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, 2012

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 17,206,500 shares of registrant's capital stock outstanding as of October 31, 2012.

TABLE OF CONTENTS

Federal Home Loan Bank of Chicago

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

	September 30, 2012	December 31, 2011
Assets		
Cash and due from banks	$ 25	$ 1,002
Federal Funds sold	1,948	950
Securities purchased under agreements to resell	3,049	825
Investment securities -		
Trading, $0 and $15 pledged	2,685	2,935
Available-for-sale, $0 and $14 pledged	23,829	24,316
Held-to-maturity [a], $0 and $490 pledged	9,790	11,477
Total investment securities	36,304	38,728
Advances, $9 and $9 carried at fair value	13,531	15,291
MPF Loans held in portfolio, net of allowance for credit losses of $(44) and $(45)	11,266	14,118
Accrued interest receivable	127	153
Derivative assets	55	40
Software and equipment, net of accumulated amortization/depreciation of $(153) and $(143)	34	38
Other assets	105	110
Total assets	$ 66,444	$ 71,255
Liabilities		
Deposits - Interest bearing	$ 655	$ 535
- Non-interest bearing	75	113
Total deposits	730	648
Securities sold under agreements to repurchase	—	400
Consolidated obligations, net -		
Discount notes, $2,258 and $11,466 carried at fair value	27,231	25,404
Bonds, $855 and $2,631 carried at fair value	33,366	39,880
Total consolidated obligations, net	60,597	65,284
Accrued interest payable	289	203
Mandatorily redeemable capital stock	10	4
Derivative liabilities	119	206
Affordable Housing Program assessment payable	72	61
Other liabilities	295	157
Subordinated notes	1,000	1,000
Total liabilities	63,112	67,963
Commitments and contingencies - Note 16		
Capital		
Class B-1 Capital stock - putable $100 par value - 1 million shares issued and outstanding at September 30, 2012	86	
Class B-2 Capital stock - putable $100 par value - 16 million shares issued and outstanding at September 30, 2012	1,616	
Total Capital stock - putable $100 par value - 17 million shares issued and outstanding at September 30, 2012, and 24 million shares issued and outstanding at December 31, 2011	1,702	2,402
Retained earnings - unrestricted	1,506	1,289
- restricted	87	32
Total retained earnings	1,593	1,321
Accumulated other comprehensive income (loss)	37	(431)
Total capital	3,332	3,292
Total liabilities and capital	$ 66,444	$ 71,255

[a] Fair value of held-to-maturity securities: $10,690 and $12,131.

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

Federal Home Loan Bank of Chicago

Statements of Income (unaudited)
(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Interest income	**$ 466**	$ 559	**$ 1,476**	$ 1,714
Interest expense	**326**	425	**1,039**	1,325
Net interest income before provision for credit losses	**140**	134	**437**	389
Provision for credit losses	**—**	3	**8**	12
Net interest income	**140**	131	**429**	377
Non-interest gain (loss) on -				
Total other-than-temporary impairment	**—**	(7)	**(2)**	(16)
Net non-credit portion reclassified to (from) statements of comprehensive income	**—**	(7)	**(13)**	(41)
Net other-than-temporary impairment (OTTI) charges, credit portion	**—**	(14)	**(15)**	(57)
Trading securities	**(10)**	(18)	**(35)**	(40)
Derivatives and hedging activities	**(1)**	95	**2**	77
Instruments held under fair value option	**(6)**	—	**2**	(13)
Early extinguishment of debt	**—**	(21)	**—**	(21)
Other, net	**5**	19	**13**	25
Total non-interest gain (loss)	**(12)**	61	**(33)**	(29)
Non-interest expense -				
Compensation and benefits	**14**	18	**45**	47
Other operating expenses	**9**	8	**25**	25
FHFA	**2**	2	**6**	8
Office of Finance	**—**	1	**2**	3
Other	**3**	7	**12**	18
Total non-interest expense	**28**	36	**90**	101
Income before assessments	**100**	156	**306**	247
Assessments -				
Affordable Housing Program	**10**	15	**31**	22
Resolution Funding Corporation	**—**	—	**—**	17
Total assessments	**10**	15	**31**	39
Net income	**$ 90**	$ 141	**$ 275**	$ 208

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

Federal Home Loan Bank of Chicago

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	**2012**	2011
Net income	**$ 90**	$ 141	**$ 275**	$ 208
Other comprehensive income -				
Net unrealized gain (loss) on available-for-sale securities				
Unrealized gains (losses)	**265**	311	**477**	468
Total net unrealized gain (loss) on available-for-sale securities	**265**	311	**477**	468
Net unrealized gain (loss) on held-to-maturity securities [a]				
Reclassification to net income	**—**	2	**2**	3
Total net unrealized gain (loss) on held-to-maturity securities	**—**	2	**2**	3
Non-credit OTTI on available-for-sale securities				
Net change in fair value	**10**	(3)	**15**	2
Reclassification of net non-credit portion to (from) statements of income	**—**	—	**—**	6
Total non-credit OTTI on available-for-sale securities	**10**	(3)	**15**	8
Non-credit OTTI on held-to-maturity securities				
Reclassification of net non-credit portion to (from) statements of income	**—**	7	**13**	35
Accretion of non-credit portion to HTM asset	**18**	29	**55**	96
Total non-credit OTTI on held-to-maturity securities	**18**	36	**68**	131
Net unrealized gain (loss) on hedging activities				
Unrealized gains (losses)	**(33)**	(400)	**(91)**	(453)
Reclassification of net realized (gains) losses to net income	**(1)**	(23)	**(2)**	(47)
Total net unrealized gain (loss) on hedging activities	**(34)**	(423)	**(93)**	(500)
Post retirement plans - reclassification to net income	**(1)**	—	**(1)**	—
Total other comprehensive income	**258**	(77)	**468**	110
Total comprehensive income	**$ 348**	$ 64	**$ 743**	$ 318

[a] This item relates to the amortization of fair value adjustments from a 2007 transfer at fair value of available-for-sale securities to held-to-maturity securities.

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

Federal Home Loan Bank of Chicago

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

	Capital Stock - Putable		Retained Earnings			Accumulated Other Comprehensive Income (Loss)	Total Capital
	Shares [a]	Par Value	Unrestricted	Restricted	Total		
Balance, December 31, 2010	23	$ 2,333	$ 1,099	$ —	$1,099	$ (483)	$ 2,949
Comprehensive income			180	28	208	110	318
Proceeds from issuance of capital stock	1	61					61
Capital stock reclassified to mandatorily redeemable capital stock	—	(4)					(4)
Cash dividends on capital stock			(2)	—	(2)		(2)
Balance, September 30, 2011	24	$ 2,390	$ 1,277	$ 28	$1,305	$ (373)	$ 3,322
Balance, December 31, 2011	**24** [b]	**$ 2,402** [b]	**$ 1,289**	**$ 32**	**$1,321**	**$ (431)**	**$ 3,292**
Comprehensive income			**220**	**55**	**275**	**468**	**743**
Proceeds from issuance of capital stock	**1**	**144**					**144**
Repurchases of capital stock	**(8)**	**(790)**					**(790)**
Capital stock reclassified to mandatorily redeemable capital stock	**—**	**(54)**					**(54)**
Cash dividends on capital stock			**(3)**	**—**	**(3)**		**(3)**
Balance, September 30, 2012	**17**	**$ 1,702**	**$ 1,506**	**$ 87**	**$1,593**	**$ 37**	**$ 3,332**

[a] Excludes outstanding shares reclassified to mandatorily redeemable capital stock.
[b] On January 1, 2012 Capital Stock, shares and par value, were converted to B-1 and B-2 shares under our new Capital Plan.

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

Federal Home Loan Bank of Chicago

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

	Nine months ended September 30,	2012	2011
Operating	**Net cash provided by (used in) operating activities**	**$ 230**	$ (700)
Investing	Net change Federal Funds sold	**(998)**	1,058
	Net change securities purchased under agreements to resell	**(2,224)**	3,575
	Advances -		
	Principal collected	**154,336**	71,676
	Issued	**(152,564)**	(67,079)
	MPF Loans held in portfolio-		
	Principal collected	**2,841**	3,066
	Purchases	**(54)**	(40)
	Trading securities -		
	Proceeds from maturities, sales, and paydowns	**1,976**	1,820
	Purchases	**(1,648)**	(4,407)
	Held-to-maturity securities [a]-		
	Short-term held-to-maturity securities, net	**266**	467
	Proceeds from maturities	**1,542**	1,785
	Purchases	**(19)**	(1,042)
	Available-for-sale securities -		
	Proceeds from maturities and sales	**1,093**	891
	Purchases	**—**	(70)
	Proceeds from sale of foreclosed assets	**53**	52
	Capital expenditures for software and equipment	**(6)**	(4)
	Net cash provided by (used in) investing activities	**4,594**	11,748
Financing	Net change deposits	**82**	(101)
	Maturities of securities sold under agreements to repurchase	**(400)**	—
	Net proceeds from issuance of consolidated obligations -		
	Discount notes	**354,372**	616,603
	Bonds	**37,532**	30,246
	Payments for maturing and retiring consolidated obligations -		
	Discount notes	**(352,547)**	(615,186)
	Bonds	**(44,082)**	(42,572)
	Net proceeds (payments) on derivative contracts with financing element	**(61)**	(100)
	Proceeds from issuance of capital stock	**144**	61
	Repurchase or redemption of capital stock	**(790)**	—
	Redemptions of mandatorily redeemable capital stock	**(48)**	(4)
	Cash dividends paid	**(3)**	(2)
	Net cash provided by (used in) financing activities	**(5,801)**	(11,055)
	Net increase (decrease) in cash and due from banks	**(977)**	(7)
	Cash and due from banks at beginning of year	**1,002**	282
	Cash and due from banks at end of period	**$ 25**	$ 275
Supplemental	Capital stock reclassified to mandatorily redeemable capital stock	**$ 54**	$ 4
	Transfer of MPF Loans to real estate owned	**76**	54

[a] Short-term held-to-maturity securities, net consist of investment securities that have a maturity of less than 90 days when purchased. Proceeds from maturities and purchases consist of securities with maturities of 90 days or more.

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

Note 1 – Background and Basis of Presentation

The Federal Home Loan Bank of Chicago [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. 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 accounting and financial reporting policies conform to generally accepted accounting principles in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires the extensive use of management's 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. Prior period amounts have been reclassified to conform to the current period presentation. We adopted the new FASB guidance on the presentation of comprehensive income that was issued in June of 2011 effective January 1, 2012. Specifically, we adopted on a retrospective basis and elected to present comprehensive income in two separate consecutive statements. The new guidance did not change the items that are currently reported in our other comprehensive income or when an item of other comprehensive income must be reclassified into net income. As a result, the effect of the new guidance on our financial statements was limited to how we present our financial statements. 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, 2011, included in our Annual Report on Form 10-K (2011 Form 10-K) filed with the SEC.

Our investments in variable interest entities (VIEs) include, but are not limited to, senior interests in private label mortgage-backed securities (MBS) and Federal Family Education Loan Program (FFELP) asset-backed securities (ABS). We have evaluated these VIEs for the periods presented, and determined that we are not required to apply consolidation accounting since we are not the primary beneficiary in any of these VIEs. Excluding contractually required amounts, we have not provided financial or other support (explicitly or implicitly) during the periods presented in our financial statements. Further, we do not intend to provide such support in the future. The carrying amounts and classification of the assets that relate to these VIEs are shown in investment securities in our statements of condition. We have no liabilities related to these VIEs. Our maximum loss exposure for our VIEs is limited to the carrying value.

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

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[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”, and “MPF Xtra” are registered trademarks of the Federal Home Loan Bank of Chicago.

Note 2 – Summary of Significant Accounting Policies

Unless otherwise noted below, our **Summary of Significant Accounting Policies** can be found in our 2011 Form 10-K starting on page F-10. The following accounting policies have been revised or updated during 2012:

Changes in Accounting Policies

Fair Value Measurement and Disclosures

In May of 2011, the FASB issued amendments to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments serve to clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements, or change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. The amendments became effective on a prospective basis January 1, 2012. Upon adoption, we elected the “portfolio exception” for purposes of determining the nonperformance risk adjustment, if any, to the fair value of our derivative instruments. The “portfolio exception” allows for the nonperformance risk adjustment to the fair value of our derivative assets and derivative liabilities to be measured based on the net counterparty position (i.e. the price that would be received to sell a net long position or transfer a net short position for a particular credit risk exposure), rather than the individual values of financial instruments within the portfolio (i.e., the gross position). The new guidance did not have a material effect on our operating activities and financial statements at the time of adoption. Refer to **Note 15 - Fair Value Accounting** for the new disclosures**.**

Reconsideration of Effective Control for Repurchase Agreements

In April of 2011, the FASB issued an amendment to existing criteria for determining whether or not a transferor has retained effective control over securities sold under agreements to repurchase. A secured borrowing is recorded when effective control over the transferred financial assets is maintained while a sale is recorded when effective control over the transferred financial assets has not been maintained. The amendment became effective on a prospective basis for us beginning January 1, 2012. The new guidance did not have an effect on our operating activities and financial statements at the time of adoption.

Note 3 – Recently Issued but Not Yet Adopted Accounting Standards

Asset Classification and Charge-offs

On April 9, 2012, the FHFA issued Advisory Bulletin 2012-02, Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention (AB 2012-02). The guidance establishes a standard and uniform methodology for classifying assets and prescribes the timing of asset charge-offs, excluding investment securities. The guidance in AB 2012-02 is generally consistent with the Uniform Retail Credit Classification and Account Management Policy issued by the federal banking regulators in June 2000. AB 2012-02 states that it was effective upon issuance. We are currently assessing the provisions of AB 2012-02 in coordination with the FHFA and therefore have not yet determined when we will implement the guidance, or its effect on our operating activities or financial statements.

Disclosures about Offsetting Assets and Liabilities

In December of 2011, the FASB issued new disclosure requirements pertaining to offsetting (netting) of assets and liabilities to increase the comparability between the statement of financial position prepared under U.S. GAAP and the statement of financial position prepared under IFRS. Currently, offsetting requirements represent a significant difference between amounts presented in the statement of financial position of entities that prepare their statement of financial position pursuant to U.S. GAAP versus entities that prepare their statement of financial position pursuant to IFRS. We would be required to disclose both gross information and net information about both instruments and transactions eligible for offset in our statement of condition and instruments and transactions subject to an agreement such as a master netting arrangement. Similar agreements include (1) derivative clearing agreements, (2) global master repurchase agreements, and (3) global master securities lending agreements. Similar financial instruments include (1) derivatives, (2) sale and repurchase agreements and reverse sale and repurchase agreements, and (3) securities borrowing and securities lending arrangements. Our policy is to only offset derivative instruments in our statements of condition. We do not have other financial instruments within the scope of the new guidance that are subject to an enforceable master netting arrangement or similar agreement. The new guidance takes effect for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The disclosure requirements would be applied retrospectively for all comparative periods presented.

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,	
	2012	2011	**2012**	2011
Interest income -				
Federal Funds sold	**$ 1**	$ 1	**$ 2**	$ 3
Securities purchased under agreements to resell	**1**	—	**3**	4
Interest bearing deposits	**—**	—	**1**	—
Investment securities -				
Trading	**12**	22	**43**	53
Available-for-sale	**160**	162	**486**	489
Held-to-maturity	**102**	125	**326**	390
Total investment securities	**274**	309	**855**	932
Advances	**46**	53	**140**	183
Advance prepayment fees, net of fair value hedge adjustments of $(0), $(43), $(24), and $(50)	**19**	15	**54**	20
Total Advances	**65**	68	**194**	203
MPF Loans held in portfolio	**127**	183	**429**	578
Less: Credit enhancement fees	**(2)**	(2)	**(8)**	(6)
MPF Loans held in portfolio, net	**125**	181	**421**	572
Total interest income	**466**	559	**1,476**	1,714
Interest expense -				
Securities sold under agreements to repurchase	**—**	4	**—**	13
Consolidated obligations -				
Discount notes	**77**	88	**230**	278
Bonds	**235**	318	**766**	991
Total consolidated obligations	**312**	406	**996**	1,269
Subordinated notes	**14**	15	**43**	43
Total interest expense	**326**	425	**1,039**	1,325
Net interest income before provision for credit losses	**140**	134	**437**	389
Provision for credit losses	**—**	3	**8**	12
Net interest income	**$ 140**	$ 131	**$ 429**	$ 377

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

Note 5 – Investment Securities

Our major security types presented in the tables below are defined as follows:

- U.S. Government & other government related consists of the sovereign debt of the United States; debt issued by Fannie Mae, Freddie Mac, and the Federal Farm Credit Banks Funding Corporation; and non mortgage-backed securities of the Small Business Administration, Federal Deposit Insurance Corporation (FDIC), and Tennessee Valley Authority.
- Federal Family Education Loan Program - asset backed securities (FFELP ABS)
- Government Sponsored Enterprises (GSE) residential consists of mortgage-backed securities (MBS) issued by Fannie Mae and Freddie Mac.
- Government-guaranteed residential consists of MBS issued by Ginnie Mae.
- Private-label residential MBS

Gains and losses on sales of securities are determined using the specific identification method and are included in non-interest gain (loss) on the statements of income.

Pledged Collateral

We enter into bilateral collateral agreements and execute derivatives and other transactions with major banks and broker-dealers, and we may pledge investment securities as collateral under these agreements as noted on the face of the Statements of Condition. See **Note 9 - Derivatives and Hedging Activities** for further details.

Trading Securities

The following table presents the fair value of our trading securities:

As of	September 30, 2012	December 31, 2011
U.S. Government & other government related	$ 2,545	$ 2,737
MBS:		
GSE residential	137	195
Government-guaranteed residential	3	3
Total MBS	140	198
Total trading securities	$ 2,685	$ 2,935

At September 30, 2012, and 2011, we had net year-to-date unrealized gains (losses) of $(35) million and $(39) million on trading securities still held at period end.

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

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

	Amortized Cost Basis	Non-Credit OTTI Recognized in AOCI (Loss)	Gross Unrealized Gains in AOCI	Gross Unrealized Losses in AOCI	Fair Value
As of September 30, 2012					
U.S. Government & other government related	**$ 713**	**$ —**	**$ 63**	**$ —**	**$ 776**
FFELP ABS	**7,176**	**—**	**525**	**(14)**	**7,687**
MBS:					
GSE residential	**11,494**	**—**	**897**	**(65)**	**12,326**
Government-guaranteed residential	**2,786**	**—**	**185**	**—**	**2,971**
Private-label residential	**81**	**(11)**	**—**	**(1)**	**69**
Total MBS	**14,361**	**(11)**	**1,082**	**(66)**	**15,366**
Total	**$ 22,250**	**$ (11)**	**$ 1,670**	**$ (80)**	**$ 23,829**
As of December 31, 2011					
U.S. Government & other government related	$ 947	$ —	$ 56	$ (2)	$ 1,001
FFELP ABS	7,796	—	398	(35)	8,159
MBS:					
GSE residential	11,565	—	658	(91)	12,132
Government-guaranteed residential	2,831	—	130	—	2,961
Private-label residential	90	(26)	—	(1)	63
Total MBS	14,486	(26)	788	(92)	15,156
Total	$ 23,229	$ (26)	$ 1,242	$ (129)	$ 24,316

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

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

	Amortized Cost Basis	Non-credit OTTI Recognized in AOCI (Loss)	Carrying Value	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Fair Value
As of September 30, 2012						
U.S. Government & other government related	**$ 2,252**	**$ —**	**$ 2,252**	**$ 139**	**$ —**	**$ 2,391**
State or local housing agency	**25**	**—**	**25**	**—**	**—**	**25**
MBS:						
GSE residential	**4,653**	**—**	**4,653**	**422**	**—**	**5,075**
Government-guaranteed residential	**1,353**	**—**	**1,353**	**53**	**—**	**1,406**
Private-label residential	**1,905**	**(398)**	**1,507**	**295**	**(9)**	**1,793**
Total MBS	**7,911**	**(398)**	**7,513**	**770**	**(9)**	**8,274**
Total	**$ 10,188**	**$ (398)**	**$ 9,790**	**$ 909**	**$ (9)**	**$ 10,690**
As of December 31, 2011						
U.S. Government & other government related	$ 2,573	$ —	$ 2,573	$ 104	$ —	$ 2,677
State or local housing agency	27	—	27	—	—	27
MBS:						
GSE residential	5,761	—	5,761	423	—	6,184
Government-guaranteed residential	1,414	—	1,414	34	—	1,448
Private-label residential	2,168	(466)	1,702	145	(52)	1,795
Total MBS	9,343	(466)	8,877	602	(52)	9,427
Total	$ 11,943	$ (466)	$ 11,477	$ 706	$ (52)	$ 12,131

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

Aging of Unrealized Temporary Losses

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

Available-for-Sale Securities

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
As of September 30, 2012						
U.S. Government & other government related	**$ —**	**$ —**	**$ 49**	**$ —**	**$ 49**	**$ —**
FFELP ABS	**—**	**—**	**1,123**	**(14)**	**1,123**	**(14)**
MBS:						
GSE residential	**—**	**—**	**3,685**	**(65)**	**3,685**	**(65)**
Private-label residential	**—**	**—**	**69**	**(12)** [a]	**69**	**(12)** [a]
Total MBS	**—**	**—**	**3,754**	**(77)**	**3,754**	**(77)**
Total available-for-sale securities	**$ —**	**$ —**	**$ 4,926**	**$ (91)**	**$ 4,926**	**$ (91)**
As of December 31, 2011						
U.S. Government & other government related	$ 98	$ (2)	$ —	$ —	$ 98	$ (2)
FFELP ABS	223	(3)	1,203	(32)	1,426	(35)
MBS:						
GSE residential	4,073	(91)	—	—	4,073	(91)
Government-guaranteed residential	33	—	80	—	113	—
Private-label residential	—	—	63	(27) [a]	63	(27) [a]
Total MBS	4,106	(91)	143	(27)	4,249	(118)
Total available-for-sale securities	$ 4,427	$ (96)	$ 1,346	$ (59)	$ 5,773	$ (155)

[a] Includes $36 million and $28 million of gross unrealized/unrecognized recoveries in fair value at September 30, 2012, and at December 31, 2011.

