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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2015

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 ☒

As of July 31, 2015, including mandatorily redeemable capital stock, registrant had 18,417,318 total outstanding shares of Class B Capital Stock.

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Federal Home Loan Bank of Chicago

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

	June 30, 2015	December 31, 2014
Assets		
Cash and due from banks	$ 1,551	$ 342
Interest bearing deposits	560	560
Federal Funds sold	751	1,525
Securities purchased under agreements to resell	1,250	3,400
Investment securities -		
Trading, $64 and $71 pledged	160	167
Available-for-sale	18,830	19,975
Held-to-maturity, $7,171 and $7,824 fair value	6,529	7,118
Total investment securities	25,519	27,260
Advances, $94 and $83 carried at fair value	34,553	32,485
MPF Loans held in portfolio, net of allowance for credit losses of $(3) and $(15)	5,374	6,057
Derivative assets	2	29
Other assets	200	183
Total assets	$ 69,760	$ 71,841
Liabilities		
Deposits -		
Noninterest bearing	$ 49	$ 49
Interest bearing, $14 and $13 from other FHLBs	589	617
Total Deposits	638	666
Consolidated obligations, net -		
Discount notes, $9,550 and $1,799 carried at fair value	34,552	31,054
Bonds, $906 and $2,785 carried at fair value	28,672	34,251
Total consolidated obligations, net	63,224	65,305
Derivative liabilities	68	55
Affordable Housing Program assessment payable	97	90
Other liabilities	240	256
Subordinated notes	944	944
Total liabilities	65,211	67,316
Commitments and contingencies - see notes to the financial statements		
Capital		
Class B1 activity stock - putable $100 par value - 9 million and 8 million shares issued and outstanding	941	827
Class B2 membership stock - putable $100 par value - 9 million and 11 million shares issued and outstanding	894	1,075
Total capital stock	1,835	1,902
Retained earnings - unrestricted	2,285	2,152
Retained earnings - restricted	290	254
Total retained earnings	2,575	2,406
Accumulated other comprehensive income (loss) (AOCI)	139	217
Total capital	4,549	4,525
Total liabilities and capital	$ 69,760	$ 71,841

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

Statements of Income (unaudited)
(Dollars in millions)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Interest income	**$ 309**	$ 345	**$ 630**	$ 700
Interest expense	**188**	226	**379**	454
Net interest income before provision for (reversal of) credit losses	**121**	119	**251**	246
Provision for (reversal of) credit losses	**4**	(3)	**4**	(6)
Net interest income	**117**	122	**247**	252
Noninterest gain (loss) on -				
Trading securities	**—**	(7)	**(1)**	(12)
Derivatives and hedging activities	**9**	2	**(2)**	(12)
Instruments held under fair value option	**—**	(3)	**3**	1
Litigation settlement awards	**10**	17	**11**	17
Other, net	**5**	4	**8**	9
Noninterest gain (loss)	**24**	13	**19**	3
Noninterest expense -				
Compensation and benefits	**18**	16	**37**	32
Other operating expenses	**14**	12	**25**	22
Other	**1**	3	**4**	7
Noninterest expense	**33**	31	**66**	61
Income before assessments	**108**	104	**200**	194
Affordable Housing Program assessment	**11**	10	**20**	19
Net income	**$ 97**	$ 94	**$ 180**	$ 175

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

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Net income	**$ 97**	$ 94	**$ 180**	$ 175
Other comprehensive income (loss) -				
Net unrealized gain (loss) on available-for-sale securities	**(113)**	81	**(135)**	136
Non-credit OTTI on held-to-maturity securities	**13**	14	**26**	28
Net unrealized gain (loss) on cash flow hedges	**67**	(15)	**39**	6
Post-retirement plans	**—**	2	**(8)**	3
Other comprehensive income (loss)	**(33)**	82	**(78)**	173
Comprehensive income	**$ 64**	$ 176	**$ 102**	$ 348

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

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

	Capital Stock - Putable - B1 Activity		Capital Stock - Putable - B2 Membership		Total Capital Stock		Retained Earnings				
	Shares	Value	Shares	Value	Shares	Value	Unrestricted	Restricted	Total	AOCI	Total
December 31, 2014	**8**	**$ 827**	**11**	**$1,075**	**19**	**$1,902**	**$ 2,152**	**$ 254**	**$2,406**	**$ 217**	**$ 4,525**
Comprehensive income							**144**	**36**	**180**	**(78)**	**102**
Proceeds from issuance of capital stock	**1**	**119**	**—**	**12**	**1**	**131**					**131**
Repurchases of capital stock	**—**	**(2)**	**(2)**	**(195)**	**(2)**	**(197)**					**(197)**
Capital stock reclassified to mandatorily redeemable capital stock	**—**	**—**	**—**	**(1)**	**—**	**(1)**					**(1)**
Transfers between classes of capital stock	**—**	**(3)**	**—**	**3**							
Cash dividends - class B1 (2.25% annualized rate)							**(8)**		**(8)**		**(8)**
Cash dividends - class B2 (0.50% annualized rate)							**(3)**		**(3)**		**(3)**
June 30, 2015	**9**	**$ 941**	**9**	**$ 894**	**18**	**$1,835**	**$ 2,285**	**$ 290**	**$2,575**	**$ 139**	**$ 4,549**
December 31, 2013	7	$ 629	10	$1,041	17	$1,670	$ 1,853	$ 175	$2,028	$ 67	$ 3,765
Comprehensive income							140	35	175	173	348
Proceeds from issuance of capital stock	2	152	—	37	2	189					189
Repurchases of capital stock	(1)	(17)	—	(46)	(1)	(63)					(63)
Transfers between classes of capital stock	(1)	(76)	1	76							
Cash dividends - class B1 (1.40% annualized rate)							(3)		(3)		(3)
Cash dividends - class B2 (0.40% annualized rate)							(2)		(2)		(2)
June 30, 2014	7	$ 688	11	$1,108	18	$1,796	$ 1,988	$ 210	$2,198	$ 240	$ 4,234

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)

	Six months ended June 30,	2015	2014
Operating	**Net cash provided by (used in) operating activities**	$ 316	$ 333
Investing	Net change interest bearing deposits	—	(560)
	Net change Federal Funds sold	774	(1,295)
	Net change securities purchased under agreements to resell	2,150	600
	Advances -		
	Principal collected	150,185	121,002
	Issued	(152,279)	(122,233)
	MPF Loans held in portfolio -		
	Principal collected	720	840
	Purchases	(44)	(36)
	Trading securities -		
	Sales	—	2,002
	Proceeds from maturities and paydowns	4	14
	Purchases	—	(1,812)
	Held-to-maturity securities -		
	Short-term held-to-maturity securities, net	138 [a]	211 [a]
	Proceeds from maturities and paydowns	510	548
	Purchases	(9)	(18)
	Available-for-sale securities -		
	Proceeds from maturities and paydowns	974	782
	Proceeds from sale of foreclosed assets	32	43
	Capital expenditures for software and equipment	(5)	(5)
	Net cash provided by (used in) investing activities	3,150	83
Financing	Net change deposits	(28)	(12)
	Net change in other short-term borrowing from other FHLBs	—	120
	Net proceeds from issuance of consolidated obligations -		
	Discount notes	178,092	580,193
	Bonds	7,426	13,843
	Payments for maturing and retiring consolidated obligations -		
	Discount notes	(174,603)	(587,486)
	Bonds	(13,035)	(8,113)
	Net proceeds (payments) on derivative contracts with financing element	(30)	(30)
	Proceeds from issuance of capital stock	131	189
	Repurchase or redemption of capital stock	(197)	(63)
	Redemptions of mandatorily redeemable capital stock	(2)	—
	Cash dividends paid	(11)	(5)
	Net cash provided by (used in) financing activities	(2,257)	(1,364)
	Net increase (decrease) in cash and due from banks	1,209	(948)
	Cash and due from banks at beginning of period	342	971
	Cash and due from banks at end of period	$ 1,551	$ 23

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

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

Note 1 – Background and Basis of Presentation

The Federal Home Loan Bank of Chicago [a] is a federally chartered corporation and one of 11 Federal Home Loan Banks (the FHLBs) that, with the Office of Finance, comprise the Federal Home Loan Bank System (the System). The FHLBs are government-sponsored enterprises (GSE) of the United States of America and were organized under the Federal Home Loan Bank Act of 1932, as amended (FHLB Act), in order to improve the availability of funds to support home ownership. The FHLBs are regulated by the Federal Housing Finance Agency (FHFA), an independent federal agency. 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). Amounts in prior periods may be reclassified to conform to the current presentation and if material are disclosed in the following notes.

In the opinion of management, all normal recurring adjustments have been included for a fair statement of this interim financial information. These unaudited financial statements and the following footnotes should be read in conjunction with the audited financial statements and footnotes for the year ended December 31, 2014, included in our Annual Report on Form 10-K (2014 Form 10-K) starting on page F-1, as filed with the SEC.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires us to make assumptions and estimates that may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expense. The most significant of these assumptions and estimates apply to the following:

- Fair value measurements;
- Determination of other-than-temporary impairments of securities; and
- Allowance for credit losses.

Actual results could differ from these assumptions and estimates.

Consolidation of Variable Interest Entities

We do not consolidate any of our investments in variable interest entities since we are not the primary beneficiary. We classify variable interest entities as investment securities in our statements of condition. Such investment securities include, but are not limited to, senior interests in private label mortgage backed securities (MBS) and Federal Family Education Loan Program - asset backed securities (FFELP ABS).

The carrying amount for these investment securities is driven by our investment intent - that is, whether we hold the investment security as held-to-maturity, available-for-sale or trading. We have no liabilities related to these investments in variable interest entities. We have not provided financial or other support (explicitly or implicitly) to these investment securities that we were not previously contractually required to provide nor do we intend to provide such support in the future. Our maximum loss exposure for these investment securities is limited to their carrying amounts.

Gross versus Net Presentation of Financial Instruments

We present our derivative assets and liabilities on a net basis in our statements of condition. GAAP requires disclosure of both gross information and net information related to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing or lending transactions regardless of whether we offset these transactions in our statements of condition. For the periods presented to date, these rights of offset only apply to our derivatives.

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

Note 2 – Summary of Significant Accounting Policies

Our **Summary of Significant Accounting Policies** through December 31, 2014, can be found in our 2014 Form 10-K starting on page F-10. We adopted the following policies in 2015:

Asset Classification and Charge-off Provisions

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 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 establishes a standard and uniform methodology for classifying assets, prescribes the timing of asset charge-offs (excluding investment securities), and provides measurement guidance with respect to determining our allowance for credit losses, and fair value measurement guidance for conventional MPF Loans that are classified as Substandard, Doubtful, or Loss, and Real Estate Owned (REO) related to conventional MPF Loans. Subsequent to the issuance of AB 2012-02, the FHFA issued interpretative guidance clarifying that implementation of the asset classification framework may occur in two phases. We implemented the asset classification provisions effective January 1, 2014. We prospectively adopted the remaining provisions of AB 2012-02 on January 1, 2015. The effect of implementing the remaining provisions was as follows:

- The AB 2012-02 allowance for credit losses measurement guidance did not have a material effect on our financial condition, results of operations, or cash flows at the time of adoption.

