inflation, and would continue to pursue policies, including further rate hikes if appropriate, to achieve that goal. At its September 2023 meeting, the FOMC left rates unchanged, as expected. At its meeting in early November 2023, the FOMC again maintained its target range of the federal funds rate. Treasury yields rose significantly throughout the third quarter of 2023, especially in the long end of the curve, due to several reasons, including expectations of increased future Treasury supply, the U.S. government's fiscal situation, future inflation expectations, and possible future FOMC actions. The 10-year Treasury note reached its highest yield since 2007. Despite passage of a short-term funding bill to fund the government through November 17, 2023, the U.S. continues to face a possible shutdown of the government. However, historically, government shutdowns have not had a significant impact on the FHLBs' ability to issue debt at attractive levels.

Rates increased from the second quarter of 2023 to the third quarter of 2023. Yields for U.S. Treasuries were higher for all points across the curve at the end of the third quarter 2023 relative to the prevailing yields at the end of the second quarter of 2023. After increasing 2.2% in the first quarter of 2023, U.S. Gross Domestic Product (GDP) rose by 2.1% in the second quarter of 2023. According to the Department of Commerce, GDP increased in the second quarter as a result of increases in nonresidential fixed investment, consumer spending, and state and local government spending. The U.S. stock market was lower at the end of the third quarter of 2023 compared to the end of the prior quarter; the Dow Jones Industrial Average stood at 33,508 points on September 30, 2023, versus 34,408 points on June 30, 2023.

We maintained ready access to funding throughout the third quarter of 2023.



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#### *LIBOR and Other Benchmark Rates*

In connection with LIBOR cessation on June 30, 2023, the Bank selected SOFR as its preferred primary replacement rate for investments and advances, and updated our processes and information technology systems to support the transition from LIBOR to SOFR. Immediately after LIBOR cessation, the Bank transitioned all outstanding LIBOR-indexed instruments to reference SOFR, with the implementation of such fallback effective either immediately following June 30, 2023, or at the beginning of the instrument's next reset period following LIBOR cessation. During the third quarter of 2023, the Bank had no variable-rate LIBOR exposure related to advances, investment securities, and derivatives.

Market activity in SOFR-indexed financial instruments continues to increase and we continue to participate in the issuance of SOFR-indexed consolidated obligation bonds. As was the case prior to LIBOR cessation, we continue to use Effective Federal Funds Rate overnight index swaps (EFFR OIS) and SOFR overnight index swaps (SOFR OIS) as an interest rate hedging strategy for financial instruments. We also continue to offer SOFR-linked and Discount Note-index floater advances to our members; for the nine months ended September 30, 2023, we have issued \$106.9 billion in SOFR-linked advances. For a discussion of risks relating to the conversion to a SOFR-based rate, including our use of SOFR-linked consolidated obligations and advances, see **Risk Factors** on page 20 in our 2022 Form 10-K.

#### **Condensed Statements of Cash Flows**

##### *Net cash flows from operating activities*

Nine months ended September 30,	2023	2022
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 1,975</b>	<b>\$ 1,498</b>

In 2023, the majority of our operating cash inflows were related to cash received from clearinghouses to settle mark-to-market positions and net income, as well as the impact of increased interest accrued on our consolidated obligation bond issuances. In 2022, the majority of our operating cash inflows were related to cash received from clearinghouses to settle market-to-market positions.

##### *Net cash flows from investing activities with significant activity*

Nine months ended September 30,	2023	2022
Liquid assets consisting of interest-bearing deposits, federal funds sold, and securities purchased under agreements to resell	\$ 2,635	\$ (5,264)
Investment debt securities	(3,403)	2,110
Advances	(8,881)	(13,148)
MPF Loans held in portfolio	(922)	(262)
Other	(9)	(13)
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (10,580)</b>	<b>\$ (16,577)</b>

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 nine months ended September 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 2023 our net cash outflows from investment debt securities was primarily attributable to an increase in investment in GSE mortgage-backed securities and U.S. treasuries. In 2022 our net cash inflows from investment debt securities was attributable to a reduction in investment in U.S. Treasuries and Small Business Administration securities that matured and were not replaced.
- In 2023 and 2022 our net cash outflows for advances was attributable to increased borrowing from our depository members.





