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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2010

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

(Exact name of registrant as specified in its charter)

Federally chartered corporation	**36-6001019**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 East Randolph Drive Chicago, IL	**60601**
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

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

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

There were 28,529,232 shares of registrant's capital stock outstanding as of October 31, 2010.

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PART I
Item 1. Financial Statements (unaudited)
Statements of Condition (unaudited)
(Dollars in millions, except par value)

	September 30, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 22	$ 2,823
Federal Funds sold and securities purchased under agreements to resell	9,722	2,715
Investment securities -		
Trading ($361 and $51 pledged)	1,741	1,370
Available-for-sale ($569 and $656 pledged)	25,739	20,019
Held-to-maturity[a] ($1,635 and $1,265 pledged)	12,062	12,689
Total investment securities	39,542	34,078
Advances ($4 and $4 carried at fair value)	18,803	24,148
MPF Loans held in portfolio, net of allowance for loan losses of ($32) and ($14)	20,134	23,838
Accrued interest receivable	203	247
Derivative assets	7	44
Software and equipment, net	48	25
Other assets	145	156
Total assets	$ 88,626	$ 88,074
Liabilities		
Deposits -		
Interest bearing, incl. $15 and $11 from other FHLBs	$ 792	$ 854
Non-interest bearing	209	148
Total deposits	1,001	1,002
Securities sold under agreements to repurchase	1,200	1,200
Consolidated obligations, net -		
Discount notes ($5,212 and $0 carried at fair value)	24,254	22,139
Bonds ($8,189 and $4,749 carried at fair value)	55,077	58,225
Total consolidated obligations, net	79,331	80,364
Accrued interest payable	442	376
Mandatorily redeemable capital stock	511	466
Derivative liabilities	1,284	713
Affordable Housing Program assessment payable	37	13
Resolution Funding Corporation assessment payable	29	—
Investment securities traded but not yet settled	834	497
Other liabilities	90	65
Subordinated notes	1,000	1,000
Total liabilities	85,759	85,696
Commitments and contingencies (Note 15)		
Capital		
Capital stock - putable ($100 par value) - 23 million shares issued and outstanding for both periods presented	2,318	2,328
Retained earnings	967	708
Accumulated other comprehensive income (loss)	(418)	(658)
Total capital	2,867	2,378
Total liabilities and capital	$ 88,626	$ 88,074

[a] Fair values of held-to-maturity securities: $12,949 and $13,345 at September 30, 2010 and December 31, 2009.

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

Statements of Income (unaudited)
(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	**2010**	2009
Interest income	**$ 700**	$ 720	**$ 2,082**	$ 2,261
Interest expense	**487**	577	**1,534**	1,815
Net interest income before provision for credit losses	**213**	143	**548**	446
Provision for credit losses	**9**	—	**20**	5
Net interest income	**204**	143	**528**	441
Non-interest gain (loss) on -				
Other-than-temporary impairment charges, credit portion[a]	**(76)**	(169)	**(147)**	(379)
Trading securities	**(5)**	—	**(8)**	(11)
Sale of available-for-sale securities	**—**	—	**—**	19
Derivatives and hedging activities	**62**	(114)	**28**	(64)
Instruments held under fair value option	**(1)**	(4)	**(9)**	(6)
Early extinguishment of debt incl. $0, $0, $0, and ($5) from debt transferred to other FHLBs	**—**	—	**—**	(5)
Other, net	**3**	2	**9**	8
Total non-interest gain (loss)	**(17)**	(285)	**(127)**	(438)
Non-interest expense -				
Compensation and benefits	**14**	15	**43**	45
Professional service fees	**2**	4	**7**	9
Amortization and depreciation of software and equipment	**4**	4	**11**	12
MPF Program expense	**2**	1	**5**	5
Finance Agency and Office of Finance expenses	**2**	1	**5**	4
Other expense	**4**	6	**11**	14
Total non-interest expense	**28**	31	**82**	89
Income (loss) before assessments	**159**	(173)	**319**	(86)
Assessments -				
Affordable Housing Program	**13**	(7)	**26**	—
Resolution Funding Corporation	**29**	(16)	**59**	—
Total assessments	**42**	(23)	**85**	—
Net income (loss)	**$ 117**	$ (150)	**$ 234**	$ (86)
[a] **Components of the other-than-temporary impairment charges -**				
Total other-than-temporary impairment	**$ (2)**	$ (102)	**$ (39)**	$ (1,388)
Less: non-credit portion reclassified from (to) other comprehensive income	**74**	67	**108**	(1,009)
Other-than-temporary impairment charges, credit portion	**$ (76)**	$ (169)	**$ (147)**	$ (379)

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

Statements of Capital (unaudited)

(Dollars and shares in millions)

	Capital Stock - Putable Shares[a]		Capital Stock - Putable Par Value		Retained Earnings		Accumulated Other Comprehensive Income (Loss)		Total Capital		Comprehensive Income (Loss)
Balance, December 31, 2008	24	$	2,386	$	540	$	(639)	$	2,287		
January 1, 2009, cumulative effect adjustment[b]					233		(233)		—		
Net income (loss)					(86)				(86)	$	(86)
Accumulated other comprehensive income (loss) net change in -											
Available-for-sale (AFS) securities							584				
AFS securities OTTI non-credit							(8)				
Held-to-maturity (HTM) securities previously transferred from AFS							52				
HTM securities OTTI non-credit							(831)				
Net change in cash flow hedging activities							132				
Retirement Plans							(2)				
Total change in accumulated other comprehensive income (loss)									(73)		(73)
Proceeds from issuance of capital stock	1		101						101		
Reclassification of capital stock to mandatorily redeemable	(1)		(123)						(123)		
Balance, September 30, 2009	24	$	2,364	$	687	$	(945)	$	2,106	$	(159)
Balance, December 31, 2009	**23**	**$**	**2,328**	**$**	**708**	**$**	**(658)**	**$**	**2,378**		
Net income					**234**				**234**	**$**	**234**
July 1, 2010 cumulative effect adjustment[c]					**25**				**25**		
Accumulated other comprehensive income (loss) net change in -											
AFS securities							**673**				
AFS securities OTTI non-credit							**17**				
HTM securities previously transferred from AFS							**12**				
HTM securities OTTI non-credit							**243**				
Net change in cash flow hedging activities							**(705)**				
Total change in accumulated other comprehensive income (loss)									**240**		**240**
Proceeds from issuance of capital stock	*****		**35**						**35**		
Reclassification of capital stock to mandatorily redeemable	*****		**(45)**						**(45)**		
Balance, September 30, 2010	**23**	**$**	**2,318**	**$**	**967**	**$**	**(418)**	**$**	**2,867**	**$**	**474**

* Less than 1 million shares

[a] Shares exclude outstanding shares reclassified to mandatorily redeemable capital stock of 5 million shares and 4 million shares at September 30, 2010 and 2009.

[b] On April 9, 2009, the FASB released new accounting guidance on the recognition and presentation of OTTI. We adopted the FASB guidance effective January 1, 2009, and a cumulative effect on retained earnings was recorded. See **Note 3 – Adopted and Recently Issued Accounting Standards & Interpretations** in our 2009 Form 10-K.

[c] On July 1, 2010, we adopted the fair value option for held-to-maturity mortgage-backed securities with a carrying value of $390 million. The difference between the amortized cost and fair value of these MBS was recorded as a cumulative effect adjustment to retained earnings. See **Note 3 - Adopted and Recently Issued Accounting Standards & Interpretations** for further detail.

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

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

	Nine months ended September 30,	2010	2009
Operating	**Net cash provided by (used in) operating activities**	**$ 521**	$ 99
Investing	Net change in Federal Funds sold and securities purchased under agreements to resell	**(7,007)**	(2,965)
	Net change in advances	**5,435**	12,481
	MPF Loans -		
	Principal collected	**3,695**	6,844
	Purchases	**(36)**	(27)
	Trading securities -		
	Proceeds from maturities, sales and paydowns	**34**	430
	Purchases	**—**	(1,106)
	Held-to-maturity securities -		
	Short-term held-to-maturity securities, net[a]	**196**	248
	Proceeds from maturities and paydowns[b]	**2,398**	2,395
	Purchases[b]	**(1,394)**	(14)
	Available-for-sale securities -		
	Proceeds from maturities, sales, and paydowns	**781**	998
	Purchases	**(5,865)**	(13,026)
	Proceeds from sale of foreclosed assets	**77**	37
	Capital expenditures for software and equipment	**(4)**	(7)
	Net cash provided by (used in) investing activities	**(1,690)**	6,288
Financing	Net change in deposits, incl. $4 and $(1) from other FHLBs	**(1)**	182
	Net proceeds from issuance of consolidated obligations -		
	Discount notes	**951,770**	817,081
	Bonds	**35,959**	12,079
	Payments for maturing and retiring consolidated obligations -		
	Discount notes	**(949,650)**	(815,186)
	Bonds, incl. $0 and ($110) transferred to other FHLBs	**(39,650)**	(19,689)
	Net proceeds (payments) on derivative contracts with financing element	**(95)**	(57)
	Proceeds from issuance of capital stock	**35**	101
	Redemptions of mandatorily redeemable capital stock	**—**	(89)
	Net cash provided by (used in) financing activities	**(1,632)**	(5,578)
	Net increase (decrease) in cash and due from banks	**(2,801)**	809
	Cash and due from banks at beginning of year	**2,823**	130
	Cash and due from banks at end of period	**$ 22**	$ 939
Supplemental	Capital stock reclassified to mandatorily redeemable capital stock	**$ 45**	$ 123
	Transfer of MPF Loans to real estate owned	**100**	68
	Transfer from held-to-maturity securities to trading securities - Note 3	**390**	—
	Noncash investing and financing activity - capital leases	**28**	2

a Consists of securities with maturities of less than 90 days when purchased.
b Consists of securities with maturities of 90 days or more when purchased.

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

Federal Home Loan Bank of Chicago
Notes to Financial Statements - (Unaudited)
(Dollars in millions except per share amounts unless otherwise indicated)

Note 1 – Background

The Federal Home Loan Bank of Chicago [a] is a federally chartered corporation and one of 12 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. Each FHLB operates as a separate entity with its own management, employees, and board of directors. Each FHLB is a member-owned cooperative with members from a specifically defined geographic district. Our defined geographic district consists of the states of Illinois and Wisconsin. We are supervised and regulated by the Federal Housing Finance Agency (FHFA), an independent federal agency in the executive branch of the United States government.

We provide credit to members principally in the form of secured loans called advances. We also provide liquidity for home mortgage loans to members approved as Participating Financial Institutions (PFIs) through the Mortgage Partnership Finance® (MPF®) Program [b].

Our mission is to partner with our member shareholders in Illinois and Wisconsin to provide them competitively priced funding, a reasonable return on their investment in the Bank, and support for community investment activities.

[a] Unless otherwise specified, references to “we,” “us,” “our,” and “the Bank” are to the Federal Home Loan Bank of Chicago.
[b] “Mortgage Partnership Finance,” “MPF,” “MPF Shared Funding,” “eMPF,” and “MPF Xtra” are registered trademarks of the Federal Home Loan Bank of Chicago.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation – Our accounting and financial reporting policies conform to generally accepted accounting principles in the United States of America (GAAP). The preparation of the unaudited financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses. Actual results could differ from those estimates. Certain amounts in the prior period have been reclassified to conform to the current presentation. 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 should be read in conjunction with the audited financial statements for the year ended December 31, 2009, included in our Annual Report on Form 10-K (2009 Form 10-K) filed with the SEC.

Cash Flows – For purposes of the statements of cash flows, we consider cash and due from banks as cash and cash equivalents.

Significant Accounting Policies – Our significant accounting policies and certain other disclosures are set forth in the notes to the audited financial statements for the year ended December 31, 2009. These interim financial statements should be read in conjunction with those audited financial statements and notes. The notes to these interim financial statements highlight the significant changes to those notes.

The following table identifies where a detailed description of each policy can be found in our 2009 Form 10-K.

Federal Funds Sold and Securities Purchased Under Agreements to Resell	**Note 6**
Investment Securities and Other-Than-Temporary Impairment	**Note 7**
Advances	**Note 8**
MPF Loans	**Note 9**
Allowance for Loan Losses	**Note 10**
Software and Equipment	**Note 11**
Derivatives and Hedging Activities	**Note 12**
Consolidated Obligations	**Note 15**
Subordinated Notes	**Note 16**
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Capital Stock and Mandatorily Redeemable Capital Stock	**Note 19**
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Employee Retirement Plans	**Note 21**
Estimated Fair Values	**Note 22**
Commitments and Contingencies	**Note 23**
Transactions with Related Parties and Other FHLBs	**Note 24**

Note 3 – Adopted and Recently Issued Accounting Standards & Interpretations

Adopted in 2010:

Transfers of Financial Assets

On June 12, 2009, the FASB issued new accounting guidance on the accounting for transfers of financial assets. The guidance eliminates the scope exception for qualifying special purpose entities with respect to applying consolidation accounting guidance and provides clarifying guidance for purposes of determining whether or not a transfer of a financial asset is accounted for as a sale or a secured borrowing. This guidance is applicable only to our transfers of financial assets occurring on or after January 1, 2010. As a result, it has no effect on sales of MPF Loans or participations that occurred prior to January 1, 2010. We have determined that the guidance did not have an effect on our operating activities and financial statements as of January 1, 2010. Our determination of whether variable interest entities previously considered qualifying SPEs should be consolidated under the new accounting guidance for variable interest entities is discussed in **Note 5 – Investment Securities**.

Improving Disclosures about Fair Value Measurements

On January 21, 2010, the FASB issued amended guidance for fair value measurements and disclosures. The new guidance became effective for us for interim and annual reporting periods beginning January 1, 2010 with the exception of the requirement to disclose purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements on a gross basis, which becomes effective January 1, 2011. We did not amend previous reporting periods presented to show comparative disclosures as permitted under the new guidance.

Embedded Credit Derivative Features

In March of 2010, the FASB issued amendments clarifying what constitutes the scope exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another. The embedded credit derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another is not subject to potential bifurcation and separate accounting as a derivative. The amendments clarify what circumstances (e.g. embedded written credit default swaps) are not subject to the scope exception. The amendments were effective for us July 1, 2010. Upon adoption, the new guidance pertaining to embedded credit derivative features had no impact on our financial statements or operating activities. However, the transition provisions of the new guidance did have an effect on our financial statements upon adoption. Specifically, entities were permitted to irrevocably elect the fair value option for any beneficial interest in a securitized financial asset.

Effective July 1, 2010, we elected to adopt the fair value option for certain held-to-maturity mortgage-backed securities (MBS) to enable their inclusion in regulatory liquidity requirements. In this regard, we could have met this requirement by taking other actions. In particular, we could have continued to carry these MBS as held-to-maturity and acquired new securities classified as trading securities. However, we deemed it more cost effective to elect the fair value option for these MBS rather than incur the cost of acquiring new securities. Accordingly, the election of the fair value option was unrelated to our ability to continue to hold the remaining securities within our held-to-maturity portfolio until maturity. We only selected the amount of securities necessary to achieve our targeted liquidity requirements.

We expect that electing the fair value option for these MBS will offset some of the volatility in earnings resulting from spread changes on consolidated obligation bonds that are carried at fair value under the fair value option. Specifically, we selected certain government agency held-to-maturity MBS with a carrying amount of $390 million for application of the fair value option. As of July 1, 2010, the difference between the amortized cost and fair value of these MBS resulted in a cumulative effect adjustment of a $25 million gain, which was recorded as an increase to our beginning July 1, 2010 retained earnings and had no impact on our AHP or REFCORP expense or accruals. None of the MBS in which we elected the fair value option were considered impaired, and accordingly, no credit impairment write-down was recognized into net income at the time of adoption.

Consistent with the original accounting transition guidance for fair value option accounting, these MBS will be reclassified from held-to-maturity securities to trading securities with subsequent changes in fair value immediately recognized into earnings. Also consistent with the original accounting transition guidance for fair value option accounting, election of the fair value option for these held-to-maturity MBS will not impact the remaining held-to-maturity investment portfolio.

Issued but effective after September 30, 2010:

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses

In July of 2010, the FASB issued amended guidance that will affect our disclosures related to our allowance for loan losses. The objective of the new guidance is to provide financial statement users with greater transparency about an entity's allowance for credit losses. Specifically, it will require additional disclosures to assist financial statement users in evaluating an entity's allowance for credit losses by providing a greater level of disaggregated information. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 31, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010.

Federal Home Loan Bank of Chicago
Notes to Financial Statements - (Unaudited)
(Dollars in millions except per share amounts unless otherwise indicated)

Note 4 – Interest Income and Interest Expense

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	**2010**	2009
Interest Income -				
Federal Funds sold and securities purchased under agreements to resell	**$ 6**	$ 4	**$ 13**	$ 11
Investment securities -				
Trading	**11**	8	**22**	30
Available-for-sale	**181**	101	**490**	195
Held-to-maturity	**137**	178	**445**	559
Total investment securities	**329**	287	**957**	784
Advances interest income	**85**	120	**246**	455
Prepayment fees	**45**	13	**115**	27
Total Advances	**130**	133	**361**	482
MPF Loans held in portfolio	**238**	301	**763**	1,001
Less: Credit enhancement fees paid	**(3)**	(5)	**(12)**	(17)
MPF Loans held in portfolio, net	**235**	296	**751**	984
Total interest income	**700**	720	**2,082**	2,261
Interest Expense -				
Deposits	**—**	—	**—**	1
Securities sold under agreements to repurchase	**4**	5	**13**	22
Consolidated obligations[a] -				
Discount notes	**98**	103	**289**	274
Bonds	**370**	454	**1,189**	1,475
Total consolidated obligations	**468**	557	**1,478**	1,749
Subordinated notes	**15**	15	**43**	43
Total interest expense	**487**	577	**1,534**	1,815
Net Interest Income before provision for credit losses	**213**	143	**548**	446
Provision for credit losses	**9**	—	**20**	5
Net interest income	**$ 204**	$ 143	**$ 528**	$ 441

[a] We reclassified $69 million and $158 million from consolidated obligation bond interest expense to discount note interest expense to properly reflect the interest expense incurred relative to certain cash flow hedges during the three and nine months ended September 30, 2009.

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

Note 5 – Investment Securities

Trading Securities

The following table presents the fair value of trading securities, including MBS. Our GSE securities are issued or guaranteed by Fannie Mae or Freddie Mac.

Fair values as of:	**September 30, 2010**	December 31, 2009
GSE	**$ 804**	$ 812
Temporary liquidity guarantee program (FDIC-TLGP)	**534**	536
MBS:		
GSE residential	**400**	18
Government-guaranteed residential	**3**	4
Total MBS	**403**	22
Total trading securities	**$ 1,741**	$ 1,370

Gains and Losses on Investment Securities

Gains and losses on sales of securities are determined using the specific identification method and are included in other non-interest income.

Trading Securities

The net gains (losses) on trading securities were as follows.

	Three months		Nine months	
For the periods ending September 30,	**2010**	2009	**2010**	2009
Net realized gain (loss)	**$ —**	$ —	**$ —**	$ —
Net unrealized gain (loss)	**(5)**	—	**(8)**	(11)
Net gain (loss) on trading securities	**$ (5)**	$ —	**$ (8)**	$ (11)

AFS Securities

The proceeds and net gains (losses) on AFS securities were as follows.

	Three months		Nine months	
For the periods ending September 30,	**2010**	2009	**2010**	2009
Proceeds from sales of AFS securities	**$ —**	$ —	**$ —**	$ 353
Realized gain	**—**	—		$ 19
Realized loss	**—**	—	**—**	—
Net realized gain (loss) from sales of AFS securities	**$ —**	$ —	**$ —**	$ 19

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

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

The following tables present the amortized cost and fair value of our AFS securities.

	Amortized Cost	Non-Credit OTTI Recognized in AOCI (Loss)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
As of September 30, 2010					
Temporary liquidity guarantee program (FDIC-TLGP)	**$ 184**	**$ —**	**$ 1**	**$ —**	**$ 185**
Federal Farm Credit (FFCB)	**50**	**—**	**—**	*****	**50**
Tennessee Valley Authority (TVA)	**64**	**—**	**8**	**—**	**72**
Small Business Administration (SBA)	**773**	**—**	**49**	**—**	**822**
FFELP ABS	**8,457**	**—**	**539**	**(21)**	**8,975**
					—
MBS:					—
GSE residential	**11,656**	**—**	**886** [a]	**—**	**12,542**
Government-guaranteed residential	**2,860**	**—**	**157**	**—**	**3,017**
Private-label residential	**115**	**(61)** [b]	**23** [b]	**(1)**	**76**
Total MBS	**14,631**	**(61)**	**1,066**	**(1)**	**15,635**
Total	**$ 24,159**	**$ (61)**	**$ 1,663**	**$ (22)**	**$ 25,739**
As of December 31, 2009					
GSE	$ 57	$ —	$ —	$ —	$ 57
Temporary liquidity guarantee program (FDIC-TLGP)	101	—	1	—	102
Tennessee Valley Authority (TVA)	25	—	—	—	25
Small Business Administration (SBA)	752	—	10	*	762
FFELP ABS	8,789	—	534	(1)	9,322
MBS:					
GSE residential	8,070	—	82 [c]	(86)	8,066
Government-guaranteed residential	1,563	—	44	(4)	1,603
Private-label residential	138	(67)	12	(1)	82
Total MBS	9,771	(67)	138	(91)	9,751
Total	$ 19,495	$ (67)	$ 683	$ (92)	$ 20,019

* Less than $1 million

[a] Net unrealized gains of $366 million related to hedged AFS securities were recognized into derivatives and hedging activities.

[b] The following table presents a reconciliation of the AFS OTTI loss recognized through Accumulated Other Comprehensive Income (Loss) (AOCI) to the total net non-credit portion of OTTI losses on AFS securities in AOCI.

	December 31, 2009	Change	September 30, 2010
Total non-credit OTTI loss recognized in AOCI	**$ (67)**	**$ 6**	**$ (61)**
Subsequent unrealized changes in fair value	**12**	**11**	**23**
OTTI-related component of AOCI	**$ (55)**	**$ 17**	**$ (38)**

[c] Net unrealized loss of $1 million was recognized into derivatives and hedging activities related to fair value hedges of these securities.

Federal Home Loan Bank of Chicago
Notes to Financial Statements - (Unaudited)
(Dollars in millions except per share amounts unless otherwise indicated)

Amortized Cost and Fair Value – Held-to-Maturity Securities

The following tables present the amortized cost and fair value of our HTM securities.

	Amortized Cost	Non-Credit OTTI Recognized in AOCI (Loss)	Carrying Value	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Fair Value
As of September 30, 2010						
GSE	**$ 406**	**$ —**	**$ 406**	**$ 27**	**$ —**	**$ 433**
State or local housing agency	**37**	**—**	**37**	**—**	**—**	**37**
Small Business Administration (SBA)	**438**	**—**	**438**	**6**	*****	**444**
MBS:						
GSE residential	**8,113**	**—**	**8,113**	**506**	**(2)**	**8,617**
Government-guaranteed residential	**946**	**—**	**946**	**17**	*****	**963**
MPF Shared Funding	**198**	**—**	**198**	**2**	**(1)**	**199**
Private-label residential	**2,552**	**(680)**	**1,872**	**349**	**(18)**	**2,203**
Private-label commercial	**52**	**—**	**52**	**1**	*****	**53**
Total MBS	**11,861**	**(680)**	**11,181**	**875**	**(21)**	**12,035**
Total	**$ 12,742**	**$ (680)**	**$ 12,062**	**$ 908**	**$ (21)**	**$ 12,949**
As of December 31, 2009						
GSE	$ 408	$ —	$ 408	$ 21	$ —	$ 429
State or local housing agency	41	—	41	—	*	41
Small Business Administration (SBA)	332	—	332	3	(1)	334
MBS:						
GSE residential	9,215	—	9,215	474	(3)	9,686
Government-guaranteed residential	330	—	330	4	—	334
MPF Shared Funding	232	—	232	—	(4)	228
Private-label residential	2,998	(923)	2,075	243	(82)	2,236
Private-label commercial	56	—	56	1	*	57
Total MBS	12,831	(923)	11,908	722	(89)	12,541
Total	$ 13,612	$ (923)	$ 12,689	$ 746	$ (90)	$ 13,345

* Less than $1 million

Federal Home Loan Bank of Chicago
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Aging of Unrealized Temporary Losses

The following tables present unrealized temporary losses on our AFS and HTM portfolios for periods less than 12 months and for 12 months or more.