- We recorded a $10 million charge-off in the first quarter of 2015 to our allowance for credit losses on MPF Loans to conform our charge-off policies to AB 2012-02. In particular, we now write-down a conventional MPF Loan to its fair value less estimated selling costs when such a loan is classified as "Loss" and when a conventional MPF Loan is transferred to REO. Our prior practice was to record a charge-off when a conventional MPF Loan was transferred to REO. Exposures classified "Loss" are considered uncollectible and of such little value that the exposures continuance as a balance sheet asset is not warranted. This classification does not mean that the exposure has absolutely no recovery or salvage value; rather, it is not practical or desirable to defer charging off this asset, even though partial recovery may occur in the future. Examples of confirming events indicating that a "Loss" exists include, but are not limited to, the following:

    - A current assessment of value is made before a single family residential loan is more than 180 days past due. Any outstanding loan balance in excess of the fair value of the property, less cost to sell, is classified as "Loss" when the loan is no more than 180 days delinquent.
    - When a borrower is in bankruptcy, loans are written down to the fair value of the collateral, less costs to sell, within 60 days of receipt of the notification of filing from the bankruptcy court or within the delinquency time frames specified in the guidance, whichever is shorter. A loan is not written down if the loan is performing, the borrower continues making payments on the loan, and repayment in full is expected.
    - Fraudulent loans, not covered by any existing representations and warranties in the loan purchase agreement, are charged off within 90 days of discovery of the fraud, or within the delinquency time frames specified in the adverse classification guidance, whichever is shorter.

- We began using an Automated Valuation Methodology (AVM) to determine the fair value of our impaired conventional MPF Loans held in portfolio and REO. Our prior practice was to determine fair value using broker price opinions, if available, to measure impaired conventional MPF Loans held in portfolio and REO. If a current broker price opinion was not available, we estimated fair value based on our current actual loss severity rates we experienced on sales, excluding any estimated selling costs. The use of AVM's to determine fair value may result in increased volatility with respect to our provision for credit losses.

- We now place a conventional MPF Loan held in portfolio on nonaccrual when it is adversely classified as either "Substandard," "Doubtful", or "Loss". An adverse classification means that such a loan is not considered well secured and in the process of collection. Exposures classified "Substandard" are inadequately protected by the current worth and paying capacity of the obligor or by the collateral pledged, if any. Exposure so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the exposure. These weaknesses are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Exposures classified "Doubtful" have all the weaknesses inherent in those exposures classified "Substandard" with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. Our prior practice was to place conventional MPF Loans held in portfolio on nonaccrual when the loan was 90 or more days past due (or 60 days past due in the case of a bankruptcy) and the loan was not well-secured and in the process of collection. This change in nonaccrual practice did not have a material effect on our nonaccrual loans outstanding at the time of adoption.

Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure

In August of 2014, the FASB issued new guidance that requires certain government-guaranteed mortgage loans to be derecognized upon foreclosure and established as a separate receivable. Specifically, such accounting treatment is applied to a government-guaranteed mortgage loan in which the loan guarantee is not separable from the loan prior to foreclosure, the creditor has the intent to make a claim on the guarantee and the ability to recover under the claim, and at the time of foreclosure any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. We prospectively adopted this new guidance on January 1, 2015 for our government MPF Loans. Specifically, our foreclosed government MPF Loans meet the conditions specified by the new guidance and will be classified as a receivable rather than REO. The new guidance did not have a material effect on our operating activities or our financial statements since our credit risk on government MPF Loans is limited to whether or not the servicing PFI fails to pay for losses not covered by Federal Housing Administration (FHA) insurance, or Department of Veteran Affairs (VA), Department of Housing and Urban Development (HUD) or Department of Agriculture Rural Housing Service (RHS) guarantees. Our foreclosed government MPF Loans were previously classified in REO in Other Assets.

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January of 2014, the FASB issued new accounting guidance clarifying that consumer mortgage loans collateralized by real estate should be reclassified to REO when either the creditor obtains legal title to the residential real estate property upon completion of a foreclosure or the borrower conveys all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. We adopted the new guidance effective January 1, 2015, on a prospective basis. The new guidance is consistent with our previous accounting and did not have an effect on our operating activities or financial statements.

Held for Sale Mortgage Loans

We classify MPF Xtra, MPF Direct, and government mortgage loans obtained for a Ginnie Mae securitization transaction as mortgage loans held for sale (HFS), as we sell such loans in an outright sale or in a securitization transaction. If material, HFS mortgage loans are classified as a separate line item in our statements of condition; otherwise, we classify HFS mortgage loans in Other Assets. We have elected the fair value option for HFS mortgage loans. Since these HFS mortgage loans are carried at fair value, the loans do not require an allowance for credit losses. We measure the fair value of HFS mortgage loans based on to-be-announced (TBA) securities, which represent quoted market prices for new mortgage-backed securities issued by U.S. government sponsored enterprises. Any initial premium or discount is recognized as part of the fair value measurement process rather than amortized as a yield adjustment. Any transaction fees, such as extension fees, or costs are immediately recognized into other noninterest income. HFS mortgage loans are classified as an operating activity within our statements of cash flows.

Note 3 – Recently Issued but Not Yet Adopted Accounting Standards

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

In April of 2015, the FASB issued new guidance requiring concession fees to be presented as a direct deduction from the debt it relates to rather than separately presented as a deferred cost in Other Assets. As required, we expect to adopt the new guidance January 1, 2016 on a retrospective basis for all periods presented in our financial statements. The new guidance is not expected to have a material effect on our financial statements.

Amendments to Consolidation Analysis

In February of 2015, the FASB issued amended guidance concerning consolidation analysis. The new guidance is intended to enhance consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The new guidance will be effective for periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We do not expect the new guidance to affect our financial condition, results of operations, or cash flows.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

In August of 2014, the FASB issued guidance that requires an entity's management to assess the entity's ability to continue as a going concern. Specifically, for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise "substantial doubt" about the entity's ability to continue as a going concern. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity is unable to meet its obligations as they become due within one year after the date that the financial statements are issued. The guidance becomes effective for the interim and annual periods ending after December 15, 2016, and early application is permitted. This guidance is not expected to have any effect on our financial condition or results of operations at the time of adoption.

Revenue from Contracts with Customers

In May of 2014, the FASB issued new guidance governing revenue recognition from contracts with customers. The new guidance focuses on the timing and amount of revenue recognition that best depicts the transfer by an entity of promised goods or services to its customers. Financial instruments and other contractual rights within the scope of other GAAP guidance are excluded from the scope of this new revenue recognition guidance. As a result, we anticipate that a majority of our contracts with members would be excluded from the scope of this new guidance. The new revenue recognition guidance becomes effective for annual interim reporting periods beginning January 1, 2017. We are in the process of reviewing our contracts with members to determine the effect, if any, on our operating activities and financial statements.

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

Note 4 – Interest Income and Interest Expense

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Interest income -				
Interest bearing deposits, Federal Funds sold and securities purchased under agreements to resell	**$ 1**	$ 3	**$ 4**	$ 4
Investment securities -				
Trading	**1**	8	**2**	15
Available-for-sale	**130**	136	**264**	279
Held-to-maturity	**69**	74	**138**	151
Total investment securities	**200**	218	**404**	445
Advances -				
Advance interest income	**42**	35	**81**	73
Advance prepayment fees, including related hedge adjustment gains (losses) of $0, $0, $1, and $0	**—**	3	**6**	4
Total Advances	**42**	38	**87**	77
MPF Loans held in portfolio	**66**	86	**135**	174
Total interest income	**309**	345	**630**	700
Interest expense -				
Consolidated obligations -				
Discount notes	**72**	66	**144**	133
Bonds	**103**	147	**208**	294
Total consolidated obligations	**175**	213	**352**	427
Subordinated notes	**13**	13	**27**	27
Total interest expense	**188**	226	**379**	454
Net interest income before provision for (reversal of) credit losses	**121**	119	**251**	246
Provision for (reversal of) credit losses	**4**	(3)	**4**	(6)
Net interest income	**$ 117**	$ 122	**$ 247**	$ 252

(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 may consist 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 and Tennessee Valley Authority.
- Federal Family Education Loan Program - asset backed securities (FFELP ABS).
- Government Sponsored Enterprises (GSE) residential mortgage-backed securities (MBS) issued by Fannie Mae and Freddie Mac.
- Government-guaranteed residential, multifamily, and reverse mortgage MBS.
- Private-label residential MBS.
- State or local housing agency obligations.

Pledged Collateral

We transact most of our derivatives with large banks and major broker-dealers. Derivative transactions may be entered into either through an over-the-counter bilateral agreement with an individual counterparty or through a Futures Commission Merchant (FCM or clearing member) with a derivatives clearing organization (clearinghouse). We may pledge investment securities as collateral under these agreements, and in such cases, the amount pledged will be noted on the face of the statements of condition. We pledged $64 million of investment securities as collateral for our initial margin with derivative clearing organizations as of June 30, 2015, and $71 million as of December 31, 2014. See **Note 9 - Derivatives and Hedging Activities** for further details.

Trading Securities

The following table presents the fair value of our trading securities. We had no material gains or losses realized from the sales of trading securities.

As of	**June 30, 2015**	December 31, 2014
U.S. Government & other government related	**$ 101**	$ 102
Residential MBS:		
GSE	**57**	63
Government-guaranteed	**2**	2
Total Residential MBS	**59**	65
Trading securities	**$ 160**	$ 167

At June 30, 2015, we had net year-to-date unrealized gains (losses) of $(1) million on trading securities still held at period end.

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

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

	Amortized Cost Basis	Gross Unrealized Gains in AOCI	Gross Unrealized (Losses) in AOCI	Carrying Amount and Fair Value
As of June 30, 2015				
U.S. Government & other government related	**$ 435**	**$ 26**	**$ (1)**	**$ 460**
State or local housing agency	**4**	**—**	**—**	**4**
FFELP ABS	**5,456**	**335**	**(12)**	**5,779**
Residential MBS:				
GSE	**9,895**	**501**	**(10)**	**10,386**
Government-guaranteed	**2,052**	**81**	**—**	**2,133**
Private-label	**63**	**5**	**—**	**68**
Total Residential MBS	**12,010**	**587**	**(10)**	**12,587**
Total	**$ 17,905**	**$ 948**	**$ (23)**	**$ 18,830**
As of December 31, 2014				
U.S. Government & other government related	$ 479	$ 29	$ —	$ 508
State or local housing agency	3	—	—	3
FFELP ABS	5,824	408	(11)	6,221
Residential MBS:				
GSE	10,285	550	(8)	10,827
Government-guaranteed	2,258	87	—	2,345
Private-label	66	5	—	71
Total Residential MBS	12,609	642	(8)	13,243
Total	$ 18,915	$ 1,079	$ (19)	$ 19,975

