

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

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2021**

**OR**

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

**For the transition period from                      to**

**Commission File No. 000-51401**



**FHLBank**  
**Chicago** Federal Home Loan Bank of Chicago

(Exact name of registrant as specified in its charter)

**Federally chartered corporation**

**36-6001019**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**433 West Van Buren Street, Suite 501S**

**Chicago, IL**

**60607**

(Address of principal executive offices)

(Zip Code)

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of June 30, 2021, including mandatorily redeemable capital stock, registrant had 22,550,015 total outstanding shares of Class B Capital Stock.



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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**Statements of Condition (unaudited)**

(U.S. Dollars in millions, except capital stock par value)

|   | June 30,<br>2021 | December 31,<br>2020 |
|---|------------------|----------------------|
| <b>Assets</b>   |                  |                      |
| Cash and due from banks   | \$ 440           | \$ 3,541             |
| Interest bearing deposits   | 855              | 855                  |
| Federal Funds sold  | 4,775            | 4,125                |
| Securities purchased under agreements to resell   | 11,745           | 10,120               |
| <b>Investment debt securities -</b>   |                  |                      |
| Trading, 582 and 1,292 pledged  | 2,830            | 4,621                |
| Available-for-sale, 18,346 and 18,145 amortized cost  | 18,890           | 18,437               |
| Held-to-maturity, 1,536 and 1,549 fair value  | 1,491            | 1,491                |
| <b>Investment debt securities</b>   | <b>23,211</b>    | <b>24,549</b>        |
| Advances, 1,209 and 1,315 carried at fair value   | 46,270           | 46,695               |
| MPF Loans held in portfolio, net of (3) and (3) allowance for credit losses                       | 9,759            | 10,038               |
| Derivative assets   | 14               | 5                    |
| Other assets, 108 and 105 carried at fair value<br>net of (7) and (7) allowance for credit losses | 425              | 428                  |
| <b>Assets</b>   | <b>\$ 97,494</b> | <b>\$ 100,356</b>    |
| <b>Liabilities</b>  |                  |                      |
| <b>Deposits -</b>   |                  |                      |
| Demand and overnight - noninterest bearing  | \$ 259           | \$ 394               |
| Demand and overnight - interest bearing, 17 and 18 from other FHLBs                               | 864              | 875                  |
| Term deposits - interest bearing  | —                | 15                   |
| <b>Deposits</b>   | <b>1,123</b>     | <b>1,284</b>         |
| <b>Consolidated obligations, net -</b>  |                  |                      |
| Discount notes, — and 2,000 carried at fair value   | 45,728           | 48,643               |
| Bonds, 342 and 1,844 carried at fair value  | 42,922           | 42,670               |
| <b>Consolidated obligations, net</b>  | <b>88,650</b>    | <b>91,313</b>        |
| Derivative liabilities  | 88               | 691                  |
| Affordable Housing Program assessment payable   | 82               | 89                   |
| Mandatorily redeemable capital stock  | 248              | 279                  |
| Other liabilities   | 670              | 411                  |
| <b>Liabilities</b>  | <b>90,861</b>    | <b>94,067</b>        |
| Commitments and contingencies - see notes to the financial statements                             |                  |                      |
| <b>Capital</b>  |                  |                      |
| Class B1 activity stock, 13 and 13 million shares issued and outstanding                          | 1,283            | 1,257                |
| Class B2 membership stock, 7 and 8 million shares issued and outstanding                          | 724              | 753                  |
| <b>Capital stock - putable, \$100 and \$100 par value per share</b>                               | <b>2,007</b>     | <b>2,010</b>         |
| Retained earnings - unrestricted  | 3,469            | 3,424                |
| Retained earnings - restricted  | 670              | 648                  |
| <b>Retained earnings</b>  | <b>4,139</b>     | <b>4,072</b>         |
| Accumulated other comprehensive income (loss) (AOCI)  | 487              | 207                  |
| <b>Capital</b>  | <b>6,633</b>     | <b>6,289</b>         |
| <b>Liabilities and capital</b>  | <b>\$ 97,494</b> | <b>\$ 100,356</b>    |

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


**Statements of Income (unaudited)**

(U.S. Dollars in millions)

|  | Three months ended<br>June 30, |              | Six months ended<br>June 30, |               |
|--|--------------------------------|--------------|------------------------------|---------------|
|  | 2021                           | 2020         | 2021                         | 2020          |
| Interest income  | \$ 225                         | \$ 347       | \$ 417                       | \$ 912        |
| Interest expense   | 72                             | 209          | 154                          | 628           |
| <b>Net interest income</b>   | <b>153</b>                     | <b>138</b>   | <b>263</b>                   | <b>284</b>    |
| Provision for (reversal of) credit losses                                  | 1                              | 4            | 1                            | 6             |
| <b>Net interest income after provision for (reversal of) credit losses</b> | <b>152</b>                     | <b>134</b>   | <b>262</b>                   | <b>278</b>    |
| <b>Noninterest income -</b>  |                                |              |                              |               |
| Trading securities   | (13)                           | (25)         | (31)                         | 62            |
| Derivatives and hedging activities   | (13)                           | (21)         | 7                            | (159)         |
| Instruments held under the fair value option                               | 3                              | 36           | (26)                         | 76            |
| MPF fees, 6, 8, 13 and 16 from other FHLBs                                 | 13                             | 15           | 25                           | 25            |
| Other, net   | —                              | 4            | 2                            | 7             |
| <b>Noninterest income</b>  | <b>(10)</b>                    | <b>9</b>     | <b>(23)</b>                  | <b>11</b>     |
| <b>Noninterest expense -</b>   |                                |              |                              |               |
| Compensation and benefits  | 25                             | 35           | 53                           | 71            |
| Nonpayroll operating expenses  | 20                             | 26           | 40                           | 46            |
| COVID-19 relief program  | 3                              | 19           | 3                            | 19            |
| Other, net   | 7                              | 5            | 20                           | 6             |
| <b>Noninterest expense</b>   | <b>55</b>                      | <b>85</b>    | <b>116</b>                   | <b>142</b>    |
| <b>Income before assessments</b>   | <b>87</b>                      | <b>58</b>    | <b>123</b>                   | <b>147</b>    |
| Affordable Housing Program   | 9                              | 6            | 13                           | 15            |
| <b>Net income</b>  | <b>\$ 78</b>                   | <b>\$ 52</b> | <b>\$ 110</b>                | <b>\$ 132</b> |

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



**FHLBank**  
Chicago

Federal Home Loan Bank of Chicago

**Statements of Comprehensive Income (unaudited)**

(U.S. Dollars in millions)

|   | Three months ended<br>June 30, |               | Six months ended<br>June 30, |                 |
|---|--------------------------------|---------------|------------------------------|-----------------|
|   | 2021                           | 2020          | 2021                         | 2020            |
| <b>Net income</b>   | \$ 78                          | \$ 52         | \$ 110                       | \$ 132          |
| <b>Other comprehensive income (loss) -</b>                    |                                |               |                              |                 |
| Net unrealized gain (loss) available-for-sale debt securities | 54                             | 347           | 252                          | (284)           |
| Noncredit OTTI held-to-maturity debt securities               | —                              | 5             | —                            | 9               |
| Net unrealized gain (loss) cash flow hedges                   | (9)                            | (4)           | 32                           | (48)            |
| Postretirement plans  | 1                              | —             | (4)                          | (11)            |
| <b>Other comprehensive income (loss)</b>                      | <b>46</b>                      | <b>348</b>    | <b>280</b>                   | <b>(334)</b>    |
| <b>Comprehensive income</b>                                   | <b>\$ 124</b>                  | <b>\$ 400</b> | <b>\$ 390</b>                | <b>\$ (202)</b> |

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


**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>March 31, 2021</b>  | <b>13</b>                             | <b>\$ 1,312</b> | <b>7</b>                                | <b>\$ 707</b> | <b>\$ 3,428</b>   | <b>\$ 654</b> | <b>\$ 441</b> | <b>\$ 6,542</b> |
| Comprehensive income   |                                       |                 |   |               | 62                | 16            | 46            | 124             |
| Issuance of capital stock  | 1                                     | 92              | —                                       | 13            |                   |               |               | 105             |
| Repurchases of capital stock   | —                                     | —               | (1)                                     | (112)         |                   |               |               | (112)           |
| Capital stock reclassified to mandatorily redeemable capital stock liability | —                                     | —               | —                                       | (5)           |                   |               |               | (5)             |
| Transfers between classes of capital stock                                   | (1)                                   | (121)           | 1                                       | 121           |                   |               |               |                 |
| Cash dividends - class B1  |                                       |                 |   |               |                   | (19)          |               | (19)            |
| Class B1 annualized rate   |                                       | 5.00 %          |   |               |                   |               |               |                 |
| Cash dividends - class B2  |                                       |                 |   |               |                   | (2)           |               | (2)             |
| Class B2 annualized rate   |                                       |                 |   | 2.00 %        |                   |               |               |                 |
| Total change in period, excl. cumulative effect                              | —                                     | (29)            | —                                       | 17            | 41                | 16            | 46            | 91              |
| <b>June 30, 2021</b>   | <b>13</b>                             | <b>\$ 1,283</b> | <b>7</b>                                | <b>\$ 724</b> | <b>\$ 3,469</b>   | <b>\$ 670</b> | <b>\$ 487</b> | <b>\$ 6,633</b> |
| March 31, 2020   | 15                                    | \$ 1,528        | 4                                       | \$ 426        | \$ 3,233          | \$ 589        | \$ (711)      | \$ 5,065        |
| Comprehensive income   |                                       |                 |   |               | 42                | 10            | 348           | 400             |
| Issuance of capital stock  | 4                                     | 405             | —                                       | 18            |                   |               |               | 423             |
| Repurchases of capital stock   | —                                     | —               | (5)                                     | (540)         |                   |               |               | (540)           |
| Transfers between classes of capital stock                                   | (6)                                   | (610)           | 6                                       | 610           |                   |               |               |                 |
| Partial recovery of prior capital distribution to FICO - see Note 11         |                                       |                 |   |               | 19                |               |               | 19              |
| Cash dividends - class B1  |                                       |                 |   |               | (18)              |               |               | (18)            |
| Class B1 annualized rate   |                                       | 5.00 %          |   |               |                   |               |               |                 |
| Cash dividends - class B2  |                                       |                 |   |               |                   | (2)           |               | (2)             |
| Class B2 annualized rate   |                                       |                 |   | 2.25 %        |                   |               |               |                 |
| Total change in period, excl. cumulative effect                              | (2)                                   | (205)           | 1                                       | 88            | 41                | 10            | 348           | 282             |
| June 30, 2020  | 13                                    | \$ 1,323        | 5                                       | \$ 514        | \$ 3,274          | \$ 599        | \$ (363)      | \$ 5,347        |



|   | Capital Stock -<br>Putable - B1<br>Activity |                 | Capital Stock -<br>Putable - B2<br>Membership |               | Retained Earnings |               |               | Total           |
|---|---|-----------------|---|---------------|-------------------|---------------|---------------|-----------------|
|   | Shares                                      | Value           | Shares  | Value         | Unrestricted      | Restricted    | AOCI          |                 |
| <b>December 31, 2020</b>  | <b>13</b>                                   | <b>\$ 1,257</b> | <b>8</b>                                      | <b>\$ 753</b> | <b>\$ 3,424</b>   | <b>\$ 648</b> | <b>\$ 207</b> | <b>\$ 6,289</b> |
| Comprehensive income  |   |                 |   |               | 88                | 22            | 280           | 390             |
| Issuance of capital stock   | 2   | 260             | —   | 13            |                   |               |               | 273             |
| Repurchases of capital stock  | —   | —               | (3)   | (270)         |                   |               |               | (270)           |
| Capital stock reclassified to mandatorily<br>redeemable capital stock liability | —   | (1)             | —   | (5)           |                   |               |               | (6)             |
| Transfers between classes of capital stock                                      | (2)   | (233)           | 2   | 233           |                   |               |               |                 |
| Cash dividends - class B1   |   |                 |   |               | (38)              |               |               | (38)            |
| Class B1 annualized rate  |   | 5.00 %          |   |               |                   |               |               |                 |
| Cash dividends - class B2   |   |                 |   |               | (5)               |               |               | (5)             |
| Class B2 annualized rate  |   |                 |   | 2.00 %        |                   |               |               |                 |
| Total change in period excl. cumulative effect                                  | —   | 26              | (1)   | (29)          | 45                | 22            | 280           | 344             |
| <b>June 30, 2021</b>  | <b>13</b>                                   | <b>\$ 1,283</b> | <b>7</b>                                      | <b>\$ 724</b> | <b>\$ 3,469</b>   | <b>\$ 670</b> | <b>\$ 487</b> | <b>\$ 6,633</b> |
| December 31, 2019   | 13  | \$ 1,337        | 4   | \$ 376        | \$ 3,197          | \$ 573        | \$ (29)       | \$ 5,454        |
| Cumulative effect adjustment - see Note 2                                       |   |                 |   |               | (7)               |               |               | (7)             |
| Comprehensive income  |   |                 |   |               | 106               | 26            | (334)         | (202)           |
| Issuance of capital stock   | 11  | 1,133           | —   | 18            |                   |               |               | 1,151           |
| Repurchases of capital stock  | —   | —               | (10)  | (1,026)       |                   |               |               | (1,026)         |
| Capital stock reclassified to mandatorily<br>redeemable capital stock liability | —   | —               | —   | (1)           |                   |               |               | (1)             |
| Transfers between classes of capital stock                                      | (11)  | (1,147)         | 11  | 1,147         |                   |               |               |                 |
| Partial recovery of prior capital distribution to<br>FICO - see Note 11         |   |                 |   |               | 19                |               |               | 19              |
| Cash dividends - class B1   |   |                 |   |               | (38)              |               |               | (38)            |
| Class B1 annualized rate  |   | 5.00 %          |   |               |                   |               |               |                 |
| Cash dividends - class B2   |   |                 |   |               | (3)               |               |               | (3)             |
| Class B2 annualized rate  |   |                 |   | 2.25 %        |                   |               |               |                 |
| Total change in period excl. cumulative effect                                  | —   | (14)            | 1   | 138           | 84                | 26            | (334)         | (100)           |
| June 30, 2020   | 13  | \$ 1,323        | 5   | \$ 514        | \$ 3,274          | \$ 599        | \$ (363)      | \$ 5,347        |

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


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

(U.S. Dollars in millions)

| Six months ended June 30, |  | 2021           | 2020              |
|---------------------------|--|----------------|-------------------|
| <b>Operating</b>          | <b>Net cash provided by (used in) operating activities</b> | <b>\$ 296</b>  | <b>\$ (2,013)</b> |
| <b>Investing</b>          | Net change interest bearing deposits                       | —              | 425               |
|                           | Net change Federal Funds sold                              | (650)          | 2,385             |
|                           | Net change securities purchased under agreements to resell | (1,625)        | 3,250             |
|                           | <b>Trading debt securities -</b>                           |                |                   |
|                           | Sales  | —              | 1,502             |
|                           | Proceeds from maturities and paydowns                      | 1,751          | 252               |
|                           | Purchases  | —              | (3,025)           |
|                           | <b>Available-for-sale debt securities -</b>                |                |                   |
|                           | Sales  | 20             | —                 |
|                           | Proceeds from maturities and paydowns                      | 259            | 609               |
|                           | Purchases  | (759)          | (2,760)           |
|                           | <b>Held-to-maturity debt securities -</b>                  |                |                   |
|                           | Proceeds from maturities and paydowns                      | 1,239          | 1,519             |
|                           | Purchases  | (1,239)        | (786)             |
|                           | <b>Advances -</b>  |                |                   |
|                           | Principal collected  | 247,898        | 600,688           |
|                           | Issued   | (247,793)      | (598,601)         |
|                           | <b>MPF Loans held in portfolio -</b>                       |                |                   |
|                           | Principal collected  | 1,890          | 1,716             |
|                           | Purchases  | (1,662)        | (2,695)           |
|                           | Other investing activities                                 | (7)            | (9)               |
|                           | <b>Net cash provided by (used in) investing activities</b> | <b>(678)</b>   | <b>4,470</b>      |
| <b>Financing</b>          | Net change deposits, — and 10 from other FHLBs             | (161)          | 618               |
|                           | <b>Discount notes -</b>                                    |                |                   |
|                           | Net proceeds from issuance                                 | 300,754        | 323,650           |
|                           | Payments for maturing and retiring                         | (303,665)      | (327,833)         |
|                           | <b>Consolidated obligation bonds -</b>                     |                |                   |
|                           | Net proceeds from issuance                                 | 21,133         | 27,805            |
|                           | Payments for maturing and retiring                         | (20,704)       | (26,743)          |
|                           | <b>Capital stock -</b>                                     |                |                   |
|                           | Proceeds from issuance                                     | 273            | 1,151             |
|                           | Repurchases  | (270)          | (1,026)           |
|                           | Cash dividends paid  | (43)           | (41)              |
|                           | Other financing activities                                 | (36)           | (19)              |
|                           | <b>Net cash provided by (used in) financing activities</b> | <b>(2,719)</b> | <b>(2,438)</b>    |
|                           | <b>Net increase (decrease) in cash and due from banks</b>  | <b>(3,101)</b> | <b>19</b>         |
|                           | Cash and due from banks at beginning of period             | 3,541          | 29                |
|                           | <b>Cash and due from banks at end of period</b>            | <b>\$ 440</b>  | <b>\$ 48</b>      |

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



**FHLBank**  
Chicago

**Federal Home Loan Bank of Chicago**

**Notes to 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<sup>®</sup> (MPF<sup>®</sup>) Program.

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

In the opinion of management, all normal recurring adjustments have been included for a fair statement of this interim financial information. These unaudited financial statements and the following footnotes should be read in conjunction with the audited financial statements and footnotes for the year ended December 31, 2020, included in our 2020 Annual Report on Form 10-K (2020 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", and "Community First" are registered trademarks of the Federal Home Loan Bank of Chicago. See the **Glossary of Terms** starting on page 61 for the definitions of certain terms used herein.

**Use of Estimates and Assumptions**

We are required to make estimates and assumptions when preparing our financial statements in accordance with GAAP. The most significant of these estimates and assumptions applies to fair value measurements. Our actual results may differ from the results reported in our 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 2020 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 2020 Form 10-K. Refer to **Note 1- Background and Basis of Presentation** to the financial statements in our 2020 Form 10-K with respect to our basis of presentation for consolidation of variable interest entities and our gross versus net presentation of financial instruments for further details.

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

Our significant accounting policies adopted through December 31, 2020, can be found in **Note 2 – Summary of Significant Accounting Policies** to the financial statements in our 2020 Form 10-K including details on the cumulative effect adjustments. We have not yet adopted any significant new policies in 2021.

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

There were no recently issued but not yet adopted accounting standards which may have a material effect on our financial statements.


