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, 2016

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

FHLB Chicago | Federal Home Loan Bank of 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.)
200 East Randolph Drive Chicago, IL	**60601**
(Address of principal executive offices)	(Zip Code)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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, 2016, including mandatorily redeemable capital stock, registrant had 20,761,778 total outstanding shares of Class B Capital Stock.

FHLB Chicago | Federal Home Loan Bank of Chicago

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

	June 30, 2016	December 31, 2015
Assets		
Cash and due from banks	$ 375	$ 499
Interest bearing deposits	650	650
Federal Funds sold	3,573	1,702
Securities purchased under agreements to resell	1,750	1,375
Investment securities -		
Trading, $101 and $62 pledged	1,200	1,160
Available-for-sale	16,248	17,470
Held-to-maturity, $6,090 and $6,513 fair value	5,543	5,967
Investment securities	22,991	24,597
Advances, $594 and $511 carried at fair value	46,424	36,778
MPF Loans held in portfolio, net of allowance for credit losses of $(3) and $(3)	4,667	4,828
Derivative assets	4	2
Other assets, $36 and $54 carried at fair value	228	240
Assets	$ 80,662	$ 70,671
Liabilities		
Deposits -		
Noninterest bearing	$ 50	$ 41
Interest bearing, $24 and $12 from other FHLBs	482	497
Deposits	532	538
Consolidated obligations, net -		
Discount notes, $10,140 and $9,006 carried at fair value	45,876	41,564
Bonds, $5,960 and $952 carried at fair value	29,091	22,582
Consolidated obligations, net	74,967	64,146
Derivative liabilities	51	55
Affordable Housing Program assessment payable	93	89
Mandatorily redeemable capital stock	302	8
Other liabilities	210	239
Subordinated notes	—	944
Liabilities	76,155	66,019
Commitments and contingencies - see notes to the financial statements		
Capital		
Class B1 activity stock - putable $100 par value - 12 million and 13 million shares issued and outstanding	1,232	1,313
Class B2 membership stock - putable $100 par value - 5 million and 6 million shares issued and outstanding	542	637
Capital stock	1,774	1,950
Retained earnings - unrestricted	2,526	2,407
Retained earnings - restricted	358	323
Retained earnings	2,884	2,730
Accumulated other comprehensive income (loss) (AOCI)	(151)	(28)
Capital	4,507	4,652
Liabilities and capital	$ 80,662	$ 70,671

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

FHLB Chicago | Federal Home Loan Bank of Chicago

Statements of Income (unaudited)
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Interest income	**$ 317**	$ 309	**$ 635**	$ 630
Interest expense	**206**	188	**404**	379
Net interest income	**111**	121	**231**	251
Provision for (reversal of) credit losses	**—**	4	**—**	4
Net interest income after provision for (reversal of) credit losses	**111**	117	**231**	247
Noninterest gain (loss) on -				
Trading securities	**(1)**	—	**—**	(1)
Derivatives and hedging activities	**2**	9	**(14)**	(2)
Instruments held under fair value option	**1**	—	**6**	3
Litigation settlement awards	**38**	10	**38**	11
Other, net	**10**	5	**17**	8
Noninterest gain (loss)	**50**	24	**47**	19
Noninterest expense -				
Compensation and benefits	**22**	18	**45**	37
Operating expenses	**14**	14	**29**	25
Other	**10**	1	**12**	4
Noninterest expense	**46**	33	**86**	66
Income before assessments	**115**	108	**192**	200
Affordable Housing Program assessment	**11**	11	**19**	20
Net income	**$ 104**	$ 97	**$ 173**	$ 180

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

Statements of Comprehensive Income (unaudited)
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Net income	**$ 104**	$ 97	**$ 173**	$ 180
Other comprehensive income (loss) -				
Net unrealized gain (loss) available-for-sale securities	**(60)**	(113)	**(100)**	(135)
Non-credit OTTI held-to-maturity securities	**10**	13	**21**	26
Net unrealized gain (loss) cash flow hedges	**8**	67	**(45)**	39
Post-retirement plans	**1**	—	**1**	(8)
Other comprehensive income (loss)	**(41)**	(33)	**(123)**	(78)
Comprehensive income	**$ 63**	$ 64	**$ 50**	$ 102

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

Statements of Capital (unaudited)
(Dollars and shares in millions)

	Capital Stock - Putable - B1 Activity		Capital Stock - Putable - B2 Membership		Capital Stock		Retained Earnings				
	Shares	Value	Shares	Value	Shares	Value	Unrestricted	Restricted	Total	AOCI	Total Capital
December 31, 2015	**13**	**$1,313**	**6**	**$ 637**	**19**	**$1,950**	**$ 2,407**	**$ 323**	**$2,730**	**$ (28)**	**$4,652**
Comprehensive income							**138**	**35**	**173**	**(123)**	**50**
Proceeds from issuance of capital stock	**7**	**702**	**—**	**5**	**7**	**707**					**707**
Repurchases of capital stock	**(3)**	**(319)**	**(3)**	**(265)**	**(6)**	**(584)**					**(584)**
Capital stock reclassified to mandatorily redeemable capital stock (other liabilities)	**(3)**	**(294)**	**—**	**(5)**	**(3)**	**(299)**					**(299)**
Transfers between classes of capital stock	**(2)**	**(170)**	**2**	**170**							
Cash dividends - class B1							**(17)**		**(17)**		**(17)**
Class B1 annualized rate											**2.70%**
Cash dividends - class B2							**(2)**		**(2)**		**(2)**
Class B2 annualized rate											**0.60%**
Total change in period	**(1)**	**(81)**	**(1)**	**(95)**	**(2)**	**(176)**	**119**	**35**	**154**	**(123)**	**(145)**
June 30, 2016	**12**	**$1,232**	**5**	**$ 542**	**17**	**$1,774**	**$ 2,526**	**$ 358**	**$2,884**	**$(151)**	**$4,507**
December 31, 2014	8	$ 827	11	$1,075	19	$1,902	$ 2,152	$ 254	$2,406	$ 217	$4,525
Comprehensive income							144	36	180	(78)	102
Proceeds from issuance of capital stock	1	119	—	12	1	131					131
Repurchases of capital stock	—	(2)	(2)	(195)	(2)	(197)					(197)
Capital stock reclassified to mandatorily redeemable capital stock (other liabilities)	—	—	—	(1)	—	(1)					(1)
Transfers between classes of capital stock	—	(3)	—	3							
Cash dividends - class B1							(8)		(8)		(8)
Class B1 annualized rate											2.25%
Cash dividends - class B2							(3)		(3)		(3)
Class B2 annualized rate											0.50%
Total change in period	1	114	(2)	(181)	(1)	(67)	133	36	169	(78)	24
June 30, 2015	9	$ 941	9	$ 894	18	$1,835	$ 2,285	$ 290	$2,575	$ 139	$4,549

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

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Condensed Statements of Cash Flows (unaudited)
(Dollars in millions)

	Six months ended June 30,	2016	2015
Operating	**Net cash provided by (used in) operating activities**	**$ (8)**	$ 316
Investing	Net change Federal Funds sold	**(1,871)**	774
	Net change securities purchased under agreements to resell	**(375)**	2,150
	Advances -		
	Principal collected	**381,703**	150,185
	Issued	**(391,161)**	(152,279)
	MPF Loans held in portfolio -		
	Principal collected	**570**	720
	Purchases	**(409)**	(44)
	Trading securities -		
	Sales	**1,006**	—
	Proceeds from maturities and paydowns	**105**	4
	Purchases	**(1,153)**	—
	Held-to-maturity securities -		
	Short-term held-to-maturity securities, net	**5** [a]	138 [a]
	Proceeds from maturities and paydowns	**486**	510
	Purchases	**(27)**	(9)
	Available-for-sale securities -		
	Proceeds from maturities and paydowns	**1,159**	974
	Purchases	**(2)**	—
	Other investing activities	**20**	27
	Net cash provided by (used in) investing activities	**(9,944)**	3,150
Financing	Net change deposits	**(6)**	(28)
	Net proceeds from issuance of consolidated obligations -		
	Discount notes	**231,170**	178,092
	Bonds	**14,341**	7,426
	Payments for maturing and retiring consolidated obligations-		
	Discount notes	**(226,872)**	(174,603)
	Bonds	**(7,932)**	(13,035)
	Net proceeds (payments) on derivative contracts with financing element	**(26)**	(30)
	Payments for retiring of subordinated debt	**(944)**	—
	Proceeds from issuance of capital stock	**707**	131
	Repurchase of capital stock	**(584)**	(197)
	Other financing activities	**(7)**	(2)
	Cash dividends paid	**(19)**	(11)
	Net cash provided by (used in) financing activities	**9,828**	(2,257)
	Net increase (decrease) in cash and due from banks	**(124)**	1,209
	Cash and due from banks at beginning of period	**499**	342
	Cash and due from banks at end of period	**$ 375**	$ 1,551
Noncash	Capital stock reclassified to mandatorily redeemable capital stock (other liabilities)	**$ 299**	$ 1

[a] Short-term held-to-maturity securities, net, consists of investment securities with a maturity of less than 90 days when purchased.

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

Note 1 – Background and Basis of Presentation

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

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

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

In the opinion of management, all normal recurring adjustments have been included for a fair statement of this interim financial information. These unaudited financial statements and the following footnotes should be read in conjunction with the audited financial statements and footnotes for the year ended December 31, 2015, included in our Annual Report on Form 10-K (2015 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.

Refer to the **Glossary of Terms** starting on page 62 for the definitions of certain terms used herein.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires us to make assumptions and estimates that may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expense. The most significant of these assumptions and estimates applies to fair value measurements and allowance for credit losses. Actual results could differ from these assumptions and estimates.

Consolidation of Variable Interest Entities

We would consolidate a variable interest entity if we determine that we are its primary beneficiary, which occurs when both conditions shown below are met.

- We have the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance.
- We have the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity.

We did not consolidate any of our investments in variable interest entities since we are not the primary beneficiary. We classify variable interest entities as investment securities in our statements of condition. Such investment securities include, but are not limited to, senior interests in private-label mortgage backed securities (MBS) and Federal Family Education Loan Program asset backed securities (FFELP ABS). Our maximum loss exposure for these investment securities is limited to their carrying amounts. We have no liabilities related to these investments in variable interest entities. We have not provided financial or other support (explicitly or implicitly) to these investment securities that we were not previously contractually required to provide, nor do we intend to provide such support in the future.

Gross versus Net Presentation of Financial Instruments

We present derivative assets and liabilities on a net basis in our statements of condition on the basis that the Bank's right of setoff with its clearing agents and/or its counterparties is enforceable at law. We include accrued interest receivable/payable and cash collateral, including initial and variation margin, in the carrying amount of a derivative. Derivatives are netted by contract (e.g., master netting agreement) or otherwise, to discharge all or a portion of the debt owed to our counterparty by applying against the debt an amount that our counterparty owes to us. Additionally, we clear certain derivatives transactions with clearinghouses classified as a Derivatives Clearing Organization (DCO) through a Futures Commission Merchant (FCM). If these netted amounts are positive, they are classified as a derivative asset and if negative, they are classified as a derivative liability. Any over-collateralization amount received by us is not offset against another derivative asset counterparty exposure for which there is no legal right of offset, while any over-collateralization delivered by us is not offset against another derivative liability counterparty exposure for which there is no legal right of offset. Refer to **Note 9 - Derivatives and Hedging Activities** for further details.

Our policy is to report securities purchased under agreements to resell and securities sold under agreements to repurchase, if any, and securities borrowing transactions, if any, on a gross basis.

Note 2 – Summary of Significant Accounting Policies

Our **Summary of Significant Accounting Policies** through December 31, 2015, can be found in **Note 2 – Summary of Significant Accounting Policies** to the financial statements in our 2015 Form 10-K. We adopted the following policies in 2016:

Simplifying the Presentation of Debt Issuance Cost (i.e., Concession Fees)

In April of 2015, the FASB issued new guidance requiring any concession fee to be presented as a direct deduction from the debt it relates to rather than separately presented as a deferred cost in Other Assets. We retrospectively adopted the new guidance January 1, 2016 by reclassifying deferred concession fees from Other Assets to its related debt, which at the time of adoption included our Consolidated obligations discount notes, Consolidated obligation bonds and Subordinated notes. This reclassification did not have a material effect on our financial condition, results of operations, cash flows, or percentage net interest yield on our consolidated obligations at the time of adoption.

Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships

In March of 2016, the FASB issued new guidance clarifying that a change in counterparty (novation) to a derivative instrument that has been designated as the hedging instrument in an existing hedging relationship would not, in and of itself, be considered a termination of the derivative instrument or be considered a change in the critical term of the hedging relationship. We early adopted this new guidance on a prospective basis effective January 1, 2016. The new guidance did not have a material effect on our financial condition, results of operations, or cash flows at the time of adoption.

Note 3 – Recently Issued but Not Yet Adopted Accounting Standards

Measurement of Credit Losses on Financial Instruments

In June of 2016, the FASB amended existing GAAP guidance applicable to measuring credit losses on financial instruments. The amendment is expected to result in recognizing credit losses in the financial statements on a more timely basis by utilizing forward looking information. Outlined below are key provisions of the amendment.

- Replaces the “incurred loss” impairment methodology applied under current GAAP with an “expected credit losses” methodology.

- The expected credit losses methodology requires us to estimate all credit losses on financial instruments carried on an amortized cost basis and off-balance-sheet credit exposures over their contractual term. Such financial instruments include, but are not limited to, advances, MPF Loans held in portfolio, Held-to-maturity (HTM) securities, and standby letters of credit.

- The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial instrument’s reported amount.

- Aligns the income statement recognition of credit losses for securities with the reporting period in which changes in collectability occur by recording credit losses (and subsequent reversals) through an allowance rather than a write-down as currently required under GAAP.

- Requires recognition of a credit loss on available-for-sale securities into the income statement if the present value of cash flows expected to be collected on the security is less than its amortized cost basis. Additionally, the allowance on available-for-sale (AFS) debt securities will be limited to the amount by which fair value is less than the amortized cost.

- Expands upon the current credit quality disclosures by requiring further disaggregation of financial instruments by their year of origination. This disclosure is expected to help financial statement users better understand credit quality trends of asset portfolios.

We are required to adopt the amendment effective January 1, 2020; however, we are permitted to early adopt the amendment effective January 1, 2019. A modified retrospective transition approach is required to be applied when measuring expected credit losses upon adoption with any cumulative-effect adjustment recorded to retained earnings as of the effective date. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before our effective date. This means write-downs recognized prior to our effective date on securities may not be reversed at the time of our adoption. Instead, improvements in expected cash flows that exist at the time we adopt will continue to be accreted into income over the remaining life of the security. Additionally, recoveries of amounts previously written off prior to the date of adoption will be recorded in earnings when received. We are in the process of reviewing the expected effect of this guidance on our financial condition, results of operations, and cash flows.

Contingent Put and Call Options in Debt Instruments

In March of 2016, the FASB issued new guidance clarifying the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The new guidance clarifies that entities no longer will be required to assess whether the event triggering the acceleration of the contingent call (put) option is related to interest rates or credit risk as opposed to some extraneous event or factor when determining if the contingent call (put) option is clearly and closely related to its debt host. We plan to adopt the new guidance on its effective date, which is January 1, 2017. The modified retrospective approach is required when adopting the new guidance. We do not expect the new guidance to have a material effect on our financial condition, results of operations, or cash flows at the time of adoption.

Leases

In February of 2016, the FASB issued new guidance pertaining to lease accounting. Outlined below are the key provisions relevant to us. These provisions provide guidance governing lessee accounting for operating leases. Currently, we record operating leases off-balance sheet rather than on-balance sheet in our statements of condition.