	Less than 12 Months			12 Months or More		
As of September 30, 2010	**Fair Value**	**Gross Unrealized/ Unrecognized Losses**	**Non-Credit OTTI Recognized in AOCI (Loss)**	**Fair Value**	**Gross Unrealized/ Unrecognized Losses**	**Non-Credit OTTI Recognized in AOCI (Loss)**
Available-for-Sale Securities						
Federal Farm Credit (FFCB)	$ 50	*	$ —	$ —	$ —	$ —
FFELP ABS	1,383	(21)	—	—	—	—
MBS:						
Private-label residential	—	—	—	76	(1)	(38)
Total MBS	—	—	—	76	(1)	(38)
Total available-for-sale	$ 1,433	$ (21)	—	$ 76	$ (1)	$ (38)
Held-to-Maturity Securities						
Small Business Administration (SBA)	$ 32	*	$ —	$ —	$ —	$ —
MBS:						
GSE residential	345	(2)	—	—	—	—
Government-guaranteed residential	165	*	—	—	—	—
MPF Shared Funding	—		—	7	(1)	
Private-label residential	—		—	2,142	(27)	(671)
Private-label commercial	—	—	—	10	*	
Total MBS	510	(2)	—	2,159	(28)	(671)
Total held-to-maturity	$ 542	$ (2) [a]	—	$ 2,159	$ (28) [a]	$ (671)

* Less than $1 million

[a] Gross unrealized losses and non-credit OTTI losses recognized does not reflect the gross unrecognized recovery in fair value of $9 million at September 30, 2010.

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	Less than 12 Months			12 Months or More		
As of December 31, 2009	Fair Value	Gross Unrealized/ Unrecognized Losses	Non-Credit OTTI Recognized in AOCI (Loss)	Fair Value	Gross Unrealized/ Unrecognized Losses	Non-Credit OTTI Recognized in AOCI (Loss)
Available-for-Sale Securities						
Small Business Administration (SBA)	$ 114	$ *	$ —	$ —	$ —	$ —
FFELP ABS	1,702	(1)	—	—	—	—
MBS:						
GSE residential	4,990	(86)	—	—	—	—
Government-guaranteed residential	288	(4)	—	—	—	—
Private-label residential	—	—	—	82	(1)	(55)
Total MBS	5,278	(90)	—	82	(1)	(55)
Total available-for-sale	$ 7,094	$ (91)	—	$ 82	$ (1)	$ (55)
Held-to-Maturity Securities						
State or local housing agency	$ —	$ —	$ —	$ 1	$ *	$ —
Small Business Administration (SBA)	58	(1)	—	1	*	—
MBS:						
GSE residential	70	(3)	—	2	*	—
MPF Shared Funding	190	(2)	—	7	(2)	—
Private-label residential	*	*	—	2,203	(82)	(923)
Private-label commercial	—	—	—	10	*	—
Total MBS	260	(5)	—	2,222	(84)	(923)
Total held-to-maturity	$ 318	$ (6)	—	$ 2,224	$ (84)	$ (923)

* Less than $1 million

Maturity Terms

The following table presents the amortized cost and fair value of AFS and HTM securities by contractual maturity for non-MBS. We have excluded MBS and Federal Family Education Loan Program (FFELP) ABS from this table because the expected maturities of these securities may differ from contractual maturities as borrowers of the underlying loans have the right to prepay.

	Available-for-Sale		**Held-to-Maturity**	
September 30, 2010	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Non-MBS by Year of Maturity -				
Due in one year or less	**$ 100**	**$ 101**	**$ 63**	**$ 63**
Due after one year through five years	**134**	**134**	**425**	**453**
Due after five years through ten years	**344**	**360**	**272**	**275**
Due after ten years	**493**	**534**	**121**	**123**
Total non-MBS	**$ 1,071**	**$ 1,129**	**$ 881**	**$ 914**

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

Other-Than-Temporary Impairment

Significant Inputs Used

Our housing price forecast assumed Core Based Statistical Area (CBSA) level current-to-trough home price declines ranging from 0 percent to 10 percent over the 3- to 9-month period beginning July 1, 2010. Thereafter, home prices are projected to remain flat in the first year, and to increase 1 percent in the second year, 3 percent in the third year, 4 percent in the fourth year, 5 percent in the fifth year, 6 percent in the sixth year and 4 percent in each subsequent year.

The following table presents the inputs we used to measure the amount of the credit loss recognized in earnings for those securities in which OTTI was determined during the third quarter of 2010. The classification (prime, Alt-A, and subprime) is based on the model used to run the estimated cash flows for each security, which may not necessarily be the same classification as at the time of origination.

	Prepayment Rates		Default Rates		Loss Severities		Credit Enhancement	
As of September 30, 2010	Weighted Average %	Range %	Weighted Average %	Range %	Weighted Average %	Range %	Weighted Average %	Range %
2006	9.1	9.1	37.8	37.8	43.9	43.9	16.8	16.8
2004 and prior	13.0	13.0	3.6	3.6	28.3	28.3	9.5	9.5
Total Prime	**9.4**	**9.1-13.0**	**35.3**	**3.6-37.8**	**42.7**	**28.3-43.9**	**16.2**	**9.5-16.8**
2006	10.2	5.6-14.5	58.0	41.2-73.3	46.9	44.2-54.7	9.6	0-18.4
Total Alt-A	**10.2**	**5.6-14.5**	**58.0**	**41.2-73.3**	**46.9**	**44.2-54.7**	**9.6**	**0-18.4**
2006	5.2	3.0-6.0	81.6	77.3-91.7	71.3	67.2-78.6	23.5	(8.2)-46.3
2005	4.2	4.1-4.6	84.2	81.0-85.4	69.4	65.5-70.9	26.4	16.8-30.0
2004 and prior	13.6	13.6	26.7	26.7	75.1	75.1	78.9	78.9
Total Subprime	**5.2**	**3.0-13.6**	**81.6**	**26.7-91.7**	**71.3**	**65.5-78.6**	**23.6**	**(8.2)-78.9**
Total private-label residential MBS	**7.3**	**3.0-14.5**	**71.0**	**3.6-91.7**	**60.7**	**28.3-78.6**	**17.7**	**(8.2)-78.9**

In the table above, a negative current credit enhancement exists when the remaining principal balance on the supporting collateral is less than the remaining principal balance of the security.

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

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Other-Than-Temporary Losses recognized

We have recognized OTTI as shown in the following table:

	Total OTTI	OTTI Related to Non-credit Losses [a]	OTTI Related to Credit Losses
For the three months ended September 30, 2010			
AFS securities	**$ —**	**$ 1**	**$ (1)**
HTM securities	**(2)**	**73**	**(75)**
Total OTTI impairment	**$ (2)**	**$ 74**	**$ (76)**
For the three months ended September 30, 2009			
AFS securities	$ (3)	$ 10	$ (13)
HTM securities	(99)	57	(156)
Total OTTI impairment	$ (102)	$ 67	$ (169)
For the nine months ended September 30, 2010			
AFS securities	**$ —**	**$ 6**	**$ (6)**
HTM securities	**(39)**	**102**	**(141)**
Total OTTI impairment	**$ (39)**	**$ 108**	**$ (147)**
For the nine months ended September 30, 2009			
AFS securities	$ (50)	$ (18)	$ (32)
HTM securities	(1,338)	(991)	(347)
Total OTTI impairment	$ (1,388)	$ (1,009)	$ (379)

[a] For securities that have a previous non-credit loss balance in AOCI, further credit-related impairment is first reclassified from non-credit loss into our statements of income, and accordingly, represents additional net credit loss. Therefore, depending on the magnitude of additional credit losses, and our population of securities being other-than-temporarily impaired, this can be a positive or a negative amount over a given period.

The following table shows the outstanding balances on securities that were other-than-temporarily impaired in the current quarter:

Balance as of September 30, 2010	**Unpaid Principal Balance**	**Amortized Cost**	**Carrying Value**	**Fair Value**
AFS securities	**$ 92**	**$ 67**	**$ 42**	**$ 42**
HTM securities	**1,528**	**1,145**	**796**	**932**
Total impaired securities	**$ 1,620**	**$ 1,212**	**$ 838**	**$ 974**

We recognized credit losses into earnings on securities in an unrealized loss position for which we do not expect to recover the entire amortized cost basis. Non-credit losses were recognized in AOCI since we do not intend to sell these securities and we believe it is more likely than not that we will not be required to sell these investments before recovery of their amortized cost basis. We did not recognize OTTI charges on our other MBS in unrealized loss positions because: we expect to recover the entire amortized cost basis, we do not intend to sell them, and we believe it is more likely than not that we will not be required to sell these securities prior to recovering their amortized cost basis.

The non-credit loss in AOCI on HTM securities will be accreted back into the HTM securities over their remaining lives as an increase to the carrying value, since we ultimately expect to collect these amounts. During the three and nine months ending September 30, 2010, we recorded accretion of $46 million and $141 million as compared to $77 million and $160 million for the three and nine months ended 2009.

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The following tables show the change in the cumulative amount of credit losses (recognized into earnings) on OTTI investment securities:

	2010			2009		
	AFS	**HTM**	**Total**	AFS	HTM	Total
For the three months ended						
Balance as of June 30,	**$ 45**	**$ 516**	**$ 561**	$ 22	$ 241	$ 263
Additions:						
Credit losses for which OTTI was not previously recognized	**—**	**—**	**—**	—	1	1
Additional credit losses on securities for which an OTTI charge was previously recognized	**1**	**75**	**76**	13	155	168
Reductions:						
None	**—**	**—**	**—**	—	—	—
Balance as of September 30,	**$ 46**	**$ 591**	**$ 637**	$ 35	$ 397	$ 432
For the nine months ended						
Balance as of December 31, of prior year	**$ 40**	**$ 450**	**$ 490**	$ 3	$ 50	$ 53
Additions:						
Credit losses for which OTTI was not previously recognized	**—**	**10**	**10**	6	66	72
Additional credit losses on securities for which an OTTI charge was previously recognized	**6**	**131**	**137**	26	281	307
Reductions:						
None	**—**	**—**	**—**	—	—	—
Balance as of September 30,	**$ 46**	**$ 591**	**$ 637**	$ 35	$ 397	$ 432

Variable Interest Entities

Our investments in variable interest entities include, but are not limited to, senior interests in private label mortgage backed securities (MBS), FFELP asset backed securities, and MPF Shared Funding certificates. We have evaluated our investments in variable interest entities as of September 30, 2010 to determine whether or not we are a primary beneficiary in any of them. The primary beneficiary is required to consolidate a variable interest entity. The primary beneficiary is the enterprise that has both of the following characteristics:

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

Based on these characteristics, we have determined that consolidation accounting is not required for our variable interest entities. Further, we have not provided financial or other support (explicitly or implicitly) during the periods presented in our financial statements to these variable interest entities that we were not previously contractually required to provide nor do we intend to provide such support in the future.

The carrying amounts and classification of the assets that relate to these variable interest entities are shown in investment securities in our statements of condition. We have no liabilities related to these variable interest entities. Our maximum loss exposure for our variable interest entities is limited to the carrying value. The guidance requires us to reassess whether consolidation is appropriate on a quarterly basis.

Refer to **Note 2 – Summary of Significant Accounting Policies** in our 2009 Form 10-K on page F-7 for a detailed description of our variable interest accounting policy that preceded the new FASB guidance that became effective January 1, 2010.

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

Note 6 – Advances

At September 30, 2010, we had advances outstanding to members at interest rates ranging from 0.14% to 8.29%.

The following table presents our advances by redemption terms:

September 30, 2010	Amount	Weighted Average Interest Rate	Next Maturity or Call Date	Next Maturity or Put Date
Due in one year or less	$ 4,349	2.59%	$ 4,700	$ 7,914
One to two years	2,412	2.99%	2,162	2,497
Two to three years	2,826	2.09%	2,826	2,848
Three to four years	1,565	2.85%	1,565	1,542
Four to five years	676	2.21%	676	664
More than five years	6,614	2.71%	6,513	2,977
Total par value	18,442	2.62%	$ 18,442	$ 18,442
Hedging and other adjustments	361			
Total advances	$ 18,803			

We have outstanding advances to members that may be prepaid at par on call dates without incurring prepayment or termination fees (callable advances). Other advances may only be prepaid by the advance borrower paying a make-whole fee (prepayment fee). At September 30, 2010 and December 31, 2009, we had callable advances outstanding totaling $401 million and $1.6 billion.

We also offer putable advances. With a putable advance, we have the right to terminate the advance at predetermined exercise dates at par, which we would typically exercise when interest rates increase, and the borrower may then apply for a new advance at the prevailing market rate. At September 30, 2010 and December 31, 2009, we had putable advances outstanding totaling $5.3 billion and $6.6 billion.

The following table presents our advances by interest-rate payment terms:

	September 30, 2010	December 31, 2009
Fixed-rate	$ 13,815	$ 17,132
Variable-rate	4,627	6,745
Total par value of advances	18,442	23,877
Hedging and other adjustments	361	271
Total advances	$ 18,803	$ 24,148

As of September 30, 2010, Harris National Association had advances that were 13% of our total par value of advances outstanding. At December 31, 2009, no advance borrower had greater than 10% of total advances outstanding.

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

Note 7 – MPF Loans

MPF Loans refer to conforming conventional and government fixed-rate mortgage loans secured by one-to-four family residential properties with maturities from five to 30 years or participations in such mortgage loans that are acquired under the MPF Program. Under the MPF Xtra product, we purchase MPF Loans from PFIs and concurrently sell them to Fannie Mae as a third-party investor.

MPF Loans Held in Portfolio

The following table presents information on MPF Loans held in our portfolio:

	September 30, 2010	December 31, 2009
Medium term (15 years or less):		
Conventional	$ 5,834	$ 7,226
Government	160	188
Total medium term	5,994	7,414
Long term (over 15 years):		
Conventional	10,974	12,888
Government	2,892	3,243
Total long term	13,866	16,131
Total par value	19,860	23,545
Agent fees, premium (discount)	75	96
Hedging adjustments	228	208
Receivable from future performance credit enhancement fees	3	3
Allowance for loan losses	(32)	(14)
Total MPF Loans held in portfolio, net	$ 20,134	$ 23,838

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Note 8 – Allowance for Loan Losses

Advances

We have not recorded any allowance for loan losses on our advances as we held collateral for all periods presented with an estimated value greater than the outstanding advances.

MPF Loans

We do not place MPF Loans over 90 days delinquent on non-accrual status when losses are not expected to be incurred, as a result of the PFI's assumption of credit risk on MPF Loans by providing credit enhancement protections. MPF Loans are categorized as impaired loans if they are on non-accrual status, considered collateral-dependent, and the fair value of the collateral is insufficient to recover the unpaid balance on the loan. Real estate owned (REO) includes assets that have been received in satisfaction of debt or as a result of actual foreclosures and in-substance foreclosures of MPF Loans. REO is recorded in other assets in the statements of condition.

The following table presents information on our non-performing assets:

As of	September 30, 2010	December 31, 2009
Non-accrual status	$ 92	$ 36
90+ days delinquent and still accruing interest	512	494
Impaired loans	83	25
Allowance for loan losses on impaired loans	(9)	(5)
Real estate owned	61	47

	September 30, 2010	September 30, 2009
For the three months ended		
Average balance impaired loans	$ 81	$ 18
Interest recognized on impaired loans[a]	1	—
For the nine months ended		
Average balance impaired loans	54	17
Interest recognized on impaired loans[a]	3	—

[a] Interest income is recognized on a cash basis only for impaired loans.

Our allowance for MPF Loan losses represents management's estimate of probable losses inherent in our MPF Loan portfolio. MPF Loans sold to Fannie Mae under the MPF Xtra product are not held in our portfolio and therefore are not included in our allowance for loan losses. The following table presents the changes in the allowance for loan losses on MPF Loans for the periods indicated:

	Three months		Nine months	
For the periods ended September 30,	**2010**	2009	**2010**	2009
Balance, beginning of period	**$ 24**	$ 9	**$ 14**	$ 5
Charge offs	**(1)**	*	**(2)**	(1)
Recoveries	**—**	—	**—**	—
Provision for credit losses	**9**	*	**20**	5
Balance, end of period	**$ 32**	$ 9	**$ 32**	$ 9

* Less than $1 million

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Note 9 – Derivatives and Hedging Activities

Managing Credit Risk on Derivatives

We are subject to credit risk due to the risk of nonperformance by counterparties to our derivative agreements. The degree of counterparty risk depends on the extent to which master netting arrangements are included in such contracts to mitigate the risk. We manage counterparty credit risk through credit analysis, collateral requirements, and limits on exposure to any individual counterparty. Based on credit analyses and collateral requirements, we do not anticipate any credit losses from our derivative agreements.

The contractual or notional amount of derivatives reflects our involvement in the various classes of financial instruments. The notional amount of derivatives does not measure our credit risk exposure, and our maximum credit exposure is substantially less than the notional amount. We require collateral agreements on derivatives that establish collateral delivery thresholds. Our potential loss due to credit risk as of the balance sheet date is based on the fair value of our derivative assets. This amount assumes that these derivatives would completely fail to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to us. In determining maximum credit risk, we consider accrued interest receivables and payables, and the legal right to offset derivative assets and liabilities by counterparty. At September 30, 2010 and December 31, 2009, our maximum credit risk as defined above was $223 million and $124 million.

We transact most of our derivatives with major financial institutions and major broker-dealers, of which some, or their affiliates, buy, sell, and distribute consolidated obligations.

We held collateral consisting of securities and cash with a fair value of $216 million and $122 million as of September 30, 2010 and December 31, 2009. Additionally, collateral with respect to derivatives with members includes collateral assigned to us, as evidenced by a written security agreement, and may be held by the member for our benefit.

The following table presents our outstanding notional balances and fair values of derivatives outstanding. At September 30, 2010, we had $11 million of derivatives outstanding where we acted as an intermediary for the benefit of our members. We had none at December 31, 2009.

	As of September 30, 2010			As of December 31, 2009		
	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives in hedge accounting relationships-						
Interest rate swaps	$ 42,381	$ 443	$ 2,126	$ 48,410	$ 130	$ 1,230
Interest rate swaptions	810	58	—	2,855	67	—
Interest rate caps or floors[b]	—	—	—	2,175	178	—
Total	43,191	501	2,126	53,440	375	1,230
Derivatives not in hedge accounting relationships-						
Interest rate swaps	32,355	441	602	15,762	174	123
Interest rate swaptions	13,680	428	—	10,802	158	—
Interest rate caps or floors[b]	2,408	301	—	500	60	—
Interest rate futures/TBA	—	—	—	405	—	—
Mortgage delivery commitments	1,061	4	4	140	—	—
Total	49,504	1,174	606	27,609	392	123
Total before adjustments	$ 92,695	1,675	2,732	$ 81,049	767	1,353
Netting adjustments		(1,452)	(1,452)		(643)	(643)
Cash collateral and related accrued interest		(216)	4		(80)	3
Total adjustments[a]		(1,668)	(1,448)		(723)	(640)
Total derivative assets and liabilities		$ 7	$ 1,284		$ 44	$ 713

[a] Amounts represent the effect of legally enforceable master netting agreements that allow us to settle positive and negative positions and also cash collateral held or placed with the same counterparties.

[b] In 2009, we reclassified $1.675 billion notional amount and $118 million of derivative assets from derivatives not in hedge accounting relationships to derivatives in hedge accounting relationships to properly classify interest rate floors being used in hedge accounting relationships.

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The following table presents the components of derivatives and hedging activities as presented in the statements of income.

	Three months		Nine months	
For the period ending September 30, 2010	**2010**	2009	**2010**	2009
Interest rate swaps	**$ (1)**	$ 20	**$ (4)**	$ 49
Other	**1**	—	**—**	(11)
Fair value hedge ineffectiveness net gain (loss)	**—**	20	**(4)**	38
Cash flow hedge ineffectiveness net gain (loss)	**2**	1	**3**	5
Interest rate swaps	**17**	171	**125**	633
Interest rate swaptions	**18**	(301)	**(159)**	(729)
Interest rate caps/floors	**31**	—	**57**	—
Interest rate futures/TBA	**—**	—	**1**	2
Net interest settlements	**(6)**	(5)	**5**	(13)
Economic hedges net gain (loss)	**60**	(135)	**29**	(107)
Total gains (losses) on derivatives and hedging activities	**$ 62**	$ (114)	**$ 28**	$ (64)

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

Fair Value Hedges

The following table presents, by type of hedged item, the gains (losses) on derivatives and the related hedged items in fair value hedging relationships and the impact of those derivatives on our net interest income.

	Gain (Loss) on Derivative	Gain (Loss) on Hedged Item	Net Fair Value Hedge Ineffectiveness	Effect of Derivatives on Net Interest Income[a]	Amortization of Terminated Hedge Adjustments[b]
Three months ended September 30, 2010					
Hedged item type -					
Available-for-sale investments	**$ (139)**	**$ 135**	**$ (4)**	**$ (28)**	**$ —**
Advances	**(58)**	**61**	**3**	**(54)**	**(8)**
MPF Loans held for portfolio	**(3)**	**4**	**1**	**(3)**	**(23)**
Consolidated obligation bonds	**137**	**(137)**	**—**	**81**	**(9)**
Total	**$ (63)**	**$ 63**	**$ —**	**$ (4)**	**$ (40)**
Three months ended September 30, 2009					
Hedged item type -					
Available-for-sale investments	$ (70)	$ 69	$ (1)	$ (9)	$ —
Advances	2	(1)	1	(90)	(11)
MPF Loans held for portfolio	(15)	13	(2)	(20)	1
Consolidated obligation bonds	88	(66)	22	46	(21)
Total	$ 5	$ 15	$ 20	$ (73)	$ (31)
Nine months ended September 30, 2010					
Hedged item type -					
Available-for-sale investments	**$ (379)**	**$ 366**	**$ (13)**	**$ (75)**	**$ —**
Advances	**(110)**	**119**	**9**	**(202)**	**(31)**
MPF Loans held for portfolio	**(39)**	**39**	**—**	**(45)**	**(19)**
Consolidated obligation bonds	**495**	**(495)**	**—**	**279**	**(26)**
Total	**$ (33)**	**$ 29**	**$ (4)**	**$ (43)**	**$ (76)**
Nine months ended September 30, 2009					
Hedged item type -					
Available-for-sale investments	$ (70)	$ 69	$ (1)	$ (9)	$ —
Advances	190	(187)	3	(252)	(25)
MPF Loans held for portfolio	44	(62)	(18)	(56)	4
Consolidated obligation bonds	(534)	588	54	139	(59)
Total	$ (370)	$ 408	$ 38	$ (178)	$ (80)

[a] Represents the effect of net interest settlements attributable to existing derivative hedging instruments on net interest income. The effect of derivatives on net interest income is included in the interest income/expense line item of the respective hedged item type.

[b] Amortization of terminated hedge adjustments is included in the interest income/expense line item of the respective hedged item type.

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

Cash Flow Hedges

The following table presents, by type of hedged item, the gains (losses) on derivatives and the related hedged items in cash flow hedging relationships and the impact of those derivatives on our net interest income:

		Effective Portion		Ineffective Portion	
	Recognized in AOCI	Recognized in Net Interest Income	Location of Gain (Loss) Reclassified	Recognized in Derivatives and Hedging Activities	Effect on Net Interest Income[a]
For the three months ended September 30, 2010					
Advances - interest rate floors	**$ —**	**$ 16**	**Interest income**	**$ —**	**$ —**
Discount notes - interest rate caps	**—**	**(3)**	**Interest expense**	**—**	**—**
Discount notes - interest rate swaps	**(237)**	**(2)**	**Interest expense**	**2**	**(79)**
Consolidated obligation bonds - interest rate swaps	**—**	**(1)**	**Interest expense**	**—**	**—**
Total gain (loss)	**$ (237)**	**$ 10**		**2**	**$ (79)**
For the three months ended September 30, 2009					
Advances - interest rate floors	$ 21	$ (4)	Interest income	$ —	$ 27
Discount notes - interest rate caps	—	(4)	Interest expense	—	—
Discount notes - interest rate swaps	(154)	(1)	Interest expense	—	(69)
Consolidated obligation bonds - interest rate swaps	—	(2)	Interest expense	—	—
Total gain (loss)	$ (133)	$ (11)		$ —	$ (42)
For the nine months ended September 30, 2010					
Advances - interest rate floors	**$ 8**	**$ 23**	**Interest income**	**$ —**	**$ 28**
Discount notes - interest rate caps	**—**	**(10)**	**Interest expense**	**—**	**—**
Discount notes - interest rate swaps	**(705)**	**(4)**	**Interest expense**	**3**	**(243)**
Consolidated obligation bonds - interest rate swaps	**—**	**(4)**	**Interest expense**	**—**	**—**
Total gain (loss)	**$ (697)**	**$ 5**		**$ 3**	**$ (215)**
For the nine months ended September 30, 2009					
Advances - interest rate floors	$ (70)	$ (10)	Interest income	$ —	$ 73
Discount notes - interest rate caps	—	(12)	Interest expense	—	—
Discount notes - interest rate swaps	176	(3)	Interest expense	5	(158)
Consolidated obligation bonds - interest rate swaps	—	(6)	Interest expense	—	—
Total gain (loss)	$ 106	$ (31)		$ 5	$ (85)

[a] Represents the effect of net interest settlements attributable to open derivative hedging instruments on net interest income. The effect of derivatives on net interest income is included in the interest income/expense line item of the respective hedged item type.