**Notes to 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<br>June 30, |            | Six months ended<br>June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2021                           | 2020       | 2021                         | 2020       |
| <b>Interest income -</b>                        |                                |            |                              |            |
| Trading   | \$ 13                          | \$ 28      | \$ 34                        | \$ 54      |
| Available-for-sale                              | 74                             | 75         | 95                           | 215        |
| Held-to-maturity                                | 7                              | 21         | 15                           | 48         |
| <b>Investment debt securities</b>               | <b>94</b>                      | <b>124</b> | <b>144</b>                   | <b>317</b> |
| Advances interest income                        | 60                             | 132        | 131                          | 368        |
| Advances prepayment fees                        | 7                              | 13         | 12                           | 15         |
| <b>Advances</b>                                 | <b>67</b>                      | <b>145</b> | <b>143</b>                   | <b>383</b> |
| MPF Loans held in portfolio                     | 60                             | 76         | 123                          | 163        |
| Federal funds sold                              | 1                              | 1          | 2                            | 27         |
| Securities purchased under agreements to resell | —                              | —          | 1                            | 12         |
| Other   | 3                              | 1          | 4                            | 10         |
| <b>Interest income</b>                          | <b>225</b>                     | <b>347</b> | <b>417</b>                   | <b>912</b> |
| <b>Interest expense -</b>                       |                                |            |                              |            |
| <b>Consolidated obligations -</b>               |                                |            |                              |            |
| Discount notes                                  | 10                             | 82         | 25                           | 267        |
| Bonds   | 59                             | 123        | 123                          | 351        |
| Other   | 3                              | 4          | 6                            | 10         |
| <b>Interest expense</b>                         | <b>72</b>                      | <b>209</b> | <b>154</b>                   | <b>628</b> |
| <b>Net interest income</b>                      | <b>153</b>                     | <b>138</b> | <b>263</b>                   | <b>284</b> |



**Notes to 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, HTM, or 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 government sponsored enterprises (GSE); debt issued by the Tennessee Valley Authority; and securities guaranteed by the Small Business Administration.
- Federal Family Education Loan Program - asset-backed securities (FFELP ABS).
- GSE residential mortgage backed securities (MBS) - issued by Fannie Mae and Freddie Mac.
- Government guaranteed residential MBS.
- SOFR Structured Adjustable Rate Mortgage (SOFR SARM) 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 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 **Statements of Condition**. See **Note 9 - Derivatives and Hedging Activities** for further details.

**Trading Debt Securities**

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

| As of                                      | June 30,<br>2021 | December 31,<br>2020 |
|--|------------------|----------------------|
| U.S. Government & other government related | \$ 2,823         | \$ 4,612             |
| <b>Residential MBS</b>                     |                  |                      |
| GSE  | 7                | 8                    |
| Government guaranteed                      | —                | 1                    |
| <b>Trading debt securities</b>             | <b>\$ 2,830</b>  | <b>\$ 4,621</b>      |

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

|  | Three months ended<br>June 30, |                | Six months ended<br>June 30, |              |
|--|--------------------------------|----------------|------------------------------|--------------|
|  | 2021                           | 2020           | 2021                         | 2020         |
| Net unrealized gains (losses) on securities held at period end           | \$ (9)                         | \$ (29)        | \$ (11)                      | \$ 41        |
| Net realized gains (losses) on securities sold/matured during the period | (4)                            | 4              | (20)                         | 21           |
| <b>Net gains (losses) on trading debt securities</b>                     | <b>\$ (13)</b>                 | <b>\$ (25)</b> | <b>\$ (31)</b>               | <b>\$ 62</b> |


**Notes to Financial Statements - (Unaudited)**

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

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

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

|  | Amortized<br>Cost Basis | Gross<br>Unrealized<br>Gains in<br>AOCI | Gross<br>Unrealized<br>(Losses) in<br>AOCI | Net Carrying<br>Amount and<br>Fair Value |
|--|-------------------------|---|--|--|
| <b>As of June 30, 2021</b>                 |                         |   |  |  |
| U.S. Government & other government related | \$ 1,475                | \$ 49                                   | \$ (7)                                     | \$ 1,517                                 |
| State or local housing agency              | 13                      | 1                                       | —  | 14                                       |
| FFELP ABS                                  | 2,769                   | 160                                     | —  | 2,929                                    |
| <b>Residential MBS</b>                     |                         |   |  |  |
| GSE  | 13,869                  | 341                                     | (7)  | 14,203                                   |
| Government guaranteed                      | 220                     | 7                                       | —  | 227                                      |
| <b>Available-for-sale debt securities</b>  | <b>\$ 18,346</b>        | <b>\$ 558</b>                           | <b>\$ (14)</b>                             | <b>\$ 18,890</b>                         |
| <b>As of December 31, 2020</b>             |                         |   |  |  |
| U.S. Government & other government related | \$ 1,535                | \$ 83                                   | \$ —                                       | \$ 1,618                                 |
| State or local housing agency              | 14                      | 1                                       | —  | 15                                       |
| FFELP ABS                                  | 2,922                   | 121                                     | (9)  | 3,034                                    |
| <b>Residential MBS</b>                     |                         |   |  |  |
| GSE  | 13,413                  | 147                                     | (59)                                       | 13,501                                   |
| Government guaranteed                      | 261                     | 8                                       | —  | 269                                      |
| <b>Available-for-sale debt securities</b>  | <b>\$ 18,145</b>        | <b>\$ 360</b>                           | <b>\$ (68)</b>                             | <b>\$ 18,437</b>                         |

<sup>a</sup> Includes adjustments made to the cost basis of an investment for accretion, amortization, net charge-offs, fair value hedge accounting adjustments, and includes accrued interest receivable of \$52 million and \$53 million at June 30, 2021 and December 31, 2020.

We had sales of AFS debt securities for the periods presented. See **Note 2 - Summary of Significant Accounting Policies** in our 2020 Form 10-K for details on the amounts and accounting policies related to these transactions. Any gains or losses are determined on a specific identification basis.



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## Federal Home Loan Bank of Chicago

### Notes to Financial Statements - (Unaudited)

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

#### Held-to-Maturity Debt Securities (HTM)

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

|  | Amortized<br>Cost and<br>Net<br>Carrying<br>Amount | Gross<br>Unrecognized<br>Holding<br>Gains | Gross<br>Unrecognized<br>Holding<br>(Losses) | Fair<br>Value   |
|--|--|---|--|-----------------|
| <b>As of June 30, 2021</b>                 |  |   |  |                 |
| U.S. Government & other government related | \$ 1,148   | \$ 19                                     | \$ —   | \$ 1,167        |
| <b>Residential MBS</b>                     |  |   |  |                 |
| GSE  | 249  | 24  | —  | 273             |
| Government guaranteed                      | 82   | 2   | —  | 84              |
| Other                                      | 12   | —   | —  | 12              |
| <b>Held-to-maturity debt securities</b>    | <b>\$ 1,491</b>                                    | <b>\$ 45</b>                              | <b>\$ —</b>                                  | <b>\$ 1,536</b> |
| <b>As of December 31, 2020</b>             |  |   |  |                 |
| U.S. Government & other government related | \$ 1,098   | \$ 24                                     | \$ —   | \$ 1,122        |
| <b>Residential MBS</b>                     |  |   |  |                 |
| GSE  | 285  | 31  | —  | 316             |
| Government guaranteed                      | 94   | 2   | —  | 96              |
| Other                                      | 14   | 1   | —  | 15              |
| <b>Held-to-maturity debt securities</b>    | <b>\$ 1,491</b>                                    | <b>\$ 58</b>                              | <b>\$ —</b>                                  | <b>\$ 1,549</b> |

<sup>a</sup> Includes adjustments made to the cost basis of an investment for accretion, amortization, and/or net charge-offs.

We had sales of HTM debt securities for the periods presented. See **Note 2 - Summary of Significant Accounting Policies** in our 2020 Form 10-K for details on the amounts and accounting policies related to these transactions. Any gains or losses are determined on a specific identification basis.



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Federal Home Loan Bank of Chicago

**Notes to Financial Statements - (Unaudited)**

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

**Contractual Maturity Terms**

The maturity of our AFS and HTM debt securities is detailed in the following table.

|  | 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 June 30, 2021</b>                 |                      |                                    |  |                 |
| <b>Year of Maturity -</b>                  |                      |                                    |  |                 |
| Due in one year or less                    | \$ 1                 | \$ 1                               | \$ 800                                 | \$ 800          |
| Due after one year through five years      | 11                   | 12                                 | 23                                     | 23              |
| Due after five years through ten years     | 462                  | 475                                | 317                                    | 334             |
| Due after ten years                        | 1,014                | 1,043                              | 8                                      | 10              |
| ABS and MBS without a single maturity date | 16,858               | 17,359                             | 343                                    | 369             |
| <b>Total debt securities</b>               | <b>\$ 18,346</b>     | <b>\$ 18,890</b>                   | <b>\$ 1,491</b>                        | <b>\$ 1,536</b> |

**Aging of Unrealized Temporary Losses**

The following table presents unrealized temporary losses on our AFS portfolio for periods less than 12 months and for 12 months or more. We recognized no credit losses on these unrealized loss positions. Refer to the **Credit Loss Analysis** below. In the tables below, in cases where the gross unrealized losses for an investment category were 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 June 30, 2021</b>                 |                     |                           |                   |                           |                 |                           |
| U.S. Government & other government related | \$ 295              | \$ (7)                    | \$ —              | \$ —                      | \$ 295          | \$ (7)                    |
| <b>Residential MBS</b>                     |                     |                           |                   |                           |                 |                           |
| GSE  | 728                 | (3)                       | 55                | (4)                       | 783             | (7)                       |
| <b>Available-for-sale debt securities</b>  | <b>\$ 1,023</b>     | <b>\$ (10)</b>            | <b>\$ 55</b>      | <b>\$ (4)</b>             | <b>\$ 1,078</b> | <b>\$ (14)</b>            |
| <b>As of December 31, 2020</b>             |                     |                           |                   |                           |                 |                           |
| U.S. Government & other government related | \$ —                | \$ —                      | \$ 2              | \$ —                      | \$ 2            | \$ —                      |
| FFELP ABS                                  | 21                  | —                         | 459               | (9)                       | 480             | (9)                       |
| <b>Residential MBS</b>                     |                     |                           |                   |                           |                 |                           |
| GSE  | 102                 | (1)                       | 6,327             | (58)                      | 6,429           | (59)                      |
| <b>Available-for-sale debt securities</b>  | <b>\$ 123</b>       | <b>\$ (1)</b>             | <b>\$ 6,788</b>   | <b>\$ (67)</b>            | <b>\$ 6,911</b> | <b>\$ (68)</b>            |

**Credit Loss Analysis**

We recognized no credit losses on HTM or AFS debt securities for the periods presented. We do not intend to sell AFS securities (although in October 2020 the Bank sold private label mortgage backed securities (PLMBS), as discussed in **Note 2 – Summary of Significant Accounting Policies** of our 2020 Form 10-K) and we believe it is more likely than not, that we will not be required to sell them prior to recovering their amortized cost. We expect to recover the entire amortized cost on these securities.

**Accretion on Prior Years' Other-Than-Temporary Impairment**

Increases in cash flows expected to be collected and recognized into interest income on prior years' credit related other-than-temporary impairment (OTTI) charges on our AFS and HTM PLMBS were \$6 million for the three months ended June 30, 2020 and \$12 million for the six months ended June 30, 2020. As discussed in **Note 2 – Summary of Significant Accounting Policies** of our 2020 Form 10-K, we sold these PLMBS during October 2020.


**Notes to Financial Statements - (Unaudited)**
**(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)**
**Note 6 – Advances**

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

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

The following table presents the remaining life of our advances by the advance's contractual maturity and the related weighted average interest rate. For amortizing advances, remaining 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 June 30, 2021</b> | <b>Amount</b>    | <b>Weighted Average Contractual Interest Rate</b> |
|----------------------------|------------------|---|
| Due in one year or less    | \$ 13,124        | 0.47 %  |
| One to two years           | 3,547            | 1.27 %  |
| Two to three years         | 9,895            | 0.44 %  |
| Three to four years        | 7,597            | 0.86 %  |
| Four to five years         | 3,089            | 0.90 %  |
| More than five years       | 8,463            | 1.74 %  |
| <b>Par value</b>           | <b>\$ 45,715</b> | <b>0.86 %</b>                                     |

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

| <b>As of</b>                   | <b>June 30, 2021</b> | <b>December 31, 2020</b> |
|--------------------------------|----------------------|--------------------------|
| <b>Par value</b>               | <b>\$ 45,715</b>     | <b>\$ 45,820</b>         |
| Fair value hedging adjustments | 462                  | 760                      |
| Other adjustments              | 93                   | 115                      |
| <b>Advances</b>                | <b>\$ 46,270</b>     | <b>\$ 46,695</b>         |

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

| <b>As of June 30, 2021</b>  | <b>Par Value</b>       | <b>% of Total Outstanding</b> |
|-----------------------------|------------------------|-------------------------------|
| One Mortgage Partners Corp. | \$ 11,000 <sup>a</sup> | 24.1 %                        |
| The Northern Trust Company  | 5,005                  | 10.9 %                        |

<sup>a</sup> One Mortgage Partners Corp. (OMP) is a subsidiary of JPMorgan Chase Bank NA. Effective February 19, 2021, we terminated OMP's membership in connection with the FHFA rule that made captive insurance companies ineligible for FHLB membership.



**Notes to Financial Statements - (Unaudited)**

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

**Note 7 – MPF Loans Held in Portfolio**

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

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

| As of  | June 30, 2021   | December 31, 2020 |
|--|-----------------|-------------------|
| Medium term (15 years or less)   | \$ 1,603        | \$ 1,403          |
| Long term (greater than 15 years)                                      | 7,993           | 8,453             |
| <b>Unpaid principal balance</b>  | <b>9,596</b>    | <b>9,856</b>      |
| Net premiums, credit enhancement, and/or deferred loan fees            | 173             | 177               |
| Fair value hedging and delivery commitment basis adjustments           | (7)             | 8                 |
| <b>MPF Loans held in portfolio, before allowance for credit losses</b> | <b>9,762</b>    | <b>10,041</b>     |
| Allowance for credit losses on MPF Loans                               | (3)             | (3)               |
| <b>MPF Loans held in portfolio, net</b>                                | <b>\$ 9,759</b> | <b>\$ 10,038</b>  |
| Conventional mortgage loans  | \$ 8,743        | \$ 8,979          |
| Government Loans   | 853             | 877               |
| <b>Unpaid principal balance</b>  | <b>\$ 9,596</b> | <b>\$ 9,856</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 2020 Form 10-K for information related to the accounting treatment of these off-balance sheet MPF Loan products.

**Coronavirus Disease 2019 (COVID-19) Forbearance**

Section 4013 of the CARES Act provides temporary relief from the accounting and reporting requirements for troubled debt restructurings (TDRs) for certain loan modifications related to COVID-19. Specifically, the CARES Act provides that a qualifying financial institution may elect to suspend (1) the requirements under U.S. GAAP for certain loan modifications that would otherwise be categorized as a TDR, and (2) any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes. Section 4013 of the CARES Act applies to any modification related to an economic hardship as a result of the COVID-19 pandemic, including a forbearance arrangement, an interest rate modification, a repayment plan, or any similar arrangement that defers or delays payment of principal or interest, that occurs during the period beginning on March 1, 2020 and ending on the earlier of December 31, 2020 or the date that is 60 days after the declaration of the national emergency related to the COVID-19 pandemic ends for a loan that was not more than 30 days past due as of December 31, 2019. On December 27, 2020, the Consolidated Appropriations Act, 2021, was signed into law, extending the applicable end period to the earlier of January 1, 2022, or 60 days following the termination of the national emergency related to the COVID-19 pandemic. We have elected to suspend TDR accounting for eligible modifications under Section 4013 of the CARES Act, such modifications to loans outstanding as of June 30, 2021 were \$15 million.

Our servicers may grant a forbearance period to borrowers who have requested forbearance based on COVID-19 related difficulties regardless of the status of the loan at the time of the request. We continue to apply our accounting policy for past due loans and charge-offs to loans during the forbearance period whether it be formal or informal. A charge-off is not recognized when there is a presumption that we will collect on a loan even if it is 180 days past due. The accrual status for loans under forbearance will be driven by the past due status of the loan as the legal terms of the contractual arrangement have not been modified.

As of June 30, 2021, there were \$226 million in unpaid principal balance (UPB) of conventional loans in a forbearance plan as a result of COVID-19. Of these conventional loans in forbearance, \$115 million in UPB had a current payment status, \$9 million were 30 to 59 days past due, \$8 million were 60 to 89 days past due, and \$94 million were greater than 90 days past due and in nonaccrual payment status. These loans represent 2% of our MPF Loans held in portfolio at June 30, 2021.


**Notes to Financial Statements - (Unaudited)**
**(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)**
**Note 8 – Allowance for Credit Losses**

See **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2020 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 2020 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<br>June 30, |             | Six months ended<br>June 30, |             |
|---|--------------------------------|-------------|------------------------------|-------------|
|   | 2021                           | 2020        | 2021                         | 2020        |
| <b>Allowance for MPF credit losses beginning balance</b>        | \$ 3                           | 2           | \$ 3                         | 1           |
| Allowance for MPF credit losses charged-off                     | (2)                            | (2)         | (2)                          | (3)         |
| Allowance for credit loss recovery                              | 1                              | —           | 1                            | —           |
| Provision for (reversal of) allowance for MPF for credit losses | 1                              | 4           | 1                            | 6           |
| <b>Allowance for MPF credit losses ending balances</b>          | <u>\$ 3</u>                    | <u>\$ 4</u> | <u>\$ 3</u>                  | <u>\$ 4</u> |

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

As of June 30, 2021 we had \$45 million in Fund loans outstanding, unchanged from \$45 million at December 31, 2020, recorded in Other assets in our **Statements of Condition**.

Under the “currently expected credit losses” methodology (CECL), on January 1, 2020, we recorded a \$7 million allowances for credit losses on a basis of expected losses over the life of the loans. As of June 30, 2021, all Fund loans were current.

The following table details our allowance for credit losses on Fund loans. As we had not incurred any credit losses under the pre-CECL accounting policy, we had no allowance prior to 2020. We have had no material activity in the allowance through June 30, 2021.

| For the periods ending   | Three months ended<br>June 30, |             | Six months ended<br>June 30, |             |
|--|--------------------------------|-------------|------------------------------|-------------|
|  | 2021                           | 2020        | 2021                         | 2020        |
| <b>Allowance for Fund loan credit losses beginning balance</b> | \$ 7                           | \$ 7        | \$ 7                         | \$ —        |
| Adjustment for cumulative effect of accounting change          | —                              | —           | —                            | 7           |
| <b>Allowance for Fund loan credit losses ending balances</b>   | <u>\$ 7</u>                    | <u>\$ 7</u> | <u>\$ 7</u>                  | <u>\$ 7</u> |



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

The following tables summarize our conventional MPF Loans by our key credit quality indicators. See **Coronavirus Disease 2019 (COVID-19) Forbearance** in **Note 7 – MPF Loans Held in Portfolio** for more information on how the forbearance impacts the accounting for the below credit quality indicators.

|                          | June 30, 2021                                       |                 |                 | December 31, 2020                                   |               |                 |
|--------------------------|---|-----------------|-----------------|---|---------------|-----------------|
|                          | Conventional MPF Amortized Cost by Origination Year |                 |                 | Conventional MPF Amortized Cost by Origination Year |               |                 |
|                          | 2017 to 2021  | Prior to 2017   | Total           | 2016 to 2020  | Prior to 2016 | Total           |
| Past due 30-59 days      | \$ 35   | \$ 25           | \$ 60           | \$ 47   | \$ 23         | \$ 70           |
| Past due 60-89 days      | 8   | 7               | 15              | 17  | 9             | 26              |
| Past due 90 days or more | 78  | 43              | 121             | 121   | 38            | 159             |
| <b>Past due</b>          | <b>121</b>  | <b>75</b>       | <b>196</b>      | <b>185</b>  | <b>70</b>     | <b>255</b>      |
| Current                  | 7,526   | 1,176           | 8,702           | 7,984   | 912           | 8,896           |
| <b>Total</b>             | <b>\$ 7,647</b>                                     | <b>\$ 1,251</b> | <b>\$ 8,898</b> | <b>\$ 8,169</b>                                     | <b>\$ 982</b> | <b>\$ 9,151</b> |

| As of  | June 30, 2021  |            |        | December 31, 2020 |            |        |
|--|----------------|------------|--------|-------------------|------------|--------|
|  | Amortized Cost |            |        | Amortized Cost    |            |        |
|  | Conventional   | Government | Total  | Conventional      | Government | Total  |
| In process of foreclosure                                      | \$ 12          | \$ 11      | \$ 23  | \$ 13             | \$ 5       | \$ 18  |
| Serious delinquency rate                                       | 1.38 %         | 3.85 %     | 1.60 % | 1.78 %            | 4.22 %     | 2.00 % |
| Past due 90 days or more and still accruing interest           | \$ 40          | \$ 26      | \$ 66  | \$ 48             | \$ 17      | \$ 65  |
| Loans on nonaccrual status                                     | 87             | —          | 87     | 120               | —          | 120    |
| Loans on nonaccrual status with no allowance for credit losses | 20             | —          | 20     | 21                | —          | 21     |

#### Accrued interest receivable

We present accrued interest receivable separately for loans and HTM debt securities which are carried at amortized cost. We do not measure an allowance for credit losses on accrued interest receivables as we reverse accrued interest on a monthly basis in the event of an interest shortfall.