- Recognize a right-of-use asset and a lease liability, initially measured at the present value of lease payments, in our statement of condition.

- Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.

- Classify all cash payments within operating activities in our statement of cash flows.

- For leases with a term of 12 months or less, we would be permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities.

The new guidance becomes effective January 1, 2019. A modified retrospective transition approach is required to be applied to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. We do not expect the new guidance to have a significant effect on our financial condition, results of operations, and cash flows for the reasons outlined below.

- Our existing off-balance sheet operating leases are not material. As a result, we expect to record an insignificant amount of operating leases in our statements of condition relative to our total assets and total liabilities at the time of adoption.

- Our lease payments and interest expense on operating leases will continue to be reported in a single line item within our statements of income.

- Our lease payments will continue to be reported within operating activities in our statements of cash flows.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January of 2016, the FASB issued new guidance pertaining to the recognition and measurement of financial assets and financial liabilities. The key provisions applicable to us include, but are not limited to, the following:

- The ability to elect the fair value option will continue to be permitted.
- Requires recognizing the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk in other comprehensive income when we elect to carry that liability at fair value under the fair value option.
- Requires separate presentation of financial assets and financial liabilities by measurement category, such as amortized cost, and form, such as securities or loans, on our statements of condition or the accompanying notes to the financial statements.
- Eliminates the requirement to disclose the method(s) and assumptions used to estimate fair value of financial instruments measured at amortized cost on our statements of condition.

The new guidance becomes effective January 1, 2018. We are in the process of reviewing its expected effect on our financial condition, results of operations, and cash flows.

Revenue from Contracts with Customers

In May of 2014, the FASB issued new guidance governing revenue recognition from contracts with customers. In August of 2015, the FASB deferred the effective date of this new guidance until January 1, 2018. Subsequently, the FASB has issued several pronouncements that provide additional guidance and clarifications to the revenue recognition guidance issued in May of 2014. The new revenue recognition guidance is not expected to have a material effect on our financial condition, results of operations, or cash flows at the time of adoption. This is because the majority of our financial instruments and other contractual rights are within the scope of other GAAP guidance; and accordingly, are excluded from the scope of this new revenue recognition guidance.

(Dollars in millions except per share amounts unless otherwise indicated)

Note 4 – Interest Income and Interest Expense

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Interest income -				
Investment securities -				
Trading	**$ 3**	$ 1	**$ 5**	$ 2
Available-for-sale	**119**	130	**251**	264
Held-to-maturity	**56**	69	**115**	138
Investment securities	**178**	200	**371**	404
Advances -				
Advance interest income	**68**	42	**130**	81
Advance prepayment fees	**6**	—	**7**	6
Advances	**74**	42	**137**	87
MPF Loans held in portfolio	**55**	66	**112**	135
Other interest bearing assets	**10**	1	**15**	4
Interest income	**317**	309	**635**	630
Interest expense -				
Consolidated obligations -				
Discount notes	**95**	72	**177**	144
Bonds	**98**	103	**200**	208
Consolidated obligations	**193**	175	**377**	352
Subordinated notes	**10**	13	**24**	27
Other interest bearing liabilities	**3**	—	**3**	—
Interest expense	**206**	188	**404**	379
Net interest income	**$ 111**	$ 121	**231**	251
Provision for (reversal of) credit losses	**—**	4	**—**	4
Net interest income after provision for (reversal of) credit losses	**$ 111**	$ 117	**$ 231**	$ 247

(Dollars in millions except per share amounts unless otherwise indicated)

Note 5 – Investment Securities

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

- U.S. Government & other government related may consist of the sovereign debt of the United States; debt issued by government sponsored enterprises (GSE); and non-mortgage-backed securities of the Small Business Administration and Tennessee Valley Authority.
- 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 MBS.
- Private-label residential MBS.
- State or local housing agency obligations.

Pledged Collateral

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

Trading Securities

The following table presents the fair value of our trading securities. We did not hold a material amount of securities we issued through our MPF Government MBS product as of the dates presented. We had no material unrealized gains or losses on trading securities.

As of	**June 30, 2016**	December 31, 2015
U.S. Government & other government related	**$ 1,153**	$ 1,108
Residential MBS:		
GSE	**45**	50
Government-guaranteed	**2**	2
Residential MBS	**47**	52
Trading securities	**$ 1,200**	$ 1,160

(Dollars in millions except per share amounts unless otherwise indicated)

Amortized Cost Basis and Fair Value – Available-for-Sale Securities (AFS)

	Amortized Cost Basis	Gross Unrealized Gains in AOCI	Gross Unrealized (Losses) in AOCI	Carrying Amount and Fair Value
As of June 30, 2016				
U.S. Government & other government related	$ 374	$ 24	$ (4)	$ 394
State or local housing agency	20	1	—	21
FFELP ABS	4,740	128	(34)	4,834
Residential MBS:				
GSE	8,936	402	(16)	9,322
Government-guaranteed	1,568	52	—	1,620
Private-label	52	5	—	57
Residential MBS	10,556	459	(16)	10,999
Available-for-sale securities	$ 15,690	$ 612	$ (54)	$ 16,248
As of December 31, 2015				
U.S. Government & other government related	$ 405	$ 21	$ (4)	$ 422
State or local housing agency	18	—	—	18
FFELP ABS	5,090	233	(24)	5,299
Residential MBS:				
GSE	9,427	383	(12)	9,798
Government-guaranteed	1,811	57	—	1,868
Private-label	61	4	—	65
Residential MBS	11,299	444	(12)	11,731
Available-for-sale securities	$ 16,812	$ 698	$ (40)	$ 17,470

We had no sales of AFS securities for the periods presented.

(Dollars in millions except per share amounts unless otherwise indicated)

Amortized Cost Basis, Carrying Amount, and Fair Value - Held-to-Maturity Securities (HTM)

	Amortized Cost Basis	Non-credit OTTI Recognized in AOCI (Loss)	Carrying Amount	Gross Unrecognized Holding Gains	Gross Unrecognized Holding (Losses)	Fair Value
As of June 30, 2016						
U.S. Government & other government related	**$ 1,835**	**$ —**	**$ 1,835**	**$ 83**	**$ —**	**$ 1,918**
State or local housing agency	**14**	**—**	**14**	**—**	**—**	**14**
Residential MBS:						
GSE	**2,024**	**—**	**2,024**	**150**	**—**	**2,174**
Government-guaranteed	**883**	**—**	**883**	**17**	**—**	**900**
Private-label	**983**	**(196)**	**787**	**298**	**(1)**	**1,084**
Residential MBS	**3,890**	**(196)**	**3,694**	**465**	**(1)**	**4,158**
Held-to-maturity securities	**$ 5,739**	**$ (196)**	**$ 5,543**	**$ 548**	**$ (1)**	**$ 6,090**
As of December 31, 2015						
U.S. Government & other government related	$ 1,932	$ —	$ 1,932	$ 64	$ (1)	$ 1,995
State or local housing agency	16	—	16	—	—	16
Residential MBS:						
GSE	2,163	—	2,163	134	—	2,297
Government-guaranteed	969	—	969	16	—	985
Private-label	1,104	(217)	887	334	(1)	1,220
Residential MBS	4,236	(217)	4,019	484	(1)	4,502
Held-to-maturity securities	$ 6,184	$ (217)	$ 5,967	$ 548	$ (2)	$ 6,513

We had no sales of HTM securities for the periods presented.

(Dollars in millions except per share amounts unless otherwise indicated)

Aging of Unrealized Temporary Losses

The following tables present unrealized temporary losses on our AFS and HTM portfolio for periods less than 12 months and for 12 months or more. We recognized no OTTI charges on these unrealized loss positions because we expect to recover the entire amortized cost basis, we do not intend to sell these securities, and we believe it is more likely that not that we will not be required to sell them prior to recovering their amortized cost basis. In the tables below, in cases where the gross unrealized losses for an investment category are less than $1 million, the losses are not reported.

Available-for-Sale Securities

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
As of June 30, 2016						
U.S. Government & other government related	**$ 35**	**$ (1)**	**$ 51**	**$ (3)**	**$ 86**	**$ (4)**
FFELP ABS	**57**	**(1)**	**733**	**(33)**	**790**	**(34)**
Residential MBS:						
GSE	**1,533**	**(5)**	**1,012**	**(11)**	**2,545**	**(16)**
Government-guaranteed	**24**	**—**	**—**	**—**	**24**	**—**
Private-label	**—**	**—**	**8**	**—**	**8**	**—**
Residential MBS	**1,557**	**(5)**	**1,020**	**(11)**	**2,577**	**(16)**
Available-for-sale securities	**$ 1,649**	**$ (7)**	**$ 1,804**	**$ (47)**	**$ 3,453**	**$ (54)**
As of December 31, 2015						
U.S. Government & other government related	$ 30	$ (1)	$ 45	$ (3)	$ 75	$ (4)
State or local housing agency	4	—	—	—	4	—
FFELP ABS	64	(1)	787	(23)	851	(24)
Residential MBS:						
GSE	1,081	(3)	1,006	(9)	2,087	(12)
Government-guaranteed	90	—	—	—	90	—
Private-label	—	—	8	—	8	—
Residential MBS	1,171	(3)	1,014	(9)	2,185	(12)
Available-for-sale securities	$ 1,269	$ (5)	$ 1,846	$ (35)	$ 3,115	$ (40)

(Dollars in millions except per share amounts unless otherwise indicated)

Held-to-Maturity Securities

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
As of June 30, 2016						
U.S. Government & other government related	$ —	$ —	$ 16	$ —	$ 16	$ —
State or local housing agency	—	—	1	—	1	—
Residential MBS:						
GSE	4	—	—	—	4	—
Government-guaranteed	134	—	—	—	134	—
Private-label	4	—	1,038	(197)	1,042	(197)
Residential MBS	142	—	1,038	(197)	1,180	(197)
Held-to-maturity securities	$ 142	$ —	$ 1,055	$ (197)	$ 1,197	$ (197)
As of December 31, 2015						
U.S. Government & other government related	$ 606	$ —	$ 16	$ (1)	$ 622	$ (1)
State or local housing agency	1	—	10	—	11	—
Residential MBS:						
GSE	4	—	—	—	4	—
Private-label	—	—	1,167	(218)	1,167	(218)
Residential MBS	4	—	1,167	(218)	1,171	(218)
Held-to-maturity securities	$ 611	$ —	$ 1,193	$ (219)	$ 1,804	$ (219)

Contractual Maturity Terms

The following table primarily presents the amortized cost basis and fair value of U.S. Government & other government related AFS and HTM securities by contractual maturity. ABS and MBS securities are excluded since their expected maturities may differ from their contractual maturities if borrowers of the underlying loans elect to prepay their loans.

	Available-for-Sale		Held-to-Maturity	
As of June 30, 2016	Amortized Cost Basis	Carrying Amount and Fair Value	Carrying Amount	Fair Value
Year of Maturity -				
Due in one year or less	$ —	$ —	$ 694	$ 694
Due after one year through five years	64	67	303	318
Due after five years through ten years	30	32	89	91
Due after ten years	300	316	763	829
ABS and MBS without a single maturity date	15,296	15,833	3,694	4,158
Total securities	$ 15,690	$ 16,248	$ 5,543	$ 6,090

(Dollars in millions except per share amounts unless otherwise indicated)

Other-Than-Temporary Impairment Analysis

We had no OTTI for the periods presented based on the significant inputs, key modeling assumptions, and methodologies outlined below.

We assess an HTM or AFS private-label MBS security for OTTI whenever its fair value is less than its amortized cost basis as of the reporting date. Specifically, we determine OTTI, if any, by performing a cash flow analysis for substantially all of these private-label MBS securities utilizing two independent third party models, which are described further below. Our analysis generates cash flow projections utilizing significant inputs, key modeling assumptions, and methodologies provided by the FHLB System OTTI Committee, which was established to achieve consistent OTTI analyses for private-label MBS among FHLBs. We are still responsible, however, for making our own OTTI determination, which involves determining the reasonableness of these significant inputs, assumptions, and methodologies, as well as performing the required present value calculations using appropriate historical cost bases and yields. We then utilize these cash flow projections to determine if OTTI exists on our private-label MBS.

- First model. This model considers borrower characteristics and the particular attributes of the loans underlying the securities, in conjunction with assumptions about future changes in home prices and interest rates, prepayment rates, default rates, and loss severities. A significant input to the first model is the forecast of future housing price changes for the relevant states and core based statistical areas (CBSAs), which are based upon an assessment of the individual housing markets. Outputs from this first model are then used as inputs by the second model as follows.

- Second model. This model uses the month-by-month projections of future loan performance derived from the first model and allocates the projected loan level cash flows and losses to the various security classes in the securitization structure in accordance with its prescribed cash flow and loss allocation rules.

As of June 30, 2016, we had a short-term housing price forecast with projected changes ranging from -2.0% to +10.0% over the twelve month period beginning April 1, 2016, over all markets. For the vast majority of markets, the short-term forecast has changes ranging from +2.0% to +6.0%.

The following table presents the changes in the cumulative amount of previously recorded OTTI credit losses (recognized into earnings) on investment securities for the reporting periods indicated.

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Beginning Balance	**$ 555**	$ 605	**$ 568**	$ 620
Reductions:				
Increases in expected future cash flows recorded as accretion into interest income	**(13)**	(14)	**(26)**	(29)
Ending Balance	**$ 542**	$ 591	**$ 542**	$ 591

Ongoing Litigation

On October 15, 2010, we instituted litigation relating to 64 private-label MBS bonds we purchased in an aggregate original principal amount of $4.29 billion. In April 2016, we received a payment of $37.5 million (partially offset by $5.0 million of related legal fees and other expenses) resulting from a settlement with some of the defendants. As of June 30, 2016, the remaining litigation covers four private-label MBS bonds in the aggregate original principal amount of $77.5 million.

(Dollars 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 optionality.

The following table presents our advances by terms of maturity. Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay advances with or without penalties.

As of June 30, 2016	Weighted Average Contractual Interest Rate	Amount
Due in one year or less	0.59%	$ 15,928
One to two years	0.74%	9,686
Two to three years	0.61% [a]	4,966
Three to four years	0.54% [a]	9,147
Four to five years	1.05% [a]	2,255
More than five years	1.69%	4,079
Par value	0.73%	$ 46,061

[a] The weighted average interest rate is relatively lower when compared to other categories due to a majority of advances in this category consisting of variable rate advances which reset periodically at current interest rates.

See **Note 8 - Allowance for Credit Losses** for information related to our credit risk on advances and allowance methodology for credit losses.

The following table reconciles the par value of our advances to the carrying amount on our statements of condition as of the dates indicated.

As of	June 30, 2016	December 31, 2015
Par value	$ 46,061	$ 36,605
Hedging adjustments	335	159
Other adjustments	28	14
Advances	$ 46,424	$ 36,778

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

As of June 30, 2016	Par Value	% of Total Outstanding
One Mortgage Partners Corp.	$ 11,000 [a]	24%
The Northern Trust Company	6,000	13%
BMO Harris Bank, N.A.	4,875	11%

[a] One Mortgage Partners Corp. is a subsidiary of JPMorgan Chase Bank NA.

(Dollars 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 in some cases we purchased participations in pools of eligible mortgage loans from other FHLBs (MPF Banks). MPF Loans are defined as fixed-rate conventional and government mortgage loans secured by one-to-four family residential properties with maturities ranging from 5 years to 30 years or participations in pools of 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.

