

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, 2017

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



Federal Home Loan Bank of Chicago

Federal Home Loan Bank of Chicago  
(Exact name of registrant as specified in its charter)

**Federally chartered corporation**

(State or other jurisdiction of  
incorporation or organization)

**200 East Randolph Drive  
Chicago, IL**

(Address of principal executive offices)

**36-6001019**

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

**60601**

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

As of June 30, 2017, including mandatorily redeemable capital stock, registrant had 18,287,562 total outstanding shares of Class B Capital Stock.

**TABLE OF CONTENTS**

<b><u>PART I - FINANCIAL INFORMATION</u></b>	
<b>Item 1.</b>	<b><u>Financial Statements (unaudited).</u></b> <span style="float: right;"><u>3</u></span>
	<u>Statements of Condition</u> <span style="float: right;"><u>3</u></span>
	<u>Statements of Income</u> <span style="float: right;"><u>4</u></span>
	<u>Statements of Comprehensive Income</u> <span style="float: right;"><u>5</u></span>
	<u>Statements of Capital</u> <span style="float: right;"><u>6</u></span>
	<u>Condensed Statements of Cash Flows</u> <span style="float: right;"><u>7</u></span>
	<u>Note 1 - Background and Basis of Presentation</u> <span style="float: right;"><u>8</u></span>
	<u>Note 2 - Summary of Significant Accounting Policies</u> <span style="float: right;"><u>9</u></span>
	<u>Note 3 - Recently Issued but Not Yet Adopted Accounting Standards</u> <span style="float: right;"><u>10</u></span>
	<u>Note 4 - Interest Income and Interest Expense</u> <span style="float: right;"><u>12</u></span>
	<u>Note 5 - Investment Securities</u> <span style="float: right;"><u>13</u></span>
	<u>Note 6 - Advances</u> <span style="float: right;"><u>19</u></span>
	<u>Note 7 - MPF Loans Held in Portfolio</u> <span style="float: right;"><u>20</u></span>
	<u>Note 8 - Allowance for Credit Losses</u> <span style="float: right;"><u>21</u></span>
	<u>Note 9 - Derivatives and Hedging Activities</u> <span style="float: right;"><u>23</u></span>
	<u>Note 10 - Consolidated Obligations</u> <span style="float: right;"><u>28</u></span>
	<u>Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)</u> <span style="float: right;"><u>29</u></span>
	<u>Note 12 - Accumulated Other Comprehensive Income (Loss)</u> <span style="float: right;"><u>30</u></span>
	<u>Note 13 - Fair Value</u> <span style="float: right;"><u>31</u></span>
	<u>Note 14 - Commitments and Contingencies</u> <span style="float: right;"><u>34</u></span>
	<u>Note 15 – Transactions with Related Parties and Other FHLBs</u> <span style="float: right;"><u>34</u></span>
<b>Item 2.</b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u></b> <span style="float: right;"><u>35</u></span>
<b>Item 3.</b>	<b><u>Quantitative and Qualitative Disclosures about Market Risk.</u></b> <span style="float: right;"><u>57</u></span>
<b>Item 4.</b>	<b><u>Controls and Procedures.</u></b> <span style="float: right;"><u>59</u></span>
<b><u>PART II - OTHER INFORMATION</u></b>	
<b>Item 1.</b>	<b><u>Legal Proceedings.</u></b> <span style="float: right;"><u>60</u></span>
<b>Item 1A.</b>	<b><u>Risk Factors.</u></b> <span style="float: right;"><u>60</u></span>
<b>Item 2.</b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds.</u></b> <span style="float: right;"><u>60</u></span>
<b>Item 3.</b>	<b><u>Defaults upon Senior Securities.</u></b> <span style="float: right;"><u>60</u></span>
<b>Item 4.</b>	<b><u>Mine Safety Disclosures.</u></b> <span style="float: right;"><u>60</u></span>
<b>Item 5.</b>	<b><u>Other Information.</u></b> <span style="float: right;"><u>60</u></span>
<b>Item 6.</b>	<b><u>Exhibits.</u></b> <span style="float: right;"><u>61</u></span>
	<u>Glossary of Terms</u> <span style="float: right;"><u>62</u></span>
	<u>Signatures</u> <span style="float: right;"><u>S-1</u></span>

**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****Statements of Condition (unaudited)**

(Dollars in millions, except capital stock par value)

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Cash and due from banks	\$ 168	\$ 351
Interest bearing deposits	750	650
Federal Funds sold	7,683	4,075
Securities purchased under agreements to resell	2,250	2,300
<b>Investment securities -</b>		
Trading, 76 and 97 pledged	238	1,045
Available-for-sale	14,059	14,918
Held-to-maturity, 4,905 and 5,516 fair value	4,481	5,072
<b>Investment securities</b>	<b>18,778</b>	<b>21,035</b>
Advances, 786 and 672 carried at fair value	46,844	45,067
MPF Loans held in portfolio, net of, (3) and (3) allowance for credit losses	4,965	4,967
Derivative assets	3	6
Other assets, 119 and 44 carried at fair value	338	241
<b>Assets</b>	<b>\$ 81,779</b>	<b>\$ 78,692</b>
<b>Liabilities</b>		
<b>Deposits -</b>		
Noninterest bearing	\$ 50	\$ 53
Interest bearing, 37 and 16 from other FHLBs	508	443
<b>Deposits</b>	<b>558</b>	<b>496</b>
<b>Consolidated obligations, net -</b>		
Discount notes, 524 and 6,368 carried at fair value	37,944	35,949
Bonds, 5,340 and 5,443 carried at fair value	37,878	36,903
<b>Consolidated obligations, net</b>	<b>75,822</b>	<b>72,852</b>
Derivative liabilities	40	43
Affordable Housing Program assessment payable	88	86
Mandatorily redeemable capital stock	303	301
Other liabilities	222	219
<b>Liabilities</b>	<b>77,033</b>	<b>73,997</b>
Commitments and contingencies - see notes to the financial statements		
<b>Capital</b>		
Class B1 activity stock, 12 and 12 million shares issued and outstanding	1,236	1,160
Class B2 membership stock, 3 and 6 million shares issued and outstanding	290	551
<b>Capital stock - putable, \$100 and \$100 par value</b>	<b>1,526</b>	<b>1,711</b>
Retained earnings - unrestricted	2,734	2,631
Retained earnings - restricted	419	389
<b>Retained earnings</b>	<b>3,153</b>	<b>3,020</b>
Accumulated other comprehensive income (loss) (AOCI)	67	(36)
<b>Capital</b>	<b>4,746</b>	<b>4,695</b>
<b>Liabilities and capital</b>	<b>\$ 81,779</b>	<b>\$ 78,692</b>

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

**Statements of Income (unaudited)**

(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Interest income	\$ 373	\$ 317	\$ 710	\$ 635
Interest expense	256	206	480	404
<b>Net interest income</b>	<b>117</b>	<b>111</b>	<b>230</b>	<b>231</b>
Provision for (reversal of) credit losses	1	—	1	—
<b>Net interest income after provision for (reversal of) credit losses</b>	<b>116</b>	<b>111</b>	<b>229</b>	<b>231</b>
<b>Noninterest income -</b>				
Derivatives and hedging activities	3	2	6	(14)
Instruments held under fair value option	4	1	2	6
Litigation settlement awards	1	38	1	38
MPF fees from other FHLBs	5	4	10	8
Other, net	3	5	7	9
<b>Noninterest income</b>	<b>16</b>	<b>50</b>	<b>26</b>	<b>47</b>
<b>Noninterest expense -</b>				
Compensation and benefits	26	22	51	45
Operating expenses	15	14	30	29
Other	3	10	5	12
<b>Noninterest expense</b>	<b>44</b>	<b>46</b>	<b>86</b>	<b>86</b>
<b>Income before assessments</b>	<b>88</b>	<b>115</b>	<b>169</b>	<b>192</b>
Affordable Housing Program assessment	9	11	17	19
<b>Net income</b>	<b>\$ 79</b>	<b>\$ 104</b>	<b>\$ 152</b>	<b>\$ 173</b>

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,	
	2017	2016	2017	2016
<b>Net income</b>	<b>\$ 79</b>	<b>\$ 104</b>	<b>\$ 152</b>	<b>\$ 173</b>
<b>Other comprehensive income (loss) -</b>				
Net unrealized gain (loss) available-for-sale securities	(19)	(60)	19	(100)
Noncredit OTTI held-to-maturity securities	8	10	17	21
Net unrealized gain (loss) cash flow hedges	25	8	69	(45)
Postretirement plans	—	1	(2)	1
<b>Other comprehensive income (loss)</b>	<b>14</b>	<b>(41)</b>	<b>103</b>	<b>(123)</b>
<b>Comprehensive income</b>	<b>\$ 93</b>	<b>\$ 63</b>	<b>\$ 255</b>	<b>\$ 50</b>

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			AOCI	Total
	Shares	Value	Shares	Value	Shares	Value	Unrestricted	Restricted	Total		
<b>December 31, 2016</b>	<b>12</b>	<b>\$1,160</b>	<b>6</b>	<b>\$ 551</b>	<b>18</b>	<b>\$1,711</b>	<b>\$ 2,631</b>	<b>\$ 389</b>	<b>\$3,020</b>	<b>\$ (36)</b>	<b>\$4,695</b>
Comprehensive income							122	30	152	103	255
Proceeds from issuance of capital stock	13	1,452	—	10	13	1,462					1,462
Repurchases of capital stock	—	(34)	(16)	(1,607)	(16)	(1,641)					(1,641)
Capital stock reclassified to mandatorily redeemable capital stock (liabilities)	—	(3)	—	(3)	—	(6)					(6)
Transfers between classes of capital stock	(13)	(1,339)	13	1,339							
Cash dividends - class B1							(17)		(17)		(17)
Class B1 annualized rate											3.08%
Cash dividends - class B2							(2)		(2)		(2)
Class B2 annualized rate											0.95%
<b>Total change in period</b>	<b>—</b>	<b>76</b>	<b>(3)</b>	<b>(261)</b>	<b>(3)</b>	<b>(185)</b>	<b>103</b>	<b>30</b>	<b>133</b>	<b>103</b>	<b>51</b>
<b>June 30, 2017</b>	<b>12</b>	<b>\$1,236</b>	<b>3</b>	<b>\$ 290</b>	<b>15</b>	<b>\$1,526</b>	<b>\$ 2,734</b>	<b>\$ 419</b>	<b>\$3,153</b>	<b>\$ 67</b>	<b>\$4,746</b>
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 (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

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

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

(Dollars in millions)

Six months ended June 30,		2017	2016
<b>Operating</b>	<b>Net cash provided by (used in) operating activities</b>	<b>\$ 225</b>	<b>\$ (8)</b>
<b>Investing</b>	Net change interest bearing deposits	(100)	—
	Net change Federal Funds sold	(3,608)	(1,871)
	Net change securities purchased under agreements to resell	50	(375)
	<b>Trading securities -</b>		
	Sales	801	1,006
	Proceeds from maturities and paydowns	2	105
	Purchases	—	(1,153)
	<b>Available-for-sale securities -</b>		
	Proceeds from maturities and paydowns	828	1,159
	Purchases	—	(2)
	<b>Held-to-maturity securities -</b>		
	Short-term held-to-maturity securities, net	90 <sup>a</sup>	5 <sup>a</sup>
	Proceeds from maturities and paydowns	553	486
	Purchases	(17)	(27)
	<b>Advances -</b>		
	Principal collected	359,395	381,703
	Issued	(361,153)	(391,161)
	<b>MPF Loans held in portfolio -</b>		
	Principal collected	511	570
	Purchases	(513)	(409)
	Other investing activities	14	20
	<b>Net cash provided by (used in) investing activities</b>	<b>(3,147)</b>	<b>(9,944)</b>
<b>Financing</b>	Net change deposits	62	(6)
	<b>Discount notes -</b>		
	Net proceeds from issuance	725,466	231,170
	Payments for maturing and retiring	(723,480)	(226,872)
	<b>Consolidated obligation bonds -</b>		
	Net proceeds from issuance	10,579	14,341
	Payments for maturing and retiring	(9,670)	(7,932)
	Payments for retirement of subordinated notes	—	(944)
	<b>Capital stock -</b>		
	Proceeds from issuance	1,462	707
	Repurchases	(1,641)	(584)
	Cash dividends paid	(19)	(19)
	Other financing activities	(20)	(33)
	<b>Net cash provided by (used in) financing activities</b>	<b>2,739</b>	<b>9,828</b>
	<b>Net increase (decrease) in cash and due from banks</b>	<b>(183)</b>	<b>(124)</b>
	Cash and due from banks at beginning of period	351	499
	<b>Cash and due from banks at end of period</b>	<b>\$ 168</b>	<b>\$ 375</b>

<sup>a</sup> 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).

**Notes to Financial Statements - (Unaudited)****(Dollars in tables in millions except per share amounts unless otherwise indicated)****Note 1 – Background and Basis of Presentation**

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

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

Our accounting and financial reporting policies conform to generally accepted accounting principles in the United States of America (GAAP). Amounts in prior periods may be reclassified to conform to the current presentation and if material are 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, 2016, included in our Annual Report on Form 10-K (2016 Form 10-K) starting on page F-1, as filed with the Securities and Exchange Commission (SEC).

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

"Mortgage Partnership Finance", "MPF", "MPF Xtra", and "Community First" are registered trademarks of the Federal Home Loan Bank of Chicago.