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

| Financial instrument type          | June 30, 2021 | December 31, 2020 |
|------------------------------------|---------------|-------------------|
| MPF Loans held in portfolio        | \$ 45         | \$ 48             |
| HTM securities                     | 4             | 5                 |
| Advances                           | 33            | 37                |
| <b>Accrued interest receivable</b> | <b>\$ 82</b>  | <b>\$ 90</b>      |

**Notes to Financial Statements - (Unaudited)****(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)****Note 9 – Derivatives and Hedging Activities**

Refer to **Note 2 - Summary of Significant Accounting Policies** in our 2020 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 LIBOR. Our cash flow hedge strategy is to hedge the variability in the total proceeds received from rolling forecasted zero-coupon discount note issuance, attributable to changes in the benchmark interest rate, by entering into pay-fixed interest rate swaps.

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

*Managing Credit Risk on Derivative Agreements*

*Over-the-counter (bilateral) Derivative Transactions:* We are subject to credit risk due to the risk of nonperformance by counterparties to our derivative agreements. For bilateral derivative agreements, the degree of counterparty risk depends on the extent to which master netting arrangements, collateral requirements and other credit enhancements are included in such contracts to mitigate the risk. We manage counterparty credit risk through credit analysis, collateral requirements and adherence to the requirements set forth in our policies and FHFA regulations. We require collateral agreements on all over-the-counter derivatives. Additionally, collateral related to over-the-counter derivatives with member institutions includes collateral assigned to us, as evidenced by a written security agreement, and which may be held by the member institution for our benefit. As of June 30, 2021, based on credit analyses and collateral requirements, we have not recorded a credit loss on our over-the-counter derivative agreements. See **Note 15 - Fair Value** in our 2020 Form 10-K for discussion regarding our fair value methodology for over-the-counter derivative assets and liabilities, including an evaluation of the potential for the fair value of these instruments to be affected by counterparty credit risk.

For nearly all of our bilateral derivative transactions executed prior to March 1, 2017, and for all transactions entered into after March 1, 2017, our bilateral derivative agreements are fully collateralized with a zero unsecured threshold in accordance with variation margin requirements issued by the U.S. federal bank regulatory agencies and the Commodity Futures Trading Commission (CFTC). We pledged no investment securities on our bilateral derivative transactions that can be sold or repledged by our counterparty as of June 30, 2021.

For certain transactions executed prior to March 1, 2017, we may be required to post net additional collateral with our counterparties if there is deterioration in our credit rating. If our credit rating had been lowered from its current rating to the next lower rating by a major credit rating agency, such as Standard and Poor's or Moody's, the amount of collateral we would have been required to deliver would have been immaterial at June 30, 2021.

*Cleared Derivative Transactions:* Cleared derivative transactions are subject to variation and initial margin requirements established by the DCO and its clearing members. As a result of rule changes adopted by our DCOs, 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 2020 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


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

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 \$582 million of investment securities that can be sold or repledged, as part of our initial margin related to cleared derivative transactions at June 30, 2021. Additionally, an FCM may require additional initial margin to be posted based on credit considerations, including but not limited to, if our credit rating downgrades. We had no requirement to post additional initial margin by our FCMs at June 30, 2021.

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

| As of   | June 30, 2021          |                   |                        | December 31, 2020      |                   |                        |
|---|------------------------|-------------------|------------------------|------------------------|-------------------|------------------------|
|   | Notional Amount        | Derivative Assets | Derivative Liabilities | Notional Amount        | Derivative Assets | Derivative Liabilities |
| <b>Derivatives in hedge accounting relationships-</b>                         |                        |                   |                        |                        |                   |                        |
| Interest rate contracts   | \$ 52,683              | \$ 93             | \$ 577                 | \$ 39,493              | \$ 65             | \$ 729                 |
| <b>Derivatives not in hedge accounting relationships-</b>                     |                        |                   |                        |                        |                   |                        |
| Interest rate contracts   | 7,581                  | 23                | 89                     | 11,265                 | 46                | 141                    |
| Mortgage delivery commitments   | 1,315                  | 3                 | 3                      | 2,831                  | 5                 | 7                      |
| Other   | 235                    | —                 | —                      | 257                    | —                 | 1                      |
| <b>Derivatives not in hedge accounting relationships</b>                      | <b>9,131</b>           | <b>26</b>         | <b>92</b>              | <b>14,353</b>          | <b>51</b>         | <b>149</b>             |
| <b>Gross derivative amount before netting adjustments and cash collateral</b> | <b>\$ 61,814</b>       | <b>119</b>        | <b>669</b>             | <b>\$ 53,846</b>       | <b>\$ 116</b>     | <b>878</b>             |
| Netting adjustments and cash collateral                                       |                        | (105)             | (581)                  |                        | (111)             | (187)                  |
| <b>Derivatives on Statements of Condition</b>                                 |                        | <b>\$ 14</b>      | <b>\$ 88</b>           |                        | <b>\$ 5</b>       | <b>\$ 691</b>          |
|   | <b>Cash Collateral</b> |                   |                        | <b>Cash Collateral</b> |                   |                        |
| Cash collateral posted and related accrued interest                           | \$ 483                 |                   |                        | \$ 84                  |                   |                        |
| Cash collateral received and related accrued interest                         | 7                      |                   |                        | 8                      |                   |                        |

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

| For the periods ending   | Three months ended June 30, |                | Six months ended June 30, |                 |
|--|-----------------------------|----------------|---------------------------|-----------------|
|  | 2021                        | 2020           | 2021                      | 2020            |
| <b>Economic hedges -</b>                                       |                             |                |                           |                 |
| Interest rate contracts  | \$ (11)                     | (11)           | \$ 16                     | (159)           |
| Mortgage delivery commitments                                  | 1                           | —              | (12)                      | —               |
| Other  | (3)                         | (10)           | 3                         | (4)             |
| <b>Economic hedges</b>   | <b>(13)</b>                 | <b>(21)</b>    | <b>7</b>                  | <b>(163)</b>    |
| Variation margin on daily settled cleared derivatives          | —                           | —              | —                         | 4               |
| <b>Noninterest income - Derivatives and hedging activities</b> | <b>\$ (13)</b>              | <b>\$ (21)</b> | <b>\$ 7</b>               | <b>\$ (159)</b> |


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

The following tables present details regarding the offsetting of our cleared and bilateral derivatives on our **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.

|   | <b>Derivative Assets</b>   |                |              |                                |                |              |
|---|----------------------------|----------------|--------------|--------------------------------|----------------|--------------|
|   | <b>As of June 30, 2021</b> |                |              | <b>As of December 31, 2020</b> |                |              |
|   | <b>Bilateral</b>           | <b>Cleared</b> | <b>Total</b> | <b>Bilateral</b>               | <b>Cleared</b> | <b>Total</b> |
| <b>Derivatives with legal right of offset -</b>     |                            |                |              |                                |                |              |
| Gross recognized amount                             | \$ 59                      | \$ 57          | \$ 116       | \$ 60                          | \$ 51          | \$ 111       |
| Netting adjustments and cash collateral             | (48)                       | (57)           | (105)        | (60)                           | (51)           | (111)        |
| <b>Derivatives with legal right of offset - net</b> | <b>11</b>                  | <b>—</b>       | <b>11</b>    | <b>—</b>                       | <b>—</b>       | <b>—</b>     |
| Derivatives without legal right of offset           | 3                          | —              | 3            | 5                              | —              | 5            |
| <b>Derivatives on Statements of Condition</b>       | <b>14</b>                  | <b>—</b>       | <b>14</b>    | <b>5</b>                       | <b>—</b>       | <b>5</b>     |
| <b>Net amount</b>                                   | <b>\$ 14</b>               | <b>\$ —</b>    | <b>\$ 14</b> | <b>\$ 5</b>                    | <b>\$ —</b>    | <b>\$ 5</b>  |

|  | <b>Derivative Liabilities</b> |                |              |                                |                |              |
|--|-------------------------------|----------------|--------------|--------------------------------|----------------|--------------|
|  | <b>As of June 30, 2021</b>    |                |              | <b>As of December 31, 2020</b> |                |              |
|  | <b>Bilateral</b>              | <b>Cleared</b> | <b>Total</b> | <b>Bilateral</b>               | <b>Cleared</b> | <b>Total</b> |
| <b>Derivatives with legal right of offset -</b>                              |                               |                |              |                                |                |              |
| Gross recognized amount  | \$ 548                        | \$ 118         | \$ 666       | \$ 812                         | \$ 59          | \$ 871       |
| Netting adjustments and cash collateral                                      | (524)                         | (57)           | (581)        | (136)                          | (51)           | (187)        |
| <b>Derivatives with legal right of offset - net</b>                          | <b>24</b>                     | <b>61</b>      | <b>85</b>    | <b>676</b>                     | <b>8</b>       | <b>684</b>   |
| Derivatives without legal right of offset                                    | 3                             | —              | 3            | 7                              | —              | 7            |
| <b>Derivatives on Statements of Condition</b>                                | <b>27</b>                     | <b>61</b>      | <b>88</b>    | <b>683</b>                     | <b>8</b>       | <b>691</b>   |
| Less: Noncash collateral received or pledged and cannot be sold or repledged | —                             | 61             | 61           | 668                            | 8              | 676          |
| <b>Net amount</b>  | <b>\$ 27</b>                  | <b>\$ —</b>    | <b>\$ 27</b> | <b>\$ 15</b>                   | <b>\$ —</b>    | <b>\$ 15</b> |

At June 30, 2021, we had \$520 million of additional credit exposure on cleared derivatives due to pledging of noncash collateral to our DCOs (for initial margin), which exceeded our cleared net derivative liability position. We had no additional credit exposure on bilateral derivatives, which exceeded our bilateral net derivative liability position. At December 31, 2020, we had \$615 million of comparable exposure on our cleared derivatives and \$1 million on our bilateral derivatives.


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

The following table presents our fair value hedging results by the type of hedged item. We had no net gain or loss on hedged firm commitments that no longer qualified as a fair value hedge. Changes in fair value of the derivative and the hedged item attributable to the hedged risk for designated fair value hedges are recorded in net interest income in the same line as the earnings effect of the hedged item. Gains (losses) on derivatives include unrealized changes in fair value, as well as net interest settlements. The line for Other relates to discontinued closed fair value hedges on MPF Loans held for portfolio that are being amortized over the remaining life of the loans, as we did not have any active fair value hedges on our MPF Loans as of June 30, 2021.

|                                    | Three months ended June 30, 2021 |                            |  | Three months ended June 30, 2020 |                            |  |
|------------------------------------|----------------------------------|----------------------------|--|----------------------------------|----------------------------|--|
|                                    | 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 | \$ (354)                         | \$ 310                     | \$ (44)                                | \$ (80)                          | \$ 28                      | \$ (52)                                |
| Advances                           | (124)                            | 77                         | (47)                                   | (63)                             | 38                         | (25)                                   |
| Consolidated obligation bonds      | 135                              | (76)                       | 59                                     | 31                               | 5                          | 36                                     |
| <b>Total</b>                       | <b>\$ (343)</b>                  | <b>\$ 311</b>              | <b>\$ (32)</b>                         | <b>\$ (112)</b>                  | <b>\$ 71</b>               | <b>\$ (41)</b>                         |

|                                    | Six months ended June 30, 2021 |                            |  | Six months ended June 30, 2020 |                            |  |
|------------------------------------|--------------------------------|----------------------------|--|--------------------------------|----------------------------|--|
|                                    | 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 | \$ 381                         | \$ (521)                   | \$ (140)                               | \$ (1,338)                     | \$ 1,299                   | \$ (39)                                |
| Advances                           | 212                            | (298)                      | (86)                                   | (793)                          | 753                        | (40)                                   |
| Consolidated obligation bonds      | (70)                           | 176                        | 106                                    | 283                            | (240)                      | 43                                     |
| Other                              | —                              | (1)                        | (1)                                    | —                              | —                          | —                                      |
| <b>Total</b>                       | <b>\$ 523</b>                  | <b>\$ (644)</b>            | <b>\$ (121)</b>                        | <b>\$ (1,848)</b>              | <b>\$ 1,812</b>            | <b>\$ (36)</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. 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 we did not have any active fair value hedges on our MPF Loans as of June 30, 2021.

| As of June 30, 2021           | 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 |
|-------------------------------|--|--|--|--|
| Advances                      | \$ 17,994                                | \$ 459   | \$ 2   | \$ 461   |
| Available-for-sale securities | 13,438                                   | 976  | —  | 976  |
| Consolidated obligation bonds | 21,719                                   | 43   | (18)   | 25   |
| Other                         | 305                                      | —  | 7  | 7  |


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

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

We are exposed to the variability in the total net proceeds received from forecasted zero-coupon discount note issuances, which is attributable to changes in the benchmark interest rate. As a result, we enter into cash flow hedge relationships utilizing derivative agreements to hedge the total net proceeds received from our "rolling" forecasted zero-coupon discount note issuances attributable to changes in the benchmark interest rate. The maximum length of time over which we are hedging this exposure is 9 years. We reclassify amounts in AOCI into our **Statements of Income** in the same periods during which the hedged forecasted transaction affects our earnings. We had no discontinued cash flow hedges for the periods presented. The deferred net gains (losses) on derivative instruments in AOCI that are expected to be reclassified to earnings during the next twelve months were immaterial as of June 30, 2021.

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 **Statements of Income**. In this regard, the **Amount Reclassified from AOCI into Net Interest Income** column below includes the following:

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

|                | Three months ended June 30, 2021          |  | Three months ended June 30, 2020          |  |
|----------------|---|--|---|--|
|                | 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 | \$ (14)                                   | \$ (4)   | \$ (10)                                   | \$ (5)   |
| Bonds          | —   | (1)  | —   | (1)  |
| <b>Total</b>   | <b>\$ (14)</b>                            | <b>\$ (5)</b>  | <b>\$ (10)</b>                            | <b>\$ (6)</b>  |

|                | Six months ended June 30, 2021            |  | Six months ended June 30, 2020            |  |
|----------------|---|--|---|--|
|                | 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 | \$ 23                                     | \$ (8)   | \$ (58)                                   | \$ (9)   |
| Bonds          | —   | (1)  | —   | (1)  |
| <b>Total</b>   | <b>\$ 23</b>                              | <b>\$ (9)</b>  | <b>\$ (58)</b>                            | <b>\$ (10)</b>   |


**Notes to Financial Statements - (Unaudited)**
**(U.S. Dollars in tables in millions except per share amounts unless otherwise indicated)**
**Note 10 – Consolidated Obligations**

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

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

| As of  | June 30, 2021 | December 31, 2020 |
|--|---------------|-------------------|
| Consolidated obligation discount notes - carrying amount | \$ 45,728     | \$ 48,643         |
| Consolidated obligation discount notes - par amount      | 45,732        | 48,654            |
| Weighted Average Interest Rate                           | 0.03 %        | 0.10 %            |

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

| As of June 30, 2021     | Contractual Maturity | Weighted Average Interest Rate | By Maturity or Next Call Date |
|-------------------------|----------------------|--------------------------------|-------------------------------|
| Due in one year or less | \$ 12,586            | 0.69 %                         | \$ 30,576                     |
| One to two years        | 8,782                | 1.13 %                         | 8,816                         |
| Two to three years      | 2,372                | 0.99 %                         | 1,541                         |
| Three to four years     | 2,471                | 0.88 %                         | 1,194                         |
| Four to five years      | 6,940                | 0.69 %                         | 206                           |
| Thereafter              | 9,757                | 1.71 %                         | 575                           |
| <b>Total par value</b>  | <b>\$ 42,908</b>     | <b>1.04 %</b>                  | <b>\$ 42,908</b>              |

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

| As of                                | June 30, 2021    | December 31, 2020 |
|--------------------------------------|------------------|-------------------|
| Noncallable                          | \$ 22,730        | \$ 35,075         |
| Callable                             | 20,178           | 7,397             |
| <b>Par value</b>                     | <b>42,908</b>    | <b>42,472</b>     |
| Fair value hedging adjustments       | 25               | 200               |
| Other adjustments                    | (11)             | (2)               |
| <b>Consolidated obligation bonds</b> | <b>\$ 42,922</b> | <b>\$ 42,670</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 June 30, 2021, and December 31, 2020. See **Note 16 - Commitments and Contingencies** in our 2020 Form 10-K for further details.

| Par values as of                           | June 30, 2021 |                |           | December 31, 2020 |                |            |
|--|---------------|----------------|-----------|-------------------|----------------|------------|
|  | Bonds         | Discount Notes | Total     | Bonds             | Discount Notes | Total      |
| FHLB System total consolidated obligations | \$435,014     | \$231,733      | \$666,747 | \$471,919         | \$274,853      | \$ 746,772 |
| FHLB Chicago as primary obligor            | 42,908        | 45,732         | 88,640    | 42,472            | 48,654         | 91,126     |
| As a percent of the FHLB System            | 10 %          | 20 %           | 13 %      | 9 %               | 18 %           | 12 %       |



**Notes to Financial Statements - (Unaudited)**

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

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

Under our Capital Plan our stock consists of two sub-classes of stock, Class B1 activity stock and Class B2 membership stock (together, Class B stock), both with a par value of \$100 and redeemable on five years' written notice, subject to certain conditions. Under the Capital Plan, each member is required to own capital stock in an amount equal to the greater of a membership stock requirement or an activity stock requirement. All stock that supports a member's activity stock requirement with the Bank is classified as Class B1 activity stock. Any additional amount of stock necessary for the total amount of Class B stock held to equal a member's minimum investment amount will be classified as Class B2 membership stock. Members purchase Class B2 membership stock to satisfy their membership stock requirement with the Bank. Stock held in excess of a member's minimum investment requirement is classified as Class B2 excess capital stock. See **Note 12 – Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements in our 2020 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 2020 Form 10-K. We complied with our minimum regulatory capital requirements as shown below.

|                                | June 30, 2021 |          | December 31, 2020 |          |
|--------------------------------|---------------|----------|-------------------|----------|
|                                | Requirement   | Actual   | Requirement       | Actual   |
| Total regulatory capital       | \$ 3,900      | \$ 6,394 | \$ 4,014          | \$ 6,361 |
| Total regulatory capital ratio | 4.00 %        | 6.56 %   | 4.00 %            | 6.34 %   |
| Leverage capital               | \$ 4,875      | \$ 9,592 | \$ 5,018          | \$ 9,541 |
| Leverage capital ratio         | 5.00 %        | 9.84 %   | 5.00 %            | 9.51 %   |
| Risk-based capital             | \$ 1,778      | \$ 6,394 | \$ 1,587          | \$ 6,361 |

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 members had regulatory capital stock exceeding 10% of our total regulatory capital stock outstanding (which includes MRCS):

| As of June 30, 2021         | Regulatory Capital Stock Outstanding | % of Total Outstanding | Amount of Which is Classified as a Liability (MRCS) |
|-----------------------------|--------------------------------------|------------------------|---|
| One Mortgage Partners Corp. | \$ 245 <sup>a</sup>                  | 10.9 %                 | \$ 245  |

<sup>a</sup> One Mortgage Partners Corp. (OMP) is a subsidiary of JPMorgan Chase Bank NA. Effective February 19, 2021, we terminated OMP's membership in connection with the FHFA rule that made captive insurance companies ineligible for FHLB membership.