As of	June 30, 2016	December 31, 2015
Medium term (15 years or less)	$ 507	$ 662
Long term (greater than 15 years)	4,103	4,112
Unpaid principal balance	4,610	4,774
Net premiums, credit enhancement and deferred loan fees	28	20
Hedging adjustments	32	37
MPF Loans held in portfolio, before allowance for credit losses	4,670	4,831
Allowance for credit losses on MPF Loans	(3)	(3)
MPF Loans held in portfolio, net	$ 4,667	$ 4,828
Conventional mortgage loans	$ 3,467	$ 3,568
Government Loans	1,143	1,206
Unpaid principal balance	$ 4,610	$ 4,774

See the **MPF Risk Sharing Structure** on page F-14 in our 2015 Form 10-K for information related to our credit losses on MPF Loans held in portfolio

In addition to our portfolio MPF Products, PFIs sell eligible MPF Loans to us through the MPF Program infrastructure and we concurrently sell them to third party investors or hold MPF Loans in our held for sale portfolio in other assets for a short period of time until such loans are pooled into MBS.

(Dollars 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 2015 Form 10-K for further details pertaining to the methodologies and factors we consider when determining the amount to recognize as an allowance for credit losses, if any, for each portfolio segment identified below.

We have identified our portfolio segments as shown below:

- Member credit products (advances, letters of credit and other extensions of credit to borrowers);
- Conventional MPF Loans held in portfolio;
- Government Loans held in portfolio; and
- Federal Funds Sold and Securities Purchased Under Agreements to Resell.

Member Credit Products

We have not recorded any allowance for credit losses for our member credit products portfolio segment based upon our credit analysis and the repayment history on member credit products. We had no member credit products that were past due, on nonaccrual status, involved in a troubled debt restructuring or otherwise considered impaired. We have not recorded a separate liability to reflect credit losses on our member credit products with off-balance sheet credit exposure.

Conventional MPF Loans Held in Portfolio

For further detail of our **MPF Risk Sharing Structure** see page F-14 in our 2015 Form 10-K. There has been no material activity in our allowance for credit losses since December 31, 2015. The following table presents the recorded investment and the allowance for credit losses in conventional MPF Loans by impairment methodology. Recorded investment in a conventional MPF Loan is its amortized cost basis plus related accrued interest receivable, if any. Recorded investment is not net of its allowance for credit losses but is net of any direct charge-off on the conventional MPF Loan.

As of	**June 30, 2016**	December 31, 2015
Recorded investment in conventional MPF Loans -		
Individually evaluated for impairment	**$ 87**	$ 107
Collectively evaluated for impairment	**3,442**	3,519
Recorded investment	**$ 3,529**	$ 3,626
Allowance for credit losses on conventional MPF Loans -		
Homogeneous pools of loans collectively evaluated for impairment	**$ 3**	$ 3

Government Loans Held in Portfolio

Servicing PFIs are responsible for absorbing any losses incurred on Government Loans held in portfolio that are not recovered from the government insurer or guarantor. We did not establish an allowance for credit losses on our Government Loans held in portfolio for the reporting periods presented based on our assessment that our servicing PFIs' have the ability to absorb such losses. Further, Government Loans were not placed on nonaccrual status or disclosed as troubled debt restructurings for the same reason.

Notes to Financial Statements - (Unaudited)
(Dollars in millions except per share amounts unless otherwise indicated)

Credit Quality Indicators - MPF Loans Held in Portfolio

The following table summarizes our recorded investment in MPF Loans by our key credit quality indicators, which include:

- "Serious delinquency rate" consists of MPF Loans that are 90 days or more past due or in the process of foreclosure, as a percentage of the total recorded investment. MPF Loans that are both 90 days or more past due and in the process of foreclosure are only included once in our serious delinquency rate calculation.
- "Past due 90 days or more still accruing interest" consists of MPF Loans that are either government guaranteed or conventional mortgage loans that are well secured (by collateral that have a realizable value sufficient to discharge the debt or by the guarantee or insurance, such as PMI, of a financially responsible party) and in the process of collection.

	June 30, 2016			December 31, 2015		
As of	**Conventional**	**Government**	**Total**	Conventional	Government	Total
Past due 30-59 days	**$ 81**	**$ 50**	**$ 131**	$ 99	$ 63	$ 162
Past due 60-89 days	**26**	**17**	**43**	32	21	53
Past due 90 days or more	**80**	**18**	**98**	100	15	115
Past due	**187**	**85**	**272**	231	99	330
Current	**3,342**	**1,081**	**4,423**	3,395	1,130	4,525
Recorded investment	**$ 3,529**	**$ 1,166**	**$ 4,695**	$ 3,626	$ 1,229	$ 4,855
In process of foreclosure	**$ 42**	**$ 4**	**$ 46**	$ 51	$ 3	$ 54
Serious delinquency rate	**2.27%**	**1.52%**	**2.08%**	2.77%	1.23%	2.38%
Past due 90 days or more still accruing interest	**$ 6**	**$ 18**	**$ 24**	$ 10	$ 15	$ 25
On nonaccrual status	**$ 87**	**$ —**	**$ 87**	$ 107	$ —	$ 107

Individually Evaluated Impaired MPF Loans

The following table summarizes the recorded investment, unpaid principal balance, and related allowance for credit losses attributable to individually evaluated impaired conventional MPF Loans. Conventional MPF Loans are individually evaluated for impairment when they are adversely classified. There is no allowance for credit losses attributable to conventional MPF Loans that are individually evaluated for impairment, since the related allowance for credit losses have been charged off.

As of	**June 30, 2016**	December 31, 2015
Recorded investment without an allowance for credit losses	**$ 87**	$ 107
Unpaid principal balance without an allowance for credit losses	**94**	117

The following table summarizes the average recorded investment of impaired conventional MPF Loans. We do not recognize interest income on impaired loans.

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Average recorded investment without allowance for credit losses	**$ 88**	$ 131	**$ 93**	$ 140

Term Federal Funds Sold and Term Securities Purchased Under Agreements to Resell

We only had credit risk exposure to overnight Federal Funds sold and Securities Purchased Under Agreements to Resell as of June 30, 2016, and December 31, 2015. We did not have any term Federal Funds sold and Securities Purchased Under Agreements to Resell arrangements. We did not establish an allowance for credit losses for our overnight Federal Funds sold since all Federal Funds sold were repaid according to their contractual terms. We also did not establish an allowance for credit losses for overnight Securities Purchased Under Agreements to Resell since all payments due under the contractual terms have been received and we hold sufficient underlying collateral.

Note 9 – Derivatives and Hedging Activities

Refer to **Note 2 - Summary of Significant Accounting Policies** in our 2015 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. Derivative transactions may be entered into through an over-the-counter bilateral agreement with an individual counterparty. Additionally, we clear some derivatives transactions with clearinghouses classified as a Derivatives Clearing Organization (DCO) through a Futures Commission Merchant (FCM). We are not a derivatives dealer and do not trade derivatives for speculative purposes.

Managing Credit Risk on Derivative Agreements

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 derivatives that establish collateral delivery thresholds. Additionally, collateral related to derivatives with member institutions includes collateral assigned to us, as evidenced by a written security agreement, and held by the member institution for our benefit. Based on credit analyses and collateral requirements, we do not anticipate any credit losses on our derivative agreements. See **Note 16 - Fair Value** to the financial statements in our 2015 Form 10-K for discussion regarding our fair value methodology for derivative assets and liabilities, including an evaluation of the potential for the fair value of these instruments to be affected by counterparty credit risk.

Our over-the-counter bilateral derivative agreements may contain provisions that require us to post additional collateral with our counterparties if there is deterioration in our credit rating, except for those derivative agreements with a zero unsecured collateral threshold for both parties, in which case positions are required to be fully collateralized regardless of credit rating. If our credit rating is lowered by a major credit rating agency, such as Standard and Poor's or Moody’s, we would be required to deliver additional collateral on derivatives in net liability positions. If our credit rating had been lowered from its current rating to the next lower rating, we would have been required to deliver up to an additional $31 million of collateral at fair value to our derivatives counterparties at June 30, 2016.

Cleared swaps are subject to initial and variation margin requirements established by the DCO and its clearing members. We post initial and variation margin through the clearing member, on behalf of the DCO, which could expose us to institutional credit risk in the event that a clearing member or the DCO fail to meet their obligations. Clearing derivatives through a DCO mitigates counterparty credit risk exposure because a central DCO counterparty is substituted for individual counterparties and collateral is posted daily for changes in the value of cleared derivatives through an FCM. The DCO determines initial margin requirements for cleared derivatives. In this regard, clearing agents may require additional initial margin to be posted based on credit considerations, including but not limited to, credit rating downgrades. We had no requirement to post additional initial margin by our clearing agents at June 30, 2016.

We present our derivative assets and liabilities on a net basis in our statements of condition. Refer to **Note 1 - Background and Basis of Presentation** for further discussion. In addition to the cash collateral as noted in the following table, we also pledged $101 million of investment securities that can be sold or repledged, as part of our initial margin related to cleared derivative transactions at June 30, 2016.

(Dollars in millions except per share amounts unless otherwise indicated)

The following table presents our gross and net derivative assets and liabilities by contract type and amount for our derivative agreements.

As of	June 30, 2016 Notional Amount	June 30, 2016 Derivative Assets	June 30, 2016 Derivative Liabilities	December 31, 2015 Notional Amount	December 31, 2015 Derivative Assets	December 31, 2015 Derivative Liabilities
Derivatives in hedge accounting relationships-						
Interest rate swaps	**$ 23,525**	**$ 62**	**$ 1,312**	$ 25,140	$ 30	$ 1,082
Derivatives not in hedge accounting relationships-						
Interest rate swaps	**33,655**	**581**	**500**	28,866	456	341
Interest rate swaptions	**820**	**58**	**—**	1,270	40	—
Interest rate caps or floors	**1,129**	**65**	**—**	1,131	76	—
Interest rate futures	**23**	**—**	**—**	7	—	—
Mortgage delivery commitments	**1,001**	**3**	**2**	479	1	1
TBAs Ginnie Mae securitizations	**92**	**—**	**1**	114	—	—
Derivatives not in hedge accounting relationships	**36,720**	**707**	**503**	31,867	573	342
Gross derivative amount before adjustments	**$ 60,245**	**769**	**1,815**	$ 57,007	603	1,424
Netting adjustments and cash collateral		**(765)** [a]	**(1,764)** [a]		(601) [a]	(1,369) [a]
Derivatives on statements of condition		**$ 4**	**$ 51**		$ 2	$ 55

[a] Amounts represent the application of the netting requirements that allow us to settle positive and negative positions and also cash collateral and related accrued interest held or placed by us with the same clearing agent and/or counterparty. Cash collateral posted was $1.0 billion and $793 million at June 30, 2016, and December 31, 2015, and cash collateral received was $29 million and $25 million.

The following table presents our gross recognized amount of offsetting derivative assets and liabilities for derivatives with legal right of offset as well as derivatives without the legal right of offset.

	Derivative Assets			Derivative Liabilities		
As of June 30, 2016	**Bilateral**	**Cleared**	**Total**	**Bilateral**	**Cleared**	**Total**
Derivatives with legal right of offset -						
Gross recognized amount	**$ 580**	**$ 186**	**$ 766**	**$ 1,166**	**$ 647**	**$ 1,813**
Netting adjustments and cash collateral	**(579)**	**(186)**	**(765)**	**(1,131)**	**(633)**	**(1,764)**
Derivatives with legal right of offset - net	**1**	**—**	**1**	**35**	**14**	**49**
Derivatives without legal right of offset	**3**	**—**	**3**	**2**	**—**	**2**
Derivatives on statements of condition	**4**	**—**	**4**	**37**	**14**	**51**
Cash collateral for initial margin		**(1)**	**(1)**			
Noncash collateral received (pledged) and cannot be sold or repledged	**1**	**—**	**1**	**—**	**14**	**14**
Net amount	**$ 3**	**$ 1**	**$ 4**	**$ 37**	**$ —**	**$ 37**
As of December 31, 2015						
Derivatives with legal right of offset -						
Gross recognized amount	$ 509	$ 93	$ 602	$ 1,182	$ 241	$ 1,423
Netting adjustments and cash collateral	(508)	(93)	(601)	(1,140)	(229)	(1,369)
Derivatives with legal right of offset - net	1	—	1	42	12	54
Derivatives without legal right of offset	1	—	1	1	—	1
Derivatives on statements of condition	2	—	2	43	12	55
Noncash collateral received (pledged) and cannot be sold or repledged	—	—	—	—	12	12
Net amount	$ 2	$ —	$ 2	$ 43	$ —	$ 43

At June 30, 2016, we had $87 million of additional net credit exposure on cleared derivatives due to our pledging of non-cash collateral to a DCO for initial margin, which exceeded our net derivative liability position. We had $50 million comparable exposure at December 31, 2015.

(Dollars in millions except per share amounts unless otherwise indicated)

The following table presents the gains (losses) of derivatives and hedging activities as presented in the statements of income.

	Three months ended June 30,		Six months ended June 30,	
For the periods ending	**2016**	2015	**2016**	2015
Fair value hedges -				
Interest rate swaps	**$ (3)**	$ 6	**$ (12)**	$ (13)
Cash flow hedges	**4**	1	**4**	1
Economic hedges -				
Interest rate swaps	**(12)**	(6)	**(39)**	(29)
Interest rate swaptions	**7**	(5)	**18**	3
Interest rate caps or floors	**(8)**	(7)	**(11)**	(8)
Interest rate future forwards	**(1)**	—	**(1)**	—
Net interest settlements	**16**	20	**28**	44
Mortgage delivery commitments	**—**	—	**2**	—
TBAs Ginnie Mae securitizations	**(1)**	—	**(3)**	—
Economic hedges	**1**	2	**(6)**	10
Gains (losses) on derivatives and hedging activities	**$ 2**	$ 9	**$ (14)**	$ (2)

(Dollars 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 gain (loss) for hedges that no longer qualified as a fair value hedge. Additionally, the table indicates where fair value hedging results are classified in our statements of income. In this regard, the **Amount Recorded in Net Interest Income** column includes the following:

- The amortization of closed fair value hedging adjustments, which are included in 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 recorded directly to the interest income/expense line item of the respective hedged item type.

	On Derivative	On Hedged Item	Total Ineffectiveness Recognized in Derivatives and Hedging Activities	Amount Recorded in Net Interest Income
Three months ended June 30, 2016				
Available-for-sale securities	**$ (4)**	**$ 2**	**$ (2)**	**$ (28)**
Advances	**(68)**	**68**	**—**	**(20)**
MPF Loans held for portfolio	**—**	**—**	**—**	**(3)**
Consolidated obligation bonds	**8**	**(9)**	**(1)**	**17**
Total	**$ (64)**	**$ 61**	**$ (3)**	**$ (34)**
Three months ended June 30, 2015				
Available-for-sale securities	$ 48	$ (45)	$ 3	$ (34)
Advances	89	(86)	3	(22)
MPF Loans held for portfolio	—	—	—	(3)
Consolidated obligation bonds	(44)	44	—	57
Total	$ 93	$ (87)	$ 6	$ (2)
Six months ended June 30, 2016				
Available-for-sale securities	**$ (55)**	**$ 50**	**$ (5)**	**$ (62)**
Advances	**(178)**	**177**	**(1)**	**(40)**
MPF Loans held for portfolio	**—**	**—**	**—**	**(5)**
Consolidated obligation bonds	**76**	**(82)**	**(6)**	**39**
Total	**$ (157)**	**$ 145**	**$ (12)**	**$ (68)**
Six months ended June 30, 2015				
Available-for-sale securities	$ 12	$ (14)	$ (2)	$ (78)
Advances	28	(29)	(1)	(41)
MPF Loans held for portfolio	—	—	—	(7)
Consolidated obligation bonds	30	(40)	(10)	115
Total	$ 70	$ (83)	$ (13)	$ (11)

(Dollars in millions except per share amounts unless otherwise indicated)

Cash Flow Hedges

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 hedges. The deferred net gains (losses) on derivative instruments in AOCI that are expected to be reclassified to earnings during the next twelve months were $(8) million as of June 30, 2016. The maximum length of time over which we are hedging our exposure to the variability in future cash flows for forecasted transactions is 4 years.