We expect that $31 million of net deferred cash flow hedging adjustment gains currently recorded in AOCI as of September 30, 2010, will be recognized as an increase to earnings over the next 12-month period. The maximum length of time over which we are hedging our exposure to the variability in future cash flows for forecasted transactions, excluding those forecasted transactions related to the payment of variable interest on existing financial instruments, is 10 years.

Financial Statement Impact and Additional Financial Information

Our derivative instruments contain provisions that may require us to post additional collateral with counterparties if there is deterioration in our credit rating. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on September 30, 2010 is $1.3 billion for which we have posted collateral of $1.2 billion in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on September 30, 2010, we would have been required to post up to an additional $57 million of collateral to our counterparties.

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Note 10 – Consolidated Obligations

The following table summarizes our consolidated obligation discount notes outstanding (terms ranging from one day to one year in length) and our consolidated obligation bonds that had a contractual maturity at issuance of less than 12 months.

	Discount Notes		Short-Term Consolidated Obligation Bonds	
	September 30, 2010	December 31, 2009	**September 30, 2010**	December 31, 2009
Unpaid principal balance outstanding	**$ 24,266**	$ 22,144	**$ 4,290**	$ 1,630
Carrying value outstanding	**$ 24,254**	$ 22,139	**$ 4,290**	$ 1,630
Weighted average contractual rate at period-end	**0.21%**	0.19%	**0.37%**	0.62%
Daily average outstanding for the year-to-date period	**$ 22,482**	$ 35,610	**$ 3,143**	$ 2,765
Weighted average contractual rate for the year-to-date period	**0.19%**	0.33%	**0.31%**	1.65%
Maximum outstanding at any month-end during the year-to-date period	**$ 27,030**	$ 43,018	**$ 5,230**	$ 4,670

The following table presents interest rate payment terms at the time of issuance for the types of consolidated obligation bonds for which we are the primary obligor.

Consolidated Obligation Bonds	**September 30, 2010**	December 31, 2009
Non-callable	**$ 34,207**	$ 37,123
Callable	**20,859**	21,619
Total par value	**55,066**	58,742
Bond premium (discount), net	**—**	3
Hedging adjustments	**(3)**	(524)
Fair value option adjustments	**14**	4
Total	**$ 55,077**	$ 58,225

The following table summarizes consolidated obligation bonds for which we are the primary obligor by redemption terms:

September 30, 2010	**Contractual Maturity**	**Average Interest Rate**	**Next Maturity or Call Date**
Due in one year or less	**$ 13,577**	**2.00%**	**$ 29,959**
One to two years	**8,458**	**3.06%**	**7,888**
Two to three years	**11,077**	**2.90%**	**6,124**
Three to four years	**6,489**	**3.75%**	**4,084**
Four to five years	**5,172**	**2.33%**	**905**
More than five years	**10,293**	**4.31%**	**6,106**
Total par value	**55,066**	**3.01%**	**$ 55,066**
Hedging adjustments	**(3)**		
Fair value option adjustments	**14**		
Total	**$ 55,077**		

Note 11 – Subordinated Notes

Subordinated notes are unsecured obligations and rank junior in priority of payment to our senior liabilities. Senior liabilities include all of our existing and future liabilities, including deposits, consolidated obligations for which we are the primary obligor, and consolidated obligations of the other FHLBs (for which we are jointly and severally liable). For further description of our subordinated notes see **Note 16** on page F-35 in our 2009 Form 10-K.

We are permitted to include a percentage of the outstanding principal amount of the subordinated notes (the Designated Amount) in determining compliance with our regulatory capital and minimum regulatory leverage ratio requirements and in calculating our maximum permissible holdings of MBS, and unsecured credit, subject to 20% annual phase-outs beginning in the sixth year following issuance. Currently, 100% of the $1 billion outstanding subordinated notes are considered the Designated Amount, with the first 20% annual phase-out beginning on June 14, 2011.

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

Note 12 – Capital Stock and Mandatorily Redeemable Capital Stock

Regulatory capital is defined as the sum of the paid-in value of capital stock and mandatorily redeemable capital stock (together defined as regulatory capital stock) plus retained earnings. No members had concentrations greater than or equal to 10% of total regulatory capital stock at September 30, 2010 or December 31, 2009.

Minimum Capital Requirements

The regulatory capital ratio required by FHFA regulations for an FHLB that has not implemented a capital plan under the GLB Act is 4.0%. The Consent Cease and Desist Order (C&D Order) we entered into with the Finance Board on October 10, 2007, includes a minimum regulatory capital ratio of 4.5%, which currently supersedes the 4.0% regulatory requirement discussed above. In accordance with the C&D Order, we include the Designated Amount of subordinated notes in calculating compliance with this regulatory capital ratio. These ratios apply to us when our non-mortgage assets (defined as total assets less advances, acquired member assets, standby letters of credit, intermediary derivative contracts with members, certain MBS, and other investments specified by FHFA regulation) after deducting the amount of deposits and capital, are not greater than 11% of total assets. If the non-mortgage asset ratio is greater than 11%, FHFA regulations require a regulatory capital ratio of 4.76%. See **Minimum Capital Requirements** in **Note 19** on page F-39 in our 2009 Form 10-K for further description of our minimum capital requirements. Our non-mortgage asset ratio on an average monthly basis was above 11% at September 30, 2010 and December 31, 2009, thus we were subject to the 4.76% ratio.

The following table summarizes our regulatory capital plus Designated Amount of subordinated notes as a percentage of our total assets:

	Non-Mortgage Asset Ratio	Requirement in Effect		Actual	
		Ratio	Amount	Ratio	Amount
September 30, 2010	**20.84%**	**4.76%**	**$ 4,219**	**5.41%**	**$ 4,796**
December 31, 2009	16.68%	4.76%	4,192	5.11%	4,502

Under the C&D Order, we are also required to maintain an aggregate amount of regulatory capital stock plus the Designated Amount of subordinated notes of at least $3.600 billion. At September 30, 2010 and December 31, 2009, we had an aggregate amount of $3.829 billion and $3.794 billion of regulatory capital stock plus the Designated Amount of subordinated notes.

Mandatorily Redeemable Capital Stock

We reclassify capital stock from equity to mandatorily redeemable capital stock (MRCS), a liability on our statements of condition, when a member requests withdrawal from membership or its membership is otherwise terminated, such as when it is acquired by an entity outside of our district. In addition, we reclassify equity to MRCS when a member requests to redeem excess capital stock above their capital stock “floor” in connection with repayment of advances, as permitted under the C&D Order and further described in **Note 18 – Regulatory Actions** in our 2009 Form 10-K on page F-37.

The following table shows a reconciliation of the dollar amounts, along with the number of current and former members owning the related capital stock, in MRCS for the periods presented:

September 30, 2010	Member Count	Dollar Amount
MRCS at beginning of year	**37**	**$ 466**
Capital Stock reclassified from equity:		
Membership withdrawals	**4**	**1**
FDIC resolutions or other[a]	**10**	**44**
Capital Stock reclassified back to equity:		
Withdrawal rescissions	**—**	**—**
Net redemption of MRCS:		
Excess Capital Stock per C&D Order	**(3)**	*****
MRCS at end of period	**48**	**$ 511**

* Less than $1 million

[a] Includes five members for $40 million for FDIC resolutions that did not involve a merger with another member.

Under the terms of the C&D Order, as amended, except for redemptions above the member’s capital stock floor, any other capital stock repurchases or redemptions, including redemptions upon membership withdrawal or other termination, require approval of the Deputy Director, Division of FHLB Regulation of the FHFA (Deputy Director). We do not believe the denial of stock redemption requests affects the reclassification of mandatorily redeemable capital stock as a liability. Rather, this denial delays the timing of an eventual mandatory redemption.

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Note 13 - Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in AOCI for the periods indicated:

Gains (losses)	Net Unrealized on AFS	Noncredit OTTI on AFS	Net Unrealized on HTM[a]	Noncredit OTTI on HTM	Net Unrealized on Cash Flow Hedges	Post-Retirement Plans	Total
Balance December 31, 2008	$ 12	$ —	$ (76)	$ —	$ (576)	$ 1	$ (639)
January 1, 2009 cumulative effect adjustment[b]	—	(56)	—	(177)	—	—	(233)
Net unrealized gain (loss) non-credit	—	(44)	—	(1,272)	—	—	(1,316)
Net unrealized gain (loss) recognized in AOCI	603	10	—	—	106	—	719
Reclassification from AOCI to earnings	(19)	26	52	281	26	(2)	364
Accretion from OTTI non-credit to HTM asset	—	—	—	160	—	—	160
Balance September 30, 2009	$ 596	$ (64)	$ (24)	$ (1,008)	$ (444)	$ (1)	$ (945)
Balance December 31, 2009	**$ 580**	**$ (55)**	**$ (22)**	**$ (923)**	**$ (241)**	**$ 3**	**$ (658)**
Net unrealized gain (loss) non-credit	**—**	**—**	**—**	**(34)**	**—**	**—**	**(34)**
Net unrealized gain (loss) recognized in AOCI	**673**	**11**	**12**	**—**	**(697)**	**—**	**(1)**
Reclassification from AOCI to earnings	**—**	**6**	**—**	**136**	**(8)**	**—**	**134**
Accretion from OTTI non-credit to HTM asset	**—**	**—**	**—**	**141**	**—**	**—**	**141**
Balance September 30, 2010	**$ 1,253**	**$ (38)**	**$ (10)**	**$ (680)**	**$ (946)**	**$ 3**	**$ (418)**

[a] See Note 5 – Investments - Held-to-Maturity for details.
[b] See Note 3 – Adopted and Recently Issued Accounting Standards & Interpretations in our 2009 Form 10-K.

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

Note 14- Fair Value Accounting

The fair value amounts recorded on the statements of condition and presented in the note disclosures have been determined by us using available market information and our judgment of appropriate valuation methods. These estimates are based on pertinent information available to us at September 30, 2010 and December 31, 2009. Estimates of the fair value of advances with options, mortgage instruments, derivatives with embedded options and consolidated obligation bonds with options using the methods described below and other methods are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows, prepayment speed assumptions, expected interest rate volatility, possible distributions of future interest rates used to value options, and the selection of discount rates that appropriately reflect market and credit risks. The use of different assumptions could have a material effect on estimated fair value. Although we believe our estimated fair values are reasonable, there are inherent limitations in any valuation technique. Therefore, these fair values are not necessarily indicative of the amounts that would be realized in current market transactions, although they do reflect our judgment of how a market participant would estimate the fair values. These estimates are susceptible to material near term changes because they are made as of a specific point in time.

The carrying values and fair values of our financial instruments are shown in the table below. This table does not represent an estimate of our overall market value as a going concern as it does not take into account future business opportunities and the net profitability of assets versus liabilities.

	September 30, 2010		December 31, 2009	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Cash and due from banks	**$ 22**	**$ 22**	$ 2,823	$ 2,823
Federal Funds sold and securities purchased under agreements to resell	**9,722**	**9,722**	2,715	2,715
Trading securities	**1,741**	**1,741**	1,370	1,370
Available-for-sale securities	**25,739**	**25,739**	20,019	20,019
Held-to-maturity securities	**12,062**	**12,949**	12,689	13,345
Advances [a]	**18,803**	**19,208**	24,148	24,419
MPF Loans held in portfolio, net	**20,134**	**21,206**	23,838	24,599
Accrued interest receivable	**203**	**203**	247	247
Derivative assets	**7**	**7**	44	44
Total Financial Assets	**$ 88,433**	**$ 90,797**	$ 87,893	$ 89,581
Financial Liabilities				
Deposits	**$ 1,001**	**$ 1,001**	$ 1,002	$ 1,002
Securities sold under agreements to repurchase	**1,200**	**1,217**	1,200	1,225
Consolidated obligations -				
Discount notes [b]	**24,254**	**24,257**	22,139	22,141
Bonds [c]	**55,077**	**57,930**	58,225	60,663
Accrued interest payable	**442**	**442**	376	376
Mandatorily redeemable capital stock	**511**	**511**	466	466
Derivative liabilities	**1,284**	**1,284**	713	713
Subordinated notes	**1,000**	**1,109**	1,000	1,011
Total Financial Liabilities	**$ 84,769**	**$ 87,751**	$ 85,121	$ 87,597

[a] Advances carried at fair value option: $4 million as of September 30, 2010 and $4 million at December 31, 2009.
[b] Consolidated obligation discount notes carried at fair value option: $5.2 billion as of September 30, 2010 and $0 at December 31, 2009.
[c] Consolidated obligation bonds carried at fair value option: $8.2 billion as of September 30, 2010 and $4.7 billion at December 31, 2009.

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Fair Value Hierarchy

We record trading securities, available-for-sale securities, derivative assets, and derivative liabilities as well as certain advances and certain consolidated obligations at fair value. The fair value hierarchy is used to prioritize the fair value valuation techniques as well as the inputs used to measure fair value for assets and liabilities carried at fair value on the statements of condition. The inputs are evaluated and an overall level for the fair value measurement is determined. This overall level is an indication of market observability of the fair value measurement for the asset or liability.

Outlined below is the application of the fair value hierarchy to our financial assets and financial liabilities that are carried at fair value or disclosed in this note.

Level 1—defined as those instruments for which fair value is determined from quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—defined as those instruments for which fair value is determined from quoted prices for similar assets and liabilities in active markets, or, if a valuation methodology is utilized, inputs are selected that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3—defined as those instruments for which inputs to the valuation methodology are unobservable and yet significant to the fair value measurement.

For instruments carried at fair value, we review the fair value hierarchy classifications on a quarterly basis. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities from one level to another. Such reclassifications are reported as transfers in/out at fair value as of the beginning of the quarter in which the changes occur. We had no such transfers during the nine months ended September 30, 2010 and 2009.

Valuation Techniques and Significant Inputs.

Assets for which fair value approximates carrying value. We use the carrying value approach to estimate fair value of cash and due from banks, Federal Funds sold, securities purchased under agreements to resell, and accrued interest receivable, due to their short-term nature and negligible credit risk.

Investment securities—non-MBS. We use either prices received from pricing services to determine the fair value, or we use an income approach based on a market-observable interest rate curve adjusted for a spread. We believe that both methodologies result in fair values that are reasonable and similar in all material respects based on the nature of the financial instruments being measured. The significant inputs include either the price received from a pricing service, or a market-observable interest rate curve with a discount spread, if applicable, as noted in the following table:

		Basis Point Range		
As of September 30, 2010	**Significant Inputs**	**High**	**Low**	**FV of Securities**
SBA - (AFS)	Pricing Service	n/a	n/a	$ 822
GSE - (Trading and AFS)	Pricing Service	n/a	n/a	926
FDIC- LGP (Trading and AFS)	Pricing Service	n/a	n/a	719
FFELP ABS - (AFS)	Pricing Service	n/a	n/a	2,539
FFELP ABS - (AFS)	LIBOR swap curve	101	55	6,436

Investment securities—MBS. Our valuation technique incorporates prices from up to four designated third-party pricing vendors, when available, for each MBS. These pricing vendors use methods that generally employ, but are not limited to benchmark yields, recent trades, dealer estimates, valuation models, benchmarking of like securities, sector groupings, and/or matrix pricing. We establish a price for each of our MBS using the median of the prices received. The prices are evaluated for reasonableness using specified tolerance thresholds. Prices within the established thresholds are generally accepted unless strong evidence suggests that using the median price would not be appropriate. Preliminary fair values that are outside the tolerance thresholds, or that management believes may not be appropriate based on all available information (including those limited instances in which only one price is received), are subject to further analysis including but not limited to a comparison to the prices for similar securities and/or to non-binding dealer estimates or the use of an internal model that is deemed most appropriate after consideration of all relevant facts and circumstances that a market participant would consider. As of September 30, 2010, substantially all of our MBS holdings were priced using this valuation technique. The relative lack of dispersion among the vendor prices received for each of the securities supports our conclusion that the final prices are reasonable estimates of fair value. Based on the lack of significant market activity for private-label residential MBS, the recurring and non-recurring fair value measurements for such securities as of September 30, 2010 are classified as Level 3 in the fair value hierarchy.

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The MBS pricing process allows us in limited circumstances to use inputs other than those received from the pricing services. The following table discloses the unpaid principal balance and fair value of these securities and the necessary information regarding significant inputs and characteristics, if any, that were considered in the determination of relevant inputs.

	Actual as of September 30, 2010			Significant Inputs	Characteristics	
	Unpaid Principal Balance	Fair Value	Weighted Average Price	Weighted Avg. Non-Binding Broker Price	Weighted Avg. Contractual Interest (%)	Weighted Avg. Contractual Maturity (yrs.)
Government-guaranteed residential MBS - (AFS)	$ 2,761	$ 3,017	109.25	108.65	4.15%	49.2

Advances. We determine the fair value of advances by calculating the present value of expected future cash flows (excluding the amount of the accrued interest receivable except for advances carried at fair value option on our statement of condition). In general, except where an advance product contains a prepayment option, we charge a prepayment fee which makes us financially indifferent to the borrower's decision to repay the advance prior to its maturity date. The fair value of advances does not assume prepayment risk.

The significant inputs used to determine fair value for those advances carried at fair value are:

- Consolidated Obligation curve (CO Curve). We utilize the CO Curve as the input to fair value advances because we price advances using the CO Curve as it best represents our cost of funds. The Office of Finance constructs a market-observable curve referred to as the CO Curve. This curve is constructed using the U.S. Treasury Curve as a base curve which is then adjusted by adding indicative spreads obtained largely from market observable sources. These market indications are generally derived from pricing indications from dealers, historical pricing relationships, market activity such as recent GSE trades, and other secondary market activity.

- Volatility assumption. Market-based expectations of future interest rate volatility implied from current market prices for similar options.

- Spread assumption. Refer to the following table under *subjectivity of estimates*.

Mortgage loans held for portfolio. The fair values of mortgage loans are determined based on quoted market prices for new mortgage-backed securities issued by U.S. government-sponsored enterprises (i.e. to-be-announced securities). The prices of the referenced mortgage-backed securities and the mortgage loans are highly dependent upon the underlying prepayment assumptions priced in the secondary market. Prices are then adjusted for differences in coupon, average loan rate, seasoning, settlements, and cash flow remittance between our mortgage loans and the referenced mortgage-backed securities. Changes in the prepayment rates often have a material effect on the fair value estimates. These underlying prepayment assumptions are susceptible to material changes in the near term because they are made at a specific point in time.

Accrued interest receivable and payable. The fair value approximates the recorded book value.

Derivative assets/liabilities. We base the fair values of derivatives with similar terms on market prices when available. However, active markets do not exist for many of our derivatives. Consequently, fair values for these instruments are estimated using standard valuation techniques such as discounted cash-flow analysis and comparisons to similar instruments. Estimates developed using these methods are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows, volatility of interest rates, and the selection of discount rates that appropriately reflect market and credit risks. The use of different assumptions could have a material effect on the fair value estimates. Because these estimates are made at a specific point in time, they are susceptible to material near-term changes. We are subject to credit risk in derivative transactions due to the potential nonperformance by the derivative counterparties. To mitigate this risk, we have entered into master netting agreements for interest-rate exchange agreements with all of our derivative counterparties. In addition, we have entered into bilateral security agreements with all of our active derivative counterparties that provide for delivery of collateral at specified levels based on their credit ratings. This limits our net unsecured credit exposure to those counterparties. We have evaluated the potential for the fair value of the instruments to be affected by counterparty credit risk and have determined that no adjustments were significant to the overall fair value measurements.

The fair values of each of our derivative assets and liabilities include accrued interest receivable/payable and cash collateral remitted to/received from counterparties; the fair values of the accrued interest receivable/payable and cash collateral approximate their carrying values due to their short-term nature. The fair values of derivatives are netted by counterparty pursuant to the provisions of each of the master netting agreements. If these netted amounts are positive, they are classified as an asset and if negative, they are classified as a liability.

A discounted cash flow analysis utilizes market-observable inputs (inputs that are actively quoted and can be validated to external sources). Inputs by class of derivative are as follows:

Interest-rate related:

- LIBOR Swap Curve.

- Volatility assumption market-based expectations of future interest rate volatility implied from current market prices for similar options.

- Prepayment assumption, if applicable.

- In limited instances, fair value estimates for interest-rate related derivatives are obtained from dealers and are corroborated by us using a pricing model and observable market data (e.g., the LIBOR Swap Curve).

Mortgage delivery commitments:

- TBA price. Market-based prices of TBAs are determined by coupon class and expected term until settlement.

Deposits. We determine the fair values of deposits by calculating the present value of expected future cash flows from the deposits and reducing this amount for accrued interest payable. The discount rates used in these calculations are the costs of deposits with similar terms.

Securities sold under agreements to repurchase. We determine the fair value of securities sold under agreements to repurchase using the income approach, which converts the expected future cash flows to a single present value using market-based inputs. The fair value also takes into consideration any derivative features, as applicable.

Consolidated obligations. We estimate fair values based on: the cost of raising comparable term debt, independent market-based prices received from a third-party pricing services, or internal valuation models. Our internal valuation models use standard valuation techniques and estimate fair values based on the following significant inputs for those consolidated obligations carried at fair value.

- CO Curve for fixed-rate, non-callable (bullet) consolidated obligations and a spread to the LIBOR swap curve for callable consolidated obligations based on price indications for callable consolidated obligations from the Office of Finance.

- Volatility assumption. Market-based expectations of future interest rate volatility implied from current market prices for similar options.

- Spread assumption. Refer to the following table under *subjectivity of estimates*.

Subordinated notes. We determine the fair values based on internal valuation models which use market-based yield curve inputs obtained from a third party.

Mandatorily redeemable capital stock. The fair value of capital stock subject to mandatory redemption is generally equal to its par value as indicated by contemporaneous member purchases and sales at par value. Our stock can only be acquired and redeemed at par value. It is not traded and no market mechanism exists for the exchange of stock outside our cooperative structure.

Subjectivity of estimates

The following table presents the significant inputs used to measure fair value:

As of September 30, 2010	Curve Description	Basis Point Range High	Basis Point Range Low
Advances			
Spread	CO curve	**30**	**30**
Consolidated obligations:			
Spread for callable	LIBOR Swap	**(8)**	**(11)**
Spread for non-callable	CO curve	**—**	**—**

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents, for each hierarchy level, our assets and liabilities that are measured at fair value on the statements of condition:

As of September 30, 2010	Level 1	Level 2	Level 3	Netting Adj. [a]	Total
Assets -					
Trading securities:					
GSE non-MBS	$ —	$ 804	$ —	$ —	$ 804
FDIC TLGP	—	534	—	—	534
GSE residential MBS	—	400	—	—	400
Governmental-guaranteed residential MBS	—	3	—	—	3
Total Trading Securities	—	1,741	—	—	1,741
AFS securities:					
SBA non-MBS	—	822	—	—	822
FFCB and TVA non-MBS	—	122	—	—	122
FDIC TLGP	—	185	—	—	185
FFELP ABS	—	8,975	—	—	8,975
Government-guaranteed residential MBS	—	3,017	—	—	3,017
GSE residential MBS	—	12,542	—	—	12,542
Private-label residential MBS	—	—	76	—	76
Total AFS Securities	—	25,663	76	—	25,739
Advances	—	4	—	—	4
Derivative assets - interest-rate related	—	1,639	36	(1,668)	7
Total assets at fair value	$ —	$ 29,047	$ 112	$ (1,668)	$ 27,491
Level 3 as a percent of total assets at fair value			0.4%		
Liabilities -					
Consolidated obligation discount notes	$ —	$ (5,212)	$ —	$ —	$ (5,212)
Consolidated obligation bonds	—	(8,189)	(85)	—	(8,274)
Derivative liabilities - interest-rate related	—	(2,732)	—	1,448	(1,284)
Total liabilities at fair value	$ —	$ (16,133)	$ (85)	$ 1,448	$ (14,770)
Level 3 as a percent of total liabilities at fair value			0.6%		

[a] Amounts represent the effect of legally enforceable master netting agreements and futures contracts margin accounts that allow us to settle positive and negative positions and also cash collateral held or placed with the same counterparties.