**FHLBank**  
Chicago

Federal Home Loan Bank of Chicago

**Notes to Financial Statements - (Unaudited)**

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

**Dividends**

Our ability to pay dividends is subject to the FHLB Act and FHFA regulations. On July 28, 2021 our Board of Directors declared a 5.00% dividend (annualized) for Class B1 activity stock and a 2.00% dividend (annualized) for Class B2 membership stock based on our preliminary financial results for the second quarter of 2021. This dividend totaled \$25 million (recorded as \$22 million dividends on capital stock and \$3 million interest expense on mandatorily redeemable capital stock) and is scheduled for payment on August 12, 2021. Any future dividend payment remains subject to declaration by the Board and will depend on future operating results, our Retained Earnings and Dividend Policy and any other factors the Board determines to be relevant.

**Repurchase of Excess Capital Stock**

Members may request repurchase of excess capital stock on any business day. Additionally, starting on March 15, 2021, and continuing 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 monthly repurchases, will continue until otherwise announced, but remain subject to our regulatory requirements, certain financial and capital thresholds, and prudent business practices.

**FICO Dissolution**

The Competitive Equality Banking Act of 1987 was enacted in August 1987, which, among other things, provided for the recapitalization of the Federal Savings and Loan Insurance Corporation through a newly-chartered entity, the Financing Corporation (FICO). The capitalization of FICO was provided by capital distributions from the FHLBs to FICO in exchange for FICO nonvoting capital stock. Capital distributions were made by the FHLBs in 1987, 1988 and 1989 that aggregated to \$680 million. Upon passage of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, the FHLBs' previous investment in capital stock of FICO was determined to be non-redeemable and the FHLBs charged-off their prior capital distributions to FICO directly against retained earnings.

In connection with the dissolution of FICO in July 2020, FICO determined that excess funds aggregating to \$200 million were available for distribution to its stockholders, the FHLBs and FICO distributed these funds to the FHLBs in June 2020. Specifically, our partial recovery of prior capital distribution was \$19 million, which was determined based on our share of the \$680 million originally contributed to FICO. We treated the receipt of these funds as a return of our investment in FICO capital stock, and therefore as a partial recovery of the prior capital distributions we made to FICO in 1987, 1988, and 1989. These funds have been credited to unrestricted retained earnings in our **Statements of Capital** and in Other Financing Activities in our **Condensed Statements of Cash Flows**.


**Notes to Financial Statements - (Unaudited)**

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

**Note 12 - Accumulated Other Comprehensive Income (Loss)**

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

|  | Net<br>Unrealized -<br>Available-<br>for-sale<br>Debt<br>Securities | Non-credit<br>OTTI -<br>Held-to-<br>maturity<br>Debt<br>Securities | Net<br>Unrealized -<br>Cash Flow<br>Hedges | Post -<br>Retirement<br>Plans | Total in<br>AOCI |
|--|---|--|--|-------------------------------|------------------|
| <b>Three months ended June 30, 2021</b>  |   |  |  |                               |                  |
| <b>Beginning balance</b>   | \$ 490  | \$ —   | \$ (24)                                    | \$ (25)                       | \$ 441           |
| Other comprehensive income before reclassification - recorded to the Statements of Condition | 55  | —  | (14)                                       | —                             | 41               |
| <b>Amounts reclassified in period to Statements of Income:</b>                               |   |  |  |                               |                  |
| Net interest income  | (1)   | —  | 5  |                               | 4                |
| Noninterest expense  |   |  |  | 1                             | 1                |
| <b>Ending balance</b>  | <u>\$ 544</u>   | <u>\$ —</u>  | <u>\$ (33)</u>                             | <u>\$ (24)</u>                | <u>\$ 487</u>    |
| <b>Three months ended June 30, 2020</b>  |   |  |  |                               |                  |
| <b>Beginning balance</b>   | \$ (527)  | \$ (81)  | \$ (82)                                    | \$ (21)                       | \$ (711)         |
| Other comprehensive income before reclassification - recorded to the Statements of Condition | 347   | 5  | (10)                                       | —                             | 342              |
| <b>Amounts reclassified in period to statements of income:</b>                               |   |  |  |                               |                  |
| Net interest income  | —   | —  | 6  |                               | 6                |
| <b>Ending balance</b>  | <u>\$ (180)</u>   | <u>\$ (76)</u>   | <u>\$ (86)</u>                             | <u>\$ (21)</u>                | <u>\$ (363)</u>  |
| <b>Six months ended June 30, 2021</b>  |   |  |  |                               |                  |
| <b>Beginning balance</b>   | \$ 292  | \$ —   | \$ (65)                                    | \$ (20)                       | \$ 207           |
| Other comprehensive income before reclassification - recorded to the Statements of Condition | 253   | —  | 23   | (10)                          | 266              |
| <b>Amounts reclassified in period to Statements of Income:</b>                               |   |  |  |                               |                  |
| Net interest income  | (1)   | —  | 9  |                               | 8                |
| Noninterest expense  |   |  |  | 6                             | 6                |
| <b>Ending balance</b>  | <u>\$ 544</u>   | <u>\$ —</u>  | <u>\$ (33)</u>                             | <u>\$ (24)</u>                | <u>\$ 487</u>    |
| <b>Six months ended June 30, 2020</b>  |   |  |  |                               |                  |
| <b>Beginning balance</b>   | \$ 104  | \$ (85)  | \$ (38)                                    | \$ (10)                       | \$ (29)          |
| Other comprehensive income before reclassification - recorded to the Statements of Condition | (284)   | 9  | (58)                                       | (12)                          | (345)            |
| <b>Amounts reclassified in period to Statements of Income:</b>                               |   |  |  |                               |                  |
| Net interest income  | —   |  | 10   |                               | 10               |
| Noninterest expense  |   |  |  | 1                             | 1                |
| <b>Ending balance</b>  | <u>\$ (180)</u>   | <u>\$ (76)</u>   | <u>\$ (86)</u>                             | <u>\$ (21)</u>                | <u>\$ (363)</u>  |



**Notes to Financial Statements - (Unaudited)**

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

**Note 13 - Fair Value**

The following table is a summary of the fair value estimates and related levels in the hierarchy. The carrying amounts are per the **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 2020 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 2020 Form 10-K for our fair value policies and **Note 15 - Fair Value** in our 2020 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.

|  | Carrying Amount    | Fair Value         | Level 1         | Level 2            | Level 3      | Netting & Cash Collateral |
|--|--------------------|--------------------|-----------------|--------------------|--------------|---------------------------|
| <b>June 30, 2021</b>   |                    |                    |                 |                    |              |                           |
| <b>Carried at amortized cost</b>                                       |                    |                    |                 |                    |              |                           |
| Cash and due from banks and interest bearing deposits                  | \$ 1,295           | \$ 1,295           | \$ 1,295        |                    |              |                           |
| Federal Funds sold and securities purchased under agreements to resell | 16,520             | 16,520             |                 | \$ 16,520          |              |                           |
| Held-to-maturity debt securities                                       | 1,491              | 1,536              |                 | 1,524              | \$ 12        |                           |
| Advances   | 45,061             | 45,337             |                 | 45,337             |              |                           |
| MPF Loans held in portfolio, net                                       | 9,750              | 9,957              |                 | 9,944              | 13           |                           |
| Other assets   | 82                 | 82                 |                 | 82                 |              |                           |
| <b>Carried at fair value on a recurring basis</b>                      |                    |                    |                 |                    |              |                           |
| Trading debt securities  | 2,830              | 2,830              |                 | 2,830              |              |                           |
| Available-for-sale debt securities                                     | 18,890             | 18,890             |                 | 18,890             |              |                           |
| Advances   | 1,209              | 1,209              |                 | 1,209              |              |                           |
| Derivative assets  | 14                 | 14                 |                 | 119                |              | \$ (105)                  |
| Other assets - held for sale at fair value                             | 108                | 108                |                 | 108                |              |                           |
| <b>Carried at fair value on a nonrecurring basis</b>                   |                    |                    |                 |                    |              |                           |
| MPF Loans held in portfolio, net                                       | 9                  | 9                  |                 |                    | 9            |                           |
| <b>Financial assets</b>  | <b>97,259</b>      | <b>\$ 97,787</b>   | <b>\$ 1,295</b> | <b>\$ 96,563</b>   | <b>\$ 34</b> | <b>\$ (105)</b>           |
| Other non financial assets   | 235                |                    |                 |                    |              |                           |
| <b>Assets</b>  | <b>\$ 97,494</b>   |                    |                 |                    |              |                           |
| <b>Carried at amortized cost</b>                                       |                    |                    |                 |                    |              |                           |
| Deposits   | \$ (1,123)         | \$ (1,123)         |                 | \$ (1,123)         |              |                           |
| Consolidated obligation discount notes                                 | (45,728)           | (45,727)           |                 | (45,727)           |              |                           |
| Consolidated obligation bonds  | (42,580)           | (42,682)           |                 | (42,682)           |              |                           |
| Mandatorily redeemable capital stock                                   | (248)              | (248)              | \$ (248)        |                    |              |                           |
| Other liabilities  | (110)              | (110)              |                 | (110)              |              |                           |
| <b>Carried at fair value on a recurring basis</b>                      |                    |                    |                 |                    |              |                           |
| Consolidated obligation bonds  | (342)              | (342)              |                 | (342)              |              |                           |
| Derivative liabilities   | (88)               | (88)               |                 | (669)              |              | \$ 581                    |
| <b>Financial liabilities</b>   | <b>(90,219)</b>    | <b>\$ (90,320)</b> | <b>\$ (248)</b> | <b>\$ (90,653)</b> | <b>\$ —</b>  | <b>\$ 581</b>             |
| Other non financial liabilities  | (642)              |                    |                 |                    |              |                           |
| <b>Liabilities</b>   | <b>\$ (90,861)</b> |                    |                 |                    |              |                           |



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

|  | <u>Carrying<br/>Amount</u> | <u>Fair Value</u>  | <u>Level 1</u>  | <u>Level 2</u>     | <u>Level 3</u> | <u>Netting &amp;<br/>Cash<br/>Collateral</u> |
|--|----------------------------|--------------------|-----------------|--------------------|----------------|--|
| <b>December 31, 2020</b>   |                            |                    |                 |                    |                |  |
| <b>Carried at amortized cost</b>                                       |                            |                    |                 |                    |                |  |
| Cash and due from banks and interest bearing deposits                  | \$ 4,396                   | \$ 4,396           | \$ 4,396        |                    |                |  |
| Federal Funds sold and securities purchased under agreements to resell | 14,245                     | 14,245             |                 | \$ 14,245          |                |  |
| Held-to-maturity debt securities                                       | 1,491                      | 1,549              |                 | 1,534              | \$ 15          |  |
| Advances   | 45,380                     | 45,696             |                 | 45,696             |                |  |
| MPF Loans held in portfolio, net                                       | 10,020                     | 10,332             |                 | 10,327             | 5              |  |
| Other assets   | 90                         | 90                 |                 | 90                 |                |  |
| <b>Carried at fair value on a recurring basis</b>                      |                            |                    |                 |                    |                |  |
| Trading debt securities  | 4,621                      | 4,621              |                 | 4,621              |                |  |
| Available-for-sale debt securities                                     | 18,437                     | 18,437             |                 | 18,437             |                |  |
| Advances   | 1,315                      | 1,315              |                 | 1,315              |                |  |
| Derivative assets  | 5                          | 5                  |                 | 116                |                | \$ (111)                                     |
| Other assets - held for sale at fair value                             | 105                        | 105                |                 | 105                |                |  |
| <b>Carried at fair value on a nonrecurring basis</b>                   |                            |                    |                 |                    |                |  |
| MPF Loans held in portfolio, net                                       | 18                         | 18                 |                 |                    | 18             |  |
| <b>Financial assets</b>  | <u>100,123</u>             | <u>\$ 100,809</u>  | <u>\$ 4,396</u> | <u>\$ 96,486</u>   | <u>\$ 38</u>   | <u>\$ (111)</u>                              |
| Other non financial assets   | 233                        |                    |                 |                    |                |  |
| <b>Assets</b>  | <u>\$ 100,356</u>          |                    |                 |                    |                |  |
| <b>Carried at amortized cost</b>                                       |                            |                    |                 |                    |                |  |
| Deposits   | \$ (1,284)                 | \$ (1,284)         |                 | \$ (1,284)         |                |  |
| Consolidated obligation discount notes                                 | (46,643)                   | (46,644)           |                 | (46,644)           |                |  |
| Consolidated obligation bonds  | (40,826)                   | (41,183)           |                 | (41,183)           |                |  |
| Mandatorily redeemable capital stock                                   | (279)                      | (279)              | \$ (279)        |                    |                |  |
| Other liabilities  | (89)                       | (89)               |                 | (89)               |                |  |
| <b>Carried at fair value on a recurring basis</b>                      |                            |                    |                 |                    |                |  |
| Consolidated obligation discount notes                                 | (2,000)                    | (2,000)            |                 | (2,000)            |                |  |
| Consolidated obligation bonds  | (1,844)                    | (1,844)            |                 | (1,844)            |                |  |
| Derivative liabilities   | (691)                      | (691)              |                 | (878)              |                | 187  |
| <b>Financial liabilities</b>   | <u>(93,656)</u>            | <u>\$ (94,014)</u> | <u>\$ (279)</u> | <u>\$ (93,922)</u> | <u>\$ —</u>    | <u>\$ 187</u>                                |
| Other non financial liabilities  | (411)                      |                    |                 |                    |                |  |
| <b>Liabilities</b>   | <u>\$ (94,067)</u>         |                    |                 |                    |                |  |

We had no transfers between levels for the periods shown.


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

We may elect the fair value option for financial instruments, such as advances, MPF Loans held for sale, and consolidated obligation discount notes and bonds, in cases where hedge accounting treatment may not be achieved due to the inability to meet the hedge effectiveness testing criteria, or in certain cases where we wish to mitigate the risk associated with selecting the fair value option for other instruments. Financial instruments for which we elected the fair value option along with their related fair value are shown on our **Statements of Condition**. Refer to our **Note 2 – Summary of Significant Accounting Policies** to the financial statements in our 2020 Form 10-K for further details.

The following table presents the changes in fair values of financial assets and liabilities carried at fair value under the fair value option. These changes were recognized in noninterest income - instruments held under the fair value option in our **Statements of Income**.

|  | Three months ended<br>June 30, |              | Six months ended<br>June 30, |              |
|--|--------------------------------|--------------|------------------------------|--------------|
|  | 2021                           | 2020         | 2021                         | 2020         |
| Advances   | \$ 2                           | \$ 18        | \$ (26)                      | \$ 78        |
| Other assets   | —                              | —            | (2)                          | 2            |
| Discount notes   | —                              | 14           | —                            | —            |
| Consolidated obligation bonds  | 1                              | 4            | 2                            | (4)          |
| <b>Noninterest income - Instruments held under the fair value option</b> | <b>\$ 3</b>                    | <b>\$ 36</b> | <b>\$ (26)</b>               | <b>\$ 76</b> |

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

| As of                       | June 30, 2021   |                                     | December 31, 2020 |                                     |
|-----------------------------|-----------------|-------------------------------------|-------------------|-------------------------------------|
|                             | Advances        | Consolidated<br>Obligation<br>Bonds | Advances          | Consolidated<br>Obligation<br>Bonds |
| Unpaid principal balance    | \$ 1,133        | \$ 339                              | \$ 1,213          | \$ 1,839                            |
| Fair value over (under) UPB | 76              | 3                                   | 102               | 5                                   |
| Fair value                  | <b>\$ 1,209</b> | <b>\$ 342</b>                       | <b>\$ 1,315</b>   | <b>\$ 1,844</b>                     |



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

**Note 14 – Commitments and Contingencies**

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

| As of  | June 30, 2021          |                       |                  | December 31, 2020      |                       |                  |
|--|------------------------|-----------------------|------------------|------------------------|-----------------------|------------------|
|  | Expire within one year | Expire after one year | Total            | Expire within one year | Expire after one year | Total            |
| Member standby letters of credit                   | \$ 4,870               | \$ 7,903 <sup>a</sup> | \$ 12,773        | \$ 10,446              | \$ 5,949 <sup>a</sup> | \$ 16,395        |
| MPF delivery commitments                           | 764                    | —                     | 764              | 1,527                  | —                     | 1,527            |
| Advance commitments                                | 1,081                  | 2                     | 1,083            | 583                    | 12                    | 595              |
| Housing authority standby bond purchase agreements | 53                     | 455                   | 508              | 10                     | 455                   | 465              |
| Unsettled consolidated obligation bonds            | 1,200                  | —                     | 1,200            | 125                    | —                     | 125              |
| Other  | 2                      | —                     | 2                | 3                      | —                     | 3                |
| <b>Commitments</b>                                 | <b>\$ 7,970</b>        | <b>\$ 8,360</b>       | <b>\$ 16,330</b> | <b>\$ 12,694</b>       | <b>\$ 6,416</b>       | <b>\$ 19,110</b> |

<sup>a</sup> Contains \$7.0 billion and \$5.2 billion of member standby letters of credit as of June 30, 2021, and December 31, 2020, which were renewable annually.

For a description of defined terms see **Note 16 - Commitments and Contingencies** to the financial statements in our 2020 Form 10-K.