See the **Glossary of Terms** starting on page 59 for the definitions of certain terms used herein.

**Use of Estimates and Assumptions**

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

**Consolidation of Variable Interest Entities**

We are not the primary beneficiary of any variable interest entity. Specifically, we do not have the power to direct the activities of any variable interest entity that would most significantly impact its economic performance and we do not have the obligation to absorb losses or the right to receive benefits from any variable interest entity that could potentially be significant to a variable interest entity. As a result, we do not consolidate any of our investments in variable interest entities. Instead, 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.



**Notes to Financial Statements - (Unaudited)****(Dollars in tables in millions except per share amounts unless otherwise indicated)****Gross versus Net Presentation of Financial Instruments**

Our over-the-counter derivative transactions may be entered into through a bilateral agreement with an individual counterparty. We present these derivative transactions on a net basis in our statements of condition on the basis that our right to net amounts due to our counterparties is enforceable at law upon early termination. Derivatives are netted by contract (e.g., master netting agreement), to discharge all or a portion of the amounts that would be owed to our counterparty by applying them against the amounts that our counterparty owes to us. If these netted amounts are positive, they are classified as a derivative asset and if negative, they are classified as a derivative liability. The net exposure for these financial instruments can change on a daily basis; therefore, there may be a delay between the time this exposure change is identified and additional collateral is requested, and the time when this collateral is received or pledged. Likewise, there may be a delay for excess collateral to be returned. For derivative instruments that meet the netting requirements, any excess cash collateral received or pledged is recognized as a derivative liability or asset.

We also enter into cleared derivative transactions with clearinghouses classified as a Derivatives Clearing Organization (DCO) through a Futures Commission Merchant (FCM), a clearing member of the DCO. Prior to 2017, our accounting presented derivative assets and liabilities of our cleared derivative transactions on a net basis, inclusive of initial and variation margin, and accrued interest receivable/payable and cash collateral. Due to rule changes adopted by our DCOs that characterize the treatment of variation margin payments as settlement of a derivative's mark-to-market exposure and not as collateral against the derivative's mark-to-market exposure, we now account for our variation margin payments as settlements to our derivative assets and derivative liabilities. The amendments to the DCOs' rules have no effect on how we present initial margin, which we include in the carrying amount of our derivative assets or derivative liabilities.

See **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, 2016, can be found in **Note 2 – Summary of Significant Accounting Policies** to the financial statements in our 2016 Form 10-K. We adopted the following policies year to date in 2017:

*Accounting for Variation Margin Payments*

Effective in January of 2017 we began accounting for variation margin payments made to or received by the DCOs through our FCMs as settlements to our cleared derivative assets and derivative liabilities. See **Note 1 - Background and Basis for Presentation** for further details. This change in accounting did not have any effect on the accounting of our existing hedge relationships. Specifically, the change in accounting would not require us to discontinue existing hedge relationships or preclude us from using the short-cut method of hedge accounting provided no additional changes are made by the DCOs that would preclude the use of the short-cut method of hedge accounting. The International Swaps and Derivatives Association (ISDA) issued a confirmation letter confirming the SEC staff's non-objection to the conclusions reached by ISDA related to the accounting implications of the DCO rule changes regarding the characterization of the variation margin payments as daily settlements and the continued application of existing hedge accounting relationships, including the use of the short-cut method of hedge accounting.

*Contingent Put and Call Options in Debt Instruments*

In March of 2016, the FASB issued new guidance clarifying the requirements for assessing whether a contingent call (put) option embedded in a debt instrument is clearly and closely related to that debt instrument, which is referred to the "host contract" for purposes of this assessment. Specifically, we are no longer required to consider the event triggering the acceleration of an embedded contingent call (put) option when assessing whether it is clearly and closely related to the debt instrument or host contract. We adopted the new guidance effective January 1, 2017. The new guidance did not have any effect on our financial condition, results of operations, or cash flows at the time of adoption.

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

**Note 3 – Recently Issued but Not Yet Adopted Accounting Standards***Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*

In March of 2017, the FASB amended existing GAAP to require the service cost component of our net periodic pension and postretirement benefit costs to be classified as compensation costs. The other components of our net periodic pension and postretirement benefit costs are required to be classified as Noninterest expense - Other operating expenses on a retrospective basis effective January 1, 2018. Currently, our total net periodic pension and postretirement costs are classified as compensation costs. We do not expect the classification guidance of this GAAP amendment will have a significant effect on our financial condition, results of operations, and cash flows.

*Classification of Certain Cash Receipts and Cash Payments in the Statement of Cash Flows*

In August of 2016, the FASB issued statement of cash flows classification guidance governing certain cash receipts and cash payments. The new guidance becomes effective January 1, 2018 and will be applied retrospectively for each period our statements of cash flows are presented at the time of adoption. The new guidance is not expected to have any effect on our financial condition, results of operations, and cash flows since our existing practice is consistent with the provisions that are applicable to us. The provisions applicable to us are outlined below.

- We classify cash payments related to prepaying or extinguishing our consolidated obligations as financing activities in our statements of cash flows.
- We classify the cash payments attributable to interest expense paid at the maturity of our discount notes, which have a zero coupon rate, as operating activities in our statements of cash flows and in our supplemental disclosure of interest expense paid.

*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 amendments are expected to result in recognizing credit losses in the financial statements on a timelier basis by utilizing forward looking information. Key provisions of the amendments relevant to us are outlined below.

- 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. On balance sheet financial instruments include, but are not limited to, advances, MPF Loans held in portfolio, and Held-to-maturity (HTM) securities. Off-balance-sheet credit exposure refers to unfunded credit exposures, such as 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 (AFS) 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 AFS debt securities will be limited to the amount by which fair value is less than the amortized cost basis.
- 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.

The amendments become effective January 1, 2020, with early adoption permitted effective January 1, 2019. We plan to implement the expected credit loss methodology through a cumulative-effect adjustment to our beginning retained earnings as of the first reporting period in which the new guidance becomes effective for us. The cumulative effect adjustment will equal the amount required to adjust our existing allowance for credit losses for our on balance-sheet financial instruments and other

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

liabilities for our off-balance sheet financial instruments to the amounts determined under the expected credit losses methodology. A prospective transition approach is required for debt securities in which an other-than-temporary-impairment (OTTI) impairment had been recognized before our effective date. The accounting implications of such an approach are outlined below:

- Write-downs recognized prior to our effective date on securities may not be reversed at the time of our adoption.
- Improvements in expected cash flows subsequent to adoption for such securities will continue to be accounted for as yield adjustments over their remaining life.
- 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.

#### *Leases*

In February of 2016, the FASB issued new guidance pertaining to lease accounting. The new guidance requires us to recognize operating leases and right-to-use assets, if any, in our statements of condition if their term exceeds 12 months. Currently, we recognize our operating leases off-balance sheet. 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, January 1, 2018. We do not expect the new guidance to have a significant effect on our financial condition, results of operations, and cash flows since our existing off-balance sheet operating leases are not material.

#### *Recognition and Measurement of Financial Assets and Financial Liabilities*

In January of 2016, the FASB issued new guidance governing recognition and measurement of financial assets and financial liabilities. The new guidance becomes effective January 1, 2018. We do not expect the new guidance to have a significant effect on our financial condition, results of operations, and cash flows. The key provisions applicable to us are as follows:

- The ability to elect the fair value option will continue to be permitted.
- The portion of instrument-specific credit risk attributable to the total change in fair value of our consolidated obligations that are carried at fair value under the fair value option should be recognized in other comprehensive income. We will measure such instrument-specific credit risk based on our nonperformance risk. Specifically, our nonperformance risk includes our own credit risk and the credit risk associated with the joint and several liability of other FHLBs. We do not expect this requirement will have a material effect on our financial condition, results of operations, and cash flows.
- The requirement to separately present 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.

#### *Revenue from Contracts with Customers*

In May of 2014, the FASB issued new guidance governing revenue recognition from contracts with customers. Subsequently the FASB issued several other related pronouncements that provide additional revenue recognition guidance and clarifications to the original guidance issued in 2014. The new guidance becomes effective January 1, 2018. We do not expect the new revenue recognition guidance will have any 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 that generate revenue are covered by other GAAP, and therefore, are scoped out of this new guidance. Further, we believe that recognition of our service fee revenue, which is insignificant, is consistent with this new guidance.

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

**Note 4 – Interest Income and Interest Expense**

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<b>Interest income -</b>				
Trading	\$ 1	\$ 3	\$ 2	\$ 5
Available-for-sale interest income	107	114	215	225
Available-for-sale prepayment fees	7	5	11	26
<b>Available-for-sale</b>	<b>114</b>	<b>119</b>	<b>226</b>	<b>251</b>
Held-to-maturity	48	56	101	115
<b>Investment securities</b>	<b>163</b>	<b>178</b>	<b>329</b>	<b>371</b>
Advance interest income	129	68	227	130
Advance prepayment fees	1	6	2	7
<b>Advances</b>	<b>130</b>	<b>74</b>	<b>229</b>	<b>137</b>
MPF Loans held in portfolio	53	55	107	112
Federal funds sold and securities purchased under agreements to resell	25	6	40	9
Other interest bearing assets	2	4	5	6
<b>Interest income</b>	<b>373</b>	<b>317</b>	<b>710</b>	<b>635</b>
<b>Interest expense -</b>				
Discount notes	119	95	215	177
Bonds	133	98	258	200
<b>Consolidated obligations</b>	<b>252</b>	<b>193</b>	<b>473</b>	<b>377</b>
Subordinated notes	—	10	—	24
Other interest bearing liabilities	4	3	7	3
<b>Interest expense</b>	<b>256</b>	<b>206</b>	<b>480</b>	<b>404</b>
<b>Net interest income</b>	<b>117</b>	<b>111</b>	<b>230</b>	<b>\$ 231</b>
Provision for (reversal of) credit losses	1	—	1	—
<b>Net interest income after provision for (reversal of) credit losses</b>	<b>\$ 116</b>	<b>\$ 111</b>	<b>\$ 229</b>	<b>\$ 231</b>

**Notes to Financial Statements - (Unaudited)**  
**(Dollars in tables 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 on our statements of condition. Also see **Note 9 - Derivatives and Hedging Activities** for further details.

**Trading Securities**

The following table presents the fair value of our trading securities. We had no material unrealized gains or losses on trading securities still held on our statement of condition as of the end of the reporting period.

As of	June 30, 2017	December 31, 2016
U.S. Government & other government related	\$ 201	\$ 1,005
<b>Residential MBS:</b>		
GSE	36	39
Government-guaranteed	1	1
<b>Trading securities</b>	<b>\$ 238</b>	<b>\$ 1,045</b>

**Notes to Financial Statements - (Unaudited)**  
**(Dollars in tables 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
<b>As of June 30, 2017</b>				
U.S. Government & other government related	\$ 284	\$ 14	\$ —	\$ 298
State or local housing agency	17	—	—	17
FFELP ABS	4,197	222	(7)	4,412
<b>Residential MBS:</b>				
GSE	7,897	216	(4)	8,109
Government-guaranteed	1,141	28	—	1,169
Private-label	45	9	—	54
<b>Available-for-sale securities</b>	<b>\$ 13,581</b>	<b>\$ 489</b>	<b>\$ (11)</b>	<b>\$ 14,059</b>
<b>As of December 31, 2016</b>				
U.S. Government & other government related	\$ 322	\$ 15	\$ (1)	\$ 336
State or local housing agency	19	—	—	19
FFELP ABS	4,431	165	(24)	4,572
<b>Residential MBS:</b>				
GSE	8,291	266	(2)	8,555
Government-guaranteed	1,346	34	—	1,380
Private-label	50	6	—	56
<b>Available-for-sale securities</b>	<b>\$ 14,459</b>	<b>\$ 486</b>	<b>\$ (27)</b>	<b>\$ 14,918</b>

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

**Notes to Financial Statements - (Unaudited)**  
(Dollars in tables 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
<b>As of June 30, 2017</b>						
U.S. Government & other government related	\$ 1,534	\$ —	\$ 1,534	\$ 43	\$ (1)	\$ 1,576
State or local housing agency	11	—	11	—	—	11
<b>Residential MBS:</b>						
GSE	1,652	—	1,652	88	—	1,740
Government-guaranteed	685	—	685	8	—	693
Private-label	759	(160)	599	286	—	885
<b>Held-to-maturity securities</b>	<b>\$ 4,641</b>	<b>\$ (160)</b>	<b>\$ 4,481</b>	<b>\$ 425</b>	<b>\$ (1)</b>	<b>\$ 4,905</b>
<b>As of December 31, 2016</b>						
U.S. Government & other government related	\$ 1,733	\$ —	\$ 1,733	\$ 42	\$ (1)	\$ 1,774
State or local housing agency	13	—	13	—	—	13
<b>Residential MBS:</b>						
GSE	1,856	—	1,856	100	—	1,956
Government-guaranteed	791	—	791	10	—	801
Private-label	856	(177)	679	294	(1)	972
<b>Held-to-maturity securities</b>	<b>\$ 5,249</b>	<b>\$ (177)</b>	<b>\$ 5,072</b>	<b>\$ 446</b>	<b>\$ (2)</b>	<b>\$ 5,516</b>