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 Recorded in Net Interest Income** column 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 recorded directly to the interest income/expense line item of the respective hedged item type.

		Ineffective Portion Recorded in Derivatives and Hedging Activities	Effective Portion Recorded in AOCI	Amount Recorded in Net Interest Income
Three months ended June 30, 2016				
Advances	Interest rate floors	**$ —**	**$ —**	**$ 4**
Discount notes	Interest rate swaps	**4**	**14**	**(51)**
Bonds	Interest rate swaps	**—**	**—**	**(1)**
Total		**$ 4**	**$ 14**	**$ (48)**
Three months ended June 30, 2015				
Advances	Interest rate floors	$ —	$ —	$ 3
Discount notes	Interest rate swaps	1	70	(62)
Bonds	Interest rate swaps	—	—	(1)
Total		$ 1	$ 70	$ (60)
Six months ended June 30, 2016				
Advances	Interest rate floors	**$ —**	**$ —**	**$ 6**
Discount notes	Interest rate swaps	**4**	**(38)**	**(98)**
Bonds	Interest rate swaps	**—**	**—**	**(2)**
Total		**$ 4**	**$ (38)**	**$ (94)**
Six months ended June 30, 2015				
Advances	Interest rate floors	$ —	$ —	$ 6
Discount notes	Interest rate swaps	1	43	(125)
Bonds	Interest rate swaps	—	—	(2)
Total		$ 1	$ 43	$ (121)

(Dollars 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 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 bonds, 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, 2016	Contractual Maturity	Weighted Average Interest Rate	By Maturity or Next Call Date
Due in one year or less	$ 12,279	0.88%	$ 22,060
One to two years	4,885	1.74%	3,425
Two to three years	3,395	1.35%	1,995
Three to four years	2,213	1.48%	403
Four to five years	3,271	2.06%	363
Thereafter	3,052	3.33%	849
Par value	$ 29,095	1.51%	$ 29,095

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, 2016	December 31, 2015
Carrying Amount	$ 45,876	$ 41,564
Par Value	45,906	41,584
Weighted Average Interest Rate	0.39%	0.22%

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

As of	June 30, 2016	December 31, 2015
Noncallable	$ 18,393	$ 10,148
Callable	10,702	12,536
Par value	29,095	22,684
Hedging adjustments	(13)	(101)
Other adjustments	9	(1)
Consolidated obligation bonds	$ 29,091	$ 22,582

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, 2016, and December 31, 2015. Refer to **Note 17 - Commitments and Contingencies** to the financial statements in our 2015 Form 10-K for further details.

	June 30, 2016			December 31, 2015		
Par values as of	Bonds	Discount Notes	Total	Bonds	Discount Notes	Total
FHLB System total consolidated obligations	$ 492,431	$ 471,379	$ 963,810	$ 410,859	$ 494,343	$ 905,202
FHLB Chicago as primary obligor	29,095	45,906	75,001	22,684	41,584	64,268
As a percent of the FHLB System	6%	10%	8%	6%	8%	7%

Notes to Financial Statements - (Unaudited)
(Dollars 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. Class B1 activity stock is available for purchase only to support a member's activity stock requirement. Class B2 membership stock is available to be purchased to support a member's membership stock requirement and any activity stock requirement.

Minimum Capital Requirements

For details on our minimum capital requirements, including how the ratios below were calculated, see **Minimum Capital Requirements** on page F-42 of our 2015 Form 10-K. We complied with our minimum regulatory capital requirements as shown below.

	June 30, 2016		December 31, 2015	
	Requirement	**Actual**	Requirement	Actual
Risk-based capital	**$ 984**	**$ 4,960**	$ 1,027	$ 4,688
Total regulatory capital	**$ 3,226**	**$ 4,960**	$ 2,827	$ 4,688
Total regulatory capital ratio	**4.00%**	**6.15%**	4.00%	6.63%
Leverage capital	**$ 4,033**	**$ 7,440**	$ 3,534	$ 7,032
Leverage capital ratio	**5.00%**	**9.22%**	5.00%	9.95%

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.

The following members' regulatory capital stock exceeded 10% of our total regulatory capital stock outstanding:

As of June 30, 2016	**Regulatory Capital Stock Outstanding**	**% of Total Outstanding**
One Mortgage Partners Corp.	**$ 245** [a]	**12%**
The Northern Trust Company	**$ 220**	**11%**
BMO Harris Bank, N.A.	**$ 219**	**11%**

[a] One Mortgage Partners Corp. is a subsidiary of JPMorgan Chase Bank NA.

Transfer of Capital Stock to Mandatorily Redeemable Capital Stock (MRCS)

During the first quarter of 2016, we transferred $294 million of our captive insurance company members' capital stock from equity to MRCS in liabilities on our statement of condition. The transfer was triggered by the issuance of the final FHFA rule on FHLB membership making captive insurance companies ineligible for FHLB membership, which was issued on January 20, 2016 and became effective February 19, 2016. Under this rule, our three captive insurance company members will have their memberships terminated by February 2021. The transfer from equity to MRCS in liabilities was required because the new rule creates an unconditional obligation requiring us to redeem our capital stock from our captive insurance company members after their membership terminates. We reclassify our capital stock from equity to MRCS in liabilities at fair value, which is its par value plus any dividends related to the capital stock. Par value represents fair value since our capital stock can only be acquired and redeemed or repurchased at par value. Further, our capital stock is not traded and no market mechanism exists for the exchange of stock outside our cooperative structure. Upon reclassification to MRCS, subsequent dividends are accrued at the expected dividend rate and reported as a component of interest expense in our statements of income.

Excess Capital Stock

In February 2016, we announced significant reductions in our membership stock and activity stock requirements, which went into effect on April 1, 2016. As a result of these changes, we held $593 million of excess capital stock on April 1, 2016. As of June 30, 2016, we held excess capital stock of $391 million. The reduction was a result of members requesting repurchase of their excess stock and members utilizing excess stock to support new advance borrowing activities.

(Dollars in millions except per share amounts unless otherwise indicated)

Note 12 - Accumulated Other Comprehensive Income (Loss)

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

	Net Unrealized - Available-for-sale Securities	Non-credit OTTI - Held-to-maturity Securities	Net Unrealized - Cash Flow Hedges	Post-Retirement Plans	AOCI
Three months ended June 30, 2016					
Beginning balance	**$ 618**	**$ (206)**	**$ (516)**	**$ (6)**	**$ (110)**
Change in the period recorded to the statements of condition, before reclassifications to statements of income	**(60)**	**10**	**14**	**1**	**(35)**
Amounts reclassified in period to statements of income:					
Net interest income	**—**	**—**	**(2)**	**—**	**(2)**
Non-interest gain (loss)	**—**	**—**	**(4)**	**—**	**(4)**
Other comprehensive income in the period	**(60)**	**10**	**8**	**1**	**(41)**
Ending balance	**$ 558**	**$ (196)**	**$ (508)**	**$ (5)**	**$ (151)**
Three months ended June 30, 2015					
Beginning balance	$ 1,038	$ (251)	$ (608)	$ (7)	$ 172
Change in the period recorded to the statements of condition, before reclassifications to statements of income	(113)	13	70	—	(30)
Amounts reclassified in period to statements of income:					
Net interest income	—	—	(2)	—	(2)
Non-interest gain (loss)	—	—	(1)	—	(1)
Other comprehensive income in the period	(113)	13	67	—	(33)
Ending balance	$ 925	$ (238)	$ (541)	$ (7)	$ 139
Six months ended June 30, 2016					
Beginning balance	**$ 658**	**$ (217)**	**$ (463)**	**$ (6)**	**$ (28)**
Change in the period recorded to the statements of condition, before reclassifications to statements of income	**(100)**	**21**	**(38)**	**1**	**(116)**
Amounts reclassified in period to statements of income:					
Net interest income	**—**	**—**	**(3)**	**—**	**(3)**
Non-interest gain (loss)	**—**	**—**	**(4)**	**—**	**(4)**
Other comprehensive income in the period	**(100)**	**21**	**(45)**	**1**	**(123)**
Ending balance	**$ 558**	**$ (196)**	**$ (508)**	**$ (5)**	**$ (151)**
Six months ended June 30, 2015					
Beginning balance	$ 1,060	$ (264)	$ (580)	$ 1	$ 217
Change in the period recorded to the statements of condition, before reclassifications to statements of income	(135)	26	43	(8)	(74)
Amounts reclassified in period to statements of income:					
Net interest income	—	—	(3)	—	(3)
Non-interest gain (loss)	—	—	(1)	—	(1)
Other comprehensive income in the period	(135)	26	39	(8)	(78)
Ending balance	$ 925	$ (238)	$ (541)	$ (7)	$ 139

(Dollars in millions except per share amounts unless otherwise indicated)

Note 13 - Fair Value

Fair value represents the exit price that we would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. Refer to **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2015 Form 10-K for our fair value measurement policies. For a description of the valuation techniques and significant inputs see **Note 16 - Fair Value** to the financial statements in our 2015 Form 10-K.

The following tables are a summary of the fair value estimates and related levels in the fair value hierarchy. The carrying amounts are as recorded in the statements of condition. These tables do not represent an estimate of our overall market value as a going concern; as they do not take into account future business opportunities and future net profitability of assets and liabilities. We had no transfers between levels in the fair value hierarchy for the periods shown.

The following table shows the fair values of financial instruments that are measured at amortized cost on our statements of condition, except where we elected the fair value option. Financial instruments for which we elected the fair value option are measured at fair value on a recurring basis on our statements of condition and are parenthetically shown in the following table.

	Carrying Amount	Fair Value	Fair Value Hierarchy		
			Level 1	Level 2	Level 3
June 30, 2016					
Financial Assets -					
Cash and due from banks	**$ 375**	**$ 375**	**$ 375**	**$ —**	**$ —**
Interest bearing deposits	**650**	**650**	**650**	**—**	**—**
Federal Funds sold	**3,573**	**3,573**	**—**	**3,573**	**—**
Securities purchased under agreements to resell	**1,750**	**1,750**	**—**	**1,750**	**—**
Held-to-maturity securities	**5,543**	**6,090**	**—**	**5,006**	**1,084**
Advances	**46,424**	**46,384**	**—**	**46,384**	**—**
MPF Loans held in portfolio, net	**4,667**	**4,996**	**—**	**4,958**	**38**
Financial Liabilities -					
Deposits	**(532)**	**(532)**	**—**	**(532)**	**—**
Consolidated obligation discount notes	**(45,876)**	**(45,881)**	**—**	**(45,881)**	**—**
Consolidated obligation bonds	**(29,091)**	**(29,576)**	**—**	**(29,576)**	**—**
Mandatorily redeemable capital stock	**(302)**	**(302)**	**(302)**	**—**	**—**
December 31, 2015					
Financial Assets -					
Cash and due from banks	$ 499	$ 499	$ 499	$ —	$ —
Interest bearing deposits	650	650	650	—	—
Federal Funds sold	1,702	1,702	—	1,702	—
Securities purchased under agreements to resell	1,375	1,375	—	1,375	—
Held-to-maturity securities	5,967	6,513	—	5,293	1,220
Advances	36,778	36,736	—	36,736	—
MPF Loans held in portfolio, net	4,828	5,190	—	5,155	35
Financial Liabilities -					
Deposits	(538)	(538)	—	(538)	—
Consolidated obligation discount notes	(41,564)	(41,563)	—	(41,563)	—
Consolidated obligation bonds	(22,582)	(22,986)	—	(22,931)	(55) [a]
Mandatorily redeemable capital stock	(8)	(8)	(8)	—	—
Subordinated notes	(944)	(966)	—	(966)	—

[a] Amount represents debt carried at fair value under a full fair value hedge strategy, not at fair value under the fair value option.

(Dollars in millions except per share amounts unless otherwise indicated)

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The following table presents financial instruments measured at fair value on a recurring basis on our statements of condition. The **Netting** adjustment shown in the table reflects our policy of presenting derivative assets and liabilities on a net basis in our statements of condition. See **Note 1 - Background and Basis of Presentation** and **Note 9 - Derivatives and Hedging Activities** for further details. Advances, consolidated obligation discount notes and bonds, and mortgage loans held for sale that are measured at fair value on a recurring basis resulted from our electing the fair value option.

June 30, 2016	**Level 2**	**Level 3**	**Netting**	**Fair Value**
Financial assets -				
U.S. Government & other government related non-MBS	**$ 1,153**	**$ —**		**$ 1,153**
GSE residential MBS	**45**	**—**		**45**
U.S. Governmental-guaranteed residential MBS	**2**	**—**		**2**
Trading securities	**1,200**	**—**		**1,200**
U.S. Government & other government related non-MBS	**394**	**—**		**394**
State or local housing agency non-MBS	**21**	**—**		**21**
FFELP ABS	**4,834**	**—**		**4,834**
GSE residential MBS	**9,322**	**—**		**9,322**
U.S. Government-guaranteed residential MBS	**1,620**	**—**		**1,620**
Private-label residential MBS	**—**	**57**		**57**
Available-for-sale securities	**16,191**	**57**		**16,248**
Advances	**594**	**—**		**594**
Derivative assets	**769**	**—**	**$ (765)**	**4**
Other assets - Mortgage loans held for sale	**36**	**—**		**36**
Financial assets at fair value	**$ 18,790**	**$ 57**	**$ (765)**	**$ 18,082**
Level 3 as a percent of total assets at fair value		**0.3%**		
Financial liabilities -				
Consolidated obligation discount notes	**$ (10,140)**	**$ —**		**$ (10,140)**
Consolidated obligation bonds	**(5,960)**	**—**		**(5,960)**
Derivative liabilities	**(1,815)**	**—**	**$ 1,764**	**(51)**
Financial liabilities at fair value	**$ (17,915)**	**$ —**	**$ 1,764**	**$ (16,151)**
December 31, 2015				
Financial assets -				
U.S. Government & other government related non-MBS	$ 1,108	$ —		$ 1,108
GSE residential MBS	50	—		50
U.S. Governmental-guaranteed residential MBS	2	—		2
Trading securities	1,160	—		1,160
U.S. Government & other government related non-MBS	422	—		422
State or local housing agency non-MBS	18	—		18
FFELP ABS	5,299	—		5,299
GSE residential MBS	9,798	—		9,798
U.S. Government-guaranteed residential MBS	1,868	—		1,868
Private-label residential MBS	—	65		65
Available-for-sale securities	17,405	65		17,470
Advances	511	—		511
Derivative assets	598	5	$ (601)	2
Other assets - Mortgage loans held for sale	54	—		54
Financial assets at fair value	$ 19,728	$ 70	$ (601)	$ 19,197
Level 3 as a percent of total assets at fair value		0.4%		
Financial liabilities -				
Consolidated obligation discount notes	$ (9,006)	$ —		$ (9,006)
Consolidated obligation bonds	(952)	(55) [a]		(1,007)
Derivative liabilities	(1,424)	—	$ 1,369	(55)
Financial liabilities at fair value	$ (11,382)	$ (55)	$ 1,369	$ (10,068)
Level 3 as a percent of total liabilities at fair value		0.5%		

[a] Amount represents debt carried at fair value under a full fair value hedge strategy, not at fair value under the fair value option.