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As of December 31, 2009	Level 1	Level 2	Level 3	Netting Adj. [a]	Total
Assets -					
Trading securities:					
GSE non-MBS	$ —	$ 812	$ —	$ —	$ 812
FDIC-TLGP	—	536	—	—	536
GSE residential MBS	—	18	—	—	18
Government-guaranteed residential MBS	—	4	—	—	4
Total Trading Securities	—	1,370	—	—	1,370
AFS securities:					
SBA non-MBS	—	762	—	—	762
GSE and TVA non-MBS	—	82	—	—	82
FDIC-TLGP	—	102	—	—	102
FFELP ABS	—	9,322	—	—	9,322
GSE residential MBS	—	8,066	—	—	8,066
Government-guaranteed residential MBS	—	1,603	—	—	1,603
Private-label residential MBS	—	—	82	—	82
Total AFS Securities	—	19,937	82	—	20,019
Advances	—	4	—	—	4
Derivative assets - interest-rate related	—	744	23	(723)	44
Total assets at fair value	$ —	$ 22,055	$ 105	$ (723)	$ 21,437
Level 3 as a percent of total assets at fair value			0.5%		
Liabilities -					
Consolidated obligation bonds	$ —	$ (4,749)	$ (71)	$ —	$ (4,820)
Derivative liabilities - interest-rate related	—	(1,353)	—	640	(713)
Total liabilities at fair value	$ —	$ (6,102)	$ (71)	$ 640	$ (5,533)
Level 3 as a percent of total liabilities at fair value			1.3%		

[a] Amounts represent the effect of legally enforceable master netting agreements and futures contracts margin accounts that allow us to settle positive and negative positions and also cash collateral held or placed with the same counterparties.

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

Level 3 Disclosures for all Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The following table presents a reconciliation of all assets and liabilities that are measured at fair value on the statements of condition using significant unobservable inputs (Level 3):

	Level 3 Assets/Liabilities		
	AFS Private-label MBS - CMO	**Derivative Assets Interest-Rate Related**	**Consolidated Obligation Bonds**
At December 31, 2009	**$ 82**	**$ 23**	**$ (71)**
Gains (losses) realized and unrealized:			
Paydowns	**(18)**	**—**	**—**
Included in earnings in derivatives and hedging activities	**—**	**13**	**(14)**
Included in AOCI	**12**	**—**	**—**
At September 30, 2010	**$ 76**	**$ 36**	**$ (85)**
Total gains (losses) included in earnings attributable to instruments still held at period end	**$ —**	**$ 13**	**$ (14)**
At December 31, 2008	$ 104	$ 45	$ (91)
Gains (losses) realized and unrealized:			
Paydowns [a]	(20)	—	—
Included in earnings in derivatives and hedging activities	—	(15)	13
Included in AOCI	—	—	—
At September 30, 2009	$ 84	$ 30	$ (78)
Total gains (losses) included in earnings attributable to instruments still held at period end	$ —	$ (15)	$ 13

[a] We reclassified $20 million from "Included in AOCI" to "Paydowns" to properly reflect the impact of principal paydowns on fair value of our AFS Private-label MBS-CMO during the nine months ended September 30, 2009.

Assets Measured at Fair Value on a Nonrecurring Basis

We measure certain held-to-maturity securities and mortgage loans at fair value on a nonrecurring basis. These assets are subject to fair value adjustments in certain circumstances (for example, when there is evidence of OTTI).

The following table presents those investment securities, mortgage loans, and real estate owned by level within the fair value hierarchy at September 30, 2010 and December 31, 2009, which were recorded at fair value as the result of a nonrecurring change in fair value having been recorded in the three months ended September 30, 2010 and December 31, 2009:

	Measurements		
	Level 1	**Level 2**	**Level 3**
As of September 30, 2010			
Private-label residential MBS- HTM	**$ —**	**$ —**	**$ 27**
Impaired MPF Loans[a]	**—**	**—**	**74**
Real estate owned[a]	**—**	**—**	**22**
Total non-recurring assets	**$ —**	**$ —**	**$ 123**
As of December 31, 2009			
Private-label residential MBS - HTM	$ —	$ —	$ 135
Impaired MPF Loans[a]	—	—	17
Real estate owned[a]	—	—	52
Total non-recurring assets	$ —	$ —	$ 204

[a] If a current broker price opinion is not available, we estimate fair value based on current actual loss severity rates we have incurred on sales, excluding any estimated selling costs.

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

Fair Value Option

Effective July 1, 2010, we elected to adopt the fair value option for certain held-to-maturity MBS to enable their inclusion in regulatory liquidity requirements. Consistent with the original accounting transition guidance for fair value option accounting, these MBS will be reclassified from held-to-maturity securities to trading securities with subsequent changes in fair value immediately recognized into earnings. Also consistent with the original accounting transition guidance for fair value option accounting, election of the fair value option for these held-to-maturity MBS will not impact the remaining held-to-maturity investment portfolio. See our discussion in **Note 3 – Adopted and Recently Issued Accounting Standards & Interpretations** for further details.

We elected the fair value option for certain advances, discount notes, and short-term consolidated obligation bonds. Specifically, we elected the fair value option in cases where we hedge these financial instruments and hedge accounting may not be achieved because it may be difficult to pass prospective or retrospective effectiveness testing under derivative hedge accounting guidance in spite of the fact that the interest rate swaps used to hedge these financial instruments have matching terms. Accordingly, electing the fair value option allows us to better match the change in fair value of the advance, discount note, and short-term consolidated obligation bonds with the interest rate swap economically hedging it.

The following tables summarize the activity related to financial assets and liabilities for which we elected the fair value option during the three and nine months ended September 30, 2010 and 2009:

		Consolidated Obligation	
	Advances	Discount Notes	Bonds
For the three months			
Balance June 30, 2010	**$ 4**	**$ (3,209)**	**$ (10,520)**
New transactions elected for fair value option	**—**	**(2,002)**	**(4,030)**
Maturities and extinguishments	**—**	**—**	**6,359**
Net gain (loss) on instruments held at fair value	**—**	**—**	**1**
Change in accrued interest and other	**—**	**(1)**	**1**
Balance September 30, 2010	**$ 4**	**$ (5,212)**	**$ (8,189)**
Balance, June 30, 2009	$ —	$ —	$ (2,116)
New transactions elected for fair value option	—	—	(1,535)
Net gain (loss) on instruments held at fair value	—	—	(4)
Balance, September 30, 2009	$ —	$ —	$ (3,655)
For the nine months			
Balance December 31, 2009	**$ 4**	**$ —**	**$ (4,749)**
New transactions elected for fair value option	**—**	**(5,210)**	**(16,139)**
Maturities and extinguishments	**—**	**—**	**12,709**
Net gain (loss) on instruments held at fair value	**—**	**(2)**	**(7)**
Change in accrued interest and other	**—**	**—**	**(3)**
Balance September 30, 2010	**$ 4**	**$ (5,212)**	**$ (8,189)**
Balance, December 31, 2008	$ 201	$ —	$ —
New transactions elected for fair value option	—	—	(3,650)
Maturities and extinguishments	(200)	—	—
Net gain (loss) on instruments held at fair value	(1)	—	(5)
Balance, September 30, 2009	$ —	$ —	$ (3,655)

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For items recorded under the fair value option, the related contractual interest income and contractual interest expense is recorded as part of net interest income on the statements of income. The remaining change in fair value for instruments in which the fair value option has been elected is recorded in non-interest gain (loss) on instruments held under fair value option in the statements of income. The change in fair value does not include changes in instrument-specific credit risk. We determined that no adjustments to the fair values of our instruments recorded under the fair value option for instrument-specific credit risk were necessary as of September 30, 2010 or December 31, 2009.

The following table reflects the difference between the aggregate unpaid principal balance outstanding and the aggregate fair value for advances and consolidated obligation bonds for which the fair value option has been elected:

		Consolidated Obligation	
	Advances	**Discount Notes**	**Bonds**
September 30, 2010			
Unpaid principal balance	**$ 4**	**$ (5,216)**	**$ (8,175)**
Fair value	**4**	**(5,212)**	**(8,189)**
Fair value over (under) principal balance	**$ —**	**$ (4)**	**$ 14**
December 31, 2009			
Unpaid principal balance	$ 4	$ —	$ (4,745)
Fair value	4	—	(4,749)
Fair value over (under) principal balance	$ —	$ —	$ 4

None of the advances in the above table were 90 days or more past due or in non-accrual status.

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

Note 15 – Commitments and Contingencies

The following table shows our commitments outstanding but not yet incurred or recorded in our statements of condition.

As of	September 30, 2010	December 31, 2009
Unsettled consolidated obligation bonds	$ 1,200	$ 665
Standby letters of credit	1,054	1,114
Mortgage purchase commitments[a]	531	70
Unsettled consolidated obligation notes	500	250
Standby bond purchase agreements	230	234
Other commitments	15	8
Total	$ 3,530	$ 2,341

[a] These are commitments outstanding to purchase MPF Xtra mortgage loans from our PFIs. We have a concurrent commitment to resell these loans to Fannie Mae.

Credit-Risk Related Guarantees

Consolidated obligations are recorded on a settlement date basis. Once settled, we record a liability for consolidated obligations on our statements of condition for the proceeds we receive from the issuance of those consolidated obligations. For these issuances, we are designated the primary obligor. However, each FHLB is jointly and severally obligated for the payment of all consolidated obligations of all of the FHLBs. No liability has been recorded for the joint and several obligations related to other FHLBs' primary obligation on consolidated obligations.

The par value of outstanding consolidated obligations for the FHLBs was $806 billion and $931 billion at September 30, 2010 and December 31, 2009. Accordingly, should one or more of the FHLBs be unable to repay the consolidated obligations for which they are the primary obligor, each of the other FHLBs could be called upon to repay all or part of such obligations, as determined or approved by the FHFA.

Other Commitments and Contingencies

We may be subject to various legal proceedings arising in the normal course of business. After consultation with legal counsel, management is not aware of any such proceedings that might result in our ultimate liability in an amount that would have a material effect on our financial condition or results of operations.

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Note 16 – Transactions with Members and Other FHLBs

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

Members

The table below summarizes balances we had with our members as reported in the statements of condition. Amounts in these tables may change between periods presented, to the extent that our related parties change, based on changes in the composition of our Board membership.

	September 30, 2010	December 31, 2009
Assets -		
Advances	**$ 677**	$ 746
Interest receivable - advances	**3**	3
Liabilities -		
Deposits	**72**	—
Capital -		
Capital Stock	**96**	94

Other FHLBs

Transactions with other FHLBs are identified on the face of our **Financial Statements**, which begin on page 3.

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

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:

- our ability to stabilize our capital base, including changes to our capital structure from a new capital plan;
- the effect of the requirements of the C&D Order impacting capital stock redemptions and dividend levels;
- changes to interest rate risk management policies to be implemented in response to the C&D Order;
- the impact of new business strategies, including our ability to develop and implement business strategies focused on maintaining net interest income;
- our ability to successfully transition to a new business model and implement business process improvements;
- general economic and market conditions, including the timing and volume of market activity, inflation/deflation, employment rates, housing prices, the condition of the mortgage and housing markets and the effects on, among other things, mortgage-backed securities;
- 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 and mortgage-backed securities and the related credit enhancement protections;
- changes in our ability or intent to hold mortgage-backed securities to maturity;
- changes in mortgage interest rates and prepayment speeds on mortgage assets;
- membership changes, including the withdrawal of members due to restrictions on redemption of our capital stock or the loss of large members through mergers and consolidations;
- changes in the demand by our members for advances;

- changes in the financial health of our members, including the resolution of some members by the FDIC;
- competitive forces, including the availability of other sources of funding for our members;
- our ability to attract and retain skilled employees;
- changes implemented 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 be otherwise issued by our regulator;
- the impact of our efforts to simplify our balance sheet on our market risk profile and future hedging costs;
- changes in investor demand 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;
- instability in the credit and debt markets and the effect on future funding costs, sources and availability;
- political events, including legislative, regulatory, judicial, or other developments that affect us, our members, our counterparties and/or investors in consolidated obligations, including the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- 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;
- our ability to introduce new products and services to meet market demand and to manage successfully the risk associated with new products and services, including new types of collateral used to secure advances;
- 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 the Federal Deposit Insurance Corporation;
- the impact of new accounting standards and the application of accounting rules, including the impact of regulatory guidance on our application of such standards and rules;
- the volatility of reported results due to changes in the fair value of certain assets and liabilities;
- 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 this Form 10-Q on page 76 and in our 2009 Form 10-K on page 21. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events, changed circumstances or any other reason.

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Selected Financial Data

As of and for the three months ended	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Selected statements of condition data					
Total investments[a]	**$ 49,264**	$ 44,179	$ 40,319	$ 36,793	$ 34,902
Advances	**18,803**	21,103	21,291	24,148	25,457
MPF Loans held in portfolio, net	**20,134**	21,567	22,678	23,838	25,156
Total assets	**88,626**	87,743	86,069	88,074	86,903
Discount notes	**24,254**	18,458	17,739	22,139	31,367
Bonds	**55,077**	60,586	59,874	58,225	47,191
Total consolidated obligations, net	**79,331**	79,044	77,613	80,364	78,558
Mandatorily redeemable capital stock	**511**	488	470	466	435
Subordinated notes	**1,000**	1,000	1,000	1,000	1,000
Capital stock	**2,318**	2,331	2,332	2,328	2,364
Retained earnings	**967**	825	709	708	687
Accumulated other comprehensive income (loss)	**(418)**	(567)	(498)	(658)	(945)
Total capital	**2,867**	2,589	2,543	2,378	2,106
Other selected data					
Regulatory capital to assets ratio	**5.41%**	5.29%	5.24 %	5.11%	5.16 %
All FHLBs consolidated obligations outstanding (par)	**$ 806,006**	$ 846,481	$ 870,927	$ 930,617	$ 973,579
Number of members	**779**	785	790	792	803
Total employees (full and part time)	**308**	311	320	329	322
Advances as a percent of total assets	**21%**	24%	25 %	27%	29 %
MPF Loans as a percent of total assets	**23%**	25%	26 %	27%	29 %
Total investments as a percent of total assets	**56%**	50%	47 %	42%	40 %
Selected statements of income data					
Net interest income	**$ 204**	$ 188	$ 136	$ 129	$ 143
Other-than-temporary impairment losses	**(76)**	(27)	(44)	(58)	(169)
Other non-interest gain (loss)	**59**	23	(62)	(11)	(116)
Non-interest expense	**28**	26	28	39	31
Assessments	**42**	42	1	—	(23)
Net income (loss)	**117**	116	1	21	(150)
Selected ratios (annualized) and other data					
Return on average assets	**0.52%**	0.52%	0.00 %	0.09%	(0.67)%
Return on average equity	**17.61%**	17.82%	0.17 %	3.98%	(32.68)%
Average equity to average assets	**2.97%**	2.92%	2.76 %	2.37%	2.04 %
Non-interest expense to average assets	**0.13%**	0.12%	0.13 %	0.17%	0.14 %
Net interest yield on interest-earning assets	**0.97%**	0.88%	0.65 %	0.60%	0.64 %
Market value of equity to book value of equity	**81%**	85%	80 %	71%	58 %
Return on average Regulatory Capital spread to 3 month LIBOR	**12.14%**	12.53%	(0.13)%	2.14%	(17.07)%
MPF Xtra loan funding volume	**$ 1,300**	$ 389	$ 305	$ 493	$ 449

[a] Total investments includes Investment securities, Federal Funds sold, and securities purchased under agreements to repurchase.

Executive Summary

Highlights

- Market conditions impacted the Bank's financial results for the third quarter of 2010 in a manner similar to the previous quarter. As a result, we recorded net income of $117 million for the third quarter of 2010. Our net interest income continues to reflect our efforts to generate a consistent performance. Our results were, once again, positively impacted by higher-than-usual prepayment fees on advances and gains on derivative and hedging activities. Our retained earnings reached $967 million at September 30, 2010, the highest level in our history and a significant indication of our improving financial strength.

- Our earnings were reduced by credit-related other-than-temporary-impairment (OTTI) charges of $76 million on our private label MBS portfolio. OTTI charges increased this quarter as we estimated further deterioration in securities supported by subprime collateral.

- We are focused on maintaining a strong net interest margin in the future. However, it is reasonable to anticipate that the absolute level of net income may decline over time as the Bank positions for the future redemption of voluntary stock. As the impact of governmental programs on interest rate markets diminishes, we can also expect to incur expenses, rather than gains, related to our derivative and hedging activities. We cannot predict future levels of advance prepayment fees, but we do not expect them to continue at the level of the last two quarters, particularly if member resolutions subside.

- Advances at quarter-end were $18.8 billion, down 11% from the previous quarter-end, and 26% from a year ago. While the majority of our members have advances outstanding, many of our members are deposit-rich, and may also have reduced their lending activities in order to strengthen their capital positions, impacting demand for advances. Total assets were $88.6 billion at September 30, 2010.

- MPF Loans held in portfolio at quarter-end were $20.1 billion, down $1.5 billion (7%) from the previous quarter-end. We anticipate continuing reductions in the level of MPF Loans on our balance sheet as a result of our 2008 decision not to add MPF Loans to our balance sheet, placing the portfolio in run-off mode. MPF Xtra volumes, however, increased by $1.3 billion during the third quarter, building fee income to support our MPF activities.

- We continue to await action from our regulator, the FHFA, on our submitted, but not yet approved, application to convert our capital stock to a structure consistent with the Gramm-Leach-Bliley Act.

- Six of our members have been resolved since the end of the second quarter of 2010. Unfortunately, we anticipate that there will be more resolutions in the future. We have not experienced any credit losses in connection with these resolutions. Our approach to member credit and collateral is designed to provide us with sufficient collateral so that we are able to continue to support our members -- even if some members' conditions deteriorate. Our ability to be a reliable source of secured credit is an important part of our value proposition and one that has proved beneficial to members and their regulators.

- We remain in compliance with all of our regulatory capital requirements.

Summary of Financial Results

Net income for the third quarter of 2010 was $117 million. As has been the case in previous quarters, we demonstrated our ability to generate consistent net interest income. In addition, the quarter's net income was incremented by significant prepayment fees resulting from advance restructurings and member resolutions, as well as a gain from derivative and hedging activities. As a result of our net income, and a $25 million one-time adjustment to retained earnings due to new accounting guidance related to investments, as further discussed in **Note 3 – Adopted and Recently Issued Accounting Standards & Interpretations**, our retained earnings grew $142 million to $967 million.

Net interest income of $204 million was partially offset by OTTI charges against our private-label MBS portfolio of $76 million and other non-interest expenses. On October 15, 2010, we filed suit against several defendants regarding a substantial portion of our private-label MBS portfolio, as further discussed in **Legal Proceedings** on page 76 in this Form 10-Q. We contend that the quality of the loans that comprise the pools of securities cited in the complaints was inconsistent with the description in the pre-purchase documents prepared by the underwriters and issuers of the securities. Relying on the pre-purchase documents, we invested in these securities with the understanding that we were purchasing higher-quality instruments than turned out to be the case. We intend to hold the private-label MBS portfolio to maturity. We will continue to analyze these securities quarterly and assess, along with the other FHLBs, the degree to which future OTTI charges are appropriate.

The balance sheet at September 30, 2010, reflects reduced member borrowing, our transformation away from a business model built on acquiring MPF Loans, and changes in the make-up of our investment portfolio and funding as high-cost debt matures. Total assets increased $883 million (1%) to $88.6 billion. During 2010, we have invested in lower-credit-risk, simpler-to-hedge investment securities, primarily government agency MBS, to offset the reduced earnings from the paydowns in the MPF portfolio. As we have stated previously, we expect that the Bank's sensitivity to market rate movements will reduce, and the variability of income due to gains and losses on derivative and hedging activities will moderate over time, leading to more consistent profitability.

Net Interest Income: Strong Foundation and Higher-than-Usual Prepayment Fees
Net interest income was $204 million in the third quarter of 2010; year-to-date net interest income of $528 million is $87 million (20%) higher than the first nine months of 2009. Prepayment fees on advances had a net positive impact on net income of $27 million in the quarter. The fees resulted from member resolutions, as well as several members choosing to restructure their portfolios to take advantage of the low-rate environment. Gross prepayment fees of $45 million were reduced by $5 million in hedging adjustments and $13 million related to incremental assessments for AHP and REFCORP. While interest income was $700 million for the third quarter of 2010, consistent with the previous two quarters of 2010, interest expense for the quarter was $487 million, $90 million (16%) less than the same period in 2009 as high-cost debt matured. Retained earnings grew $142 million (17%) to $967 million, the highest level in the Bank's history.

OTTI Charges Related to Private-Label MBS Portfolio Continue
OTTI charges against our private-label MBS were $76 million in the third quarter of 2010. Our charges are based on our quarterly analysis of many factors, including payment patterns and housing values. Unfortunately, the potential for future OTTI charges remains.

Gains on Derivative and Hedging Activities Due to Favorable Market Rates
We recorded a gain of $62 million on derivatives and hedging activities in the third quarter of 2010. Year-to-date, we have recorded a gain on derivatives and hedging activities of $28 million compared to a loss in the first nine months of 2009 of $64 million. During the second and third quarters, market concerns about European sovereign debt and uncertainty about the speed of the recovery from the U.S. recession resulted in a flight to quality and reduction in interest rates. Due to our duration position, the reduction in rates resulted in mark-to-market gains on our hedging portfolio. To the extent volatility lessens, the costs of re-hedging will be relatively less expensive. However, as long as the MPF portfolio remains a relatively large component of the overall balance sheet, we anticipate fluctuations in gains or losses from derivative and hedging activities from quarter to quarter.

Attention to Non-Interest Expense to Achieve Appropriate Scale
Our non-interest expense for the quarter was $28 million, compared to $31 million in the third quarter of 2009. Year-to-date non-interest expense in 2010 was $82 million, $7 million (8%) lower than the $89 million for the first nine months of 2009. We have begun to see the benefits of our re-engineering efforts, as well as systems improvements, in the reduction of both staff levels and consultant fees. Effective management of operating expenses is crucial to the success of our new business model.

Balance Sheet Transition Continues
Advances at September 30, 2010, were $18.8 billion, down $2.3 billion (11%) from $21.1 billion at the end of the previous quarter. Some of the decrease is due to the repayment of advances of resolved members and subdued member demand for borrowings. In addition, some members' deposit levels are high, and others are managing their balance sheets to shore up capital measures. These trends are true across the FHLB System. We expect this downward trend to reverse when interest rates rise and member deposit levels fall. However, given the current uncertainties around the timing and strength of the economic recovery, these conditions could continue well into 2011. Despite high levels of liquidity for our members and in the markets generally, nearly 500 of our 779 members currently have advances outstanding at the Bank. We want to become part of our members' ongoing funding strategies, whether short-term or long-term. We added four new members during the third quarter; one of the new members has already borrowed from the Bank.

Total assets at September 30, 2010, were $88.6 billion, up $883 million (1%) from the previous quarter-end. Our investment portfolio was $39.5 billion at quarter-end; these investments will provide an “income bridge” while MPF Loans pay down and we build our advances business. We anticipate that the overall size of the Bank will fall substantially over time for several reasons. We expect the MPF portfolio to continue to pay down and other investments will mature. In addition, following the approval and successful execution of our capital stock conversion, we plan to redeem voluntary stock in accordance with that plan. We will operate at the scale sufficient to meet our members' needs.

Total MPF Loans held in portfolio were $20.1 billion at the end of the third quarter of 2010, a reduction of $1.5 billion (7%) from the previous quarter-end. We increased our allowance for loan loss from $24 million to $32 million consistent with the increase in our nonperforming and impaired MPF Loan amounts as further discussed in **Note 8 - Allowance for Loan Losses**. However, the loans in the MPF portfolio continue to perform well compared to national averages for similarly structured loans.

MPF Xtra volume was $1.3 billion in the third quarter of 2010. We implemented pricing changes midway through the third quarter that continue to have positive impact on the volume of loans sold into the MPF Xtra product through the Bank and other participating FHLBs. Since the inception of the product, 251 PFIs System-wide have funded more than $5.4 billion in loans. Unlike earnings from on-balance sheet MPF assets that rely on market spreads, the Bank is compensated for MPF Xtra loans through fee income. Incremental volume, therefore, has immediate benefits. We are examining new product options, and anticipate an expanded line of MPF Xtra products in the future, making it easier for even more members to take advantage of the access to the secondary market that the MPF Xtra product provides. We continue to view the MPF Program as a vital option for FHLB members across the country.