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

Held-to-Maturity Securities

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
As of September 30, 2012						
MBS:						
Private-label residential	**$ —**	**$ —**	**$ 1,645**	**$ (407)**	**$ 1,645**	**$ (407)**
Total MBS	**—**	**—**	**1,645**	**(407)**	**1,645**	**(407)**
Total held-to-maturity securities	**$ —**	**$ —**	**$ 1,645**	**$ (407)**	**$ 1,645**	**$ (407)**
As of December 31, 2011						
U.S. Government & other government related	$ 7	$ —	$ —	$ —	$ 7	$ —
MBS:						
GSE residential	—	—	37	—	37	—
Private-label residential	—	—	1,653	(518)	1,653	(518)
Total MBS	—	—	1,690	(518)	1,690	(518)
Total held-to-maturity securities	$ 7	$ —	$ 1,690	$ (518)	$ 1,697	$ (518)

Contractual Maturity Terms

The table below presents the amortized cost basis and fair value of AFS and HTM securities by contractual maturity, excluding ABS and MBS securities. These securities are excluded because their expected maturities may differ from their contractual maturities if borrowers of the underlying loans elect to prepay their loans.

	Available-for-Sale		Held-to-Maturity	
As of September 30, 2012	Amortized Cost	Fair Value	Carrying Value	Fair Value
Year of Maturity -				
Due in one year or less	**$ —**	**$ —**	**$ 506**	**$ 509**
Due after one year through five years	**113**	**122**	**58**	**59**
Due after five years through ten years	**105**	**114**	**493**	**520**
Due after ten years	**495**	**540**	**1,220**	**1,328**
Total non-ABS/MBS	**713**	**776**	**2,277**	**2,416**
ABS and MBS	**21,537**	**23,053**	**7,513**	**8,274**
Total securities	**$ 22,250**	**$ 23,829**	**$ 9,790**	**$ 10,690**

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

Other-Than-Temporary Impairment

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 are 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 any investment security before the recovery of its 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. See **Statements of Comprehensive Income** on page 5.

Significant Inputs Used on OTTI Securities

Our OTTI analysis of our private-label MBS includes key modeling assumptions, significant inputs, and methodologies provided by an FHLB System OTTI Committee. We use the information provided to generate cash flow projections used in analyzing credit losses and determining OTTI for private-label MBS. The OTTI Committee was formed by the FHLBs to achieve consistency among the FHLBs in their analyses of the OTTI of private-label MBS. We are responsible for making our own determination of impairment, which includes determining the reasonableness of assumptions, significant inputs, and methodologies used, and performing the required present value calculations using appropriate historical cost bases and yields.

In cases where the fair value of a private-label MBS is less than its amortized cost basis at the balance sheet date, we assess whether its entire amortized cost basis will be recovered. Specifically, we perform a cash flow analysis for substantially all of these securities that utilizes two models provided by independent third parties.

The first model considers borrower characteristics and the particular attributes of the loans underlying the securities, in conjunction with assumptions about future changes in home prices and interest rates, prepayment rates, default rates, and loss severities. A significant input to the first model is the forecast of future housing price changes for the relevant states and core based statistical areas (CBSAs), which are based upon an assessment of the individual housing markets. CBSA refers collectively to metropolitan and micropolitan statistical areas as defined by the United States Office of Management and Budget; as currently defined, a CBSA must contain at least one urban area with a population of 10,000 or more people.

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

Our housing price forecast as of September 30, 2012 assumed current-to-trough home price declines ranging from 0.0% (for those housing markets that are believed to have reached their trough) to 4.0%. For those markets where further home price declines are anticipated, the declines were projected to occur over the 3- to 9-month period beginning July 1, 2012. From the trough, home prices were projected to recover using one of five different recovery paths that vary by housing market. For the vast majority of markets for which further home price declines are anticipated, the declines were projected to range from 1% to 2% over the 3-month period beginning July 1, 2012.

The following table presents the projected home price recovery by future month.

As of September 30, 2012	**Recovery Range Annualized %**	
Months	**Low**	**High**
1-6	**0.0%**	**2.8%**
7-18	**0.0%**	**3.0%**
19-24	**1.0%**	**4.0%**
25-30	**2.0%**	**4.0%**
31-42	**2.0%**	**5.0%**
43-66	**2.0%**	**6.0%**
Thereafter	**2.3%**	**5.6%**

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

The table below presents the inputs we used to measure the amount of the credit loss recognized in earnings during the current period attributable to OTTI securities. The model used to estimate cash flows classifies the OTTI securities as either prime, Alt-A, or subprime based on an assessment as of the current period rather than the classification at the time of issuance.

		Prepayment Rates			Default Rates			Loss Severities			Credit Enhancement		
		%	Range %		%	Range %		%	Range %		%	Range %	
As of September 30, 2012	Unpaid Principal Balance	Weighted Average	Low	High	Weighted Average	Low	High	Weighted Average	Low	High	Weighted Average	Low	High
2006 Prime	$ 103	8.4	8.1	9.3	36.6	27.4	40.6	42.3	40.0	43.3	3.2	1.9	6.3
2006 Subprime	15	2.8	2.0	3.6	79.8	71.5	87.5	74.2	69.3	78.7	1.3	—	2.5
Total	**$ 118**	**7.7**	**2.0**	**9.3**	**42.2**	**27.4**	**87.5**	**46.4**	**40.0**	**78.7**	**3.0**	**—**	**6.3**

In the following two tables, we classify our private-label MBS as prime, subprime, or Alt-A based upon the nature of the majority of underlying mortgages collateralizing each security based on the issuer's classification, or as published by a nationally recognized statistical rating organization (NRSRO), at the time of issuance of the MBS. On October 15, 2010, we instituted litigation relating to sixty-four private label MBS bonds purchased by us in an aggregate original principal amount of approximately $4.29 billion. Our complaints assert claims for untrue or misleading statements in the sale of securities, and it is possible that the classifications of private-label MBS, as well as other statements made about the securities by the issuer, are inaccurate.

The following table presents the current outstanding balances on private-label MBS that were other-than-temporarily impaired at some point during the life of the securities. This table does not include HTM and AFS securities that are in an unrealized loss position, which have not had an OTTI charge during the life of the security.

As of September 30, 2012	Unpaid Principal Balance	Amortized Cost Basis	Carrying Value	Fair Value
Private-label residential MBS:				
Alt-A	**$ 124**	**$ 79**	**$ 68**	**$ 68**
Total OTTI AFS securities	**$ 124**	**$ 79**	**$ 68**	**$ 68**
Private-label residential MBS:				
Prime	**$ 1,419**	**$ 1,098**	**$ 818**	**$ 1,024**
Subprime	**842**	**547**	**429**	**509**
Total OTTI HTM securities	**$ 2,261**	**$ 1,645**	**$ 1,247**	**$ 1,533**

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

We recognized OTTI as presented in the following table. Net non-credit portion reclassified (from) to AOCI represents the net amount of impairment losses recognized into earnings from AOCI or reclassified to AOCI from earnings.

	Total OTTI	Net Non-credit Portion (from) to AOCI	OTTI Credit Portion
Three months ended September 30, 2012			
Total OTTI	**$ —**	**$ —**	**$ —**
Three months ended September 30, 2011			
Prime	$ —	$ (11)	$ (11)
Subprime	(7)	4	(3)
Total OTTI	$ (7)	$ (7)	$ (14)
Nine months ended September 30, 2012			
Prime	**$ —**	**$ (14)**	**$ (14)**
Subprime	**(2)**	**1**	**(1)**
Total OTTI	**$ (2)**	**$ (13)**	**$ (15)**
Nine months ended September 30, 2011			
Prime	$ —	$ (35)	$ (35)
Alt-A	—	(6)	(6)
Subprime	(16)	—	(16)
Total OTTI	$ (16)	$ (41)	$ (57)

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

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

Three months ended September 30,	**2012**	2011
Beginning Balance	**$ 724**	$ 694
Additions:		
Additional credit losses on securities for which an OTTI charge was previously recognized	**—**	14
Total OTTI credit losses recognized in the period	**—**	14
Reductions:		
Securities sold, matured, paid down, or prepaid over the period	**—**	(1)
Increases in cash flows expected to be collected that have been recognized into net income	**(1)**	—
Ending Balance	**$ 723**	$ 707
Nine months ended September 30,		
Beginning Balance	**$ 712**	$ 653
Additions:		
Additional credit losses on securities for which an OTTI charge was previously recognized	**15**	57
Total OTTI credit losses recognized in the period	**15**	57
Reductions:		
Securities sold, matured, paid down, or prepaid over the period	**—**	(1)
Increases in cash flows expected to be collected that have been recognized into net income	**(4)**	(2)
Ending Balance	**$ 723**	$ 707

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

Note 6 – Advances

We offer a wide range of fixed- and variable-rate advance products with different maturities, interest rates, payment characteristics and optionality. The following table presents our advances by callable/putable features:

As of	September 30, 2012	December 31, 2011
Noncallable/nonputable	$ 10,357	$ 11,456
Callable	771	806
Putable	2,190	2,828
Total par value	13,318	15,090
Hedging adjustments	185	189
Other adjustments	28	12
Total advances	$ 13,531	$ 15,291

The following table presents our advances by redemption terms:

As of September 30, 2012	Amount	Weighted Average Interest Rate	Next Maturity or Call Date	Next Maturity or Put Date
Due in one year or less	$ 4,211	0.99%	$ 4,966	$ 6,364
One to two years	1,054	2.44%	960	1,046
Two to three years	1,016	1.86% [a]	966	1,009
Three to four years	1,504	3.25%	1,254	741
Four to five years	1,280	3.15%	1,080	847
More than five years	4,253	1.45% [a]	4,092	3,311
Total par value	$ 13,318	1.78%	$ 13,318	$ 13,318

[a] Weighted average interest rate is due to the inclusion of significant variable-rate advances.

Advances Concentration

As of September 30, 2012, the following advance borrowers exceeded 10% of our total advances outstanding: BMO Harris Bank National Association with $2.4 billion or 18% and State Farm Bank, F.S.B with $1.7 billion or 13%.

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

Note 7 – MPF Loans

We developed the MPF Program to allow us to invest in mortgages to help fulfill our housing mission and provide an additional source of liquidity to our members. The MPF Program is a secondary mortgage market structure under which we acquired and funded eligible mortgage loans from or through PFIs, and in some cases we purchased participations in pools of eligible mortgage loans from other FHLBs (MPF Banks). MPF Loans are defined as conforming conventional and Government fixed-rate mortgage loans secured by one-to-four family residential properties with maturities ranging from 5 years to 30 years or participations in such mortgage loans.

The following table presents information on MPF Loans held in our portfolio by contractual maturity at time of purchase. All are fixed-rate. Government is 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). MPF Loans outstanding continue to decrease as a result of our ongoing strategy to not add MPF Loans to our balance sheet, except for loans being acquired under our affordable housing programs.

As of	**September 30, 2012**	December 31, 2011
Medium term (15 years or less)	**$ 2,827**	$ 3,810
Long term (greater than 15 years)	**8,335**	10,155
Total unpaid principal balance	**11,162**	13,965
Net premiums, credit enhancement and deferred loan fees	**41**	53
Hedging adjustments	**107**	145
Total before allowance for credit losses	**11,310**	14,163
Allowance for credit losses	**(44)**	(45)
Total MPF Loans held in portfolio, net	**$ 11,266**	$ 14,118
Conventional	**$ 8,954**	$ 11,433
Government	**2,208**	2,532
Total unpaid principal balance	**$ 11,162**	$ 13,965

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

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

Note 8 – Allowance for Credit Losses

We have established an allowance methodology for each of our portfolio segments:

- credit products (advances, letters of credit and other extensions of credit to borrowers);
- conventional MPF Loans held for portfolio;
- government MPF Loans held for portfolio; and
- term Federal Funds sold and term securities purchased under agreements to resell.

For detailed information on these methodologies and our accounting policies please see **Note 9 - Allowance for Credit Losses** in our 2011 Form 10-K.

Credit Products

For the periods presented, we had no credit products that were past due, on nonaccrual status, or considered impaired. In addition, there have been no troubled debt restructurings related to our credit products during the periods then ended. Based upon the collateral we held as security, our credit extension and collateral policies, our credit analysis and the repayment history on credit products, we do not believe that any credit losses have been incurred on our credit products; accordingly, we have not recorded any allowance for credit losses for our credit products. Additionally, no liability was recorded to reflect an allowance for credit losses for our credit products with off-balance sheet credit exposures.

Conventional MPF Loans

MPF Risk Sharing Structure

For a definition of **MPF Risk Sharing Structure** see page F-36 in our 2011 Form 10-K. We share the risk of credit losses on conventional MPF Loan products with our PFIs (excluding the MPF Xtra product) by structuring potential losses on conventional MPF Loans into layers with respect to each master commitment (MC). We require that conventional MPF Loans held in our portfolio be credit enhanced at inception so that our risk of loss is limited to be equivalent to the losses of an investor in an AA rated mortgage backed security. As a part of our methodology to determine the amount of credit enhancement necessary, we analyze the risk characteristics of each MPF Loan using a model licensed from an NRSRO. We use the model to evaluate loan data provided by the PFI as well as other relevant information.

The table below presents the impact of the MPF Risk Sharing Structure and severity rates on our allowance for credit losses. As of September 30, 2012, our Total Severity Rate for the MPF Risk Sharing Structure was 38.0%, which included a weighted average Credit Loss Severity Rate of 22.0% attributable to the MPF Loan pool and impaired collateral dependent MPF Loans. Comparable rates at December 31, 2011, were 35.0% and 19.3%. For detailed definitions of how Total Severity Rate and Credit Loss Severity Rate are calculated, see **Loss Severity** on page F-38 in our 2011 Form 10-K.

As of	**September 30, 2012**	December 31, 2011
Total estimated losses outstanding	**$ 91**	$ 97
Less: losses expected to be absorbed by MPF Risk Sharing Structure	**(23)**	(23)
Our share of total losses	**68**	74
Less: non-credit losses [a]	**(29)**	(34)
Credit losses	**39**	40
Plus: other estimated credit losses in the remaining portfolio	**5**	5
Allowance for credit losses on conventional MPF Loans	**$ 44**	$ 45

[a] Non-credit losses represent period costs on Real Estate Owned (REO), for example, real estate taxes and maintenance costs and the economic loss of interest income that was contractually due but which was not recognized in our financial statements as the impaired MPF Loans were placed on nonaccrual status.

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

The following table presents the changes in the allowance for credit losses on conventional MPF Loans and the recorded investment by impairment methodology.

	September 30, 2012	September 30, 2011
For the three months ended		
Allowance for credit losses on conventional MPF Loans-		
Balance, beginning of period	$ 48	$ 39
Losses charged to the allowance	(4)	(1)
Provision for credit losses	—	3
Balance, end of period	$ 44	$ 41
For the nine months ended		
Allowance for credit losses on conventional MPF Loans-		
Balance, beginning of period	$ 45	$ 33
Losses charged to the allowance	(9)	(4)
Provision for credit losses	8	12
Balance, end of period	$ 44	$ 41
As of	September 30, 2012	December 31, 2011
Allowance assigned to conventional MPF Loans-		
Specifically identified and individually evaluated for impairment	$ 31	$ 26
Homogeneous pools of loans and collectively evaluated for impairment	13	19
Total	$ 44	$ 45
Recorded Investment in Conventional MPF Loans-		
Individually evaluated for impairment - with an allowance	$ 223	$ 204
Collectively evaluated for impairment	8,910	11,470
Total	$ 9,133	$ 11,674

Government MPF Loans Held for Portfolio

We invest in fixed-rate government MPF Loans which are insured or guaranteed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), the Rural Housing Service of the Department of Agriculture (RHS), and/or by the Department of Housing and Urban Development (HUD). The PFI provides and maintains insurance or a guaranty from these agencies. The PFI is responsible for compliance with all government agency requirements and for obtaining the benefit of the applicable insurance or guaranty with respect to defaulted government MPF Loans. Any losses incurred on such loans that are not recovered from the issuer or guarantor, are absorbed by the servicing PFIs. Therefore, we only have credit risk for these loans if the servicing PFI fails to pay for losses not covered by FHA or HUD insurance, or VA or RHS guarantees. In this regard, based on our assessment of our servicing PFIs, we did not establish an allowance for credit losses for our government MPF Loan portfolio as of the periods presented. Further, due to the government guarantee or insurance, these loans are not placed on nonaccrual status.

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

Credit Quality Indicators - MPF Loans

The table below summarizes our recorded investment in MPF Loans by our key credit quality indicators.

	September 30, 2012			December 31, 2011		
As of	**Conventional**	**Government**	**Total**	Conventional	Government	Total
Past due 30-59 days	**$ 178**	**$ 123**	**$ 301**	$ 222	$ 161	$ 383
Past due 60-89 days	**58**	**42**	**100**	74	55	129
Past due 90 days or more	**265**	**224**	**489**	303	248	551
Total past due	**501**	**389**	**890**	599	464	1,063
Total current	**8,632**	**1,846**	**10,478**	11,075	2,097	13,172
Total recorded investment	**$ 9,133**	**$ 2,235**	**$ 11,368**	$ 11,674	$ 2,561	$ 14,235
In process of foreclosure	**$ 159**	**$ 85**	**$ 244**	$ 193	$ 63	$ 256
Serious delinquency rate [a]	**2.91%**	**10.06%**	**4.32%**	2.62%	9.69%	3.89%
Past due 90 days or more still accruing interest [b]	**$ 79**	**$ 225**	**$ 304**	$ 128	$ 248	$ 376
On nonaccrual status	**$ 228**	**$ —**	**$ 228**	$ 211	$ —	$ 211

[a] MPF Loans that are 90 days or more past due or in the process of foreclosure as a percentage of the total recorded investment.
[b] Consists of MPF Loans that are either government mortgage loans or conventional mortgage loans that are well secured (by collateral that have a realizable value sufficient to discharge the debt or by the guarantee or insurance, such as PMI, of a financially responsible party) and in the process of collection.

Troubled Debt Restructurings

We consider a troubled debt restructuring to have occurred when we grant a concession to a borrower that we would not otherwise consider for economic or legal reasons related to the borrower's financial difficulties. An MPF Loan involved in our troubled debt restructuring program is individually evaluated for impairment when determining its related allowance for credit losses. Credit loss is measured by factoring in expected cash shortfalls (i.e., loss severity rate) incurred as of the reporting date as well as the economic loss attributable to delaying the original contractual principal and interest due dates.

In the event a borrower qualifies for a troubled debt restructuring under our program, we typically modify the borrower's monthly payment for a period of up to 36 months to try to achieve a target housing expense ratio of not more than 31% of their monthly qualifying income. Any and all delinquent interest on the loan may be capitalized as long as the resulting principal balance does not exceed the original principal balance, otherwise all delinquent interest is written off. Next, we re-amortize the new outstanding balance to reflect a principal and interest payment for a term not to exceed 40 years and attempt to achieve the target housing expense ratio. This results in a balloon payment at the original maturity date of the loan as the maturity date and number of remaining monthly payments are not adjusted. If the target housing expense ratio is still not met, we reduce the interest rate in 0.125% increments below the original note rate, to a floor rate of 3.00% for up to 36 months, in an effort to further reduce principal and interest payments again, until the target housing expense ratio is met.

Our recorded investment in troubled debt restructurings on our conventional MPF Loans that occurred during the three and nine months ended September 30, 2012, was $2 million and $7 million, and during the three and nine months ended September 30, 2011, was $2 million and $5 million. These amounts represent both the pre- and post- modification amounts recorded in our statement of condition as of the date the troubled debt restructurings were consummated. The pre- and post- modification amounts are the same as we did not record any write-offs either due to the forgiveness of principal or a direct write-off due to a confirmed loss.

Troubled debt restructurings that were modified during the previous 12 months that subsequently defaulted during the nine months ended September 30, 2012, were $8 million. A borrower is considered to have defaulted on a troubled debt restructuring if their contractually due principal or interest payment is sixty days past due at any time during the past 12 months. In certain cases, these troubled debt restructurings may have subsequently become current.

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

Individually Evaluated Impaired Loans

The following table summarizes the recorded investment, unpaid principal balance, and related allowance of impaired MPF Loans individually assessed for impairment, which includes impaired collateral dependent MPF Loans and troubled debt restructurings. We had no impaired MPF Loans without an allowance for either date.