(Dollars in millions except per share amounts unless otherwise indicated)

Fair Value Option

We elect the fair value option for financial instruments, such as advances, MPF Loans held for sale, discount notes, and consolidated obligation bonds, in cases where hedge accounting treatment may not be achieved. Specifically, hedge accounting may not be achieved in cases where it may be difficult to pass prospective or retrospective effectiveness testing under derivative hedge accounting guidance even though the derivatives used to hedge these financial instruments have matching terms. Accordingly, electing the fair value option allows us to better match the change in fair value of these financial instruments with the derivative economically hedging them.

The following table summarizes the net gain (loss) related to financial assets and liabilities for which we elected the fair value option.

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2015**	2014
Advances	**$ 5**	$ —	**$ 16**	$ 1
Bonds	**(2)**	2	**(5)**	4
Discount notes	**(2)**	(2)	**(5)**	(2)
Net gain (loss) instruments held under fair value option	**$ 1**	$ —	**$ 6**	$ 3

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

	June 30, 2016		December 31, 2015	
As of	**Advances**	**Consolidated Obligation Bonds**	Advances	Consolidated Obligation Bonds
Unpaid principal balance	**$ 576**	**$ 5,949**	$ 509	$ 953
Fair value over (under) UPB	**18**	**11**	2	(1)
Fair value	**$ 594**	**$ 5,960**	$ 511	$ 952

(Dollars 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.

	June 30, 2016			December 31, 2015		
As of	Expire within one year	Expire after one year	Total	Expire within one year	Expire after one year	Total
Unsettled consolidated obligation bonds	$ 714	$ —	$ 714	$ 105	$ —	$ 105
Unsettled consolidated obligation discount notes	43	—	43	—	—	—
Member standby letters of credit	6,355	2,067 [a]	8,422	5,063	1,615 [a]	6,678
Housing authority standby bond purchase agreements	50	265	315	49	362	411
Advance commitments	187	—	187	163	5	168
MPF delivery commitments	558	—	558	279	—	279
Other commitments	44	1	45	48	3	51
Commitments	$ 7,951	$ 2,333	$ 10,284	$ 5,707	$ 1,985	$ 7,692

[a] Contains $369 million and $637 million of member standby letters of credit at June 30, 2016, and December 31, 2015, which were renewable annually.

For a description of previously defined terms see **Note 17 - Commitments and Contingencies** to the financial statements in our 2015 Form 10-K.

Note 15 – Transactions with Related Parties and Other FHLBs

We define related parties as members that own 10% or more of our capital stock or members whose officers or directors also serve on our Board of Directors. Capital stock ownership is a prerequisite to transacting any member business with us. Members and former members own all of our capital stock.

In the normal course of business, we extend credit to or enter into other transactions with these related parties. All 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 balances we had with our members as defined above as related parties (including their affiliates). Members represented in these tables may change between periods presented, to the extent that our related parties change, based on changes in the composition of our Board membership or percentage of capital stock ownership over 10% as noted in **Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS).**

As of	June 30, 2016	December 31, 2015
Assets - Interest bearing deposits	$ 650	$ 650
Assets - Advances	22,016	15,168
Assets - Advance Interest Receivable	9	5
Liabilities - Deposits	26	20
Equity - Capital Stock	703	467

Other FHLBs

From time to time, we may loan to, or borrow from, other FHLBs. All 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. These transactions with other FHLBs, if any, are identified on the face of our **Financial Statements**.

(Dollars 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

As of or for the three months ended	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Selected statements of condition data					
Total investments [a]	$ 28,964	$ 27,597	$ 28,324	$ 28,883	$ 28,080
Advances	46,424	38,353	36,778	35,044	34,553
MPF Loans held in portfolio, gross	4,670	4,681	4,831	5,082	5,377
Less: allowance for credit losses	(3)	(2)	(3)	(3)	(3)
Total assets	80,662	70,913	70,671	69,824	69,760
Consolidated obligation discount notes, net	45,876	40,293	41,564	37,290	34,552
Consolidated obligation bonds, net	29,091	24,021	22,582	26,062	28,672
Total capital stock	1,774	1,733	1,950	1,892	1,835
Total retained earnings	2,884	2,790	2,730	2,640	2,575
Mandatorily redeemable capital stock (MRCS)	302	302	8	9	8
Total capital	4,507	4,413	4,652	4,573	4,549
Other selected data at period end					
MPF off-balance sheet loans outstanding FHLB System [b]	$ 16,061	$ 15,664	$ 15,399	$ 15,083	$ 14,840
MPF off-balance sheet loans outstanding FHLB Chicago PFIs [b]	7,892	7,827	7,785	7,765	7,725
FHLB systemwide consolidated obligations (par)	963,810	896,828	905,202	856,511	852,783
Number of members	732	737	740	742	748
Total employees (full and part time)	432	425	422	410	413
Selected statements of income data					
Net interest income after provision for credit losses	$ 111	$ 120	$ 135	$ 121	$ 117
Non-interest gain (loss)	50	(3)	10	(6)	24
Non-interest expense	46	40	37	35	33
Net income	104	69	97	72	97
Other selected data during the periods					
MPF off-balance sheet loan volume funded FHLB System [b]	$ 960	$ 703	$ 849	$ 807	$ 800
MPF off-balance sheet loan volume funded FHLB Chicago PFIs [b]	395	277	329	363	388
Selected ratios (rates annualized)					
Total regulatory capital to assets ratio	6.15%	6.81%	6.63%	6.50%	6.33%
Market value of equity to book value of equity	107%	107%	108%	108%	110%
Total investments - % of total assets	36%	39%	40%	41%	40%
Advances - % of total assets	58%	54%	52%	50%	50%
MPF Loans held in portfolio, net - % of total assets	6%	7%	7%	7%	8%
Dividend rate class B1 activity stock-period paid	2.80%	2.60%	2.50%	2.25%	2.25%
Dividend rate class B2 membership stock-period paid	0.60%	0.60%	0.50%	0.50%	0.50%
Return on average assets	0.53%	0.38%	0.53%	0.42%	0.56%
Return on average equity	9.38%	5.87%	8.44%	6.31%	8.51%
Average equity to average assets	5.65%	6.47%	6.28%	6.66%	6.58%
Net yield on average interest-earning assets	0.57%	0.66%	0.75%	0.72%	0.71%
Return on average Regulatory Capital spread to three month LIBOR index	7.97%	5.17%	7.94%	6.15%	8.59%
Cash dividends	$ 10	$ 9	$ 7	$ 7	$ 6
Dividend payout ratio	10%	13%	7%	10%	6%

[a] Total investments includes investment securities, interest bearing deposits, Federal Funds sold, and securities purchased under agreements to resell.

[b] MPF off-balance sheet loans are MPF Loans purchased from PFIs and concurrently resold to Fannie Mae or other third party investors under the MPF Xtra and MPF Direct products or pooled and securitized in Ginnie Mae MBS under the MPF Government MBS product. See **Mortgage Partnership Finance Program** beginning on page 7 in our 2015 Form 10-K.

Forward-Looking Information

Statements contained in this report, including statements describing the objectives, projections, estimates, or future predictions of management, may be "forward-looking statements." These statements may use forward-looking terminology, such as "anticipates," "believes," "expects," "could," "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:

- changes in the demand by our members for advances, including the impact of the availability of other sources of funding for our members, such as deposits;

- limits on our investments in long-term assets;

- the impact of new business strategies, including our ability to develop and implement business strategies focused on maintaining net interest income; the impact of our efforts to simplify our balance sheet on our market risk profile and future hedging costs; 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 amendments to our Capital Plan, including our ability to reduce capital stock requirements for certain future advance borrowings, and our ability to continue to pay enhanced dividends on our activity stock, impact borrowing by our 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), and the amount and timing of such repurchases or redemptions;

- 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 and student loans; disruptions in the credit and debt markets and the effect on future funding costs, sources, and availability;

- 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 FFELP ABS and the related credit enhancement protections;

- changes in our ability or intent to hold mortgage-backed securities to maturity;

- changes in mortgage interest rates and prepayment speeds on mortgage assets;

- membership changes, including the withdrawal of members due to restrictions on our dividends or the loss of members through mergers and consolidations; 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;

- 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, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and related regulations and proposals and legislation related to housing finance and GSE reform; changes by 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, including regulatory changes to FHLB membership requirements proposed by the FHFA; the potential designation of us as a nonbank financial company for supervision by the Federal Reserve;

- 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 impact of the application of auditor independence rules to our independent auditor;

- the volatility of reported results due to changes in the fair value of certain assets and liabilities; and

- our ability to identify, manage, mitigate, and/or remedy internal control weaknesses and other operational risks.

For a more detailed discussion of the risk factors applicable to us, see **Risk Factors** in our 2015 Form 10-K on page 19 and in this Form 10-Q on page 60.

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.

Executive Summary

Second Quarter 2016 Financial Highlights

- We recorded net income of $104 million for the second quarter of 2016, up from $97 million in the second quarter of 2015, as we benefitted from continued litigation settlement awards related to our private-label MBS as discussed below.
- Net interest income for the second quarter of 2016 was $111 million, which included approximately $11 million of income from the prepayment fees associated with certain advance and investment security prepayments during the period. For the second quarter of 2015, net interest income was $121 million, which included approximately $12 million of income from prepayment fees associated with certain investment security prepayments during the period. The primary factor for the decline in net interest income between the second quarters of 2016 and 2015 was the result of the continued maturity of our higher earning investments and MPF Loan portfolios in addition to increased funding costs we experienced during the period. These increased funding costs were the result of our utilization of longer-term funding for our balance sheet.
- Litigation settlement awards related to our private-label MBS were $38 million for the second quarter of 2016 compared to $10 million for the second quarter of 2015, as such remaining outstanding litigation, and any related settlement awards, wind down.
- Other noninterest expense increased to $46 million for the second quarter of 2016, compared to $33 million for the second quarter of 2015, driven mainly by litigation expenses of $5 million and $1 million, respectively, related to our private-label MBS litigation settlements during the periods, along with an increase in other operating expenses.
- Total investment securities decreased $1.6 billion to $23.0 billion at June 30, 2016, down 7% from $24.6 billion at December 31, 2015, as our investment portfolio continued to pay down.
- Advances outstanding increased $9.6 billion to $46.4 billion at June 30, 2016, up 26% from $36.8 billion at December 31, 2015, as members support investment activities and loan growth in their communities.
- MPF Loans held in portfolio remained relatively flat from December 31, 2015, to June 30, 2016, as new MPF Loan volume helped offset paydown and maturity activity during the period.
- Total assets increased $10 billion to $80.7 billion as of June 30, 2016, up 14% compared to $70.7 billion as of December 31, 2015.
- We reached nearly $2.9 billion in retained earnings at June 30, 2016.
- We remained in compliance with all of our regulatory capital requirements as of June 30, 2016.

Summary and Outlook

Second Quarter 2016 Dividend

On July 21, 2016, the Bank's Board of Directors maintained the dividend levels set last quarter for the second quarter of 2016. The Board again recognized our members that borrow from the Bank by declaring a dividend of 2.80% (annualized) for Class B1 activity capital stock, based on the Bank's preliminary financial results for the second quarter of 2016. The Board also declared a 0.60% dividend (annualized) for Class B2 membership capital stock.

Meeting Members' Business Needs

We have focused our efforts over the past few years to optimize members' investment in the Bank as one way to enhance the value of their membership. This quarter, we announced the latest evolution of our Reduced Capitalization Advance Program (RCAP), which allows members to borrow new advances using less activity stock. The new RCAP has no minimum term requirement and is available for most products, including short-term advances. This provides our borrowing members with flexibility in how they choose to benefit from supporting the cooperative.

In addition, this quarter, we announced enhancements to our MPF Direct product. The single-family loan limit is increasing to $2.5 million from $1.5 million. Hybrid adjustable rate mortgages, which our members tell us they wish to sell into the MPF Program, will also be eligible for delivery.

Advances outstanding reached all-time highs in the second quarter, as did letter of credit balances. At June 30, 2016, advances were $46.4 billion, up 26% from December 31, 2015, and letters of credit were $8.4 billion, up 25% from December 31, 2015. Volume in the MPF Program continues to grow as well. As a member-focused cooperative, we have designed our products and services to focus on member needs. The growth in member products is an important way in which we measure our success in fulfilling our role as our members' Home Loan Bank.

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:

- Net interest paid or received on interest rate swaps that are accounted for as fair value or cash flow hedges;
- Amortization of premiums;
- Accretion of discounts;
- Amortization of hedge adjustments;
- Advance prepayment fees; and
- MPF credit enhancement fees.

The tables on the following page present 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 daily balances are computed using historical amortized cost balances except for trading securities and items carried under the fair value option, which both immediately recognize changes in fair value into our statements of income.

- MPF Loans held in portfolio that are on nonaccrual status are included in average daily balances used to determine the effective yield/rate. Amounts included in interest income on MPF Loans held in portfolio are presented as detailed in **MPF Loans Held in Portfolio, Net of Allowance for Credit Losses** on page 47.

- Interest and effective yield/rate includes all components of net interest income as discussed above. Yields/rates are calculated on an annualized basis.

- Any changes due to the combined volume/rate variance have been allocated ratably to volume and rate.

(Dollars in millions except per share amounts unless otherwise indicated)

	June 30, 2016			June 30, 2015			Increase (decrease) due to		
For the three months ended	Average Balance	Total Interest	Yield/ Rate	Average Balance	Total Interest	Yield/ Rate	Volume	Rate	Net Change
Investment securities	$ 22,148	$ 178	3.21 %	$ 24,414	$ 200	3.28 %	$ (18)	$ (4)	$ (22)
Advances	43,759	74	0.68 %	32,859	42	0.51 %	18	14	32
MPF Loans held in portfolio	4,666	55	4.71 %	5,445	66	4.85 %	(9)	(2)	(11)
Other interest bearing assets	7,779	10	0.51 %	5,260	1	0.08 %	3	6	9
Interest income on assets	78,352	317	1.62 %	67,978	309	1.82 %	42	(34)	8
Consolidated obligation discount notes	46,242	95	0.82 %	31,341	72	0.92 %	31	(8)	23
Consolidated obligation bonds	26,216	98	1.50 %	31,081	103	1.33 %	(18)	13	(5)
Subordinated notes	758	10	5.28 %	944	13	5.51 %	(2)	(1)	(3)
Other interest bearing liabilities	842	3	1.43 %				3	—	3
Interest expense on liabilities	74,058	206	1.11 %	63,366	188	1.19 %	31	(13)	18
Net yield on interest-earning assets	$ 78,352	$ 111	0.57 %	$ 67,978	$ 121	0.71 %	$ 14	$ (24)	$ (10)
For the six months ended									
Investment securities	$ 22,744	$ 371	3.26 %	$ 25,042	$ 404	3.23 %	$ (35)	$ 2	$ (33)
Advances	41,050	137	0.67 %	32,285	87	0.54 %	40	10	50
MPF Loans held in portfolio	4,697	112	4.77 %	5,616	135	4.81 %	(22)	(1)	(23)
Other interest bearing assets	6,791	15	0.44 %	8,207	4	0.10 %	4	7	11
Interest income on assets	75,282	635	1.69 %	71,150	630	1.77 %	19	(14)	5
Consolidated obligation discount notes	44,763	177	0.79 %	33,794	144	0.85 %	38	(5)	33
Consolidated obligation bonds	24,527	200	1.63 %	31,889	208	1.30 %	(34)	26	(8)
Subordinated notes	851	24	5.64 %	944	27	5.72 %	(3)	—	(3)
Other interest bearing liabilities	815	3	0.74 %				3	—	3
Interest expense on liabilities	70,956	404	1.14 %	66,627	379	1.14 %	25	—	25
Net yield on interest-earning assets	$ 75,282	$ 231	0.61 %	$ 71,150	$ 251	0.71 %	$ (2)	$ (18)	$ (20)

Net interest income changed mainly due to the following:

- Interest income from investment securities declined primarily due to the decline in average investment balances as securities matured or paid down during the period. Our ability to make new investments that have a term to maturity in excess of 270 days is restricted. For further information, see **Investments** on page 12 in our 2015 Form 10-K. This decline in interest income was also negatively impacted by declines in accretion into interest income of expected improvements in future cash flows on securities that were previously charged with credit related OTTI. For the year to date through June 30, 2016, we recorded accretion of $26 million compared to $29 million for the same period in 2015; and $13 million and $14 million for the comparable second quarter to date periods ended June 30. Accretion is dependent upon how estimated market conditions impact future cash flows, and may vary from past experience.