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- In 2023 and 2022 our net cash outflows for MPF Loans held in portfolio was due to new-acquisition volume that outpaced paydown and maturity activity.

### Net cash flows from financing activities with significant activity

Nine months ended September 30,	2023	2022
Consolidated obligation discount notes	\$ (21,738)	\$ 15,804
Consolidated obligation bonds	25,642	(822)
Net proceeds (payments) on discount note transfers with other FHLBs	4,266	—
Other	438	97
<b>Net cash provided by (used in) financing activities</b>	<b>\$ 8,608</b>	<b>\$ 15,079</b>

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 nine months ended September 30, unless otherwise stated.

- In 2023 we paid down our discount notes and increased our use of bonds to align with advantageous funding opportunities. The increased borrowing on our bonds reflects an increase in debt financing to match the overall increase in assets (primarily advances) outstanding as discussed in investing activities above. In 2022 we paid down our bonds and increased our use of discount notes to align with advantageous funding opportunities. The increased borrowing on our discount notes reflects an increase in debt financing to match the overall increase in assets (primarily advances) outstanding.
- We assumed consolidated obligation discount notes from another FHLB due to an advantageous funding opportunity in the second quarter of 2023. In 2022 we had no such discount note transfers.
- In 2023 and 2022 our net cash inflows for Other was primarily due to proceeds from issuance of our capital stock.

### 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. 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%.



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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 2022, see **Capital Resources** on page 60 in our 2022 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 in our 2022 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 September 30, 2023, RCAP advances outstanding totaled \$17.1 billion to 100 members and former members. 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.

### **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 64 in our 2022 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**.

	September 30, 2023	December 31, 2022
Capital stock	\$ 3,544	\$ 2,989
Mandatorily redeemable capital stock (MRCS) recorded as a liability	185	248
<b>Regulatory capital stock</b>	<b>3,729</b>	<b>3,237</b>
Retained earnings	4,884	4,564
<b>Regulatory capital</b>	<b>\$ 8,613</b>	<b>\$ 7,801</b>
Capital stock	\$ 3,544	\$ 2,989
Retained earnings	4,884	4,564
Accumulated other comprehensive income (loss)	(112)	(88)
<b>GAAP capital</b>	<b>\$ 8,316</b>	<b>\$ 7,465</b>



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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 October 24, 2023, our Board of Directors declared a 8.25% dividend (annualized) for Class B1 activity stock and a 5.125% dividend (annualized) for Class B2 membership stock based on our preliminary financial results for the third quarter of 2023. This dividend totaled \$76 million (recorded as \$72 million dividends on capital stock and \$4 million interest expense on mandatorily redeemable capital stock) and is scheduled for payment on November 15, 2023.

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 page 64 in our 2022 Form 10-K.

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 in our 2022 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.



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## 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 Management** starting on page 67 in our 2022 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, \$76.3 billion were advances (par value) and \$13.4 billion were letters of credit at September 30, 2023, compared to \$67.5 billion and \$10.7 billion at December 31, 2022.

Rating	September 30, 2023			December 31, 2022		
	Borrowing Members	Credit Outstanding	Total Collateral Value	Borrowing Members	Credit Outstanding	Total Collateral Value
1-3	512	\$ 88,351	\$ 180,819	508	\$ 73,625	\$ 147,127
4	9	1,568	1,794	9	497	519
5	8	77	129	8	68	118
Total	529	\$ 89,996	\$ 182,742	525	\$ 74,190	\$ 147,764

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 the borrower's equity, which represents the fair value of the underlying property in excess of the outstanding MPF Loan held in portfolio balance, our ability to recover losses from primary mortgage insurance, 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 in our 2022 Form 10-K, and **Credit Risk Exposure** and **Setting Credit Enhancement Levels** starting on page 70 in our 2022 Form 10-K.