	September 30, 2012			December 31, 2011		
As of	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired conventional MPF Loans with an allowance	**$ 223**	**$ 221**	**$ 31**	$ 204	$ 202	$ 26

The following table summarizes the average recorded investment of impaired MPF Loans and related interest recognized.

	September 30, 2012		September 30, 2011	
For the periods ended	**Average Recorded Investment**	**Interest Income Recognized**	Average Recorded Investment	Interest Income Recognized
Three months	**$ 210**	**$ 3**	$ 138	$ 2
Nine months	**207**	**7**	136	5

Real Estate Owned

We had $60 million and $46 million in REO, recorded in other assets, at September 30, 2012, and December 31, 2011.

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

These financing receivables are short-term and the recorded balance approximates fair value. All federal funds sold were repaid according to the contractual terms. Federal Funds are only evaluated for purposes of an allowance for credit losses if the investment is not paid when due.

Securities purchased under agreements to resell are considered collateralized financing arrangements and effectively represent short-term loans with highly rated counterparties. The terms of these loans are structured such that if the market values of the underlying securities decrease below the market value required as collateral, the counterparty must place an equivalent amount of additional securities as collateral or remit an equivalent amount of cash, or the dollar value of the resale agreement will be decreased accordingly. If an agreement to resell is deemed to be impaired, the difference between the fair value of the collateral and the amortized cost of the agreement is charged to earnings. Based upon the collateral held as security, we have determined that no allowance for credit losses was needed for our securities purchased under agreements to resell. All securities purchased under agreements to resell were repaid according to the contractual terms.

Note 9 – Derivatives and Hedging Activities

Refer to **Note 2 - Summary of Significant Accounting Polices** in our 2011 Form 10-K for our accounting policies for derivatives. Subsequent to the filing of that 10-K, we have added forward starting advances, which lock in the current market interest rate for future settlement of the advance. We may hedge a firm commitment for a forward-starting advance through the use of an interest rate swap. In this case, the swap will function as the hedging instrument for both the firm commitment and the subsequent advance. The carrying value of the firm commitment will be included in the basis of the advance at the time the commitment is terminated and the advance is issued. The basis adjustment will then be amortized into interest income over the life of the advance.

Managing Credit Risk on Derivative Agreements

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 adherence to the requirements set forth in our policies and FHFA regulations. We require collateral agreements on all derivatives that establish collateral delivery thresholds. Additionally, collateral related to derivatives with member institutions includes collateral assigned to us, as evidenced by a written security agreement, and held by the member institution for our benefit. Based on credit analyses and collateral requirements, we do not anticipate any credit losses on our derivative agreements. See **Note 15 - Fair Value Accounting** for discussion regarding our fair value methodology for derivative assets and liabilities, including an evaluation of the potential for the fair value of these instruments to be affected by counterparty credit risk.

Our derivative agreements contain provisions that require us to post additional collateral with our counterparties if there is deterioration in our credit rating, except for those derivative agreements with a zero unsecured collateral threshold for both parties, in which case positions are required to be fully collateralized regardless of credit rating. If our credit rating is lowered by a major credit rating agency, such as Standard and Poor's or Moody’s, we would be required to deliver additional collateral on derivatives in net liability positions. If our credit rating had been lowered from its current rating to the next lower rating, we would have been required to deliver up to an additional $91 million of collateral at fair value to our derivatives counterparties at September 30, 2012.

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

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

The following table summarizes our derivatives, including cash collateral and related interest where we had the right to reclaim the collateral on derivative assets. We delivered no excess collateral on derivative liabilities for the periods presented.

As of	**September 30, 2012** Notional Amount	Derivative Assets	Derivative Liabilities	December 31, 2011 Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives in hedge accounting relationships-						
Interest rate swaps	**$ 25,509**	**$ 132**	**$ 2,233**	$ 28,240	$ 203	$ 2,099
Interest rate swaptions	**—**	**—**	**—**	370	32	—
Total	**25,509**	**132**	**2,233**	28,610	235	2,099
Derivatives not in hedge accounting relationships-						
Interest rate swaps	**17,889**	**740**	**691**	38,159	927	785
Interest rate swaptions	**6,290**	**164**	**—**	4,820	179	—
Interest rate caps or floors	**1,913**	**243**	**—**	1,913	254	—
Mortgage delivery commitments	**1,499**	**25**	**25**	502	4	4
Total	**27,591**	**1,172**	**716**	45,394	1,364	789
Total before adjustments	**$ 53,100**	**1,304**	**2,949**	$ 74,004	1,599	2,888
Netting adjustments [a]		**(1,214)**	**(1,214)**		(1,461)	(1,461)
Exposure at fair value [b]		**90**	**1,735**		138	1,427
Cash collateral and related accrued interest		**(35)**	**(1,616)**		(98)	(1,221)
Derivative assets and liabilities		**$ 55**	**$ 119**		$ 40	$ 206

[a] Amounts represent the effect of legally enforceable master netting agreements that allow us to settle positive and negative positions.
[b] Includes net accrued interest receivable of $3 million as of September 30, 2012, and $13 million as of December 31, 2011.

The following tables present the components of derivatives and hedging activities as presented in the statements of income.

For the periods ending	Three months ended September 30, **2012**	2011	Nine months ended September 30, **2012**	2011
Fair value hedges -				
Interest rate swaps	**$ —**	$ (16)	**$ (3)**	$ (10)
Other	**—**	2	**1**	(5)
Fair value hedges - ineffectiveness net gain (loss)	**—**	(14)	**(2)**	(15)
Cash flow hedges - ineffectiveness net gain (loss)	**—**	26	**2**	40
Economic hedges -				
Interest rate swaps	**(29)**	(180)	**(75)**	(185)
Interest rate swaptions	**6**	201	**24**	141
Interest rate caps/floors	**(2)**	42	**(11)**	32
Interest rate futures/TBA	**—**	—	**—**	—
Mortgage delivery commitments	**1**	—	**1**	—
Net interest settlements	**23**	20	**63**	64
Economic hedges - net gain (loss)	**(1)**	83	**2**	52
Net gains (losses) on derivatives and hedging activities	**$ (1)**	$ 95	**$ 2**	$ 77

Federal Home Loan Bank of Chicago
Notes to Financial Statements - (Unaudited)
(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 effect of those derivatives on our net interest income.

	Gain (Loss) on Derivative	Gain (Loss) on Hedged Item	Total Gain (Loss) Ineffectiveness Recognized in Derivatives and Hedging Activities	Effect of Derivatives on Net Interest Income [a]	Hedge Adjustments Amortized into Net Interest Income [b]
Three months ended September 30, 2012					
Hedged item type -					
Available-for-sale securities	**$ (35)**	**$ 36**	**$ 1**	**$ (33)**	**$ —**
Advances	**(5)**	**6**	**1**	**(19)**	**—**
MPF Loans held for portfolio	**—**	**—**	**—**	**—**	**(12)**
Consolidated obligation bonds	**(4)**	**2**	**(2)**	**31**	**(6)**
Total	**$ (44)**	**$ 44**	**$ —**	**$ (21)**	**$ (18)**
Three months ended September 30, 2011					
Hedged item type -					
Available-for-sale securities	$ (335)	$ 323	$ (12)	$ (36)	$ —
Advances	(43)	44	1	(29)	(42)
MPF Loans held for portfolio	4	(2)	2	(1)	(12)
Consolidated obligation bonds	162	(167)	(5)	79	(11)
Total	$ (212)	$ 198	$ (14)	$ 13	$ (65)
Nine months ended September 30, 2012					
Hedged item type -					
Available-for-sale investments	**$ (112)**	**$ 111**	**$ (1)**	**$ (98)**	**$ —**
Advances	**(13)**	**20**	**7**	**(64)**	**(24)**
MPF Loans held for portfolio	**1**	**—**	**1**	**(2)**	**(39)**
Consolidated obligation bonds	**3**	**(12)**	**(9)**	**111**	**(22)**
Total	**$ (121)**	**$ 119**	**$ (2)**	**$ (53)**	**$ (85)**
Nine months ended September 30, 2011					
Hedged item type -					
Available-for-sale investments	$ (419)	$ 405	$ (14)	$ (103)	$ —
Advances	(26)	34	8	(115)	(51)
MPF Loans held for portfolio	(2)	(4)	(6)	(6)	(37)
Consolidated obligation bonds	291	(294)	(3)	239	(29)
Total	$ (156)	$ 141	$ (15)	$ 15	$ (117)

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

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

Cash Flow Hedges

The following table presents our gains (losses) on our cash-flow hedging relationships recorded in income and other comprehensive income (loss). In the tables below, in cases where amounts are insignificant in the aggregate, we don't report a balance.

	Effective Portion Reclassified From AOCI to Interest	Ineffective Portion Reclassified to Derivatives and Hedging Activities	Total Reclassified Into Statements of Income	Effective Portion Recorded in AOCI	Total Change in OCI	Net Interest Settlements Effect on Net Interest Income [a]
Three months ended September 30, 2012						
Advances - interest rate floors	**$ 3**	**$ —** [b]	**$ 3**	**$ —**	**$ (3)**	**$ —**
Discount notes - interest rate caps	**(1)**	**—**	**(1)**	**—**	**1**	**—**
interest rate swaps	**—**	**—**	**—**	**(33)**	**(33)**	**(67)**
Bonds - interest rate swaps	**(1)**	**—**	**(1)**	**—**	**1**	**—**
Total	**$ 1**	**$ —**	**$ 1**	**$ (33)**	**$ (34)**	**$ (67)**
Three months ended September 30, 2011						
Advances - interest rate floors	$ 4	$ 25 [b]	$ 29	$ —	$ (29)	$ —
Discount notes - interest rate caps	(3)	—	(3)	—	3	—
interest rate swaps	(2)	1	(1)	(400)	(399)	(80)
Bonds - interest rate swaps	(2)	—	(2)	—	2	—
Total	$ (3)	$ 26	$ 23	$ (400)	$ (423)	$ (80)
Nine months ended September 30, 2012						
Advances - interest rate floors	**$ 11**	**$ —** [b]	**$ 11**	**$ —**	**$ (11)**	**$ —**
Discount notes - interest rate caps	**(5)**	**—**	**(5)**	**—**	**5**	**—**
interest rate swaps	**(2)**	**2**	**—**	**(91)**	**(91)**	**(202)**
Bonds - interest rate swaps	**(4)**	**—**	**(4)**	**—**	**4**	**—**
Total	**$ —**	**$ 2**	**$ 2**	**$ (91)**	**$ (93)**	**$ (202)**
Nine months ended September 30, 2011						
Advances - interest rate floors	$ 26	$ 37 [b]	$ 63	$ —	$ (63)	$ —
Discount notes - interest rate caps	(11)	—	(11)	—	11	—
interest rate swaps	(4)	3	(1)	(453)	(452)	(241)
Bonds - interest rate swaps	(4)	—	(4)	—	4	—
Total	$ 7	$ 40	$ 47	$ (453)	$ (500)	$ (241)

[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.

[b] Represents the recognition of previously deferred cash flow hedge adjustments related to advances in cash flow hedge relationships that were prepaid during the period.

There were no amounts reclassified from AOCI into earnings for the periods presented as a result of the discontinuance of cash-flow hedges because the original forecasted transactions failed to occur by the end of the originally specified time period or within a two-month period thereafter. The deferred net gains on derivative instruments in AOCI that are expected to be reclassified to earnings during the next twelve months were $10 million as of September 30, 2012. 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 8 years.

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

Note 10 – Consolidated Obligations

The following table presents our consolidated obligation bonds, for which we are the primary obligor, including callable bonds that are redeemable in whole, or in part, at our discretion on predetermined call dates.

As of September 30, 2012	Contractual Maturity	Weighted Average Interest Rate	Next Maturity or Call Date
Due in one year or less	$ 7,646	3.37%	$ 19,153
One to two years	5,615	3.76%	6,150
Two to three years	2,125	2.52%	1,208
Three to four years	3,768	3.70%	2,768
Four to five years	5,890	2.05%	1,575
Thereafter	8,378	2.85%	2,568
Total par value	$ 33,422	3.06%	$ 33,422

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

	Carrying Value	Par Value	Weighted Average Interest Rate
As of September 30, 2012	**$ 27,231**	**$ 27,235**	**0.13%**
As of December 31, 2011	25,404	25,411	0.05%

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

As of	September 30, 2012	December 31, 2011
Noncallable	**$ 20,759**	$ 24,479
Callable	**12,663**	15,485
Total par value	**33,422**	39,964
Bond premiums (discounts), net	**14**	19
Hedging adjustments	**(70)**	(104)
Fair value option adjustments	**—**	1
Total consolidated obligation bonds	**$ 33,366**	$ 39,880

Note 11 – Subordinated Notes

Our subordinated notes outstanding mature on June 13, 2016. The subordinated notes are not obligations of, and are not guaranteed by, the United States government or any FHLBs other than us. The 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, such as 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 15 - Subordinated Notes** in our 2011 Form 10-K.

Prior to conversion to our new capital structure, we were allowed 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 requirements, maximum permissible holdings of MBS and unsecured credit, subject to 20% annual phase-outs that commenced June 14, 2011. At December 31, 2011, the Designated Amount of subordinated notes was $800 million.

After converting our capital stock as of January 1, 2012, we no longer include the Designated Amount of subordinated notes in calculating our maximum permissible holdings of MBS and unsecured credit or in determining compliance with our minimum regulatory capital requirements now that we are subject to the post-conversion capital requirements discussed in **Note 13 - Capital Stock and Mandatorily Redeemable Capital Stock (MRCS).**

Note 12 - Regulatory Actions

On April 18, 2012, the FHFA terminated the Consent Order to Cease and Desist (the C&D Order) that we entered into with the Federal Housing Finance Board in October 2007. The C&D Order placed several requirements on us, including among other things, restrictions on the repurchase and redemption of capital stock, prior approval of dividend declarations and submission of a revised Capital Plan, as further described in **Note 16 - Regulatory Actions** in our 2011 Form 10-K.

In connection with operating the Bank after termination of the C&D Order, our Board of Directors adopted a resolution on March 30, 2012, which included the following:

- As required by the FHFA in connection with the approval of our Capital Plan, we will continue to obtain FHFA approval for any new investments that have a term to maturity in excess of 270 days until such time as our MBS portfolio is less than three times our total regulatory capital and our advances represent more than 50% of our total assets.

- In addition to the requirements to declare and pay dividends in accordance with our Retained Earnings and Dividend Policy, dividends paid on either Class B-1 stock or Class B-2 stock in any given quarter must not exceed the average of three-month LIBOR for that quarter on an annualized basis. We may, with approval of the Board, request approval from the FHFA to pay dividends in excess of this limit in advance of a coming calendar year.

- We must maintain retained earnings at a level equal to a “floor” amount, which is the greater of our retained earnings as of each immediately preceding year-end or $1.321 billion, and will not pay a dividend without prior written approval by the FHFA if the payment of such dividend would cause our retained earnings to be reduced below the “floor” amount. Our retained earnings at December 31, 2011, were $1.321 billion.

- We will continue to execute and comply with our plan to repurchase excess capital stock of members over a period of time (Repurchase Plan) as approved by the FHFA in December 2011. Once the Repurchase Plan terminates, we will continue to repurchase excess capital stock held by members on a quarterly basis but only if we maintain compliance with the financial and capital thresholds set forth in the Repurchase Plan, as previously disclosed in **Note 17 - Capital Stock and Mandatorily Redeemable Capital Stock (MRCS)** in our 2011 Form 10-K.

Our Board may not modify or terminate this resolution without written consent by the Director of the FHFA.

Note 13 – Capital Stock and Mandatorily Redeemable Capital Stock (MRCS)

Capital Rules

For capital rules that were in effect prior to our conversion to our new Capital Plan on January 1, 2012, see **Capital Rules prior to Conversion to New Capital Structure** on page F-53 in our 2011 Form 10-K.

Under the new Capital Plan, which became effective January 1, 2012, our stock consists of two sub-classes of stock, Class B-1 stock and Class B-2 stock (together, Class B stock), both with a par value of $100 and redeemable on five years' written notice, subject to certain conditions.

Under the Capital Plan, each member is required to own capital stock in an amount equal to the greater of a membership stock requirement or an activity stock requirement, as further discussed in **Capital Rules after Conversion to New Capital Structure** on page F-53 in our 2011 Form 10-K. Membership stock requirements will continue to be recalculated annually, whereas the activity stock requirement will apply on a continuing basis.

We may only redeem or repurchase capital stock from a member if, following the redemption or repurchase, the member will continue to meet its minimum investment requirement and we remain in compliance with our regulatory capital requirements. As further discussed in Note 12 - Regulatory Actions, the Board of Directors has adopted a resolution which may not be amended without FHFA consent governing our repurchases of excess stock. Pursuant to that resolution, we are required to continue making quarterly repurchases of excess capital stock from members on a pro rata basis, subject to satisfaction of certain conditions. For as long as we continue to make such quarterly repurchases, we anticipate that individual members' requests for repurchase of excess Class B-2 Stock will not be fulfilled. Upon request we will continue to repurchase excess Class B-1 Stock that is in excess of a member's capital stock “floor.”

During the three and nine months ended September 30, 2012, we repurchased excess capital stock (including capital stock reclassified as MRCS) totaling $148 million and $798 million. At September 30, 2012, we had remaining excess capital stock of $301 million compared to $1.1 billion at December 31, 2011.

Although our Repurchase Plan terminated by its terms in May, 2012, pursuant to the resolution adopted our Board of Directors (as discussed in **Note 12 - Regulatory Actions**), we continue to repurchase excess capital stock held by members if we maintain compliance with financial and capital thresholds set forth in the Repurchase Plan as discussed in **Repurchase of Excess Capital Stock** on page F-56 in our 2011 Form 10-K. On October 15, 2012, following our assessment that we met the thresholds for repurchase based on the financial results for the third quarter of 2012, we notified members of another repurchase opportunity and the process for requesting repurchase. In accordance with that process, we announced that we plan to repurchase excess capital stock of $100 million on November 15, 2012.

Capital Concentration

As of September 30, 2012, BMO Harris Bank National Association held $236 million, or 14%, of our total capital stock outstanding. No other members had capital stock exceeding 10%.

Minimum Capital Requirements

After we implemented our new Capital Plan on January 1, 2012, we are required by regulation to maintain:

- permanent capital equal to the sum of our (i) credit risk capital requirement, (ii) market risk capital requirement, and (iii) operations risk capital requirement, all of which are calculated in accordance with rules and regulations of the FHFA. Permanent capital includes our retained earnings plus the amount paid in for our Class B stock, including Class B stock classified as mandatorily redeemable; and

- a minimum ratio of total regulatory capital (which includes permanent capital plus any general allowance for losses) to total assets of 4.0%; and

- a minimum ratio of leverage capital (which includes permanent capital multiplied by 1.5 plus any general allowance for losses) to total assets of 5.0%.

Total regulatory capital and permanent capital do not include accumulated other comprehensive income (loss). For further discussion of these minimum capital requirements, see **Minimum Capital Requirements after Conversion to New Capital Structure** on page F-54 of our 2011 Form 10-K.

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

The following table details our minimum capital requirements at September 30, 2012, under our new Capital Plan:

	September 30, 2012	
	Required	Actual
Risk-based capital	$ 1,516	$ 3,305
Capital-to-assets ratio (regulatory)	4.00%	4.97%
Regulatory capital	$ 2,658	$ 3,305
Leverage capital-to-assets ratio (regulatory)	5.00%	7.46%
Leverage capital	$ 3,322	$ 4,957

Detailed components of our Risk-Based Capital were as follows:

	September 30, 2012
Credit risk	$ 1,125
Market risk	41
Operations risk	350
Total risk-based capital requirement	$ 1,516
Actual permanent capital	$ 3,305

In addition, under the FHFA regulation on capital classifications and critical capital levels for the FHLBs, we are adequately capitalized.

At December 31, 2011, prior to conversion to our new Capital Plan, we were subject to a minimum regulatory leverage limit as further discussed in **Minimum Capital Requirements prior to Conversion to New Capital Structure** on page F-54 in our 2011 Form 10-K. The following table summarizes our regulatory capital requirements as a percentage of total assets at December 31, 2011, before the conversion to our new Capital Plan.

		Regulatory Capital plus Designated Amount of Subordinated Notes			
		Requirement in Effect		Actual	
	Non-Mortgage Assets	Ratio	Amount	Ratio	Amount
December 31, 2011	19.19%	4.76%	$3,392	6.35%	$4,527

Mandatorily Redeemable Capital Stock

We reclassify capital stock from equity to mandatorily redeemable capital stock (MRCS) under conditions as further described in **Mandatorily Redeemable Capital Stock** on page F-55 in our 2011 Form 10-K. As of April 18, 2012, we are no longer required to obtain FHFA approval for such redemptions and repurchases, as further discussed in **Note 12 - Regulatory Actions**.

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

September 30, 2012	Dollar Amount
MRCS at beginning of year	$ 4
Capital stock reclassified to MRCS	54
Redemption of MRCS	(48)
MRCS at end of period [a]	$ 10
Number of stockholders holding MRCS at period end	13

[a] All MRCS outstanding at the end of the period are redeemable in five years.