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

**Contractual Maturity Terms**

The maturity of our non-MBS AFS and HTM investments is detailed in the following table.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost Basis	Carrying Amount and Fair Value	Carrying Amount	Fair Value
<b>As of June 30, 2017</b>				
<b>Year of Maturity -</b>				
Due in one year or less	\$ 2	\$ 2	\$ 563	\$ 563
Due after one year through five years	37	38	252	260
Due after five years through ten years	26	27	107	108
Due after ten years	236	248	623	656
ABS and MBS without a single maturity date	13,280	13,744	2,936	3,318
<b>Total securities</b>	<b>\$ 13,581</b>	<b>\$ 14,059</b>	<b>\$ 4,481</b>	<b>\$ 4,905</b>

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

(Dollars in tables 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. Refer to the Other-Than-Temporary Impairment Analysis section below for further discussion. 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)
<b>As of June 30, 2017</b>						
FFELP ABS	\$ —	\$ —	\$ 679	\$ (7)	\$ 679	\$ (7)
<b>Residential MBS:</b>						
GSE	614	(1)	825	(3)	1,439	(4)
Private-label	—	—	7	—	7	—
<b>Available-for-sale securities</b>	<b>\$ 614</b>	<b>\$ (1)</b>	<b>\$ 1,511</b>	<b>\$ (10)</b>	<b>\$ 2,125</b>	<b>\$ (11)</b>
<b>As of December 31, 2016</b>						
U.S. Government & other government related	\$ —	\$ —	\$ 47	\$ (1)	\$ 47	\$ (1)
State or local housing agency	7	—	—	—	7	—
FFELP ABS	—	—	753	(24)	753	(24)
<b>Residential MBS:</b>						
GSE	—	—	991	(2)	991	(2)
Government-guaranteed	—	—	23	—	23	—
Private-label	—	—	8	—	8	—
<b>Available-for-sale securities</b>	<b>\$ 7</b>	<b>\$ —</b>	<b>\$ 1,822</b>	<b>\$ (27)</b>	<b>\$ 1,829</b>	<b>\$ (27)</b>



**Notes to Financial Statements - (Unaudited)**  
(Dollars in tables 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)
<b>As of June 30, 2017</b>						
U.S. Government & other government related	\$ 203	\$ —	\$ 17	\$ (1)	\$ 220	\$ (1)
State or local housing agency	—	—	1	—	1	—
<b>Residential MBS:</b>						
GSE	—	—	4	—	4	—
Private-label	—	—	852	(160)	852	(160)
<b>Held-to-maturity securities</b>	<b>\$ 203</b>	<b>\$ —</b>	<b>\$ 874</b>	<b>\$ (161)</b>	<b>\$ 1,077</b>	<b>\$ (161)</b>
<b>As of December 31, 2016</b>						
U.S. Government & other government related	\$ 26	\$ —	\$ 17	\$ (1)	\$ 43	\$ (1)
State or local housing agency	—	—	1	—	1	—
<b>Residential MBS:</b>						
GSE	—	—	4	—	4	—
Government-guaranteed	117	—	—	—	117	—
Private-label	—	—	934	(178)	934	(178)
<b>Held-to-maturity securities</b>	<b>\$ 143</b>	<b>\$ —</b>	<b>\$ 956</b>	<b>\$ (179)</b>	<b>\$ 1,099</b>	<b>\$ (179)</b>

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

**Other-Than-Temporary Impairment Analysis**

We recognized no OTTI charges on HTM or AFS securities for the periods presented. This is because we do not intend to sell these securities, we believe it is more likely than not that we will not be required to sell them prior to recovering their amortized cost basis, and we expect to recover the entire amortized cost basis. For further detail on our accounting policy regarding OTTI please see **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2016 Form 10-K.

As of June 30, 2017, we had a base case short-term housing price forecast for all markets with projected changes ranging from -5.0% to +11.0% over the twelve month period beginning April 1, 2017. For the vast majority of markets, the short-term forecast has changes ranging from +1.0% to +6.0%.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<b>Beginning Balance</b>	\$ 508	\$ 555	\$ 520	\$ 568
Increases in expected future cash flows recorded as accretion into interest income	(9)	(13)	(21)	(26)
<b>Ending Balance</b>	\$ 499	\$ 542	\$ 499	\$ 542

**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. As of June 30, 2017, the remaining litigation covers three private-label MBS bonds in the aggregate original principal amount of \$65 million.

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

**Note 6 – Advances**

We offer a wide range of fixed- and variable-rate advance products with different maturities, interest rates, payment characteristics and 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, 2017	Amount	Weighted Average Contractual Interest Rate
Due in one year or less	\$ 22,420	1.13%
One to two years	3,306	1.20%
Two to three years	1,854	1.61%
Three to four years	1,338	1.66%
Four to five years	1,904	1.70%
More than five years	15,901	1.30% <sup>a</sup>
<b>Par value</b>	<b>\$ 46,723</b>	<b>1.25%</b>

<sup>a</sup> The weighted average interest rate is relatively low when compared to other categories due to a majority of advances in this category consisting of variable rate advances which reset periodically at market prevailing interest rates.

We have no allowance for credit losses on our advances. See **Note 8 - Allowance for Credit Losses** to the financial statements for further information related to our credit risk on advances.

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, 2017	December 31, 2016
<b>Par value</b>	<b>\$ 46,723</b>	\$ 44,965
Fair value hedging adjustments	115	98
Other adjustments	6	4
<b>Advances</b>	<b>\$ 46,844</b>	\$ 45,067

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

As of June 30, 2017	Par Value	% of Total Outstanding
One Mortgage Partners Corp.	\$ 11,000 <sup>a</sup>	23.5%
BMO Harris Bank, National Association	6,875	14.7%

<sup>a</sup> One Mortgage Partners Corp. is a subsidiary of JPMorgan Chase Bank NA.

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

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

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

The following table presents information on MPF Loans held in portfolio by contractual maturity at the time of purchase.

As of	June 30, 2017	December 31, 2016
Medium term (15 years or less)	\$ 321	\$ 417
Long term (greater than 15 years)	4,578	4,489
<b>Unpaid principal balance</b>	<b>4,899</b>	<b>4,906</b>
Net premiums, credit enhancement and deferred loan fees	45	38
Fair value hedging adjustments	24	26
<b>MPF Loans held in portfolio, before allowance for credit losses</b>	<b>4,968</b>	<b>4,970</b>
Allowance for credit losses on MPF Loans	(3)	(3)
<b>MPF Loans held in portfolio, net</b>	<b>\$ 4,965</b>	<b>\$ 4,967</b>
Conventional mortgage loans	\$ 3,866	\$ 3,818
Government Loans	1,033	1,088
<b>Unpaid principal balance</b>	<b>\$ 4,899</b>	<b>\$ 4,906</b>

The above table excludes MPF Loans acquired under the MPF Xtra, MPF Direct, and MPF Government MBS products. We either concurrently sell these loans to third party investors or hold them for a short time period, during which they are reflected as Other Assets in our Statements of Condition, until such loans are securitized.

See **Note 8 - Allowance for Credit Losses** to the financial statements for information related to our credit losses on MPF Loans held in portfolio.

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

**Note 8 – Allowance for Credit Losses**

See **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2016 Form 10-K for further details regarding our allowance for credit losses methodology for each of the portfolio segments discussed 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-15 in our 2016 Form 10-K. There has been no material activity in our allowance for credit losses since December 31, 2016. The following table presents the recorded investment and the allowance for credit losses in conventional MPF Loans by impairment methodology.

As of	June 30, 2017	December 31, 2016
<b>Recorded investment in conventional MPF Loans -</b>		
Individually evaluated for impairment	\$ 62	\$ 74
Collectively evaluated for impairment	3,878	3,812
<b>Recorded investment</b>	<b>\$ 3,940</b>	<b>\$ 3,886</b>
<b>Allowance for credit losses on conventional MPF Loans -</b>		
Homogeneous pools of loans collectively evaluated for impairment	\$ 3	\$ 3

**Government Loans Held in Portfolio**

Servicers 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 servicers 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 tables 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 insured or guaranteed by the government 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 primary mortgage insurance, of a financially responsible party) and in the process of collection.

As of	June 30, 2017			December 31, 2016		
	Conventional	Government	Total	Conventional	Government	Total
Past due 30-59 days	\$ 68	\$ 43	\$ 111	\$ 83	\$ 57	\$ 140
Past due 60-89 days	19	16	35	26	17	43
Past due 90 days or more	58	20	78	69	23	92
Past due	145	79	224	178	97	275
Current	3,795	975	4,770	3,708	1,013	4,721
<b>Recorded investment</b>	<b>\$ 3,940</b>	<b>\$ 1,054</b>	<b>\$ 4,994</b>	<b>\$ 3,886</b>	<b>\$ 1,110</b>	<b>\$ 4,996</b>
In process of foreclosure	\$ 29	\$ 6	\$ 35	\$ 35	\$ 7	\$ 42
Serious delinquency rate	1.47%	1.94%	1.57%	1.82%	2.07%	1.88%
Past due 90 days or more and still accruing interest	\$ 6	\$ 20	\$ 26	\$ 8	\$ 23	\$ 31
On nonaccrual status	\$ 62	\$ —	\$ 62	\$ 74	\$ —	\$ 74

*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, 2017	December 31, 2016
Recorded investment without an allowance for credit losses	\$ 62	\$ 74
Unpaid principal balance without an allowance for credit losses	67	80

We do not recognize interest income on impaired loans.

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

We only held overnight Federal Funds sold and Securities Purchased Under Agreements to Resell as of June 30, 2017, and December 31, 2016. We did not have any longer 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.

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

**Note 9 – Derivatives and Hedging Activities**

See **Note 2 - Summary of Significant Accounting Policies** in our 2016 Form 10-K for our accounting policies for derivatives.

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

- A bilateral agreement with an individual counterparty for over-the-counter derivative transactions.
- Clearinghouses classified as DCOs through FCMs, which are clearing members of the DCOs, for cleared derivative transactions.

*Managing Interest Rate Risk*

We use fair value hedges to offset changes in the fair value or a benchmark interest rate (e.g., LIBOR) related to (1) a recognized asset or liability or (2) an unrecognized firm commitment. We use cash flow hedges to offset an exposure to variability in expected future cash flows associated with an existing recognized asset or liability or a forecasted transaction. We use economic hedges in cases where hedge accounting treatment is not permitted or achievable; for example, hedges of portfolio interest rate risk or financial instruments carried at fair value under the fair value option.

*Managing Credit Risk on Derivative Agreements*

*Over-the-counter Derivative Transactions:* We are subject to credit risk due to the risk of nonperformance by counterparties to our derivative agreements. For bilateral derivative agreements, the degree of counterparty risk depends on the extent to which master netting arrangements, collateral requirements and other credit enhancements are included in such contracts to mitigate the risk. We manage counterparty credit risk through credit analysis, collateral requirements and adherence to the requirements set forth in our policies and FHFA regulations. We require collateral agreements on all over-the-counter derivatives. Additionally, collateral related to over-the-counter derivatives with member institutions includes collateral assigned to us, as evidenced by a written security agreement, and which may be held by the member institution for our benefit. Based on credit analyses and collateral requirements, we do not anticipate any credit losses on our over-the-counter derivative agreements. See **Note 13 - Fair Value** to the financial statements in this Form 10-Q and **Note 16 - Fair Value** in our 2016 Form 10-K for discussion regarding our fair value methodology for over-the-counter derivative assets and liabilities, including an evaluation of the potential for the fair value of these instruments to be affected by counterparty credit risk.

For most of our bilateral derivative transactions executed prior to March 1, 2017, and for all transactions entered into after March 1, 2017, our bilateral derivative agreements are fully collateralized with a zero unsecured threshold in accordance with variation margin requirements issued by the U.S. federal bank regulatory agencies and the CFTC, as discussed in the Legislative and Regulatory Developments in the Bank's Annual Report on Form 10-K for the year ended December 31, 2015. Certain of our bilateral derivative agreements may contain provisions that require us to post additional collateral with our counterparties for transactions executed prior to March 1, 2017, if there is deterioration in our 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 at June 30, 2017, no material amount of additional collateral would have been required to be delivered to our derivatives counterparties.

*Cleared Derivative Transactions:* Cleared derivative transactions are subject to variation and initial margin requirements established by the DCO and its clearing members. As a result of rule changes adopted by our DCOs, variation margin payments are characterized as settlement of a derivative's mark-to-market exposure and not as collateral against the derivative's mark-to-market exposure. See **Note 1 - Background and Basis of Presentation** and **Note 2 - Summary of Significant Accounting Policies** for further discussion. We post our initial margin collateral payments and make variation margin settlement payments through our FCMs, on behalf of the DCO, which could expose us to institutional credit risk in the event that the FCMs or the DCO fail to meet their obligations. Clearing derivatives through a DCO mitigates counterparty credit risk exposure because the DCO is substituted for individual counterparties and variation margin settlement payments are made daily through the FCMs for changes in the value of cleared derivatives. The DCO determines initial margin requirements for cleared derivatives. In this regard, we pledged \$76 million of investment securities that can be sold or replugged, as part of our initial margin related to cleared derivative transactions at June 30, 2017. Additionally, an FCM may require additional initial margin to be posted based on credit considerations, including but not limited to, if our credit rating downgrades. We had no requirement to post additional initial margin by our FCMs at June 30, 2017.

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

The following table presents details on the notional amounts, and derivative assets and liabilities on our statements of condition. Effective in January of 2017, we began treating daily variation margin on our cleared derivatives as cash settlements instead of as cash collateral.