### 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 to indemnify us for related losses, or request indemnification from the PFI's MPF Bank. Of these two products, our MPF Xtra product is the more popular, and during the nine months ended September 30, 2023 and 2022, we purchased and concurrently delivered \$0.5 billion and \$1.2 billion 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 72 in our 2022 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, 2022. For further details see **Investment Debt Securities** on page



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## Federal Home Loan Bank of Chicago

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74 in our 2022 Form 10-K.

### Unsecured Short-Term Investments

See **Unsecured Short-Term Investments** on page 76 in our 2022 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 ratings shown in the following table reflect the lowest long-term debt rating reported among the three largest Nationally Recognized Statistical Rating Organizations (NRSROs). FHFA regulations require the Bank to develop and assign internal credit ratings for its counterparties that do not rely exclusively on ratings reported by NRSROs. As such, the ratings shown in the following table are for presentation purposes only. 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 September 30, 2023	AA	A	Total
<b>Domestic U.S.</b>			
Interest-Bearing Deposits	\$ —	\$ 2,570	\$ 2,570
<b>Total Domestic U.S.</b>	—	2,570	2,570
<b>Foreign commercial banks - federal funds sold:</b>			
Australia	—	1,000	1,000
Canada	—	3,200	3,200
Finland	658	—	658
Germany	—	1,100	1,100
Netherlands	—	1,000	1,000
Norway	1,100	—	1,100
Sweden	—	1,100	1,100
<b>Total U.S. branches and agency offices of foreign commercial banks</b>	<b>1,758</b>	<b>7,400</b>	<b>9,158</b>
<b>Total unsecured credit exposure</b>	<b>\$ 1,758</b>	<b>\$ 9,970</b>	<b>\$ 11,728</b>

All \$11.73 billion of the unsecured credit exposure shown in the above table were overnight investments.



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### 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 ratings shown in the following table reflect the lowest long-term debt rating reported among the three largest NRSROs. FHFA regulations require the Bank to develop and assign internal credit ratings for its counterparties that do not rely exclusively on ratings reported by NRSROs. As such, the ratings shown in the following table are for presentation purposes only. Noncash 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. Noncash collateral pledged also consists of net initial margin exchanged on our bilateral derivatives, which for presentation purposes we have reported on a net basis. 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 <sup>a</sup>
<b>As of September 30, 2023</b>				
<b>Nonmember counterparties -</b>				
<b>Undercollateralized asset positions -</b>				
<b>Bilateral derivatives -</b>				
A	\$ 9	\$ (8)	\$ —	\$ 1
<b>Overcollateralized liability positions -</b>				
<b>Bilateral derivatives -</b>				
A	(854)	871	—	17
BBB	(812)	822	—	10
Cleared derivatives	(63)	—	853	790
<b>Nonmember counterparties</b>	<b>(1,720)</b>	<b>1,685</b>	<b>853</b>	<b>818</b>
<b>Total</b>	<b>\$ (1,720)</b>	<b>\$ 1,685</b>	<b>\$ 853</b>	<b>\$ 818</b>

<sup>a</sup> Less than \$1 million is shown as zero.

**FHLBank  
Chicago****Federal Home Loan Bank of Chicago****(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)****Legislative and Regulatory Developments**

Significant regulatory actions and developments are summarized below.

***FHFA's Review and Analysis of the Federal Home Loan Bank System (FHLB System)***

Beginning in the fall of 2022, and over a period of several months, the FHFA undertook a review and analysis of the FHLB System, in part through a series of public listening sessions, regional roundtable discussions, and receipt of comments from stakeholders. This review covered such areas as the FHLBs' mission and purpose in a changing marketplace; their organization, operational efficiency, and effectiveness; their role in promoting affordable, sustainable, equitable, and resilient housing and community investment; their role in addressing the unique needs of rural and financially vulnerable communities; member products, services, and collateral requirements; and membership eligibility and requirements. The review and analysis culminated in a written report that the FHFA released on November 7, 2023. The Bank is evaluating the report. To the extent the report ultimately results in changes to supervisory expectations, stakeholder perceptions and/or our business model that impact our ability to execute on our mission of providing liquidity to our members and support for affordable housing and community development, our business, results of operations, reputation, and the value of membership in the FHLBs may be negatively impacted. For a further discussion of related risks, see **"Item 1A. Risk Factors"** in our Annual Report on Form 10-K for the year ended December 31, 2022.