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

Note 14 - Accumulated Other Comprehensive Income (Loss)

The following table summarizes the income (loss) in AOCI for the periods indicated:

	Net Unrealized on AFS	Non-credit OTTI on AFS	Net Unrealized on HTM	Non-credit OTTI on HTM	Net Unrealized on Cash Flow Hedges	Post-Retirement Plans	Total
Balance, December 31, 2010	$ 748	$ (34)	$ (8)	$ (630)	$ (561)	$ 2	$ (483)
Net change in the period	468	8	3	131	(500)	—	110
Balance, September 30, 2011	$ 1,216	$ (26)	$ (5)	$ (499)	$ (1,061)	$ 2	$ (373)
Balance, December 31, 2011	**$ 1,113**	**$ (26)**	**$ (5)**	**$ (466)**	**$ (1,049)**	**$ 2**	**$ (431)**
Net change in the period	**477**	**15**	**2**	**68**	**(93)**	**(1)**	**468**
Balance, September 30, 2012	**$ 1,590**	**$ (11)**	**$ (3)**	**$ (398)**	**$ (1,142)**	**$ 1**	**$ 37**

Note 15- Fair Value Accounting

Fair Value Measurement

We record trading securities, AFS securities, derivative assets, and derivative liabilities at fair value. We also carry advances and consolidated obligations at fair value when we elect the fair value option for them. 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 as of the dates presented. 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.

Fair Value Hierarchy

The fair value hierarchy is used to prioritize the 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 fair value hierarchy requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. 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 the notes to the financial statements:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

a. Quoted prices for similar assets or liabilities in active markets
b. Quoted prices for identical or similar assets, or liabilities, in markets that are not active
c. Inputs other than quoted prices, that are observable for the asset or liability, for example:
    1. Interest rates and yield curves observable at commonly quoted intervals
    2. Implied volatilities
    3. Credit spreads
d. Market-corroborated inputs.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

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 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 for the periods presented.

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

Valuation Techniques and Significant Inputs

A description of the valuation techniques and significant inputs is disclosed in **Note 20 - Fair Value Accounting** in our 2011 Form 10-K. There have been no significant changes in our valuation techniques since then.

Unobservable Level 3 significant inputs of financial instruments that are carried at fair value in our statements of condition are disclosed below.

Private-Label Residential MBS

The significant unobservable inputs used by third party pricing services in the fair value measurement of our private-label residential MBS are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation may result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

The table below provides the investment securities in which fair value is provided to us by third party pricing services.

			Range of Pricing Services Values	
As of September 30, 2012	**Portfolios**	**Fair Value**	**Minimum**	**Maximum**
Private-label residential MBS - OTTI	AFS	$ 69	$ 62	$ 75
Private-label residential MBS - OTTI	HTM	3	3	3

Derivative Assets

The following table shows the range of values for our derivative assets that are carried at fair value under a fair value hedge strategy on our statements of condition using Level 3 significant inputs.

As of September 30, 2012	Significant Inputs Curve	Fair Value
Derivative Assets	LIBOR	$ 32

Consolidated obligations

The following table shows the applicable curve of our consolidated obligations that are carried at fair value under a fair value hedge strategy on our statements of condition using Level 3 significant inputs.

As of September 30, 2012	Significant Inputs Curve	Fair Value
Non-callable consolidated obligation bonds	CO	$ 82

Impaired MPF Loans and Real Estate Owned

See **Assets Measured at Fair Value on a Nonrecurring Basis** on page 41.

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

Fair Value Estimates for Financial Instruments

The following tables are a summary of fair value estimates and for the current period table the related level in the fair value hierarchy for financial instruments. It excludes non-financial items, for example, real estate owned. The carrying amounts in the following tables are recorded in the statements of condition under the indicated captions. These tables do not represent an estimate of the overall market value of us as a going concern; as they do not take into account future business opportunities and future net profitability of assets and liabilities.

	September 30, 2012					
		Fair Value				
	Carrying Value	Total	Level 1	Level 2	Level 3	Netting Adjustment/ Cash Collateral [a]
Financial Assets						
Cash and due from banks	$ 25	$ 25	$ 25	$ —	$ —	$ —
Federal Funds sold	1,948	1,948	—	1,948	—	—
Securities purchased under agreements to resell	3,049	3,049	—	3,049	—	—
Trading securities	2,685	2,685	—	2,685	—	—
Available-for-sale securities	23,829	23,829	—	23,760	69	—
Held-to-maturity securities	9,790	10,690	—	8,897	1,793	—
Advances	13,531	13,828	—	13,828	—	—
MPF Loans held in portfolio, net	11,266	12,205	—	11,997	208	—
Accrued interest receivable	127	127	—	127	—	—
Derivative assets	55	55	—	1,272 [b]	32 [b]	(1,249)
Financial Liabilities						
Deposits	$ 730	$ 730	$ —	$ 730	$ —	$ —
Securities sold under agreements to repurchase	—	—	—	—	—	—
Consolidated obligations -						
Discount notes	27,231	27,231	—	27,231	—	—
Bonds	33,366	35,304	—	35,222	82 [c]	—
Accrued interest payable	289	289	—	289	—	—
Mandatorily redeemable capital stock	10	10	10	—	—	—
Derivative liabilities	119	119	—	2,949	—	(2,830)
Subordinated notes	1,000	1,137	—	1,137	—	—

[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.

[b] Our derivative assets are, in part, secured with cash collateral as described in Note 9 - Derivatives and Hedging Activities. We also provide cash collateral to our counterparties in order to secure our derivative liabilities. We do not reclassify the amount of cash collateral as Level 1, even though on a standalone basis it would be considered Level 1 within the fair value hierarchy. This is because we elected the portfolio exception for purposes of measuring the credit risk adjustment component of fair value for our derivative assets and liabilities. Specifically, we view our net derivative assets or liabilities as a single unit of account for purposes of classifying the total balance within the fair value hierarchy. Accordingly, from a single unit of account perspective, we classify our derivative assets and liabilities as either Level 2 or Level 3 within the fair value hierarchy.

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

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

	December 31, 2011	
	Carrying Value	Fair Value
Financial Assets		
Cash and due from banks	$ 1,002	$ 1,002
Federal Funds sold	950	950
Securities purchased under agreements to resell	825	825
Trading securities	2,935	2,935
Available-for-sale securities	24,316	24,316
Held-to-maturity securities	11,477	12,131
Advances	15,291	15,663
MPF Loans held in portfolio, net	14,118	15,177
Accrued interest receivable	153	153
Derivative assets	40	40
Financial Liabilities		
Deposits	$ 648	$ 648
Securities sold under agreements to repurchase	400	400
Consolidated obligations -		
Discount notes	25,404	25,404
Bonds	39,880	42,163
Accrued interest payable	203	203
Mandatorily redeemable capital stock	4	4
Derivative liabilities	206	206
Subordinated notes	1,000	1,127

Federal Home Loan Bank of Chicago
Notes to Financial Statements - (Unaudited)
(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, 2012	Level 1	Level 2	Level 3	Netting Adjustment [a]	Total
Assets -					
Trading securities:					
U.S. Government & other government related	$ —	$ 2,545	$ —	$ —	$ 2,545
GSE residential MBS	—	137	—	—	137
Governmental-guaranteed residential MBS	—	3	—	—	3
Total Trading Securities	—	2,685	—	—	2,685
AFS securities:					
U.S. Government & other government related	—	776	—	—	776
FFELP ABS	—	7,687	—	—	7,687
GSE residential MBS	—	12,326	—	—	12,326
Government-guaranteed residential MBS	—	2,971	—	—	2,971
Private-label residential MBS	—	—	69	—	69
Total AFS Securities	—	23,760	69	—	23,829
Advances	—	9	—	—	9
Derivative assets	—	1,272 [b]	32 [b]	(1,249)	55
Total assets at fair value	$ —	$ 27,726	$ 101	$ (1,249)	$ 26,578
Level 3 as a percent of total assets at fair value			0.4%		
Liabilities -					
Consolidated obligation discount notes	$ —	$ (2,258)	$ —	$ —	$ (2,258)
Consolidated obligation bonds	—	(855)	(82) [c]	—	(937)
Derivative liabilities	—	(2,949) [b]	—	2,830	(119)
Total liabilities at fair value	$ —	$ (6,062)	$ (82)	$ 2,830	$ (3,314)
Level 3 as a percent of total liabilities at fair value			2.5%		

[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.

[b] Our derivative assets are, in part secured with cash collateral as described in Note 9 - Derivatives and Hedging Activities. We also provide cash collateral to our counterparties in order to secure our derivative liabilities. We do not reclassify the amount of cash collateral as Level 1, even though on a standalone basis it would be considered Level 1 within the fair value hierarchy. This is because we elected the portfolio exception for purposes of measuring the credit risk adjustment component of fair value for our derivative assets and liabilities. Specifically, we view our net derivative assets or liabilities as a single unit of account for purposes of classifying the total balance within the fair value hierarchy. Accordingly, from a single unit of account perspective, we classify our derivative assets and liabilities as either Level 2 or Level 3 within the fair value hierarchy.

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

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

As of December 31, 2011	Level 1	Level 2	Level 3	Netting Adjustment [a]	Total
Assets -					
Trading securities:					
U.S. Government & other government related	$ —	$ 2,737	$ —	$ —	$ 2,737
GSE residential MBS	—	195	—	—	195
Governmental-guaranteed residential MBS	—	3	—	—	3
Total Trading Securities	—	2,935	—	—	2,935
AFS securities:					
U.S. Government & other government related	—	1,001	—	—	1,001
FFELP ABS	—	8,159	—	—	8,159
GSE residential MBS	—	12,132	—	—	12,132
Government-guaranteed residential MBS	—	2,961	—	—	2,961
Private-label residential MBS	—	—	63	—	63
Total AFS Securities	—	24,253	63	—	24,316
Advances	—	9	—	—	9
Derivative assets	—	1,562 [b]	37 [b]	(1,559)	40
Total assets at fair value	$ —	$ 28,759	$ 100	$ (1,559)	$ 27,300
Level 3 as a percent of total assets at fair value			0.4%		
Liabilities -					
Consolidated obligation discount notes	$ —	$ (11,466)	$ —	$ —	$ (11,466)
Consolidated obligation bonds	—	(2,631)	(87) [c]	—	(2,718)
Derivative liabilities	—	(2,888) [b]	—	2,682	(206)
Total liabilities at fair value	$ —	$ (16,985)	$ (87)	$ 2,682	$ (14,390)
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.

[b] Our derivative assets are, in part, secured with cash collateral as described in Note 9 - Derivatives and Hedging Activities. We also provide cash collateral to our counterparties in order to secure our derivative liabilities. We do not reclassify the amount of cash collateral as Level 1, even though on a standalone basis it would be considered Level 1 within the fair value hierarchy. This is because we elected the portfolio exception for purposes of measuring the credit risk adjustment component of fair value for our derivative assets and liabilities. Specifically, we view our net derivative assets or liabilities as a single unit of account for purposes of classifying the total balance within the fair value hierarchy. Accordingly, from a single unit of account perspective, we classify our derivative assets and liabilities as either Level 2 or Level 3 within the fair value hierarchy.

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

Federal Home Loan Bank of Chicago
Notes to Financial Statements - (Unaudited)
(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		
	Available-For-Sale Private-Label MBS	Derivative Assets Interest-Rate Related	Consolidated Obligation Bonds
At December 31, 2011	**$ 63**	**$ 37**	**$ (87)**
Gains (losses) realized and unrealized:			
Change in fair value included in earnings in derivatives and hedging activities	**—**	**(5)**	**5**
Included in net change in fair value on OTTI AFS securities in OCI	**16**	**—**	**—**
Paydowns and settlements	**(10)**	**—**	**—**
At September 30, 2012	**$ 69**	**$ 32**	**$ (82)**
Total unrealized gains (losses) included in earnings attributable to instruments still held at period end	**$ —**	**$ (5)**	**$ 5**
At December 31, 2010	$ 76	$ 29	$ (78)
Gains (losses) realized and unrealized:			
Change in fair value included in earnings in derivatives and hedging activities	—	7	(7)
Included in net change in fair value on OTTI AFS securities in OCI	2	—	—
Paydowns and settlements	(11)	—	—
At September 30, 2011	$ 67	$ 36	$ (85)
Total unrealized gains (losses) included in earnings attributable to instruments still held at period end	$ —	$ 7	$ (7)

Assets Measured at Fair Value on a Nonrecurring Basis

The table below presents assets that are measured at fair value on a nonrecurring basis as of the dates shown. These assets are subject to being measured at fair value as a result of becoming impaired during the reporting period or in the case of REO when fair value declines during the reporting period. Held-to-maturity, private-label residential MBS are measured at fair value using the same methodology and significant assumptions utilized for available-for-sale private-label residential MBS. If available, broker price opinions are used to measure impaired MPF Loans or REO. 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. See **Note 8 - Allowance for Credit Losses** for further details. Significant increases (decreases) in the loss severity rate input in isolation may result in a significantly lower (higher) fair value measurement.

	September 30, 2012			December 31, 2011		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Held-to-maturity - Private-label residential MBS	**$ —**	**$ —**	**$ 3**	$ —	$ —	$ 9
Impaired MPF Loans	**—**	**—**	**208**	—	—	193
Real estate owned	**—**	**—**	**18**	—	—	16
Total non-recurring assets	**$ —**	**$ —**	**$ 229**	$ —	$ —	$ 218

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

Fair Value Option

We elected the fair value option for advances, discount notes, and short-term consolidated obligation bonds for which hedge accounting treatment may not be achieved. Specifically, hedge accounting may not be achieved in cases where it may be difficult to pass prospective or retrospective effectiveness testing under derivative hedge accounting guidance even though the 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.

Under the fair value option, fair value is used for both the initial and subsequent measurement of the designated assets and liabilities, with the changes in fair value recognized in non-interest gain (loss). Interest income and interest expense carried on other financial assets or liabilities carried at fair value is recognized under the interest method based solely on the contractual amount of interest due or unpaid. Any transaction fees or costs are immediately recognized into other non-interest gain (loss) or other non-interest expense.

The following tables summarize the activity related to financial assets and liabilities for which we elected the fair value option:

	September 30, 2012			September 30, 2011		
		Consolidated Obligation			Consolidated Obligation	
	Advances	**Bonds**	**Discount Notes**	Advances	Bonds	Discount Notes
For the three months ended						
Balance beginning of period	**$ 9**	**$ (7,017)**	**$ (4,135)**	$ 9	$ (4,073)	$ (1,202)
New transactions elected for fair value option	**—**	**(6,300)**	**—**	—	(4,885)	(5,499)
Maturities and extinguishments	**—**	**12,465**	**1,878**	—	4,150	100
Net gain (loss) on instruments held at fair value	**—**	**(6)**	**—**	—	—	—
Change in accrued interest and other	**—**	**3**	**(1)**	—	(4)	(2)
Balance end of period	**$ 9**	**$ (855)**	**$ (2,258)**	$ 9	$ (4,812)	$ (6,603)
For the nine months ended						
Balance beginning of period	**$ 9**	**$ (2,631)**	**$ (11,466)**	$ 4	$ (9,425)	$ (4,864)
New transactions elected for fair value option	**—**	**(15,190)**	**—**	5	(9,044)	(5,649)
Maturities and extinguishments	**—**	**16,965**	**9,214**	—	13,669	3,916
Net gain (loss) on instruments held at fair value	**—**	**—**	**2**	—	(13)	—
Change in accrued interest and other	**—**	**1**	**(8)**	—	1	(6)
Balance end of period	**$ 9**	**$ (855)**	**$ (2,258)**	$ 9	$ (4,812)	$ (6,603)

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. 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 the dates presented.

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

	September 30, 2012			December 31, 2011		
As of	**Unpaid Principal Balance**	**Fair Value**	**Fair Value Over (Under) UPB**	Unpaid Principal Balance	Fair Value	Fair Value Over (Under) UPB
Advances	**$ 9**	**$ 9**	**$ —**	$ 9	$ 9	$ —
Consolidated obligation bonds	**(855)**	**(855)**	**—**	(2,630)	(2,631)	1
Consolidated obligation discount notes	**(2,258)**	**(2,258)**	**—**	(11,465)	(11,466)	1

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

Note 16 – 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, 2012**			December 31, 2011		
	Expire within one year	**Expire after one year**	**Total**	Expire within one year	Expire after one year	Total
Unsettled consolidated obligation bonds	**$ 2,926**	**$ —**	**$ 2,926**	$ 150	$ —	$ 150
Member standby letters of credit	**344**	**293**	**637**	296	273	569
Housing authority standby bond purchase agreements	**50**	**387**	**437**	44	282	326
MPF Xtra mortgage purchase commitments which will be concurrently resold to Fannie Mae	**748**	**—**	**748**	250	—	250
MPF Loan mortgage purchase commitments for portfolio	**3**	**—**	**3**	1	—	1
Advance commitments	**7**	**214**	**221**	—	—	—
Total	**$ 4,078**	**$ 894**	**$ 4,972**	$ 741	$ 555	$ 1,296

Note 17 – Transactions with Members and Other FHLBs

Related Parties

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.

We conduct our advances business almost exclusively with members. Therefore, in the normal course of business, we extend credit to members whose officers and directors may serve on our Board of Directors. We extend credit to members whose officers or directors may serve as our directors on market terms that are no more favorable to them than the terms of comparable transactions with other members who are not considered related parties. In addition, we may purchase short-term investments, Federal Funds, and MBS from members (or affiliates of members). All investments are market rate transactions and all MBS are purchased through securities brokers or dealers. Derivative transactions with members and affiliates are executed at market rates.

Members

The table below summarizes balances we had with our members as defined above as related parties (including their affiliates) as reported in the statements of condition as of the dates indicated. Members represented in these tables may change between periods presented, to the extent that our related parties change, based on changes in the composition of our Board membership.

	September 30, 2012	December 31, 2011
Assets - Advances	**$ 2,495**	$ 3,515
Liabilities - Deposits	**97**	69
Equity - Capital Stock	**250**	399

Other FHLBs

Material amounts of transactions with other FHLBs, if any, are parenthetically identified on the face of our **Financial Statements**.

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

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

As of or for the three months ended	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Selected statements of condition data					
Total investments [a]	**$ 41,301**	$ 40,336	$ 40,182	$ 40,503	$ 43,142
Advances	**13,531**	15,797	14,739	15,291	14,294
MPF Loans held in portfolio	**11,310**	12,210	13,181	14,163	15,246
Allowance for credit losses	**(44)**	(48)	(49)	(45)	(41)
Total assets	**66,444**	68,641	68,908	71,255	73,251
Consolidated obligations -					
Discount notes	**27,231**	23,439	22,424	25,404	19,830
Bonds	**33,366**	39,872	41,048	39,880	45,880
Total consolidated obligations, net	**60,597**	63,311	63,472	65,284	65,710
Mandatorily redeemable capital stock	**10**	10	14	4	530
Capital stock	**1,702**	1,850	1,908	2,402	2,390
Total retained earnings	**1,593**	1,504	1,436	1,321	1,305
Accumulated other comprehensive income (loss)	**37**	(221)	(387)	(431)	(373)
Total capital	**3,332**	3,133	2,957	3,292	3,322
Other selected data at period end					
MPF Xtra loan volume funded - total system	**$ 2,027**	$ 1,334	$ 1,170	$ 1,281	$ 768
MPF Xtra loan volume funded - Chicago PFIs	**1,044**	709	683	775	494
MPF Xtra loans outstanding [b]	**9,861**	8,630	7,863	7,234	6,652
Regulatory capital to assets ratio [c]	**4.97%**	4.90%	4.87%	6.35%	6.86%
Market value of equity to book value of equity	**103%**	97%	94%	90%	92%
All FHLBs consolidated obligations outstanding (par)	**$ 674,487**	$ 685,195	$ 658,015	$ 691,868	$ 696,606
Number of members	**764**	767	767	767	766
Total employees (full and part time)	**318**	312	301	296	300
Total investments as a percent of total assets	**62%**	59%	58%	57%	59%
Advances as a percent of total assets	**20%**	23%	21%	21%	20%
MPF Loans as a percent of total assets	**17%**	18%	19%	20%	21%
Selected statements of income data					
Net interest income before provision for credit losses	**$ 140**	$ 138	$ 159	$ 148	$ 134
Provision for credit losses	**—**	2	6	7	3
OTTI (loss), credit portion	**—**	(14)	(1)	(11)	(14)
Other non-interest gain (loss) excluding OTTI	**(12)**	(13)	7	(23)	75
Non-interest expense	**28**	32	30	83 [d]	36
Net income	**90**	69	116	16	141
Cash dividends	**1**	1	1	— *	1
Selected annualized ratios and data					
Return on average assets - Quarter	**0.53%**	0.39%	0.66%	0.09%	0.75%
Return on average assets - Year to date	**0.52%**	0.52%	0.66%	0.28%	0.34%
Return on average equity - Quarter	**14.25%**	9.28%	15.93%	2.07%	17.45%
Return on average equity - Year to date	**13.08%**	12.57%	15.93%	7.22%	8.92%
Average equity to average assets	**3.71%**	4.21%	4.11%	4.21%	4.31%
Non-interest expense to average assets	**0.16%**	0.18%	0.17%	0.45%	0.19%
Net yield on interest-earning assets	**0.84%**	0.80%	0.91%	0.82%	0.73%
Return on average Regulatory Capital spread to three month LIBOR index	**10.34%**	7.76%	12.63%	1.10%	13.28%
Dividend payout ratio	**1.59%**	1.92%	0.52%	3.56%	0.41%

* Less than $1 million

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

[b] MPF Xtra outstanding loans are not held on our statements of condition. MPF Xtra loans purchased from PFIs are concurrently sold to Fannie Mae. See **MPF Program Design** beginning on page 10 in our 2011 Form 10-K.