As of	June 30, 2017			December 31, 2016		
	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
<b>Derivatives in hedge accounting relationships-</b>						
Interest rate contracts	\$ 26,196	\$ 34	\$ 727	\$ 25,999	\$ 40	\$ 898
<b>Derivatives not in hedge accounting relationships-</b>						
Interest rate contracts	22,902	365	230	29,313	432	260
Other	1,092	2	2	892	2	3
<b>Derivatives not in hedge accounting relationships</b>	<b>23,994</b>	<b>367</b>	<b>232</b>	<b>30,205</b>	<b>434</b>	<b>263</b>
Variation margin daily settlements on cleared derivatives		(13)	(220)			
<b>Gross derivative amount before netting adjustments and cash collateral</b>	<b>\$ 50,190</b>	<b>388</b>	<b>739</b>	<b>\$ 56,204</b>	<b>474</b>	<b>1,161</b>
Netting adjustments and cash collateral		(385) <sup>a</sup>	(699) <sup>a</sup>		(468) <sup>a</sup>	(1,118) <sup>a</sup>
<b>Derivatives on statements of condition</b>		<b>\$ 3</b>	<b>\$ 40</b>		<b>\$ 6</b>	<b>\$ 43</b>

<sup>a</sup> Cash collateral posted was \$346 million and \$689 million at June 30, 2017, and December 31, 2016, and cash collateral received was \$31 million and \$40 million.

The following table presents the noninterest income on derivatives and hedging activities as presented in the statements of income. The amounts attributable to fair value and cash flow hedges represent hedge ineffectiveness.

For the periods ending	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Fair value hedges - interest rate contracts	\$ (2)	\$ (3)	\$ —	\$ (12)
Cash flow hedges - interest rate contracts	—	4	1	4
<b>Economic hedges -</b>				
Interest rate contracts	1	2	1	(5)
Other	3	(1)	3	(1)
<b>Economic hedges</b>	<b>4</b>	<b>1</b>	<b>4</b>	<b>(6)</b>
Variation margin on daily settled cleared derivatives	1	—	1	—
<b>Noninterest income on derivatives and hedging activities</b>	<b>\$ 3</b>	<b>\$ 2</b>	<b>\$ 6</b>	<b>\$ (14)</b>



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

The following table presents details regarding the offsetting of our derivative assets and liabilities on our statements of condition. Effective in January of 2017, we began treating daily variation margin on our cleared derivatives as cash settlements instead of as cash collateral.

	Derivative Assets			Derivative Liabilities		
	Bilateral	Cleared	Total	Bilateral	Cleared	Total
<b>As of June 30, 2017</b>						
<b>Derivatives with legal right of offset -</b>						
Gross recognized amount	\$ 294	\$ 93	\$ 387	\$ 641	\$ 96	\$ 737
Netting adjustments and cash collateral	(292)	(93)	(385)	(607)	(92)	(699)
<b>Derivatives with legal right of offset - net</b>	<b>2</b>	<b>—</b>	<b>2</b>	<b>34</b>	<b>4</b>	<b>38</b>
Derivatives without legal right of offset	1	—	1	2	—	2
<b>Derivatives on statements of condition</b>	<b>3</b>	<b>—</b>	<b>3</b>	<b>36</b>	<b>4</b>	<b>40</b>
Less :						
Noncash collateral received and cannot be sold or repledged	—		—	—	4	4
Noncash collateral pledged and cannot be sold or repledged		(2)	(2)			
<b>Net amount</b>	<b>\$ 3</b>	<b>\$ 2</b>	<b>\$ 5</b>	<b>\$ 36</b>	<b>\$ —</b>	<b>\$ 36</b>
<b>As of December 31, 2016</b>						
<b>Derivatives with legal right of offset -</b>						
Gross recognized amount	\$ 339	\$ 133	\$ 472	\$ 820	\$ 339	\$ 1,159
Netting adjustments and cash collateral	(335)	(133)	(468)	(788)	(330)	(1,118)
<b>Derivatives with legal right of offset - net</b>	<b>4</b>	<b>—</b>	<b>4</b>	<b>32</b>	<b>9</b>	<b>41</b>
Derivatives without legal right of offset	2	—	2	2	—	2
<b>Derivatives on statements of condition</b>	<b>6</b>	<b>—</b>	<b>6</b>	<b>34</b>	<b>9</b>	<b>43</b>
Less :						
Noncash collateral received and cannot be sold or repledged	—		—	—	9	9
Cash collateral for initial margin		(1)	(1)			
Noncash collateral pledged and cannot be sold or repledged		(2)	(2)			
<b>Net amount</b>	<b>\$ 6</b>	<b>\$ 3</b>	<b>\$ 9</b>	<b>\$ 34</b>	<b>\$ —</b>	<b>\$ 34</b>

At June 30, 2017, we had \$70 million of additional credit exposure on cleared derivatives due to pledging of noncash collateral to our DCOs for initial margin, which exceeded our derivative liability position. We had \$86 million comparable exposure at December 31, 2016.

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

**Fair Value Hedges**

The following table presents our fair value hedging results by the type of hedged item. We had no 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-Noninterest Income-Derivatives and Hedging Activities	Amount Recorded in Net Interest Income
<b>Three months ended June 30, 2017</b>				
Available-for-sale securities	\$ 10	\$ (12)	\$ (2)	\$ (25)
Advances	(27)	28	1	(8)
MPF Loans held for portfolio	—	—	—	(1)
Consolidated obligation bonds	50	(51)	(1)	9
<b>Total</b>	<b>\$ 33</b>	<b>\$ (35)</b>	<b>\$ (2)</b>	<b>\$ (25)</b>
<b>Three months ended June 30, 2016</b>				
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
<b>Total</b>	<b>\$ (64)</b>	<b>\$ 61</b>	<b>\$ (3)</b>	<b>\$ (34)</b>
<b>Six months ended June 30, 2017</b>				
Available-for-sale securities	\$ 35	\$ (38)	\$ (3)	\$ (49)
Advances	(15)	18	3	(19)
MPF Loans held for portfolio	—	—	—	(3)
Consolidated obligation bonds	59	(59)	—	22
<b>Total</b>	<b>\$ 79</b>	<b>\$ (79)</b>	<b>\$ —</b>	<b>\$ (49)</b>
<b>Six months ended June 30, 2016</b>				
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
<b>Total</b>	<b>\$ (157)</b>	<b>\$ 145</b>	<b>\$ (12)</b>	<b>\$ (68)</b>

**Notes to Financial Statements - (Unaudited)**  
**(Dollars in tables 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 \$(4) million as of June 30, 2017. The maximum length of time over which we are hedging our exposure to the variability in future cash flows for forecasted transactions is 3 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- Noninterest Income- Derivatives and Hedging Activities	Effective Portion Recorded in AOCI	Amount Recorded in Net Interest Income
<b>Three months ended June 30, 2017</b>			
Advances	\$ —	\$ —	\$ 4
Discount notes	—	27	(43)
Bonds	—	—	(1)
<b>Total</b>	<b>\$ —</b>	<b>\$ 27</b>	<b>\$ (40)</b>
<b>Three months ended June 30, 2016</b>			
Advances	\$ —	\$ —	\$ 4
Discount notes	4	14	(51)
Bonds	—	—	(1)
<b>Total</b>	<b>\$ 4</b>	<b>\$ 14</b>	<b>\$ (48)</b>
<b>Six months ended June 30, 2017</b>			
Advances	\$ —	\$ —	\$ 6
Discount notes	1	73	(88)
Bonds	—	—	(2)
<b>Total</b>	<b>\$ 1</b>	<b>\$ 73</b>	<b>\$ (84)</b>
<b>Six months ended June 30, 2016</b>			
Advances	\$ —	\$ —	\$ 6
Discount notes	4	(38)	(98)
Bonds	—	—	(2)
<b>Total</b>	<b>\$ 4</b>	<b>\$ (38)</b>	<b>\$ (94)</b>

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

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

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

As of	June 30, 2017	December 31, 2016
Carrying Amount	\$ 37,944	\$ 35,949
Weighted Average Interest Rate	0.90%	0.46%

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, 2017	Contractual Maturity	Weighted Average Interest Rate	By Maturity or Next Call Date
Due in one year or less	\$ 16,116	1.21%	\$ 28,293
One to two years	8,708	1.14%	6,452
Two to three years	2,390	1.24%	1,398
Three to four years	2,361	1.89%	1,048
Four to five years	3,128	1.69%	51
Thereafter	5,341	2.79%	802
<b>Total par value</b>	<b>\$ 38,044</b>	<b>1.50%</b>	<b>\$ 38,044</b>

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

As of	June 30, 2017	December 31, 2016
Noncallable	\$ 23,938	\$ 22,356
Callable	14,106	14,778
<b>Par value</b>	<b>38,044</b>	<b>37,134</b>
Fair value hedging adjustments	(164)	(229)
Other adjustments	(2)	(2)
<b>Consolidated obligation bonds</b>	<b>\$ 37,878</b>	<b>\$ 36,903</b>

The following table summarizes the consolidated obligations of the FHLBs and those for which we are the primary obligor. We did not accrue a liability for our joint and several liability related to the other FHLBs' share of the consolidated obligations as of June 30, 2017, and December 31, 2016. See **Note 17 - Commitments and Contingencies** to the financial statements in our 2016 Form 10-K for further details.

	June 30, 2017			December 31, 2016		
	Bonds	Discount Notes	Total	Bonds	Discount Notes	Total
Par values as of						
FHLB System total consolidated obligations	\$ 582,278	\$ 429,248	\$ 1,011,526	\$ 579,189	\$ 410,122	\$ 989,311
FHLB Chicago as primary obligor	38,044	37,976	76,020	37,134	35,969	73,103
As a percent of the FHLB System	7%	9%	8%	6%	9%	7%

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

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

Under our Capital Plan our stock consists of two sub-classes of stock, Class B1 activity stock and Class B2 membership stock (together, Class B stock), both with a par value of \$100 and redeemable on five years' written notice, subject to certain conditions. Under the Capital Plan, each member is required to own capital stock in an amount equal to the greater of a membership stock requirement or an activity stock requirement. Class B1 activity stock is available to support a member's activity stock requirement. Class B2 membership stock is available 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-43 of our 2016 Form 10-K. We complied with our minimum regulatory capital requirements as shown below.

	June 30, 2017		December 31, 2016	
	Requirement	Actual	Requirement	Actual
Risk-based capital	\$ 1,033	\$ 4,982	\$ 1,088	\$ 5,032
Total regulatory capital	\$ 3,271	\$ 4,982	\$ 3,148	\$ 5,032
Total regulatory capital ratio	4.00%	6.09%	4.00%	6.40%
Leverage capital	\$ 4,089	\$ 7,473	\$ 3,935	\$ 7,549
Leverage capital ratio	5.00%	9.14%	5.00%	9.59%

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 exceeded 10% of our regulatory capital stock outstanding (which includes MRCS):

As of June 30, 2017	Regulatory Capital Stock Outstanding	% of Total Outstanding	Amount of Which is Classified as a Liability (MRCS)
BMO Harris Bank, National Association	\$ 309	16.9%	\$ —
One Mortgage Partners Corp.	245 <sup>a</sup>	13.4%	245

<sup>a</sup> One Mortgage Partners Corp. is a subsidiary of JPMorgan Chase Bank NA.

**Repurchase of Excess Capital Stock**

On January 26, 2017, we began repurchasing all excess Class B2 stock on a weekly basis at par value, i.e., \$100 per share. Members may continue to request repurchase of excess stock on any business day in addition to the weekly repurchase. All repurchases of excess stock, including automatic weekly repurchases, will continue until otherwise announced, but remain subject to our regulatory requirements, certain financial and capital thresholds, and prudent business practices. Repurchase of excess capital stock held by members is subject to compliance with financial and capital thresholds, as detailed on page 57 of our 2016 Form 10-K.

As of June 30, 2017, our regulatory capital stock outstanding was \$1.8 billion, a net decrease of \$183 million from year-end, due in part to these automatic weekly repurchases.

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

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

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

	Net Unrealized - Available-for- sale Securities	Non-credit OTTI - Held-to- maturity Securities	Net Unrealized - Cash Flow Hedges	Post- Retirement Plans	AOCI
<b>Three months ended June 30, 2017</b>					
<b>Beginning balance</b>	\$ 497	\$ (168)	\$ (268)	\$ (8)	\$ 53
Change in the period recorded to the statements of condition, before reclassifications to statements of income	(19)	8	27	—	16
<b>Amounts reclassified in period to statements of income:</b>					
Net interest income	—	—	(2)		(2)
<b>Ending balance</b>	<u>\$ 478</u>	<u>\$ (160)</u>	<u>\$ (243)</u>	<u>\$ (8)</u>	<u>\$ 67</u>
<b>Three months ended June 30, 2016</b>					
<b>Beginning balance</b>	\$ 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)
<b>Amounts reclassified in period to statements of income:</b>					
Net interest income	—	—	(2)		(2)
Non-interest gain (loss)	—	—	(4)		(4)
<b>Ending balance</b>	<u>\$ 558</u>	<u>\$ (196)</u>	<u>\$ (508)</u>	<u>\$ (5)</u>	<u>\$ (151)</u>
<b>Six months ended June 30, 2017</b>					
<b>Beginning balance</b>	\$ 459	\$ (177)	\$ (312)	\$ (6)	\$ (36)
Change in the period recorded to the statements of condition, before reclassifications to statements of income	19	17	73	(2)	107
<b>Amounts reclassified in period to statements of income:</b>					
Net interest income	—	—	(3)		(3)
Non-interest gain (loss)	—	—	(1)		(1)
<b>Ending balance</b>	<u>\$ 478</u>	<u>\$ (160)</u>	<u>\$ (243)</u>	<u>\$ (8)</u>	<u>\$ 67</u>
<b>Six months ended June 30, 2016</b>					
<b>Beginning balance</b>	\$ 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)
<b>Amounts reclassified in period to statements of income:</b>					
Net interest income	—	—	(3)		(3)
Non-interest gain (loss)	—	—	(4)		(4)
<b>Ending balance</b>	<u>\$ 558</u>	<u>\$ (196)</u>	<u>\$ (508)</u>	<u>\$ (5)</u>	<u>\$ (151)</u>

**Notes to Financial Statements - (Unaudited)**  
**(Dollars in tables 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. See **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2016 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 2016 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, unless we elect the fair value option for such instruments, in which case, such instruments are measured at fair value on our statements of condition. Financial instruments for which we elected the fair value option are measured at fair value on a recurring basis and are shown on our statements of condition and are also included in the table on the following page, which details instruments carried at fair value on a recurring basis.