Member Credit Concerns
While many of our members continue to struggle to improve their performance, we have also seen several members successfully raise new capital and improve their performance and overall balance sheet health. We continue to work with members challenged by the current environment, carefully balancing the needs of individual members against the risk to overall member capital. Our credit and collateral policies and practices are designed to continue to make credit available while monitoring the value of the collateral pledged to support that credit. In the most serious situations, we coordinate with members' regulators to ensure that the appropriate level of credit is available without exposing all of our members to unnecessary risk.

Since the end of the second quarter, six of our members were resolved by their regulators; we had approximately $330 million in advances and other credit outstanding to these members at the time of their resolutions. So far in 2010, fifteen of our member institutions have been resolved by their regulators and 34 members have been resolved since 2009. Since the founding of the Bank, we have not experienced a credit loss on advances made to members, including those involved in resolutions.

Outlook
While we are pleased to report positive earnings for the quarter and strong retained earnings, we know that some of the contributing factors to those positive results could change. Notably, we expect the gain on derivative and hedging activities to reverse subject to changes in market conditions and higher-than-usual prepayment fees to fall. We believe that restructuring advances to take advantage of historically low interest rates can be advantageous for some members, but we cannot predict or control the level of prepayment fees resulting from those restructurings or from member resolutions.

We continue to focus on generating consistent net interest income and controlling expenses to scale the Bank appropriately to the borrowing needs of the District and this will, over time, impact our overall earnings potential.

We continue to work with our regulator to gain approval for our submitted plan to convert our capital stock to a structure consistent with the

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Gramm-Leach-Bliley Act. As we have indicated previously, we will notify members and proceed as expeditiously as possible with the conversion of our capital stock upon notice of approval. The stabilization of our capital base through conversion of our capital stock is a fundamental step in remediating the Bank and ultimately restoring liquidity to the stock. For discussion of how our implementation of a new capital plan may impact our members, see page 22 of the **Risk Factors** section in our 2009 Form 10-K.

As we continue our progress in transforming the business model of the Bank, our goals are to:

- Provide our members with short-term liquidity and long-term funding as integral components of their business strategies;
- Generate consistent, profitable results, while providing the benefits of our funding advantage to our members;
- Stabilize our capital base through a capital stock conversion;
- Resume an appropriate dividend;
- Grow retained earnings;
- Simplify the business model and operations of the Bank; and
- Restore full liquidity to our stock.

Results of Operations

Net Interest Income

Changes in Net Interest Income Due to Changes in Volume/Rates

The following table details the increase or decrease in interest income and expense due to volume or rate variances. In this analysis, any material change due to the combined volume/rate variance has been allocated pro-ratably to volume and rate. The calculation is based on a comparison of average balances and rates.

	For the three months			For the nine months		
For the periods ended September 30, 2010 versus September 30, 2009	Volume	Rate	Net Change	Volume	Rate	Net Change
Assets						
Federal Funds sold and securities purchased under agreements to resell	$ 1	$ 1	$ 2	$ 2	$ —	$ 2
Total investments	87	(45)	42	368	(195)	173
Advances	(37)	34	(3)	(147)	26	(121)
MPF Loans held in portfolio	(58)	(3)	(61)	(219)	(14)	(233)
Total interest-earning assets	(7)	(13)	(20)	4	(183)	(179)
Liabilities and Capital						
Interest bearing deposits	—	—	—	—	(1)	(1)
Securities sold under agreements to repurchase	—	(1)	(1)	—	(9)	(9)
Consolidated obligation discount notes	(11)	75	64	(46)	219	173
Consolidated obligation bonds	155	(308)	(153)	516	(960)	(444)
Total interest-bearing liabilities	144	(234)	(90)	470	(751)	(281)
Increase (decrease) in net interest income before provision for credit losses	$ (151)	$ 221	$ 70	$ (466)	$ 568	$ 102

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Net Interest Income Spread and Yield Analysis

The tables below detail certain components of net interest income before the provision for credit losses. Contractual interest is isolated to highlight the net interest income generated solely from investing and financing activities – that is, excluding hedging, advance prepayment fees, and MPF credit enhancement fees.

- Average balances are computed using amortized cost balances. They do not include changes in fair value that are reflected as a component of AOCI, nor do they include the effect of OTTI related to non-credit losses. Non-accrual MPF Loans held in portfolio are included in average balances used to determine the yield.
- Contractual interest yield/rate includes amortization of purchased premiums and discounts.
- MPF Loan agent fee premium amortization expense was $7 million and $12 million for the three months ended September 30, 2010 and 2009 and $21 million and $45 million for the nine months ended September 30, 2010 and 2009.
- Total interest and effective yield/rate includes all other components of interest, including net interest payments or receipts on derivatives, hedge accounting amortization, advance prepayment fees, and MPF credit enhancement fees. It includes the impact on net interest income related to prior hedging activities, which is also shown separately as hedge accounting amortization.

				Contractual Interest		
For the three months ended September 30, 2010	**Average Balance**	**Total Interest**	**Yield/ Rate**	**Income/ Expense**	**Rate**	**Hedge Accounting Amortization**
Federal Funds sold and securities purchased under agreements to resell	**$ 11,393**	**$ 6**	**0.21%**	**$ 6**	**0.21%**	**$ —**
Investments	**37,374**	**329**	**3.52%**	**357**	**3.82%**	**—**
Advances	**18,985**	**130**	**2.74%**	**130**	**2.74%**	**8**
MPF Loans held in portfolio	**20,450**	**235**	**4.60%**	**261**	**5.11%**	**(15)**
Total Interest Income on Assets	**88,202**	**700**	**3.17%**	**754**	**3.42%**	**(7)**
Deposits	**998**	**—**	**—%**	**—**	**—%**	**—**
Securities sold under agreements to repurchase	**1,200**	**4**	**1.33%**	**4**	**1.33%**	**—**
Consolidated obligation discount notes	**25,224**	**98**	**1.55%**	**15**	**0.24%**	**5**
Consolidated obligation bonds	**56,986**	**370**	**2.60%**	**441**	**3.10%**	**10**
Mandatorily redeemable capital stock	**496**	**—**	**—%**	**—**	**—%**	**—**
Subordinated notes	**1,000**	**15**	**6.00%**	**15**	**6.00%**	**—**
Total Interest Expense on Liabilities	**85,904**	**487**	**2.27%**	**475**	**2.21%**	**15**
Net interest yield on interest earning assets	**$ 88,202**	**$ 213**	**0.97%**	**$ 279**	**1.27%**	**$ (22)**
For the three months ended September 30, 2009						
Federal Funds sold and securities purchased under agreements to resell	$ 8,815	$ 4	0.18%	$ 4	0.18%	$ —
Investments	28,656	287	4.01%	297	4.15%	—
Advances	26,199	133	2.03%	198	3.02%	(16)
MPF Loans held in portfolio	25,411	296	4.66%	322	5.07%	1
Total Interest Income on Assets	89,081	720	3.23%	821	3.69%	(15)
Deposits	1,221	—	—%	—	—%	—
Securities sold under agreements to repurchase	1,200	5	1.67%	5	1.67%	—
Consolidated obligation discount notes	38,354	103	1.07%	99	1.03%	4
Consolidated obligation bonds	43,976	454	4.13%	409	3.72%	22
Mandatorily redeemable capital stock	432	—	—%	—	—%	—
Subordinated notes	1,000	15	6.00%	15	6.00%	—
Total Interest Expense on Liabilities	86,183	577	2.68%	528	2.45%	26
Net interest yield on interest earning assets before provision for credit losses	$ 89,081	$ 143	0.64%	$ 293	1.32%	$ (41)

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For the nine months ended September 30, 2010	Average Balance	Total Interest	Yield/ Rate	Contractual Interest Income/ Expense	Contractual Interest Yield/ Rate	Accounting Amortization
Federal Funds sold and securities purchased under agreements to resell	**$ 9,466**	**$ 13**	**0.18%**	**$ 13**	**0.18%**	**$ —**
Investments	**35,966**	**957**	**3.55%**	**1,032**	**3.82%**	**—**
Advances	**20,672**	**361**	**2.33%**	**428**	**2.76%**	**(8)**
MPF Loans held in portfolio	**21,647**	**751**	**4.62%**	**832**	**5.12%**	**(19)**
Total Interest Income on Assets	**87,751**	**2,082**	**3.16%**	**2,305**	**3.50%**	**(27)**
Deposits	**916**	**—**	**—%**	**—**	**—%**	**—**
Securities sold under agreements to repurchase	**1,200**	**13**	**1.44%**	**13**	**1.44%**	**—**
Consolidated obligation discount notes	**22,482**	**289**	**1.71%**	**32**	**0.19%**	**14**
Consolidated obligation bonds	**59,450**	**1,189**	**2.67%**	**1,438**	**3.22%**	**30**
Mandatorily redeemable capital stock	**481**	**—**	**—%**	**—**	**—%**	**—**
Subordinated notes	**1,000**	**43**	**5.73%**	**43**	**5.73%**	**—**
Total Interest Expense on Liabilities	**85,529**	**1,534**	**2.39%**	**1,526**	**2.38%**	**44**
Net interest yield on interest earning assets	**$ 87,751**	**$ 548**	**0.83%**	**$ 779**	**1.18%**	**$ (71)**
For the nine months ended September 30, 2009						
Federal Funds sold and securities purchased under agreements to resell	$ 7,804	$ 11	0.19%	$ 11	0.19%	$ —
Investments	24,482	784	4.27%	794	4.32%	—
Advances	29,744	482	2.16%	670	3.00%	(36)
MPF Loans held in portfolio	27,849	984	4.71%	1,053	5.04%	4
Total Interest Income on Assets	89,879	2,261	3.35%	2,528	3.75%	(32)
Deposits	1,143	1	0.12%	1	0.12%	—
Securities sold under agreements to repurchase	1,200	22	2.44%	22	2.44%	—
Consolidated obligation discount notes	37,542	274	0.97%	259	0.92%	15
Consolidated obligation bonds	45,181	1,475	4.35%	1,392	4.11%	64
Mandatorily redeemable capital stock	422	—	—%	—	—%	—
Subordinated notes	1,000	43	5.73%	43	5.73%	—
Total Interest Expense on Liabilities	86,488	1,815	2.80%	1,717	2.65%	79
Net interest yield on interest earning assets before provision for credit losses	$ 89,879	$ 446	0.66%	$ 811	1.20%	$ (111)

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The following is a reconciliation of total interest to contractual interest as presented in the above net interest income and spread analysis.

	Three months		Nine months	
For the periods ending September 30,	**2010**	2009	**2010**	2009
Contractual interest income:	**$ 754**	$ 821	**$ 2,305**	$ 2,528
Net interest settlement income -Derivatives	**(84)**	(93)	**(294)**	(245)
Prepayment fees - Advances	**45**	13	**115**	27
Credit enhancement fees - MPF	**(3)**	(5)	**(12)**	(17)
Other - MPF	**(5)**	(1)	**(5)**	—
Hedge Accounting amortization - Advances	**8**	(16)	**(8)**	(36)
Hedge Accounting amortization - MPF	**(15)**	1	**(19)**	4
Total interest income	**700**	720	**2,082**	2,261
Contractual interest expense:	**475**	528	**1,526**	1,717
Net interest settlement expense -Derivatives	**(3)**	23	**(36)**	19
Hedge Accounting amortization - Notes	**5**	4	**14**	15
Hedge Accounting amortization - Bonds	**10**	22	**30**	64
Total interest expense	**487**	577	**1,534**	1,815
Net interest income before provision for credit losses	**$ 213**	$ 143	**$ 548**	$ 446

Net interest income is the difference between interest income that we receive on our interest earning assets, the interest expense we pay on interest bearing liabilities, the net interest paid or received on interest rate swaps that are accounted for as fair value or cash flow hedges, amortization of premiums, discounts and hedge basis adjustments, advance prepayment fees, and MPF credit enhancement fees.

Our efforts to generate consistent net interest income continued to show results in the third quarter. Net interest income in the third quarter increased over previous quarters. Generating and maintaining consistent net interest income is a key component to our successful transition to a business model focused on advances rather than the acquisition of MPF Loans. While interest income declined, our funding costs declined by an even greater amount for the three and nine months ended September 30, 2010 compared to the same periods in 2009:

- We replaced a portion of the maturities and prepayments of advances and mortgage assets with investment securities that we believe have low credit and market risk.

- Compared to prior year periods, we lengthened the term on our debt issuances as spreads to LIBOR contracted from the wider spreads experienced during the financial crisis last year, and longer-term callable consolidated obligation bonds became more favorable than shorter-term discount notes on a relative cost basis. However, in the third quarter of 2010 we issued primarily shorter term discount notes to meet our funding needs, as compared to the first half of 2010 where we relied more heavily on longer term bonds. Interest rates and market demand made shorter term debt more economically advantageous in the third quarter. We can not predict if or when this trend will continue or reverse.

In addition, the decrease in interest income was due to the following:

- Interest income from advances declined primarily as a result of decreased member demand for our advances. Contractual yields on our advances were also marginally lower, reflecting declining market rates on new and rolled-over advances. However, total yields on advances which include hedging adjustments and prepayment fees increased compared to the prior year periods, as this year's results included unusually high prepayment activity.

- As in the second quarter, we experienced higher than usual prepayment fees on advances that are included in the total yield on advances. For the third quarter of 2010, we recorded $45 million of prepayment fee income that was included in total interest income from advances, partially offset by the recognition of previously deferred hedge adjustments of $5 million, which was also recorded in interest income on advances. For the nine months of 2010, these amounts were $115 million in prepayments fees offset by $22 million in related hedging charges. Compared to 2010, we did not have significant prepayment fees in 2009. These prepayments fees are primarily related to FDIC resolutions, thus we can not predict the extent to which they may continue to occur in future periods.

- Interest income from MPF Loans continued to decline along with our overall MPF Loan balance outstanding during 2010. Except for immaterial amounts of MPF Loans to support affordable housing, we are no longer acquiring MPF Loans for investment, and thus we expect continued run-off of our MPF Loan portfolio.

- We hedge our duration and convexity profile by using a combination of derivatives placed in hedge accounting relationships. As our duration and convexity profile changed over time as MPF Loan prepayments increased or decreased, certain hedge accounting relationships were de-designated. This has resulted in fair value hedging adjustments of consolidated obligations and MPF Loans as well as amounts related to cash flow hedges being deferred in other comprehensive income and amortized as negative yield adjustments to the underlying assets or liabilities still outstanding or cash flows being hedged. This amortization continued to negatively impact our net interest income as noted in the preceding tables.

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Non-Interest Gain (Loss)

	Three months		Nine months	
For the periods ended September 30,	**2010**	2009	**2010**	2009
OTTI impairment charges, credit portion	**$ (76)**	$ (169)	**$ (147)**	$ (379)
Trading securities	**(5)**	—	**(8)**	(11)
Sale of available-for-sale securities	**—**	—	**—**	19
Derivatives and hedging activities	**62**	(114)	**28**	(64)
Instruments held at fair value option	**(1)**	(4)	**(9)**	(6)
Early extinguishment of debt	**—**	—	**—**	(5)
Other, net -				
MPF Xtra and administration fees	**3**	2	**6**	5
All other	**—**	—	**3**	3
Total non-interest gain (loss)	**$ (17)**	$ (285)	**$ (127)**	$ (438)

Other-Than-Temporary Impairment

Our 2010 OTTI charges resulted primarily from an increase in projected losses on the collateral underlying certain private-label residential MBS. The reduction in credit losses attributable to OTTI compared with a year ago primarily reflects a slower decline of credit quality and certain factors affecting the expected performance of the mortgage loans underlying our private-label MBS, such as home prices, payment patterns, and unemployment rates.

We actively monitor the credit quality of our MBS. It is not possible to predict whether we will have additional OTTI charges in the future because that will depend on many factors, including economic, financial market and housing market conditions and the actual and projected performance of the loan collateral underlying our MBS. If delinquency and/or loss rates on mortgages loans continue to increase, and/or there is a further decline in residential real estate values, we could experience reduced yields or additional losses on these investment securities. Further, recent foreclosure moratoriums by several major mortgage servicers may result in loss severities beyond current expectations should such moratoriums be prolonged, potentially resulting in disruption to cash flows from impacted securities and further depression in real estate prices.

Following is a summary of the OTTI for the period ended.

	Three months			**Nine months**		
	Credit Losses	**Non-Credit Losses**	**Total Losses**	**Credit Losses**	**Non-Credit Losses**	**Total Losses**
For the periods ending September 30, 2010						
Securities newly impaired during the period	**$ —**	**$ —**	**$ —**	**$ (10)**	**$ (26)**	**$ (36)**
Securities previously impaired prior to current period	**(76)**	**74**	**(2)**	**(137)**	**134**	**(3)**
Total	**$ (76)**	**$ 74**	**$ (2)**	**$ (147)**	**$ 108**	**$ (39)**
For the periods ending September 30, 2009						
Securities newly impaired during the period	$ (1)	$ (58)	$ (59)	$ (265)	$ (1,003)	$ (1,268)
Securities previously impaired prior to current period	(168)	125	(43)	(114)	(6)	(120)
Total	$ (169)	$ 67	$ (102)	$ (379)	$ (1,009)	$ (1,388)

Derivatives and Hedging Activities

Non-interest income (loss) also includes net gains or losses from derivatives and hedging activities and net gains or losses on derivatives economically hedging trading securities. We hedge our duration and convexity profile by using a combination of derivatives placed in fair value, cash flow, or economic hedge relationships as defined under hedge accounting standards. We continually evaluate our hedging policies and practices in an effort to minimize the negative impact on future earnings, while maintaining what we believe is a prudent approach to managing our market risk.

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Details on our derivative and hedging activities, which includes hedge ineffectiveness and economic hedge activity, are as follows:

	September 30, 2010				September 30, 2009			
	Fair Value	Cash Flow	Economic	Total	Fair Value	Cash Flow	Economic	Total
Three months ended								
Hedged Item-								
Trading securities	$ —	$ —	$ (2)	$ (2)	$ —	$ —	$ (10)	$ (10)
AFS securities	(4)	—	—	(4)	(1)	—	—	(1)
Advances	3	—	—	3	1	—	—	1
MPF Loans	1	—	46	47	(2)	—	(130)	(132)
Consolidated obligations	—	2	16	18	22	—	6	28
Total derivatives and hedging activities	$ —	$ 2	$ 60	62	$ 20	$ —	$ (134)	(114)
Unrealized gain (loss) in fair value of:								
Advances under fair value option				—				—
Consolidated obligations under fair value option				(1)				(4)
Trading securities				(5)				—
Total				$ 56				$ (118)
Nine months ended								
Hedged Item-								
Trading securities	$ —	$ —	$ (7)	$ (7)	$ —	$ —	$ (11)	$ (11)
AFS securities	(13)	—	—	(13)	(1)	—	—	(1)
Advances	9	—	—	9	3	—	—	3
MPF Loans	—	—	(9)	(9)	(18)	—	(103)	(121)
Consolidated obligations	—	3	45	48	54	5	7	66
Total derivatives and hedging activities	$ (4)	$ 3	$ 29	28	$ 38	$ 5	$ (107)	(64)
Unrealized gain (loss) in fair value of:								
Advances under fair value option				—				(1)
Consolidated obligations under fair value option				(9)				(5)
Trading securities				(8)				(11)
Total				$ 11				$ (81)

Fair Value and Cash Flow Hedges

- The net ineffectiveness resulting from our fair value and cash flow derivatives in hedge accounting relationships for the nine months ended September 30, 2010 was a nominal loss as our hedged items and interest rate derivatives reacted relatively consistently to the markets. The majority of the losses resulted from the difference in the rate sensitivities between the interest rate derivatives used as hedges and the underlying assets or liabilities being hedged by those swaps.

Economic Hedges

- Economic hedges are hedges that do not receive hedge accounting treatment. Historically, we have used a combination of interest rate derivatives and callable consolidated obligation bonds to economically hedge the duration, convexity, and volatility risks associated with a portion of our MPF Loan portfolio. During the first quarter of 2010, interest rate volatility declined, which resulted in losses for the three months ended March 31, 2010. During the second and third quarters of 2010, market concerns about European sovereign debt and uncertainty about the speed of the recovery from the U.S. recession resulted in a flight to quality and reduction in interest rates. Due to our duration position, the reduction in rates and extended period of time over which rates have remained low has resulted in mark-to-market gains on our economic hedging portfolio. As markets return to more normalized levels, we expect these gains to reverse over a period of time. As long as the MPF portfolio remains a relatively large component of the overall balance sheet, we anticipate fluctuations in hedging expenses from quarter to quarter, although in the long run these hedging strategies will result in a net expense.

- We elected the fair value option for a portion of our consolidated obligations bonds and discount notes to economically hedge the interest rate risk associated with these instruments. The gains on economic hedging of these instruments was primarily attributed to a widening of spreads between agency debt and 3-month LIBOR. We held approximately $13.4 billion and $4.7 billion of consolidated obligations bonds and discount notes at full fair value under this strategy at September 30, 2010 and December 31, 2009.

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As noted in **Note 3 - Adopted and Recently Issued Accounting Standards & Interpretations**, we elected on July 1, 2010 the fair value option for certain held-to-maturity securities which were then reclassified to trading securities. As an effect of adoption, a $25 million gain was recorded as an adjustment to the quarter's beginning retained earnings. Unless these securities are sold prior to maturity or pay-down, we anticipate that over the next 1-3 years this gain will reverse through losses on trading securities in net income as the security nears its maturity price of par.

MPF Xtra and Administration Fees

We collect a fee for processing MPF Xtra loans which is deferred and recognized over the contractual life of the loans, or is accelerated upon prepayment of the loan as the loan no longer exists. We also collect a fee for the ongoing handling of traditional MPF Loans held by the other MPF Banks.

We processed $1.3 billion and $449 million of new MPF Xtra loan volume during the three months ended September 30, 2010 and 2009 and $2.0 billion and $2.8 billion for the equivalent nine month periods. On a year-to-date basis MPF Xtra volumes are down in 2010 compared to 2009 primarily due to the very low mortgage rate environment in early 2009 which saw a high level of refinancings. Rates then rose throughout the rest of 2009 and well into 2010. Starting in May this year as a result of the European sovereign debt crisis, mortgage rates have again fallen, which has contributed to an elevated level of MPF Xtra activity starting in late June. As a result, MPF Xtra volume in the third quarter of 2010 increased as the decline in mortgage rates resulted in a higher level of refinancings.

Since the inception of MPF Xtra in September, 2008, we have processed $5.4 billion of MPF Xtra loans, of which $4.5 billion came from our PFIs and the remainder from other MPF Banks' PFIs. As of September 30, 2010 we had deferred $10 million of revenue that will be recognized into income in future periods, compared to $7 million at December 31, 2009.

Non-Interest Expense

	Three months		Nine months	
For the periods ended September 30,	**2010**	2009	**2010**	2009
Compensation and benefits	**$ 14**	$ 15	**$ 43**	$ 45
Professional service fees	**2**	4	**7**	9
Amortization and depreciation of software and equipment	**4**	4	**11**	12
MPF Program expense	**2**	1	**5**	5
FHFA and Office of Finance expenses	**2**	1	**5**	4
Other expense	**4**	6	**11**	14
Total non-interest expense	**$ 28**	$ 31	**$ 82**	$ 89

We continue to make progress on our long-term strategic objective to reduce non-interest expenses, which were down 10% and 8% for the three and nine months ended September 30, 2010 from 2009. One factor in this decrease was a reduction in compensation and benefits and professional fees as we implemented our new core operating system software and outsourced our data center hardware to facilitate streamlining many aspects of our operations.As a result of these new systems, along with a capital lease related to hardware and equipment at our outsourced data center, we do not expect a corresponding decrease in amortization and depreciation expense of software and equipment, which we will be amortizing primarily over the next three years.

MPF Program expense excludes MPF Xtra fees we earn on the loans we resell to Fannie Mae and administration fees we receive from other MPF Banks to reimburse us for our costs to operate the program on their behalf. These fees are recorded in non-interest income over the life of the loan.

Assessments

AHP and REFCORP assessments are calculated on an annualized year-to-date basis as a percentage of income before assessments. Losses in one quarter may be used to offset income in other quarters, but only within the same calendar year. Losses for an entire year cannot be carried back or carried forward and used as a credit against other years.

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Statements of Condition

All comparisons in the following narrative in this section are based on the below table, comparing September 30, 2010 to December 31, 2009 unless otherwise stated.