[c] Effective January 1, 2012, we implemented a new Capital Plan that resulted in a change to the calculation of our regulatory capital to assets ratio. See **Note 13 - Capital Stock and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements in this Form 10-Q.

[d] December 31, 2011, non-interest expense included an additional $50 million charge for AHP. See **Note 13 - Affordable Housing Program (AHP)** to the financial statements in our 2011 Form 10-K.

Forward-Looking Information

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

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

- our ability to stabilize our capital base after implementing our new capital structure, our ability to meet required conditions to repurchase and redeem capital stock from our members (including maintaining compliance with our minimum regulatory capital requirements and determining that our financial condition is sound enough to support such repurchases), and the amount and timing of such repurchases or redemptions;
- the effect of the resolution by our Board of Directors impacting the level of our dividends and retained earnings;
- changes in the demand by our members for advances, including the impact of the availability of other sources of funding for our members, such as deposits;
- limits on our investments in long-term assets;
- the impact of new business strategies, including our ability to develop and implement business strategies focused on maintaining net interest income; the impact of our efforts to simplify our balance sheet on our market risk profile and future hedging costs; our ability to successfully transition to a new business model, implement business process improvements and scale the size of the Bank to our members' borrowing needs; the extent to which our members use our advances as part of their core financing rather than just as a back-up source of liquidity;
- general economic and market conditions, including the timing and volume of market activity, inflation/deflation, unemployment rates, housing prices, the condition of the mortgage and housing markets, increased delinquencies and/or loss rates on mortgages, prolonged or delayed foreclosure processes, and the effects on, among other things, mortgage-backed securities; volatility resulting from the effects of, and changes in, various monetary or fiscal policies and regulations, such as those determined by the Federal Reserve Board and Federal Deposit Insurance Corporation; impacts from various measures to stimulate the economy and help borrowers refinance home mortgages and student loans; disruptions in the credit and debt markets and the effect on future funding costs, sources, and availability;
- volatility of market prices, rates, and indices, or other factors, such as natural disasters, that could affect the value of our investments or collateral; changes in the value or liquidity of collateral securing advances to our members;
- changes in the value of and risks associated with our investments in mortgage loans, mortgage-backed securities, and FFELP ABS and the related credit enhancement protections;
- changes in our ability or intent to hold mortgage-backed securities to maturity;
- changes in mortgage interest rates and prepayment speeds on mortgage assets;
- membership changes, including the withdrawal of members due to restrictions on our dividends and redemptions or repurchase of our capital stock or the loss of members through mergers and consolidations; changes in the financial health of our members, including the resolution of some members; risks related to expanding our membership to include more institutions with regulators and resolution processes with which we have less experience;

- 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; changes in our cost of funds due to Congressional deliberations on the overall U.S. debt burden, including concerns over U.S. fiscal policy and the "fiscal cliff," and any related rating agency actions impacting FHLB consolidated obligations;

- political events, including legislative, regulatory, judicial, or other developments that affect us, our members, our counterparties and/or investors in consolidated obligations, including, among other things, the Dodd-Frank Wall Street Reform and Consumer Protection Act and related regulations and proposals and legislation related to housing finance and GSE reform; changes by our regulator and changes in the FHLB Act or applicable regulations as a result of the Housing and Economic Recovery Act of 2008 (Housing Act) or as may otherwise be issued by our regulator; the potential designation of the Bank as a nonbank financial company for supervision by the Federal Reserve;

- the ability of each of the other FHLBs to repay the principal and interest on consolidated obligations for which it is the primary obligor and with respect to which we have joint and several liability;

- the pace of technological change and our ability to develop and support technology and information systems; our ability to attract and retain skilled employees;

- the impact of new accounting standards and the application of accounting rules, including the impact of regulatory guidance on our application of such standards and rules;

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

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

For a more detailed discussion of the risk factors applicable to us**,** see **Risk Factors** in our 2011 Form 10-K on page 24.

These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events, changed circumstances, or any other reason.

Executive Summary

Third Quarter 2012 Financial Highlights

- We recorded net income of $90 million for the third quarter of 2012, 36% less than net income of $141 million in the third quarter of 2011, a quarter characterized by significant gains on hedging activities and a settlement related to a dispute over some of our private-label MBS. Year-to-date net income of $275 million is 32% ahead of net income of $208 million for the first three quarters of 2011. Earnings for the third quarter are the result of a strong base of net interest income, reduced OTTI charges (less than $1 million compared to $14 million in the third quarter of last year), and an increase in prepayment fee income. Net interest income of $140 million was 7% higher than net interest income of $131 million in the third quarter of last year, in part because maturing debt was reissued at lower rates. While we continue to generate sound net interest income, we cannot predict the impact on future earnings of prepayment fees, OTTI credit losses, or hedging expenses.

- Advances outstanding at September 30, 2012, were $13.5 billion, 12% lower than the year-end level of $15.3 billion, primarily due to lower borrowings from a few of our largest members. Increasing advances and sustaining increased levels of advances are fundamental to the success of our strategic transformation, but we recognize that we must invest time to bring on new members and introduce current members to new solutions that use advances as part of their ongoing funding strategies. We have added 12 new members in 2012, including five insurance companies, four banks, and three credit unions. An additional insurance company is currently in the process of applying for membership. We are talking to all of our members - including those with significant liquidity on their balance sheets - about how advances can benefit their long-term earnings and interest rate risk management goals even in the current low-rate environment.

- MPF Loans held in portfolio were $11.3 billion at the end of the third quarter, down $2.8 billion (20%) from $14.1 billion at year-end 2011. The reduction is consistent with our 2008 decision not to add MPF Loans to our balance sheet. MPF Xtra loan volume was $1.0 billion for our PFIs and $2.0 billion for the program overall during the quarter. In addition, some members are selling loans through traditional risk-sharing MPF products, which are participated to another FHLB.

- Total investment securities decreased $2.4 billion (6%) from year-end 2011 to $36.3 billion at the end of the third quarter of 2012, as investments matured or paid down. Total assets fell $4.8 billion (7%) from year-end 2011 to $66.4 billion at September 30, 2012. We anticipate that the overall size of the Bank will continue to fall as MPF Loans and investment securities mature or pay down.

- As a result of our net income, our retained earnings have grown to $1.6 billion, providing a level of protection for member capital. In addition, our profitable results and retained earnings have made it possible to fulfill our commitment to return liquidity to members' investments in the Bank through the repurchase and redemption of $1.4 billion in capital stock since late 2011. We have announced that we plan to repurchase $100 million of excess capital stock on November 15, 2012

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

Summary and Outlook

Our overarching goal is to build a member-focused Bank: one that delivers the products and services that members need to effectively manage their organizations and offer competitive products to their communities. To succeed, we need to remain financially strong and profitable while limiting our risks. Our focus is to:

- Deliver the value of our funding advantage through our products and services while paying a reasonable return on members' capital investment in the Bank;

- Develop new advances, products, structures and solutions;

- Maximize member borrowing capacity through the expansion of collateral and enhancement of collateral value;

- Make it easier to transact business with us;

- Expand the product options of and member participation in the MPF Program; and

- Integrate our community investment programs with our members' social investment goals.

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

Results of Operations

Net Interest Income

Net interest income is the difference between interest income that we receive on our interest earning assets and the interest expense we pay on interest bearing liabilities after accounting for the following in accordance with GAAP:

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

The tables below present the increase or decrease in interest income and expense before the provision for credit losses due to volume or rate variances. Any change due to the combined volume/rate variance has been allocated ratably to volume and rate. The calculation of these components includes the following considerations:

- Average daily balances are computed using historical amortized cost balances except for items carried under the fair value option which include changes in fair value.
- MPF Loans held in portfolio that are on nonaccrual status are included in average daily balances used to determine the effective yield/rate. Interest income on MPF Loans includes amortization as detailed in **MPF Loans Held in Portfolio, net** on page 56.
- Interest and effective yield/rate includes all components of net interest income as discussed above. Yields/rates are calculated on an annualized basis.

	September 30, 2012			September 30, 2011			**Increase (decrease) due to**		
For the three months ended	**Average Balance**	**Total Interest**	**Yield/ Rate**	Average Balance	Total Interest	Yield/ Rate	**Volume**	**Rate**	**Net Change**
Federal Funds sold, securities purchased under agreements to resell and deposit income	**$ 6,397**	**$ 2**	**0.13%**	$ 4,812	$ 1	0.08%	**$ —**	**$ 1**	**$ 1**
Investment securities	**35,054**	**274**	**3.13%**	38,938	309	3.17%	**(31)**	**(4)**	**(35)**
Advances	**14,066**	**65**	**1.85%**	14,277	68	1.91%	**(1)**	**(2)**	**(3)**
MPF Loans held in portfolio	**11,514**	**125**	**4.34%**	15,378	181	4.71%	**(45)**	**(11)**	**(56)**
Total Interest Income on Assets	**67,031**	**466**	**2.78%**	73,405	559	3.05%	**(77)**	**(16)**	**(93)**
Deposits	**741**	**— ***	**—%**	701	— *	—%	**—**	**—**	**—**
Securities sold under agreements to repurchase	**—**	**—**	**—%**	1,200	4	1.33%	**(4)**	**—**	**(4)**
Consolidated obligation discount notes	**25,779**	**77**	**1.19%**	15,530	88	2.27%	**58**	**(69)**	**(11)**
Consolidated obligation bonds	**37,430**	**235**	**2.51%**	51,913	318	2.45%	**(89)**	**6**	**(83)**
Mandatorily redeemable capital stock	**10**	**— ***	**0.30%**	532	— *	0.10%	**—**	**—**	**—**
Subordinated notes	**1,000**	**14**	**5.60%**	1,000	15	6.00%	**—**	**(1)**	**(1)**
Total Interest Expense on Liabilities	**64,960**	**326**	**2.01%**	70,876	425	2.40%	**(35)**	**(64)**	**(99)**
Net yield on interest-earning assets	**$ 67,031**	**$ 140**	**0.84%**	$ 73,405	$ 134	0.73%	**$ (42)**	**$ 48**	**$ 6**

* Less than $1 million

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

	September 30, 2012			September 30, 2011			**Increase (decrease) due to**		
For the nine months ended	**Average Balance**	**Total Interest**	**Yield/ Rate**	Average Balance	Total Interest	Yield/ Rate	**Volume**	**Rate**	**Net Change**
Federal Funds sold, securities purchased under agreements to resell and deposit income	**$ 5,652**	**$ 6**	**0.14%**	$ 8,298	$ 7	0.11%	**$ (2)**	**$ 1**	**$ (1)**
Investments	**35,785**	**855**	**3.19%**	38,699	932	3.21%	**(70)**	**(7)**	**(77)**
Advances	**14,784**	**194**	**1.75%**	16,398	203	1.65%	**(20)**	**11**	**(9)**
MPF Loans held in portfolio	**12,421**	**421**	**4.52%**	16,246	572	4.69%	**(135)**	**(16)**	**(151)**
Total Interest Income on Assets	**68,642**	**1,476**	**2.87%**	79,641	1,714	2.87%	**(227)**	**(11)**	**(238)**
Deposits	**711**	**— ***	**—%**	733	— *	—%	**—**	**—**	**—**
Securities sold under agreements to repurchase	**41**	**—**	**—%**	1,200	13	1.44%	**(13)**	**—**	**(13)**
Consolidated obligation discount notes	**25,793**	**230**	**1.19%**	20,164	278	1.84%	**78**	**(126)**	**(48)**
Consolidated obligation bonds	**38,777**	**766**	**2.63%**	53,517	991	2.47%	**(273)**	**48**	**(225)**
Mandatorily redeemable capital stock	**9**	**— ***	**0.22%**	531	— *	0.10%	**—**	**—**	**—**
Subordinated notes	**1,000**	**43**	**5.73%**	1,000	43	5.73%	**—**	**—**	**—**
Total Interest Expense on Liabilities	**66,331**	**1,039**	**2.09%**	77,145	1,325	2.29%	**(208)**	**(78)**	**(286)**
Net yield on interest-earning assets	**$ 68,642**	**$ 437**	**0.85%**	$ 79,641	$ 389	0.65%	**$ (19)**	**$ 67**	**$ 48**

* Less than $1 million

Net interest income changed mainly due to the following:

- Investment income declined primarily due to the decline in average investment balances as securities matured or paid down with proceeds primarily being used to pay down our consolidated obligations as well as to redeem our capital stock rather than being reinvested in investment securities. Yields on securities also declined slightly in line with market conditions. In connection with the approval of our Capital Plan the FHFA now requires, and our Board has passed, a resolution requiring us to obtain FHFA approval for any new investments that have a term to maturity in excess of 270 days until such time as our MBS portfolio is less than three times our total regulatory capital and our advances represent more than 50% of our total assets. For further discussion of how this may impact us, see **Risk Factors** on page 24 in our 2011 Form 10-K. We expect our investment portfolio to continue to decline over time as a result of this limitation and as we continue to make repurchases and redemptions of excess capital stock.

- Interest income from advances decreased compared to the prior year primarily due to the decline in average outstanding balances as members either prepaid their advance balances or elected not to renew advances that matured during this time. Yield on advances for the comparative three months ended September 30 declined in line with the overall weakness in global market interest rates, although partially offset by slightly higher advance prepayment fees of $19 million, net, compared to $15 million a year ago. Comparative yields for the nine months ended September 30 show an increase due to an elevated level of prepayment fees of $54 million, net, compared to $20 million a year ago. We recognized increased prepayment fee income in 2012 compared to the same periods of 2011, primarily attributable to members electing to restructure their outstanding advances with us to take advantage of the extended low interest rate environment in 2012. Specifically, the majority of these restructurings were treated as new advances for accounting purposes and the related prepayment fees were immediately recognized as prepayment fee income in the period of termination.

- Interest income from MPF Loans continued to decline as expected relative to the decreased level of MPF Loans outstanding as a result of our ongoing strategy to not add MPF Loans to our balance sheet, except for a small amount of loans being acquired under our affordable housing programs. MPF Loans are paying down at a fairly steady rate. Yields on MPF Loans declined slightly as the higher yield loans in our portfolio are experiencing a higher prepayment rate relative to lower yielding loans. We expect these trends to continue.

- The decline in interest income was more than offset by the reduction in interest expense on our consolidated obligations. This reduction resulted in part from calling higher priced debt that was no longer needed due to our reduced funding needs for investments, advances, and MPF Loans. We were able to fund our balance sheet with consolidated obligation discount notes issued at lower interest rates relative to prior periods.

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

Net interest income was also impacted by fair value and cash flow hedging activity. Specifically, the low interest rate environment continued to result in negative net interest settlements attributable to open derivative hedging activity and the amortization of hedge adjustments of closed derivative hedging activity into net interest income also reduced net interest income. See the tables of **Trading Securities, Derivatives and Hedging Activities, and Instruments Held at Fair Value Option** starting on page 51 for further details.

Non-Interest Gain (Loss)

	Three months		Nine Months	
For the periods ended September 30,	**2012**	2011	**2012**	2011
OTTI impairment charges, credit portion	**$ —**	$ (14)	**$ (15)**	$ (57)
Trading securities	**(10)**	(18)	**(35)**	(40)
Derivatives and hedging activities	**(1)**	95	**2**	77
Instruments held at fair value option	**(6)**	—	**2**	(13)
Early extinguishment of debt	**—**	(21)	**—**	(21)
Other, net				
MPF Xtra and other MPF administration fees	**4**	2	**9**	7
All other	**1**	17	**4**	18
Total non-interest gain (loss)	**$ (12)**	$ 61	**$ (33)**	$ (29)

OTTI impairment charges, credit portion

The amount of impairment charges declined as the economic conditions, and thus the significant inputs used to value our securities, were relatively consistent from the fourth quarter of 2011 through the third quarter of 2012. Although 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. Future changes 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, increases in the time period for processing foreclosures and foreclosure delays by several major mortgage servicers may result in loss severities beyond current expectations. See **Note 5 - Investment Securities** to the financial statements for further details on our OTTI, including the significant inputs used to model our impairment calculations in a base case scenario. Also see **Critical Accounting Policies and Estimates** on page 61 for a discussion on the sensitivity of OTTI to an adverse case scenario.

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

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

Details on the impact of these items, which include hedge ineffectiveness and economic hedge activity, are detailed in the following tables.

				Consolidated Obligation		
	Advances	Investments	Mortgage Loans	Discount Notes	Bonds	Total
Three months ended September 30, 2012						
Amortization/accretion of hedging activities	**$ 3**	**$ —**	**$ (12)**	**$ (1)**	**$ (7)**	**$ (17)**
Net interest settlements [a]	**(19)**	**(33)**	**—**	**(67)**	**31**	**(88)**
Total hedging activities recorded in net interest income	**(16)**	**(33)**	**(12)**	**(68)**	**24**	**(105)**
Fair value hedges	**2**	**1**	**—**	**—**	**(3)**	**—**
Cash flow hedges	**—**	**—**	**—**	**—**	**—**	**—**
Economic hedges	**—**	**—**	**(6)**	**1**	**4**	**(1)**
Total recorded in derivatives and hedging activities	**2**	**1**	**(6)**	**1**	**1**	**(1)**
Derivative related amounts recorded in non-interest gain (loss) on -						
Trading securities - hedged	**—**	**(8)**	**—**	**—**	**—**	**(8)**
Instruments held under fair value option	**—**	**—**	**—**	**—**	**(6)**	**(6)**
Total net effect of hedging activities	**$ (14)**	**$ (40)**	**$ (18)**	**$ (67)**	**$ 19**	**$ (120)**
Trading securities - unhedged		**$ (2)**				**$ (2)**
Three months ended September 30, 2011						
Amortization/accretion of hedging activities	$ (38)	$ —	$ (12)	$ (5)	$ (13)	$ (68)
Net interest settlements [a]	(29)	(36)	(1)	(80)	79	(67)
Total hedging activities recorded in net interest income	(67)	(36)	(13)	(85)	66	(135)
Fair value hedges	1	(12)	2	—	(5)	(14)
Cash flow hedges	25	—	—	1	—	26
Economic hedges	—	(2)	73	(1)	13	83
Total recorded in derivatives and hedging activities	26	(14)	75	—	8	95
Derivative related amounts recorded in non-interest gain (loss) on -						
Trading securities - hedged	—	(16)	—	—	—	(16)
Instruments held under fair value option	—	—	—	—	—	—
Total net effect of hedging activities	$ (41)	$ (66)	$ 62	$ (85)	$ 74	$ (56)
Trading securities - unhedged		$ (2)				$ (2)

[a] Represents interest income or expense on derivatives included in net interest income of the hedged item.

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

	Advances	Investments	Mortgage Loans	Consolidated Obligation Discount Notes	Consolidated Obligation Bonds	Total
Nine months ended September 30, 2012						
Amortization/accretion of hedging activities	**$ (13)**	**$ —**	**$ (39)**	**$ (7)**	**$ (26)**	**$ (85)**
Net interest settlements [a]	**(64)**	**(98)**	**(2)**	**(202)**	**111**	**(255)**
Total hedging activities recorded in net interest income	**(77)**	**(98)**	**(41)**	**(209)**	**85**	**(340)**
Fair value hedges	**7**	**(1)**	**1**	**—**	**(9)**	**(2)**
Cash flow hedges	**—**	**—**	**—**	**2**	**—**	**2**
Economic hedges	**—**	**—**	**(13)**	**7**	**8**	**2**
Total recorded in derivatives and hedging activities	**7**	**(1)**	**(12)**	**9**	**(1)**	**2**
Derivative related amounts recorded in non-interest gain (loss) on -						
Trading securities - hedged	**—**	**(32)**	**—**	**—**	**—**	**(32)**
Instruments held under fair value option	**—**	**—**	**—**	**2**	**—**	**2**
Total net effect of hedging activities	**$ (70)**	**$ (131)**	**$ (53)**	**$ (198)**	**$ 84**	**$ (368)**
Trading securities - unhedged		**$ (3)**				**$ (3)**
Nine months ended September 30, 2011						
Amortization/accretion of hedging activities	$ (25)	$ —	$ (37)	$ (15)	$ (33)	$ (110)
Net interest settlements [a]	(115)	(103)	(6)	(241)	239	(226)
Total hedging activities recorded in net interest income	(140)	(103)	(43)	(256)	206	(336)
Fair value hedges	8	(14)	(6)	—	(3)	(15)
Cash flow hedges	37	—	—	3	—	40
Economic hedges	(1)	(4)	21	1	35	52
Total recorded in derivatives and hedging activities	44	(18)	15	4	32	77
Derivative related amounts recorded in non-interest gain (loss) on -						
Trading securities - hedged	—	(35)	—	—	—	(35)
Instruments held under fair value option	—	—	—	—	(13)	(13)
Total net effect of hedging activities	$ (96)	$ (156)	$ (28)	$ (252)	$ 225	$ (307)
Trading securities - unhedged		$ (5)				$ (5)

[a] Represents interest income or expense on derivatives included in net interest income of the hedged item.