	Carrying Amount	Fair Value	Fair Value Hierarchy		
			Level 1	Level 2	Level 3
<b>June 30, 2017</b>					
<b>Financial Assets -</b>					
Cash and due from banks	\$ 168	\$ 168	\$ 168	\$ —	\$ —
Interest bearing deposits	750	750	750	—	—
Federal Funds sold	7,683	7,683	—	7,683	—
Securities purchased under agreements to resell	2,250	2,250	—	2,250	—
Held-to-maturity securities	4,481	4,905	—	4,020	885
Advances	46,844	46,877	—	46,877	—
MPF Loans held in portfolio, net	4,965	5,140	—	5,119	21
<b>Financial Liabilities -</b>					
Deposits	(558)	(558)	—	(558)	—
Consolidated obligation discount notes	(37,944)	(37,943)	—	(37,943)	—
Consolidated obligation bonds	(37,878)	(38,104)	—	(38,104)	—
Mandatorily redeemable capital stock	(303)	(303)	(303)	—	—
<b>December 31, 2016</b>					
<b>Financial Assets -</b>					
Cash and due from banks	\$ 351	\$ 351	\$ 351	\$ —	\$ —
Interest bearing deposits	650	650	650	—	—
Federal Funds sold	4,075	4,075	—	4,075	—
Securities purchased under agreements to resell	2,300	2,300	—	2,300	—
Held-to-maturity securities	5,072	5,516	—	4,544	972
Advances	45,067	45,065	—	45,065	—
MPF Loans held in portfolio, net	4,967	5,162	—	5,136	26
<b>Financial Liabilities -</b>					
Deposits	(496)	(496)	—	(496)	—
Consolidated obligation discount notes	(35,949)	(35,949)	—	(35,949)	—
Consolidated obligation bonds	(36,903)	(37,149)	—	(37,149)	—
Mandatorily redeemable capital stock	(301)	(301)	(301)	—	—

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

The following table presents financial instruments measured at fair value on a recurring basis on our statements of condition. This includes advances, consolidated obligation discount notes and bonds, and mortgage loans held for sale for which we elected the fair value option. The **Netting and Cash Collateral** adjustment is attributable to our derivative transactions that are presented on a net basis in our statements of condition. See **Note 1 - Background and Basis of Presentation**, **Note 2 - Summary of Significant Accounting Policies** and **Note 9 - Derivatives and Hedging Activities** for further details.

	Level 2	Level 3	Netting and Cash Collateral	Fair Value
<b>June 30, 2017</b>				
U.S. Government & other government related non-MBS	\$ 201	\$ —		\$ 201
GSE residential MBS	36	—		36
U.S. Governmental-guaranteed residential MBS	1	—		1
<b>Trading securities</b>	<b>238</b>	<b>—</b>		<b>238</b>
U.S. Government & other government related non-MBS	298	—		298
State or local housing agency non-MBS	17	—		17
FFELP ABS	4,412	—		4,412
GSE residential MBS	8,109	—		8,109
U.S. Government-guaranteed residential MBS	1,169	—		1,169
Private-label residential MBS	—	54		54
<b>Available-for-sale securities</b>	<b>14,005</b>	<b>54</b>		<b>14,059</b>
Advances held at fair value	786	—		786
Derivative assets	388	—	\$ (385)	3
Other assets held at fair value	119	—		119
<b>Financial assets at fair value</b>	<b>\$ 15,536</b>	<b>\$ 54</b>	<b>\$ (385)</b>	<b>\$ 15,205</b>
Consolidated obligation discount notes held at fair value	\$ (524)	\$ —		\$ (524)
Consolidated obligation bonds held at fair value	(5,340)	—		(5,340)
Derivative liabilities	(739)	—	\$ 699	(40)
<b>Financial liabilities at fair value</b>	<b>\$ (6,603)</b>	<b>\$ —</b>	<b>\$ 699</b>	<b>\$ (5,904)</b>
<b>December 31, 2016</b>				
U.S. Government & other government related non-MBS	\$ 1,005	\$ —		\$ 1,005
GSE residential MBS	39	—		39
U.S. Governmental-guaranteed residential MBS	1	—		1
<b>Trading securities</b>	<b>1,045</b>	<b>—</b>		<b>1,045</b>
U.S. Government & other government related non-MBS	336	—		336
State or local housing agency non-MBS	19	—		19
FFELP ABS	4,572	—		4,572
GSE residential MBS	8,555	—		8,555
U.S. Government-guaranteed residential MBS	1,380	—		1,380
Private-label residential MBS	—	56		56
<b>Available-for-sale securities</b>	<b>14,862</b>	<b>56</b>		<b>14,918</b>
Advances held at fair value	672	—		672
Derivative assets	474	—	\$ (468)	6
Other assets held at fair value	44	—		44
<b>Financial assets at fair value</b>	<b>\$ 17,097</b>	<b>\$ 56</b>	<b>\$ (468)</b>	<b>\$ 16,685</b>
Consolidated obligation discount notes held at fair value	\$ (6,368)	\$ —		\$ (6,368)
Consolidated obligation bonds held at fair value	(5,443)	—		(5,443)
Derivative liabilities	(1,161)	—	\$ 1,118	(43)
<b>Financial liabilities at fair value</b>	<b>\$ (12,972)</b>	<b>\$ —</b>	<b>\$ 1,118</b>	<b>\$ (11,854)</b>



**Notes to Financial Statements - (Unaudited)**  
**(Dollars in tables 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, and consolidated obligation discount notes and bonds in cases where hedge accounting treatment may not be achieved due to the inability to meet the hedge effectiveness testing criterion. Financial instruments for which we elected the fair value option along with their related fair value are shown on our **Statements of Condition**. Refer to our **Note 2 – Summary of Significant Accounting Policies** to the financial statements in our 2016 Form 10-K for further details.

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

As of	June 30, 2017		December 31, 2016	
	Advances	Consolidated Obligation Bonds	Advances	Consolidated Obligation Bonds
Unpaid principal balance	\$ 787	\$ 5,344	\$ 677	\$ 5,447
Fair value over (under) UPB	(1)	(4)	(5)	(4)
Fair value	\$ 786	\$ 5,340	\$ 672	\$ 5,443

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

**Note 14 – Commitments and Contingencies**

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

As of	June 30, 2017			December 31, 2016		
	Expire within one year	Expire after one year	Total	Expire within one year	Expire after one year	Total
Unsettled consolidated obligation bonds	\$ 98	\$ —	\$ 98	\$ 10	\$ —	\$ 10
Member standby letters of credit	10,148	3,072 <sup>a</sup>	13,220	8,459	2,369 <sup>a</sup>	10,828
Housing authority standby bond purchase agreements	—	330	330	25	281	306
Advance commitments	233	1	234	15	1	16
MPF delivery commitments	512	—	512	417	—	417
Other	12	—	12	24	—	24
<b>Commitments</b>	<b>\$ 11,003</b>	<b>\$ 3,403</b>	<b>\$ 14,406</b>	<b>\$ 8,950</b>	<b>\$ 2,651</b>	<b>\$ 11,601</b>

<sup>a</sup> Contains \$721 million and \$486 million of member standby letters of credit at June 30, 2017, and December 31, 2016, which were renewable annually.

For a description of defined terms see **Note 17 - Commitments and Contingencies** to the financial statements in our 2016 Form 10-K.

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

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

In the normal course of business, we may extend credit to or enter into other transactions with a related party. 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 who are related parties as defined above (including their affiliates) as of the periods presented.

As of	June 30, 2017	December 31, 2016
Assets - Advances	\$ 144	\$ 107
Liabilities - Deposits	21	8
Equity - Capital Stock	8	18

*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 tables in millions except per share amounts unless otherwise indicated)

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

As of or for the three months ended	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
<b>Selected statements of condition data</b>					
Investments <sup>a</sup>	\$ 29,461	\$ 28,547	\$ 28,060	\$ 26,853	\$ 28,964
Advances	46,844	42,328	45,067	43,117	46,424
MPF Loans held in portfolio, gross	4,968	4,943	4,970	4,723	4,670
Less: allowance for credit losses	(3)	(3)	(3)	(3)	(3)
Total assets	81,779	76,109	78,692	74,983	80,662
Consolidated obligation discount notes, net	37,944	32,806	35,949	39,144	45,876
Consolidated obligation bonds, net	37,878	37,662	36,903	30,139	29,091
Capital stock	1,526	1,282	1,711	1,636	1,774
Retained earnings	3,153	3,083	3,020	2,951	2,884
Mandatorily redeemable capital stock (MRCS)	303	301	301	302	302
Total capital	4,746	4,418	4,695	4,515	4,507
<b>Other selected data at period end</b>					
MPF off-balance sheet loans outstanding - FHLB System <sup>b</sup>	\$ 17,537	\$ 17,180	\$ 16,972	\$ 16,594	\$ 16,061
MPF off-balance sheet loans outstanding - FHLBC PFIs <sup>b</sup>	8,305	8,214	8,196	8,100	7,892
FHLB systemwide consolidated obligations (par)	1,011,526	959,280	989,311	967,728	963,810
Number of members	726	726	728	730	732
Total employees (full and part time)	457	452	440	443	432
<b>Selected statements of income data</b>					
Net interest income after provision for credit losses	\$ 116	\$ 113	\$ 111	\$ 113	\$ 111
Non-interest gain (loss)	16	10	15	14	50 <sup>c</sup>
Non-interest expense	44	42	39	42	46
Net income	79	73	78	76	104
<b>Other selected data during the periods</b>					
MPF off-balance sheet loan volume funded - FHLB System <sup>b</sup>	\$ 820	\$ 674	\$ 1,305	\$ 1,298	\$ 960
MPF off-balance sheet loan volume funded - FHLBC PFIs <sup>b</sup>	321	256	572	609	395
<b>Selected ratios (rates annualized)</b>					
Regulatory capital to assets ratio	6.09%	6.13%	6.40%	6.52%	6.15%
Market value of equity to book value of equity	108%	108%	108%	108%	107%
Investments - % of total assets	36%	38%	36%	36%	36%
Advances - % of total assets	57%	56%	57%	58%	58%
MPF Loans held in portfolio, net - % of total assets	6%	6%	6%	6%	6%
Dividend rate class B1 activity stock-period paid	3.15%	3.00%	2.80%	2.80%	2.80%
Dividend rate class B2 membership stock-period paid	1.05%	0.85%	0.60%	0.60%	0.60%
Return on average assets	0.39%	0.36%	0.40%	0.38%	0.53%
Return on average equity	6.99%	6.46%	6.84%	6.70%	9.38%
Average equity to average assets	5.58%	5.57%	5.85%	5.67%	5.65%
Net yield on average interest-earning assets	0.58%	0.57%	0.57%	0.57%	0.57%
Return on average Regulatory Capital spread to three month LIBOR index	5.47%	5.09%	5.37%	5.34%	7.97%
Cash dividends	\$ 9	\$ 10	\$ 9	\$ 9	\$ 10
Dividend payout ratio	11%	14%	12%	12%	10%

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

<sup>b</sup> 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 2016 Form 10-K.

<sup>c</sup> Includes \$38 million of **Litigation settlement awards**, see page 42 for details.

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

### **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;
- 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;

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

- membership changes, including the withdrawal of members due to restrictions on our dividends or the loss of members through mergers and consolidations or through regulatory requirements; changes in the financial health of our members, including the resolution of some members; risks related to expanding our membership to include more institutions with regulators and resolution processes with which we have less experience;
- increased reliance on short-term funding and changes in investor demand and capacity for consolidated obligations and/or the terms of interest rate derivatives and similar agreements, including changes in the relative attractiveness of consolidated obligations as compared to other investment opportunities; changes in our cost of funds due to concerns over U.S. fiscal policy, and any related rating agency actions impacting FHLB consolidated obligations;
- 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 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;
- recent regulatory changes to FHLB membership requirements by the FHFA;
- 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 2016 Form 10-K on page 18.

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.