- Interest income from advances increased due to higher member demand for advances along with increases in interest rates, primarily as a result of the Federal Reserve Bank's actions at year end 2015. The following were key factors resulting in the increased demand by members for advances.

    - The funding needs of our members in Illinois and Wisconsin have increased as members support investment activities and loan growth in their communities.

    - The benefits we offer our members through our continuing Reduced Capitalization Advance Program (RCAP), which is designed to make the net cost of borrowing through advances more attractive to members and allows members to borrow new advances using less activity based capital stock.

- Interest income from MPF Loans held in portfolio continued to decline as expected due to the net decrease in our outstanding MPF Loans held in portfolio. Though we had a small net decrease in our outstanding MPF Loans year over year, we resumed purchasing MPF Loans and in the second quarter of 2016, our purchases were large enough to mostly offset our current loan paydown activity in the quarter.

- Interest income from other interest bearing assets comes primarily from Federal Funds sold and securities sold under agreements to repurchase. The increase is primarily due to increases in rates as a result of the Federal Reserve Bank's actions at year end 2015.

- Interest expense increased, primarily due to higher volume outstanding on our consolidated obligation discount notes. Rates on our outstanding debt decreased in our consolidated obligation discount notes but increased on our longer-termed consolidated obligation bonds as lower rate bonds matured during the period.

- Our hedging activities also contributed a net reduction to net interest income. The low interest rate environment resulted in negative net interest settlements on derivative contracts in active hedge accounting relationships. For further details see **Trading Securities, Derivatives and Hedging Activities, and Instruments Held at Fair Value Option** on the following page.

(Dollars in millions except per share amounts unless otherwise indicated)

Non-Interest Gain (Loss)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Trading securities	**$ (1)**	$ —	**$ —**	$ (1)
Derivatives and hedging activities	**2**	9	**(14)**	(2)
Instruments held under fair value option	**1**	—	**6**	3
Trading Securities, Derivatives and Hedging Activities, and Instruments Held Under Fair Value Option	**2**	9	**(8)**	—
Litigation settlement awards	**38**	10	**38**	11
Other, net	**10**	5	**17**	8
Noninterest gain (loss)	**$ 50**	$ 24	**$ 47**	$ 19

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

Gains (losses) on these activities have generally stabilized in recent years primarily as a result of less volatile hedging costs, which is consistent with the hedging strategies for our more simplified balance sheet, along with a more stable economy. However, most of our total net effect from hedging activities was recorded as a component of net interest income, not in the above non-interest gain (loss) line items. The low interest rate environment resulted in significant negative net interest settlements on derivative contracts. Details are in the table on the following page.

Litigation settlement awards

On October 15, 2010, we instituted litigation relating to 64 private-label MBS bonds we purchased in an aggregate original principal amount of $4.29 billion. In April 2016, we received a payment of $37.5 million (partially offset by $5.0 million of related legal fees and expenses recorded in Noninterest expense) resulting from a settlement with some of the defendants. We continue to pursue litigation related to these matters. As of June 30, 2016, the remaining litigation covers four private-label MBS bonds in the aggregate original principal amount of $77.5 million. We cannot predict to what extent we will be successful in this remaining litigation. See **Legal Proceedings** on page 60 for further details.

Other, net

Other, net, consists primarily of income from the sale of MPF Loans to third party investors and fees other FHLBs pay us to support their participation in the MPF Program, which offsets a portion of the expenses we incur.

(Dollars in millions except per share amounts unless otherwise indicated)

The following table shows the impact of Trading Securities, Derivatives and Hedging Activities, and Instruments Held Under Fair Value Option on our results of operations. The largest contributor to the total net effect gain (loss) of hedging activities is net interest settlements. Net interest settlements are attributable to open derivative hedging instruments and are included in the interest income/expense line item of the respective fair value or cash flow hedged item type. The amortization/accretion amount pertains to both closed fair value and cash flow hedging adjustments, which are included in the interest income/expense line item of the respective hedged item type.

	Advances	Investments	MPF Loans	Discount Notes	Bonds	Total
Three months ended June 30, 2016						
Amortization/accretion	**$ 2**	**$ —**	**$ (3)**	**$ (1)**	**$ (2)**	**$ (4)**
Net interest settlements	**(18)**	**(28)**	**—**	**(50)**	**18**	**(78)**
Total recorded in net interest income	**(16)**	**(28)**	**(3)**	**(51)**	**16**	**(82)**
Fair value hedges - ineffectiveness net gain (loss)	**—**	**(2)**	**—**	**—**	**(1)**	**(3)**
Cash flow hedges - ineffectiveness net gain (loss)	**—**	**—**	**—**	**4**	**—**	**4**
Economic hedges - net gain (loss)	**(6)**	**(1)**	**3**	**2**	**3**	**1**
Total recorded derivatives & hedging activities	**(6)**	**(3)**	**3**	**6**	**2**	**2**
Trading securities - hedged	**—**	**(2)**	**—**	**—**	**—**	**(2)**
Instruments held under fair value option	**5**	**—**	**—**	**(2)**	**(2)**	**1**
Total net effect gain (loss) of hedging activities	**$ (17)**	**$ (33)**	**$ —**	**$ (47)**	**$ 16**	**$ (81)**
Three months ended June 30, 2015						
Amortization/accretion	$ 2	$ —	$ (3)	$ —	$ (4)	$ (5)
Net interest settlements	(21)	(34)	—	(62)	60	(57)
Total recorded in net interest income	(19)	(34)	(3)	(62)	56	(62)
Fair value hedges - ineffectiveness net gain (loss)	3	3	—	—	—	6
Cash flow hedges - ineffectiveness net gain (loss)	—	—	—	1	—	1
Economic hedges - net gain (loss)	—	—	(3)	3	2	2
Total recorded derivatives & hedging activities	3	3	(3)	4	2	9
Instruments held under fair value option	—	—	—	(2)	2	—
Total net effect gain (loss) of hedging activities	$ (16)	$ (31)	$ (6)	$ (60)	$ 60	$ (53)
Six months ended June 30, 2016						
Amortization/accretion	**$ 4**	**$ (4)**	**$ (5)**	**$ (1)**	**$ (6)**	**$ (12)**
Net interest settlements	**(38)**	**(58)**	**—**	**(97)**	**43**	**(150)**
Total recorded in net interest income	**(34)**	**(62)**	**(5)**	**(98)**	**37**	**(162)**
Fair value hedges - ineffectiveness net gain (loss)	**(1)**	**(5)**	**—**	**—**	**(6)**	**(12)**
Cash flow hedges - ineffectiveness net gain (loss)	**—**	**—**	**—**	**4**	**—**	**4**
Economic hedges - net gain (loss)	**(19)**	**(1)**	**7**	**1**	**6**	**(6)**
Total recorded derivatives & hedging activities	**(20)**	**(6)**	**7**	**5**	**—**	**(14)**
Trading securities - hedged	**—**	**(1)**	**—**	**—**	**—**	**(1)**
Instruments held under fair value option	**16**	**—**	**—**	**(5)**	**(5)**	**6**
Total net effect gain (loss) of hedging activities	**$ (38)**	**$ (69)**	**$ 2**	**$ (98)**	**$ 32**	**$ (171)**
Six months ended June 30, 2015						
Amortization/accretion	$ 6	$ (10)	$ (7)	$ (1)	$ (5)	$ (17)
Net interest settlements	(41)	(68)	—	(124)	118	(115)
Total recorded in net interest income	(35)	(78)	(7)	(125)	113	(132)
Fair value hedges - ineffectiveness net gain (loss)	(1)	(2)	—	—	(10)	(13)
Cash flow hedges - ineffectiveness net gain (loss)	—	—	—	1	—	1
Economic hedges - net gain (loss)	(2)	—	(1)	5	8	10
Total recorded derivatives & hedging activities	(3)	(2)	(1)	6	(2)	(2)
Trading securities - hedged	—	—	—	—	—	—
Instruments held under fair value option	1	—	—	(2)	4	3
Total net effect gain (loss) of hedging activities	$ (37)	$ (80)	$ (8)	$ (121)	$ 115	$ (131)

(Dollars in millions except per share amounts unless otherwise indicated)

Noninterest Expense

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Compensation and benefits	**$ 22**	$ 18	**$ 45**	$ 37
Operating expenses	**14**	14	**29**	25
Other	**10**	1	**12**	4
Noninterest expense	**$ 46**	$ 33	**$ 86**	$ 66

Compensation and benefits increased primarily due to defined benefit pension costs and other post retirement benefit related expenses, driven in part by the continued low interest rate environment and a change in the mortality tables used to calculate the estimated pension liability. To a lesser extent, it also increased due to increased headcount and incentive compensation expenses. We had 432 employees as of June 30, 2016, compared to 413 as of June 30, 2015.

Other consists of legal fees and expenses related to litigation settlements and costs related to our share of funding the Office of Finance and the Federal Housing Finance Agency.

Assessments

We fund the Affordable Housing Program (AHP) program at a calculated rate of 10% of income before assessments.

(Dollars in millions except per share amounts unless otherwise indicated)

Other Comprehensive Income (Loss)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Net unrealized gain (loss) available-for-sale securities	**$ (60)**	$ (113)	**$ (100)**	$ (135)
Non-credit OTTI held-to-maturity securities	**10**	13	**21**	26
Net unrealized gain (loss) cash flow hedges	**8**	67	**(45)**	39
Post-retirement plans	**1**	—	**1**	(8)
Other comprehensive income (loss)	**$ (41)**	$ (33)	**$ (123)**	$ (78)

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

Our available-for-sale portfolio securities are in a net unrealized gain position as market interest rates have declined since we acquired these securities. As these securities mature, the net unrealized gain position gradually reverses to zero since we will only collect the face value at their maturity. Such reversals result in a net unrealized (loss) which will decline over time as individual securities mature. Our unrealized net gain position related to our available-for-sale securities portfolio in AOCI was $558 million as of June 30, 2016.

Non-credit OTTI on held-to-maturity securities

We accrete the non-credit related OTTI amount in AOCI to the carrying amount of each related held-to-maturity security over its remaining life. The decrease resulted from a decline in our outstanding non-credit OTTI balance, which drove a reduction in the accretion amounts. Our remaining non-credit OTTI amount on held-to-maturity securities in AOCI was $(196) million as of June 30, 2016. We expect this remaining amount to continue to decline as our OTTI held-to-maturity securities approach maturity.

Net unrealized gain (loss) on cash flow hedges

Our cash flow hedges are more sensitive to changes in longer-term market interest rates than to changes in shorter-term market interest rates. Our year-to-date net unrealized (loss) as of June 30, 2016 was ($45) million compared to a $39 million year-to-date net unrealized gain as of June 30, 2015. The net unrealized (loss) during 2016 resulted from a decline in interest rates, especially in Q1 2016. In Q2 2016, rates stabilized, resulting in a minimal gain compared to the same period in 2015. As of June 30, 2016, we had a net unrealized (loss) of $(508) million in AOCI related to our cash flow hedges.

Post-retirement plans

The $8 million OCI (loss) in Q1 2015 was due to a revision to the mortality tables we use for our post-retirement healthcare and supplemental defined benefit equalization plan and is being amortized into compensation and benefits expense over the average number of years employment remaining before retirement. The annual amount of amortization is expected to be no more than $1 million.

For further information on the activity in Other Comprehensive Income (Loss) see **Note 12 - Accumulated Other Comprehensive Income (Loss)** to the financial statements.

(Dollars in millions except per share amounts unless otherwise indicated)

Statements of Condition

	June 30, 2016	December 31, 2015
Cash and due from banks, interest bearing deposits, Federal Funds sold, and securities purchased under agreement to resell	$ 6,348	$ 4,226
Investment securities	22,991	24,597
Advances	46,424	36,778
MPF Loans held in portfolio, net of allowance for credit losses	4,667	4,828
Other	232	242
Assets	$ 80,662	$ 70,671
Consolidated obligation discount notes	$ 45,876	$ 41,564
Consolidated obligation bonds	29,091	22,582
Subordinated notes	—	944
Other	1,188	929
Liabilities	76,155	66,019
Capital stock	1,774	1,950
Retained earnings	2,884	2,730
Accumulated other comprehensive income (loss)	(151)	(28)
Capital	4,507	4,652
Total liabilities and capital	$ 80,662	$ 70,671

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

Amounts held in these 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.

Investment Securities

We are required to obtain FHFA approval for any new investments that have a term to maturity in excess of 270 days until such time as our MBS portfolio is less than three times our total regulatory capital and our advances represent more than 50% of our total assets. At June 30, 2016, our MBS portfolio was 3.86 times our total regulatory capital and our advances represented 58% of our total assets.

Advances

Advances increased in 2016 primarily due to the following factors:

- The increased funding needs of our members in Illinois and Wisconsin as members support investment activities and loan growth in their communities.
- The benefits we offer our members through our continuing Reduced Capitalization Advance Program (RCAP), which is designed to make the net cost of borrowing through advances more attractive to members and allows members to borrow new advances using less activity stock.

While our advances increased, it is possible that member demand for our advances could decline in future periods should their funding needs change, or to the extent they elect alternative funding resources. In addition, as our advances with captive insurance companies mature, our total advance levels could decrease as further discussed in **Legislative and Regulatory Developments** on page 54 in our Form 10-Q for the quarter ended March 31, 2016.

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

We had only a small net decrease in our outstanding MPF Loans from year end, as we resumed purchasing a material amount of new loans. In the second quarter of 2016, our purchases were large enough to mostly offset our current loan paydowns in the quarter. A portion of our new loans were refinancings, and this activity is dependent on interest rates. If rates rise quickly, refinancings may decline. Our recent trend is toward new purchase activity, which may be less susceptible to interest rate increases. However, we cannot predict if these trends will continue. For the year to date period ended June 30, 2016, we acquired $409 million in new MPF Loans to our portfolio, compared to $44 million in the same period in 2015.

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.

(Dollars in millions except per share amounts unless otherwise indicated)

Liquidity, Funding, & Capital Resources

Liquidity

For the period ending June 30, 2016, we have 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 liquidity requirements. See **Liquidity, Funding, & Capital Resources** on page 48 in our 2015 Form 10-K for a detailed description of our liquidity requirements. We use different measures of liquidity as follows:

Overnight Liquidity – Our policy requires us to maintain overnight liquid assets at least equal to 3.5% of total assets. As of June 30, 2016, our overnight liquidity was $10.5 billion or 13% of total assets, giving us an excess overnight liquidity of $7.7 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, 2016, we had excess liquidity of $47.9 billion to support member deposits.