**Note 15 – Transactions with Related Parties and Other FHLBs**

We define related parties as either members whose officers or directors serve on our Board of Directors, or members that control more than 10% of our total voting interests. We did not have any members that controlled more than 10% of our total voting interests for the periods presented in these 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 periods presented. The related net income impacts to our **Statements of Income** were not material.

| As of                  | June 30, 2021 | December 31, 2020 |
|------------------------|---------------|-------------------|
| Assets - Advances      | \$ 220        | \$ 252            |
| Liabilities - Deposits | 14            | 15                |
| Equity - Capital Stock | 18            | 17                |

*Other FHLBs*

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

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

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



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

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

|  | June 30,<br>2021    | March 31,<br>2021   | December 31,<br>2020 | September 30,<br>2020 | June 30,<br>2020    |
|--|---------------------|---------------------|----------------------|-----------------------|---------------------|
| <b>Selected Statements of Condition data</b>                           |                     |                     |                      |                       |                     |
| Investments <sup>a</sup>   | \$ 40,586           | \$ 33,514           | \$ 39,649            | \$ 36,364             | \$ 36,005           |
| Advances   | 46,270              | 46,975              | 46,695               | 49,771                | 49,250              |
| MPF Loans held in portfolio, net                                       | 9,759               | 9,895               | 10,041               | 10,529                | 10,947              |
| Total assets   | 97,494              | 94,597              | 100,356              | 98,387                | 96,731              |
| Consolidated obligation discount notes                                 | 45,728              | 45,262              | 48,643               | 41,801                | 37,440              |
| Consolidated obligation bonds  | 42,922              | 40,260              | 42,670               | 47,970                | 51,760              |
| Capital stock  | 2,007               | 2,019               | 2,010                | 2,041                 | 1,837               |
| Retained earnings  | 4,139               | 4,082               | 4,072                | 3,936                 | 3,873               |
| Total capital  | 6,633               | 6,542               | 6,289                | 5,904                 | 5,347               |
| <b>Other selected data at period end</b>                               |                     |                     |                      |                       |                     |
| Member standby letters of credit outstanding                           | \$ 12,773           | \$ 10,529           | \$ 16,395            | \$ 21,666             | \$ 24,825           |
| MPF Loans par value outstanding - FHLB System <sup>b</sup>             | 67,673              | 69,107              | 70,326               | 71,297                | 71,768              |
| MPF Loans par value outstanding - FHLB Chicago PFIs <sup>b</sup>       | 18,718              | 18,922              | 18,934               | 18,957                | 18,772              |
| Number of members  | 678                 | 680                 | 686                  | 683                   | 687                 |
| Total employees (full and part time)                                   | 451                 | 469                 | 474                  | 486                   | 488                 |
| <b>Selected Statements of Income data</b>                              |                     |                     |                      |                       |                     |
| Net interest income after provision for credit losses                  | \$ 152              | \$ 110              | \$ 142               | \$ 168                | \$ 134              |
| Noninterest income   | (10)                | (13)                | 101 <sup>d</sup>     | (8)                   | 9                   |
| Noninterest expense  | 55                  | 61                  | 68                   | 65                    | 85                  |
| Net income   | 78                  | 32                  | 157 <sup>d</sup>     | 85                    | 52                  |
| <b>Other selected MPF data during the periods <sup>b</sup></b>         |                     |                     |                      |                       |                     |
| MPF Loans par value amounts funded - FHLB System                       | \$ 4,535            | \$ 5,364            | \$ 6,672             | \$ 7,145              | \$ 8,641            |
| Quarterly number of PFIs funding MPF products - FHLB System            | 687                 | 710                 | 707                  | 730                   | 764                 |
| MPF Loans par value amounts funded - FHLB Chicago PFIs                 | \$ 1,379            | \$ 1,703            | \$ 1,999             | \$ 2,371              | \$ 2,985            |
| Quarterly number of PFIs funding MPF products - FHLB Chicago           | 177                 | 177                 | 178                  | 184                   | 195                 |
| <b>Selected ratios (rates annualized)</b>                              |                     |                     |                      |                       |                     |
| Total regulatory capital to assets ratio                               | 6.56 %              | 6.73 %              | 6.34 %               | 6.36 %                | 6.20 %              |
| Market value of equity to book value of equity                         | 106 %               | 107 %               | 105 %                | 106 %                 | 104 %               |
| Primary mission asset ratio <sup>c</sup>                               | 70.5 % <sup>e</sup> | 70.3 % <sup>e</sup> | 71.5 % <sup>e</sup>  | 71.6 % <sup>e</sup>   | 71.5 % <sup>e</sup> |
| Dividend rate class B1 activity stock-period paid                      | 5.00 %              | 5.00 %              | 5.00 %               | 5.00 %                | 5.00 %              |
| Dividend rate class B2 membership stock-period paid                    | 2.00 %              | 2.00 %              | 2.25 %               | 2.25 %                | 2.25 %              |
| Return on average assets   | 0.32 %              | 0.13 %              | 0.62 % <sup>d</sup>  | 0.33 %                | 0.20 %              |
| Return on average equity   | 4.59 %              | 1.99 %              | 10.06 % <sup>d</sup> | 6.13 %                | 3.41 %              |
| Average equity to average assets                                       | 6.97 %              | 6.53 %              | 6.16 %               | 5.38 %                | 5.87 %              |
| Net yield on average interest-earning assets                           | 0.64 %              | 0.46 %              | 0.58 %               | 0.67 %                | 0.54 %              |
| Return on average Regulatory Capital spread to three month LIBOR index | 4.79 %              | 1.83 %              | 9.61 % <sup>d</sup>  | 3.23 %                | 2.88 %              |
| Cash dividends-period paid   | \$ 21               | \$ 22               | \$ 21                | \$ 22                 | \$ 20               |
| Dividend payout ratio-period paid                                      | 26.92 %             | 68.75 %             | 13.38 %              | 26.00 %               | 38.00 %             |

<sup>a</sup> Includes investment debt securities, interest bearing deposits, Federal Funds sold, and securities purchased under agreements to resell.

<sup>b</sup> Includes all MPF products, whether on or off our balance sheet. See **Mortgage Partnership Finance Program** on page 8 in our 2020 Form 10-K.

<sup>c</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 2020 Form 10-K for more information.

<sup>d</sup> The selected line items are relatively higher when compared to the same line items in other quarters as a result of gains on our investment securities due to the sale of our AFS and HTM private label mortgage backed securities (PLMBS) during the fourth quarter of 2020. See **Note 2 - Summary of Significant Accounting Policies** of our Form 10-K for the year ended 2020 for more information.

<sup>e</sup> We have revised the previously disclosed primary mission asset ratios to reflect an adjusted calculation. See **Mission Asset Ratio** on page 5 in our 2020 Form 10-K for more information on the related FHFA advisory bulletin guidance.



**FHLBank**  
Chicago

Federal Home Loan Bank of Chicago

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

### Forward-Looking Information

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

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

- the impact of the coronavirus disease 2019 (COVID-19) pandemic on the global and national economies and on our and our members’ businesses;
- the loss or changes in business activities with significant members; changes in the demand by our members for advances, including as a result of the Federal Reserve’s emergency actions to increase liquidity along with market conditions resulting from the COVID-19 pandemic, the impact of pricing increases, and the availability of other sources of funding for our members, such as deposits;
- regulatory limits on our investments;
- the impact of new business strategies, including our ability to develop and implement business strategies focused on maintaining net interest income; our ability to successfully maintain our balance sheet and cost infrastructure at an appropriate composition and size scaled to member demand; our ability to execute our business model, implement business process improvements and scale our size to our members’ borrowing needs; the extent to which our members use our advances as part of their core financing rather than just as a back-up source of liquidity; and our ability to implement product enhancements and new products and generate enough volume in new products to cover our costs related to developing such products;
- the extent to which changes in our current capital stock requirements and/or our ability to continue to offer the Reduced Capitalization Advance Program for certain future advance borrowings, our ability to continue to pay enhanced dividends on our activity stock or our ability to maintain current levels of dividends, and any amendments to our capital plan, impact Bank product usage and activity with members;
- our ability to meet required conditions to repurchase and redeem capital stock from our members (including maintaining compliance with our minimum regulatory capital requirements and determining that our financial condition is sound enough to support such repurchases), the amount and timing of such repurchases or redemptions, any changes in our repurchase processes, and our ability to maintain compliance with regulatory and statutory requirements relating to our dividend payments;
- general economic and market conditions, including the timing and volume of market activity, inflation/deflation, unemployment rates, housing prices, the condition of the mortgage and housing markets, increased delinquencies and/or loss rates on mortgages, prolonged or delayed foreclosure processes, and the effects on, among other things, mortgage backed securities; volatility resulting from the effects of, and changes in, various monetary or fiscal policies and regulations, such as those determined by the Federal Reserve Board and Federal Deposit Insurance Corporation; impacts from various measures to stimulate the economy and help borrowers refinance home mortgages; disruptions in the credit and debt markets and the effect on future funding costs, sources, and availability; the impact of the occurrence of a major natural or other disaster, a pandemic such as the COVID-19 pandemic or other disruptive event; the impact of climate change;
- 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;



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- changes in our ability or intent to hold mortgage backed securities to maturity;
- changes in mortgage interest rates and prepayment speeds on mortgage assets;
- membership changes, including the loss of members through mergers and consolidations or as a consequence of regulatory requirements; changes in the financial health of our members, including the resolution of some members; risks related to expanding our membership to include more institutions with regulators and resolution processes with which we have less experience;
- increased reliance on short-term funding and changes in investor demand and capacity for consolidated obligations and/or the terms of interest rate derivatives and similar agreements, including changes in the relative attractiveness of consolidated obligations as compared to other investment opportunities; changes in our cost of funds due to concerns over U.S. fiscal policy, and any related rating agency actions impacting FHLB consolidated obligations;
- uncertainties relating to the scheduled phase-out of the London Interbank Offered Rate (LIBOR);
- political events, including legislative, regulatory, judicial, or other developments that affect us, our members, our counterparties and/or investors in consolidated obligations, including, among other things, changes in the proposals and legislation related to housing finance and GSE reform; changes in the Presidential Administration and the Congress; changes in our regulator or changes affecting our regulator and changes in the FHLB Act or applicable regulations as a result of the Housing and Economic Recovery Act of 2008 (Housing Act) or as may otherwise be issued by our regulator; the potential designation of us as a nonbank financial company for supervision by the Federal Reserve;
- regulatory changes to FHLB membership requirements, capital requirements, MPF program requirements, and liquidity requirements by the FHFA, and increased guidance from the FHFA impacting our balance sheet management, product structures, and collateral practices;
- the ability of each of the other FHLBs to repay the principal and interest on consolidated obligations for which it is the primary obligor and with respect to which we have joint and several liability;
- the pace of technological change and our ability to develop and support technology and information systems, including our ability to protect the security of our information systems and manage any failures, interruptions or breaches in our information systems or technology services provided to us through third party vendors;
- our ability to attract and retain skilled employees;
- the impact of new 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 23 in our 2020 Annual Report on Form 10-K (2020 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**

### **Second Quarter 2021 Financial Highlights**

- Advances outstanding declined slightly to \$46.3 billion at June 30, 2021, from \$46.7 billion at December 31, 2020. We believe many of our depository members experienced an inflow of deposits on their balance sheets along with reduced loan demand, while also having access to other liquidity sources as a result of certain government actions related to the COVID-19 pandemic. Although these factors continued to limit our depository members' need for advances, increased advance borrowing by insurance company members has mostly offset the decrease by depository members.
- MPF Loans held in portfolio continued to remain steady at \$9.8 billion at June 30, 2021, compared to \$10.0 billion at December 31, 2020.
- Total investment securities decreased 5% to \$23.2 billion at June 30, 2021, down from \$24.5 billion at December 31, 2020, primarily due to a reduction in investment in Treasury securities that matured and were not replaced.
- Total assets decreased to \$97.5 billion as of June 30, 2021, compared to \$100.4 billion as of December 31, 2020, primarily due to a decrease in short-term liquidity assets and investment securities.
- Letters of credit commitments decreased to \$12.8 billion at June 30, 2021, down from \$16.4 billion at December 31, 2020, primarily due to one of our former captive insurance company members reducing its letters of credit usage in connection with its membership termination in the first quarter of 2021.
- We recorded net income of \$78 million in the second quarter of 2021, up from \$52 million in the second quarter of 2020, primarily due to a decrease in interest expense. The decrease in interest expense was a result of a lower interest rate environment and we replaced our more expensive callable debt with more advantageous funding. As a result, the decrease in interest expense was greater than the decrease in our interest income for the period. The decrease in interest income was primarily attributable to the lower interest rate environment. We also recognized lower operating expenses as employee compensation and benefits expense fell primarily due to reduced pension costs. In addition, lower COVID-19 relief expenses relative to the prior year contributed to the decrease in noninterest expense, and consequently, the increase in net income.
- In the second quarter of 2021, noninterest income (loss) was (\$10) million, down \$19 million from \$9 million for the second quarter of 2020, primarily due to a loss in value on instruments held under the fair value option.
- We remained in compliance with all of our regulatory capital requirements as of June 30, 2021.

## **Summary and Outlook**

### *Second Quarter 2021 Dividend*

On July 28, 2021, the Board of Directors declared a dividend of 5.00% (annualized) for Class B1 activity stock and a dividend of 2.00% (annualized) for Class B2 membership stock based on preliminary financial results for the second quarter of 2021. The dividend for the second quarter of 2021 will be paid by crediting members' DID accounts on August 12, 2021. We pay higher dividend per share on Class B1 activity stock to recognize members that support the entire cooperative through the use of our products.

We expect to maintain a 5.00% (annualized) dividend for Class B1 activity stock for the third and fourth quarters of 2021, based on current projections and assumptions regarding our financial condition. We are providing this information to assist members in planning advance, letters of credit, and MPF Program on-balance sheet product 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.



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#### *Evolving Business Landscape*

As the business landscape for certain products and services is evolving, we're adapting to these changes and leveraging new technologies that we believe will be key to our members' successes. As a trusted advisor, we strive to have our forward-thinking teams well-positioned and prepared to guide members through these changes.

- **MPF Program:** In January 2021, the U.S. Department of the Treasury and the FHFA amended the Preferred Stock Purchase Agreement with Fannie Mae and Freddie Mac (Amended PSPA), as discussed in our Form 10-Q for the quarter ended March 31, 2021. There are market changes coming out of the Amended PSPA impacting market participants including the MPF Program and the MPF Xtra product. In the short term, the level of non-owner occupied loans that can be sold to Fannie Mae has been limited. The Amended PSPA will also limit the total dollar amount of loans that can be sold to Fannie Mae through the cash window starting in 2022. The Bank continues to focus on serving our members and limiting the negative impacts from these potential disruptions. While we work to re-open non-owner occupied loans that can be sold through MPF Xtra, our MPF Traditional products can accept loans on second homes and may be used as an alternative for these loans. As we adjust to these market changes and as we make headway on solutions, we will provide further updates.
- **Advance Products – LIBOR transition:** We have redesigned our advances tied to LIBOR allowing us to re-offer certain advances such as the Putable Floating-to-Fixed Rate advance (A370). We also set parameters to define the resiliency of the fallback language in connection with our members' LIBOR-based pledged collateral.
- **Pledging eNotes as eligible collateral:** We recently approved the acceptance of first and second lien 1-4 family eNotes as eligible collateral.

#### *Providing Support for Members' Communities*

The COVID-19 pandemic unveiled economic disparities and racial inequities that exist in our communities, and we remain focused on how we can create and promote equitable opportunities across our district in Illinois and Wisconsin through our product offerings. As part of our ongoing commitment to support members through the COVID-19 pandemic, in May 2021, we made available a zero-interest rate advance for all member institutions. Over half of our members took out this COVID-19 relief advance, resulting in \$1.7 billion in subsidized, 0% advances. Additionally, our community investment programs continue to support our members by providing funds for: affordable housing; downpayment assistance for members' customers; and economic development activities.

- **AHP:** Our 2021 Affordable Housing Program (AHP) General Fund closed on June 11, 2021. Forty-two members and 50 sponsors jointly submitted 78 applications for approximately \$45.2 million in subsidy to support the construction, acquisition, and/or rehabilitation of more than 3,500 housing units. We expect to award approximately \$28.6 million this year and will announce the awards in late October 2021.
- **DPP:** Our Downpayment Plus<sup>®</sup> (DPP<sup>®</sup>) Programs continue to provide our members easy-to-access down payment and closing cost assistance to help our members' income-eligible customers achieve homeownership. At the end of the second quarter of 2021, we have awarded \$8.5 million in DPP grants to over 1,400 households.
- **Community First<sup>®</sup> Capacity-Building Grant Program:** This year marks the fifth year of our Community First Capacity-Building Grant Program, which provides flexible funding to nonprofit lenders working to advance affordable housing and economic development. To date, \$1.7 million in grants have been provided. Program applications for this year will be accepted from August 2 – September 3, 2021.

#### *Impact of COVID-19 Pandemic*

During the second quarter of 2021, we began to transition back to normal business operations, including opening our office to invited guests and employees on a voluntary basis.

Notwithstanding increasing COVID-19 vaccination rates and the easing of restrictive measures, uncertainty remains with respect to the speed and extent to which normal economic and operating conditions can resume, and with the ultimate effect of the COVID-19 pandemic on our business, financial condition, and results of operations. For a discussion of risks relating to our financial condition and results of operation as a result of the COVID-19 pandemic, see Risk Factors starting on page 23 of our Form 10-K for the year ended 2020.



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

For a detailed description of our **Critical Accounting Policies and Estimates** see page 44 in our 2020 Form 10-K.

There have been no significant changes to our critical accounting estimates subsequent to December 31, 2020.

### **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 and credit OTTI reversals;
- 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 accumulated other comprehensive income (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.