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

## **Executive Summary**

### **Second Quarter 2017 Financial Highlights**

- We recorded net income of \$79 million in the second quarter of 2017, down from \$104 million in the second quarter of 2016; however, in the second quarter of 2016 we benefited from \$38 million of litigation settlement awards related to our private-label mortgage-backed securities, compared to just \$1 million during the second quarter of 2017.
- Net interest income for the second quarter of 2017 was \$117 million, up from \$111 million for the second quarter of 2016 as we benefited from the rising interest rate environment.
- Total investment securities decreased 11% to \$18.8 billion at June 30, 2017, down from \$21.0 billion at December 31, 2016, as our investment portfolio continued to pay down.
- Advances outstanding increased \$1.7 billion to \$46.8 billion at June 30, 2017, up from \$45.1 billion at December 31, 2016.
- Total assets increased to \$81.8 billion as of June 30, 2017, compared to \$78.7 billion as of December 31, 2016.
- We reached close to \$3.2 billion in retained earnings at June 30, 2017.
- We remained in compliance with all of our regulatory capital requirements as of June 30, 2017.

### **Summary and Outlook**

On July 27, 2017, the Bank's Board of Directors increased the dividend declared per share on both sub-classes of capital stock. Based on the Bank's preliminary financial results for the second quarter of 2017, the Board of Directors declared a dividend of 3.30% (annualized) for Class B1 activity capital stock (an increase of 15 basis points) and a dividend of 1.25% (annualized) for Class B2 membership capital stock (an increase of 20 basis points). The Class B2 capital stock dividend enhances the value of membership; the Class B1 capital stock dividend reduces the effective cost of borrowing from the Bank and rewards our members who support the entire cooperative through their advances.

Member demand at quarter-end for advances and letters of credit reached all-time highs. At June 30, 2017, advances were \$46.8 billion, up 4% from December 31, 2016, and letters of credit were \$13.2 billion, up 22% from December 31, 2016. As the MPF Program celebrates its 20th anniversary this summer, its volume continues to grow as more members enjoy the economic benefits of selling loans in the secondary market through their Federal Home Loan Bank.

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

## 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 and OTTI reversals;
- Amortization of hedge adjustments;
- Advance and investment prepayment fees; and
- MPF credit enhancement fees.

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

- *Average Balance:* Average balances are calculated using daily balances. Historical cost balances are used to compute the average balances for most of our financial instruments, including available for sale securities and MPF Loans held in portfolio that are on nonaccrual status. Fair value is used to compute average balances for our trading securities and financial instruments carried at fair value under the fair value option.
- *Total Interest:* Total interest includes all components of net interest income, if applicable, as discussed above.
- *Yield/Rate:* Effective yields/rates are based on average daily balances and include 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 tables in millions except per share amounts unless otherwise indicated)

	June 30, 2017			June 30, 2016			Increase (decrease) due to		
	Average Balance	Total Interest	Yield/Rate	Average Balance	Total Interest	Yield/Rate	Volume	Rate	Net Change
For the three months ended									
Investment securities	\$ 18,216	\$ 163	3.58%	\$ 22,148	\$ 178	3.21%	\$ (35)	\$ 20	\$ (15)
Advances	46,225	130	1.12%	43,759	74	0.68%	8	48	56
MPF Loans held in portfolio	4,972	53	4.26%	4,666	55	4.71%	3	(5)	(2)
Federal funds sold and securities purchased under agreements to resell	10,496	25	0.95%	6,214	6	0.39%	10	9	19
Other interest bearing assets	1,073	2	0.75%	1,565	4	1.02%	(1)	(1)	(2)
<b>Interest income on assets</b>	<b>80,982</b>	<b>373</b>	<b>1.84%</b>	<b>78,352</b>	<b>317</b>	<b>1.62%</b>	<b>13</b>	<b>43</b>	<b>56</b>
Consolidated obligation discount notes	38,413	119	1.24%	46,242	95	0.82%	(25)	49	24
Consolidated obligation bonds	37,732	133	1.41%	26,216	98	1.50%	41	(6)	35
Subordinated notes	—	—	—%	758	10	5.28%	(10)	—	(10)
Other interest bearing liabilities	838	4	1.91%	842	3	1.43%	—	1	1
<b>Interest expense on liabilities</b>	<b>76,983</b>	<b>256</b>	<b>1.33%</b>	<b>74,058</b>	<b>206</b>	<b>1.11%</b>	<b>9</b>	<b>41</b>	<b>50</b>
<b>Net yield on interest-earning assets</b>	<b>\$ 80,982</b>	<b>\$ 117</b>	<b>0.58%</b>	<b>\$ 78,352</b>	<b>\$ 111</b>	<b>0.57%</b>	<b>\$ 4</b>	<b>\$ 2</b>	<b>\$ 6</b>
For the six months ended									
Investment securities	\$ 18,989	\$ 329	3.47%	\$ 22,744	\$ 371	3.26%	\$ (66)	\$ 24	\$ (42)
Advances	45,712	229	1.00%	41,050	137	0.67%	24	68	92
MPF Loans held in portfolio	4,964	107	4.31%	4,697	112	4.77%	6	(11)	(5)
Federal funds sold and securities purchased under agreements to resell	9,573	40	0.84%	5,234	9	0.34%	18	13	31
Other interest bearing assets	1,217	5	0.82%	1,557	6	0.77%	(1)	—	(1)
<b>Interest income on assets</b>	<b>80,455</b>	<b>710</b>	<b>1.76%</b>	<b>75,282</b>	<b>635</b>	<b>1.69%</b>	<b>49</b>	<b>26</b>	<b>75</b>
Consolidated obligation discount notes	37,771	215	1.14%	44,763	177	0.79%	(40)	78	38
Consolidated obligation bonds	37,706	258	1.37%	24,527	200	1.63%	90	(32)	58
Subordinated notes	—	—	—%	851	24	5.64%	(24)	—	(24)
Other interest bearing liabilities	869	7	1.61%	815	3	0.74%	—	4	4
<b>Interest expense on liabilities</b>	<b>76,346</b>	<b>480</b>	<b>1.26%</b>	<b>70,956</b>	<b>404</b>	<b>1.14%</b>	<b>33</b>	<b>43</b>	<b>76</b>
<b>Net yield on interest-earning assets</b>	<b>\$ 80,455</b>	<b>\$ 230</b>	<b>0.57%</b>	<b>\$ 75,282</b>	<b>\$ 231</b>	<b>0.61%</b>	<b>\$ 14</b>	<b>\$ (15)</b>	<b>\$ (1)</b>

The following is an analysis of the preceding table and unless otherwise indicated, comparisons apply to both the three and six month periods ending June 30, 2017 compared to June 30, 2016.

- Interest income from investment securities declined during the first six months of 2017 as we recognized fewer investment prepayment fees, and experienced the continued reduction in average investment balances as securities matured or paid down. We expect the decline in average balances and related interest income to continue in the near term due to FHFA regulatory limits on the amount of investment securities that we may hold on our balance sheet as discussed in **Investments** starting on page 12 in our 2016 Form 10-K.
- Interest income from advances increased primarily due to a rise in interest rates and, to a lesser extent, higher member demand for advances. Higher interest rates resulted primarily from rate hikes by the Federal Reserve Bank.
- Interest income from MPF Loans held in portfolio declined slightly due to lower average interest rates as our more seasoned and higher interest rate MPF Loans mature and are replaced with lower interest rate MPF Loans.



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

- Interest income from Federal Funds sold and securities sold under agreements to repurchase increased primarily due to higher volume outstanding year over year. The increase in interest income also was due to rate hikes by the Federal Reserve Bank.
- Interest expense on our consolidated obligation discount notes increased due to rising short term interest rates despite a significant decline in average balances outstanding as we shifted a portion of our funding to longer term bonds. Interest rates on our longer term bonds declined; a result of money market reforms which increased demand for FHLB debt in the market which improved our funding costs.
- Our subordinated notes were paid off on June 13, 2016.
- For details of the effect our fair value and cash flow hedge activities had on our net interest income see **Trading Securities, Derivatives and Hedging Activities, and Instruments Held at Fair Value Option** on the following page.

**Noninterest Income**

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Derivatives and hedging activities	\$ 3	\$ 2	\$ 6	\$ (14)
Instruments held under fair value option	4	1	2	6
Litigation settlement awards	1	38	1	38
MPF fees from other FHLBs	5	4	10	8
Other, net	3	5	7	9
<b>Noninterest income</b>	<b>\$ 16</b>	<b>\$ 50</b>	<b>\$ 26</b>	<b>\$ 47</b>

The following is an analysis of the above table and unless otherwise indicated, comparisons apply to both the three and six month periods ending June 30, 2017 compared to June 30, 2016.

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

Derivatives and hedging activities, and instruments held under the fair value option were not significant to our statements of income over the last year. Instead, the majority of the effect from our derivatives and hedging activities is recorded in net interest income.

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

The following table details the effect of all of these transactions on our results of operations. Note that we economically hedge only a portion of our trading securities.

	Advances	Investments	MPF Loans	Discount Notes	Bonds	Total
<b>Three months ended June 30, 2017</b>						
Recorded in net interest income	\$ (4)	\$ (25)	\$ (1)	\$ (43)	\$ 8	\$ (65)
Recorded in derivatives & hedging activities	(5)	(3)	4	1	6	3
Recorded on instruments held under fair value option	3	—	(1)	—	2	4
<b>Total net effect gain (loss) of hedging activities</b>	<b>\$ (6)</b>	<b>\$ (28)</b>	<b>\$ 2</b>	<b>\$ (42)</b>	<b>\$ 16</b>	<b>\$ (58)</b>
<b>Three months ended June 30, 2016</b>						
Recorded in net interest income	\$ (16)	\$ (28)	\$ (3)	\$ (51)	\$ 16	\$ (82)
Recorded in derivatives & hedging activities	(6)	(3)	3	6	2	2
Recorded in trading securities - hedged only	—	(2)	—	—	—	(2)
Recorded on instruments held under fair value option	5	—	—	(2)	(2)	1
<b>Total net effect gain (loss) of hedging activities</b>	<b>\$ (17)</b>	<b>\$ (33)</b>	<b>\$ —</b>	<b>\$ (47)</b>	<b>\$ 16</b>	<b>\$ (81)</b>
<b>Six months ended June 30, 2017</b>						
Recorded in net interest income	\$ (13)	\$ (49)	\$ (3)	\$ (88)	\$ 20	\$ (133)
Recorded in derivatives & hedging activities	(3)	(3)	3	2	7	6
Recorded in trading securities - hedged only	—	1	—	—	—	1
Recorded on instruments held under fair value option	3	—	(1)	—	—	2
<b>Total net effect gain (loss) of hedging activities</b>	<b>\$ (13)</b>	<b>\$ (51)</b>	<b>\$ (1)</b>	<b>\$ (86)</b>	<b>\$ 27</b>	<b>\$ (124)</b>
<b>Six months ended June 30, 2016</b>						
Recorded in net interest income	\$ (34)	\$ (62)	\$ (5)	\$ (98)	\$ 37	\$ (162)
Recorded in derivatives & hedging activities	(20)	(6)	7	5	—	(14)
Recorded in trading securities - hedged only	—	(1)	—	—	—	(1)
Recorded in instruments held under fair value option	16	—	—	(5)	(5)	6
<b>Total net effect gain (loss) of hedging activities</b>	<b>\$ (38)</b>	<b>\$ (69)</b>	<b>\$ 2</b>	<b>\$ (98)</b>	<b>\$ 32</b>	<b>\$ (171)</b>

#### Litigation settlement awards

Litigation settlement awards have not been material during the first six months of 2017. During the second quarter of 2016 we received \$38 million in settlement awards on our ongoing litigation related to our investment in private label mortgage backed securities as further discussed in **Note 5 - Investment Securities - Ongoing Litigation** to the financial statements on page F-30 in our 2016 Form 10-K.

#### MPF fees from other FHLBs

Other FHLBs pay us a membership fee to participate in the MPF Program and a fee for us to provide services related to their on balance sheet MPF Loans. These fees offset a portion of the expenses we incur to administer the program.

#### Other, net

Other, net consists primarily of fee income we earn from our off balance sheet MPF Loan products, and fees we earn on a variety of functions we perform for our members.

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

**Noninterest Expense**

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Compensation and benefits	\$ 26	\$ 22	\$ 51	\$ 45
Operating expenses	15	14	30	29
Other	3	10	5	12
<b>Noninterest expense</b>	<b>\$ 44</b>	<b>\$ 46</b>	<b>\$ 86</b>	<b>\$ 86</b>

The following is an analysis of the preceding table and unless otherwise indicated, comparisons apply to both the three and six month periods ending June 30, 2017 compared to June 30, 2016.

Compensation and benefits increased primarily due to increased employee count. We had 457 employees as of June 30, 2017, compared to 432 as of June 30, 2016.

Other decreased primarily due to the fact that during the second quarter of 2016 we paid \$5 million in legal fees associated with our ongoing litigation related to our investment in private label mortgage backed securities as further discussed in **Note 5 - Investment Securities - Ongoing Litigation** to the financial statements on page F-30 in our 2016 Form 10-K. We incurred less than \$1 million in such legal fees in 2017.

**Assessments**

We fund the Affordable Housing Program (AHP) program at a calculated rate of 10% of income before assessments, excluding interest expense on MRCS.