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

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

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

	Amortized Cost Basis	Non-credit OTTI Recognized in AOCI (Loss)	Carrying Amount	Gross Unrecognized Holding Gains	Gross Unrecognized Holding (Losses)	Fair Value
As of June 30, 2015						
U.S. Government & other government related	**$ 2,002**	**$ —**	**$ 2,002**	**$ 68**	**$ (1)**	**$ 2,069**
State or local housing agency	**17**	**—**	**17**	**—**	**—**	**17**
Residential MBS:						
GSE	**2,473**	**—**	**2,473**	**173**	**—**	**2,646**
Government-guaranteed	**1,054**	**—**	**1,054**	**26**	**—**	**1,080**
Private-label	**1,221**	**(238)**	**983**	**377**	**(1)**	**1,359**
Total Residential MBS	**4,748**	**(238)**	**4,510**	**576**	**(1)**	**5,085**
Total	**$ 6,767**	**$ (238)**	**$ 6,529**	**$ 644**	**$ (2)**	**$ 7,171**
As of December 31, 2014						
U.S. Government & other government related	$ 2,222	$ —	$ 2,222	$ 76	$ (1)	$ 2,297
State or local housing agency	18	—	18	—	—	18
Residential MBS:						
GSE	2,695	—	2,695	189	—	2,884
Government-guaranteed	1,129	—	1,129	28	—	1,157
Private-label	1,318	(264)	1,054	415	(1)	1,468
Total Residential MBS	5,142	(264)	4,878	632	(1)	5,509
Total	$ 7,382	$ (264)	$ 7,118	$ 708	$ (2)	$ 7,824

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

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

Aging of Unrealized Temporary Losses

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

Available-for-Sale Securities

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
As of June 30, 2015						
U.S. Government & other government related	$ 46	$ (1)	$ —	$ —	$ 46	$ (1)
State or local housing agency	3	—	—	—	3	—
FFELP ABS	11	—	831	(12)	842	(12)
Residential MBS:						
GSE	—	—	1,819	(10)	1,819	(10)
Private-label	—	—	1	—	1	—
Total Residential MBS	—	—	1,820	(10)	1,820	(10)
Total	$ 60	$ (1)	$ 2,651	$ (22)	$ 2,711	$ (23)
As of December 31, 2014						
U.S. Government & other government related	$ 48	$ —	$ —	$ —	$ 48	$ —
State or local housing agency	3	—	—	—	3	—
FFELP ABS	14	—	877	(11)	891	(11)
Residential MBS:						
GSE	—	—	1,996	(8)	1,996	(8)
Private-label	—	—	16	—	16	—
Total Residential MBS	—	—	2,012	(8)	2,012	(8)
Total	$ 65	$ —	$ 2,889	$ (19)	$ 2,954	$ (19)

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

Held-to-Maturity Securities

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
As of June 30, 2015						
U.S. Government & other government related	$ 2	$ —	$ 16	$ (1)	$ 18	$ (1)
State or local housing agency	1	—	10	—	11	—
Residential MBS:						
GSE	—	—	5	—	5	—
Private-label	—	—	1,296	(239)	1,296	(239)
Total Residential MBS	—	—	1,301	(239)	1,301	(239)
Total	$ 3	$ —	$ 1,327	$ (240)	$ 1,330	$ (240)
As of December 31, 2014						
U.S. Government & other government related	$ 13	$ —	$ 5	$ (1)	$ 18	$ (1)
State or local housing agency	10	—	—	—	10	—
Residential MBS:						
GSE	—	—	5	—	5	—
Private-label	12	—	1,384	(265)	1,396	(265)
Total Residential MBS	12	—	1,389	(265)	1,401	(265)
Total	$ 35	$ —	$ 1,394	$ (266)	$ 1,429	$ (266)

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 June 30, 2015	Amortized Cost Basis	Carrying Amount and Fair Value	Carrying Amount	Fair Value
Year of Maturity -				
Due in one year or less	$ —	$ —	$ 671	$ 671
Due after one year through five years	80	84	72	73
Due after five years through ten years	17	19	365	379
Due after ten years	342	361	911	963
ABS and MBS without a single maturity date	17,466	18,366	4,510	5,085
Total securities	$ 17,905	$ 18,830	$ 6,529	$ 7,171

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

Other-Than-Temporary Impairment Analysis

Significant Inputs Used to Determine OTTI

Our analysis for OTTI on our private-label MBS includes key modeling assumptions, 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, inputs, and methodologies used, and performing the required present value calculations using appropriate historical cost bases and yields.

As of June 30, 2015, we had a short-term housing price forecast with projected changes ranging from -2.0% to +8.0% over the twelve month period beginning April 1, 2015 for all markets. For the vast majority of markets, the short-term forecast has changes ranging from +2.0% to +5.0%. Previously, long-term home price projections following the short-term period were projected to recover using one of five different recovery paths. Starting with the second quarter of 2014, a unique path was projected for each geographic area based on an internally developed framework derived from historical data.

Based on these inputs and assumptions, we had no OTTI charges for the three or six months ended June 30, 2015, and 2014.

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 June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Beginning Balance	**$ 605**	$ 663	**$ 620**	$ 677
Reductions:				
Increases in expected future cash flows recorded as credit-related accretion into interest income	**(14)**	(14)	**(29)**	(28)
Ending Balance	**$ 591**	$ 649	**$ 591**	$ 649

(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	June 30, 2015	December 31, 2014
Noncallable/nonputable	$ 31,748	$ 29,666
Callable	961	964
Putable	1,687	1,673
Total par value	34,396	32,303
Hedging adjustments	137	166
Other adjustments	20	16
Total advances	$ 34,553	$ 32,485

The following table presents our advances by redemption terms:

As of June 30, 2015	Amount	Weighted Average Interest Rate	Next Maturity or Call Date	Next Maturity or Put Date
Due in one year or less	$ 8,347	0.44%	$ 9,208	$ 9,533
One to two years	4,384	1.35%	4,226	3,909
Two to three years	4,699	1.14%	4,272	4,032
Three to four years	4,953	0.33% [a]	4,753	4,939
Four to five years	9,985	0.26% [a]	9,914	10,037
More than five years	2,028	2.55%	2,023	1,946
Total par value	$ 34,396	0.71%	$ 34,396	$ 34,396

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

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

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

Note 7 – MPF Loans

The following table presents information on MPF Loans held in our portfolio by contractual maturity at the time of purchase. All are fixed-rate. Government is comprised of loans insured by the FHA and loans guaranteed by the VA, HUD or RHS.

As of	June 30, 2015	December 31, 2014
Medium term (15 years or less)	$ 855	$ 1,094
Long term (greater than 15 years)	4,458	4,905
Total unpaid principal balance	5,313	5,999
Net premiums, credit enhancement and deferred loan fees	21	23
Hedging adjustments	43	50
Total before allowance for credit losses	5,377	6,072
Allowance for credit losses on MPF Loans	(3)	(15)
Total MPF Loans held in portfolio, net	$ 5,374	$ 6,057
Conventional mortgage loans	$ 4,011	$ 4,619
Government insured mortgage loans	1,302	1,380
Total unpaid principal balance	$ 5,313	$ 5,999

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

In addition to our portfolio MPF products, PFIs sell eligible MPF Loans to us through the MPF Program infrastructure and we concurrently sell them to Fannie Mae under the MPF Xtra product and to third party investors under the MPF Direct product. Under our MPF Government MBS product, PFIs sell us Government Loans that we intend to hold in our portfolio for a short period of time until such loans are pooled into Ginnie Mae MBS. Other MPF Banks that offer these three products allow their PFIs to sell MPF Loans directly to us. As of June 30, 2015, we held an immaterial amount of MPF Loans held for sale, recorded in Other Assets in our statements of condition. See **Note 2 - Summary of Significant Accounting Policies** for information related to our accounting for MPF Loans that are held for sale.

(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:

- member 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 8 - Allowance for Credit Losses** to the financial statements in our 2014 Form 10-K. Any updates to these accounting policies are noted below.

Member Credit Products

We lend to members within our district according to federal statutes, including the FHLB Act, and FHFA regulations. The FHLB Act requires us to obtain sufficient collateral to fully secure our credit products, and we do not expect to incur any credit losses on advances. We perfect our security interest in pledged collateral and enter into control agreements for securities collateral. We take a risk-based approach in requiring delivery of pledged collateral. We have policies and procedures in place that are designed to manage our credit risk, including requirements for restrictions on borrowing, verifications of collateral and monitoring of borrowings and the borrower's financial condition. 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 on-balance sheet credit products nor a liability for our credit products with off-balance sheet credit exposure. Further, we expect to collect all amounts due according to contractual terms of our credit products. Accordingly, for the periods presented, we had no credit products that were past due, on nonaccrual status, considered impaired, or considered a troubled debt restructuring.

Conventional MPF Loans

MPF Risk Sharing Structure

We share the risk of credit losses on conventional MPF Loan products held in portfolio with our PFIs by structuring potential losses on conventional MPF Loans into layers with respect to each master commitment (MC). The credit risk analysis determines the degree to which layers of the MPF Risk Sharing Structure are available to recover losses on MPF Loans. PFIs deliver MPF Loans into pools designated by product specific MCs. The credit risk analysis is performed at an individual MC level as loss recovery is MC-specific and no risk layer can be applied across a PFI's MCs. With respect to participation interests in MPF Loans, losses are allocated amongst the participating MPF Banks pro-ratably based upon their respective percentage participation interest in the related MC. For further detail of our **MPF Risk Sharing Structure** see page F-31 in our 2014 Form 10-K.

The following table presents the changes in the allowance for credit losses on conventional MPF Loans.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Balance, beginning of period	**$ 4**	$ 24	**$ 15**	$ 29
Losses charged to the allowance	**(5)**	(2)	**(16)**	(4)
Provision for (reversal of) credit losses	**4**	(3)	**4**	(6)
Balance, end of period	**$ 3**	$ 19	**$ 3**	$ 19

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

The following table presents the recorded investment by impairment methodology on conventional MPF Loans.

As of		June 30, 2015		December 31, 2014
Specifically identified and individually evaluated for impairment	$	—	$	12
Homogeneous pools of loans and collectively evaluated for impairment		3		3
Allowance for credit losses on conventional MPF Loans	$	3	$	15
Individually evaluated for impairment	$	126	$	160
Collectively evaluated for impairment		3,951		4,538
Total recorded investment	$	4,077	$	4,698

Government MPF Loans Held in Portfolio

The PFI provides and maintains insurance or a guaranty from governmental agencies, which includes ensuring compliance with all of their requirements, and obtaining the benefit of the applicable insurance or guaranty with respect to defaulted government MPF Loans. Any losses incurred on government MPF Loans that are not recovered from the government insurer or guarantor are absorbed by the servicing PFI. Accordingly, our credit risk on government MPF Loans is limited to whether or not the servicing PFI fails to pay for losses not covered by FHA insurance, or VA, HUD or RHS guarantees. In this regard, based on our assessment of the 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 and the servicing PFIs ability to absorb losses, government MPF Loans are not placed on nonaccrual status or disclosed as troubled debt restructurings.

Credit Quality Indicators - MPF Loans

The table below summarizes our recorded investment in MPF Loans by our key credit quality indicators. Serious delinquency rate is defined as 90 days or more past due or in the process of foreclosure, as a percentage of the total recorded investment. Past due 90 days or more still accruing interest is defined as MPF Loans that are either government guaranteed or conventional mortgage loans that are well secured (by collateral that have a fair value sufficient to discharge the debt or by the guarantee or insurance, such as PMI, of a financially responsible party) and in the process of collection.