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

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

|   | June 30, 2021    |                         |               | June 30, 2020    |                         |               | 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                      | \$ 21,106        | \$ 94                   | 1.78 %        | \$ 24,374        | \$ 124                  | 2.03 %        | \$ (15)                    | \$ (15)      | \$ (30)        |
| Advances  | 52,237           | 67                      | 0.51 %        | 54,703           | 145                     | 1.06 %        | (3)                        | (75)         | (78)           |
| MPF Loans held in portfolio                     | 9,792            | 60                      | 2.45 %        | 10,679           | 76                      | 2.85 %        | (5)                        | (11)         | (16)           |
| Federal funds sold                              | 7,480            | 1                       | 0.05 %        | 7,012            | 1                       | 0.06 %        | —                          | —            | —              |
| Securities purchased under agreements to resell | 4,041            | —                       | — %           | 2,036            | —                       | — %           | —                          | —            | —              |
| Other interest earning assets                   | 1,307            | 3                       | 0.92 %        | 2,684            | 1                       | 0.15 %        | (3)                        | 5            | 2              |
| <b>Interest earning assets</b>                  | <b>95,963</b>    | <b>225</b>              | <b>0.94 %</b> | <b>101,488</b>   | <b>347</b>              | <b>1.37 %</b> | <b>(13)</b>                | <b>(109)</b> | <b>(122)</b>   |
| Noninterest earning assets                      | 2,499            |                         |               | 2,375            |                         |               |                            |              |                |
| <b>Total assets</b>                             | <b>98,462</b>    |                         |               | <b>103,863</b>   |                         |               |                            |              |                |
| <b>Consolidated obligation discount notes</b>   |                  |                         |               |                  |                         |               |                            |              |                |
|   | 48,477           | 10                      | 0.08 %        | 45,956           | 82                      | 0.71 %        | —                          | (72)         | (72)           |
| Consolidated obligation bonds                   | 40,600           | 59                      | 0.58 %        | 49,001           | 123                     | 1.00 %        | (13)                       | (51)         | (64)           |
| Other interest bearing liabilities              | 1,172            | 3                       | 1.02 %        | 1,504            | 4                       | 1.06 %        | (1)                        | —            | (1)            |
| <b>Interest bearing liabilities</b>             | <b>90,249</b>    | <b>72</b>               | <b>0.32 %</b> | <b>96,461</b>    | <b>209</b>              | <b>0.87 %</b> | <b>(4)</b>                 | <b>(133)</b> | <b>(137)</b>   |
| Noninterest bearing liabilities                 | 1,376            |                         |               | 1,256            |                         |               |                            |              |                |
| <b>Total liabilities</b>                        | <b>91,625</b>    |                         |               | <b>97,717</b>    |                         |               |                            |              |                |
| <b>Net yield interest earning assets</b>        | <b>\$ 95,963</b> | <b>\$ 153</b>           | <b>0.64 %</b> | <b>\$101,488</b> | <b>\$ 138</b>           | <b>0.54 %</b> | <b>\$ (10)</b>             | <b>\$ 25</b> | <b>\$ 15</b>   |
| <b>For the six months ended</b>                 |                  |                         |               |                  |                         |               |                            |              |                |
| Investment debt securities                      | \$ 21,867        | \$ 144                  | 1.32 %        | \$ 23,691        | \$ 317                  | 2.68 %        | \$ (12)                    | \$ (161)     | \$ (173)       |
| Advances  | 51,645           | 143                     | 0.55 %        | 55,384           | 383                     | 1.38 %        | (10)                       | (230)        | (240)          |
| MPF Loans held in portfolio                     | 9,837            | 123                     | 2.50 %        | 10,453           | 163                     | 3.12 %        | (8)                        | (32)         | (40)           |
| Federal funds sold                              | 6,934            | 2                       | 0.06 %        | 7,527            | 27                      | 0.72 %        | —                          | (25)         | (25)           |
| Securities purchased under agreements to resell | 4,525            | 1                       | 0.04 %        | 2,901            | 12                      | 0.83 %        | —                          | (11)         | (11)           |
| Other interest earning assets                   | 1,181            | 4                       | 0.68 %        | 2,411            | 10                      | 0.83 %        | (4)                        | (2)          | (6)            |
| <b>Interest earning assets</b>                  | <b>95,989</b>    | <b>417</b>              | <b>0.87 %</b> | <b>102,367</b>   | <b>912</b>              | <b>1.78 %</b> | <b>(29)</b>                | <b>(466)</b> | <b>(495)</b>   |
| Noninterest earning assets                      | 2,401            |                         |               | 2,242            |                         |               |                            |              |                |
| <b>Total assets</b>                             | <b>98,390</b>    |                         |               | <b>104,609</b>   |                         |               |                            |              |                |
| <b>Consolidated obligation discount notes</b>   |                  |                         |               |                  |                         |               |                            |              |                |
|   | 48,105           | 25                      | 0.10 %        | 46,981           | 267                     | 1.14 %        | 2                          | (244)        | (242)          |
| Consolidated obligation bonds                   | 40,909           | 123                     | 0.60 %        | 48,940           | 351                     | 1.43 %        | (25)                       | (203)        | (228)          |
| Other interest bearing liabilities              | 1,211            | 6                       | 0.99 %        | 1,366            | 10                      | 1.46 %        | (1)                        | (3)          | (4)            |
| <b>Interest bearing liabilities</b>             | <b>90,225</b>    | <b>154</b>              | <b>0.34 %</b> | <b>97,287</b>    | <b>628</b>              | <b>1.29 %</b> | <b>(12)</b>                | <b>(462)</b> | <b>(474)</b>   |
| Noninterest bearing liabilities                 | 1,527            |                         |               | 1,310            |                         |               |                            |              |                |
| <b>Total liabilities</b>                        | <b>91,752</b>    |                         |               | <b>98,597</b>    |                         |               |                            |              |                |
| <b>Net yield on interest earning assets</b>     | <b>\$ 95,989</b> | <b>\$ 263</b>           | <b>0.55 %</b> | <b>\$102,367</b> | <b>\$ 284</b>           | <b>0.55 %</b> | <b>\$ (21)</b>             | <b>\$ —</b>  | <b>\$ (21)</b> |

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



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

- Interest income from investment debt securities for the three months ended June 30, 2021 decreased, in part, due to lower overall market interest rates in 2021 compared to the same period in 2020. In addition, average investment balances declined as Treasury securities matured and were not replaced. Interest income from investment debt securities for the six months ended June 30, 2021 primarily decreased due to lower overall market interest rates in 2021 compared to the same period in 2020. In addition, the yield earned on our investment securities during 2021 as compared to the same period in 2020 declined as a result of the sale of our PLMBS in October 2020. See **Note 2 – Summary of Significant Accounting Policies** of our Form 10-K for the year ended 2020 for more information on these PLMBS sales.
- Interest income from advances decreased primarily due to the low interest rate environment since the Federal Reserve dramatically lowered interest rates in response to the COVID-19 pandemic. Lower demand for advances from our depository members, while mostly offset by increased demand from our insurance company members, have also impacted our net interest income. Additionally, advance prepayments throughout 2020 resulted in a decline in our portfolio of higher interest earning advances which reduced the yield earned and balance outstanding on our advance portfolio in 2021 compared to the same period in 2020.
- Interest income from MPF Loans held in portfolio declined primarily due to the lower mortgage rate environment impacting the yield earned on new loan originations, along with the recognition of premium amortization as loans prepaid during the period.
- Interest expense on our consolidated obligations decreased due to lower market interest rates in 2021 compared to the same period in 2020. Additionally in 2021, we replaced our more expensive callable debt with more advantageously priced funding.
- Interest income from overnight Federal Funds sold and securities purchased under agreements to resell decreased due to lower market interest rates in 2021 compared to the same period in 2020.
- For details of the effect our fair value and cash flow hedge activities had on our net interest income see **Total Net Effect Gain (Loss) of Hedging Activities** table on page 40.

**Noninterest Income**

|  | Three months ended<br>June 30, |             | Six months ended<br>June 30, |              |
|--|--------------------------------|-------------|------------------------------|--------------|
|  | 2021                           | 2020        | 2021                         | 2020         |
| Trading securities                           | \$ (13)                        | \$ (25)     | \$ (31)                      | \$ 62        |
| Derivatives and hedging activities           | (13)                           | (21)        | 7                            | (159)        |
| Instruments held under the fair value option | 3                              | 36          | (26)                         | 76           |
| Subtotal                                     | (23)                           | (10)        | (50)                         | (21)         |
| MPF fees, 6, 8, 13 and 16 from other FHLBs   | 13                             | 15          | 25                           | 25           |
| Other, net                                   | —                              | 4           | 2                            | 7            |
| <b>Noninterest income</b>                    | <b>\$ (10)</b>                 | <b>\$ 9</b> | <b>(23)</b>                  | <b>\$ 11</b> |

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

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

Loss in value on our instruments held under the fair value option were the primary driver of our decrease in noninterest income for the three months ended June 30, 2021. Losses on our trading securities and instruments held under the fair value option were the primary driver of our decrease in noninterest income for the six months ended June 30, 2021. The corresponding gains and losses were primarily driven by maturities in our Treasury Trading securities purchased at a premium and the increase in long-term interest rates and the interest rate curve steepening during in 2021.



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The following table details the effect of these transactions on the various line items in our **Statements of Income**. Hedge ineffectiveness on hedges qualifying for hedge accounting are recorded in net interest income rather than recorded in derivatives and hedging activities 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 June 30, 2021</b>                   |                |                 |                |                |               |               |                 |
| Recorded in net interest income                           | \$ (47)        | \$ (44)         | \$ —           | \$ (4)         | \$ 58         | \$ (1)        | \$ (38)         |
| Recorded in derivatives & hedging activities              | (8)            | —               | (5)            | —              | —             | —             | (13)            |
| Recorded in trading securities                            | —              | (13)            | —              | —              | —             | —             | (13)            |
| Recorded on instruments held under the fair value option  | 2              | —               | —              | —              | 1             | —             | 3               |
| <b>Total net effect gain (loss) of hedging activities</b> | <b>\$ (53)</b> | <b>\$ (57)</b>  | <b>\$ (5)</b>  | <b>\$ (4)</b>  | <b>\$ 59</b>  | <b>\$ (1)</b> | <b>\$ (61)</b>  |
| <b>Three months ended June 30, 2020</b>                   |                |                 |                |                |               |               |                 |
| Recorded in net interest income                           | \$ (25)        | \$ (51)         | \$ —           | \$ (5)         | \$ 33         | \$ 1          | \$ (47)         |
| Recorded in derivatives & hedging activities              | (9)            | (2)             | (11)           | —              | 1             | —             | (21)            |
| Recorded in trading securities                            | —              | (29)            | —              | —              | —             | —             | (29)            |
| Recorded on instruments held under the fair value option  | 18             | —               | —              | 14             | 4             | —             | 36              |
| <b>Total net effect gain (loss) of hedging activities</b> | <b>\$ (16)</b> | <b>\$ (82)</b>  | <b>\$ (11)</b> | <b>\$ 9</b>    | <b>\$ 38</b>  | <b>\$ 1</b>   | <b>\$ (61)</b>  |
| <b>Six months ended June 30, 2021</b>                     |                |                 |                |                |               |               |                 |
| Recorded in net interest income                           | \$ (86)        | \$ (140)        | \$ (1)         | \$ (8)         | \$ 105        | \$ (1)        | \$ (131)        |
| Recorded in derivatives & hedging activities              | 21             | —               | (14)           | —              | —             | —             | 7               |
| Recorded in trading securities                            | —              | (28)            | —              | —              | —             | —             | (28)            |
| Recorded on instruments held under the fair value option  | (26)           | —               | (2)            | —              | 2             | —             | (26)            |
| <b>Total net effect gain (loss) of hedging activities</b> | <b>\$ (91)</b> | <b>\$ (168)</b> | <b>\$ (17)</b> | <b>\$ (8)</b>  | <b>\$ 107</b> | <b>\$ (1)</b> | <b>\$ (178)</b> |
| <b>Six months ended June 30, 2020</b>                     |                |                 |                |                |               |               |                 |
| Recorded in net interest income                           | \$ (40)        | \$ (39)         | \$ —           | \$ (9)         | \$ 42         | \$ —          | \$ (46)         |
| Recorded in derivatives & hedging activities              | (100)          | (94)            | 2              | 20             | 9             | 4             | (159)           |
| Recorded in trading securities                            | —              | 41              | —              | —              | —             | —             | 41              |
| Recorded on instruments held under the fair value option  | 78             | —               | 2              | —              | (4)           | —             | 76              |
| <b>Total net effect gain (loss) of hedging activities</b> | <b>\$ (62)</b> | <b>\$ (92)</b>  | <b>\$ 4</b>    | <b>\$ 11</b>   | <b>\$ 47</b>  | <b>\$ 4</b>   | <b>\$ (88)</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 fee for us to provide services related to MPF Loans carried on their balance sheets. MPF fees also include income from other third party off-balance sheet MPF Loan products and other related transaction fees. These fees are designed to offset a portion of the expenses we incur to administer the program for them. Fee income remained relatively level for 2021 compared to 2020.

**Other, net**

Other, net consists primarily of fee income earned on member standby letter of credit products, which have declined as noted in **Selected Financial Data** on page 32.



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**Noninterest Expense**

|                               | Three months ended<br>June 30, |              | Six months ended<br>June 30, |               |
|-------------------------------|--------------------------------|--------------|------------------------------|---------------|
|                               | 2021                           | 2020         | 2021                         | 2020          |
| Compensation and benefits     | \$ 25                          | \$ 35        | \$ 53                        | \$ 71         |
| Nonpayroll operating expenses | 20                             | 26           | 40                           | 46            |
| COVID-19 relief program       | 3                              | 19           | 3                            | 19            |
| Other, net                    | 7                              | 5            | 20                           | 6             |
| <b>Noninterest expense</b>    | <b>\$ 55</b>                   | <b>\$ 85</b> | <b>116</b>                   | <b>\$ 142</b> |

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

Compensation and benefits primarily decreased due to reduced pension and other employee-related costs. We had 451 employees as of June 30, 2021, compared to 488 as of June 30, 2020.

Nonpayroll operating expenses were lower compared to prior periods due to a one-time expense in 2020 related to the termination of our building lease. Nonpayroll operating expenses were otherwise comparable to prior periods as we continue our planned investment in information technology, specifically applications, infrastructure and resiliency.

As part of the Bank's ongoing commitment to provide support to our members throughout the COVID-19 pandemic, from May 3, 2021 to May 28, 2021 we made available a zero interest-rate advance with a maximum borrowing amount up to \$5 million for all member institutions. Over half of our members took advantage of this advance offering, resulting in \$1.7 billion in subsidized, 0% advances to support our members and approximately \$3 million recorded in expenses. In 2020, we also offered COVID-19 relief programs to support communities in Illinois and Wisconsin; for more information on these programs, see **Environment, Social, and Governance** on page 13 of the 2020 10-K.

Other, net expenses primarily increased due to increased non-qualified defined benefit plan expenses related to the retirement of our former President and CEO expensed in the first quarter of 2021. Other also increased to a lesser extent as a result of increases in 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. In addition, Other includes MPF related non-operating expenses/gains on the sale of real estate owned.

As noted in **Noninterest Income** on page 39, we earn MPF fees from the MPF Program, a majority of which are from other FHLBs, but also include income from other third party investors. These fees are designed to offset a portion of 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<br>June 30, |       | Six months ended<br>June 30, |       |
|-------------------------------------|--------------------------------|-------|------------------------------|-------|
|                                     | 2021                           | 2020  | 2021                         | 2020  |
| MPF fees earned                     | \$ 13                          | \$ 15 | \$ 25                        | \$ 25 |
| Expenses related to MPF fees earned | 11                             | 11    | 20                           | 20    |

**Assessments**

We record the AHP assessment expense at a rate of 10% of income before assessments, excluding interest expense on MRCS. See **Note 11 - Affordable Housing Program** to the financial statements in our 2020 Form 10-K for further details.



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**Other Comprehensive Income (Loss)**

|   | Three months ended<br>June 30, |               | Six months ended<br>June 30, |                 | Balance<br>remaining in<br>AOCI as of |
|---|--------------------------------|---------------|------------------------------|-----------------|---------------------------------------|
|   | 2021                           | 2020          | 2021                         | 2020            | June 30,<br>2021                      |
| Net unrealized gain (loss) available-for-sale debt securities | \$ 54                          | \$ 347        | \$ 252                       | \$ (284)        | \$ 544                                |
| Noncredit OTTI held-to-maturity debt securities               | —                              | 5             | —                            | 9               | —                                     |
| Net unrealized gain (loss) cash flow hedges                   | (9)                            | (4)           | 32                           | (48)            | (33)                                  |
| Postretirement plans  | 1                              | —             | (4)                          | (11)            | (24)                                  |
| <b>Other comprehensive income (loss)</b>                      | <b>\$ 46</b>                   | <b>\$ 348</b> | <b>\$ 280</b>                | <b>\$ (334)</b> | <b>\$ 487</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 gain on our available-for-sale (AFS) portfolio for 2021 was primarily due to spreads to swaps reversing the widening (losses) initially experienced in the first quarter of 2020 resulting from the effects of the COVID-19 pandemic on the financial markets. As these securities approach maturity, we expect these net unrealized gains to reverse over the remaining life of these securities (since we expect to receive par value at maturity).

*Noncredit OTTI on held-to-maturity debt securities*

We recorded unrealized noncredit impairments on held-to-maturity debt securities during the last financial crisis of 2008. From our sale of HTM PLMBS in October 2020 our remaining loss balance in AOCI went to zero. See **Note 2 – Summary of Significant Accounting Policies** of our 2020 Form 10-K for more details on our sale of PLMBS during October 2020.

*Net unrealized gain (loss) on cash flow hedges*

The net unrealized loss on cash flow hedges for the three months ended June 30, 2021 was primarily driven by the slight drop in long-term interest rates during the second quarter of 2021. The net unrealized gain on cash flow hedges for the six months ended June 30, 2021 was primarily driven by the overall increase in long-term interest rates and the interest rate curve steepening during 2021.

*Postretirement plans*

The loss recorded in the first quarter of 2021 was primarily due to an actuarial adjustment resulting from a decline in the discount rate used to calculate postretirement benefits.

We did not recognize any instrument-specific credit risk in our **Statements of Comprehensive Income** as of June 30, 2021 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 financial statements.



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**Statement of Condition**

|  | June 30,<br>2021 | December 31,<br>2020 |
|--|------------------|----------------------|
| Cash and due from banks, interest bearing deposits, Federal Funds sold, and securities purchased under agreement to resell | \$ 17,815        | \$ 18,641            |
| Investment debt securities   | 23,211           | 24,549               |
| Advances   | 46,270           | 46,695               |
| MPF Loans held in portfolio, net of allowance for credit losses  | 9,759            | 10,038               |
| Other, net of allowance for credit losses  | 439              | 433                  |
| <b>Assets</b>  | <b>97,494</b>    | <b>100,356</b>       |
| Consolidated obligation discount notes   | 45,728           | 48,643               |
| Consolidated obligation bonds  | 42,922           | 42,670               |
| Other  | 2,211            | 2,754                |
| <b>Liabilities</b>   | <b>90,861</b>    | <b>94,067</b>        |
| Capital stock  | 2,007            | 2,010                |
| Retained earnings  | 4,139            | 4,072                |
| Accumulated other comprehensive income (loss)  | 487              | 207                  |
| <b>Capital</b>   | <b>6,633</b>     | <b>6,289</b>         |
| <b>Total liabilities and capital</b>   | <b>\$ 97,494</b> | <b>\$ 100,356</b>    |

The following is an analysis of the above table and comparisons apply to June 30, 2021 compared to December 31, 2020.

**Cash and due from banks, interest bearing deposits, Federal Funds sold, and securities purchased under agreements to resell**

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

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

In the second quarter of 2021, we maintained a sufficient pool of liquidity to support anticipated member demand for advances and letters of credit.

**Investment Debt Securities**

Investment debt securities decreased primarily due to Treasury securities that matured and were not replaced during 2021.

**Advances**

Advance balances slightly declined at the end of second quarter 2021 compared to year end 2020. We believe many of our depository members experienced an inflow of deposits on their balance sheets along with reduced loan demand, while also having access to other liquidity sources as a result of certain government actions related to the COVID-19 pandemic during 2020. Although these factors continued to limit our depository members' need for advances, increased advance borrowing by insurance company members has mostly offset the decrease by 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 further in future periods should their funding needs change, or to the extent they elect alternative funding resources. In addition, as our advances with captive insurance companies mature, our total advance levels may decrease. For a discussion of risks relating to our captive insurance companies, and of risks relating to our advance levels as a result of the COVID-19 pandemic, see **Risk Factors** starting on page 23 of our Form 10-K for the year ended 2020.

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

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



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## Liquidity, Funding, & Capital Resources

### Liquidity

For the period ending June 30, 2021, we maintained a liquidity position in accordance with FHFA regulations and guidance, and policies established by our Board of Directors. Based upon our excess liquidity position described below, we anticipate remaining in compliance with our current liquidity requirements. See **Liquidity, Funding, & Capital Resources** on page 54 in our 2020 Form 10-K for a detailed description of our current liquidity requirements. We use different measures of liquidity as follows:

**Overnight Liquidity** – Our policy requires us to maintain overnight liquid assets at least equal to 3.5% or \$3.4 billion of total assets. As of June 30, 2021, our overnight liquidity was \$19.6 billion or 20% of total assets, giving us an excess overnight liquidity of \$16.2 billion.

**Deposit Coverage** – To support our member deposits, FHFA regulations require us to have an amount equal to the current deposits invested in obligations of the U.S. Government, deposits in eligible banks or trust companies, or advances with maturities not exceeding five years. As of June 30, 2021, we had excess liquidity of \$54.2 billion to support member deposits.

