

CAPITAL PLAN
of the
FEDERAL HOME LOAN BANK OF CHICAGO
SUMMARY OF MAJOR PROVISIONS

Capital Plan Amended and Restated as of: December 12, 2019

Date of Federal Housing Financing Agency Approval: March 16, 2020

Effective Date of Changes: July 1, 2020

This summary highlights important aspects of the capital plan, but is not a complete description of the capital plan. For example, some terms that are defined in the full capital plan are not defined in this summary and certain limitations apply to the redemption and repurchase of capital stock. Members and former members should consult the full capital plan for an understanding of all terms applicable to the Bank's capital stock. The capital plan and this summary are subject to change at any time.

This summary is neither an offer to sell or exchange nor a solicitation of an offer to purchase or exchange any capital stock of the Federal Home Loan Bank of Chicago.

Background

The Federal Home Loan Bank System Modernization Act of 1999 established capital requirements for the Federal Home Loan Banks (FHLBanks). The requirements are found in the Federal Home Loan Bank Act (the Bank Act) and the regulations of the Federal Housing Finance Agency (FHFA).

The Federal Home Loan Bank of Chicago's (the Bank) initial capital plan was approved by the FHFA on December 28, 2011, and the Bank implemented its new capital structure on January 1, 2012. The Bank has made amendments to its original capital plan over the years. The Bank's capital plan was most recently amended on December 12, 2019, and the amendments will take effect July 1, 2020 (the Capital Plan).

The major provisions of the Capital Plan are described below. This document summarizes the major provisions of the Bank's current Capital Plan structure, but does not describe all of its provisions. The Capital Plan itself provides more detail on each provision. The Capital Plan is available on the Bank's website at fhlbc.com/about-us/financial-information.

Stock Issued by the Bank

Under the Capital Plan, the Bank issues two sub-classes of Class B capital stock, Class B1 activity stock and Class B2 membership. Both sub-classes of capital stock have a par value of \$100 per share, and may be issued, transferred, redeemed, and repurchased only at stated par value. All Class B capital stock is redeemable on five years' written notice, subject to certain conditions.

Amendments to Capital Plan

Amendments to the Capital Plan require the approval of the Bank's Board of Directors and the FHFA. The Bank will provide at least 30 days prior written notice to its stockholders before any amendment becomes effective.

Members' Minimum Investment Requirement

The Bank's Capital Plan requires each member (and as applicable, former member) to own Class B capital stock in a dollar amount equal to the greater of:

- A membership stock requirement; or
- An activity stock requirement.

The membership stock requirement is calculated as a designated percentage of each member's mortgage assets (with a minimum and maximum amount). The Bank will review each member's mortgage assets on an annual basis and make any necessary adjustments to the member's membership stock requirement.

The activity stock requirement is currently calculated as a designated percentage of each member's principal balance of advances outstanding. In addition, the Capital Plan also authorizes the Bank's Board of Directors to establish reduced activity stock requirements for specifically designated advances offerings. For example, currently, the Bank has established the Reduced Capitalization Advance Program (as further discussed on the next page).

A member’s activity stock requirement is calculated on a continuous basis. Members must comply with the activity stock requirement for as long as the relevant advances remain outstanding.

Additionally, the Capital Plan permits the Bank to include as part of the activity stock requirement a designated percentage of a member’s:

- Mortgage Partnership Finance® (MPF®) Program loans that meet certain criteria and are retained on the Bank’s balance sheet; and/or
- Letters of credit that meet certain criteria.

However, currently, the Bank has not implemented the activity stock requirement for MPF loans or letters of credit.

The Bank’s Board of Directors has the authority to adjust the percentages and dollar amounts used to determine the membership and activity stock requirements within ranges established in the Capital Plan to ensure the Bank remains adequately and appropriately capitalized.

The current amounts and the authorized ranges for each component of the minimum investment requirements are indicated in the table below. Changes beyond the ranges specified in the Capital Plan and shown in this table would require the Bank’s Board of Directors to adopt an amendment to the Capital Plan.

	Capital Plan Current Settings and Authorized Ranges
Membership Stock Requirement	<p>Setting: 0.40% of a member’s mortgage assets</p> <p>Range: 0.20% to 1% of a member’s mortgage assets</p>
Membership Stock Minimum Amount	<p>Setting: \$10,000</p> <p>Range: None</p>
Membership Stock Maximum Amount	<p>Setting: \$5 million</p> <p>Range: \$1 million to \$25 million</p>
Activity Stock Requirement	<p>Setting: 4.5% of outstanding advances ^a and 0% of MPF loans and 0% of letters of credit</p> <p>Range: 4% to 5% of outstanding advances ^a and 0% to 5% of MPF loans and 0% to 2% of letters of credit</p>

^a The activity stock requirement applies to all advances other than those advances made through the Bank’s Reduced Capitalization Advance Program (RCAP). The activity stock requirement for RCAP, or any similar future program, may be set as low as 2%.

Capital stock that is not required to meet a member’s minimum investment requirement is Class B2 excess stock.

Dividends on Capital Stock

The Bank's Board of Directors may declare dividends on capital stock. Dividends may be paid in cash, additional shares of capital stock, or a combination of cash and stock. The Board of Directors may declare the same dividend rate or different dividend rates on Class B1 activity stock and Class B2 membership/excess stock, so long as the rate for Class B1 activity stock is equal to or greater than the rate for Class B2 membership/excess stock.