As of:	September 30, 2010	December 31, 2009
Cash and due from banks	$ 22	$ 2,823
Federal Funds sold and securities purchased under agreement to resell	9,722	2,715
Investment securities	39,542	34,078
Advances	18,803	24,148
MPF Loans held in portfolio, net	20,134	23,838
Other	403	472
Total assets	$ 88,626	$ 88,074
Consolidated obligation discount notes	$ 24,254	$ 22,139
Consolidated obligation bonds	55,077	58,225
Subordinated notes	1,000	1,000
Other	5,428	4,332
Total liabilities	85,759	85,696
Capital stock	2,318	2,328
Retained earnings	967	708
Accumulated other comprehensive income (loss)	(418)	(658)
Total capital	2,867	2,378
Total liabilities and capital	$ 88,626	$ 88,074

Cash and due from banks

Cash and due from banks declined from year-end 2009 as financial markets stabilized and we were able to more favorably invest excess cash in Federal Funds sold and securities purchased under agreements to resell rather than direct deposits at the Federal Reserve.

Federal Funds sold and securities purchased under agreements to resell

As advances and MPF Loans paid down, we invested excess funds in Federal Funds sold and securities purchased under agreements to resell.

Investment Securities

Our strategy of reinvesting proceeds from the paydowns in mortgage assets into alternative investments has been essentially completed. The increase in investment securities consisted mostly of $5.9 billion in available-for-sale securities we acquired for our portfolio, primarily in GSE residential MBS. Of the $5.9 billion, $765 million were acquired in the third quarter.

We also experienced further credit deterioration within our private-label MBS portfolio, which resulted in additional write-downs in the carrying value of our investment securities. The gross amount of OTTI reduced the carrying value of our investment securities by $39 million in the first nine months. However, this was more than offset by unrealized gains in the market value of our AFS securities, which increased by $673 million over the same period.

At September 30, 2010 and December 31, 2009, we did not hold any collateralized debt obligation (CDO) securities. Our investment in MBS and related investments are limited by FHFA policy as discussed on page 8 of our 2009 Form 10-K. We inadvertently exceeded these limits by 2% of our total MBS investments as of October 31, 2010 and so notified the FHFA. We expect to return to full compliance through the divestiture of a portion of our trading and available-for-sale MBS investments.

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

Advances

The following table sets forth the outstanding par amount of advances of the largest five advance borrowers:

	Advance Borrowers	
As of September 30, 2010	**Par**	**%**
Harris National Association	**$ 2,375**	**13%**
M & I Marshall & Ilsley Bank	**1,741**	**9%**
State Farm, F.S.B.	**1,400**	**8%**
Bank of America, National Association	**1,251**	**7%**
Associated Bank, National Association	**1,101**	**6%**
All Other Members	**10,574**	**57%**
Total advances at par	**$ 18,442**	**100%**

Advances continued to decline in the third quarter and have declined $5.3 billion year to date. Some of the decrease is due to the repayment of advances of resolved members and subdued member demand for borrowings. In addition, some members' deposit levels are high, and others are managing their balance sheets to shore up capital measures. While members across our district have experienced reduced demand, most of our reduction in advances resulted from scheduled maturities of advances with two former members and one current member.

MPF Loans

Except for minimal amounts of mortgages to support affordable housing, we are no longer acquiring MPF Loans for our portfolio. Thus MPF Loans continue to pay down as part of our overall business strategy to focus on our traditional role of providing advances to our members. However, the rate of prepayments in 2010 is slower compared to the same nine month period in 2009, despite lower mortgage rates this year. Should market mortgage rates rise in future periods, we would expect prepayment rates to shrink even further. If rates fall further however, we would expect prepayment rates to increase. We cannot predict the extent to which future mortgage rates will rise or fall.

The following table summarizes MPF Loans held in portfolio. Medium term is for an initial contractual maturity of 15 years or less and long term of greater than 15 years.

As of September 30, 2010	**Medium Term**	**Long Term**	**Total**
MPF product type-Conventional loans -			
Original MPF	**$ 861**	**$ 1,989**	**$ 2,850**
MPF 100	**854**	**1,549**	**2,403**
MPF 125	**163**	**388**	**551**
MPF Plus	**3,956**	**7,048**	**11,004**
Government loans	**160**	**2,892**	**3,052**
Total par value of MPF Loans	**$ 5,994**	**$ 13,866**	**19,860**
Agent fees, premium (discount)			**75**
Hedging adjustments			**228**
Receivable from future performance credit enhancement fees			**3**
Allowance for loan losses			**(32)**
Total MPF Loans, net			**$ 20,134**

As of December 31, 2009	Medium Term	Long Term	Total
MPF product type-Conventional loans -			
Original MPF	$ 1,108	$ 2,411	$ 3,519
MPF 100	1,101	1,911	3,012
MPF 125	209	460	669
MPF Plus	4,808	8,106	12,914
Government loans	188	3,243	3,431
Total par value of MPF Loans	$ 7,414	$ 16,131	23,545
Agent fees, premium (discount)			96
Hedging adjustments			208
Receivable from future performance credit enhancement fees			3
Allowance for loan losses			(14)
Total MPF Loans held in portfolio, net			$ 23,838

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

Liquidity, Funding, & Capital Resources

Liquidity

For the period ending September 30, 2010, we have maintained a liquidity position in accordance with certain FHFA regulations and guidance, and with policies established by our Board of Directors. Further, based upon our excess liquidity position described below, we anticipate remaining in compliance with our liquidity requirements. See **Liquidity, Funding, & Capital Resources** on page 50 in our 2009 Form 10-K for a detailed description of our liquidity requirements.

We use three different measures of liquidity as follows:

Overnight Liquidity – For the first nine months of 2010, our policy required us to maintain overnight liquid assets at least equal to 3.5% of total assets. As of September 30, 2010, our overnight liquidity was $9.7 billion or 11% of assets, giving us an excess overnight liquidity of $6.7 billion.

Deposit Coverage – To support our member deposits, FHFA regulations require us to have an amount equal to the current deposits invested in obligations of the United States government, deposits in eligible banks or trust companies, or advances with maturities not exceeding five years. As of September 30, 2010, we had excess liquidity of $13.8 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 $17.4 billion as of September 30, 2010.

In addition to the liquidity measures discussed above, the FHFA requires all 12 FHLBs to maintain liquidity through short-term investments in an amount at least equal to anticipated cash outflows under two different scenarios. We are maintaining increased balances in short-term investments to comply with this requirement. We may fund certain overnight or shorter term investments and advances with discount notes that have maturities that extend beyond the maturities of the related investments or advances. For a discussion of how this may impact our earnings, see page 24 in the **Risk Factors** section of our 2009 Form 10 K.

Funding

In the third quarter of 2010 we relied primarily on shorter term discount notes to fund our financing needs, as compared to the first half of 2010 where we relied more on longer term consolidated obligation bonds. Interest rates and market demand made such shorter term debt more economically advantageous in the third quarter. Overall, total debt held fairly steady in the third quarter but for the year to date it declined in line with our decline in total assets.

The following table shows the net issuances (redemptions) by type of consolidated obligations for the periods shown:

	Three months		Nine months	
For the period ending September 30,	**2010**	2009	**2010**	2009
Net issued (redeemed) -				
Discount notes	**$ 5,789**	$ (8,937)	**$ 2,120**	$ 1,895
Bonds	**(5,659)**	6,096	**(3,691)**	(7,610)
Total consolidated obligations	**$ 130**	$ (2,841)	**$ (1,571)**	$ (5,715)

Conditions in Financial Markets

During the third quarter of 2010, the FHLBs maintained continual access to funding and adapted their debt issuance to meet the needs of market participants. The market continued to be focused on the still weak economic and employment data, the European sovereign debt crisis and the timing of future actions by the Federal Reserve Board's Federal Open Market Committee. As the European debt crisis stabilized, the advantageous funding costs experienced during the second quarter diminished and have moved toward more historical norms in the third quarter.

On July 21, 2010, The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. While this legislation will likely have a profound effect on the banking industry, the precise effects of its implementation on FHLB System access to and cost of funding are yet to be determined. For further discussion of the Dodd-Frank Act, see **Legislative and Regulatory Developments** on page 69 in this Form 10-Q.

Over the course of the third quarter of 2010, the FHLBs as a system priced $114 billion of consolidated obligation bonds, which was $24 billion less than during the second quarter of 2010. Aggregate weighted-average bond funding costs declined slightly during the third quarter of 2010 when compared to the second quarter of 2010. During the third quarter of 2010, the FHLBs relied heavily on swapped callable bonds (including callable step-up bonds) and negotiated bullet bonds. Similar to the FHLB System, of the $11.8 billion of consolidated obligation bonds we issued during the third quarter, $9.9 billion were swapped callable bonds.

Compared to the end of the second quarter of 2010, primary dealer inventories of agency discount notes and consolidated obligation bonds were mixed at the end of the third quarter of 2010. Since the end of the second quarter of 2010, agency discount note inventories decreased by $8 billion, to $29 billion, while agency consolidated obligation bond inventories increased $15 billion, to $72 billion. While our overall debt outstanding remained approximately the same from the end of the second to third quarter, our funding mix changed during the quarter in part in response to this change in demand by primary dealers. Our total outstanding consolidated obligation bonds decreased from $60.6 billion at the end of the second quarter to $55.1 billion at the end of the third quarter, due to maturities and calls. We replaced this longer-term funding with discount notes to increase our flexibility to benefit from any future improvements in long-term funding costs and opportunities, thereby resulting in an increase in discount notes from $18.5 billion at the end of the second quarter to $24.3 billion at the end of the third quarter.

Sources of Funding (Statements of Cash Flows)

During the nine months ending September 30, 2010, our operating activities provided net cash flows of $521 million. The net cash flows provided exceeded year to date income of $234 million primarily as a result of losses attributable to non-cash credit related OTTI charges and other net non-cash adjustments.

Investing activities used net cash flows of $1.7 billion reflecting our asset replacement strategy of purchasing AFS securities and purchases of long-term HTM securities as well as liquid investments in federal funds sold and securities purchased under agreements to resell that were only partially offset by the continued pay down of the MPF Loan portfolio and reductions in advances.

Financing activities used net cash flows of $1.6 billion primarily reflecting a decrease in consolidated obligation bonds partially offset by an increase in discount notes outstanding.

For further discussion of our sources of funding, see **Sources of Funding** on page 53 in our 2009 Form 10 K.

Capital Resources

For a description of our current capital rules, see **Current Capital Rules** on page 56 in our 2009 Form 10-K. For a description of our minimum regulatory leverage and other capital requirements, see **Note 12 – Capital Stock and Mandatorily Redeemable Capital Stock** to the financial statements. As of the date of this filing, we are in compliance with our regulatory leverage and other capital requirements.

GLB Act Requirements

We are required under the Gramm-Leach Bliley Act (GLB Act) to adopt a new capital plan. We continue discussions with the FHFA regarding our submitted, but not yet approved, capital stock conversion plan. We believe that stabilization of our capital base through conversion of our capital stock is a fundamental step in remediating the Bank and we are committed to doing so as soon as we are permitted to do so. We plan to notify members and proceed with converting our capital stock as expeditiously as possible upon receipt of regulatory approval. Once we implement a new capital plan and at the appropriate time when the C&D Order is terminated, we anticipate that our capital base may shrink in the future as members redeem their voluntary capital stock over a period of time of up to five years.

We anticipate that our new capital plan will provide for the conversion of our current capital stock to one or more classes of Class B capital stock with a five-year redemption period consistent with the requirements of the GLB Act. We cannot predict how an approved capital plan may impact members who have submitted withdrawal notices and not yet withdrawn from membership or former members that continue to hold capital stock**.** For a description of our capital requirements under the GLB Act, see **GLB Act Requirements** on page 57 of our 2009 Form 10-K. For a discussion of potential changes to our members' rights under a new capital plan, see page 21 of the **Risk Factors** section of our 2009 Form 10-K.

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

Capital

The following table reconciles our capital stock reported for regulatory purposes to the amount of capital reported in our statements of condition for the periods presented. Mandatorily Redeemable Capital Stock (MRCS) is included in the calculation of the regulatory capital and leverage ratios but is recorded as a liability in the statements of condition.

As of September 30, 2010	**Regulatory Capital Stock**		**MRCS**
Bank of America, National Association[a]	$ 230	8%	$ 230
One Mortgage Partners Corp.[b]	172	6%	—
Harris National Association	160	6%	—
M&I Marshall & Ilsley Bank	152	5%	—
PNC Bank, National Association[a]	146	5%	146
All other members	1,969	70%	135
Total regulatory capital stock	2,829	100%	
MRCS	(511)		$ 511
Capital stock	2,318		
Retained earnings	967		
Accumulated other comprehensive income (loss)	(418)		
Total GAAP capital	$ 2,867		
Regulatory capital stock	$ 2,829		
Designated Amount of subordinated notes	1,000		
Regulatory capital stock plus Designated Amount of subordinated notes	3,829		
Retained earnings	967		
Regulatory capital plus Designated Amount of subordinated notes	$ 4,796		
Voluntary capital stock	$ 1,399		

[a] Former members merged into these out-of-district institutions, which are not eligible for membership. Their capital stock was reclassified to MRCS at the time of the merger.
[b] One Mortgage Partners Corp. is a subsidiary of JPMorgan Chase & Co.

On a net basis, we had a $10 million decrease in capital stock from December 31, 2009 to September 30, 2010. We continue to issue our capital stock to new members or existing members seeking to take out additional advances at the par value of $100 per share and for the first nine months of 2010 our regulatory capital stock balance increased by $35 million. However, this was more than offset by an increase in our MRCS of $45 million from membership withdrawal or termination, primarily due to FDIC resolutions. For further details see **Note 12 - Capital Stock and Mandatorily Redeemable Capital Stock**.

The increase in total GAAP capital in 2010 to date was primarily due to our net income of $234 million, a $25 million increase in retained earnings due to the adoption of the fair value option for certain held-to-maturity securities as described in **Note 3 - Adopted and Recently Issued Accounting Standards & Interpretations**, and a reduction in our accumulated other comprehensive loss of $240 million as detailed in **Note 13 - Accumulated Other Comprehensive Income (Loss)**.

Under the terms of our C&D Order dated October 10, 2007 with the Finance Board, our capital stock repurchases and redemptions, including redemptions upon membership withdrawal or other membership termination, require prior approval of the Deputy Director, except as discussed below. Prior to the expiration of the six month notice period for voluntary withdrawals, and upon request from merging members, we will submit a request to the Deputy Director to approve related capital stock redemptions. From April 24, 2009 through September 30, 2010, the Deputy Director has denied requests of 21 members to redeem capital stock totaling $44 million in connection with membership withdrawals or other terminations. Other financial institutions that withdrew from membership or had their membership terminated did not submit specific requests to have their capital stock redeemed. We cannot predict when we will be permitted to resume such capital stock repurchases or redemptions.

On July 24, 2008, the Finance Board amended the C&D Order to allow us to redeem at par a member's capital stock which becomes excess capital stock above a member's capital stock "floor" (the amount of capital stock a member held as of the close of business at July 23, 2008 plus any required adjustments related to annual membership stock recalculations) in connection with the repayment of advances subject to certain conditions. During the nine months ended September 30, 2010, we redeemed less than $1 million in excess capital stock at par as permitted by the amendment to the C&D Order. For further discussion of how a member's capital stock floor is set, see **Current Capital Rules** on page 56 in our 2009 Form 10-K.

Retained Earnings & Dividends

Under the terms of the C&D Order, our dividend declarations are subject to the prior written approval of the Deputy Director. Although we currently have in effect a Retained Earnings and Dividend Policy, the policy has been effectively superseded by our regulatory requirements.

In addition to the restrictions under the C&D Order, we may not pay dividends if we fail to satisfy our liquidity requirements under the FHLB Act and FHFA regulations. See **Liquidity Measures** on page 51 in our 2009 Form 10-K.

While we continue to work toward our goals of generating consistent, profitable results, growing retained earnings and restoring an appropriate dividend, we cannot predict when we may resume paying dividends.

We had retained earnings of $967 million at September 30, 2010, an increase from $708 million at year-end 2009 due to our nine month net income of $234 million plus a $25 million cumulative effect adjustment recorded on July 1, 2010 when we adopted the fair value option for certain held-to-maturity mortgage-backed securities, as discussed in **Note 3 - Adopted and Recently Issued Accounting Standards & Interpretations**. Our retained earnings now exceed our unrealized losses in AOCI by $549 million compared to $50 million at year-end 2009. However, credit deterioration may continue to negatively impact our private-label MBS portfolio. We believe that future impairments of this portfolio are possible if unemployment rates, default, delinquency, or loss rates on mortgages continue to increase, or there is a further decline in residential real estate value. We cannot predict if or when such impairments will occur, or the impact such impairments may have on our retained earnings and capital position. See page 30 of the **Risk Factors** section of our 2009 Form 10-K.

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

Critical Accounting Policies and Estimates

The following table identifies our critical accounting policies and estimates and the page number where a detailed description of each can be found in our 2009 Form 10-K.

See **Note 3 – Adopted and Recently Issued Accounting Standards & Interpretations** to the financial statements for the impact of recently issued accounting standards on our financial results.

Other-Than-Temporary Impairment (OTTI) – Sensitivity Analysis

Base Case

Our housing price forecast assumed CBSA level current-to-trough home price declines ranging from 0 percent to 10 percent over the 3- to 9-month period beginning July 1, 2010. Thereafter, home prices are projected to remain flat in the first year, and to increase 1 percent in the second year, 3 percent in the third year, 4 percent in the fourth year, 5 percent in the fifth year, 6 percent in the sixth year and 4 percent in each subsequent year.

Adverse Case

This more stressful scenario was based on a housing price forecast that was 5 percentage points lower at the trough than the base case scenario, followed by a flatter recovery path. Under this scenario, current-to-trough home price declines were projected to range from 5 percent to 15 percent over the 3- to 9-month period beginning July 1, 2010. Thereafter, home prices were projected to remain unchanged from trough levels in each of the first and second years, and to increase 1 percent in the third year, 2 percent in each of the fourth and fifth years and 3 percent in each subsequent year.

The following table shows what the impact to net income from credit-related OTTI charges would have been under this adverse scenario. Classifications of MBS as prime, Alt-A, or subprime are made at the time of purchase, and may differ from the current performance characteristics of the instrument.

Three months ended September 30, 2010	**# of Securities Impaired**	**Balance**	**Credit-Related OTTI**
Base case actual			
Prime	**8**	**$ 605**	**$ (5)**
Alt-A	**4**	**92**	**(1)**
Subprime	**33**	**923**	**(70)**
Total private-label MBS	**45**	**$ 1,620**	**$ (76)**
Adverse scenario pro-forma			
Prime	**19**	**$ 1,568**	**$ (53)**
Alt-A	**5**	**156**	**(8)**
Subprime	**36**	**927**	**(121)**
Total private-label MBS	**60**	**$ 2,651**	**$ (182)**

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

Fair Values – Sensitivity Analysis

For securities that were impaired during the third quarter of 2010, the fair value determined under the fair value methodology and the fair value range we considered for our prime, subprime and Alt-A investment securities that are carried at fair value either on a nonrecurring or recurring basis, are as follows:

As of September 30, 2010	Fair Value	Range of Pricing Service Values Min	Range of Pricing Service Values Max
2006 AFS - Recurring	$ 74	$ 66	$ 84
2003 HTM - Non-Recurring	2	2	2
2005 HTM - Non-Recurring	14	13	15
2006 HTM - Non-Recurring	918	838	1,022
Total	$ 1,008	$ 919	$ 1,123

Allowance for MPF Loan Loss Assumptions

The credit loss severity rate assumption is the largest driver of our allowance for loan losses. The credit loss severity rate analysis looks at the MPF Loans held in our portfolio that have experienced a loss in the previous rolling 12 months. Additionally, the credit loss severity rate assumption was adjusted upward this quarter by examining the FHFA's Purchase-Only index, which we used to determine current housing price trends. The MPF Loan credit loss severity rate is calculated by allocating a portion of the total loss severity rate experienced by the **MPF Loans Credit Enhancement Structure** as described on page 75 in our 2009 Form 10-K, which includes both credit losses and periodic expenses, to the credit loss amount that is recognized for GAAP purposes. It should be noted that the credit loss severity rate is a rate which is calculated by factoring in the credit loss severity rate for pools of MPF Loans and the credit loss severity rate for impaired loans (i.e., collateral dependent loans), which adds a percentage for estimated selling costs. The credit loss severity rate rose substantially during this quarter, and has exhibited an increasing trend due to the current housing crisis. As of September 30, 2010, our total loss severity rate for the MPF Loans Credit Enhancement Structure was 25%, which includes a credit loss severity rate of 13.4%. Also refer to the **Credit Risk-MPF Loans** section on page 67 for further discussion.

Risk Management

Operational Risk

See **Risk Management** on page 66 in our 2009 Form 10-K for information regarding operational risk.

Credit Risk

Credit risk is the risk of loss due to default or non-performance of an obligor or counterparty. We are exposed to credit risk principally through:

- issuers/guarantors of investment securities
- unsecured short-term investments
- advances and commitments to make advances
- letters of credit
- MPF Loans
- mortgage insurance providers; and
- derivatives counterparties.

We have established policies and procedures to limit and help monitor our exposures to credit risk.

We extend credit to members on a fully secured basis and are subject to regulatory limits on the amount of credit that we may extend as well as on the types of underlying collateral that we may accept. We are also subject to certain regulatory limits on the amount of unsecured credit that we may have outstanding to any one counterparty or group of affiliated counterparties associated with Federal Funds sold, commercial paper and derivatives activity, which are based in part on our total regulatory capital. We are authorized to determine compliance with the unsecured credit limits based on the sum of our outstanding regulatory capital stock, retained earnings, and the Designated Amount of outstanding subordinated notes for any period that we are subject to the regulatory leverage ratio requirements as further discussed in **Note 12 – Capital Stock and Mandatorily Redeemable Capital Stock** to the financial statements.

Investments

We maintain a portfolio of investments for liquidity purposes and to provide additional earnings. We maintain a portfolio of short-term liquid assets (principally overnight and short-term Federal Funds sold and securities purchased under agreements to resell, and commercial paper entered into with or issued by highly rated institutions) to ensure the availability of funds to meet member credit needs. The longer-term investment securities portfolio includes securities issued by the United States government, United States government agencies, GSEs, U.S. instrumentalities, FFELP student loan ABS, and mortgage-backed securities that are issued by GSEs or that were rated “AAA/Aaa” or “AA/Aa” from S&P, Moody’s, or Fitch at the time of purchase. Securities issued by GSEs are not obligations of, and are not guaranteed by, the United States government.

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

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The carrying value of our investment securities portfolio by credit rating is shown in the following table.

	Investment Grade				Below Investment Grade						
As of September 30, 2010	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**Unrated**	**Carrying Value**
Federal Funds and securities sold under agreements to repurchase	$ —	$ 4,327	$ 1,645	$ —	$ —	$ —	$ —	$ —	$ —	$ 3,750	$ 9,722
Investment securities-											
Non-MBS:											
GSE	1,210	—	—	—	—	—	—	—	—	—	1,210
FFCB	50	—	—	—	—	—	—	—	—	—	50
TVA	72	—	—	—	—	—	—	—	—	—	72
SBA	1,260	—	—	—	—	—	—	—	—	—	1,260
State or local housing agency	—	37	—	—	—	—	—	—	—	—	37
FFELP ABS	8,975	—	—	—	—	—	—	—	—	—	8,975
FDIC-TLGP	719	—	—	—	—	—	—	—	—	—	719
MBS:											
GSE	21,055	—	—	—	—	—	—	—	—	—	21,055
Government-guaranteed	3,966	—	—	—	—	—	—	—	—	—	3,966
MPF shared funding	190	8	—	—	—	—	—	—	—	—	198
Private-label MBS	102	19	12	81	66	30	567	767	351	5	2,000
Total investment securities	37,599	64	12	81	66	30	567	767	351	5	39,542
Total investments	$37,599	$ 4,391	$ 1,657	$ 81	$ 66	$ 30	$567	$767	$351	$ 3,755	$ 49,264

Federal Home Loan Bank of Chicago
(Dollars in millions except per share amounts unless otherwise indicated)

The following tables present the unpaid principal balance and credit ratings of our private-label residential and commercial MBS by vintage year of issuance and by Prime, Alt-A, and Sub-prime. Except for immaterial amounts of fixed-rate, these MBS are variable rate securities.