**Liquidity Reserves** – As discussed on page 54 in the **Liquidity, Funding, & Capital Resources** section of our 2020 Form 10-K, FHFA guidance on liquidity (the “Liquidity AB”) requires that we hold positive cash flow assuming no access to the capital markets for a period of between ten to thirty calendar days, and assuming the renewal of all maturing advances. The Liquidity AB also requires the Bank to maintain liquidity reserves between one and 20 percent of our outstanding letter of credit commitments.

The Liquidity AB requires the Bank to hold an additional amount of liquid assets, which could reduce the Bank’s ability to invest in higher-yielding assets, and may in turn negatively impact net interest income. To the extent that the Bank adjusts pricing for its short-term advances and letters of credit, these products may become less competitive, which may adversely affect advance and capital stock levels as well as letters of credit levels. For additional discussion of how our liquidity requirements may impact our earnings, see **Risk Factors** section starting on page 23 of our 2020 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 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 flow of our assets, including prepayments made in advance of maturity.

| As of June 30, 2021                          | MPF Loans<br>Held in<br>Portfolio | Investment Debt Securities |                      |
|--|-----------------------------------|----------------------------|----------------------|
|  |                                   | Available-for<br>Sale      | Held-to-<br>Maturity |
| <b>Year of Expected Principal Cash Flows</b> |                                   |                            |                      |
| One year or less                             | \$ 2,367                          | \$ 777                     | \$ 1,017             |
| After one year through five years            | 3,487                             | 2,808                      | 315                  |
| After five years through ten years           | 2,023                             | 10,353                     | 149                  |
| After ten years                              | 1,719                             | 3,176                      | 112                  |
| <b>Total</b>                                 | <b>\$ 9,596</b>                   | <b>\$ 17,114</b>           | <b>\$ 1,593</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 the **Risk Factors** section starting on page 23 in our 2020 Form 10-K.

## Funding

### Conditions in Financial Markets

During the second quarter of 2020, there were signs of economic recovery with increased vaccinations, expanded reopening of the economy, and government support. In April 2021, the Federal Open Market Committee (FOMC) maintained the target range for the Federal Funds rate between 0.00 and 0.25 percent and committed to continuing use of its full range of tools, including asset purchases, to support the economy. At its June 2021 meeting, the FOMC maintained the federal funds rate at the same target range and stated its intent to continue its purchases of assets at the existing pace. However, the FOMC raised rates for its overnight reverse repurchase agreement facility and on interest on excess reserves (IOER) by 5 basis points to 0.05 percent and 0.15 percent, respectively. While stating the path of the economy will depend on the course of the COVID-19 pandemic, the FOMC projection for future rate hikes accelerated at the June 2021 meeting to two forecasted hikes in 2023. U.S. Treasury yields finished the second quarter of 2021 higher for maturities shorter than five years, but decreased for longer maturities, relative to prevailing yields at the end of the first quarter of 2021. During the second quarter, the U.S. stock market continued to rise, as the Dow Jones Industrial Average stood at 34,503 points on June 30, 2021 versus 32,982 points on March 31, 2021.

We maintained ready access to funding throughout the second quarter of 2021.

### LIBOR Transition

In July 2017, the United Kingdom's (U.K.) Financial Conduct Authority (FCA), a regulator of financial services firms and financial markets in the U.K., announced its intention to cease sustaining the LIBOR indices after 2021. In response, the Federal Reserve Board (FRB) and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee (ARRC) to identify a set of alternative reference interest rates for possible use as market benchmarks. The ARRC has identified the Secured Overnight Financing Rate (SOFR) as its recommended alternative rate. SOFR is based on a broad segment of the overnight Treasuries repurchase market and is intended to be a measure of the cost of borrowing cash overnight collateralized by Treasury securities. The Federal Reserve Bank of New York began publishing SOFR rates in April 2018 and the FHLB System issued its first SOFR-linked debt in the market on November 13, 2018.

On March 5, 2021, the FCA announced that LIBOR will either cease to be provided or no longer be representative immediately after December 31, 2021 for most LIBOR settings across currencies, including 1 week and 2 month USD LIBOR, or immediately after June 30, 2023 in the case of certain frequently used tenors, including the remaining USD tenors. The FCA announced that it would consult whether to require LIBOR's administrator (the Intercontinental Exchange Benchmark Administration Limited) to publish certain frequently used LIBOR tenors on a non-representative, synthetic basis after such date. FCA's announcement constitutes an index cessation event under the International Swaps and Derivatives Associations, Inc. (ISDA) 2020 IBOR Fallbacks Protocol and IBOR Fallbacks Supplement, and as a result, the fallback spread adjustment is fixed as of the date of the announcement. Although we do not have assets and liabilities indexed to 1 week and 2 month USD LIBOR, which will no longer be provided after December 31, 2021, many of our assets and liabilities are indexed to the remaining USD LIBOR tenors, some with maturities or termination dates extending past December 31, 2021.



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On September 27, 2019, the FHFA issued a Supervisory Letter (the "Supervisory Letter") that the FHFA stated is designed to ensure the FHLBs will be able to identify and prudently manage the risks associated with the termination of LIBOR in a safe and sound manner. Among other things, the Supervisory Letter provides that the FHLBs should cease entering into certain transactions referencing LIBOR that mature after December 31, 2021. Accordingly, we previously ceased entering into option embedded advance products that reference LIBOR and have ceased purchasing investments that reference LIBOR and mature after December 31, 2021. Additionally, we have suspended transactions in certain structured advances and advances with terms directly linked to LIBOR that mature after December 31, 2021 and we no longer enter into consolidated obligation bonds and derivatives with swaps, caps, or floors indexed to LIBOR that terminate after December 31, 2021. Further, on July 1, 2021, the FHFA issued an additional supervisory letter setting forth its expectations that the FHLBs should be prudent in their use of non-SOFR based alternative reference rates, and should avoid use of alternative reference rates that are not based on underlying transactions or that introduce further model risk. The letter also provides that an FHLB provide advance notice to its examiner-in-charge of its plans to use a non-SOFR alternative reference rate. For further discussion of the risks related to the replacement of LIBOR, see the **Risk Factors** section starting on page 23 in our 2020 Form 10-K.

We continue to evaluate and plan for the eventual replacement of the LIBOR benchmark interest rate, including the possibility of SOFR as the primary replacement rate for investments and advances. We have developed an initial LIBOR transition action plan and convened a project team to implement the transition, which is led by a senior executive and comprised of representatives from various areas across the Bank. Our Asset-Liability Management Committee (ALCO) is the management committee responsible for overseeing the transition from LIBOR. In assessing our current exposure to LIBOR, we have developed an inventory of financial instruments impacted and identified contracts that may require adding or adjusting the "fallback" language which provides for contractual alternatives to the use of LIBOR when LIBOR cannot be determined based on the method provided in the agreement. We have amended the terms of certain advance products to include fallback language and the OF has added or adjusted fallback language applicable to FHLB consolidated obligations.

For over-the-counter derivatives, we have adhered to the ISDA 2020 IBOR Fallbacks Protocol. For cleared derivatives, as part of the transition from LIBOR to SOFR, our clearinghouses revised their discounting methodology used to calculate the present value of future cash flows and price alignment on variation margin for USD cleared swaps from the daily Effective Federal Funds Rate (EFFR) to SOFR. In October 2020, both of our clearinghouses implemented their own unique cash and basis swap compensation mechanisms for market participants to neutralize any value transfer discrepancies from the LIBOR to SOFR conversion. Further, each clearinghouse announced respective proposals for the conversion process of LIBOR-linked cleared derivatives to risk-free rates, which is expected to occur at or shortly before the effective date of LIBOR discontinuation. We continue to monitor the market-wide efforts to address fallback language related to cleared derivatives and investment securities as well as fallback language for new activities and issuances of financial instruments. We continue to assess our operational readiness, including updating our processes and information technology systems to support the transition from LIBOR to an alternative reference rate.

Market activity in SOFR-indexed financial instruments continues to increase, including the emergence of a SOFR-based derivative market, and we continue to participate in the issuance of SOFR-indexed consolidated bonds. We are using Federal Funds Overnight Index Swap (Fed Funds OIS) swaps and SOFR indexed swaps as an interest rate hedging strategy for financial instruments that do not have embedded options, as an alternative to using LIBOR when entering into new derivative transactions. We are offering SOFR-linked advances to our members, and for the six months ended June 30, 2021, have issued \$73 million in SOFR-linked advances. For a discussion of risks relating to our use of SOFR-linked consolidated obligations and advances, see **Risk Factors** starting on page 23 of our 2020 Form 10-K. We also offer Discount Note-index floater advances, which some members have used as alternatives to LIBOR-linked advance products.



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

We have advances, investment securities, consolidated bonds, and derivatives with interest rates indexed to LIBOR. The following tables present our variable rate financial instruments by interest-rate index at June 30, 2021 and may not include instruments that indirectly incorporate LIBOR or another interest rate index. The tables also do not consider the impact of any fallback language contained in our financial products. ABS and MBS are presented by contractual maturity; however, their expected maturities will likely differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment fees.

| As of June 30, 2021   | Advances            | Investments     | Consolidated Obligations |
|---|---------------------|-----------------|--------------------------|
| <b>Principal amount of variable rate instruments outstanding <sup>a</sup></b>   |                     |                 |                          |
| LIBOR   | \$ 968              | \$ 3,039        | \$ 250                   |
| SOFR  | 79                  | 499             | 13,161                   |
| Treasury  | —                   | 125             | —                        |
| Other   | 17,241 <sup>b</sup> | 1               | —                        |
| <b>Total</b>  | <b>\$ 18,288</b>    | <b>\$ 3,664</b> | <b>\$ 13,411</b>         |
| <b>Overnight, 1 month, 3 month, 6 month and 12-Month US Dollar LIBOR that cease or will no longer be representative immediately after June 30, 2023</b> |                     |                 |                          |
| Due in 2021   | \$ 19               | \$ —            | \$ —                     |
| Due in 2022   | 301                 | —               | 250                      |
| Due through June 30, 2023   | 42                  | —               | —                        |
| Due thereafter  | 606                 | 3,039           | —                        |
| <b>Total</b>  | <b>\$ 968</b>       | <b>\$ 3,039</b> | <b>\$ 250</b>            |
| <b>Principal amount of SOFR-linked instruments issued YTD through</b>   |                     |                 |                          |
| <b>June 30, 2021</b>  | <b>\$ 73</b>        | <b>\$ —</b>     | <b>\$ 7,020</b>          |

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

<sup>b</sup> Consists primarily of advances indexed to consolidated obligation yields.



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

| As of June 30, 2021   | Derivative Notional Amount Outstanding |                |                  |                    |                  |               |           |              |
|---|--|----------------|------------------|--------------------|------------------|---------------|-----------|--------------|
|   | Pay Leg                                |                | Receive Leg      |                    |                  |               |           |              |
| <b>Interest rate swaps outstanding</b>  |  |                |                  |                    |                  |               |           |              |
| Fixed rate  | \$                                     | 37,955         | \$               | 22,310             |                  |               |           |              |
| LIBOR   |  | 4,817          |                  | 18,664             |                  |               |           |              |
| SOFR  |  | 310            |                  | 2,431              |                  |               |           |              |
| OIS   |  | 17,183         |                  | 16,860             |                  |               |           |              |
| <b>Total interest rate swaps</b>  | <b>\$</b>                              | <b>60,265</b>  | <b>\$</b>        | <b>60,265</b>      |                  |               |           |              |
| <b>Breakdown of above LIBOR interest rate swaps by termination date and type</b>  |  | <b>Pay Leg</b> |                  | <b>Receive Leg</b> |                  |               |           |              |
|   |  | <b>Cleared</b> | <b>Uncleared</b> | <b>Cleared</b>     | <b>Uncleared</b> |               |           |              |
| <b>Overnight, 1 month, 3 month, 6 month and 12-Month US Dollar LIBOR that cease or will no longer be representative immediately after June 30, 2023</b> |  |                |                  |                    |                  |               |           |              |
| Terminates in 2021  | \$                                     | 1,052          | \$               | 555                | \$               | 636           | \$        | 445          |
| Terminates in 2022  |  | 1,768          |                  | 45                 |                  | 428           |           | 271          |
| Terminates through June 30, 2023  |  | 767            |                  | 35                 |                  | 499           |           | 166          |
| Terminates thereafter   |  | 416            |                  | 179                |                  | 8,954         |           | 7,266        |
| <b>Total</b>  | <b>\$</b>                              | <b>4,003</b>   | <b>\$</b>        | <b>814</b>         | <b>\$</b>        | <b>10,517</b> | <b>\$</b> | <b>8,148</b> |

### Condensed Statements of Cash Flows

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

| Six months ended June 30,                                  | 2021          | 2020              | Change          |
|--|---------------|-------------------|-----------------|
| <b>Net cash provided by (used in) operating activities</b> | <b>\$ 296</b> | <b>\$ (2,013)</b> | <b>\$ 2,309</b> |

The majority of our operating cash outflows in 2020 were related to cash sent daily to clearinghouses to settle mark-to-market derivative positions due to the COVID-19 pandemic impact on market volatility, which occurred primarily in the first quarter of 2020. Since then these cash flows have generally reversed during 2021.

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

| Six months ended June 30,  | 2021            | 2020            | Change            |
|--|-----------------|-----------------|-------------------|
| Liquid assets (Federal Funds sold, securities purchased under agreements to resell, and interest bearing deposits) | \$ (2,275)      | \$ 6,060        | \$ (8,335)        |
| Investment debt securities   | 1,271           | (2,689)         | 3,960             |
| Advances   | 105             | 2,087           | (1,982)           |
| MPF Loans held in portfolio  | 228             | (979)           | 1,207             |
| Other  | (7)             | (9)             | 2                 |
| <b>Net cash provided by (used in) investing activities</b>   | <b>\$ (678)</b> | <b>\$ 4,470</b> | <b>\$ (5,148)</b> |

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

- In 2021, our liquid assets increased due to a lack of investment opportunities given very low rates of yield on investment debt securities. In 2020 we reduced our liquid assets as we funded increased investment debt securities after we achieved



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regulatory requirements related to liquidity, our mission asset ratio and MBS and ABS investments at the beginning of the year. We maintain a sufficient pool of liquidity to support anticipated member demand for advances and letters of credit.

- Our advances outstanding decreased slightly in 2021 as member demand for funding remained steady. We experienced a significantly larger decrease in advances during the same period in 2020 as members had reduced need for advances as a result of an inflow of deposits on their balance sheets along with reduced loan demand, as well as access to other liquidity sources as a result of certain government actions related to the COVID-19 pandemic.
- Net investment in MPF Loans held in portfolio declined slightly in 2021 due to customer paydowns in mortgage loans as a result of refinancing opportunities relative to an increase in mortgage loans in 2020 due to new-acquisition volume outpacing paydowns and maturities.

Net cash flows from financing activities with significant activity

| Six months ended June 30,                                  | 2021              | 2020              | Change          |
|--|-------------------|-------------------|-----------------|
| Consolidated obligation discount notes                     | \$ (2,911)        | \$ (4,183)        | \$ 1,272        |
| Consolidated obligation bonds                              | 429               | 1,062             | (633)           |
| Other  | (237)             | 683               | (920)           |
| <b>Net cash provided by (used in) financing activities</b> | <b>\$ (2,719)</b> | <b>\$ (2,438)</b> | <b>\$ (281)</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 six months ended June 30 unless otherwise stated.

- In both 2021 and 2020, we paid down discount notes and increased our use of bonds to align with advantageous funding opportunities and our shrinking balance sheet.
- The change in Other primarily reflects changes in member deposits at our Bank. In 2021, members withdrew a small amount of deposits compared to a large increase in deposits in 2020.

**Capital Resources**

*Capital Rules*

We implemented the Capital Plan of the Federal Home Loan Bank of Chicago, effective as of May 3, 2021 (the Capital Plan).

Under the 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 per share and redeemable on five years' written notice, subject to certain conditions. 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 new master commitments executed on or after May 3, 2021. Under the Capital Plan, the range within which our Board may adjust this requirement is between 0% and 5%. For letters of credit, the activity stock requirement is 0.10% of the notional amount of all new letters of credit issued on or after May 3, 2021, and all existing letters of credit renewed, extended or increased on or after May 3, 2021. 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 between Class B2 membership stock and 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 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 2019 and 2020, see **Capital Resources** on page 62 of our 2020 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 financial statements in this Form 10-Q, and **Minimum Capital Requirements in Note 12 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements of our 2020 Form 10-K.

#### *Reduced Capitalization Advance Program (RCAP)*

RCAP allows members to borrow one or more advances with an activity stock requirement of only 2% for the life of the advance instead of the current 4.5% requirement under our Capital Plan's general provisions. At June 30, 2021, RCAP advances outstanding total \$21.3 billion to 383 members compared to \$21.9 billion to 449 members at December 31, 2020. The advances issued through our COVID-19 relief program are all RCAP advances. We may implement future programs for advances with a reduced activity stock requirement that may or may not have the same characteristics as current RCAP offerings.

#### **Repurchase of Excess Capital Stock**

Members may request repurchase of excess capital stock on any business day. Additionally, starting on March 15, 2021, and continuing on a monthly basis, the Bank plans to repurchase 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 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 65 of our 2020 Form 10-K.



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*Capital Amounts*

The following table reconciles our capital reported in our **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 other liabilities in our **Statements of Condition**.

|   | <b>June 30, 2021</b> | December 31,<br>2020 |
|---|----------------------|----------------------|
| Capital Stock   | \$ 2,007             | \$ 2,010             |
| Mandatorily redeemable capital stock (MRCS) recorded as a liability | 248                  | 279                  |
| <b>Regulatory capital stock</b>                                     | <b>2,255</b>         | 2,289                |
| Retained earnings   | 4,139                | 4,072                |
| <b>Regulatory capital</b>   | <b>\$ 6,394</b>      | <b>\$ 6,361</b>      |
|   |                      |                      |
| Capital stock   | \$ 2,007             | \$ 2,010             |
| Retained earnings   | 4,139                | 4,072                |
| Accumulated other comprehensive income (loss)                       | 487                  | 207                  |
| <b>GAAP capital</b>   | <b>\$ 6,633</b>      | <b>\$ 6,289</b>      |

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 are 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 financial statements.

We may not pay dividends if we fail to satisfy our minimum capital and liquidity requirements under the FHLB Act and FHFA regulations. On July 28, 2021, our Board of Directors declared a 5.00% dividend (annualized) for Class B1 activity stock and a 2.00% dividend (annualized) for Class B2 membership stock based on our preliminary financial results for the second quarter of 2021. This dividend totaled \$25 million (recorded as \$22 million dividends on capital stock and \$3 million interest expense on mandatorily redeemable capital stock) and is scheduled for payment on August 12, 2021.

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 see **Retained Earnings & Dividends** on page 66 in our 2020 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 of our 2020 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**

In light of the economic and financial disruptions related to the COVID-19 pandemic, we are closely monitoring our credit risk exposure. Notwithstanding increasing COVID-19 vaccination rates and the easing of restrictive measures, uncertainty remains with respect to the speed and extent to which normal economic and operating conditions can resume, and with the ultimate effect of the COVID-19 pandemic on our business, financial condition, and results of operations. For a discussion of the credit risks facing the Bank as a result of the COVID-19 pandemic, including as a result of increased forbearances granted by Bank members or PFIs or a decline in the fair value of Bank investments, see **Risk Factors** starting on page 23 of our 2020 Form 10-K.