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### 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. See **Item 7A. Quantitative and Qualitative Disclosures About Market Risk** on page 78 in our 2022 Form 10-K for further discussion on market risk.

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, where applicable, we apply a floor to the down shock scenario at 10 bps. In the current rate environment, this floor setting was not triggered for any of the shock scenarios presented below.

Scenario as of	September 30, 2023		December 31, 2022	
	Change in Market Value of Equity	Loss Limit	Change in Market Value of Equity	Loss Limit
-200 bp	\$ (93)	\$ (450)	\$ (172)	\$ (450)
-100 bp	(36)	(200)	(60)	(200)
-50 bp	(16)	(90)	(24)	(90)
-25 bp	(6)	(45)	(11)	(45)
+25 bp	3	(45)	9	(45)
+50 bp	4	(90)	15	(90)
+100 bp	2	(200)	26	(200)
+200 bp	(12)	(450)	33	(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 September 30, 2023	As of December 31, 2022
<b>Yield Curve Risk</b>	\$ 1	\$ 7
<b>Option Risk</b>		
Implied Volatility	(6)	4
<b>Basis Risk</b>		
Spread to Swap Curve	(9)	4

*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 September 30, 2023, our sensitivity to changes in implied volatility using a lattice model and Monte Carlo simulation was \$(6) million, compared to \$4 million at December 31, 2022. 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.





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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. The Bank engages in ongoing performance monitoring for its market risk-related models.

Scenario as of	Duration of equity in years	
	September 30, 2023	December 31, 2022
<b>Down 200 bps</b>	<b>-0.8</b>	<b>-1.8</b>
<b>Base</b>	<b>-0.2</b>	<b>-0.5</b>
<b>Up 200 bps</b>	<b>0.2</b>	<b>-0.0</b>

As of September 30, 2023, on a U.S. GAAP basis, our fair value surplus (relative to book value) was \$139 million, and our market value of equity to book value of equity ratio was 102%, compared to \$407 million and 105% at December 31, 2022. The decline in the market value of equity to book value of equity was largely a result of wider mortgage spreads in the markets.

#### 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 86 in our 2022 Form 10-K.



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## **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 20 in our 2022 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.



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**Item 6. Exhibits.**

31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer <sup>a</sup>
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer <sup>a</sup>
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 <sup>a</sup>
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 <sup>a</sup>
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. <sup>a</sup>
101.SCH	Inline XBRL Taxonomy Extension Schema Document <sup>a</sup>
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document <sup>a</sup>
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document <sup>a</sup>
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document <sup>a</sup>
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document <sup>a</sup>
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) <sup>a</sup>

<sup>a</sup> Filed herewith.



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## Glossary of Terms

**Advances:** Secured loans to members.

**ABS:** Asset-backed-securities.

**AFS:** Available-for-sale debt securities.

**AHP:** Affordable Housing Program.

**AOI:** Accumulated Other Comprehensive Income.

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

**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, 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.

**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.

**DPP:** Downpayment Plus.

**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 Act 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.



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**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.

**Housing Act:** Housing and Economic Recovery Act of 2008, enacted July 30, 2008.

**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 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.

**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:** Fed Funds Effective Swap Rate (or Overnight Index Swap Rate).

**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.



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**RCAP:** Reduced Capitalization Advance Program.

**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.

**SBA:** Small Business Administration.

**SEC:** Securities and Exchange Commission.

**SMI:** Supplemental mortgage insurance.

**SOFR:** Secured Overnight Financing Rate.

**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.



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**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  
(Principal Executive Officer)

Date: November 7, 2023

/s/ Virxhini Gjonzeneli

Name: Virxhini Gjonzeneli

Title: Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

Date: November 7, 2023