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

**Other Comprehensive Income (Loss)**

	Three months ended June 30,		Six months ended June 30,		Balance remaining in AOCI as of June 30, 2017
	2017	2016	2017	2016	
Net unrealized gain (loss) available-for-sale securities	\$ (19)	\$ (60)	\$ 19	\$ (100)	\$ 478
Noncredit OTTI held-to-maturity securities	8	10	17	21	(160)
Net unrealized gain (loss) cash flow hedges	25	8	69	(45)	(243)
Postretirement plans	—	1	(2)	1	(8)
<b>Other comprehensive income (loss)</b>	<b>\$ 14</b>	<b>\$ (41)</b>	<b>\$ 103</b>	<b>\$ (123)</b>	<b>\$ 67</b>

The following is an analysis of the above table and unless otherwise indicated, comparisons apply to both the three and six month periods ending June 30, 2017 compared to June 30, 2016.

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

Our available for sale (AFS) portfolio has experienced a net unrealized gain during 2017, which was primarily due to a decrease in longer term market interest rates. Our net unrealized gain position in AOCI is expected to reverse to zero as these AFS securities reach maturity. Our AFS portfolio had a net unrealized loss during 2016 due to an increase in longer term market interest rates.

*Noncredit OTTI on held-to-maturity securities*

The gain in noncredit OTTI held-to-maturity (HTM) securities is the amount accreted to their carrying amount during 2017. The remaining gain in AOCI for these noncredit OTTI HTM securities will be accreted to their carrying amount over their remaining life provided the gain is expected to be collected. To the extent the gain is not expected to be collected, we would immediately recognize that amount as additional OTTI in our statements of income.

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

The net unrealized gain on cash flow hedges so far during 2017 resulted from an increase in shorter term interest rates as a result of actions by the Federal Reserve Bank.

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

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

**Statements of Condition**

	June 30, 2017	December 31, 2016
Cash and due from banks, interest bearing deposits, Federal Funds sold, and securities purchased under agreement to resell	\$ 10,851	\$ 7,376
Investment securities	18,778	21,035
Advances	46,844	45,067
MPF Loans held in portfolio, net of allowance for credit losses	4,965	4,967
Other	341	247
<b>Assets</b>	<b>81,779</b>	<b>78,692</b>
Consolidated obligation discount notes	37,944	35,949
Consolidated obligation bonds	37,878	36,903
Other	1,211	1,145
<b>Liabilities</b>	<b>77,033</b>	<b>73,997</b>
Capital stock	1,526	1,711
Retained earnings	3,153	3,020
Accumulated other comprehensive income (loss)	67	(36)
<b>Capital</b>	<b>4,746</b>	<b>4,695</b>
<b>Total liabilities and capital</b>	<b>\$ 81,779</b>	<b>\$ 78,692</b>

The following is an analysis of the above table and comparisons apply to June 30, 2017 compared to December 31, 2016.

**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 currently unable to make additional investments in MBS/ABS under FHFA regulatory limits as discussed in **Investments** on page 12 in our 2016 Form 10-K.

**Advances**

Advances increased to the highest outstanding quarter-end balance in our history at June 30, 2017. See **Note 6 - Advances** to the financial statements.

While advance demand is strong, 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.

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

We had a small net decrease in our outstanding MPF Loans from year end, as our purchases of new loans during 2017 mostly offset maturities and paydowns experienced in our MPF Loan portfolio.

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 tables in millions except per share amounts unless otherwise indicated)

## Liquidity, Funding, & Capital Resources

### Liquidity

For the period ending June 30, 2017, 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 2016 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% or \$2.9 billion of total assets. As of June 30, 2017, our overnight liquidity was \$16.0 billion or 20% of total assets, giving us an excess overnight liquidity of \$13.2 billion.

**Deposit Coverage** – To support our member deposits, FHFA regulations require us to have an amount equal to the current deposits invested in obligations of the U.S. Government, deposits in eligible banks or trust companies, or advances with maturities not exceeding five years. As of June 30, 2017, we had excess liquidity of \$38.2 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 \$16.3 billion as of June 30, 2017.

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 are maintaining 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 21 in the **Risk Factors** section of our 2016 Form 10-K. On July 3, 2017, the FHFA proposed to rescind certain minimum regulatory liquidity requirements for the FHLBs as further discussed in **Legislative and Regulatory Developments** on page 55.

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.

As of June 30, 2017	MPF Loans Held in Portfolio	Investment Securities	
		Available-for Sale	Held-to- Maturity
<b>Year of Expected Principal Cash Flows</b>			
One year or less	\$ 886	\$ 1,138	\$ 1,765
After one year through five years	1,937	10,024	2,395
After five years through ten years	1,149	1,536	424
After ten years	927	672	167
<b>Total</b>	<b>\$ 4,899</b>	<b>\$ 13,370</b>	<b>\$ 4,751</b>

We consider our liabilities available to fund assets until their contractual maturity. For further discussion of the liquidity risks related to our access to funding, see page 24 of the **Risk Factors** section in our 2016 Form 10-K.

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

**Funding**

*Conditions in Financial Markets*

The Federal Open Market Committee (FOMC) delivered an interest rate increase raising the target range for the federal fund rate by 25 basis points in March, 2017. In June, 2017, it raised the target range again by another 25 basis points from 1.00 to 1.25 percent while signaling to the market that the FOMC would begin to shrink its balance sheet by reducing purchases of U.S. Treasuries and agency mortgage-backed securities.

We maintained ready access to funding during the second quarter. However, the U.S. Treasury has projected that the statutory “debt ceiling” limit could be reached in September, 2017. In preparation for the possibility of disorderly markets caused by potential debt defaults of the U.S. Government, we are increasing our liquidity position in order to fund potential advance demand and repay maturing debt during any debt ceiling negotiations.

*Cash flows from operating activities with significant changes*

Six months ended June 30,	2017	2016	Change
<b>Net cash provided by (used in) operating activities -</b>			
Net income	\$ 152	\$ 173	\$ (21)
Non cash (gain) loss on derivatives and hedging activities	165	(165)	330
Other	(92)	(16)	(76)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 225</b>	<b>\$ (8)</b>	<b>\$ 233</b>

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. The change of \$233 million in net cash provided by (used in) operating activities primarily resulted from the non-cash adjustment attributable to the unrealized net changes in the fair value of our derivative instruments.

*Cash flows from investing activities with significant changes*

Six months ended June 30,	2017	2016	Change
<b>Net cash provided by (used in) investing activities -</b>			
Liquid assets (Federal Funds sold, securities purchased under agreements to resell, interest bearing deposits, and trading securities)	\$ (2,855)	\$ (2,288)	\$ (567)
Securities held for investment (available-for-sale and held-to-maturity)	1,454	1,621	(167)
Advances	(1,758)	(9,458)	7,700
Other	12	181	(169)
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (3,147)</b>	<b>\$ (9,944)</b>	<b>\$ 6,797</b>

Our investing activities consist predominantly of liquid assets, securities held for investment, and advances. The \$6.8 billion change in net cash provided by (used in) investing activities primarily resulted from the following:

- Liquid assets reflect a desire for increased liquidity to meet the needs of our members.
- Securities held for investment reflects the continued paydown in our investments portfolio.
- Advances reflect the further increase in advances outstanding during 2017.

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

*Cash flows from financing activities with significant changes*

Six months ended June 30,	2017	2016	Change
<b>Net cash provided by (used in) financing activities -</b>			
Consolidated obligation discount notes	\$ 1,986	\$ 4,298	\$ (2,312)
Consolidated obligation bonds	909	6,409	(5,500)
Capital stock	(179)	123	(302)
Payments for retirement of subordinated notes	—	(944)	944
Other	23	(58)	81
<b>Net cash provided by (used in) financing activities</b>	<b>\$ 2,739</b>	<b>\$ 9,828</b>	<b>\$ (7,089)</b>

Our financing activities primarily reflect cash flows related to issuing and repaying consolidated obligations. The proceeds from the net increases in our consolidated obligation discount notes and consolidated obligations bonds were primarily utilized to fund the net increases in our investing activities as noted above. The \$(7.1) billion change in net cash provided by (used in) financing activities primarily resulted from the following:

- A decrease in the amount of our consolidated obligations used to fund the growth in our balance sheet.
- A reduction in capital stock outstanding as we implemented automatic weekly repurchases of members' excess capital stock.
- The payment for the retirement of our subordinated notes in 2016.

**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. Each member's activity stock requirement remained at 4.5% for non-RCAP advances.

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. Each member's membership stock requirement is 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. The cap on each member's membership stock requirement is now \$5 million, which is less than 9.9% of the Bank's total capital stock outstanding at December 31, 2016, and is thus the operative cap during the remainder of 2017 unless the Board sets a new cap.



(Dollars in tables 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.

For details on our capital stock requirement changes in 2016, see **Capital Resource** on page 54 of our 2016 Form 10-K.

We may only redeem or repurchase capital stock from a member if, following the redemption or repurchase, the member continues to meet its minimum investment requirement and we remain in compliance with our regulatory capital requirements as discussed in **Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements in this Form 10-Q.

On July 3, 2017, the FHFA proposed to amend certain regulatory capital requirements for the FHLBs as further discussed in **Legislative and Regulatory Developments** on page 55.

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 as further discussed in **Capital Resources** on page 54 of our 2016 Form 10-K. As of June 30, 2017, and December 31, 2016, RCAP advances outstanding total \$22.9 billion to 161 members and \$22.7 billion to 147 members, respectively.

**Repurchase of Excess Capital Stock**

On January 26, 2017, we began repurchasing all excess Class B2 membership stock on a weekly basis at par value, i.e., \$100 per share. Members may continue to request repurchase of excess stock on any business day in addition to the weekly repurchase. All repurchases of excess stock, including automatic weekly repurchases, will continue until otherwise announced, but remain subject to our regulatory requirements, certain financial and capital thresholds, and prudent business practices

Repurchase of excess capital stock held by members is subject to compliance with financial and capital thresholds, as detailed on page 57 of our 2016 Form 10-K.

*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, 2017	December 31, 2016	Change
Capital Stock	\$ 1,526	\$ 1,711	\$ (185)
MRCS	303	301	2
<b>Regulatory capital stock</b>	<b>1,829</b>	2,012	<b>(183)</b>
Retained earnings	3,153	3,020	133
<b>Regulatory capital</b>	<b>\$ 4,982</b>	\$ 5,032	<b>\$ (50)</b>
Capital stock	\$ 1,526	\$ 1,711	\$ (185)
Retained earnings	3,153	3,020	133
Accumulated other comprehensive income (loss)	67	(36)	103
<b>GAAP capital</b>	<b>\$ 4,746</b>	\$ 4,695	<b>\$ 51</b>

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

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

Although we have had no OTTI year to date in 2017, credit deterioration may negatively impact our remaining private-label MBS portfolio. We cannot predict if or when impairments will occur, or the impact these impairments may have on our retained earnings and capital position. See page 28 of the **Risk Factors** section of our 2016 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 27, 2017, our Board of Directors increased the dividend declared per share on both sub-classes of capital stock. The Board declared a 3.30% dividend (annualized) for Class B1 activity stock (an increase of 15 basis points) and a 1.25% dividend (annualized) for Class B2 membership stock (an increase of 20 basis points) based on our preliminary financial results for the second quarter of 2017. This dividend, including dividends on mandatorily redeemable capital stock, totaled \$11 million and will be paid on August 15, 2017. The Class B2 capital stock dividend is intended to enhance the value of membership; the Class B1 capital stock dividend reduces the effective cost of borrowing from the Bank and rewards our members who support the entire cooperative through their advances.

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 see **Retained Earnings & Dividends** on page 57 in our 2016 Form 10-K.

We continue to allocate 20% of our net income each quarter to a restricted retained earnings account in accordance with the Joint Capital Enhancement Agreement that we entered into with the other FHLBs, as further discussed in **Joint Capital Enhancement Agreement** on page F-44 in our 2016 Form 10-K.

### **Critical Accounting Policies**

For a detailed description of our Critical Accounting Policies and Estimates see page 61 in our 2016 Form 10-K.

Also 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 subsequent to December 31, 2016.

(Dollars in tables 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 64 in our 2016 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, \$46.7 billion were advances (par value) and \$13.2 billion were letters of credit at June 30, 2017, compared to \$45.0 billion and \$10.8 billion at December 31, 2016.

Rating	June 30, 2017					December 31, 2016				
	Borrowing Members	% of Total	Credit Outstanding	% of Total	Collateral Loan Value	Borrowing Members	% of Total	Credit Outstanding	% of Total	Collateral Loan Value
1-3	491	97%	\$ 59,944	100%	\$ 113,728	483	97%	\$ 55,750	100%	\$ 106,814
4	7	1%	52	—%	98	7	1%	47	—%	103
5	9	2%	94	—%	192	11	2%	140	—%	390
Total	507	100%	\$ 60,090	100%	\$ 114,018	501	100%	\$ 55,937	100%	\$ 107,307

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

*MPF Loans and Related Exposures*

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

**Credit Risk Exposure** - Our credit risk exposure on conventional MPF Loans held in portfolio is the potential for financial loss due to borrower default and depreciation in the value of the real estate collateral securing the MPF Loan, offset by our ability to recover losses from PMI, Recoverable CE Fees, and the CE Amount which may include SMI. The PFI is required to pledge collateral to secure any portion of its CE Amount that is a direct obligation of the PFI.

**Setting Credit Enhancement Levels** - Credit losses in a Master Commitment are first absorbed by the Bank's FLA but, if applicable to the MPF product, we will withhold a PFI's scheduled performance credit enhancement fee in order to reimburse ourselves for any losses allocated to the FLA. If the FLA is exhausted, the credit losses are then absorbed by the PFI's CE Amount that is calculated by utilizing a third party's credit model. For further details on the FLA and PFI's CE Amount, refer to **Item 1 - PFI Responsibilities** on page 9 and **Note 2 - MPF Risk Sharing Structure** on page F-15 of the 2016 10-K.