	June 30, 2015						December 31, 2014					
As of		Conventional		Government		Total		Conventional		Government		Total
Past due 30-59 days	$	109	$	74	$	183	$	138	$	92	$	230
Past due 60-89 days		33		18		51		43		23		66
Past due 90 days or more		116		38		154		153		44		197
Total past due		258		130		388		334		159		493
Total current		3,819		1,198		5,017		4,364		1,246		5,610
Total recorded investment	$	4,077	$	1,328	$	5,405	$	4,698	$	1,405	$	6,103
Also in process of foreclosure	$	60	$	13	$	73	$	77	$	11	$	88
Serious delinquency rate		2.88%		2.85%		2.87%		3.28%		3.15%		3.25%
Past due 90 days or more still accruing interest	$	9	$	38	$	47	$	25	$	44	$	69
On nonaccrual status	$	126	$	—	$	126	$	163	$	—	$	163

Troubled Debt Restructurings

As of June 30, 2015 and December 31, 2014, our recorded investment balances of mortgage loans classified as troubled debt restructurings were $66 million and $73 million, respectively. The financial amounts related to troubled debt restructurings are not material to our financial condition, results of operations, or cash flows.

(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. As of June 30, 2015, we had no allowance for our impaired MPF Loans. For further details see **Note 2 - Summary of Significant Accounting Policies** to the financial statements.

As of	**June 30, 2015**	December 31, 2014
Recorded investment with an allowance	**$ —**	$ 160
Recorded investment without an allowance	**126**	—
Unpaid principal balance with an allowance	**—**	158
Unpaid principal balance without an allowance	**137**	—
Related allowance	**—**	12

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Average recorded investment with an allowance	**$ —**	$ 190	**$ —**	$ 197
Average recorded investment without an allowance	**131**	—	**140**	—

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

Federal Funds sold are only evaluated for purposes of an allowance for credit losses if payment is not made when due. In this regard, all Federal Funds sold were repaid according to their contractual terms. We did not establish an allowance for credit losses for Securities Purchased Under Agreements to Resell since all payments due under the contractual terms have been received and because we hold sufficient underlying collateral.

Note 9 – Derivatives and Hedging Activities

Refer to **Note 2 - Summary of Significant Accounting Polices** to the financial statements in our 2014 Form 10-K for our accounting policies for derivatives.

We transact most of our derivatives with large banks and major broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell, and distribute consolidated obligations. Derivative transactions may be entered into through an over-the-counter bilateral agreement with an individual counterparty. Additionally, we clear derivatives transactions through an FCM with a derivatives clearing organization (clearinghouse). We are not a derivatives dealer and do not trade derivatives for speculative purposes.

Managing Credit Risk on Derivative Agreements

We are subject to credit risk due to the risk of nonperformance by counterparties to our derivative agreements. For bilateral derivative agreements, the degree of counterparty risk depends on the extent to which master netting arrangements are included in such contracts to mitigate the risk. We manage counterparty credit risk through credit analysis, collateral requirements and adherence to the requirements set forth in our policies and FHFA regulations. We require collateral agreements on all derivatives that establish collateral delivery thresholds. Additionally, collateral related to derivatives with member institutions includes collateral assigned to us, as evidenced by a written security agreement, and held by the member institution for our benefit. Based on credit analyses and collateral requirements, we do not anticipate any credit losses on our derivative agreements. See **Note 16 - Fair Value Accounting** to the financial statements in our 2014 Form 10-K for discussion regarding our fair value methodology for derivative assets and liabilities, including an evaluation of the potential for the fair value of these instruments to be affected by counterparty credit risk.

Our over-the-counter bilateral derivative agreements 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 $59 million of collateral at fair value to our derivatives counterparties at June 30, 2015.

Cleared swaps are subject to initial and variation margin requirements established by the clearinghouse and its clearing members. We post initial and variation margin through the clearing member, on behalf of the clearinghouse, which could expose us to institutional credit risk in the event that a clearing member or the clearinghouse fail to meet their obligations. Clearing derivatives through a clearinghouse mitigates counterparty credit risk exposure because a central clearinghouse counterparty is substituted for individual counterparties and collateral is posted daily for changes in the value of cleared derivatives through an FCM. The clearinghouse determines initial margin requirements for cleared derivatives. In this regard, clearing agents may require additional initial margin to be posted based on credit considerations, including but not limited to, credit rating downgrades. We were not required to post additional initial margin by our clearing agents at June 30, 2015.

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

We present our derivative assets and liabilities on a net basis in our statements of condition. Refer to **Note 1 - Background and Basis of Presentation** and **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2014 Form 10-K for further discussion. In addition to the cash collateral as noted in the following table, we also pledged $64 million of investment securities at June 30, 2015, of which $64 million can be sold or repledged, as part of our initial margin related to cleared derivative transactions.

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

	June 30, 2015			December 31, 2014		
As of	**Notional Amount**	**Derivative Assets**	**Derivative Liabilities**	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives in hedge accounting relationships-						
Interest rate swaps	**$ 30,038**	**$ 49**	**$ 1,219**	$ 30,940	$ 53	$ 1,348
Derivatives not in hedge accounting relationships-						
Interest rate swaps	**25,226**	**459**	**342**	19,159	487	329
Interest rate swaptions	**1,710**	**60**	**—**	1,850	56	—
Interest rate caps or floors	**1,131**	**98**	**—**	1,164	105	—
Interest rate futures	**7**	**—**	**—**	3	—	—
Mortgage delivery commitments	**469**	**1**	**1**	284	3	3
Other	**14**	**—**	**—**	—	—	—
Derivatives not in hedge accounting relationships	**28,557**	**618**	**343**	22,460	651	332
Gross derivative amount before adjustments	**$ 58,595**	**667**	**1,562**	$ 53,400	704	1,680
Netting adjustments and cash collateral		**(665)** [a]	**(1,494)** [a]		(675) [a]	(1,625) [a]
Derivatives on statements of condition		**$ 2**	**$ 68**		$ 29	$ 55

[a] Amounts represent the application of the netting requirements that allow us to settle positive and negative positions and also cash collateral and related accrued interest held or placed by us with the same clearing agent and/or counterparty. Cash collateral posted was $865 million at June 30, 2015, and $978 million at December 31, 2014. Cash collateral received was $35 million at June 30, 2015, and $29 million at December 31, 2014.

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 our gross recognized amount of offsetting derivative assets and liabilities for derivatives with legal right of offset as well as derivatives without the legal right of offset. Any over-collateralization received by or paid from us to an individual clearing member and/or at a counterparty arrangement level is not included in the determination of the net amount. Specifically, any such over-collateralization amount received by us is not offset against another derivative asset counterparty exposure for which there is no legal right of offset, while any over-collateralization delivered by us is not offset against another derivative liability counterparty exposure for which there is no legal right of offset.

	Derivative Assets			Derivative Liabilities		
As of June 30, 2015	**Bilateral**	**Cleared**	**Total**	**Bilateral**	**Cleared**	**Total**
Derivatives with legal right of offset -						
Gross recognized amount	**$ 599**	**$ 67**	**$ 666**	**$ 1,355**	**$ 206**	**$ 1,561**
Netting adjustments and cash collateral	**(598)**	**(67)**	**(665)**	**(1,293)**	**(201)**	**(1,494)**
Derivatives with legal right of offset - net	**1**	**—**	**1**	**62**	**5**	**67**
Derivatives without legal right of offset	**1**	**—**	**1**	**1**	**—**	**1**
Derivatives on statements of condition	**2**	**—**	**2**	**63**	**5**	**68**
Noncash collateral received (pledged) and cannot be sold or repledged	**—**	**—**	**—**	**—**	**5**	**5**
Net amount	**$ 2**	**$ —**	**$ 2**	**$ 63**	**$ —**	**$ 63**
As of December 31, 2014						
Derivatives with legal right of offset -						
Gross recognized amount	$ 656	$ 45	$ 701	$ 1,466	$ 211	$ 1,677
Netting adjustments and cash collateral	(632)	(43)	(675)	(1,414)	(211)	(1,625)
Derivatives with legal right of offset - net	24	2	26	52	—	52
Derivatives without legal right of offset	3	—	3	3	—	3
Derivatives on statements of condition	27	2	29	55	—	55
Noncash collateral received (pledged) and cannot be sold or repledged	23	—	23	—	—	—
Net amount	$ 4	$ 2	$ 6	$ 55	$ —	$ 55

At June 30, 2015, we had $59 million of additional net credit exposure on cleared derivatives due to our pledging of non-cash collateral to a clearinghouse for initial margin, which exceeded our net derivative liability position. We had $4 million comparable exposure at December 31, 2014.

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

	Three months ended June 30,		Six months ended June 30,	
For the periods ending	**2015**	2014	**2015**	2014
Fair value hedges -				
Interest rate swaps	**$ 6**	$ (6)	**$ (13)**	$ (12)
Cash flow hedges	**1**	—	**1**	1
Economic hedges -				
Interest rate swaps	**(6)**	(4)	**(29)**	(3)
Interest rate swaptions	**(5)**	(1)	**3**	(16)
Interest rate caps or floors	**(7)**	(5)	**(8)**	(15)
Mortgage delivery commitments	**—**	1	**—**	1
Net interest settlements	**20**	17	**44**	32
Economic hedges	**2**	8	**10**	(1)
Gains (losses) on derivatives and hedging activities	**$ 9**	$ 2	**$ (2)**	$ (12)

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

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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. We had no gain (loss) for hedged firm commitments on forward-starting advances that no longer qualified as a fair value hedge.

	Gain (loss)				
	On Derivative	**On Hedged Item**	**Total Ineffectiveness Recognized in Derivatives and Hedging Activities**	**Net Interest Settlements Recorded in Net Interest Income**	**Closed Hedge Adjustments Amortized into Net Interest Income**
Three months ended June 30, 2015					
Available-for-sale securities	**$ 48**	**$ (45)**	**$ 3**	**$ (34)** [a]	**$ —** [b]
Advances	**89**	**(86)**	**3**	**(21)** [a]	**(1)** [b]
MPF Loans held for portfolio	**—**	**—**	**—**	**—** [a]	**(3)** [b]
Consolidated obligation bonds	**(44)**	**44**	**—**	**60** [a]	**(3)** [b]
Total	**$ 93**	**$ (87)**	**$ 6**	**$ 5** [a]	**$ (7)** [b]
Three months ended June 30, 2014					
Available-for-sale securities	$ (28)	$ 26	$ (2)	$ (35) [a]	$ — [b]
Advances	(33)	35	2	(20) [a]	(1) [b]
MPF Loans held for portfolio	—	—	—	— [a]	(4) [b]
Consolidated obligation bonds	149	(155)	(6)	65 [a]	(5) [b]
Total	$ 88	$ (94)	$ (6)	$ 10 [a]	$ (10) [b]
Six months ended June 30, 2015					
Available-for-sale securities	**$ 12**	**$ (14)**	**$ (2)**	**$ (68)**	**$ (10)**
Advances	**28**	**(29)**	**(1)**	**(41)**	**—**
MPF Loans held for portfolio	**—**	**—**	**—**	**—**	**(7)**
Consolidated obligation bonds	**30**	**(40)**	**(10)**	**118**	**(3)**
Total	**$ 70**	**$ (83)**	**$ (13)**	**$ 9**	**$ (20)**
Six months ended June 30, 2014					
Available-for-sale securities	$ (30)	$ 27	$ (3)	$ (70)	$ —
Advances	(63)	67	4	(40)	(2)
MPF Loans held for portfolio	—	—	—	—	(9)
Consolidated obligation bonds	282	(295)	(13)	126	(10)
Total	$ 189	$ (201)	$ (12)	$ 16	$ (21)