*Managing Our Credit Risk Exposure Related to Member Credit Products*

Our credit risk rating system focuses primarily on our member's overall financial health and takes into account the member's asset quality, earnings, and capital position. For further information please see **Credit Risk** starting on page 69 in our 2020 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, \$45.7 billion were advances (par value) and \$12.8 billion were letters of credit at June 30, 2021, compared to \$45.8 billion and \$16.4 billion at December 31, 2020.

| Rating | June 30, 2021     |                    |                       | December 31, 2020 |                    |                       |
|--------|-------------------|--------------------|-----------------------|-------------------|--------------------|-----------------------|
|        | Borrowing Members | Credit Outstanding | Collateral Loan Value | Borrowing Members | Credit Outstanding | Collateral Loan Value |
| 1-3    | 548               | \$ 58,199          | \$ 130,751            | 556               | \$ 62,021          | \$ 149,125            |
| 4      | 6                 | 358                | 618                   | 9                 | 573                | 790                   |
| 5      | 8                 | 43                 | 53                    | 9                 | 28                 | 61                    |
| Total  | 562               | \$ 58,600          | \$ 131,422            | 574               | \$ 62,622          | \$ 149,976            |

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.

In response to the COVID-19 pandemic, we began accepting Paycheck Protection Program (PPP) loans as eligible collateral. In addition, as many of our members assist borrowers affected by the COVID-19 pandemic, we are accepting as eligible collateral loans temporarily granted forbearance due to the pandemic as long as the loans continue to meet all other eligibility requirements as defined in our collateral guidelines. To the extent that these loans become delinquent or do not meet the Bank's eligibility guidelines in the future, the value of collateral pledged to secure member credit may be negatively impacted.



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#### *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 financial statements.

Credit Risk Exposure - Our credit risk exposure on conventional MPF Loans held in portfolio is the potential for financial loss due to borrower default and depreciation in the value of the real estate collateral securing the MPF Loan, offset by our ability to recover losses from PMI, Recoverable CE Fees, and the CE Amount which may include SMI. The PFI is required to pledge collateral to secure any portion of its CE Amount that is a direct obligation of the PFI. For further details see **Loss Structure for Credit Risk Sharing Products** on page 9 of our 2020 Form 10-K, and **Credit Risk Exposure** and **Setting Credit Enhancement Levels** starting on page 72 of our 2020 Form 10-K.

Under our MPF Program for non-government insured or guaranteed loans held in our portfolio, the loan payment forbearance offered to borrowers impacted by the COVID-19 pandemic allows a borrower to defer loan payments for up to 180 days without requiring documentation from the borrower to support the relief requested. Borrowers that continue to be impacted by COVID-19 may request extensions of the loan payment forbearance for additional periods of up to 365 days, not exceeding a total cumulative forbearance period of 18 months. A hardship certification from the borrower supporting the continued hardship due to the COVID-19 pandemic is required for approval of additional payment forbearance. During forbearance, late fees are not assessed. At the end of forbearance, borrowers are presented with options for bringing their mortgage loan to a current status. For government insured or guaranteed loans held in our portfolio, the forbearance plan requirements of the insuring or guaranteeing agency must be followed. For MPF Xtra loans that are serviced by PFIs or a servicing aggregator approved by the MPF Program, Fannie Mae's forbearance plan requirements must be followed. The CARES Act requires that servicers servicing government insured or guaranteed loans and loans purchased by Fannie Mae offer their borrowers a payment forbearance plan where the initial forbearance period is up to 180 days with the availability of an additional 180 days for COVID-19 related hardship. Fannie Mae has amended its plan from the CARES Act requirements, to offer their borrowers initial forbearance period of up to 180 days with the availability of additional periods of up to 365 days, not exceeding a total cumulative forbearance period of 18 months.

Borrowers in forbearance plans who have resolved their COVID-19 related financial hardships, and who are able to resume making their original monthly payments, are offered deferral plans allowing them to resume making those payments while deferring the COVID-19 related forbearance arrears to the earlier of the loan being paid off, the loan maturity date, or sale of the property.

In addition, the foreclosure moratorium will continue until at least December 31, 2021 in accordance with the recently published Consumer Financial Protection Bureau (CFPB) "Protections for Borrowers Affected by the COVID-19 Emergency Under the Real Estate Settlement Procedures Act (RESPA), Regulation X". This CFPB rulemaking extends the foreclosure moratorium through the end of 2021; however, it permits the foreclosure of certain loans such as those loans on vacant property and those loans that were in a delinquency status prior to March 2020. Other than the foreclosure moratorium exceptions noted in the CFPB's rule, barring any extensions of the CFPB's requirements or other regulatory limitations, foreclosures are expected to fully resume on January 1, 2022.

#### Mortgage Repurchase Risk

For details on our mortgage repurchase risk in connection with our sale of MPF Loans to third party investors and MPF Loans securitized into MBS when a loan eligibility requirement or other warranty is breached, see **Mortgage Repurchase Risk** on page 74 in our 2020 Form 10-K.



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*Investment Debt Securities*

We hold a variety of investment 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, 2020. For further details see **Investment Debt Securities** on page 76 in our 2020 Form 10-K.

*Unsecured Short-Term Investments*

See **Unsecured Short-Term Investments** on page 77 in our 2020 Form 10-K for further details on our unsecured short-term investments as well as policies and procedures to limit and monitor our unsecured credit risk exposure.

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

| <b>As of June 30, 2021</b>  | <b>AA</b>       | <b>A</b>        | <b>Total</b>    |
|---|-----------------|-----------------|-----------------|
| <b>Domestic U.S.</b>  |                 |                 |                 |
| Interest-Bearing Deposits   | \$ —            | \$ 855          | \$ 855          |
| <b>U.S. branches and agency offices of foreign commercial banks - Federal Funds sold:</b> |                 |                 |                 |
| Australia   | —               | 1,000           | 1,000           |
| Canada  | —               | 1,875           | 1,875           |
| Finland   | 500             | —               | 500             |
| France  | —               | 100             | 100             |
| Netherlands   | —               | 700             | 700             |
| Norway  | 600             | —               | 600             |
| <b>Total U.S. branches and agency offices of foreign commercial banks</b>                 | <b>1,100</b>    | <b>3,675</b>    | <b>4,775</b>    |
| <b>Total unsecured credit exposure</b>  | <b>\$ 1,100</b> | <b>\$ 4,530</b> | <b>\$ 5,630</b> |

All \$5.630 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 financial statements for a discussion of how we manage our credit risk exposure related to derivative agreements. We have credit exposure on net asset positions where we have not received adequate collateral from our counterparties. We also have credit exposure on net liability positions where we have pledged collateral in excess of our liability to a counterparty.

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

|   | Net Derivative<br>Fair Value<br>Before Collateral | Cash Collateral<br>Pledged | Noncash<br>Collateral<br>Pledged | Net Credit<br>Exposure to<br>Counterparties <sup>a</sup> |
|---|---|----------------------------|----------------------------------|--|
| <b>As of June 30, 2021</b>                      |   |                            |                                  |  |
| <b>Nonmember counterparties -</b>               |   |                            |                                  |  |
| <b>Overcollateralized liability positions -</b> |   |                            |                                  |  |
| <b>Bilateral derivatives -</b>                  |   |                            |                                  |  |
| A   | \$ (107)  | \$ 110                     | \$ —                             | \$ 3   |
| BBB   | (132)   | 139                        | —                                | 7  |
| Cleared derivatives                             | (61)  | —                          | 582                              | 521  |
| <b>Nonmember counterparties</b>                 | <b>(300)</b>                                      | <b>249</b>                 | <b>582</b>                       | <b>531</b>   |
| Member institutions                             | 3   | —                          | —                                | 3  |
| <b>Total</b>                                    | <b>\$ (297)</b>                                   | <b>\$ 249</b>              | <b>\$ 582</b>                    | <b>\$ 534</b>  |
| <b>As of December 31, 2020</b>                  |   |                            |                                  |  |
| <b>Nonmember counterparties -</b>               |   |                            |                                  |  |
| <b>Undercollateralized asset positions -</b>    |   |                            |                                  |  |
| <b>Bilateral derivatives -</b>                  |   |                            |                                  |  |
| A   | \$ 2  | \$ (2)                     | \$ —                             | \$ —   |
| <b>Overcollateralized liability positions -</b> |   |                            |                                  |  |
| <b>Bilateral derivatives -</b>                  |   |                            |                                  |  |
| A   | (125)   | 6                          | 120                              | 1  |
| BBB   | (147)   | —                          | 147                              | —  |
| Cleared derivatives                             | (8)   | —                          | 623                              | 615  |
| <b>Nonmember counterparties</b>                 | <b>(278)</b>                                      | <b>4</b>                   | <b>890</b>                       | <b>616</b>   |
| Member counterparties                           | 5   | —                          | —                                | 5  |
| <b>Total</b>                                    | <b>\$ (273)</b>                                   | <b>\$ 4</b>                | <b>\$ 890</b>                    | <b>\$ 621</b>  |

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



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### **Legislative and Regulatory Developments**

Significant regulatory actions and developments are summarized below.

#### **LIBOR Transition**

##### *LIBOR Transition – 2021 ISDA Interest Rate Derivatives Definitions*

On June 11, 2021, ISDA published 2021 ISDA Interest Rate Derivatives Definitions (2021 ISDA Definitions), which will update and consolidate the frequently supplemented 2006 ISDA Definitions as the standard definitions for uncleared interest rate derivatives. The 2021 ISDA Definitions incorporate prior supplements to the 2006 ISDA Definitions in addition to other changes made to conform to updates in market practice and regulation. Both the 2006 ISDA Definitions as supplemented effective January 25, 2021, and the 2021 ISDA Definitions contain ISDA-recommended fallbacks for interest rate derivatives referencing an interbank offered rate, including U.S. Dollar LIBOR. ISDA has announced that implementation of the 2021 ISDA Definitions is expected to take place for clearing houses, trading venues and other market infrastructures between October 1-4, 2021. While the FHLBs may continue to use the current 2006 ISDA Definitions, ISDA will not incorporate any further supplements following implementation of the 2021 ISDA Definitions.

We are evaluating whether to use the 2021 ISDA Definitions for future derivatives transactions.

#### **COVID-19 Developments**

##### *Federal Reserve Board (FRB) Extends Paycheck Protection Program (PPP) Liquidity Facility*

On June 25, 2021, the FRB announced a final extension of its PPP Liquidity Facility (PPPLF) by an additional month to July 30, 2021. The PPPLF provides collateralized PPP loan liquidity to eligible Federal Reserve member financial institutions in order to facilitate PPP loan originations at such financial institutions. The extension would allow additional processing time for banks, community development financial institutions, and other financial institutions to pledge to the facility any PPP loans approved by the Small Business Administration through the June 30, 2021 expiration of the PPP program.

##### *Additional COVID-19 Presidential, Legislative and Regulatory Developments*

In light of the COVID-19 pandemic, the former and current Presidents of the United States, through executive orders, governmental agencies, including the SEC, OCC, Federal Reserve, FDIC, National Credit Union Administration, CFTC and the FHFA, as well as state governments and agencies, have taken, and may continue to take, actions to provide various forms of relief from, and guidance regarding, the financial, operational, credit, market, and other effects of the pandemic, and the Congress has and may continue to enact pandemic relief legislation, some of which may have a direct or indirect impact on the Bank or its members. Many of these actions are temporary in nature. We continue to monitor these actions and guidance as they evolve and to evaluate their potential impact on us.

For further discussion of the risks and potential risks relating to the COVID-19 pandemic, see **Risk Factors** starting on page 23 of our 2020 Form 10-K.

#### **Other Legislative Matters**

##### *Affordable Housing and Community Investment*

Legislation has been introduced in the U.S. Senate and House of Representatives that, if enacted in its proposed form, would require that the FHLBs set aside higher percentages of their earnings for their affordable housing and community investment programs than is currently required under law. The FHLBs are actively monitoring these proposals.



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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. 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 so that shocked rates will not go negative. As a result, we floored the down shock scenario at 10 bps. Due to the low rate environment, this floor setting was triggered in our down shock scenarios presented below.

| Scenario as of | June 30, 2021                    |            | December 31, 2020                |            |
|----------------|----------------------------------|------------|----------------------------------|------------|
|                | Change in Market Value of Equity | Loss Limit | Change in Market Value of Equity | Loss Limit |
| -200 bp        | \$ 330                           | \$ (450)   | \$ 421                           | \$ (450)   |
| -100 bp        | 44                               | (200)      | 225                              | (200)      |
| -50 bp         | 23                               | (90)       | 140                              | (90)       |
| -25 bp         | 8                                | (45)       | 96                               | (45)       |
| +25 bp         | (12)                             | (45)       | (11)                             | (45)       |
| +50 bp         | (29)                             | (90)       | (31)                             | (90)       |
| +100 bp        | (72)                             | (200)      | (84)                             | (200)      |
| +200 bp        | (165)                            | (450)      | (187)                            | (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.

|                         | Option Risk      |                    |                   | Basis Risk           |                 |
|-------------------------|------------------|--------------------|-------------------|----------------------|-----------------|
|                         | Yield Curve Risk | Implied Volatility | Prepayment Speeds | Spread to Swap Curve | Mortgage Spread |
| As of June 30, 2021     | \$ 2             | \$ 3               | \$ (1)            | \$ (16)              | \$ —            |
| As of December 31, 2020 | —                | (1)                | (4)               | (25)                 | 1               |

*Yield curve risk* – Change in market value for a one basis point parallel increase in the swap curve.

*Option risk (implied volatility)* – Change in market value for a one percent parallel increase in the swaption volatility.

*Option risk (prepayment speeds)* – Change in market value for a one percent increase in prepayment speeds.

*Basis risk (spread to swap curve)* – Change in market value for a one basis point parallel increase in the spread to the swap curve.

*Basis risk (mortgage spread)* – Change in market value for a one basis point increase in mortgage rates.

As of June 30, 2021, our sensitivity to changes in implied volatility using these models was \$3 million, compared to \$(1) million at December 31, 2020. 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.

| Scenario as of       | Duration of equity in years |            |            |
|----------------------|-----------------------------|------------|------------|
|                      | Down 200 bps                | Base       | Up 200 bps |
| <b>June 30, 2021</b> | <b>1.0</b>                  | <b>0.5</b> | <b>1.3</b> |
| December 31, 2020    | 1.4                         | 0.6        | 1.4        |

As of June 30, 2021, on a U.S. GAAP basis, our fair value surplus (relative to book value) was \$438 million, and our market value of equity to book value of equity ratio was 106%, compared to \$330 million and 105% at December 31, 2020. Our market to book value of total capital for regulatory risk-based capital purposes differs from this GAAP calculation, as discussed in **Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements.

**Item 4. Controls and Procedures.**

**Disclosure Controls and Procedures**

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

**Changes in Internal Control Over Financial Reporting**

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

**Consolidated Obligations**

Our disclosure controls and procedures include controls and procedures for accumulating and communicating information relating to our joint and several liability for the consolidated obligations of other FHLBs. For further information, see **Item 9A. Controls and Procedures** on page 88 of our 2020 Form 10-K.



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**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

For a discussion of the litigation relating to PLMBS bonds purchased by the Bank, see **Item 3. Legal Proceedings** on page 36 of our 2020 Form 10-K.

The Bank may also be subject to various other legal proceedings arising in the normal course of business. After consultation with legal counsel, management is not aware of any other 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 23 in our 2020 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.**

- [4.1](#) [Capital Plan of the Federal Home Loan Bank of Chicago, effective as of May 3, 2021](#)<sup>a</sup>
- [31.1](#) [Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer](#)<sup>b</sup>
- [31.2](#) [Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer](#)<sup>b</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>b</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>b</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>b</sup>
- 101.SCH Inline XBRL Taxonomy Extension Schema Document<sup>b</sup>
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document<sup>b</sup>
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document<sup>b</sup>
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document<sup>b</sup>
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document<sup>b</sup>
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)<sup>b</sup>

<sup>a</sup> Filed as Exhibit 4.1 with our Form 10-Q on May 6, 2021, SEC File No.: 000-51401

<sup>b</sup> Filed herewith.



**Glossary of Terms**

**Advances:** Secured loans to members.

**ABS:** Asset backed securities.

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

**AOI:** Accumulated Other Comprehensive Income.

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

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

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

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

**CFTC:** Commodity Futures Trading Commission

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

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

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

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

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

**Fannie Mae:** Federal National Mortgage Association.

**FASB:** Financial Accounting Standards Board.

**FCM:** Futures Commission Merchant.

**FFELP:** Federal Family Education Loan Program.

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

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

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

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

**FHLB Chicago:** The Federal Home Loan Bank of Chicago.



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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.

**HFS:** Held for sale.

**HTM:** Held-to-maturity debt securities.

**LIBOR:** London Interbank Offered Rate.

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

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

**MBS:** Mortgage backed securities.

**Moody's:** Moody's Investors Service.

**MPF<sup>®</sup>:** Mortgage Partnership Finance.

**MPF Banks:** FHLBs that participate in the MPF program.

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

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

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

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

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

**MRCS:** Mandatorily redeemable capital stock.

**NRSRO:** Nationally Recognized Statistical Rating Organization.

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

**OIS:** Overnight Index Swap



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**OTTI:** Other-than-temporary impairment.

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

**PLMBS:** Private label mortgage backed securities.

**PMI:** Primary Mortgage Insurance.

**PPP:** Paycheck Protection Program.

**RCAP:** Reduced Capitalization Advance Program.

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

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

**Regulatory capital:** Regulatory capital stock plus retained earnings.

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

**REO:** Real estate owned

**SEC:** Securities and Exchange Commission.

**SOFR:** Secured Overnight Financing Rate.

**SOFR SARM MBS:** SOFR Structured Adjustable Rate Mortgage MBS.

**SMI:** Supplemental mortgage insurance.

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

**UPB:** Unpaid Principal Balance.

**U.S.:** United States



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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: August 5, 2021

/s/ Roger D. Lundstrom

Name: Roger D. Lundstrom

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

Date: August 5, 2021

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  
by the Principal Executive Officer

I, Michael A. Ericson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Federal Home Loan Bank of Chicago;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

By: /s/ Michael A. Ericson

Name: Michael A. Ericson

Title: President and Chief Executive Officer  
(Principal Executive Officer)

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  
by the Principal Financial Officer

I, Roger D. Lundstrom, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Federal Home Loan Bank of Chicago;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

By: /s/ Roger D. Lundstrom

Name: Roger D. Lundstrom

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

Certification Pursuant to 18 U.S.C. Section 1350,  
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
by the Principal Executive Officer

In connection with the Quarterly Report of the Federal Home Loan Bank of Chicago (the "Bank") on Form 10-Q for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael A. Ericson, President and Chief Executive Officer, certify to my knowledge, pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: August 5, 2021

By: /s/ Michael A. Ericson

Name: Michael A. Ericson

Title: President and Chief Executive Officer  
(Principal Executive Officer)

*A signed original of this written statement has been provided to the Bank and will be retained by the Bank and furnished to the Securities and Exchange Commission or its staff upon request.*

Certification Pursuant to 18 U.S.C. Section 1350,  
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
by the Principal Financial Officer

In connection with the Quarterly Report of the Federal Home Loan Bank of Chicago (the "Bank") on Form 10-Q for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Roger D. Lundstrom, Executive Vice President and Chief Financial Officer certify to my knowledge, pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: August 5, 2021

By: /s/ Roger D. Lundstrom

Name: Roger D. Lundstrom

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

*A signed original of this written statement has been provided to the Bank and will be retained by the Bank and furnished to the Securities and Exchange Commission or its staff upon request.*