Private-Label Residential MBS Prime

	Vintage Year of Issue			
As of September 30, 2010	**2006**	**2005**	**2004 and Prior**	**Total**
AAA	$ —	$ —	$ 32	$ 32
AA	—	—	3	3
A	—	—	—	—
BBB	—	—	—	—
Below investment grade	1,848	41	—	1,889
Unrated	—	—	—	—
Total unpaid principal balance outstanding	$ 1,848	$ 41	$ 35	$ 1,924
Amortized cost	$ 1,561	$ 35	$ 34	$ 1,630
Gross unrealized losses (incl. non-credit OTTI)	(463)	(11)	(2)	(476)
Gross unrealized gains	281	6	2	289
Fair value	$ 1,379	$ 30	$ 34	$ 1,443
Year-to-date OTTI:				
Credit	$ (58)	$ (1)	$ —	$ (59)
Non-credit	53	1	—	54
Total OTTI	$ (5)	$ —	$ —	$ (5)
Weighted average percentage fair value to unpaid principal balance	74.6%	74.8%	96.2%	75.0%
Original weighted average credit support	11.6%	14.2%	6.2%	11.6%
Weighted average credit support	8.5%	7.4%	23.2%	8.8%
Weighted average collateral delinquency	20.9%	29.0%	2.5%	20.8%

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

Private-Label Residential MBS Alt-A

As of September 30, 2010	Vintage Year of Issue 2006	Vintage Year of Issue 2004 and Prior	Total
AAA	$ —	$ —	$ —
AA	—	1	1
A	—	1	1
BBB	—	—	—
Below investment grade	156	—	156
Unrated	—	—	—
Total unpaid principal balance outstanding	$ 156	$ 2	$ 158
Amortized cost	$ 113	$ 2	$ 115
Gross unrealized losses (incl. non-credit OTTI)	(38)	(1)	(39)
Gross unrealized gains	—	—	—
Fair value	$ 75	$ 1	$ 76
Year-to-date OTTI:			
Credit	$ (6)	$ —	$ (6)
Non-credit	6	—	6
Total OTTI	$ —	$ —	$ —
Weighted average percentage fair value to unpaid principal balance	47.4%	73.8%	47.8%
Original weighted average credit support	17.8%	7.1%	17.7%
Weighted average credit support	9.0%	22.4%	9.2%
Weighted average collateral delinquency	47.7%	19.1%	47.3%

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

Private-Label Residential MBS Subprime

	Vintage Year of Issue				
As of September 30, 2010	**2007**	**2006**	**2005**	**2004 and Prior**	**Total**
AAA	$ —	$ 13	$ —	$ 7	$ 20
AA	—	6	2	9	17
A	—	—	8	3	11
BBB	—	78	6	1	85
Below investment grade	10	978	90	6	1,084
Unrated	—	—	—	5	5
Total unpaid principal balance outstanding	$ 10	$ 1,075	$ 106	$ 31	$ 1,222
Amortized cost	$ 9	$ 788	$ 98	$ 27	$ 922
Gross unrealized losses (incl. non-credit OTTI)	(2)	(204)	(11)	(5)	(222)
Gross unrealized gains	—	55	3	2	60
Fair value	$ 7	$ 639	$ 90	$ 24	$ 760
Year-to-date OTTI:					
Credit	$ —	$ (79)	$ (3)	$ —	$ (82)
Non-credit	—	46	2	—	48
Total OTTI	$ —	$ (33)	$ (1)	$ —	$ (34)
Weighted average percentage fair value to unpaid principal balance	73.6%	59.4%	84.6%	76.9%	62.2%
Original weighted average credit support	23.0%	22.8%	22.2%	42.2%	23.3%
Weighted average credit support	39.8%	28.7%	47.8%	59.9%	31.2%
Weighted average collateral delinquency	39.0%	44.0%	42.8%	17.9%	43.2%

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

Private-label Commercial MBS Prime

	Vintage Year of Issue	
As of September 30, 2010	**2004 and Prior**	**Total**
AAA	$ 52	$ 52
AA	—	—
A	—	—
BBB	—	—
Below investment grade	—	—
Unrated	—	—
Total unpaid principal balance outstanding	$ 52	$ 52
Amortized cost	$ 52	$ 52
Gross unrealized losses (incl. non-credit OTTI)	—	—
Gross unrealized gains	1	1
Fair value	$ 53	$ 53
Year-to-date OTTI:		
Credit	$ —	$ —
Non-credit	—	—
Total OTTI	$ —	$ —
Weighted average percentage fair value to unpaid principal balance	102.5%	102.5%
Original weighted average credit support	23.1%	23.1%
Weighted average credit support	29.9%	29.9%
Weighted average collateral delinquency	1.2%	1.2%

Federal Home Loan Bank of Chicago
(Dollars in millions except per share amounts unless otherwise indicated)

The following table summarizes the four previous tables by presenting in total the unpaid principal balance and credit ratings of our private-label residential and commercial MBS by Prime, Alt-A, and Sub-prime by vintage year of issuance. Except for immaterial amounts of fixed-rate, these MBS are variable rate securities.

	Vintage Year of Issue				
As of September 30, 2010	**2007**	**2006**	**2005**	**2004 and Prior**	**Total**
AAA	$ —	$ 13	$ —	$ 91	$ 104
AA	—	6	2	13	21
A	—	—	8	4	12
BBB	—	78	6	1	85
Below investment grade	10	2,982	131	6	3,129
Unrated	—	—	—	5	5
Total unpaid principal balance outstanding	$ 10	$ 3,079	$ 147	$ 120	$ 3,356
Amortized cost	$ 9	$ 2,461	$ 133	$ 116	$ 2,719
Gross unrealized losses (incl. non-credit OTTI)	(2)	(706)	(22)	(7)	(737)
Gross unrealized gains	—	337	9	4	350
Fair value	$ 7	$ 2,092	$ 120	$ 113	$ 2,332
Year-to-date OTTI:					
Credit	$ —	$ (143)	$ (4)	$ —	$ (147)
Non-credit	—	105	3	—	108
Total OTTI	$ —	$ (38)	$ (1)	$ —	$ (39)
Weighted average percentage fair value to unpaid principal balance	70.0%	67.9%	81.6%	94.2%	69.5%
Original weighted average credit support	23.0%	15.9%	20.0%	22.8%	16.3%
Weighted average credit support	39.8%	15.6%	36.6%	35.6%	17.3%
Weighted average collateral delinquency	39.0%	30.3%	39.0%	6.2%	29.9%

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

Components of Amortized Cost

The following table presents the components of amortized cost of our private-label MBS as of September 30, 2010.

Principal Balance	Life-To-Date Credit Impairment	Other Adjustments[a]	Amortized Cost
$ 3,357	$ (643)	$ 5	$ 2,719

[a] Other Adjustments includes the remaining discount of $10 million related to the transfer of certain AFS securities to HTM in 2007 offset by $15 million of life-to-date accretion of interest related to the discounted present value of previously recognized credit-related impairment losses. See **Note 5– Investments - Held-to-Maturity** for further details of the transfer of securities from AFS to HTM.

Advances and Other Member Credit

We determine the maximum amount and term of the advances we will lend to a member by assessing the member's creditworthiness and financial condition utilizing financial information available to us, including the quarterly reports members file with their regulators. Credit availability is also determined on the basis of the collateral pledged and we conduct periodic on-site collateral reviews to confirm the quality and quantity of collateral pledged. We require delivery of all securities collateral and may also require delivery of loan collateral under certain conditions (for example, when a member's credit condition deteriorates). We refer to both members and former members as borrowers in the following disclosures. For further detail see **Advances and Other Member Credit** starting on page 72 in our 2009 Form 10-K.

We utilize an internally developed credit risk rating system and assign each borrower a credit risk rating from one to five (one being the least amount of risk and five the greatest amount of risk). The following table shows the number of borrowers and outstanding credit extended to our borrowers by rating. Collateral loan value describes the borrowing capacity assigned and does not imply fair value. The majority of borrowers assigned a 4 rating were required to submit specific collateral listings and the majority of borrowers assigned a 5 rating were required to deliver collateral to us or a third party custodian on our behalf.

	September 30, 2010					December 31, 2009				
Rating assigned	**Number of Borrowers**	**% of Total**	**Credit Outstanding [a]**	**% of Total**	**Collateral Loan Value**	Number of Borrowers	% of Total	Credit Outstanding [a]	% of Total	Collateral Loan Value
1-3	**447**	**77%**	**$ 15,883**	**80%**	**$ 25,160**	438	71%	$ 13,946	55%	$ 19,451
4	**63**	**11%**	**1,772**	**9%**	**2,654**	91	14%	7,676	30%	12,986
5	**71**	**12%**	**2,162**	**11%**	**3,108**	92	15%	3,623	15%	4,477
Total	**581**	**100%**	**$ 19,817**	**100%**	**$ 30,922**	621	100%	$ 25,245	100%	$ 36,914

[a] Consists of outstanding advances, letters of credit, MPF credit enhancement obligations, and member derivative exposures.

The method by which a borrower reports collateral is dependent upon the collateral status to which it is assigned as well as the type of collateral being pledged. We assign borrowers to a borrowing base (blanket-lien) status, listing-collateral status, or delivery-collateral status. Under a blanket lien status, a borrower may report collateral pledged under a summary borrowing base. For members or a class of collateral on listing status, the member must provide the Bank with loan-level detail of the collateral. For members or a class of collateral on delivery status, the member must deliver the collateral to us or an approved custodian for our benefit. Members must report their collateral at least quarterly. The following table describes the range of lending values, which we refer to as collateral loan values, by underlying type of collateral as of September 30, 2010.

As of September 30, 2010	**Gross Value Reported by Active Borrowers**	**Lending Values Applied to Majority of Collateral**	**Collateral Loan Value**	**Average Effective Discount**
Loan collateral-				
1-4 family	**$ 33,598**	**60% - 85%**	**$ 20,988**	**38%**
Multi-family	**2,457**	**60% - 70%**	**1,597**	**35%**
Home equity loans/lines of credit	**10,186**	**5% - 50%**	**4,350**	**57%**
Community Financial Institutions	**532**	**28% - 50%**	**252**	**53%**
Commercial real estate[a]	**189**	**25% - 50%**	**54**	**71%**
Other loan collateral	**31**	**Up to 25%**	**3**	**90%**
Securities-				
Cash, US Treasury, and GSE Debt, MBS, & CMO	**3,575**	**77% - 100%**	**3,408**	**5%**
Private-label MBS & CMO	**195**	**60% - 66%**	**121**	**38%**
Municipal debt	**180**	**Up to 90%**	**149**	**17%**
Total Collateral	**$ 50,943**		**$ 30,922**	**39%**

[a] Gross value is defined as unpaid principal balance for loans and as fair value for securities. For commercial real estate the percent lending value is based on fair value while the dollar gross value is based on unpaid principal balance.

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

We had 14 members resolved by the FDIC during the nine months ended September 30, 2010 with 5 occurring in the third quarter. The total advances outstanding for the institutions at the time of their failure for the nine months was $831 million. All outstanding obligations of these members to us were either satisfied or transferred to another financial institution. We did not incur any credit losses on any of these actions.

In addition to providing advances, we also offer standby letters of credit to our members. As of September 30, 2010, we had $1.1 billion of standby and confirming letters of credit outstanding on behalf of 69 members. We had $1.1 billion outstanding with 57 members at December 31, 2009. To secure these letters of credit, we require collateral as we do on advances.

MPF Loans

Overview

The term "MPF Loans" refers to conforming conventional and government fixed-rate mortgage loans secured by one-to-four family residential properties with maturities from five to 30 years or participations in such mortgage loans that are acquired under the MPF Program. References to MPF Loans as they relate to the MPF Xtra product exclude mortgage loan participations. Under the MPF Xtra product, we purchase MPF Program eligible MPF Loans from participating financial institutions (PFIs) and concurrently sell these MPF Loans to Fannie Mae as a third-party investor.

Setting Credit Enhancement Levels

FHFA regulations require that MPF Loans held in our portfolio be credit enhanced so that our risk of loss is limited to the losses of an investor in an AA rated mortgage backed security, unless we maintain additional retained earnings in addition to a general allowance for loan losses. We analyze the risk characteristics of each MPF Loan as provided by the PFI using a Nationally Recognized Statistical Rating Organization (NRSRO) approved model in order to determine the required credit enhancement amount (CE Amount) for a loan to be acquired and held as an investment. Except for the MPF Xtra product, we share with PFIs the risk of credit losses on conventional MPF products by structuring potential losses on MPF Loans into layers with respect to each master commitment. See **MPF Loans Credit Enhancement Structure** on page 75 of our 2009 Form 10-K.

For master commitments with a first loss account (FLA) equal to 100 basis points (all MPF 100, MPF 125 and some MPF Plus master commitments), we only partially rely on our ability to withhold performance based CE Fees when measuring our effective credit protection. As a result, we held additional retained earnings against the related master commitments in accordance with the Acquired Member Assets (AMA) regulations, which at September 30, 2010 totaled $46 million.

Primary Mortgage Insurance (PMI) Provider Concentration–

We are exposed to the risk of non-performance of PMI companies with respect to our MPF Loan portfolios as set forth below. We receive PMI coverage information only at acquisition of MPF Loans and do not receive notification of subsequent changes in PMI coverage. For more information on our concentration risk exposure, see **Mortgage Guaranty Insurance Provider Concentration** on page 78 in our 2009 Form 10-K. The following table details our exposure to PMI coverage. None of the MI companies pass all of our primary early warning financial tests, which include rating level tests, ratings watch/outlook tests, and profitability tests. For further discussion of how this may affect us, see **Risk Factors** on page 25 in our 2009 Form 10-K.

As of September 30, 2010	Loan Balance	Amount of Coverage	% of Total	Credit Rating at 10/31/2010	Outlook
Mortgage Guaranty Insurance Co. (MGIC)	$ 355	$ 105	34%	B+	Negative
Genworth Mortgage Insurance Corp.	145	44	14%	BBB-	Negative
PMI Mortgage Insurance Co.	152	44	15%	B	Positive
United Guaranty Residential Insurance Co.	125	36	12%	BBB	-
All Others	258	78	25%	B+ to BBB or unrated	Negative
Total MI Coverage	$ 1,035	$ 307	100%		

MPF Loan Portfolio Analysis

For the nine months ended September 30, 2010, we recorded an $20 million provision for MPF Loan credit losses due to portfolio and market trends related to rising delinquency rates, increased loss severities, and prepayment speeds consistent with the increase in delinquent, non-accrual, and impaired MPF Loans. Our nonaccrual and impaired loan populations grew as the MPF Loan portfolio experienced some additional deterioration and because certain MPF Plus loans were added to the nonaccrual and impaired loan populations. In particular, MPF Plus loans are excluded from nonaccrual and impaired loan status provided PFI performance CE Fees are continued. Under the terms of the MPF Plus product, when the SMI insurer's insurance strength rating falls below an AA rating, the PFI forfeits its right to be paid performance CE Fees unless the PFI elects to replace the SMI policy (with another qualified SMI policy) or to act as a surety for the SMI policy. In those cases where we retain PFIs' performance CE Fees, we assume the first loss position for credit losses from the impacted MPF Plus master commitments.

During 2010, certain PFIs forfeited their performance CE Fees under certain MPF Plus master commitments. As a result, MPF Plus loans 90 days past due were placed on non-accrual status. Further, MPF Plus loans that meet our criteria for collateral dependent loans were classified as impaired loans. As a result, $54 million of MPF Plus loans were deemed to be impaired and on non-accrual status at September 30, 2010. This change resulted in a significant increase in the impaired loan loss reserve, which was $9 million on our entire impaired loan population at September 30, 2010. This increase was partially offset by the credit enhancement for other MPF products. Specifically, for several Original MPF product master commitments, the impaired loan amount was larger than the existing FLA, meaning that additional losses (up to the CE Amount) would be paid by the PFI. Losses were capped at the lesser of the loss amount or the FLA.

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

Additional PFIs may elect not to replace their SMI policies in future periods. As a result, the impaired loan population may continue to increase for MPF Plus loans. If the impaired loan population increases, then we anticipate that further increases to our allowance for loan losses may occur.

For loss severity trends that impact our estimates on our allowance for loan credit losses, please see **Allowance for MPF Loan Loss Methodology and Assumptions** on page 57 in our Critical Accounting Policies and Estimates section. For details on our allowance for loan losses see **Note 8 - Allowance for Loan Losses.**

Derivatives

We are subject to credit risk due to the risk of nonperformance by counterparties to our derivative agreements. The degree of counterparty risk is mitigated by master netting arrangements included in all of our contracts with derivative counterparties. The maximum amount of exposure to credit loss is the fair value of derivative assets, not the notional amount. This amount assumes that these derivatives would completely fail to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to us. At September 30, 2010 and December 31, 2009, our maximum credit risk as defined above was $223 million and $124 million. See **Note 9– Derivatives and Hedging Activities** to the financial statements for further details. Based on credit analyses and collateral requirements, we do not anticipate any credit losses on our derivative agreements. The following table summarizes our derivative counterparty credit exposure:

Counterparty Credit Rating as of September 30, 2010	Notional Amount	Exposure at Fair Value[b]	Cash Collateral Held[c]	Securities Collateral Held	Total Collateral Held[c]	Net Exposure After Collateral
AA	$ 27,650	$ 153	$ 150	—	$ 150	$ 3
A	63,964	66	66	—	66	—
BBB	9	—	—	—	—	—
Total Counterparties	91,623	219	216	—	216	3
Member Institutions [a]	1,072	4	—	—	—	4
Total derivatives	$ 92,695	$ 223	$ 216	—	$ 216	$ 7

[a] Member Institutions include: (i) derivatives with members where we are acting as an intermediary, and (ii) delivery commitments for MPF Loans.

[b] Exposure at Fair Value considers legal right of offset under master netting arrangements but excludes cash collateral held.

[c] Includes accrued interest.

Legislative and Regulatory Developments

Financial Regulatory Reform

Dodd-Frank Act. The most important legislative development during the period covered by this report was the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) on July 21, 2010. The Dodd-Frank Act, among other things: (1) creates an inter-agency oversight council (Oversight Council) that is charged with identifying and regulating systemically important financial institutions; (2) regulates the over-the-counter derivatives market; (3) imposes new executive compensation proxy and disclosure requirements; (4) establishes new requirements for MBS, including a risk-retention requirement; (5) reforms the credit rating agencies; (6) makes a number of changes to the federal deposit insurance system; and (7) creates a consumer financial protection bureau. Although the FHLBs were exempted from several notable provisions of the Dodd-Frank Act, the FHLBs' business operations, funding costs, rights, obligations, and/or the environment in which FHLBs carry out their housing-finance mission are likely to be impacted by the Dodd-Frank Act. Certain regulatory actions resulting from the Dodd-Frank Act since enactment that may have an important impact on us are summarized below, although the full impact of the Dodd-Frank Act will become known only after the required regulations, studies and reports are issued and finalized.

Proposed Commodities Futures Trading Commission (CFTC) and SEC Rule on Certain Key Definitions for Derivatives. On August 20, 2010, the U.S. Commodities Futures Trading Commission (CFTC) and the SEC jointly issued a proposed rule with a comment deadline that closed September 20, 2010 requesting comment on certain key terms necessary to regulate the use and clearing of derivatives as required by the Dodd-Frank Act. Depending on the scope of the final regulations, we could be adversely affected by these provisions. For example, if the final regulation defines and regulates a “swap” that includes bona fide loans that include caps or floors or variable rate loans, it may subject certain FHLB advances to exchange or clearinghouse requirements, which would likely increase the costs of such transactions and reduce the attractiveness of such transactions to our members. In addition, if an FHLB is included in the regulation of “major swap participants” the regulation could require us to trade certain of our standardized derivatives transactions through an exchange and clear those transactions through a centralized clearing house, and we could also have to register with the CFTC and could be subject to new standards of conduct and additional reporting and swap-based capital and margin requirements. In either case, our ability to achieve our risk management objectives, act as an intermediary between our members and counterparties and funding costs and the costs of advances may be materially impacted by this regulation or other regulations implemented under the Dodd-Frank Act that regulate derivatives.

Proposed CFTC Rule on Eligible Investments for Derivatives Clearing Organizations. On November 3, 2010, the CFTC issued a proposed rule with a comment deadline of December 3, 2010 which, among other changes, would eliminate the ability of futures commissions merchants and derivatives clearing organizations to invest customer funds in GSE securities that are not explicitly guaranteed by the U.S. federal government. Currently, GSE securities are eligible investments under CFTC regulations. If this change is adopted as proposed, demand for FHLB debt may be adversely impacted.

Oversight Council Proposed Rule on Authority to Supervise and Regulate Certain Nonbank Financial Companies. On October 6, 2010, the Oversight Council issued a proposed rule with a comment deadline of November 5, 2010 that would give the Oversight Council the authority to require a nonbank financial company (a term to be defined by the Oversight Council) to be supervised by the Board of Governors of the Federal Reserve System and subject to certain prudential standards. The Oversight Council shall make this determination based on whether material financial distress at a given firm, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the firm, could pose a threat to the financial stability of the United States. If the FHLBs are determined to be nonbank financial companies subject to the Oversight Council's regulatory requirements, the FHLBs operations and business are likely to be impacted.

Oversight Council Request for Information on Implementing the Volcker Rule. On October 6, 2010, the Oversight Council issued a public request for information in connection with the Oversight Council's study on implementing certain prohibitions on proprietary trading, which prohibitions are commonly referred to as the Volcker Rule. Institutions subject to the Volcker Rule may be subject to higher capital requirements and quantitative limits with regard to their proprietary trading. If the Volcker Rule is implemented in a way that subjects FHLBs to it, we may be subject to additional limitations on the composition of our investment portfolio beyond those to which we are already subject under existing FHFA regulations in turn potentially resulting in less profitable investment alternatives.

FDIC Proposed Rule on Unlimited Deposit Insurance for Non-interest Bearing Transaction Accounts. The Dodd-Frank Act requires the FDIC and the National Credit Union Administration to provide unlimited deposit insurance for non-interest bearing transaction accounts. This requirement is in effect for FDIC-insured institutions from December 31, 2010 until January 1, 2013 and for insured credit unions from the effective date of the Dodd-Frank Act until January 1, 2013. On September 27, 2010, the FDIC issued a proposed rule to implement this provision in the Dodd-Frank Act. Deposits are a source of liquidity for our members, and a rise in deposits, which may occur due to the FDIC's unlimited support of non-interest bearing transaction accounts if adopted as a final rule, tends to weaken member demand for our advances.

FDIC Proposed Rule on Dodd-Frank Resolution Authority. On October 12, 2010, the FDIC issued a proposed rule with a comment deadline of November 18, 2010 on how the FDIC would treat certain creditor claims under the new orderly liquidation authority established by the Dodd-Frank Act. The Dodd-Frank Act provides for the appointment of the FDIC as receiver for a financial company in instances where the failure of the company and its liquidation under other insolvency procedures (such as bankruptcy) would pose a significant risk to the financial stability of the United States. The proposed rule provides, among other things, that:

- all creditors must expect to absorb losses in any liquidation and that secured creditors will only be protected to the extent of the fair value of their collateral;
- to the extent that any portion of a secured creditor's claim is unsecured, it will absorb losses along with other unsecured creditors; and
- secured obligations collateralized with US government obligations will be valued at par.

Valuing most collateral at fair value, rather than par, could adversely impact on the value of our investments in the event of the issuer's insolvency.

Proposed FHFA Rule on Conservatorship and Receivership

On July 9, 2010, the FHFA published a proposed rule implementing the conservatorship and receivership provisions of the Housing and Economic Recovery Act of 2008 (Housing Act), which apply to Fannie Mae, Freddie Mac, and the FHLBs. The proposed rule addresses the status and priority of claims, the relationships among various classes of creditors and equity-holders, and the priorities for contract parties and other claimants with regard to the resolution of an FHLB that is put into conservatorship or receivership by the FHFA. The comment period on the proposed rule ended September 7, 2010.

Tax-Exempt Bonds Supported by FHLB Letters of Credit

Legislation has been introduced in Congress that would allow an FHLB on behalf of one or more members to issue letters of credit to support non-housing related tax-exempt state and local bond issuances issued after December 31, 2010. If enacted, this would be an extension of our authority to issue such letters of credit that was first granted to the FHLBs by the Housing Act, which authority is otherwise set to expire on December 31, 2010.

Basel Committee on Banking Supervision Capital Framework

The Basel Committee on Banking Supervision (Basel Committee) has developed a new capital regime for internationally-active banks. Banks subject to the new regime will be required to have increased amounts of capital with core capital being more strictly defined to include only common equity and other capital assets that are able to fully absorb losses. While it is uncertain how the new capital regime or other standards being developed by the Basel Committee, such as liquidity standards, will be implemented by the U.S. regulatory authorities, the new regime could require some of our members to divest assets in order to comply with the more stringent capital requirements, thereby tending to decrease their need for advances. Likewise, any new liquidity requirements may also adversely impact member demand for our advances and/or investor demand for FHLB debt.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The FHFA's regulations, its Financial Management Policy, and our internal asset and liability management policies all establish guidelines for our use of interest rate derivatives. These regulations and policies prohibit the speculative use of financial instruments authorized for hedging purposes. They also limit the amount of counterparty credit risk allowed.