Hedging Activities Recorded in Net Interest Income

- Net interest income was negatively impacted primarily due to the low interest rate environment resulting in negative net interest settlements on derivative contracts in active hedge accounting relationships. Net interest income was also reduced by the amortization of negative hedge adjustments from previously active hedge relationships.

Fair Value and Cash Flow Hedges

- We recognized a modest net loss due to net ineffectiveness on our fair value hedge accounting relationships during 2012. The loss resulted from the difference in interest rate sensitivities between the interest rate derivatives used as hedging instruments and the underlying hedged assets or liabilities. We also recognized small gains related to hedge ineffectiveness on our discount note cash flow hedge accounting relationships in 2012.

Economic Hedges

- Economic hedges are hedges that do not qualify for 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 2012, interest rates rose slightly, which contributed to a small overall net loss on economic MPF Loan hedges for the period. During the third quarter of 2011, interest rates decreased significantly which contributed to a net gain of $73 million on economic MPF Loan hedges for the quarter and $21 million for the nine months ended September 30, 2011. As long as the MPF portfolio remains a relatively large component of the overall balance sheet, we anticipate fluctuations in hedge gains and losses from period to period. These losses were offset by gains on economic hedges of our consolidated obligation bonds and discount notes, which benefited from the slight rise in interest rates and accordingly, we recognized nominal gains from that strategy.

Trading Securities

- We use trading securities as part of our overall balance sheet hedging strategy to hedge other assets or liabilities. These trading securities were acquired at a premium. As these trading securities are expected to continue to approach par value over time, the related premiums are expected to continue to be recognized as losses as part of the change in fair value until maturity or sale of the securities.

Instruments Held Under Fair Value Option

- We elected the fair value option for a portion of our advances, and consolidated obligations (bonds and discount notes) to economically hedge the interest rate risk associated with these instruments. Although there was no impact on advances, we had net losses on consolidated obligation bonds in the third quarter, caused primarily by a drop in interest rates on longer termed bonds.

Extinguishment of Debt

Though we did not incur any gains or losses on debt extinguishment during 2012, we incurred losses of $21 million on debt extinguishment in the third quarter of 2011. Our objective in regards to these extinguishments was to strengthen future net interest income by reducing a portion of our existing high cost debt. The extinguishments are funded with the excess cash received from certain interest earning assets that had matured or prepaid, and that are not expected to be replaced.

MPF Xtra and other MPF administration fees

This line item represents fees earned from administering mortgage loans not reported on our statements of condition. It includes fees we receive from other FHLBs to administer their MPF Loans, as well as fees earned on MPF Xtra loans owned by Fannie Mae and administered through our internal systems. There are now five FHLBs out of 12 participating in the MPF Xtra product as of September 30, 2012, and we are looking to add more as MPF Xtra continues to grow. We have processed $4.5 billion of MPF Xtra loans for the year to date period ended September 30, 2012, compared to $1.5 billion for the same period in 2011, and $14.2 billion since inception of MPF Xtra in September 2008.

Due to the deferred nature of the recognition of fees, recorded income is up slightly over prior periods. We defer MPF Xtra fees and then recognize them over the contractual life of the loans. As of September 30, 2012, we had deferred MPF Xtra fees of $22 million compared to $16 million at December 31, 2011. Total MPF Xtra loans outstanding as of September 30, 2012 were $9.9 billion compared to $7.2 billion at December 31, 2011. MPF Xtra loans are not held on our statements of condition.

We continue to see new growth of mortgage lenders participating in MPF Xtra. A total of 521 PFIs have now been approved and executed MPF Xtra master commitments as of September 30, 2012, compared to 443 PFIs as of December 31, 2011, of which 363 PFIs have funded and delivered MPF Xtra loans compared to 321 PFIs, as of those dates.

PLMBS Dispute Settlement

In July of 2011, we reached a settlement in connection with a dispute related to certain of our private-label MBS. The settlement was reached with a third party that is not a current defendant in the private label MBS litigation we filed in October, 2010. We received and recognized into other income the total settlement amount of $14.5 million in the third quarter of 2011.

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

Non-Interest Expense

	Three months		Nine Months	
For the periods ended September 30,	**2012**	2011	**2012**	2011
Compensation and benefits	**$ 14**	$ 18	**$ 45**	$ 47
Other operating expenses	**9**	8	**25**	25
FHFA	**2**	2	**6**	8
Office of Finance	**—**	1	**2**	3
Other				
MPF administration expense	**1**	2	**4**	5
Real estate owned (REO) losses and expenses, net	**1**	1	**7**	9
Other	**1**	4	**1**	4
Total non-interest expense	**$ 28**	$ 36	**$ 90**	$ 101

Compensation and benefits decreased in the third quarter primarily due to reduced pension costs. Pension cost is a function of, among other things, the interest rate used to discount future pension obligations to a present value. The Moving Ahead for Progress in the 21st Century Act (MAP-21), which was enacted in July 2012, contains provisions that stabilize the interest rates used to calculate required pension contributions. Current historically low interest rates have resulted in significant increases to required pension contributions. The pension provisions of MAP-21 Act are expected to reduce our required pension contributions for 2012 and 2013 and increase our plan's funded status.

We experienced a significant increase in REO expense in the second quarter of 2012 but returned to more historically normal rates of losses expected in the third quarter. In a distressed market for REO sales, volatility in REO expense may continue for the near future.

Assessments

	Three months		Nine months	
For the period ending September 30,	**2012**	2011	**2012**	2011
Affordable Housing Program	**$ 10**	$ 15	**$ 31**	$ 22
Resolution Funding Corporation	**—**	—	**—**	17
Total assessments	**$ 10**	$ 15	**$ 31**	$ 39

Effective with our expense recorded in the second quarter of 2011, we satisfied the outstanding obligation to the Resolution Funding Corporation (REFCORP) as discussed on page 51 of our 2011 Form 10-K. We now allocate a portion of our earnings historically paid to satisfy our REFCORP obligation to a separate restricted retained earnings account starting with the third quarter of 2011. See **Joint Capital Enhancement Agreement with the Other FHLBs** on page 64 in our 2011 Form 10-K for further details.

We continue to fund the Affordable Housing Program (AHP) program at a calculated rate of 10% percent of income before assessments. Since the 10% AHP rate was previously calculated after the assessment for REFCORP which is no longer being assessed, the effective rate assessed to AHP will be slightly higher going forward. See **Note 13 - Affordable Housing Program (AHP)** to the financial statements in our 2011 Form 10-K.

Other Comprehensive Income

For the nine months ended September 30, 2012, total other comprehensive income has increased by $468 million. This increase is primarily due to the ongoing trend of significant unrealized gains on our available-for-sale securities that began in 2011 and has continued in 2012. These increases in unrealized gains resulted from a market rally and tightening of MBS spreads. These gains only would be realized if we sold the securities. If we hold the securities to maturity, these unrealized gains would ultimately reverse to zero at maturity.

Unrealized losses from primarily cash flow hedges on our discount notes continued in 2012, but were significantly less than 2011 as short term rates have stabilized in 2012 compared to the decline in interest rates during 2011.

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

Statements of Condition

	September 30, 2012	December 31, 2011
Cash and due from banks	$ 25	$ 1,002
Federal Funds sold and securities purchased under agreement to resell	4,997	1,775
Investment securities	36,304	38,728
Advances	13,531	15,291
MPF Loans held in portfolio, net	11,266	14,118
Other	321	341
Total assets	$ 66,444	$ 71,255
Consolidated obligation discount notes	$ 27,231	$ 25,404
Consolidated obligation bonds	33,366	39,880
Subordinated notes	1,000	1,000
Other	1,515	1,679
Total liabilities	63,112	67,963
Capital stock	1,702	2,402
Total retained earnings	1,593	1,321
Accumulated other comprehensive income (loss)	37	(431)
Total capital	3,332	3,292
Total liabilities and capital	$ 66,444	$ 71,255

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

Amounts held in cash and due from banks, Federal Funds sold and securities purchased under agreements to resell will vary each day based on the following:

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

Overnight rates for Federal Funds sold and securities purchased under agreements to resell have remained low. In addition, the European sovereign debt crisis has caused us to reduce our exposure to certain counterparties, see **Short-Term Investments Unsecured Credit Exposure** on page 67 for further details.

Investment Securities

Investment securities declined as securities matured or paid down and the proceeds were primarily used to pay down our consolidated obligations and to redeem a portion of our excess capital stock.

The largest portion of our investment securities portfolio was acquired to create an income bridge to transition our primary business to advances. In connection with the approval of our Capital Plan, the FHFA now requires, and our Board has passed, a resolution requiring us to obtain FHFA approval for any new investments that have a term to maturity in excess of 270 days until such time as our MBS portfolio is less than three times our total regulatory capital and our advances represent more than 50% of our total assets. For further discussion of how this may impact us, see **Risk Factors** on page 24 in our 2011 Form 10-K. We expect our investment portfolio to continue to decline over time as a result of this limitation and as we continue to make repurchases and redemptions of excess capital stock.

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

Advances

Advances declined as two of our five largest members as of June 30, 2012 each paid down approximately $800 million in outstanding advances during the third quarter. Members continue to report to us that they are highly liquid with deposits thus reducing demand for advances. We continue to see inter-quarter fluctuations of advances outstanding over the past year, as well as some growth and/or interest in taking new advances in specific sectors.

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

	As of September 30, 2012	
BMO Harris Bank National Association	**$ 2,375**	**18%**
State Farm Bank, F.S.B	**1,700**	**13%**
Associated Bank, National Association	**1,100**	**8%**
Cole Taylor Bank	**810**	**6%**
Bankers Life and Casualty Company	**750**	**6%**
All other borrowers	**6,583**	**49%**
Total par value	**$ 13,318**	**100%**

MPF Loans Held in Portfolio, net

MPF Loans outstanding continue to decrease as a result of our ongoing strategy to not add MPF Loans to our balance sheet, except for loans being acquired under our affordable housing programs. Thus, the rate of decline in our MPF Loan balance is dependent upon the speed at which borrowers prepay their mortgages.

The speed of prepayments on a percentage basis has slowed compared to long term historical measures. Though mortgage rates have remained historically low, borrowers are not moving or refinancing at the same rates as before the financial crisis. Should market mortgage rates rise in future periods, we could expect prepayment rates to decline further. Should rates fall further, additional prepayments may occur. If an MPF Loan prepays, any remaining closed basis adjustment related to that loan is immediately recognized. This may cause volatility in interest income as mortgage prepayment activity fluctuates as interest rates rise or fall. We cannot predict the extent to which future mortgage rates will rise or fall, or the extent of prepayment activity that will accompany the mortgage rate movement.

The following table summarizes information related to our net premium and hedge accounting basis adjustments on MPF Loans.

For the three months ended	**September 30, 2012**	September 30, 2011
Net premium amortization	**$ 4**	$ 4
Net amortization of closed basis adjustments	**12**	12
For the nine months ended		
Net premium amortization	**$ 11**	$ 15
Net amortization of closed basis adjustments	**34**	37
As of	**September 30, 2012**	December 31, 2011
Net premium balance on MPF Loans	**$ 40**	$ 50
Cumulative basis adjustments on MPF Loans [a]	**—**	40
Cumulative basis adjustments closed portion	**107**	105
MPF Loans, unpaid principal balance	**11,162**	13,965
Premium balance as a percent of MPF Loans	**0.36%**	0.36%

[a] Includes hedge accounting adjustments in hedge relationships that are still outstanding and loan commitment basis adjustments.

In addition to MPF Loans we hold in portfolio, we also buy, and concurrently resell to Fannie Mae, MPF Xtra loans on behalf of our PFIs and the PFIs of other MPF Banks. Our activity in this area is growing. For more details see ***MPF Xtra and other MPF administration fees*** on page 53.

Liquidity, Funding, & Capital Resources

Liquidity

For the period ending September 30, 2012, we have maintained a liquidity position in accordance with FHFA regulations and guidance, and policies established by our Board of Directors. Based upon our excess liquidity position described below, we anticipate remaining in compliance with our liquidity requirements. See **Liquidity, Funding, & Capital Resources** on page 55 in our 2011 Form 10-K for a detailed description of our liquidity requirements.

We use different measures of liquidity as follows:

Overnight Liquidity – Our policy requires us to maintain overnight liquid assets at least equal to 3.5% of total assets. As of September 30, 2012, our overnight liquidity was $6.6 billion or 10% of assets, giving us an excess overnight liquidity of $4.3 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, 2012, we had excess liquidity of $15.1 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 $21.3 billion as of September 30, 2012.

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 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 30 in the **Risk Factors** section of our 2011 Form 10-K.

In September 2012, the Office of Finance revised its methodology for the allocation of the proceeds from the issuance of consolidated obligations that cannot be issued in sufficient amounts to satisfy all FHLB demand for funding during periods of financial distress and when its existing allocation processes are deemed insufficient. In general, this methodology provides that the proceeds in such circumstances will be allocated among the FHLBs based on regulatory capital unless the Office of Finance determines that there is an overwhelming reason to adopt a different allocation method. As is the case during any instance of a disruption in our ability to access the capital market, market conditions or this allocation could adversely impact our ability to finance our operations, which could thereby adversely impact our financial condition and results of operations.

Funding

Cash flows from operating activities

Our operating assets and liabilities support our mission to provide our member shareholders competitively priced funding, a reasonable return on their investment in our capital stock, and support for community investment activities. Operating assets and liabilities can vary significantly in the normal course of business due to the amount and timing of cash flows, which are affected by member-driven activities and market conditions. We believe cash flows from operations, available cash balances and our ability to generate cash through short- and long-term borrowings are sufficient to fund our operating liquidity needs. For the nine months ended September 30, 2012, net cash provided (used) by operating activities was $230 million. This resulted from net income adjusted for non-cash adjustments, primarily gains due to the change in net fair value adjustments on derivatives and hedging activities.

Cash flows from investing activities

Our investing activities predominantly include advances, MPF Loans held for investment, investment securities, and other short-term interest-earning assets. For the nine months ended September 30, 2012, net cash provided (used) by investing activities was $4.6 billion. This resulted primarily from principal collected on MPF Loans, and proceeds from the maturities and paydowns of investment securities.

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

Cash flows from financing activities

Our financing activities primarily reflect cash flows related to issuing and repaying consolidated obligations. For the nine months ended September 30, 2012, net cash provided (used) in our financing activities was $(5.8) billion. This was primarily driven by net pay downs of our consolidated obligation bonds, the repurchase/redemption of our excess capital stock, and maturities of our securities sold under agreements to repurchase.

Consolidated Obligation Bonds and Discount Notes

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

To the extent possible, reliance on short-term debt offers us advantages that are weighed against the increased risk of using short-term debt. Traditionally, we have benefited from interest rates below LIBOR rates for our short-term debt which has resulted in a positive impact on net interest income when used to fund LIBOR-indexed assets. However, due to the short maturity of the debt, our balance sheet may be exposed to future access to the debt markets and to refinancing risks.

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

For the nine months ended September 30,	**2012**	2011
Discount notes	**$ 1,825**	$ 1,417
Bonds	**(6,550)**	(12,326)
Total consolidated obligations	**$ (4,725)**	$ (10,909)

The following table summarizes par values of the consolidated obligations of the FHLBs and those for which we are the primary obligor:

	September 30, 2012			December 31, 2011		
	Bonds	**Discount Notes**	**Total**	Bonds	Discount Notes	Total
FHLB System (par)	**$ 457,209**	**$ 217,278**	**$ 674,487**	$ 501,693	$ 190,175	$ 691,868
FHLB Chicago as primary obligor (par)	**33,422**	**27,235**	**60,657**	39,964	25,411	65,375
As a percent of the FHLB System	**7%**	**13%**	**9%**	8%	13%	9%

Conditions in Financial Markets

Third quarter 2012 was characterized by central bank monetary policy action intended to help assuage concerns about the global economic environment. The Federal Reserve announced late in the second quarter that the Federal Reserve's maturity extension program (referred to by some as "Operation Twist") would be extended through year-end. The European Central Bank announced plans to stop paying interest on overnight deposits and then, later in the quarter, announced plans to support peripheral countries through outright bond purchases.

In September, the Federal Open Market Committee (FOMC) announced Quantitative Easing 3 in the form of an open-ended program to purchase $40 billion in agency MBS per month to run concurrently with the previously announced reinvestment of maturing MBS principal and Operation Twist. The FOMC also extended its guidance stating that the Federal Funds rate will remain near current levels until “at least mid-2015” from “late-2014.”

During the third quarter of 2012, FHLB System-wide consolidated obligation bonds outstanding fell $31 billion to $457 billion, while consolidated obligation discount notes outstanding increased $21 billion to $217 billion. Year-to-date through the end of third quarter 2012, total consolidated obligations outstanding are down almost $18 billion with a $45 billion decrease in consolidated obligation bonds, which was partially offset by a $27 billion increase in consolidated obligation discount notes.

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

Concerns about U.S. fiscal policy

Concerns continue about U.S. fiscal policy, including uncertainty about the so called “fiscal cliff,” which refers to certain tax increases and automatic spending cuts scheduled to become effective at the end of 2012. A number of prominent economists have warned that the U.S. economy may fall back into recession if the Administration and Congress fail to address these issues by year end, and Moody's has warned that it may downgrade the U.S. Government credit rating if the federal debt is not stabilized. For further discussion of how economic recession and changes in credit ratings may impact our business and funding costs, see our Risk Factors on page 24 in our 2011 10-K.

Capital Resources

Capital Rules and Minimum Capital Requirements

For a description of our current capital rules and minimum capital requirements, see **Note 13 – Capital Stock and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements. As of the date of this filing, we have managed our capital base and assets to remain in compliance with our minimum capital requirements.

Capital Amounts

The following table presents our five largest holdings of regulatory capital stock and reconciles our capital stock reported for regulatory purposes to the amount of capital reported in our statements of condition. 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, 2012	**Capital Stock**		**MRCS**
BMO Harris Bank National Association	**$ 236**	**14%**	**$ —**
The Northern Trust Company	**135**	**8%**	**—**
Associated Bank, National Association	**96**	**6%**	**—**
State Farm Bank, F.S.B	**85**	**5%**	**—**
Cole Taylor Bank	**41**	**2%**	**—**
All other members	**1,109**	**65%**	**10**
Total	**$ 1,702**	**100%**	**$ 10**
	September 30, 2012	December 31, 2011	
Capital stock	**$ 1,702**	$ 2,402	
Total retained earnings	**1,593**	1,321	
Accumulated other comprehensive income (loss)	**37**	(431)	
Total GAAP capital	**$ 3,332**	$ 3,292	
Capital Stock	**$ 1,702**	$ 2,402	
MRCS	**10**	4	
Designated Amount of subordinated notes [a]	**—**	800	
Total retained earnings	**1,593**	1,321	
Regulatory capital	**$ 3,305**	$ 4,527	
Excess capital stock	**$ 301**	$ 1,064	

[a] See **Note 11 - Subordinated Notes** to the financial statements.

Components of total GAAP capital changed for the following reasons:

- Capital stock decreased primarily due to repurchases or redemptions of excess member capital stock as further discussed in **Note 13 - Capital Stock and Mandatorily Redeemable Capital Stock (MRCS)**.
- Total retained earnings increased due to our net income of $275 million less dividends paid of $3 million.
- Our unrealized loss in AOCI decreased due to several factors. For details see **Other Comprehensive Income** on page 54.

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 33 of the **Risk Factors** section of our 2011 Form 10-K.

We may not pay dividends if we fail to satisfy our minimum capital and liquidity requirements under the FHLB Act and FHFA regulations. Our Board of Directors has adopted a resolution that may not be amended without FHFA consent which requires that, in addition to declaring and paying dividends according to our Retained Earnings and Dividends Policy, dividends in any given quarter must not exceed the average of three-month LIBOR for that quarter on an annualized basis. The Board's resolution also requires that payment of any dividend not result in our retained earnings falling below the level of retained earnings at the previous year-end. See **Note 12 - Regulatory Actions** to the financial statements in this Form 10-Q and **Retained Earnings and Dividend Policy** on page 63 in our 2011 Form 10-K**.**

On October 23, 2012, our Board declared a cash dividend at an annualized rate of 0.35% per share based on our preliminary financial results for the third quarter of 2012. Although we continue to work to build our financial strength to support a reasonable dividend, any future dividend determination by our Board will depend on future operating results and be reviewed in accordance with the Board's resolution and our Retained Earnings and Dividend Policy.

We continue to allocate 20% of our net income each quarter to a restricted retained earnings account in accordance with the Joint Capital Enhancement Agreement that we entered into with the other FHLBs, as further discussed in **Joint Capital Enhancement Agreement** on page F-57 in our 2011 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 2011 Form 10-K.

Significant changes in our critical accounting policies and estimates from our 2011 Form 10-K are outlined below. Also see **Note 2 - Summary of Significant Accounting Policies and Note 3 – Recently Issued but Not Yet Adopted Accounting Standards** to the financial statements for the impact of recently issued accounting standards on our financial results.