Voting Rights

Members (and, as applicable, former members) are entitled to vote their Class B capital stock for member directors in their state and for independent directors district-wide. By regulation, in an election for directors, a member is eligible to vote each share of Class B capital stock it was required to hold as of the prior December 31; although the number of votes any member may cast is capped at the average number of shares of stock required to be held by all members located in the same state as of the prior December 31.

Stock Redemption, Repurchase, and Transfer

The statute and regulations that govern the Bank's capital structure provide that members may have the Bank redeem certain shares of Class B capital stock with five years' written notice to the Bank. At the expiration of the five year period, the Bank will pay in cash the stated par value of any Class B capital stock covered by the stock redemption notice, as long as the stock is Class B2 excess stock not required to meet a member's minimum investment requirement

Additionally, the Bank may, in its sole discretion, repurchase members' Class B2 excess stock at any time without regard to the five year notification period, subject to the applicable law and the Bank's guidelines. The Bank may repurchase Class B2 excess stock in response to a member's request, or it may initiate repurchases of members' Class B2 excess stock with at least three days prior notice to all members.

With the Bank's prior approval, a member or former member may also transfer Class B2 excess stock to another member or to an institution that has satisfied all conditions to become a member.

Limitations on Redemption and Repurchase of Stock

There are certain regulatory and statutory limitations on the Bank's redemption and repurchase of Class B2 excess stock. For example, the Bank will not redeem or repurchase stock if it would cause the Bank to be out of compliance with its minimum regulatory capital requirements, or if it would cause a member to fall out of compliance with its minimum investment requirement under the Capital Plan. The full Capital Plan, and the Bank's Form 10-K filed with the Securities and Exchange Commission, provide more information on limitations with respect to redemption and repurchase of excess stock.

Withdrawal and Termination of Membership

Withdrawal from Membership

The regulations allow a member to withdraw from membership upon five years' written notice to the Bank and membership is terminated at the end of the five year period following the Bank's receipt of such notice. At the expiration of the five year period, the Bank may redeem all Class B capital stock held when the

withdrawal notice is given that is not supporting an outstanding activity stock requirement. A member may cancel a withdrawal notice prior to termination of membership, subject to a fee payable to the Bank.

During the five year period following receipt of a withdrawal notice (unless a member engages in any new advance, MPF Program, or letters of credit activity with the Bank), the member will not be subject to any increases in the applicable percentages used to calculate its membership or activity stock requirements, will not be subject to any increases in the applicable cap for the membership stock requirement, and will not be required to purchase additional stock based upon any changes to its mortgage assets.

Termination from Membership as a Result of Involuntary Termination, Merger/ Consolidation, Liquidation, or Relocation

The regulations allow the Bank's Board of Directors to involuntarily terminate a member's membership under the following scenarios, with such termination taking effect on the date the Bank's Board of Directors acts:

- If a member fails to comply with any requirement of the Bank Act, any regulation adopted by FHFA, or any requirement of the Bank's Capital Plan;
- If a member becomes insolvent or otherwise subject to the appointment of a conservator, receiver, or other legal custodian under federal or state law; or
- If a member would jeopardize the safety or soundness of the Bank if it were to remain a member.

The five year redemption period for Class B capital stock begins on the date of involuntarily termination. An involuntarily terminated member remains subject to the minimum investment requirement until the end of the five year redemption period. At the end of the five year period, the Bank may redeem all stock not supporting an outstanding activity stock requirement. However, in certain scenarios, the membership stock requirement of an involuntarily terminated member, may reduce to zero sooner and any resulting Class B2 excess stock will be subject to discretionary repurchase by the Bank without regard to the five year redemption period.

A member that has merged or consolidated into another institution will have its membership terminated on the date of its charter cancellation. If the acquiring institution is a Bank member, the capital stock of the disappearing member will be transferred to the acquiring member. If the acquiring institution is not a Bank member, the five year redemption period for Class B capital stock begins on the date of membership termination. At the end of the five year period, the Bank may redeem all remaining stock not supporting an outstanding activity stock requirement. At the Bank's sole discretion, after 30 days of membership termination, the Bank may recalculate the former member's membership stock requirement based solely on mortgage assets and using zero as the amount of mortgage assets and repurchase any resulting Class B2 excess stock.

A member who relocates its principal place of business to another FHLBank district and joins that other FHLBank will have its membership terminated on the date on which the transfer of membership becomes effective and its membership stock requirement reduced to zero on the date it becomes a member of that other FHLBank. The five year redemption period for Class B capital stock begins on the date of membership termination, although any Class B2 excess stock is subject to discretionary repurchase without regard to the five year redemption period. At the end of the five year period, the Bank may redeem all stock not supporting an outstanding activity stock requirement.

Joint Capital Enhancement Agreement Provisions

The Capital Plan also includes provisions related to a Joint Capital Enhancement Agreement (JCEA) among the 11 FHLBanks that became effective February 28, 2011. The JCEA reflects the FHLBanks' agreement to contribute the portion of their net income (20 percent) to a restricted retained earnings account to strengthen their capital structure.

Additional Information

Members and former members should consult the full Capital Plan for an understanding of all terms applicable to the Bank's capital stock. The Bank has also prepared Capital Plan FAQs that are available on the Bank's website at fhlbc.com/about-us/financial-information.

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