Contingency Liquidity – The cumulative five business day liquidity measurement assumes there is a localized credit crisis for all FHLBs where the FHLBs do not have the ability to issue new consolidated obligations or borrow unsecured funds from other sources (e.g., purchasing Federal Funds or customer deposits). Our net liquidity in excess of our total uses and reserves over a cumulative five-business-day period was $18.4 billion as of June 30, 2016.

In addition to the liquidity measures discussed above, FHFA guidance requires us to maintain daily liquidity through short-term investments in an amount at least equal to our anticipated cash outflows under two different scenarios. One scenario assumes that we cannot access the capital markets for 15 days and that during that time members do not renew any maturing, prepaid, and called advances. The second scenario assumes that we cannot access the capital markets for 5 days and that during that period we will automatically renew maturing and called advances for all members except for very large, highly rated members. These additional requirements are more stringent than the Contingency Liquidity requirement discussed above and are designed to enhance our protection against temporary disruptions in access to the FHLB debt markets in response to a rise in capital markets volatility. As a result of this guidance, we maintain increased balances in short-term investments. In addition, we fund certain overnight or shorter-term investments and advances with debt that has a maturity that extends beyond the maturities of the related investments or advances. For a discussion of how this may impact our earnings, see page 22 in the **Risk Factors** section of our 2015 Form 10-K.

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. 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.

		Investment Securities	
As of June 30, 2016	**MPF Loans Held in Portfolio**	**Available-for Sale**	**Held-to-Maturity**
Year of Expected Principal Cash Flows			
One year or less	$ 1,390	$ 1,575	$ 2,209
After one year through five years	2,295	11,038	3,047
After five years through ten years	683	1,818	630
After ten years	242	853	178
Total	$ 4,610	$ 15,284	$ 6,064

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 page 24 of the **Risk Factors** section in our 2015 Form 10-K.

Funding

Conditions in Financial Markets

During the second quarter of 2016, the Federal Open Market Committee (FOMC) delayed further interest rate hikes due to potential economic stress caused by the United Kingdom leaving the European Union, commonly known as "Brexit." The increased economic uncertainty caused by Brexit lead to a fall in interest rates. The 10 year Treasury Note fell 30 basis points over the quarter ending at 1.47 percent.

We maintained ready access to funding during the quarter.

Cash flows from operating activities

Our operating assets and liabilities support our mission to provide our member shareholders competitively priced funding, a reasonable return on their investment in our capital stock, and support for community investment activities. Operating assets and liabilities can vary significantly in the normal course of business due to the amount and timing of cash flows, which are affected by member-driven activities and market conditions. We believe cash flows from operations, available cash balances and our ability to generate cash through short- and long-term borrowings are sufficient to fund our operating liquidity needs. Net cash provided by (used in) operating activities was $(8) million for the six months ended June 30, 2016 compared to $316 million for the six months ended June 30, 2015, resulting in a year over year decrease of $324 million. This difference primarily resulted from the following year over year changes:

- The non-cash adjustment attributable to the net fair value adjustment on derivatives and hedging activities, which represented a $165 million decrease in net cash flows during 2016 compared to a $196 million increase in net cash flows during 2015, or a total decrease year over year of $361 million in net cash flows from derivatives and hedging activities; and
- Net cash flows from Ginnie Mae securitization activities during 2016 that increased cash flows from operating activities by $32 million compared to a $11 million decrease in cash flows related to gross purchases of MPF Loans held for sale during 2015, or a total increase year over year of $43 million from Ginnie Mae securitization activities.

Cash flows from investing activities

Our investing activities predominantly include advances, MPF Loans held in portfolio, investment securities, and other short-term interest-earning assets. Net cash provided by (used in) investing activities was $(9.9) billion for the six months ended June 30, 2016 compared to $3.2 billion for the six months ended June 30, 2015, resulting in a year over year decrease of $(13.1) billion. This difference primarily resulted from the following year over year changes:

- A net increase of $7 billion in cash outflows related to funding advances, which reflects our objective to make advances to our members our primary business;
- A net increase of $5 billion in cash outflows related to Federal Funds sold and securities purchased under agreements to resell, which reflects our objective to invest in liquid assets to meet the needs of our members; and
- A net increase of $525 million in cash outflows to purchase MPF Loans Held in Portfolio which reflects our decision in mid 2015 to resume these purchases.

Cash flows from financing activities

Our financing activities primarily reflect cash flows related to issuing and repaying consolidated obligations. Net cash provided by (used in) financing activities was $9.8 billion for the six months ended June 30, 2016 compared to $(2.3) billion for the six months ended June 30, 2015, resulting in a year over year increase of $12.1 billion. This year over year increase was primarily driven by a net increase in our consolidated obligation discount notes and consolidated obligations bonds outstanding partially offset by the retirement of our subordinated notes. The proceeds from the increased issuances of our consolidated obligation discount notes and consolidated obligations bonds were primarily utilized to fund the net increases in our investing activities as noted above.

Consolidated Obligation Bonds and Discount Notes

We fund our assets principally with consolidated obligations (bonds and discount notes) issued through the Office of Finance, and capital stock. Consolidated obligations have GSE status although they are not obligations of the United States and the United States does not guarantee them.

During the first six months of 2016, discount notes and bonds increased in a manner consistent with the rise in the level of assets being funded. For the comparable period in 2015, we relied more on shorter term discount notes to fund our assets as longer term bonds matured. The 2015 shift to discount note funding was driven by increased demand from our members for short term advances as well as taking advantage of funding opportunities in discount notes (versus bonds). For further discussion of our reliance on discount note funding, see page 24 of the **Risk Factors** section of our 2015 Form 10-K.

(Dollars in millions except per share amounts unless otherwise indicated)

The following shows our net cash flow issuances (redemptions) by type of consolidated obligation:

Six months ended June 30,	**2016**	2015
Discount notes	**$ 4,298**	$ 3,489
Bonds	**6,409**	(5,609)
Total consolidated obligations	**$ 10,707**	$ (2,120)

Subordinated Notes Payoff

As approved by the Finance Board (predecessor to the FHFA), we issued $1 billion of 10-year subordinated notes in 2006, and during 2013, we purchased $56 million of these notes in the open market. On June 13, 2016, our remaining $944 million subordinated notes matured. On this maturity date, we paid the holders of our subordinated note in full in accordance with the terms of their notes. For further discussion of our subordinated notes, see Note 12 - Subordinated Notes to the financial statements of our 2015 Form 10-K.

Capital Resources

Capital Rules

Under our Second Amended and Restated Capital Plan of the Federal Home Loan Bank of Chicago, effective October 1, 2015 (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. 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. Class B1 activity stock is available for purchase only to support a member's activity stock requirement. Class B2 membership stock is available to be purchased to support a member's membership stock requirement and any activity stock requirement.

Under our Capital Plan, our Board of Directors may set a threshold of between $10,000 and $75 million on the amount of Class B2 membership stock that would otherwise be held for membership if a member has advances outstanding that have an activity stock requirement in excess of the threshold amount. In that case, the amount of Class B2 membership stock that exceeds such threshold and is necessary to support advance activity is automatically converted into Class B1 activity stock. That threshold is currently set at $10,000, which means that we will convert to Class B1 activity capital stock any capital stock supporting advances that exceeds the lesser of the member's membership requirement or $10,000.

The Board of Directors may periodically adjust members' activity stock requirement for certain new advances within a range of 2% and 6% of a member's outstanding advances. Our Board implemented this provision through RCAP as further discussed below. In addition, our Board reduced each member's activity stock requirement from 5% to 4.5% for non-RCAP advances, effective April 1, 2016.

Our Capital Plan allows for an activity stock requirement for MPF Loans acquired for our portfolio within a range of 0% and 6%, which our Board has set at 0%. Should the Board decide to introduce this capital requirement, we intend to notify members sufficiently in advance of the change and apply that change only to future acquisitions.

The Board may periodically adjust members’ membership stock requirement within a range of 0.20% to 2% of a member’s mortgage assets. In February 2016, our Board reduced the membership stock requirement to the greater of either $10,000 or 0.40% of a member's mortgage assets. A member’s investment in membership stock is subject to a cap equal to the lesser of (1) a dollar cap set by the Board within a range of $10,000 and $75 million, and (2) 9.9% of our total capital stock outstanding as of the prior December 31. Also in February 2016 , the Board reduced the dollar cap on membership stock from $25 million to $5 million, which is less than 9.9% of the Bank’s total capital stock at December 31, 2015, and thus the operative cap during the remainder of 2016 unless the Board sets a new cap.

(Dollars in millions except per share amounts unless otherwise indicated)

Membership stock requirements will continue to be recalculated annually, whereas the activity stock requirement and any automatic conversion of Class B2 membership stock to Class B1 activity stock related to the threshold will apply on a daily basis. The revised membership stock and activity stock requirements discussed above went into effect on April 1, 2016. As a result of these changes, we held $593 million of excess capital stock on April 1, 2016. As of June 30, 2016, we held excess capital stock of $391 million. The reduction was a result of members requesting repurchase of their excess stock and members utilizing excess stock to support new advance borrowing activities.

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 discussed below.

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.

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.

Reduced Capitalization Advance Program

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 4.5% requirement under our Capital Plan's general provisions. Since June 1, 2016, we have offered a more flexible version of RCAP, under which members can borrow both short- and long-term funding, including overnight advances, with the reduced activity stock capital requirement.

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.

	June 30, 2016	December 31, 2015	**Change**
Capital stock	**$ 1,774**	$ 1,950	**$ (176)**
Total retained earnings	**2,884**	2,730	**154**
Accumulated other comprehensive income (loss)	**(151)**	(28)	**(123)**
Total GAAP capital	**$ 4,507**	$ 4,652	**$ (145)**
Capital Stock	**$ 1,774**	$ 1,950	**$ (176)**
MRCS	**302**	8	**294**
Total retained earnings	**2,884**	2,730	**154**
Regulatory capital	**$ 4,960**	$ 4,688	**$ 272**

Although we have had no OTTI in 2016, credit deterioration may negatively impact our remaining private-label MBS portfolio. We believe that future impairments of this portfolio are possible if unemployment rates, default, delinquency, or loss rates on mortgages were to increase, or there is a further decline in residential real estate value. We cannot predict if or when such impairments will occur, or the impact such impairments may have on our retained earnings and capital position. See page 28 of the **Risk Factors** section of our 2015 Form 10-K.

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 21, 2016, our Board of Directors approved maintaining the dividend levels set last quarter for the second quarter of 2016 and declared a 2.80% dividend (annualized) for Class B1 activity stock and a 0.60% dividend (annualized) for Class B2 membership stock based on our preliminary financial results for the second quarter of 2016. This dividend, including dividends on mandatorily redeemable capital stock, totaled $11 million and will be paid on August 15, 2016. With this action, the Board continues the practice of rewarding members that use the Bank's advances and support the financial health of the entire cooperative. Although we continue to work to maintain our financial strength to support a reasonable dividend, any future dividend determination by our Board will be at our Board's sole discretion 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 about our Retained Earnings and Dividend Policy, see **Retained Earnings and Dividend Policy** on page 57 in our 2015 Form 10-K**.**

(Dollars in millions except per share amounts unless otherwise indicated)

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** on page F-43 in our 2015 Form 10-K.

The increase in MRCS and decrease in Capital Stock in the above table is mostly due to the transfer in the first quarter of 2016 of $294 million of our captive insurance company members' capital stock from equity to MRCS in liabilities on our statement of condition. For further details see **Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements.

Critical Accounting Policies

The table below identifies our critical accounting policies and estimates and the page number where a detailed description of each can be found in our 2015 Form 10-K.

Estimating Credit Losses	Page 60
Estimating Fair Value	Pages 60-61

See **Note 2 - Summary of Significant Accounting Policies** and **Note 3 - Recently Issued but Not Yet Adopted Accounting Standards** to the financial statements in this Form 10-Q for the impact of changes in accounting policies and recently issued accounting standards on our financial results.

(Dollars in millions except per share amounts unless otherwise indicated)

Risk Management - Credit Risk

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 **Member Credit Risk Ratings** on page 63 in our 2015 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, $46.1 billion were advances (par value) and $8.4 billion were letters of credit at June 30, 2016, compared to $36.6 billion and $6.7 billion at December 31, 2015.

	June 30, 2016					December 31, 2015				
Rating	**Borrowing Members**	**% of Total**	**Credit Outstanding**	**% of Total**	**Collateral Loan Value**	Borrowing Members	% of Total	Credit Outstanding	% of Total	Collateral Loan Value
1-3	**485**	**96%**	**$ 54,421**	**100%**	**$ 96,637**	482	94%	$ 43,090	100%	$ 90,366
4	**7**	**1%**	**51**	**—%**	**108**	12	2%	158	—%	318
5	**15**	**3%**	**150**	**—%**	**282**	20	4%	145	—%	353
Total	**507**	**100%**	**$ 54,622**	**100%**	**$ 97,027**	514	100%	$ 43,393	100%	$ 91,037

MPF Loans and Related Exposures

For details on our allowance for credit losses on MPF Loans, please see the **MPF Risk Sharing Structure** on page F-14 in our 2015 Form 10-K.

Mortgage Repurchase Risk

We are exposed to 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. We may require the PFI from which we purchased the ineligible MPF Loan to repurchase that loan from us or indemnify us for related losses.

For the three and six months ended June 30, 2016, we have repurchased $3 million and $6 million of unpaid principal balances related to MPF Loans. Due to recoveries from PFIs, we incurred no material losses on these loans. As of June 30, 2016, we have $37 million of unpaid principal with respect to mortgage loans that represent unresolved claims with investors, in which a repurchase demand may occur, compared to $38 million at December 31, 2015; see **Note 14 -Commitments and Contingencies** to the financial statements.

For further details, see **Mortgage Repurchase Risk** on page 66 in our 2015 Form 10-K.

(Dollars in millions except per share amounts unless otherwise indicated)

Investment Securities

We hold a variety of investment securities we believe are low risk and mostly government backed or insured such as GSE debt, and FFELP ABS. There was no material change in the credit ratings of these AA or better rated securities since December 31, 2015, and except for private-label MBS as noted below, we have never taken an impairment charge on these securities. For further details see page 69 in our 2015 Form 10-K.

Our private-label MBS are predominantly variable rate securities rated below investment grade (BBB). There was no material change in overall credit quality since December 31, 2015, nor have we acquired any new private-label MBS. We last had an other-than-temporary impairment (OTTI) loss on private-label MBS in 2012. We currently have unrealized gains on these securities as their market values have improved from the impaired values and subsequent to 2012 we have begun recording accretion gains on these securities back into income. For further details see **Note 5 - Investments Securities** to the financial statements in this Form 10-Q as well as pages F-27 and F-28 in our 2015 Form 10-K.

Unsecured Short-Term Investments Credit Exposure

For further details on our unsecured short-term investments as well as policies and procedures to limit and monitor our unsecured credit risk exposure, see page 72 in our 2015 Form 10-K.

The following table presents the credit ratings of our unsecured investment credit exposures by the domicile of the counterparty or the domicile of the counterparty's parent for U.S. branches and agency offices of foreign commercial banks. This table does not reflect the foreign sovereign government's credit rating. The unsecured investment credit exposure presented in the table may not reflect the average or maximum exposure during the period as the table reflects only the balances at period end.

As of June 30, 2016	AA	A	Unrated	Total
Domestic U.S.				
Interest-Bearing Deposits	$ —	$ 650	$ —	$ 650
Fed Funds Sold	—	—	23	23
U.S. branches and agency offices of foreign commercial banks - Federal Funds sold:				
Australia	500	—	—	500
Canada	—	850	—	850
Finland	500	—	—	500
Netherlands	—	500	—	500
Norway	—	500	—	500
Sweden	500	200	—	700
Total unsecured credit exposure	$ 1,500	$ 2,700	$ 23	$ 4,223

All $4.2 billion of the unsecured credit exposure shown in the above table were overnight investments.