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

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

Cash Flow Hedges

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

	Amortization of Effective Portion Reclassified From AOCI to Interest	Ineffective Portion Reclassified From AOCI to Derivatives and Hedging Activities	Total Reclassified From AOCI to Statements of Income	Net Change in Other Comprehensive Income	Effective Portion Recorded in AOCI	Net Interest Settlements Recorded in Net Interest Income
Three months ended June 30, 2015						
Advances - interest rate floors	**$ 3**	**$ —**	**$ 3**	**$ (3)**	**$ —**	**$ —**
Discount notes - interest rate swaps	**—**	**1**	**1**	**69**	**70**	**(62)[a]**
Bonds - interest rate swaps	**(1)**	**—**	**(1)**	**1**	**—**	**—**
Total	**$ 2**	**$ 1**	**$ 3**	**$ 67**	**$ 70**	**$ (62)[a]**
Three months ended June 30, 2014						
Advances - interest rate floors	$ 2	$ —	$ 2	$ (2)	$ —	$ —
Discount notes - interest rate swaps	—	—	—	(14)	(14)	(61)[a]
Bonds - interest rate swaps	(1)	—	(1)	1	—	—
Total	$ 1	$ —	$ 1	$ (15)	$ (14)	$ (61)[a]
Six months ended June 30, 2015						
Advances - interest rate floors	**$ 6**	**$ —**	**$ 6**	**$ (6)**	**$ —**	**$ —**
Discount notes - interest rate swaps	**(1)**	**1**	**—**	**43**	**43**	**(124)[a]**
Bonds - interest rate swaps	**(2)**	**—**	**(2)**	**2**	**—**	**—**
Total	**$ 3**	**$ 1**	**$ 4**	**$ 39**	**$ 43**	**$ (124)[a]**
Six months ended June 30, 2014						
Advances - interest rate floors	$ 5	$ —	$ 5	$ (5)	$ —	$ —
Discount notes - interest rate swaps	(1)	1	—	10	10	(122)[a]
Bonds - interest rate swaps	(1)	—	(1)	1	—	—
Total	$ 3	$ 1	$ 4	$ 6	$ 10	$ (122)[a]

[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.

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 (losses) on derivative instruments in AOCI that are expected to be reclassified to earnings during the next twelve months were $(1) million as of June 30, 2015. The maximum length of time over which we are hedging our exposure to the variability in future cash flows for forecasted transactions is 5 years.

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

Note 10 – Consolidated Obligations

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

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

As of June 30, 2015	Contractual Maturity	Weighted Average Interest Rate	By Next Maturity or Call Date
Due in one year or less	$ 3,232	3.56%	$ 20,513
One to two years	3,464	2.01%	2,584
Two to three years	5,797	1.74%	2,369
Three to four years	3,788	1.34%	1,899
Four to five years	4,843	1.62%	211
Thereafter	7,664	2.63%	1,212
Total par value	$ 28,788	2.14%	$ 28,788

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

As of	June 30, 2015	December 31, 2014
Carrying Amount	$ 34,552	$ 31,054
Par Value	34,562	31,060
Weighted Average Interest Rate	0.12%	0.09%

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

As of	June 30, 2015	December 31, 2014
Noncallable	$ 10,882	$ 11,046
Callable	17,906	23,355
Par value	28,788	34,401
Bond premiums (discounts), net	12	17
Hedging adjustments	(134)	(177)
Fair value option adjustments	6	10
Total consolidated obligation bonds	$ 28,672	$ 34,251

Joint and Several Liability

We do not expect to pay any additional amounts on behalf of other FHLBs under our joint and several liability as of June 30, 2015. As a result, we did not accrue a liability for our joint and several liability related to the other FHLBs' share of the consolidated obligations as of June 30, 2015 and December 31, 2014.

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

	June 30, 2015			December 31, 2014		
Par values as of	Bonds	Discount Notes	Total	Bonds	Discount Notes	Total
FHLB System total consolidated obligations	$ 454,603	$ 398,180	$ 852,783	$ 484,812	$ 362,363	$ 847,175
FHLB Chicago as primary obligor	28,788	34,562	63,350	34,401	31,060	65,461
As a percent of the FHLB System	6%	9%	7%	7%	9%	8%

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

Note 11 – Capital

Under our Capital Plan our stock consists of two sub-classes of stock, Class B1 activity stock and Class B2 membership stock (together, Class B stock), both with a par value of $100 and redeemable on five years' written notice, subject to certain conditions. Under the Capital Plan, each member is required to own capital stock in an amount equal to the greater of a membership stock requirement or an activity stock requirement. Class B1 activity stock is available for purchase only to support a member's activity stock requirement. Class B2 membership stock is available to be purchased to support a member's membership stock requirement and any activity stock requirement.

Minimum Capital Requirements

For details on our minimum capital requirements, including how the ratios below were calculated, see **Minimum Capital Requirements** on page F-44 of our 2014 Form 10-K. We complied with our minimum regulatory capital requirements as shown below:

	June 30, 2015		December 31, 2014	
	Requirement	**Actual**	Requirement	Actual
Risk-based capital	**$ 1,107**	**$ 4,418**	$ 1,127	$ 4,317
Total regulatory capital	**$ 2,790**	**$ 4,418**	$ 2,874	$ 4,317
Total regulatory capital ratio	**4.00%**	**6.33%**	4.00%	6.01%
Leverage capital	**$ 3,488**	**$ 6,628**	$ 3,592	$ 6,475
Leverage capital ratio	**5.00%**	**9.50%**	5.00%	9.01%

Total regulatory capital and leverage capital do not include accumulated other comprehensive income (loss). Under the FHFA regulation on capital classifications and critical capital levels for the FHLBs, we are adequately capitalized.

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

Note 12 - Accumulated Other Comprehensive Income (Loss)

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

	Net Unrealized Gain (Loss) Available-for-sale Securities	Non-credit OTTI Held-to-maturity Securities	Net Unrealized on Cash Flow Hedges	Post-Retirement Plans	Total AOCI
Three months ended June 30, 2015					
Beginning balance	**$ 1,038**	**$ (251)**	**$ (608)**	**$ (7)**	**$ 172**
Change in the period recorded to the statements of condition, before reclassifications to statements of income	**(113)**	**13**	**70**	**—**	**(30)**
Amounts reclassified in period to statements of income:					
Net interest income	**—**	**—**	**(2)**	**—**	**(2)**
Non-interest gain (loss)	**—**	**—**	**(1)**	**—**	**(1)**
Total other comprehensive income in the period	**(113)**	**13**	**67**	**—**	**(33)**
Ending balance	**$ 925**	**$ (238)**	**$ (541)**	**$ (7)**	**$ 139**
Three months ended June 30, 2014					
Beginning balance	$ 1,107	$ (306)	$ (644)	$ 1	$ 158
Change in the period recorded to the statements of condition, before reclassifications to statements of income	81	14	(14)	2	83
Amounts reclassified in period to statements of income:					
Net interest income	—	—	(1)	—	(1)
Total other comprehensive income in the period	81	14	(15)	2	82
Ending balance	$ 1,188	$ (292)	$ (659)	$ 3	$ 240
Six months ended June 30, 2015					
Beginning balance	**$ 1,060**	**$ (264)**	**$ (580)**	**$ 1**	**$ 217**
Change in the period recorded to the statements of condition, before reclassifications to statements of income	**(135)**	**26**	**43**	**(8)**	**(74)**
Amounts reclassified in period to:					
Net interest income	**—**	**—**	**(3)**	**—**	**(3)**
Non-interest gain (loss)	**—**	**—**	**(1)**	**—**	**(1)**
Net change in the period	**(135)**	**26**	**39**	**(8)**	**(78)**
Ending balance	**$ 925**	**$ (238)**	**$ (541)**	**$ (7)**	**$ 139**
Six months ended June 30, 2014					
Beginning balance	$ 1,052	$ (320)	$ (665)	$ —	$ 67
Change in the period recorded to the statements of condition, before reclassifications to statements of income	136	28	10	2	176
Amounts reclassified in period to:					
Net interest income	—	—	(3)	—	(3)
Non-interest gain (loss)	—	—	(1)	—	(1)
Non-interest expense	—	—	—	1	1
Net change in the period	136	28	6	3	173
Ending balance	$ 1,188	$ (292)	$ (659)	$ 3	$ 240

Note 13- Fair Value Accounting

For accounting policies regarding fair values see **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2014 Form 10-K. For a description of the valuation techniques and significant inputs see **Note 16 - Fair Value Accounting** to the financial statements in our 2014 Form 10-K. There has been one change in our valuation inputs for interest rate derivative agreements since then as discussed below.

The fair values of all interest rate derivative agreements are netted by clearing member and/or by counterparty, including cash collateral received from or delivered to the counterparty. If these netted amounts are positive, they are classified as an asset, and if negative, they are classified as a liability. We use a midmarket pricing convention based on the bid-ask spread for fair-value measurements. Because these estimates are made at a specific point in time, they are susceptible to material near-term changes. We evaluated the potential for the fair value of the instruments to be affected by changes in our counterparty credit risk and our own credit risk, and we made no adjustments as they were insignificant to the overall fair-value measurements. When midmarket pricing inputs are unavailable, we use a discounted cash-flow model which uses market-observable inputs (inputs that are actively quoted and can be validated to external sources), including the following:

- Discount rate assumption. At June 30, 2015 we used the overnight-index swap (OIS) curve and at December 31, 2014 we used the LIBOR swap curve.

We operationally implemented using the OIS curve to determine the fair value of derivative contracts in the first quarter of 2015. The initial effect of using the OIS curve did not have a material effect on our operating activities or financial statements.

The tables below are a summary of the fair value estimates and related levels in the fair value hierarchy. The carrying amounts are as recorded in the statements of condition. These tables do not represent an estimate of our overall market value as a going concern; as they do not take into account future business opportunities and future net profitability of assets and liabilities. The tables below are presented in the following order:

- Fair values of financial instruments.
- Financial instruments measured at fair value on a recurring basis on our statements of condition.
- Assets measured at fair value on a nonrecurring basis on our statements of condition.

We had no transfers between Levels 1, 2, and/or 3 for the periods presented.