Other-Than-Temporary Impairment (OTTI)

We complete our OTTI analysis for our private-label MBS using key modeling assumptions, significant inputs and methodologies provided by the OTTI Committee. For a detailed discussion of how we determine our base case OTTI as well as a discussion of our accounting for fair value non-credit write-downs and credit loss only write-downs, see **Note 5 - Investment Securities** to the financial statements.

In addition to evaluating our private-label MBS under a base case, most probable, scenario, we performed a cash flow analysis for each of these securities under an adverse, more stressful, housing price scenario.

Under this scenario, current-to-trough home price declines were projected to range from 5.0% to 9.0% over the 3- to 9-month period beginning July 1, 2012. For most of the housing markets, the declines were projected to occur over the 3-month period beginning July 1, 2012. From the trough, home prices were projected to recover using one of five different recovery paths that vary by housing market.

The following table presents the projected home price recovery by future month under the adverse case scenario.

As of September 30, 2012	Recovery Range Annualized %	
Months	**Low**	**High**
1-6	**0.0%**	**1.9%**
7-18	**0.0%**	**2.0%**
19-24	**0.7%**	**2.7%**
25-30	**1.3%**	**2.7%**
31-42	**1.3%**	**3.4%**
43-66	**1.3%**	**4.0%**
Thereafter	**1.5%**	**3.8%**

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

The following table presents what the impact to net income from credit-related OTTI charges would have been under this adverse scenario based on the classification (prime, Alt-A, or subprime) at the time of origination.

	Actual			Adverse Scenario		
As of and for the quarter ended September 30, 2012	**# of Securities**	**Unpaid Principal Balance**	**Credit-Related OTTI**	**# of Securities**	**Unpaid Principal Balance**	**Credit-Related OTTI**
Prime	2	$ 103	$ — *	16	$ 1,019	$ (17)
Alt-A	—	—	—	—	—	—
Subprime	2	15	— *	12	164	(6)
Total private-label MBS	4	$ 118	$ — *	28	$ 1,183	$ (23)

* Less than $1 million.

In the preceding table, we classify our private-label MBS as prime, subprime, or Alt-A based upon the nature of the majority of underlying mortgages collateralizing each security using the issuer's classification, or as published by an NRSRO, at the time of issuance of the MBS. On October 15, 2010, we instituted litigation relating to sixty-four private label MBS bonds purchased by us in an aggregate original principal amount of approximately $4.29 billion. Our complaints assert claims for untrue or misleading statements in the sale of securities, and it is possible that the classifications of private-label MBS, as well as other statements made about the securities by the issuer, are inaccurate.

Significant Inputs Used on all residential private-label MBS securities

We perform cash flow analyses on substantially all of our private-label MBS, impaired or not, from our two independent model services.

The following table summarizes the significant inputs for all our private-label MBS except for securities for which the underlying collateral data is not readily available. These were evaluated for OTTI using alternative procedures. The classification in this table (prime, Alt-A, and subprime) is based on the model used to run the estimated cash flows for the CUSIP, which may not necessarily be the classification at the time of issuance.

As of September 30, 2012		**Prepayment Rates**			**Default Rates**			**Loss Severities**			**Current Credit Enhancement**		
			Range %			**Range %**			**Range %**			**Range %**	
	Unpaid Principal Balance	**Weighted Average %**	**Low**	**High**	**Weighted Average %**	**Low**	**High**	**Weighted Average %**	**Low**	**High**	**Weighted Average %**	**Low**	**High**
2006	$ 813	8.0	6.8	9.7	35.3	20.4	44.2	41.6	29.3	45.8	1.0	—	10.4
2004 & prior	20	14.7	8.2	58.8	8.0	—	23.4	24.7	—	41.1	12.8	6.3	40.9
Total Prime	**833**	**8.2**	**6.8**	**58.8**	**34.6**	**—**	**44.2**	**41.2**	**—**	**45.8**	**1.3**	**—**	**40.9**
2006	694	7.0	4.8	9.4	50.8	35.8	70.9	49.6	45.2	61.6	2.0	—	8.6
2005	32	6.9	6.9	6.9	45.2	45.2	45.2	49.8	49.8	49.8	0.1	0.1	0.1
2004 & prior	2	10.8	8.3	11.3	35.2	31.0	53.0	29.6	22.8	42.9	26.6	19.5	71.7
Total Alt-A	**728**	**7.0**	**4.8**	**11.3**	**50.5**	**31.0**	**70.9**	**49.5**	**22.8**	**61.6**	**2.0**	**—**	**71.7**
2007	10	3.4	3.4	3.4	69.0	69.0	69.0	67.9	67.9	67.9	43.1	43.1	43.1
2006	890	3.2	2.0	4.4	73.0	57.9	87.5	69.3	64.2	78.7	23.6	—	73.6
2005	58	3.6	2.7	4.3	67.9	52.7	81.5	66.1	59.8	69.8	46.4	3.2	89.7
2004 & prior	16	6.7	5.8	8.4	29.3	15.4	44.5	69.0	35.1	83.4	40.5	—	100.0
Total Subprime	**974**	**3.3**	**2.0**	**8.4**	**71.9**	**15.4**	**87.5**	**69.1**	**35.1**	**83.4**	**25.4**	**—**	**100.0**
Total	**2,535**	**6.0**	**2.0**	**58.8**	**53.5**	**—**	**87.5**	**54.3**	**—**	**83.4**	**10.8**	**—**	**100.0**
Analyzed by alternative procedures	**112**												
Total MBS	**$ 2,647**												

Supplement to Affordable Housing and Community Investment Programs

As previously disclosed in **Note 13 - Affordable Housing Program (AHP)** in our 2011 Form 10-K, in December 2011, our Board of Directors approved a plan to supplement our current affordable housing and community investment programs with $50 million in additional funds to promote affordable housing and economic development. Based on the underlying facts and circumstances known to us when we filed our 2011 Form 10-K, we recognized a one time charge of $50 million in the fourth quarter related to our plan to fund affordable housing and economic development projects.

Subsequent to when we filed our 2011 Form 10-K, we began to develop a framework for the use of these funds that may be different from previously existing underlying facts and circumstances. Once a framework is approved by our Board of Directors and the FHFA, we will review our accounting treatment related to the $50 million charge recorded in 2011. If the approved structure results in us establishing financing arrangements as opposed to non-recoverable grants, we may recognize a $50 million reversal of the previous charge in the period approval is received. We expect the $50 million in funds to be committed to affordable housing and economic development projects by the end of 2014.

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

Risk Management - Credit Risk

We track total credit risk with our members, including advances plus risks in any of the other categories as described on page 71 in our December 31, 2011 Form 10-K. As of September 30, 2012, we had total credit risk concentrated with two members with 10% or more of our total member credit outstanding; BMO Harris Bank N.A. (parent company BMO Financial Group) at 17% and State Farm Bank, F.S.B. (parent company State Farm Mutual Automobile Insurance Company) at 12%.

Investments

The carrying values of our investment securities, Federal Funds sold, and securities purchased under agreements to resell are presented in the following table by the long term NRSRO credit rating of the counterparty.

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	Carrying Value
As of September 30, 2012												
Investment securities-												
U.S, Government & other governmental related	**$ —**	**$ 5,573**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 5,573**
State or local housing agency	**—**	**25**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**25**
FFELP ABS	**29**	**7,658**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**7,687**
MBS:												
GSE residential	**—**	**17,116**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**17,116**
Government-guaranteed residential	**—**	**4,327**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**4,327**
Private-label MBS residential	**102**	**17**	**17**	**8**	**63**	**34**	**204**	**298**	**329**	**501**	**3**	**1,576**
Total investment securities	**131**	**34,716**	**17**	**8**	**63**	**34**	**204**	**298**	**329**	**501**	**3**	**36,304**
Federal Funds sold	**—**	**1,682**	**250**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**16**	**1,948**
Securities purchased under agreements to resell	**—**	**1,000**	**1,099**	**950**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3,049**
Total carrying value of investments	**$ 131**	**$37,398**	**$ 1,366**	**$ 958**	**$ 63**	**$ 34**	**$ 204**	**$ 298**	**$ 329**	**$ 501**	**$ 19**	**$ 41,301**
As of December 31, 2011												
Investment securities-												
U.S. Government & other governmental related	$ —	$ 6,311	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 6,311
State or local housing agency	—	27	—	—	—	—	—	—	—	—	—	27
FFELP ABS	1,340	6,819	—	—	—	—	—	—	—	—	—	8,159
MBS:												
GSE residential	—	18,088	—	—	—	—	—	—	—	—	—	18,088
Government-guaranteed residential	—	4,378	—	—	—	—	—	—	—	—	—	4,378
Private-label MBS residential	136	19	9	19	96	35	286	449	522	191	3	1,765
Total investment securities	1,476	35,642	9	19	96	35	286	449	522	191	3	38,728
Federal Funds sold	—	950	—	—	—	—	—	—	—	—	—	950
Securities purchased under agreements to resell	—	200	625	—	—	—	—	—	—	—	—	825
Total carrying value of investments	$ 1,476	$36,792	$ 634	$ 19	$ 96	$ 35	$ 286	$ 449	$ 522	$ 191	$ 3	$ 40,503

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

The following three tables present the unpaid principal balance and credit ratings of our private-label residential MBS by vintage year of issuance and by Prime, Alt-A, and Subprime as designated at time of issuance. These MBS are predominantly variable rate securities.

Private-label MBS Prime	**Vintage Year of Issue**			
As of September 30, 2012	**2006**	**2005**	**2004 and Prior**	**Total**
AAA	$ —	$ —	$ 101	$ 101
AA	—	—	10	10
A	—	—	4	4
BBB	—	—	4	4
Below investment grade	1,383	32	—	1,415
Unrated	—	—	5	5
Total unpaid principal balance	$ 1,383	$ 32	$ 124	$ 1,539
Amortized cost	$ 1,070	$ 24	$ 125	$ 1,219
Gross unrealized losses (incl. non-credit OTTI)	(276)	(4)	(1)	(281)
Gross unrealized gains	207	—	5	212
Fair value	$ 1,001	$ 20	$ 129	$ 1,150
Year-to-date OTTI:				
Total OTTI	$ —	$ —	$ —	$ —
Net non-credit portion reclassified to (from) statements of comprehensive income	(14)	—	—	(14)
Net OTTI, credit portion	$ (14)	$ —	$ —	$ (14)
Weighted average percentage fair value to unpaid principal balance	72.3%	62.7%	103.8%	74.7%
Original weighted average credit support	11.7%	14.2%	3.6%	11.1%
Current weighted average credit support	1.6%	0.1%	9.7%	2.2%
Weighted average collateral delinquency	20.3%	20.8%	3.4%	18.9%

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

Private-label MBS Alt-A	Vintage Year of Issue		
As of September 30, 2012	**2006**	**2004 and Prior**	**Total**
AAA	$ —	$ —	$ —
AA	—	—	—
A	—	—	—
BBB	—	1	1
Below investment grade	124	1	125
Unrated	—	—	—
Total unpaid principal balance	$ 124	$ 2	$ 126
Amortized cost	$ 79	$ 2	$ 81
Gross unrealized losses (incl. non-credit OTTI)	(11)	(1)	(12)
Gross unrealized gains	—	—	—
Fair value	$ 68	$ 1	$ 69
Year-to-date OTTI:			
Total OTTI	$ —	$ —	$ —
Net non-credit portion reclassified to (from) statements of comprehensive income	—	—	—
Net OTTI, credit portion	$ —	$ —	$ —
Weighted average percentage fair value to unpaid principal balance	54.7%	25.2%	54.8%
Original weighted average credit support	17.9%	7.0%	17.8%
Current weighted average credit support	—%	21.9%	0.3%
Weighted average collateral delinquency	38.8%	16.2%	38.5%

Private-label MBS Subprime	Vintage Year of Issue				
As of September 30, 2012	**2007**	**2006**	**2005**	**2004 and Prior**	**Total**
AAA	$ —	$ —	$ —	$ —	$ —
AA	—	—	—	2	2
A	—	—	1	2	3
BBB	—	—	1	4	5
Below investment grade	10	880	44	11	945
Unrated	—	10	12	5	27
Total unpaid principal balance	$ 10	$ 890	$ 58	$ 24	$ 982
Amortized cost	$ 10	$ 602	$ 53	$ 21	$ 686
Gross unrealized losses (incl. non-credit OTTI)	(1)	(118)	(5)	(2)	(126)
Gross unrealized gains	—	79	3	1	83
Fair value	$ 9	$ 563	$ 51	$ 20	$ 643
Year-to-date OTTI:					
Total OTTI	$ —	$ —	$ (2)	$ —	$ (2)
Net non-credit portion reclassified to (from) statements of comprehensive income	—	—	1	—	1
Net OTTI, credit portion	$ —	$ —	$ (1)	$ —	$ (1)
Weighted average percentage fair value to unpaid principal balance	92.0%	63.2%	87.9%	82.7%	65.5%
Original weighted average credit support	23.0%	22.9%	22.1%	41.8%	23.3%
Current weighted average credit support	43.1%	23.6%	46.6%	41.4%	25.6%
Weighted average collateral delinquency	39.5%	41.5%	38.8%	19.1%	40.8%

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

Mortgage Backed Securities

The following table presents the components of amortized cost of our private-label MBS where a life-to-date OTTI credit impairment was taken at some point in time on these securities.

As of September 30, 2012	Unpaid Principal Balance	Life-To-Date OTTI Credit Impairment [a]	Other Adjustments [b]	Amortized Cost
Private-label MBS	**$2,647**	**$742**	**$81**	**$1,986**

[a] Life-to-date OTTI credit impairment excludes increases in cash flows expected to be collected that have been recognized into net income.
[b] Other Adjustments primarily consists of life-to-date accretion of interest related to the discounted present value of previously recognized credit-related impairment losses.

Short-Term Investments Unsecured Credit Exposure

We maintain a short-term investment portfolio to provide funds to meet the credit needs of our members and to maintain liquidity. See **Liquidity** on page 57 for a discussion of our liquidity management.

Within our portfolio of short-term investments, we face credit risk from unsecured exposures to counterparties and members. Excluding investments in U.S. government and agency debt, our unsecured credit investments can have maturities that range between overnight and nine months and can consist of commercial paper, certificates of deposit, and Federal Funds sold. We are not currently entering into short-term unsecured investments beyond overnight and are transacting in Federal Funds only. We are not currently investing in term Federal Funds, commercial paper or certificates of deposit.

We actively monitor our credit exposures and the credit quality of our counterparties, including an assessment of each counterparty's financial performance, capital adequacy, sovereign support and the current market perceptions of the counterparties. General macro-economic, political and market conditions may also be considered when deciding on unsecured exposure. As a result of these monitoring activities, we may limit or suspend existing unsecured credit limits.

Under current Bank policy, eligible counterparties for short-term investments, including Federal Funds sold, are:

(i) other FHLBs;
(ii) other U.S. GSEs; and
(iii) FDIC-insured financial institutions, including U.S. subsidiaries of foreign commercial banks, or U.S. branches of foreign commercial banks whose most recently published financial statements exhibit at least $250 million of Tier 1 (or total) capital. Foreign banks must be domiciled in a country whose sovereign rating is at least Aa3 from Moody's or AA- from Standard & Poor's.

In addition, our non-member counterparties must have a rating from an NRSRO of at least Baa or BBB in order to be eligible for an unsecured credit line. Our members who are FDIC-insured financial institutions discussed in (iii) above are eligible Federal Funds counterparties, although our members do not have to meet the NRSRO ratings requirement in order to be eligible for an unsecured credit line. While from time to time we may enter into Federal Funds transactions with our members that meet the qualifications outlined above, the majority of our Federal Funds transaction tend to be with non-member counterparties. As of September 30, 2012, we had $16 million in Federal Funds outstanding to members.

FHFA regulations include limits on the amount of unsecured credit we may extend to any member or non-member counterparty or to a group of affiliated counterparties. Our Board-approved policy limits are lower than those permitted by regulation, and actual limits granted to counterparties may be lower than our internal policy limits. The FHFA limit is based on a percentage of eligible regulatory capital and the counterparty's overall credit rating. Under FHFA regulations, the level of eligible regulatory capital is determined as the lesser of our total regulatory capital or the eligible amount of regulatory capital of the counterparty. The eligible amount of regulatory capital is then multiplied by a stated percentage. The stated percentage that we may offer for term extensions of unsecured credit ranges from 1% to 15% based on a counterparty's credit rating.

FHFA regulations also permit us to extend additional unsecured credit for overnight extensions of credit and for sales of Federal Funds subject to continuing contracts that renew automatically. Our total unsecured exposure to a counterparty may not exceed twice the regulatory limit for term exposures, or a total of 2% to 30% of the eligible amount of regulatory capital, based on the counterparty's credit rating. As of September 30, 2012, we were in compliance with the regulatory limits established for our unsecured credit.

We are prohibited by FHFA regulation from investing in financial instruments issued by non-U.S. entities other than those issued by U.S. branches and agency offices of foreign commercial banks. Our unsecured credit exposures to U.S. branches and agency offices of foreign commercial banks include the risk that, as a result of political or economic conditions in a country, the counterparty may be unable to meet their contractual repayment obligations. Our unsecured credit exposures to domestic counterparties and U.S. subsidiaries of foreign commercial banks include the risk that these counterparties have extended credit to foreign counterparties. We are in compliance with the regulation and did not own any financial instruments issued by foreign sovereign governments, including those countries that are members of the European Union, as of and for the period ended September 30, 2012.

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

The following table presents the credit ratings of the unsecured investment credit exposures presented by the domicile of the counterparty or the domicile of the counterparty's parent for U.S. branches and agency offices of foreign commercial banks based on the NRSRO used by us. This table does not reflect the foreign sovereign government's credit rating. We mitigate this risk by investing in unsecured investments with highly-rated counterparties and/or well-capitalized members. The unsecured investment credit exposure presented in the table may not reflect the average or maximum exposure during the period as the balances presented reflect the balances at period end.

As of September 30, 2012	**AAA**	**AA**	**A**	**BBB**	**Unrated**	**Total**
Domestic U.S.	**$ —**	**$ 232**	**$ —**	**$ —**	**$ 16**	**$ 248**
U.S. branches and agency offices of foreign commercial banks:						
Canada	**—**	**1,300**	**250**	**—**	**—**	**1,550**
Australia	**—**	**150**	**—**	**—**	**—**	**150**
Total unsecured credit exposure	**$ —**	**$ 1,682**	**$ 250**	**$ —**	**$ 16**	**$ 1,948**

We mitigate the credit risk on investments by investing in investments that have short-term maturities. All investments in the above table were of overnight duration.

Credit Products

The following table presents the number of borrowers and credit outstanding to our borrowers by rating. Our internal rating is utilized in determining our members' borrowing capacity and is not a reflection of the credit risk on the credit outstanding to an individual member. Credit outstanding consists of outstanding advances, letters of credit, MPF credit enhancement obligations, member derivative exposures, and other obligations. Collateral loan value describes the borrowing capacity assigned to the types of collateral we accept for advances. Collateral loan value does not imply fair value.

	September 30, 2012					December 31, 2011				
Rating	**Number of Borrowers**	**% of Total**	**Credit Outstanding**	**% of Total**	**Collateral Loan Value**	Number of Borrowers	% of Total	Credit Outstanding	% of Total	Collateral Loan Value
1-3	**458**	**86%**	**$ 12,657**	**89%**	**$ 34,025**	460	85%	$ 13,306	83%	$ 30,469
4	**33**	**6%**	**712**	**5%**	**1,268**	40	7%	1,280	8%	1,731
5	**42**	**8%**	**896**	**6%**	**1,454**	45	8%	1,388	9%	2,225
Other		**—**		**—**		1	—%	2	—%	5
Total	**533**	**100%**	**$ 14,265**	**100%**	**$ 36,747**	546	100%	$ 15,976	100%	$ 34,430

The majority of borrowers assigned a 4 rating in the above table 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. 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 us 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. For insurance companies we took delivery of collateral for all advances outstanding regardless of credit rating at September 30, 2012, and December 31, 2011.

As a result of the collateral and other credit risk mitigation efforts, we believe we are sufficiently well collateralized on our credit outstanding and we have not recorded an allowance for credit losses on our advances or other credit products as of the periods presented, nor have we ever incurred a credit loss on advances or our other credit products to date. We have had three and seven members (or former members) placed into receivership by their regulator during the three and nine months ended September 30, 2012, and the total advances outstanding for the institutions at the time of their failure were $10 million and $72 million. All outstanding advances were either repaid or were assumed by the acquirer. No credit losses were incurred year to date on these advances.

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

In addition to providing advances, we also offer standby letters of credit to our members and standby bond purchase agreements with state housing authorities within our district, as disclosed in **Note 16 - Commitments and Contingencies** to the financial statements. To secure letter of credit risks, we require collateral as we do on advances.

MPF Loans

We record provisions for credit losses for MPF Loans due to portfolio and market trends related to rising delinquency rates, increased loss severities, and prepayment speeds consistent with the percentage increase in delinquent, nonaccrual, and impaired MPF Loans to total conventional MPF Loans. Our provision declined during the third quarter and from December 31, 2011 primarily as a result of a decline in our total outstanding delinquent MPF Loans. For details on our allowance for credit losses, please see **Note 8 - Allowance for Credit Losses** to the financial statements.