(Dollars in millions except per share amounts unless otherwise indicated)

Managing Our Credit Risk Exposure Related to Derivative Agreements

Refer to **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.

	Net Fair Value Before Collateral	Cash Collateral Pledged	Non-cash Collateral Pledged	Net Credit Exposure to Counterparties
As of June 30, 2016				
Non-member counterparties -				
Undercollateralized asset positions -				
Bilateral derivatives -				
A rated	**$ 2**	**$ (2)**	**$ —**	**$ —**
Cleared derivatives	**—**	**1**	**—**	**1**
Overcollateralized liability positions -				
Cleared derivatives	**(461)**	**447**	**101**	**87**
Non-member counterparties	**(459)**	**446**	**101**	**88**
Member institutions	**3**	**—**	**—**	**3**
Total	**$ (456)**	**$ 446**	**$ 101**	**$ 91**
As of December 31, 2015				
Non-member counterparties -				
Overcollateralized liability positions -				
Bilateral derivatives -				
AA rated	$ (14)	$ 14	$ —	$ — [a]
A rated	(4)	4	—	— [a]
Cleared derivatives	(147)	136	62	51
Non-member counterparties	(165)	154	62	51
Member institutions	1	—	—	1
Total	$ (164)	$ 154	$ 62	$ 52

[a] Less than $1 million.

Legislative and Regulatory Developments

Significant regulatory actions and developments for the period covered by this report are summarized below.

Joint Proposed Rule on Incentive-Based Compensation Arrangements

On June 10, 2016, the FHFA, jointly with five other federal regulators, published the rule contemplated by Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which requires implementation of regulations or guidelines to (1) prohibit incentive-based payment arrangements that these regulators determine encourage inappropriate risks by certain financial institutions by providing excessive compensation or that could lead to material financial loss; and (2) require those financial institutions to disclose information concerning incentive-based compensation arrangements to the appropriate federal regulator.

The proposed rule identifies three categories of institutions that would be covered by these regulations based on average total consolidated assets, applying less prescriptive incentive-based compensation program requirements to the smallest covered institutions (Level 3) and progressively more rigorous requirements to the larger covered institutions (Level 1). The proposed rule specifies that the Bank would fall into the middle category, Level 2. The proposed rule would supplement existing FHFA executive compensation rules.

The proposed rule would prohibit the Bank from establishing or maintaining incentive-based compensation arrangements that encourage inappropriate risks by “senior executive officers” and “significant risk-takers” (each as defined in the proposed rule, together, “covered persons”) that could lead to a material financial loss at the Bank.

If adopted in its current form, the proposed rule would, among other things, impose requirements related to the Bank’s incentive-based compensation arrangements for covered persons, related to:

- mandatory deferrals of 50 percent and 40 percent of annual and "long-term" incentive-based compensation payments for senior executive officers and significant risk takers, respectively, over no less than three years for annual incentive-based compensation and one year for compensation awarded under a long-term incentive plan;
- risk of downward adjustment and forfeiture of awards;
- clawbacks of vested compensation; and
- limits on the maximum incentive-based compensation opportunity.

The proposed rule would impact the design and operation of our compensation policies and practices, including our incentive compensation policies and practices, if adopted as proposed. Comments were due on the proposed rule by July 22, 2016.

Joint Proposed Rule Regarding Net Stable Funding Ratio

On May 3, 2016, the Federal Reserve Board (FRB), the Department of Treasury and the Federal Deposit Insurance Corporation, jointly issued a proposed rule that would implement a stable funding requirement, the net stable funding ratio (NSFR), for large and internationally active banking organizations. The NSFR will require institutions to maintain liquidity to match their assets over a one-year time horizon. The FRB is proposing a modified NSFR requirement for bank holding companies and certain savings and loan holding companies that, in each case, have more than $50 billion, but less than $250 billion, in total consolidated assets and less than $10 billion in total on-balance sheet foreign exposure. If adopted in its current form, the proposed rule would provide that secured funding with maturities between six months and one year, including FHLB advances, would be assigned 50% liquidity credit for purposes of calculating compliance with the NSFR, which could adversely affect demand for the Bank’s advances. Comments are due on the proposed rule by August 5, 2016.

(Dollars in millions except per share amounts unless otherwise indicated)

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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, 2016					
Advances	**$ (4)**	**$ —**	**$ —**	**$ (10)**	**$ —**
MPF Loans	**(1)**	**(1)**	**(3)**	**(2)**	**1**
Mortgage Backed Securities	**(4)**	**—**	**(1)**	**(4)**	**—**
Other interest earning assets	**(1)**	**—**	**—**	**(3)**	**—**
Interest-bearing liabilities	**4**	**2**	**—**	**4**	**—**
Derivatives	**5**	**(1)**	**—**	**—**	**—**
Total	**$ (1)**	**$ —**	**$ (4)**	**n/m**	**$ 1**
As of December 31, 2015					
Advances	$ (3)	$ —	$ —	$ (10)	$ —
MPF Loans	(1)	(2)	(2)	(2)	1
Mortgage Backed Securities	(4)	(1)	(1)	(5)	—
Other interest earning assets	(1)	—	—	(3)	—
Interest-bearing liabilities	6	5	—	6	—
Derivatives	3	(3)	—	—	—
Total	$ —	$ (1)	$ (3)	n/m	$ 1

n/m Spread movements to the swap curve within each category are independent of the other categories and therefore a total is not meaningful.

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, 2016, our sensitivity to changes in implied volatility was nil. At December 31, 2015, our sensitivity to changes in implied volatility was $(1) million. 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.

(Dollars in millions except per share amounts unless otherwise indicated)

Duration of equity is another measure to express interest rate sensitivity. We report the results of our duration of equity calculations to the FHFA each quarter. We measure duration of equity in a base case using the actual yield curve as of a specified date and then shock it with an instantaneous shift of the entire curve. The following table presents the duration of equity reported by us to the FHFA in accordance with the FHFA's guidance, which prescribes that down and up interest-rate shocks equal 200 basis points. The results are shown in years of duration equity.

June 30, 2016			December 31, 2015		
Down 200 bps	**Base**	**Up 200 bps**	Down 200 bps	Base	Up 200 bps
2.5	**1.1**	**0.6**	2.8	0.6	0.7

Duration gap is another measure of interest rate sensitivity. Duration gap is calculated by dividing the dollar duration of equity by the fair value of assets. A positive duration gap indicates an exposure to rising interest rates. As of June 30, 2016, our duration gap was 0.8 months, compared to 0.5 months as of December 31, 2015.

As of June 30, 2016, on a U.S. GAAP basis, our fair value surplus (relative to book value) was $358 million, and our market value of equity to book value of equity ratio was 107%, compared to $351 million and 108% at December 31, 2015. 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.

Our Asset/Liability Management Committee provides oversight of market risk management practices and policies. This includes routine reporting to senior 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 change in market risk limits under the Income and Market Value Risk Policy.

	June 30, 2016		December 31, 2015	
Scenario as of	**Change in Market Value of Equity**	**Loss Limit**	Change in Market Value of Equity	Loss Limit
-200 bp	**$ (22.1)**	**$ (370.0)**	$ 123.0	$ (370.0)
-100 bp	**69.3**	**(155.0)**	65.2	(155.0)
-50 bp	**57.3**	**(60.0)**	21.8	(60.0)
-25 bp	**18.0**	**(30.0)**	7.5	(30.0)
+25 bp	**(8.6)**	**(30.0)**	(6.4)	(30.0)
+50 bp	**(13.2)**	**(60.0)**	(13.9)	(60.0)
+100 bp	**(18.5)**	**(155.0)**	(31.3)	(155.0)
+200 bp	**(41.4)**	**(370.0)**	(62.8)	(370.0)

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 82 of our 2015 Form 10-K.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On October 15, 2010, the Bank instituted litigation relating to 64 private-label MBS bonds purchased by the Bank in an aggregate original principal amount of $4.29 billion. Of the three cases that were filed by the Bank, only the action filed in the Circuit Court of Cook County, Illinois remains active. As of June 30, 2016, this litigation covers four private-label MBS bonds in the aggregate original principal amount of $77.5 million.

In this action, the Bank asserts claims for untrue or misleading statements in the sale of securities, signing or circulating securities documents that contained material misrepresentations, and negligent misrepresentation. The Bank seeks the remedies of rescission, recovery of damages, and recovery of reasonable attorneys' fees and costs of suit. As of June 30, 2016, Morgan Stanley & Co., Incorporated, and certain of its affiliates, remain as the sole defendants in the Illinois action.

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 on page 19 in our 2015 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.

PricewaterhouseCoopers LLP (PwC) serves as the independent registered public accounting firm for us and the other FHLBs. Rule 2-01(c)(1)(ii)(A) of Regulation S-X (the Loan Rule) prohibits an accounting firm, such as PwC, from having certain financial relationships with their audit clients and affiliated entities. Specifically, the Loan Rule provides, in the relevant part, that an accounting firm generally would not be independent if it receives a loan from a lender that is a “record or beneficial owner of more than ten percent of the audit client’s equity securities.”

PwC has advised the Bank that as of June 30, 2016 it has borrowing relationships with two Bank members (referred to below as the “Lenders”) who each own more than ten percent of the Bank’s capital stock, which could call into question PwC’s independence with respect to the Bank. The Bank is providing this disclosure to explain the facts and circumstances as well as PwC’s and the Audit Committee’s conclusions concerning PwC’s objectivity and impartiality with respect to the audit of the Bank.

PwC advised the Audit Committee of the Bank that it believes that, in light of the facts of each borrowing relationship, its ability to exercise objective and impartial judgment on all matters encompassed within PwC’s audit engagement have not been impaired and that a reasonable investor with knowledge of all relevant facts and circumstances would reach the same conclusion. PwC has advised the Audit Committee that this conclusion is based in part on the following considerations:

- the borrowings are in good standing and neither Lender has the right to take action against PwC, as borrower, in connection with the financings;
- the debt balances outstanding are immaterial to PwC and to each Lender;
- PwC has borrowing relationships with a diverse group of lenders, therefore PwC is not dependent on any single lender or group of lenders; and
- the PwC audit engagement team has no involvement in PwC's treasury function and PwC's treasury function has no oversight or ability to influence the PwC audit engagement team.

Additionally, the Audit Committee of the Bank assessed PwC's ability to perform an objective and impartial audit, including consideration of the ownership structure of the Bank, the limited voting rights of the Bank's members and the composition of the board of directors. In addition to the above listed considerations, the Audit Committee considered the following:

- although each of the Lenders owned more than ten percent of the Bank's capital stock, the voting power of each of the Lenders' capital stock is less than ten percent;
- no individual officer or director of a member or independent director that serves on the board of directors has the ability to significantly influence the Bank based on the composition of the board of directors; and
- as of June 30, 2016, no officer or director of either Lender serves on the board of directors of the Bank.

Based on the Audit Committee's evaluation, the Audit Committee has concluded that PwC's ability to exercise objective and impartial judgment on all issues encompassed within PwC's audit engagement has not been impaired.

If in the future, however, PwC is ultimately determined under the Loan Rule not to be independent with respect to the Bank, or permanent relief regarding this matter is not granted by the SEC, the Bank may need to take other actions and incur other costs in order for the Bank's previously filed Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q to be deemed compliant with applicable securities laws. Such actions may include, among other things, obtaining a new audit of our historical financial statements by another independent registered public accounting firm. Any of the foregoing could have an adverse impact on the Bank.

For further discussion of Bank members owning more than ten percent of the Bank's capital stock at June 30, 2016, please see **Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements in this Form 10-Q. For a discussion of the voting rights of our members, please see **Item 10 - Directors, Executive Officers, and Corporate Governance - 2015 Director Election** on page 84 in our 2015 Form 10-K.

Item 6. Exhibits.

31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer
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
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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Glossary of Terms

Advances: Secured loans to members.

ABS: Asset-backed-securities.

AFS: Available-for-sale securities.

AOCI: Accumulated Other Comprehensive Income.

Capital Plan: The Second Amended and Restated Capital Plan of the Federal Home Loan Bank of Chicago, effective as of October 1, 2015.

CBSA: Core Based Statistical Areas (CBSAs), which are based upon an assessment of the individual housing markets. CBSA refers collectively to metropolitan and micropolitan statistical areas as defined by the United States Office of Management and Budget; as currently defined, a CBSA must contain at least one urban area with a population of 10,000 or more people.

CDFI: Community development financial institution.

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.

Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted July 21, 2010.

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.

FDIC: Federal Deposit Insurance Corporation.

FFELP: Federal Family Education Loan Program.

FHA: Federal Housing Administration.

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

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

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

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

FHLB Chicago: The Federal Home Loan Bank of Chicago.

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 Veterans Affairs (VA) or Department of Agriculture Rural Housing Service (RHS).

GSE: Government sponsored enterprise.

HFS: Held for sale.

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

HUD: Department of Housing and Urban Development.

HTM: Held-to-maturity securities.

LIBOR: London Interbank Offered Rate.

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

MBS: Mortgage-backed securities.

Moody's: Moody's Investors Service.

MPF®: Mortgage Partnership Finance.

MPF Banks: FHLBs that participate in the MPF program.

MPF Direct product: The MPF Program product under which we acquire jumbo MPF Loans from PFIs 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: Conforming conventional and government fixed-rate mortgage loans secured by one-to-four family residential properties with maturities from five to 30 years or participations in such mortgage loans that are acquired under the MPF Program.

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

MPF Xtra® product: The MPF Program product under which we acquire MPF Loans from PFIs and concurrently resell them to Fannie Mae.

MRCS: mandatorily redeemable capital stock.

Nonaccrual MPF Loans: Nonperforming mortgage loans in which the collection of principal and interest is determined to be doubtful or when interest or principal is past due for 90 days or more, except when the MPF Loan is well secured and in the process of collection.

NRSRO: Nationally Recognized Statistical Rating Organization.

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

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

OTTI: Other-than-temporary impairment.

OTTI Committee: An FHLB System OTTI Committee formed by the FHLBs to achieve consistency among the FHLBs in their analyses of the OTTI of private-label MBS.

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.

PMI: Primary Mortgage Insurance.

PwC: PricewaterhouseCoopers LLP.

RCAP: Reduced Capitalization Advance Program.

Recorded Investment: Recorded investment in a loan is its amortized cost basis 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 basis is defined as either the amount funded or the cost to purchase MPF Loans held in portfolio. Specifically, the amortized cost basis 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.

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.

RHS: Department of Agriculture Rural Housing Service.

SEC: Securities and Exchange Commission.

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

TBA: A forward contract on a mortgage-backed security (MBS), typically issued by a U.S. government sponsored entity, whereby a seller agrees to deliver an MBS for an agreed upon price on an agreed upon date.

UPB: Unpaid Principal Balance.

U.S.: United States

VA: Department of Veterans Affairs.

FHLB Chicago | Federal Home Loan Bank of Chicago

Signatures

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

	FEDERAL HOME LOAN BANK OF CHICAGO
	/s/ Matthew R. Feldman
	By: Matthew R. Feldman
	Title: President and Chief Executive Officer
Date: August 4, 2016	(Principal Executive Officer)
	/s/ Roger D. Lundstrom
	By: Roger D. Lundstrom
	Title: Executive Vice President and Chief Financial Officer
Date: August 4, 2016	(Principal Financial Officer and Principal Accounting Officer)