Market Risk Profile

Market risk is the risk that the value of our financial assets will decrease due to changes in market risk factors. There are several market risk factors that may impact the value of our financial assets, but interest rate risk, which arises due to the variability of interest rates, is the most critical. Our key interest rate risk exposures include:

- *Yield curve risk* – We are exposed to movements in the benchmark yield curve used to discount the future cash flows from our assets, liabilities, and derivatives.
- *Option risk* – We are exposed to option risk as the value of option positions (explicit and embedded) vary due to changes in the implied volatility of the yield curve as well as the yield curve itself.
- *Basis risk* – We are exposed to basis risk as the yields on different assets, liabilities and derivatives are determined on different benchmark yield curves. This includes (1) differences between the swap curve and the Office of Finance cost of funds or consolidated obligation curve; (2) changes in individual securities' spreads to the swap curve as a result of changes in supply, demand, and credit quality of different securities in the market; and (3) changes in mortgage rates relative to the swap curve.

Mortgage-related assets, which include MPF Loans and mortgage-backed securities, are the predominant sources of interest rate risk in our market risk profile. We also invest in GSE obligations, the taxable portion of state or local housing finance agency securities, and student loan ABS. The interest rate and prepayment risk associated with these assets are managed through a combination of debt issuance and derivatives. The prepayment options embedded in mortgage assets can result in extensions or contractions in the expected maturities of these investments, primarily depending on changes in interest rates.

The optionality embedded in certain advances can create interest rate risk. When a member prepays an advance, we could suffer lower future income if the principal portion of the prepaid advance were invested in lower-yielding assets that continue to be funded by higher-cost debt. To protect against this risk, we generally charge a prepayment fee that makes us financially indifferent to a member's decision to prepay an advance. When we offer advances (other than short-term advances) that a member may prepay without a prepayment fee, we may finance such advances with callable debt or otherwise hedge this option.

We enter into offsetting delivery commitments under the MPF Xtra product, where we agree to buy loans from PFIs and simultaneously re-sell them to Fannie Mae. Accordingly, we are not exposed to market risk with respect to these delivery commitments.

Members may enter into interest rate derivatives directly with us. In these situations, we enter into offsetting interest rate derivatives with non-member counterparties in cases where we are not using the interest rate derivative for our own hedging purposes. This provides smaller members access to the derivatives market.

Hedge Objectives and Strategies

The goal of our interest rate risk management strategy is not to eliminate interest rate risk, but to manage it within appropriate limits. To mitigate the risk of loss, we have established policies and procedures, which include guidelines on the amount of exposure to interest rate changes we are willing to accept. In addition, we monitor the risk to our net interest margin, and average maturity of our interest-earning assets and funding sources.

We measure and manage market exposure through four measurements: duration, convexity, curve, and volatility.

- Duration measures our exposure to parallel interest rate shifts where changes in interest rates occur at similar rates across the yield curve.
- Convexity measures how fast duration changes as a function of interest rate changes. Convexity is largely driven by mortgage cash flows that vary significantly as borrowers respond to rate changes by either prepaying their mortgages or slowing such prepayments.
- Curve quantifies our exposure to non-parallel shifts in the yield curve.
- Volatility describes the degree to which the value of options, explicit or embedded, fluctuates. MPF Loans and mortgage-backed securities include options held by the mortgage borrowers to prepay their loans. As a result, we have effectively sold options by owning MPF Loans and mortgage-backed securities.

We manage duration, convexity, curve, and volatility as part of our hedging activities. We analyze the risk of our mortgage assets on a regular basis and consider the interest rate environment under various rate scenarios. We also perform analyses of the duration and convexity of the portfolio. We hedge the duration and convexity of MPF Loans by using a combination of derivatives placed in either relationships using hedge accounting or in economic hedge relationships. Duration and convexity risks arise principally because of the prepayment option embedded in our MPF Loans. As interest rates become more volatile, changes in our duration and convexity profile become more volatile. As a result, our level of economic hedging activity, as discussed below, may increase resulting in an increase in hedging costs.

Our primary risk mitigation tools include funding instruments, swaps, swaptions, caps, and floors. Based on our risk profile, we do not use our funding to match the cash flows of our mortgage assets on a transaction basis. Rather, funding is used to address duration, convexity, curve, and volatility risks at the balance sheet level.

Hedge positions may be executed to reduce exposure or the risk associated with a single transaction or group of transactions. Our hedge positions are evaluated daily and adjusted as deemed necessary.

Cash Flow Hedges

Anticipated Discount Notes – Our hedge objective is to mitigate the variability of cash flows associated with the benchmark interest rate, London Interbank Offer Rate (LIBOR), of variable interest streams associated with the recurring maturity and re-issuance of short-term fixed rate discount notes. The variability in cash flows associated with each new issuance of discount notes results from changes in LIBOR over a specified hedge period caused by the recurring maturity and re-issuance of short-term fixed-rate discount notes over that hedge period. Our hedge strategy may involve the use of forward starting swaps to hedge this variability in cash flows due to changes in LIBOR so that a fixed-rate is secured over the life of the hedge relationship. In effect, we are changing what would otherwise be deemed a variable-rate liability into a fixed-rate liability. The total principal amount at issuance of the discount notes (i.e. net proceeds) and the total principal amount of the discount notes on an ongoing basis is equal to or greater than the total notional on the actual swaps used as hedging instruments. We document at hedge origination, and on an ongoing basis, that our forecasted issuances of discount notes are probable. We measure effectiveness each period using the hypothetical derivative method. The purpose of this measurement is to reclassify the amount of hedge ineffectiveness from AOCI to derivatives and hedging activities in the periods where the actual swap has changed in fair value greater than the hypothetical swap's changes in fair value.

Variable-Rate Advances – We may use an option to hedge a specified future variable cash flow of variable-rate LIBOR-based advances. The option will effectively create a floor on the variable cash flow at a predetermined target rate. These hedges are considered perfectly effective since in each hedge relationship, the critical terms of the LIBOR floor completely match the related terms of the hedged forecasted cash flows. For effective hedges using options, the option premium is reclassified out of AOCI using the floorlet method. Specifically, the initial basis of the instrument at the inception of the hedge is allocated to the respective floorlets comprising the floor. All subsequent changes in fair value of the floor, to the extent deemed effective, are recognized in AOCI. The change in the allocated fair value of each respective floorlet is reclassified out of AOCI when each of the corresponding hedged forecasted transactions impacts earnings.

Interest Rate Risk Management

We manage our exposures to yield curve and volatility using swaps, swaptions, futures, options on futures and mortgages, caps, floors and callable debt. We do not manage exposure to spreads. We may conduct hedging activity to reduce exposure in a single transaction or a group of transactions. We evaluate hedging daily and modify positions as we believe necessary.

Fair Value Hedges

Consolidated Obligation Bonds – Our goal is to manage the fair value risk of a consolidated obligation by matching the cash inflow on the derivative with the cash outflow on the consolidated obligation bonds. For instance, when a fixed-rate consolidated obligation bond is issued, we may simultaneously enter into an interest rate swap in which we receive fixed cash flows from a counterparty designed to offset in timing and amount the cash outflows we pay on the consolidated obligation bond. We also hedge the LIBOR benchmark rate on callable fixed-rate step-up consolidated obligation bonds at specified intervals where we own a call option(s) to terminate the consolidated obligation bond. The hedging instrument is a fixed-rate interest rate swap with a matching step-up feature that converts the callable fixed-rate step-up bond into a floating rate liability and has an offsetting call option(s) to terminate the interest rate swap. Such transactions are treated as fair value hedges. We assess hedge effectiveness primarily under the long-haul method. However, in certain cases where all conditions are met, hedge effectiveness is assessed using the shortcut method. Currently, we apply shortcut accounting to certain non-callable fixed-rate consolidated obligations.

Available-for-Sale Securities – We use interest rate swaps to hedge certain AFS securities to shorten our duration profile in an increasing interest rate environment. Our hedge strategy focuses on hedging the benchmark interest rate of LIBOR by effectively converting fixed-rate securities into floating rate assets to reduce our exposure to rising interest rates. This type of hedge is accounted for as a fair value hedge. We assess hedge effectiveness under the long-haul method. AFS securities are measured at fair value with changes in fair value reported in AOCI; however, in the case of a fair value hedge, the adjustment of its carrying amount for changes in the benchmark interest rate is recognized in earnings rather than in AOCI in order to offset the gain or loss on the hedging instrument. The gain or loss (that is, the change in fair value) on the AFS securities attributable to changes in the benchmark interest rate is the amount that is recognized currently in derivatives and hedging activities in our statements of income. Any gain or loss on these securities that is not attributable to changes in the benchmark interest rate is recognized into AOCI.

Advances – With issuances of certain putable advances, we purchase from the member an embedded option that enables us to extinguish the advance. We may hedge a putable advance by entering into a cancelable interest rate swap where we pay fixed interest payments and receive floating rate interest payments based off of LIBOR. This type of hedge is accounted for as a fair value hedge. We assess hedge effectiveness primarily under the long-haul method. However, in certain cases where all conditions are met, hedge effectiveness is assessed using the shortcut method. Currently, we principally apply shortcut accounting to certain non-putable fixed-rate advances. In the case of putable advances, the transactions are primarily hedged under a highly effective hedge relationship. In those cases, the swap counterparty can cancel the derivative financial instrument on the same date that we can put the advance back to the member.

MPF Loans – A combination of swaps and options, including futures, is used as a portfolio of derivatives to hedge a portfolio of MPF Loans. The portfolio of MPF Loans consists of one or more pools of similar assets, as designated by factors such as product type and coupon. As the portfolio of loans changes due to liquidations and paydowns, the derivatives portfolio is modified accordingly to hedge the interest rate and prepayment risks effectively. A new hedge relationship between a portfolio of derivatives and a portfolio of MPF Loans is established daily. The relationship is accounted for as a fair value hedge. The long-haul method is used to assess hedge effectiveness.

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

Economic Hedges

An economic hedge is defined as a derivative hedging specific (or a non-specific pool of) underlying assets, liabilities, or derivatives that does not qualify (or was not designated) for hedge accounting, but is an acceptable hedging strategy for risk management purposes. These economic hedging strategies also comply with FHFA regulations that prohibit speculative hedge transactions. An economic hedge may introduce the potential for earnings volatility caused by the changes in fair value on the derivatives that are recorded in income but not offset by recognizing corresponding changes in the fair value of the economically hedged assets, liabilities, or firm commitments.

MPF Loans – Interest rate swaps, swaptions, and futures contracts may be used to hedge the duration and convexity of the MPF Loan portfolio and prepayment risk on MPF Loans. We may also purchase cancelable swaps to minimize the prepayment risk embedded in the MPF Loans.

Investments – We may manage against prepayment and duration risk by funding investment securities with consolidated obligations that have call features, by economically hedging the prepayment risk with caps, floors, or by adjusting the duration of the securities by using derivatives to modify the cash flows of the securities. We issue both callable and non-callable debt to achieve cash flow patterns and liability durations similar to those expected on MBS. We may also use derivatives as an economic hedge to match the expected prepayment characteristics of the MBS.

We may also manage the risk arising from changing market prices and volatility of investment securities classified as trading securities by entering into derivative financial instruments (economic hedges) that offset the changes in fair value of the securities. The market value changes of both the trading securities and the associated derivatives are recognized in non-interest income.

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 fair value.

		Option Risk		Basis Risk	
	Yield Curve Risk	Implied Volatility	Prepayment Speeds	Spread to Swap Curve	Mortgage Spread
As of September 30, 2010					
Advances	**$ (4)**	**$ 3**	**$ —**	**$ (6)**	**$ —**
MPF Loans	**(2)**	**(17)**	**(7)**	**(6)**	**5**
Mortgage Backed Securities	**(11)**	**(5)**	**(3)**	**(13)**	**2**
Other interest earning assets	**(1)**	**—**	**—**	**(6)**	**—**
Interest-bearing liabilities	**14**	**8**	**—**	**13**	**—**
Derivatives	**4**	**—**	**—**	**—**	**—**
Total	**$ —**	**$ (11)**	**$ (10)**	**n/m**	**$ 7**
As of December 31, 2009					
Advances	$ (4)	$ 6	$ —	$ (6)	$ —
MPF Loans	(7)	(38)	(2)	(9)	3
Mortgage Backed Securities	(8)	(13)	(1)	(10)	1
Other interest earning assets	(1)	—	—	(6)	—
Interest-bearing liabilities	16	11	—	16	—
Derivatives	3	(1)	—	—	—
Total	$ (1)	$ (35)	$ (3)	n/m	$ 4

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

Yield curve risk – Change in fair value for a one basis point parallel increase in the swap curve.
Option risk (implied volatility) – Change in fair value for a one percent parallel increase in the swaption volatility.
Option risk (prepayment speeds) – Change in fair value for a one percent increase in prepayment speeds.
Basis risk (Spread to swap curve) – Change in fair value for a one basis point parallel increase in the spread to the swap curve.
Basis risk (Mortgage spread) – Change in fair value for a one basis point increase in mortgage rates.

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

As of September 30, 2010, our sensitivity to changes in implied volatility was an expected $11 million loss. At December 31, 2009, our sensitivity to changes in implied volatility was an expected $35 million loss. These sensitivities are limited in that they do not incorporate other risks, including —but not limited to—non-parallel changes in yield curves, implied volatility, 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 gap is another measure to express interest rate sensitivity. Duration gap is calculated by dividing the dollar duration of equity by the fair value of assets. A positive duration gap indicates an exposure to rising interest rates. As of September 30, 2010, our duration gap was 0.3 months, compared to 1.0 month as of December 31, 2009.

As of September 30, 2010, our fair value deficit (relative to book value) was $644 million, and our market-to-book value ratio was 81%. At December 31, 2009 our fair value deficit was $817 million, and our market-to-book value ratio was 71%. These improvements were primarily due to favorable spread movements.

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 Interest Rate Risk Policy, which defines our interest rate risk limits. On February 20, 2009, we received a non-objection letter from the FHFA related to our proposal to apply temporarily direct dollar limits on fair value changes under parallel interest rate shocks instead of the duration and convexity limits that were applied in the past. The Interest Rate Risk Policy in effect reflects this proposal and places direct dollar limits on fair value changes for select, parallel interest rate scenarios between -200 and +200 basis points. Some scenarios will not be measured when swap rates are less than 2%. We continue to work with the FHFA to develop appropriate interest rate risk policies, and we submitted revised policies to the Deputy Director on September 23, 2010.The following table summarizes our fair value changes with respect to our policy limits.

	Change in Fair Value as of		**Change in Fair Value Must be Greater Than**
Scenario	**September 30, 2010**	December 31, 2009	
-200 bp	**$ ***	$ *	$ (185.0)
-100 bp	*****	*	(77.5)
-50 bp	*****	*	(30.0)
-25 bp	**10.1**	*	(12.5)
+25 bp	**(0.4)**	(9.8)	(25.0)
+50 bp	**(14.1)**	(23.6)	(60.0)
+100 bp	**(48.8)**	(85.7)	(155.0)
+200 bp	**(48.0)**	(280.8)	(370.0)

* Due to the low interest rate environment these values cannot be calculated.

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 third quarter of 2010, 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 **Controls and Procedures** on page 85 of our 2009 Form 10-K.

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

PART II

Item 1. Legal Proceedings

On October 15, 2010, the Bank instituted litigation relating to sixty-four private label MBS bonds purchased by the Bank in an aggregate original principal amount of approximately $4.29 billion. The Bank's complaints assert claims for untrue or misleading statements in the sale of securities, signing or circulating securities documents that contained material misrepresentations, negligent misrepresentation, market manipulation, untrue or misleading statements in registration statements, controlling person liability, and rescission of contract. In these actions, the Bank seeks the remedies of rescission, recovery of damages, recovery of purchase consideration plus interest (less income received to date) and recovery of reasonable attorneys' fees and costs of suit. The litigation was brought in state court in the states of Washington, California and Illinois.

Defendants in the litigation include the following entities and affiliates thereof: American Enterprise Investment Services, Inc.; Ameriprise Financial Services, Inc.; Bank of America Corporation; Barclays Capital Inc.; Citigroup, Inc.; Countrywide Financial Corporation, Credit Suisse Securities (USA) LLC; First Horizon Asset Securities, Inc.; First Tennessee Bank, N.A.; GMAC Mortgage Group LLC, Goldman Sachs & Co., RBS Securities Inc., Sand Canyon Acceptance Corporation, , N.A., J.P. Morgan Acceptance Corporation; Long Beach Securities Corp.; Merrill Lynch, Pierce Fenner & Smith Incorporated; Morgan Stanley & Co., Incorporated; Mortgage Asset Securitization Transactions, Inc.; PNC Investments LLC; Nomura Holding America Inc.; Sequoia Residential Funding, Inc.; UBS Securities LLC; WaMu Capital Corp.; and Wells Fargo Bank, N.A.. Bank of America, N.A., which is affiliated with Bank of America Corporation but is not a defendant in these actions, held approximately 8 % of the Bank's capital stock as of September 30, 2010 and December 31, 2009 as a result of its prior merger with LaSalle Bank, N.A. One Mortgage Partners Corp., which is affiliated with J.P. Morgan Acceptance Corporation but is not a defendant in these actions, held approximately 6% of the Bank's capital stock as of September 30, 2010 and December 31, 2009. PNC Bank, National Association, which is affiliated with PNC Investments LLC but is not a defendant in these actions, held approximately 5% of the Bank's capital stock as of September 30, 2010 and December 31, 2009 as a result of prior mergers involving our former member, MidAmerica Bank, FSB.

Defendants in these actions have not yet filed any answer or otherwise responded to the complaints.

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 21 in our 2009 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. (Removed and Reserved)

Item 5. Other Information

As we previously reported, Arthur E. Greenbank was appointed to fill a vacant member director seat on the Bank's Board of Directors (Board), effective October 7, 2010. The Board has appointed Mr. Greenbank to serve on the Board's Audit and Operations and Technology Committees during the remainder of 2010.

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

Glossary of Terms

Advances: Secured loans to members

ABS: Asset-backed-securities

AFS: Available-for-sale securities

Agency MBS: Mortgage-backed securities issued by, or comprised of mortgage loans guaranteed by, Fannie Mae or Freddie Mac.

Agent fees: Loan origination fees we may pay/receive to/from PFIs for the origination of MPF Loans as our agent.

AHP: Affordable Housing Program

Acquired Member Assets (AMA): Assets that an FHLB may acquire from or through FHLB System members or housing associates by means of either a purchase or a funding transaction.

AOCI: Accumulated Other Comprehensive Income

CDFI: Community development financial institution

CDO: Collateralized debt obligation

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.

CE Amount: A PFI's assumption of credit risk on conventional MPF Loan products 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 Xtra product.

CFI: Community Financial Institution – Defined as FDIC-insured institutions with an average of total assets over the prior three years which is less than the level prescribed by the FHFA. The average total assets for calendar year-ends 2007-2009 must be $1.029 billion or less ($1.011 billion for 2006 -2008 and $625 million for 2005-2007).

CMBS: Commercial mortgage backed securities

CMT: Constant Maturity Treasury

CO Curve: Consolidated Obligation curve. The Office of Finance constructs a market-observable curve referred to as the CO Curve. This curve is constructed using the U.S. Treasury Curve as a base curve which is then adjusted by adding indicative spreads obtained largely from market observable sources. These market indications are generally derived from pricing indications from dealers, historical pricing relationships, market activity such as recent GSE trades, and other secondary market activity.

Consolidated obligations: 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 with a term over one year.

Core Based Statistical Areas (CBSA): Refers collectively to metropolitan and micropolitan statistical areas as defined by the United States Office of Management and Budget. As currently defined, a CBSA must contain at least one urban area of 10,000 or more people.

Delivery Commitment: Mandatory commitment of the PFI to sell or originate eligible mortgage loans.

Deputy Director: Deputy Director, Division of FHLB Regulation of the FHFA

Designated Amount: A percentage of the outstanding principal amount of the subordinated notes we are allowed to include in determining compliance with our regulatory capital and minimum regulatory leverage ratio requirements and to calculate our maximum permissible holdings of mortgage-backed securities and unsecured credit.

Discount notes: Consolidated obligations with a term of one year or less.

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

Fannie Mae: Federal National Mortgage Association

FASB: Financial Accounting Standards Board

FDIC: Federal Deposit Insurance Corporation

Federal Reserve: Federal Reserve Bank of New York

FFCB: Federal Farm Credit Banks

FFELP: Federal Family Education Loan Program

FHA: Federal Housing Administration

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

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

FHLBs: The 12 Federal Home Loan Banks or subset thereof

FHLB System: The 12 FHLBs and the Office of Finance

Finance Board: The Federal Housing Finance Board. The Bank was supervised and regulated by the Finance Board, prior to creation of the Federal Housing Finance Agency as regulator of the FHLBs by the Housing and Economic Recovery Act of 2008, effective July 30, 2008.

Fitch: Fitch Ratings, Inc.

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

GLB Act: Gramm-Leach-Bliley Act of 1999

Government Loans: MPF Loans held in our portfolio comprised of loans insured by the Federal Housing Administration (FHA) or the Department of Housing and Urban Development (HUD) and loans guaranteed by the Department of Veteran Affairs (VA) or Department of Agriculture Rural Housing Service (RHS).

GSE: Government sponsored enterprise

HUD: Department of Housing and Urban Development

HTM: Held-to-maturity securities

LIBOR: London Interbank Offered Rate

LTV: Loan-to-value ratio

MBS: Mortgage-backed securities

MI: Mortgage Insurance

Moody's: Moody's Investors Service

MPF®: Mortgage Partnership Finance

MPF Banks: FHLBs that participate in the MPF program

MPF Guides: MPF Origination Guide and MPF Servicing Guide

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

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

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

MPF Provider: The Federal Home Loan Bank of Chicago, in its role of providing programmatic and operational support to the MPF Banks and their PFIs.

MPF Shared Funding® program: A program to provide a platform to allow mortgage loans to be sold through the MPF Program system to a third party-sponsored trust and "pooled" into securities.

MPF Xtra® product: The MPF Program product under which we acquire MPF Loans from PFIs without any credit enhancement protection amount and concurrently resell them to Fannie Mae.

MRCS: mandatorily redeemable capital stock

NRSRO: Nationally Recognized Statistical Rating Organization

OAS: Option Adjusted Spread

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.

PFI Agreement: MPF Program Participating Financial Institution Agreement

PMI: Primary mortgage insurance

REFCORP: Resolution Funding Corporation

Regulatory capital: Regulatory capital stock plus retained earnings.

Regulatory capital ratio: Regulatory capital plus Designated Amount of subordinated notes divided by total period-end assets.

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

REO: Real estate owned

RHS: Department of Agriculture Rural Housing Service

RMBS: Residential mortgage backed securities

S&P: Standard and Poor's Rating Service

SBA: Small Business Administration

SEC: Securities and Exchange Commission

SMI: Supplemental mortgage insurance

SPE: Special Purpose Entity

System: The Federal Home Loan Bank System consisting of the 12 Federal Home Loan Banks and the Office of Finance

TLGP: The FDIC's Temporary Liquidity Guarantee Program.

TVA: Tennessee Valley Authority

VA: Department of Veterans Affairs

Voluntary Capital Stock: Capital stock held by members in excess of their statutory requirement.

Voluntary Capital Stock Ratio: Voluntary capital stock divided by regulatory capital.

Signatures

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

FEDERAL HOME LOAN BANK OF CHICAGO

/s/ Matthew R. Feldman

By: Matthew R. Feldman
Title: President and Chief Executive Officer
(Principal Executive Officer)

Date: November 10, 2010

/s/ Roger D. Lundstrom

By: Roger D. Lundstrom
Title: Executive Vice President, Financial Information and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: November 10, 2010

Exhibit 31.1

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

I, Matthew R. Feldman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Federal Home Loan Bank of Chicago;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2010

By: /s/ Matthew R. Feldman
Name: Matthew R. Feldman
Title: President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Roger D. Lundstrom, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Federal Home Loan Bank of Chicago;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2010

By: /s/ Roger D. Lundstrom

Name: Roger D. Lundstrom

Title: Executive Vice President, Financial Information & Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of the Federal Home Loan Bank of Chicago (the "Bank") on Form 10-Q for the period ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew R. Feldman, President and Chief Executive Officer, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date:	November 10, 2010	By:	/s/ Matthew R. Feldman
		Name:	Matthew R. Feldman
		Title:	President and Chief Executive Officer (Principal Executive Officer)

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

Exhibit 32.2

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

In connection with the Quarterly Report of the Federal Home Loan Bank of Chicago (the "Bank") on Form 10-Q for the period ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Roger D. Lundstrom, Executive Vice President, Financial Information and Chief Financial Officer certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: November 10, 2010

By: /s/ Roger D. Lundstrom

Name: Roger D. Lundstrom

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

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