Derivatives

Our maximum exposure to credit loss is the fair value of derivative assets, not the notional amount, and 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. Based on credit analyses and collateral requirements, we do not anticipate any credit losses on our derivative agreements. In determining maximum credit risk, we consider accrued interest receivables and payables, and the legal right to offset derivative assets and liabilities by counterparty. Collateral with respect to derivatives with members includes collateral assigned to us, as evidenced by a written security agreement and held by the member for our benefit. During 2012, we had no exposure to futures contracts or Futures Commissions Merchants. See **Note 9 - Derivatives and Hedging Activities** to the financial statements for further details of our derivatives and hedging activities.

The following table summarizes our derivative counterparty credit exposure. Rating shown is the lowest rating among the three largest NRSROs. Of our net exposure after collateral, less than $1 million was with institutions outside of the U.S.

	Derivative Asset Exposure at Fair Value Net of Cash Collateral	Securities Collateral Held	Net Exposure After Collateral
As of September 30, 2012			
AA	**$ 2**	**$ 1**	**$ 1**
A	**27**	**27**	**—**
Total Counterparties	**29**	**28**	**1**
Member institutions	**26**	**—**	**26**
Total derivatives	**$ 55**	**$ 28**	**$ 27**
As of December 31, 2011			
AA	$ 9	$ 2	$ 7
A	27	25	2
Total counterparties	36	27	9
Member institutions	4	—	4
Total derivatives	$ 40	$ 27	$ 13

Legislative and Regulatory Developments

The legislative and regulatory environment in which we operate continues to undergo rapid change driven principally by reforms under the Housing and Economic Reform Act of 2008, as amended (Housing Act) and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act). We expect the Housing Act and the Dodd-Frank Act, as well as plans for housing finance and GSE reform, to result in still further changes to this environment. Our business operations, funding costs, rights, obligations, and/or the environment in which we carry out our housing finance mission are likely to continue to be significantly impacted by these changes. Significant regulatory actions and developments for the period covered by this report are summarized below.

Developments under the Dodd-Frank Act Impacting Derivatives Transactions

Definitions of Certain Terms under New Derivatives Requirements. The Dodd-Frank Act will require swap dealers and certain other large users of derivatives to register as “swap dealers” or “major swap participants,” as the case may be, with the U.S. Commodity Futures Trading Commission (the CFTC) and/or the SEC. Based on the definitions in the final rules jointly issued by the CFTC and SEC in April 2012, we will not be required to register as either a major swap participant or as a swap dealer because of the derivative transactions that we enter into for the purposes of hedging and managing our interest rate risk or any derivative transactions that we may intermediate for our members.

Based on the final rules and accompanying interpretive guidance jointly issued by the CFTC and SEC in July 2012, call and put optionality in certain advances to our members will not be treated as “swaps” as long as the optionality relates solely to the interest rate on the advance and does not result in enhanced or inverse performance or other risks unrelated to the interest rate. Accordingly, our ability to offer these advances to member customers should not be affected by the new derivatives regulations.

Mandatory Clearing of Derivatives Transactions. The Dodd-Frank Act provides for new statutory and regulatory requirements for derivative transactions, including those utilized by us to hedge our interest rate and other risks. As a result of these requirements, certain derivative transactions will be required to be cleared through a third-party central clearinghouse and traded on regulated exchanges or new swap execution facilities. As further discussed in Legislative and Regulatory Developments on page 17 in our 2011 Form 10-K, cleared swaps will be subject to new requirements including mandatory reporting, record-keeping and documentation requirements established by applicable regulators and initial and variation margin requirements established by the clearinghouse and its clearing members. The CFTC recently issued guidance regarding the treatment of customer collateral for cleared swaps and proposed additional protections for such collateral.

The implementation timeframe for mandatory clearing of eligible interest rate swaps is determined according to the effective date of the CFTC's mandatory clearing determinations, which were released in proposed form on July 24, 2012 for interest rate swaps. The CFTC is expected to finalize these determinations in November 2012, and we will have to clear eligible interest rate swaps within 180 days after publication of the final determinations; we estimate that we will be required to begin clearing such eligible swaps during the second quarter 2013.

The CFTC has approved an end-user exception to mandatory clearing that would exempt derivatives transactions that we may intermediate for our members with $10 billion or less in assets; the exemption applies only if the member uses the swaps to hedge or mitigate its commercial risk and the reporting counterparty for such swaps complies with certain additional reporting requirements. As a result, any such intermediated swaps would not be subject to mandatory clearing, although such swaps would be subject to applicable new requirements for derivative transactions that are not subject to mandatory clearing requirements (uncleared trades). Although our moratorium on intermediated member swaps currently continues, we have included this discussion of intermediated member swaps because we may decide to offer intermediated member swaps in the future.

Uncleared Derivatives Transactions. The Dodd-Frank Act will also change the regulatory landscape for uncleared trades. While we expect to continue to enter into uncleared trades on a bilateral basis, such trades will be subject to new requirements, including mandatory reporting, record-keeping, documentation, and minimum margin and capital requirements established by applicable regulators. These requirements are discussed in our 2011 Form 10-K.

The CFTC recently finalized rules regarding certain new documentation requirements for uncleared trades. These rules (and the external business conduct rules for swap dealers and major swap participants that the CFTC had previously finalized) and certain additional rules that have yet to be finalized, will require amendments to the documentation for swaps we enter into with swap dealers. We have adhered to an ISDA protocol to address the new documentation requirements under the external business conduct rules and we will consider adhering to future ISDA protocols to address the recently finalized new documentation requirements for uncleared trades. The recently finalized rules require new dispute resolution and valuation provisions, new representations regarding applicable insolvency regimes and credit support modifications to our existing swap documentation. Our swap documentation with swap dealers must comply with these requirements by April 1, 2013. The recently finalized rules also impose requirements for acknowledgments and confirmations of uncleared trades between us and swap dealers. With respect to interest rate swaps that we enter into with swap dealers, these requirements will be phased in between November 13, 2012 and March 1, 2014. However, we believe that this scheduled phase-in period may be delayed until

December 31, 2012 due to a delay in swap dealer registration. This same delay in registration has also delayed the start of swap dealer compliance with certain of the external business conduct rules discussed above beyond their originally scheduled effective date of October 15, 2012. The compliance date for the remaining external business conduct rules is January 1, 2013.

The Dodd-Frank Act also imposes new margin requirements for uncleared trades, which are discussed in our 2011 Form 10-K. The CFTC, the FHFA and other bank regulators proposed margin requirements in 2011 and the CFTC has re-opened the comment period for such requirements on two occasions. The FHFA and other bank regulators recently re-opened the comment period for their proposed margin requirements until November 26, 2012. As a result, we do not expect that such requirements will be finalized until sometime in 2013 and we do not expect that they will apply to the Bank until later in 2013 at the earliest.

Recordkeeping and Reporting. Compliance dates for the new recordkeeping and reporting requirements for all of our cleared and uncleared swaps have now been established, based on the effective date for the final rule further defining the term “swap,” issued jointly by the CFTC and SEC, which became effective on October 12, 2012. We currently comply with recordkeeping requirements for our swaps that were (or are) in effect on or after July 21, 2010 and, beginning on April 10, 2013, we will have to comply with new record-keeping requirements for swaps entered into on or after April 10, 2013. For interest rate swaps that we enter into with swap dealers, the swap dealers must comply with reporting requirements applicable to such swaps, including real-time reporting requirements, as of the the date these swap dealers register as such. We will be required to comply with reporting requirements, including real-time reporting requirements for any swaps that we may intermediate for our members beginning on April 10, 2013.

We, together with the other FHLBs, will continue to monitor these rulemakings and the overall regulatory process to implement the derivatives reform under the Dodd-Frank Act. We will also continue to work with the other FHLBs to implement the processes and documentation necessary to comply with the Dodd-Frank Act's new requirements for derivatives.

Developments under the FHFA

Advance Notice of Proposed Rulemaking on Stress-Testing Requirements. On October 5, 2012, the FHFA issued a notice of proposed rulemaking that would implement a provision in the Dodd-Frank Act that requires all financial companies with assets over $10 billion to conduct annual stress tests, which will be used to evaluate an institution's capital adequacy under various economic conditions and financial conditions. The FHFA proposes to issue annual guidance to describe the baseline, adverse and severely adverse scenarios and methodologies that the FHLBs must follow in conducting their stress tests, which, as required by the Dodd-Frank Act, would be generally consistent and comparable to those established by the Federal Reserve. An FHLB would be required to provide an annual report on the results of the stress tests to the FHFA and the Federal Reserve and to then publicly disclose a summary of such report within 90 days. Comments are due by December 4, 2012.

Proposed Guidance on Collateralization of Advances and Other Credit Products Provided to Insurance Company Members. On October 5, 2012, the FHFA published a notice requesting comments on a proposed Advisory Bulletin which would set forth standards to guide the FHFA in its supervision of secured lending to insurance company members by the FHLBs. The FHFA's notice provides that lending to insurance company members exposes FHLBs to risks that are not associated with advances to the insured depository institution members, arising from the different state's statutory and regulatory regimes and the statutory accounting principles and reporting practices. The proposed standards include consideration of, among other things:

- the level of an FHLB's exposure to insurance companies in relation to its capital structure and retained earnings;
- an FHLB's control of pledged securities collateral and ensuring it has a first-priority perfected security interest;
- the use of funding agreements between an FHLB and an insurance company member to document advances and whether such an FHLB would be recognized as a secured creditor with a first priority security interest in the collateral; and
- the FHLB's documented framework, procedures, methodologies and standards to evaluate an insurance company member's creditworthiness and financial condition, the FHLB valuation of the pledged collateral and whether an FHLB has a written plan for the liquidation of insurance company member collateral.

Comments are due by December 4, 2012.

Proposed Order on Qualified Financial Contracts (QFCs). On August 9, 2012, the FHFA circulated a proposed order on QFCs that would be applicable to the FHLBs as well as Fannie Mae and Freddie Mac (collectively, the Regulated Entities). The FHFA has indicated that the proposed order is intended to permit the FHFA to comply with certain statutory requirements for the transfer of QFCs in the event of the receivership of a Regulated Entity. The proposed order sets forth certain recordkeeping and reporting requirements for a Regulated Entity's QFCs. If the order is issued as proposed, each FHLB will have to, among other things, establish and maintain infrastructure sufficient to meet the recordkeeping and reporting requirements and engage external personnel to audit its compliance with the order on an annual basis. Comments were due by October 10, 2012.

Other Significant Developments

National Credit Union Administration Proposed Rule on Access to Emergency Liquidity. On July 30, 2012, the National Credit Union Administration (NCUA) published a proposed rule requiring, among other things, that federally-insured credit unions of $100 million or larger must maintain access to at least one federal liquidity source for use in times of financial emergency and distressed circumstances. This access must be demonstrated through direct or indirect membership in the Central Liquidity Facility (a U.S. government corporation created to improve the general financial stability of credit unions by serving as a liquidity lender to credit unions) or by establishing access to the Federal Reserve's discount window. The proposed rule does not include FHLB membership as an emergency liquidity source. If the rule is issued as proposed, it may adversely impact our results of operations if it causes our federally-insured credit union members to favor these federal liquidity sources over FHLB membership or advances. Comments were due by September 28, 2012.

Housing Finance and GSE Reform. Recently, the U.S. Treasury Department (Treasury Department) announced a set of modifications to the preferred stock purchase agreements between the Treasury Department and the FHFA as conservator of Fannie Mae and Freddie Mac (together, the Enterprises) to help expedite the wind down of the Enterprises. The changes require all future earnings from the Enterprises to be turned over to the Treasury Department and require the accelerated wind down of their retained mortgage portfolios. By not allowing the Enterprises to retain any profits, these changes effectively ensure that the Enterprises will never be allowed to recapitalize themselves and return to the market in their previous structure. In addition, the FHFA recently solicited comments on their proposal to create a new framework for the secondary mortgage market. The FHFA has indicated that the framework is intended to create a more efficient and flexible securitization platform for the Enterprises that also would be available to all market participants and interested parties.

As the Enterprises are being wound down, Congress and the administration have been considering various proposals to reform the U.S. housing finance system and the secondary mortgage market. A number of bills have been introduced in Congress in the past several years, although none have proposed specific changes to the FHLBs. No further legislative action in this area is expected until the next Congress convenes in 2013. It is impossible to determine at this time whether or when Congress will act in this area. The ultimate effects of housing finance and GSE reform on the FHLBs are unknown and will depend on the legislation or other changes, if any, that ultimately are implemented.

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

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. For additional information please see **Item 7A Quantitative and Qualitative Disclosures about Market Risk** on page 87 in our 2011 Form 10-K.

Measurement of Market Risk Exposure

To measure our exposure, we discount the cash flows generated from modeling the terms and conditions of all interest rate-sensitive securities using current interest rates to determine their fair values or spreads to the swap curve for securities where third party prices are used. This includes considering explicit and embedded options using a lattice model or Monte Carlo simulation. We estimate yield curve, option, and basis risk exposures by calculating the fair value change in relation to various parallel changes in interest rates, implied volatility, prepayment speeds, spreads to the swap curve and mortgage rates.

The table below summarizes our sensitivity to various interest rate risk exposures in terms of changes in market value.

		Option Risk		Basis Risk	
	Yield Curve Risk	Implied Volatility	Prepayment Speeds	Spread to Swap Curve	Mortgage Spread
As of September 30, 2012					
Advances	**$ (3)**	**$ —**	**$ —**	**$ (4)**	**$ —**
MPF Loans	**(2)**	**(1)**	**(7)**	**(3)**	**1**
Mortgage Backed Securities	**(10)**	**(1)**	**(2)**	**(11)**	**—**
Other interest earning assets	**(2)**	**—**	**—**	**(5)**	**—**
Interest-bearing liabilities	**9**	**6**	**—**	**8**	**—**
Derivatives	**6**	**(2)**	**—**	**—**	**—**
Total	**$ (2)**	**$ 2**	**$ (9)**	**n/m**	**$ 1**
As of December 31, 2011					
Advances	$ (2)	$ 1	$ —	$ (4)	$ —
MPF Loans	(2)	(4)	(8)	(4)	2
Mortgage Backed Securities	(10)	(1)	(2)	(12)	—
Other interest earning assets	(2)	—	—	(6)	—
Interest-bearing liabilities	11	7	—	10	—
Derivatives	5	(2)	—	—	—
Total	$ —	$ 1	$ (10)	n/m	$ 2

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

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

As of September 30, 2012, our sensitivity to changes in implied volatility was $2 million. At December 31, 2011, our sensitivity to changes in implied volatility was $1 million. These sensitivities are limited in that they do not incorporate other risks, including but not limited to, non-parallel changes in yield curves, 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.

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

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

As of September 30, 2012			As of December 31, 2011		
Down 200 bps	**Base**	**Up 200 bps**	Down 200 bps	Base	Up 200 bps
3.5	**2.1**	**-2.3**	2.8	2.3	1.8

Duration gap is another measure of interest rate sensitivity. Duration gap is calculated by dividing the dollar duration of equity by the fair value of assets. A positive duration gap indicates an exposure to rising interest rates. As of September 30, 2012, our duration gap was 1.2 months, compared to 1.1 months as of December 31, 2011.

As of September 30, 2012, on a U.S. GAAP basis, our fair value deficit (relative to book value) was $84 million, and our market value of equity to book value of equity ratio was 103%. At December 31, 2011, our fair value deficit was $345 million and our market value of equity to book value of equity ratio was 90%. These improvements were primarily because mortgage spreads tightened. Our market to book value of total capital for regulatory risk-based capital purposes differs from this GAAP calculation, as discussed starting on page F-54 in our 2011 Form 10-K.

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 Market Risk Policy, which defines our interest rate risk limits. The table below reflects the change in market risk limits under the Market Risk Policy.

	September 30, 2012		December 31, 2011	
Scenario as of	**Change in Market Value of Equity**	**Loss Limit**	Change in Market Value of Equity	Loss Limit
-200 bp	**$ 129.8**	**$ (185.0)**	$ 199.0	$ (185.0)
-100 bp	**83.7**	**(77.5)**	138.7	(77.5)
-50 bp	**53.2**	**(30.0)**	78.0	(30.0)
-25 bp	**29.9**	**(15.0)**	30.0	(15.0)
+25 bp	**(6.3)**	**(30.0)**	(7.4)	(30.0)
+50 bp	**0.5**	**(60.0)**	(4.0)	(60.0)
+100 bp	**45.6**	**(155.0)**	11.2	(155.0)
+200 bp	**151.4**	**(370.0)**	2.6	(370.0)

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

Consolidated Obligations

Our disclosure controls and procedures include controls and procedures for accumulating and communicating information relating to our joint and several liability for the consolidated obligations of other FHLBs. For further information**,** see **Item 9A. Controls and Procedures** on page 94 of our 2011 Form 10-K.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On October 15, 2010, the Bank instituted litigation relating to 64 private label MBS bonds purchased by the Bank in an aggregate original principal amount of 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. One Mortgage Partners Corp., which is affiliated with J.P. Morgan Acceptance Corporation but is not a defendant in these actions, held approximately 2% of the Bank's capital stock as of September 30, 2012.

In the Washington action, defendants filed a motion to dismiss on March 4, 2011, which was denied in its entirety on June 17, 2011. The action is proceeding in discovery. In the Illinois action, defendants filed motions to dismiss on May 27, 2011, oral argument was heard on the motions on June 5, 2012, and the court denied defendants' motions in their entirety on September 19, 2012. Sequoia Residential Funding, Inc. and its affiliates have filed with the Illinois appellate court a petition for leave to appeal the Cook County Circuit Court's denial of its motion to dismiss for lack of personal jurisdiction. This petition is currently being briefed. Certain defendants have also filed with the Circuit Court a Motion to Certify Questions of Law for Interlocutory Appeal and to Stay Discovery. This petition is also being briefed. In the California action, defendants filed demurrers asserting statutes of limitations arguments on December 1, 2011, which were denied in their entirety on June 26, 2012. On August 31, 2012, defendants in the California action filed a second round of demurrers. Briefing on these issues is anticipated to be closed by the end of November 2012, and followed by oral argument thereafter.

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 24 in our 2011 Form 10-K, which could materially affect our business, financial condition, or future results. These risks are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also severely affect us.

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

Not applicable.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

10.1	Federal Home Loan Bank of Chicago Board of Directors 2012 Compensation Policy, revised as of October 1, 2012
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer
32.1	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer
32.2	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Glossary of Terms

Advances: Secured loans to members.

ABS: Asset-backed-securities.

AFS: Available-for-sale securities.

AHP: Affordable Housing Program.

AOCI: Accumulated Other Comprehensive Income.

Capital Plan: The Federal Home Loan Bank of Chicago Capital Plan, effective January 1, 2012.

C&D Order: We entered into a Consent Cease and Desist Order with the Finance Board on October 10, 2007 and an amendment thereto as of July 24, 2008. On April 18, 2012, the FHFA terminated the C&D Order.

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.

CFTC: Commodity Futures Trading Commission.

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

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

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.

Designated Amount: A percentage of the outstanding principal amount of the subordinated notes we were allowed to include prior to January 1, 2012, 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, which sell at less than their face amount and are redeemed at par value when they mature.

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

Excess capital stock: Capital stock held by members in excess of their statutory requirement or minimum investment requirement, as applicable.

Excess capital stock ratio: Excess capital stock divided by regulatory capital.

Fannie Mae: Federal National Mortgage Association.

FASB: Financial Accounting Standards Board.

FDIC: Federal Deposit Insurance Corporation.

Federal Reserve: Federal Reserve Bank of New York.

FFELP: Federal Family Education Loan Program.

FHA: Federal Housing Administration.

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

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

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

Freddie Mac: Federal Home Loan Mortgage Corporation.

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

Ginnie Mae: Government National Mortgage Association.

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.

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

HUD: Department of Housing and Urban Development.

HTM: Held-to-maturity securities.

IFRS: International Financial Reporting Standards.

JCE Agreement: Joint Capital Enhancement Agreement entered into by all 12 FHLBs, effective February 28, 2011 and amended August 5, 2011, which is intended to enhance the capital position of each FHLB. The intent of the agreement is to allocate that portion of each FHLB's earnings historically paid to satisfy its REFCORP obligation to a separate retained earnings account at that FHLB.

LIBOR: London Interbank Offered Rate.

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

MBS: Mortgage-backed securities.

MPF®: Mortgage Partnership Finance.

MPF Banks: FHLBs that participate in the MPF program.

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

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

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

MRCS: mandatorily redeemable capital stock.

NRSRO: Nationally Recognized Statistical Rating Organization.

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

OTTI: Other-than-temporary impairment.

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

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

REFCORP: Resolution Funding Corporation.

Regulatory capital: Regulatory capital stock plus retained earnings.

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

REO: Real estate owned.

Repurchase Plan: Our plan to repurchase the excess capital stock of current members over time, as approved by the FHFA on December 22, 2011. The plan terminated by its terms effective upon our most recent repurchase of excess capital stock on May 15, 2012.

RHS: Department of Agriculture Rural Housing Service.

SEC: Securities and Exchange Commission.

SMI: Supplemental mortgage insurance.

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

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

VA: Department of Veteran's Affairs.

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 9, 2012

/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 9, 2012