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

Fair values of financial instruments

	Carrying Amount	Fair Value	Fair Value Hierarchy Level 1	Level 2	Level 3
June 30, 2015					
Financial Assets -					
Cash and due from banks	**$ 1,551**	**$ 1,551**	**$ 1,551**	**$ —**	**$ —**
Interest bearing deposits	**560**	**560**	**560**	**—**	**—**
Federal Funds sold	**751**	**751**	**—**	**751**	**—**
Securities purchased under agreements to resell	**1,250**	**1,250**	**—**	**1,250**	**—**
Held-to-maturity securities	**6,529**	**7,171**	**—**	**5,812**	**1,359**
Advances	**34,553**	**34,582**	**—**	**34,582**	**—**
MPF Loans held in portfolio, net	**5,374**	**5,763**	**—**	**5,725**	**38**
Financial Liabilities -					
Deposits	**(638)**	**(638)**	**—**	**(638)**	**—**
Consolidated obligation discount notes	**(34,552)**	**(34,552)**	**—**	**(34,552)**	**—**
Consolidated obligation bonds	**(28,672)**	**(29,198)**	**—**	**(29,140)**	**(58)** [a]
Subordinated notes	**(944)**	**(992)**	**—**	**(992)**	**—**
December 31, 2014					
Financial Assets -					
Cash and due from banks	$ 342	$ 342	$ 342	$ —	$ —
Interest bearing deposits	560	560	560	—	—
Federal Funds sold	1,525	1,525	—	1,525	—
Securities purchased under agreements to resell	3,400	3,400	—	3,400	—
Held-to-maturity securities	7,118	7,824	—	6,356	1,468
Advances	32,485	32,546	—	32,546	—
MPF Loans held in portfolio, net	6,057	6,585	—	6,435	150
Financial Liabilities -					
Deposits	(666)	(666)	—	(666)	—
Consolidated obligation discount notes	(31,054)	(31,055)	—	(31,055)	—
Consolidated obligation bonds	(34,251)	(34,831)	—	(34,768)	(63) [a]
Subordinated notes	(944)	(1,013)	—	(1,013)	—

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

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Financial instruments measured at fair value on a recurring basis on our statements of condition

As of June 30, 2015	Level 2	Level 3	Netting	Fair Value
Financial assets -				
Trading securities:				
U.S. Government & other government related non-MBS	$ 101	$ —		$ 101
GSE residential MBS	57	—		57
U.S. Governmental-guaranteed residential MBS	2	—		2
Trading securities	160	—		160
Available-for-sale securities:				
U.S. Government & other government related non-MBS	460	—		460
State or local housing agency non-MBS	4	—		4
FFELP ABS	5,779	—		5,779
GSE residential MBS	10,386	—		10,386
U.S. Government-guaranteed residential MBS	2,133	—		2,133
Private-label residential MBS	—	68		68
Available-for-sale securities	18,762	68		18,830
Advances	94	—		94
Derivative assets	658	9	$ (665) [a]	2
Other assets - Mortgage loans held for sale	11	—		11
Total financial assets at fair value	$ 19,685	$ 77	$ (665)	$ 19,097
Level 3 as a percent of total assets at fair value		0.4%		
Financial liabilities -				
Consolidated obligation discount notes	$ (9,550)	$ —		$ (9,550)
Consolidated obligation bonds	(906)	(58) [b]		(964)
Derivative liabilities	(1,562)	—	$ 1,494 [a]	(68)
Total financial liabilities at fair value	$ (12,018)	$ (58)	$ 1,494	$ (10,582)
Level 3 as a percent of total liabilities at fair value		0.5%		
As of December 31, 2014				
Financial assets -				
Trading securities:				
U.S. Government & other government related non-MBS	$ 102	$ —		$ 102
GSE residential MBS	63	—		63
U.S. Governmental-guaranteed residential MBS	2	—		2
Trading securities	167	—		167
Available-for-sale securities:				
U.S. Government & other government related non-MBS	508	—		508
State or local housing agency non-MBS	3	—		3
FFELP ABS	6,221	—		6,221
GSE residential MBS	10,827	—		10,827
U.S. Government-guaranteed residential MBS	2,345	—		2,345
Private-label residential MBS	—	71		71
Available-for-sale securities	19,904	71		19,975
Advances	83	—		83
Derivative assets	691	13	$ (675) [a]	29
Total financial assets at fair value	$ 20,845	$ 84	$ (675)	$ 20,254
Level 3 as a percent of total assets at fair value		0.4%		
Financial liabilities -				
Consolidated obligation discount notes	$ (1,799)	$ —		$ (1,799)
Consolidated obligation bonds	(2,785)	(63) [b]		(2,848)
Derivative liabilities	(1,680)	—	$ 1,625 [a]	(55)
Total financial liabilities at fair value	$ (6,264)	$ (63)	$ 1,625	$ (4,702)
Level 3 as a percent of total liabilities at fair value		1.3%		

[a] The netting adjustment amount includes cash collateral (either received or paid by us) and related accrued interest in cases where we have a legal right of setoff, by contract (e.g., master netting agreement) or otherwise, to discharge all or a portion of the debt owed to our counterparty by applying against the debt an amount that our counterparty owes to us. See **Note 9 - Derivatives and Hedging Activities**.

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

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

Financial instruments carried at fair value on a recurring basis using Level 3 inputs were immaterial and there were no significant changes in balances in unobservable inputs (Level 3) in the six months ended June 30, 2015, or 2014.

Assets measured at fair value on a nonrecurring basis on our statements of condition

Assets that are not carried at fair value in our statements of condition may be required to be measured at fair value under certain circumstances. Examples include, but are not limited to, conventional MPF Loans held in portfolio that become impaired or REO that have declined in fair value during the reporting period. We measure such assets at fair value on a nonrecurring basis. Effective January 1, 2015, we began using an Automated Valuation Methodology (AVM) to determine the fair value of our impaired conventional MPF Loans and REO pursuant to the guidance provided by AB 2012-02. Refer to **Note 2 - Summary of Significant Accounting Policies** for further details.

The table below presents assets that typically are not carried at fair value that were measured at fair value in our statements of condition as of the dates shown. The fair value information presented is not as of the period-end, rather it was as of the date the fair value adjustment was recorded during the six months ended June 30, 2015, and excludes nonrecurring fair value measurements of assets no longer on the balance sheet.

	Level 3	
As of	**June 30, 2015**	December 31, 2014
Impaired conventional MPF Loans held in portfolio	**$ 38**	$ 150
REO (recorded in Other Assets)	**12**	9

Fair Value Option

We elected the fair value option for advances, MPF Loans held for sale, discount notes, and 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, MPF Loans held for sale, discount note, and short-term consolidated obligation bonds with the interest rate swap economically hedging it. We made no adjustments to the fair values of our instruments under the fair value option for credit risk as of the dates presented.

The table below summarizes the net gain (loss) related to financial assets and liabilities for which we elected the fair value option, except for MPF Loans held for sale which are not material.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Advances	**$ —**	$ —	**$ 1**	$ —
Bonds	**2**	(3)	**4**	1
Discount Notes	**(2)**	—	**(2)**	—
Total	**$ —**	$ (3)	**$ 3**	$ 1

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.

	June 30, 2015		December 31, 2014	
As of	**Advances**	**Consolidated Obligation Bonds**	Advances	Consolidated Obligation Bonds
Unpaid Principal Balance	**$ 90**	**$ 900**	$ 80	$ 2,775
Fair Value Over (Under) UPB	**4**	**6**	3	10
Fair Value	**$ 94**	**$ 906**	$ 83	$ 2,785

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

Note 14 – Commitments and Contingencies

The table below shows our commitments outstanding, which represent off-balance sheet obligations, for the periods presented.

	June 30, 2015			December 31, 2014		
As of	**Expire within one year**	**Expire after one year**	**Total**	Expire within one year	Expire after one year	Total
Unsettled consolidated obligation bonds	**$ 185**	**$ —**	**$ 185**	$ 91	$ —	$ 91
Member standby letters of credit	**4,333**	**1,479** [a]	**5,812**	2,410	1,207 [a]	3,617
Housing authority standby bond purchase agreements	**17**	**436**	**453**	155	262	417
Committed unused member lines of credit	**—**	**—**	**—**	4,000	—	4,000
Advance commitments	**267**	**105**	**372**	158	104	262
Other commitments	**303**	**—**	**303**	211	—	211
Commitments	**$ 5,105**	**$ 2,020**	**$ 7,125**	$ 7,025	$ 1,573	$ 8,598

[a] Contains $927 million and $974 million of member standby letters of credit at June 30, 2015, and December 31, 2014, which were renewable annually.

For a description of previously defined terms see **Note 17 - Commitments and Contingencies** to the financial statements in our 2014 Form 10-K.

Note 15 – Transactions with Related Parties and Other FHLBs

We define related parties as members that own 10% or more of our capital stock or members whose officers or directors also serve on our Board of Directors. Capital stock ownership is a prerequisite to transacting any member business with us. Members and former members own all of our capital stock. See **Note 11 - Capital** for further details.

In the normal course of business, we extend credit to or enter into other transactions with these related parties. All transactions are done at market terms that are no more favorable than the terms of comparable transactions with other members who are not considered related parties.

Members

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

As of	**June 30, 2015**	December 31, 2014
Assets - Interest bearing deposits	**$ 560**	$ 560
Assets - Advances	**11,183**	11,159
Assets - Advance Interest Receivable	**3**	2
Liabilities - Deposits	**21**	26
Equity - Capital Stock	**268**	267

Other FHLBs

From time to time, we may loan to, or borrow from, other FHLBs at market rates. These transactions are overnight, maturing the following business day. These and other material transactions with other FHLBs, if any, are identified on the face of our **Financial Statements**.

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

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

Selected Financial Data

As of or for the three months ended	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
Selected statements of condition data					
Total investments [a]	**$ 28,080**	$ 30,816	$ 32,745	$ 30,229	$ 36,125
Advances	**34,553**	31,941	32,485	26,766	24,782
MPF Loans held in portfolio, gross	**5,377**	5,732	6,072	6,438	6,913
Less: allowance for credit losses	**(3)**	(4)	(15)	(16)	(19)
Total assets	**69,760**	70,147	71,841	72,031	68,057
Consolidated obligations, net -					
Discount notes	**34,552**	30,474	31,054	30,507	23,795
Bonds	**28,672**	33,043	34,251	35,239	38,021
Total capital stock	**1,835**	1,923	1,902	1,801	1,796
Total retained earnings	**2,575**	2,484	2,406	2,304	2,198
Total capital	**4,549**	4,579	4,525	4,344	4,234
Other selected data at period end					
MPF off-balance sheet loans outstanding [b]	**$ 14,840**	14,662	$ 14,474	$ 14,298	$ 14,161
FHLB systemwide consolidated obligations (par)	**852,783**	812,196	847,175	816,950	799,980
Number of members	**748**	745	751	757	758
Total employees (full and part time)	**413**	408	405	391	401
Selected statements of income data					
Net interest income after provision for credit losses	**$ 117**	$ 130	$ 136	$ 140	$ 122
Non-interest gain (loss)	**24**	(5)	18	11	13
Non-interest expense	**33**	33	35	28	31
Net income	**97**	83	107	110	94
Other selected data during the periods					
MPF off-balance sheet loan volume funded - system [b]	**$ 800**	$ 698	$ 604	$ 591	$ 466
MPF off-balance sheet loan volume funded - FHLBC [b]	**388**	357	315	281	213
Selected ratios (rates annualized)					
Total regulatory capital to assets ratio	**6.33%**	6.29%	6.01%	5.71%	5.88%
Market value of equity to book value of equity	**110%**	112%	114%	116%	117%
Total investments - % of total assets	**40%**	44%	46%	42%	53%
Advances - % of total assets	**50%**	46%	45%	37%	36%
MPF Loans held in portfolio, net - % of total assets	**8%**	8%	8%	9%	10%
Dividend rate class B1 activity stock-period paid	**2.25%**	2.25%	2.00%	1.50%	1.50%
Dividend rate class B2 membership stock-period paid	**0.50%**	0.50%	0.50%	0.50%	0.50%
Return on average assets	**0.56%**	0.44%	0.58%	0.62%	0.52%
Return on average equity	**8.51%**	7.34%	9.60%	10.16%	9.10%
Average equity to average assets	**6.58%**	5.99%	6.03%	6.07%	5.76%
Net yield on average interest-earning assets	**0.71%**	0.70%	0.75%	0.79%	0.67%
Return on average Regulatory Capital spread to three month LIBOR index	**8.59%**	7.51%	9.84%	10.53%	9.51%
Cash dividends	**$ 6**	$ 5	$ 5	$ 4	$ 3
Dividend payout ratio	**6%**	6%	5%	4%	3%

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

[b] MPF off-balance sheet outstanding loans are not held on our statements of condition. These MPF Program loans are purchased from our PFIs or the PFIs of systemwide FHLBs and are concurrently resold to Fannie Mae or other third party investors under the MPF Xtra and MPF Direct products. See **Mortgage Partnership Finance Program** beginning on page 7 in our 2014 Form 10-K.