Pursuant to the revised AMA regulation, effective January 18, 2017, we adjusted our methodology to set the PFI's CE Amount. The PFI's CE Amount is determined by the Bank with respect to an asset or a pool, based on documented analysis, that the Bank has a high degree of confidence that it will not bear material losses beyond the losses absorbed by the FLA, even under reasonably likely adverse changes to expected economic conditions.

The CE Amounts and the FLA for certain conventional MPF products held in our portfolio may be periodically reset lower for each Master Commitment after a required period of seasoning because the amount of credit enhancement necessary to maintain our risk of credit losses within our risk tolerance is usually reduced over time.

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

Under the MPF Plus product, the PFI is required to provide an SMI policy covering MPF Loans in the Master Commitment and having a deductible initially equal to the FLA. Certain SMI providers fell below the requirements in the MPF Guides and instead of replacing the SMI provider or indemnifying us for any losses, most PFIs elected to forfeit future performance CE Fees. Credit losses associated with Master Commitments where the SMI coverage has been discontinued are incorporated into the allowance for credit losses calculation. Such credit losses are immaterial.

The following table shows the status of our credit enhancement structure on conventional MPF Loans held in portfolio. Unpaid principal balances in this table include REO, as losses in REO impact, and are impacted by, the credit enhancement structure of a Master Commitment. As defined, the CE Amount includes SMI on the MPF Plus product. Government Loans are excluded from the table as they are not directly credit enhanced by the PFI.

As of June 30, 2017				
MPF Product Type	Unpaid Principal Balance	90+ Days Delinquent	FLA <sup>a</sup>	PFI's CE Amount <sup>b</sup>
100	\$ 256	1.75%	4.59%	4.12%
125	1,086	0.29%	1.36%	1.67%
Plus	1,493	4.01%	5.55%	1.72%
35	21	—%	0.35%	3.43%
Original	1,032	1.03%	0.96%	8.69%

<sup>a</sup> For each product above, except MPF Original, a portion of losses experienced at the FLA level may be recovered through the withholding of performance-based CE Fees from PFIs.

<sup>b</sup> Credit losses on a loan may only be absorbed by the CE Amount in the Master Commitment related to the loan. For further detail refer to **Note 2 - MPF Risk Sharing Structure** on page F-15 of the 2016 10-K.

Mortgage Repurchase Risk

For details on our mortgage repurchase risk in connection with our sale of MPF Loans to third party investors and MPF Loans securitized into MBS when a loan eligibility requirement or other warranty is breached, see **Mortgage Repurchase Risk** on page 67 in our 2016 Form 10-K.

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

*Investment Securities*

We hold a variety of AA or better rated investment securities, mostly government backed or insured securities such as GSE debt and FFELP ABS, and we believe these investments are low risk. There was no material change in the credit ratings of these securities since December 31, 2016. For further details see page 70 in our 2016 Form 10-K. Except for private-label MBS as noted below, we have never taken an impairment charge on our investment securities.

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, 2016, 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.

*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 2016 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, 2017	AA	A	BBB	Unrated	Total
<b>Domestic U.S.</b>					
Interest-Bearing Deposits	\$ —	\$ 750	\$ —	\$ —	\$ 750
Fed Funds Sold	—	—	225	8	233
<b>U.S. branches and agency offices of foreign commercial banks - Federal Funds sold:</b>					
Australia	1,800	—	—	—	1,800
Canada	500	600	—	—	1,100
France	—	200	—	—	200
Japan	—	700	—	—	700
Netherlands	—	650	—	—	650
Norway	—	600	—	—	600
Sweden	1,900	500	—	—	2,400
<b>Total unsecured credit exposure</b>	<b>\$ 4,200</b>	<b>\$ 4,000</b>	<b>\$ 225</b>	<b>\$ 8</b>	<b>\$ 8,433</b>

All \$8.4 billion of the unsecured credit exposure shown in the above table were overnight investments.

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

*Managing Our Credit Risk Exposure Related to Derivative Agreements*

See **Note 9 - Derivatives and Hedging Activities** to the 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 Nationally Recognized Statistical Rating Organizations. 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 Derivative Fair Value Before Collateral	Cash Collateral Pledged	Non-cash Collateral Pledged	Net Credit Exposure to Counterparties
<b>As of June 30, 2017</b>				
<b>Non-member counterparties -</b>				
<b>Overcollateralized liability positions -</b>				
Bilateral derivatives -				
A rated	\$ (12)	\$ 12	\$ —	\$ — <sup>a</sup>
BBB	—	1	—	1
Cleared derivatives	(3)	— <sup>b</sup>	76	73
<b>Non-member counterparties</b>	<b>(15)</b>	<b>13</b>	<b>76</b>	<b>74</b>
Member institutions	1	—	—	1
<b>Total</b>	<b>\$ (14)</b>	<b>\$ 13</b>	<b>\$ 76</b>	<b>\$ 75</b>
<b>As of December 31, 2016</b>				
<b>Non-member counterparties -</b>				
<b>Overcollateralized liability positions -</b>				
Bilateral derivatives -				
AA rated	\$ (60)	\$ 60	\$ —	\$ — <sup>a</sup>
A rated	(57)	60	—	3
Cleared derivatives	(206)	198 <sup>b</sup>	97	89
<b>Non-member counterparties</b>	<b>(323)</b>	<b>318</b>	<b>97</b>	<b>92</b>
Member institutions	2	—	—	2
<b>Total</b>	<b>\$ (321)</b>	<b>\$ 318</b>	<b>\$ 97</b>	<b>\$ 94</b>

<sup>a</sup> Less than \$1 million.

<sup>b</sup> Effective in January of 2017 we began accounting for variation margin payments made to or received by the DCOs through our FCMs as settlements to our derivative assets and derivative liabilities. Accordingly, we no longer include variation margin in the **Cash Collateral Pledged** column. See **Note 1 - Background and Basis of Presentation**, **Note 2 - Summary of Significant Accounting Policies** and **Note 9 - Derivatives and Hedging Activities** for further details.

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

## **Legislative and Regulatory Developments**

Significant regulatory actions and developments are summarized below.

### **FHLB Capital Requirements**

On July 3, 2017, the FHFA published a proposed rule to adopt, with amendments, the regulations of the Federal Housing Finance Board (predecessor to the FHFA) pertaining to the capital requirements for the FHLBs. The proposed rule would carry over most of the existing regulations without material change but would substantively revise the credit risk component of the risk-based capital requirement, as well as the limitations on extensions of unsecured credit. The main revisions would remove requirements that the FHLBs calculate credit risk capital charges and unsecured credit limits based on ratings issued by a nationally recognized statistical rating organization, and instead require that the FHLBs establish and use their own internal rating methodology. With respect to derivatives, the proposed rule would impose a new capital charge for cleared derivatives, which under the existing rule do not carry a capital charge, to align with the Dodd-Frank Act's clearing mandate. The proposed rule also would revise the percentages used in the regulation's tables to calculate credit risk capital charges for advances and for non-mortgage assets. The FHFA proposes to retain for now the percentages used in the tables to calculate capital charges for mortgage-related assets, and to address the methodology for residential mortgage assets at a later date. While a March 2009 regulatory directive pertaining to certain liquidity matters will continue to remain in place, the FHFA also proposes to rescind certain minimum regulatory liquidity requirements for the FHLBs and address these liquidity requirements in a separate rulemaking.

We are continuing to evaluate the proposed rule but do not expect this rule, if adopted in final form, to materially affect our financial condition or results of operations. Comments on the proposed rule are due by September 1, 2017.

### **FHLB Membership for Non-Federally-Insured Credit Unions**

On June 5, 2017, the FHFA issued a final rule effective July 5, 2017 governing FHLB membership that would implement statutory amendments to the Federal Home Loan Bank Act authorizing FHLBs to accept applications for membership from state-chartered credit unions without federal share insurance, provided that certain prerequisites have been met. The new rule generally treats these credit unions the same as other depository institutions with an additional requirement that they obtain: (1) an affirmative statement from their state regulator that they meet the requirements for federal insurance as of the date of their application for FHLB membership; (2) a written statement from the state regulator that it cannot or will not make any determination regarding eligibility for federal insurance; or (3) if the regulator fails or refuses to respond to the credit union's request within six months, confirmation of the failure to receive a response.

We do not expect this rule to materially affect our financial condition or results of operations.

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

### **Minority and Women Inclusion**

On July 25, 2017, the FHFA published a final rule, effective August 24, 2017, amending its Minority and Women Inclusion regulations to clarify the scope of the FHLBs' obligation to promote diversity and ensure inclusion. The final rule updates the existing FHFA regulations aimed at promoting diversity and the inclusion and use of minorities, women, and individuals with disabilities, and the businesses they own (MWDOB) in all FHLB business and activities, including management, employment, and contracting. The final rule will:

- require the FHLBs to develop stand-alone diversity and inclusion strategic plans or incorporate diversity and inclusion into their existing strategic planning processes and adopt strategies for promoting diversity and ensuring inclusion;
- encourage the FHLBs to expand contracting opportunities for minorities, women, and individuals with disabilities through subcontracting arrangements;
- require the FHLBs to amend their policies on equal opportunity in employment and contracting by adding sexual orientation, gender identity, and status as a parent to the list of protected classifications;
- require the FHLBs to develop policies that address reasonable accommodations for employees to observe their religious beliefs;
- require the FHLBs to provide information in their annual reports to the FHFA about their efforts to advance diversity and inclusion through financial transactions, identification of ways in which FHLBs might be able to improve business with the FHLB by enhancing customer access by MWDOB businesses, including through the FHLB's affordable housing and community investment programs and strategies for promoting the diversity of supervisors and managers; and
- require the FHLBs to classify and provide additional data in their annual reports about the number of, and amounts paid under, their contracts.

We do not expect this final rule to materially affect our financial condition or results of operations, but anticipate that it may result in increased compliance costs and substantially increase the amount of tracking, monitoring, and reporting that would be required of the Bank.



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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Our Asset/Liability Management Committee provides oversight of risk management practices and policies. This includes routine reporting to senior Bank management and the Board of Directors, as well as maintaining the Income and Market Value Risk Policy, which defines our interest rate risk limits. The table below reflects the change in market risk limits under the policy.

Scenario as of	June 30, 2017		December 31, 2016	
	Change in Market Value of Equity	Loss Limit	Change in Market Value of Equity	Loss Limit
-200 bp	\$ 179	\$ (370)	\$ 192	\$ (370)
-100 bp	66	(155)	101	(155)
-50 bp	29	(60)	38	(60)
-25 bp	13	(30)	17	(30)
+25 bp	(14)	(30)	(17)	(30)
+50 bp	(30)	(60)	(36)	(60)
+100 bp	(68)	(155)	(76)	(155)
+200 bp	(157)	(370)	(167)	(370)

**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, 2017	\$ (1)	\$ (1)	\$ (3)	(13)	\$ 1
As of December 31, 2016	(1)	(1)	(2)	(14)	1

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

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

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

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

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

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

As of June 30, 2017, our sensitivity to changes in implied volatility was \$(1) million. At December 31, 2016, 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.

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.

Scenario as of	June 30, 2017			December 31, 2016		
	Down 200 bps	Base	Up 200 bps	Down 200 bps	Base	Up 200 bps
Duration of equity	2.4	1.0	1.7	2.3	1.3	1.8

As of June 30, 2017, on a U.S. GAAP basis, our fair value surplus (relative to book value) was \$379 million, and our market value of equity to book value of equity ratio was 108%, compared to \$388 million and 108% at December 31, 2016. 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.

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

**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 84 of our 2016 Form 10-K.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

For a discussion of the litigation relating to private-label MBS bonds purchased by the Bank, see Item 3. Legal Proceedings on page 31 of our 2016 Form 10-K.

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

### **Item 1A. Risk Factors.**

In addition to the information presented in this report, readers should carefully consider the factors set forth in the **Risk Factors** section on page 18 in our 2016 Form 10-K, which could materially affect our business, financial condition, or future results. These risks are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also severely affect us.

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

Not applicable.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

None.

**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 - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL 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.

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

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

**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.

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

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

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

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

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

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

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

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

**Freddie Mac:** Federal Home Loan Mortgage Corporation.

**GAAP:** Generally accepted accounting principles in the United States of America.

**Ginnie Mae:** Government National Mortgage Association.

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

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

**GSE:** Government sponsored enterprise.

**HFS:** Held for sale.

**HTM:** Held-to-maturity 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<sup>®</sup>:** Mortgage Partnership Finance.

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

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

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

**MPF Guides:** MPF Program Guide, MPF Selling Guide, and MPF Servicing Guide including the Selling and Servicing Guides and manuals for specific MPF Loan products.

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

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

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

**MRCS:** Mandatorily redeemable capital stock.

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

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

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

**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. 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.

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

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

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

**REO:** Real estate owned.

**SEC:** Securities and Exchange Commission.

**SMI:** Supplemental mortgage insurance.

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

**UPB:** Unpaid Principal Balance.

**U.S.:** United States



**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

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Name: Matthew R. Feldman

Title: President and Chief Executive Officer

(Principal Executive Officer)

Date: August 7, 2017

/s/ Roger D. Lundstrom

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Name: Roger D. Lundstrom

Title: Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Date: August 7, 2017