Forward-Looking Information

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

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

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

- membership changes, including the withdrawal of members due to restrictions on our dividends or the loss of members through mergers and consolidations; changes in the financial health of our members, including the resolution of some members; risks related to expanding our membership to include more institutions with regulators and resolution processes with which we have less experience;

- 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 concerns over U.S. fiscal policy, and any related rating agency actions impacting FHLB consolidated obligations;

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

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

- the pace of technological change and our ability to develop and support technology and information systems, including our ability to protect the security of our information systems and manage any failures, interruptions or breaches in our information systems or technology services provided to us through third-party vendors;

- our ability to attract and retain skilled employees;

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

- the 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 2014 Form 10-K on page 19.

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

Executive Summary

Second Quarter 2015 Financial Highlights

- We recorded net income of $97 million for the second quarter of 2015, up slightly from $94 million in the second quarter of 2014.
- Net interest income for the second quarter of 2015 was $117 million, down slightly from $122 million for the second quarter of 2014.
- Total investment securities declined $1.8 billion from $27.3 billion at December 31, 2014, to $25.5 billion at June 30, 2015, as the portfolio continued to pay down.
- Advances outstanding increased $2.1 billion to $34.6 billion at June 30, 2015, up from $32.5 billion at December 31, 2014.
- Total assets decreased $2.0 billion to $69.8 billion at June 30, 2015, down from $71.8 billion at December 31, 2014.
- We reached approximately $2.6 billion in retained earnings at June 30, 2015.
- We remained in compliance with all of our regulatory capital requirements as of June 30, 2015.

Summary and Outlook

Second Quarter 2015 Dividend

On July 30, 2015, the Board of Directors approved maintaining the dividend levels set last quarter for the second quarter of 2015. The Board again recognized our members that borrow from the Bank and thus support the entire cooperative by declaring a cash dividend at an annualized rate of 2.25% on Class B1 activity stock, based on the Bank's preliminary financial results for the second quarter of 2015. The Board also declared a cash dividend at an annualized rate of 0.50% on Class B2 membership stock.

Supporting Members' Business

We continue to focus on ways we can support our members' business. First, we want to ensure their borrowing costs remain low. The higher dividend on Class B1 activity stock relative to the Class B2 membership stock that we announced in late July reduces our members' all-in cost of borrowing an advance, making our funding attractive to other alternatives. Second, earlier in June we introduced a new monthly Reduced Capitalization Advance Program (RCAP). Now on a monthly basis members have the opportunity to borrow new advances with an activity stock requirement of only 2% for the life of the advance instead of the traditional 5% requirement.

Lastly, we have also been evaluating how to increase members' collateral capacity, which directly affects their ability to access funding and liquidity. At the end of June we announced changes to our collateral loan margins, which provides members with more collateral value and, in turn, greater opportunities to use advances for their business needs.

More Ways to Access the Secondary Market

The Bank has expanded its product offerings through the Mortgage Partnership Finance (MPF) Program. Members can once again earn higher fee income for sharing the credit risk of conventional, conforming loans while the Bank manages the liquidity, interest rate, and prepayment risks with MPF Original, MPF 125, and MPF 35 products. We also announced that members can choose to sell jumbo loans to the secondary mortgage market through the MPF Direct product, which has a single-family loan limit of $1.5 million.

To help members remain competitive in the government loan market, we now offer the MPF Government MBS product. On July 21, 2015, we issued our first securities guaranteed by the Government National Mortgage Association (Ginnie Mae). The securities are backed by mortgages originated by participating members through MPF Government MBS. Ginnie Mae securities are among the most liquid financial instruments in the world, and this new product allows our members to offer competitive FHA, VA, and Government Guaranteed Native American and Rural Housing mortgages.

Community First® Fund Commits More Money to District

Supporting members' communities remains a priority as well. Since February, we have committed $21 million of the Community First Fund to three new CDFI (community development financial institution) partners. Chicago-based CIC (Community Investment Corporation) will use the funds to help support small business entrepreneurs—multifamily building owners who provide affordable rental housing throughout the Chicago metropolitan area. Impact Seven, based in Almena, Wisconsin, will use the funding to provide flexible loan capital for business expansion to foster job creation and investment in low-income communities. And CCLF (Chicago Community Loan Fund) based in Chicago plans to use the capital to finance projects that provide better goods and services, healthy food outlets, social services, and high-quality affordable housing to the communities it serves.

(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 on our interest earning assets and the interest expense on our interest bearing liabilities, including 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 and effective yield/rate includes all components of net interest income as discussed above. Yields/rates are calculated on an annualized basis.

	June 30, 2015			June 30, 2014			**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 interest bearing deposits	**$ 5,260**	**$ 1**	**0.08%**	$ 11,441	$ 3	0.10%	**$ (2)**	**$ —**	**$ (2)**
Investment securities	**24,414**	**200**	**3.28%**	28,776	218	3.03%	**(33)**	**15**	**(18)**
Advances	**32,859**	**42**	**0.51%**	23,700	38	0.64%	**15**	**(11)**	**4**
MPF Loans held in portfolio	**5,445**	**66**	**4.85%**	6,985	86	4.92%	**(19)**	**(1)**	**(20)**
Total Interest Income on Assets	**67,978**	**309**	**1.82%**	70,902	345	1.95%	**(39)**	**3**	**(36)**
Consolidated obligation discount notes	**31,341**	**72**	**0.92%**	26,152	66	1.01%	**13**	**(7)**	**6**
Consolidated obligation bonds	**31,081**	**103**	**1.33%**	40,185	147	1.46%	**(33)**	**(11)**	**(44)**
Subordinated notes	**944**	**13**	**5.51%**	944	13	5.51%	**—**	**—**	**—**
Total Interest Expense on Liabilities	**63,366**	**188**	**1.19%**	67,281	226	1.34%	**(20)**	**(18)**	**(38)**
Net yield on interest-earning assets	**$ 67,978**	**$ 121**	**0.71%**	$ 70,902	$ 119	0.67%	**$ (19)**	**$ 21**	**$ 2**

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

For the six months ended	June 30, 2015 Average Balance	June 30, 2015 Total Interest	June 30, 2015 Yield/ Rate	June 30, 2014 Average Balance	June 30, 2014 Total Interest	June 30, 2014 Yield/ Rate	Increase (decrease) due to Volume	Increase (decrease) due to Rate	Increase (decrease) due to Net Change
Federal Funds sold, securities purchased under agreements to resell, and interest bearing deposits	**$ 8,207**	**$ 4**	**0.10%**	$ 10,171	$ 4	0.08%	**$ (1)**	**$ 1**	**$ —**
Investment securities	**25,042**	**404**	**3.23%**	29,641	445	3.00%	**(69)**	**28**	**(41)**
Advances	**32,285**	**87**	**0.54%**	22,939	77	0.67%	**31**	**(21)**	**10**
MPF Loans held in portfolio	**5,616**	**135**	**4.81%**	7,195	174	4.84%	**(38)**	**(1)**	**(39)**
Total Interest Income on Assets	**71,150**	**630**	**1.77%**	69,946	700	2.00%	**(77)**	**7**	**(70)**
Consolidated obligation discount notes	**33,794**	**144**	**0.85%**	27,165	133	0.98%	**32**	**(21)**	**11**
Consolidated obligation bonds	**31,889**	**208**	**1.30%**	38,311	294	1.53%	**(49)**	**(37)**	**(86)**
Subordinated notes	**944**	**27**	**5.72%**	944	27	5.72%	**—**	**—**	**—**
Total Interest Expense on Liabilities	**66,627**	**379**	**1.14%**	66,420	454	1.37%	**(17)**	**(58)**	**(75)**
Net yield on interest-earning assets	**$ 71,150**	**$ 251**	**0.71%**	$ 69,946	$ 246	0.70%	**$ (60)**	**$ 65**	**$ 5**

Net interest income changed mainly due to the following:

- Investment interest income declined primarily due to the decline in average investment balances as we continue to reduce our MBS portfolio to less than three times our total regulatory capital. This ratio is one of the conditions that needs to be met to remove the restriction on us to obtain FHFA approval for any new investments that have a term to maturity in excess of 270 days. For further information, see **Investment Securities** on page 46. This decline was partially offset by accretion into interest income of expected improvements in the present value of cash flows on securities that were previously charged with credit related OTTI. For the three and six months ended June 30, 2015, we recorded credit-related accretion to interest income of $14 million and $29 million. For the comparable period in 2014, accretion was $14 million and $28 million. Future accretion is dependent upon how estimated market conditions may impact the projected cash flows, and may vary from past experience.

- Interest income from advances increased primarily due to increases in volume, as we are finding that our members in Illinois and Wisconsin have increased funding needs as the economic activity in our region gradually improves resulting in higher advance demand. Volume also increased as we continued to offer a Reduced Capitalization Advance Program (RCAP) that lowers the cost of borrowing by providing term advances at a reduced capital stock requirement. See **Reduced Capitalization Advance Program** on page 54 in our 2014 Form 10-K for further information.

- Interest income from MPF Loans continued to decline as expected due to the net decrease in balance of MPF Loans outstanding.

- Interest expense decreased primarily as a result of a reduction in the average interest rates of our debt portfolio. As higher rate debt has matured or been called, the debt was replaced with lower-rate funding. Market rates on our short term discount notes also declined on average and we benefited from these lower rates by increasing the mix of discount notes as compared to bonds.

Net interest income is also impacted by fair value and cash flow hedging activity. For details see **Trading Securities, Derivatives and Hedging Activities,** and **Instruments Held at Fair Value Option** below.

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

Non-Interest Gain (Loss)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Trading securities	**$ —**	$ (7)	**$ (1)**	$ (12)
Derivatives and hedging activities	**9**	2	**(2)**	(12)
Instruments held under fair value option	**—**	(3)	**3**	1
Litigation settlement awards	**10**	17	**11**	17
Other, net	**5**	4	**8**	9
Noninterest gain (loss)	**$ 24**	$ 13	**$ 19**	$ 3

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

Gains (losses) on these activities have stabilized in recent quarters primarily as a result of less volatile hedging costs, which is consistent with hedging strategies of our more simplified balance sheet, along with a more stable economy.

Most of our total net effect from hedging activities was recorded as a component of net interest income. This was 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 hedges that were closed (de-designated) but where the previously hedged instrument is still outstanding.

Details of the impact on all of these hedging related items are in the table on the following page.

Litigation settlement awards

On October 15, 2010, we instituted litigation relating to 64 private label MBS bonds we purchased in an aggregate original principal amount of $4.29 billion. In both 2015 and 2014, we received payments for settlements with some of the defendants. We continue to pursue litigation related to these matters. We cannot predict to what extent we will be successful in this remaining litigation. See **Item 1. Legal Proceedings** on page 59 for further details.

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

The following table shows the impact of Trading Securities, Derivatives and Hedging Activities, and Instruments Held Under Fair Value Option on our results of operations.

	Advances	Investments	MPF Loans	Discount Notes	Bonds	Total
Three months ended June 30, 2015						
Amortization/accretion	**$ 2**	**$ —**	**$ (3)**	**$ —**	**$ (4)**	**$ (5)**
Net interest settlements	**(21)**	**(34)**	**—**	**(62)**	**60**	**(57)**
Total recorded in net interest income	**(19)**	**(34)**	**(3)**	**(62)**	**56**	**(62)**
Fair value hedges - ineffectiveness net gain (loss)	**3**	**3**	**—**	**—**	**—**	**6**
Cash flow hedges - ineffectiveness net gain (loss)	**—**	**—**	**—**	**1**	**—**	**1**
Economic hedges - net gain (loss)	**—**	**—**	**(3)**	**3**	**2**	**2**
Total recorded derivatives & hedging activities	**3**	**3**	**(3)**	**4**	**2**	**9**
Instruments held under fair value option	**—**	**—**	**—**	**(2)**	**2**	**—**
Total net effect gain (loss) of hedging activities	**$ (16)**	**$ (31)**	**$ (6)**	**$ (60)**	**$ 60**	**$ (53)**
Three months ended June 30, 2014						
Amortization/accretion	$ 1	$ —	$ (4)	$ —	$ (6)	$ (9)
Net interest settlements	(20)	(35)	—	(61)	65	(51)
Total recorded in net interest income	(19)	(35)	(4)	(61)	59	(60)
Fair value hedges - ineffectiveness net gain (loss)	2	(2)	—	—	(6)	(6)
Economic hedges - net gain (loss)	—	—	8	—	—	8
Total recorded derivatives & hedging activities	2	(2)	8	—	(6)	2
Instruments held under fair value option	—	—	—	—	(3)	(3)
Total net effect gain (loss) of hedging activities	$ (17)	$ (37)	$ 4	$ (61)	$ 50	$ (61)
Six months ended June 30, 2015						
Amortization/accretion	**$ 6**	**$ (10)**	**$ (7)**	**$ (1)**	**$ (5)**	**$ (17)**
Net interest settlements	**(41)**	**(68)**	**—**	**(124)**	**118**	**(115)**
Total recorded in net interest income	**(35)**	**(78)**	**(7)**	**(125)**	**113**	**(132)**
Fair value hedges - ineffectiveness net gain (loss)	**(1)**	**(2)**	**—**	**—**	**(10)**	**(13)**
Cash flow hedges - ineffectiveness net gain (loss)	**—**	**—**	**—**	**1**	**—**	**1**
Economic hedges - net gain (loss)	**(2)**	**—**	**(1)**	**5**	**8**	**10**
Total recorded derivatives & hedging activities	**(3)**	**(2)**	**(1)**	**6**	**(2)**	**(2)**
Instruments held under fair value option	**1**	**—**	**—**	**(2)**	**4**	**3**
Total net effect gain (loss) of hedging activities	**$ (37)**	**$ (80)**	**$ (8)**	**$ (121)**	**$ 115**	**$ (131)**
Six months ended June 30, 2014						
Amortization/accretion	$ 3	$ —	$ (9)	$ (1)	$ (11)	$ (18)
Net interest settlements	(40)	(70)	—	(122)	126	(106)
Total recorded in net interest income	(37)	(70)	(9)	(123)	115	(124)
Fair value hedges - ineffectiveness net gain (loss)	4	(3)	—	—	(13)	(12)
Cash flow hedges - ineffectiveness net gain (loss)	—	—	—	1	—	1
Economic hedges - net gain (loss)	—	—	(1)	—	—	(1)
Total recorded derivatives & hedging activities	4	(3)	(1)	1	(13)	(12)
Instruments held under fair value option	—	—	—	—	1	1
Total net effect gain (loss) of hedging activities	$ (33)	$ (73)	$ (10)	$ (122)	$ 103	$ (135)

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

Noninterest Expense

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Compensation and benefits	**$ 18**	$ 16	**$ 37**	$ 32
Other operating expenses	**14**	12	**25**	22
Other	**1**	3	**4**	7
Noninterest expense	**$ 33**	$ 31	**$ 66**	$ 61

Compensation and benefits increased as we add employees in order to continue to enhance our member-focused bank capabilities. We also increased staff as we continue to build out the MPF Program platform to support new products such as MPF Direct and MPF Government MBS. We had 413 employees as of June 30, 2015, compared to 401 as of June 30, 2014.

Other operating expenses increased mostly due to information technology, primarily because of general infrastructure maintenance, information technology security, and the investment in systems related to the MPF Program.

Other Comprehensive Income (Loss)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Net unrealized gain (loss) on available-for-sale securities	**$ (113)**	$ 81	**$ (135)**	$ 136
Non-credit OTTI on held-to-maturity securities	**13**	14	**26**	28
Net unrealized gain (loss) on cash flow hedges	**67**	(15)	**39**	6
Post-retirement plans	**—**	2	**(8)**	3
Other comprehensive income (loss)	**$ (33)**	$ 82	**$ (78)**	$ 173

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

We had a year-to-date net unrealized loss in 2015 compared to a net unrealized gain in 2014 for the same period. The net unrealized loss resulted from an increase in longer-term market interest rates while the net unrealized gain in 2014 resulted from a decrease in these rates. We still have a substantial unrealized gain position remaining in our AOCI related to our AFS securities portfolio. This remaining unrealized gain position will only be realized into net income if we sell our AFS securities before maturity. If we do not sell these securities, the gains will eventually reverse to zero within AOCI as they mature or prepay.

Non-credit OTTI on held-to-maturity securities

Over the past several years, we have accreted back into the carrying amount of these securities a portion of the previously incurred non-credit OTTI recorded during the financial crisis. As these securities approach maturity, we expect these unrealized non-credit losses to continue to reverse as principal and interest from the securities are received over time. We also expect the rate of accretion to decline as these securities approach maturity unless there is any further impairment.

Net unrealized gain (loss) on cash flow hedges

We had a year-to-date net unrealized gain on cash flow hedges in both 2015 and 2014. The net unrealized gain in 2015 is due to an increase in longer-term market interest rates while the comparatively smaller gain in 2014 is due to a decrease in these rates. During 2015, longer-term market interest rates declined in the first quarter before increasing in excess of the first quarter decline during the second quarter of 2015. Shorter-term market interest rates remained stable for 2015 and 2014. Our cash flow hedges are more sensitive to changes in longer-term market interest rates than to changes in shorter-term market interest rates. We have a substantial unrealized loss position in AOCI related to these cash flow hedges.

Post-retirement plans

The unrealized loss in the post-retirement plans for 2015 is due to a revision to the mortality tables we use for our post-retirement healthcare and supplemental defined benefit equalization plan. We do not expect this to be a recurring event and, as this effect is amortized over a period of several years, we expect its impact to our results of operations to be immaterial.

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

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

Statements of Condition

	June 30, 2015	December 31, 2014
Cash and due from banks, interest bearing deposits, Federal Funds sold, and securities purchased under agreement to resell	**$ 4,112**	$ 5,827
Investment securities	**25,519**	27,260
Advances	**34,553**	32,485
MPF Loans held in portfolio, net	**5,374**	6,057
Other	**202**	212
Total assets	**$ 69,760**	$ 71,841
Consolidated obligation discount notes	**$ 34,552**	$ 31,054
Consolidated obligation bonds	**28,672**	34,251
Subordinated notes	**944**	944
Other	**1,043**	1,067
Total liabilities	**65,211**	67,316
Capital stock	**1,835**	1,902
Total retained earnings	**2,575**	2,406
Accumulated other comprehensive income (loss)	**139**	217
Total capital	**4,549**	4,525
Total liabilities and capital	**$ 69,760**	$ 71,841

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

Amounts held in these accounts will vary each day based on the following:
- Interest rate spreads between Federal Funds sold and securities purchased under agreements to resell and our debt;
- Liquidity requirements;
- Counterparties available; and
- Collateral availability on securities purchased under agreements to resell.

Our liquidity position was relatively unchanged, as we continue to take advantage of the very low interest rates in the market by issuing debt in the form of short term discount notes and investing it in short term liquid assets.

Investment Securities

We are required to obtain FHFA approval for any new investments that have a term to maturity in excess of 270 days until such time as our MBS portfolio is less than three times our total regulatory capital and our advances represent more than 50% of our total assets. At June 30, 2015, our MBS portfolio was 3.75 times our total regulatory capital and our advances represented 50% of our total assets, thus we expect our portfolios to continue to decline over time as a result of this limitation.

Advances

Member demand for advances increased modestly in 2015 after a significant increase during 2014. We are finding that our members in Illinois and Wisconsin have increased funding needs as the economic activity in our region gradually improves. The increase in 2014 was the result of members taking advantage of the benefits of our Reduced Capitalization Advance Program (RCAP) to lower their cost of borrowing. See **Reduced Capitalization Advance Program** on page 54 in the 2014 Form 10-K for further information. We also have a significant funding long-term commitment with a member that contributes to the high level of outstanding advances. While our advances increased so far in 2015, it is possible that our advances may decrease to the extent our members elect to utilize alternative funding resources.

MPF Loans Held in Portfolio, Net

MPF Loans continued to decline as expected, a result of our past business strategy to limit the concentration of our MPF Loans. We have begun adding new MPF Loans to our portfolio and we do not expect these new MPF Loans in the near-term to be material on our balance sheet but may become so over a longer-term period of time. In addition we have MPF off-balance sheet products, where we buy and concurrently resell MPF Loans to other third party investors or securitize MPF Loans into MBS.

Liquidity, Funding, & Capital Resources

Liquidity

For the period ending June 30, 2015, 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 49 in our 2014 Form 10-K for a detailed description of our liquidity requirements. We use different measures of liquidity as follows:

Overnight Liquidity – Our policy requires us to maintain overnight liquid assets at least equal to 3.5% of total assets. As of June 30, 2015, our overnight liquidity was $8.2 billion or 12% of total assets, giving us an excess overnight liquidity of $5.7 billion.

Deposit Coverage – To support our member deposits, FHFA regulations require us to have an amount equal to the current deposits invested in obligations of the U.S. Government, deposits in eligible banks or trust companies, or advances with maturities not exceeding five years. As of June 30, 2015, we had excess liquidity of $35.8 billion to support member deposits.

Contingency Liquidity – The cumulative five business day liquidity measurement assumes there is a localized credit crisis for all FHLBs where the FHLBs do not have the ability to issue new consolidated obligations or borrow unsecured funds from other sources (e.g., purchasing Federal Funds or customer deposits). Our net liquidity in excess of our total uses and reserves over a cumulative five-business-day period was $19.1 billion as of June 30, 2015.

In addition to the liquidity measures discussed above, FHFA guidance requires us to maintain daily liquidity through short-term investments in an amount at least equal to anticipated cash outflows under two different scenarios. 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 23 in the **Risk Factors** section of our 2014 Form 10-K.

Funding

Conditions in Financial Markets

During the second quarter of 2015, U.S. Treasury rates increased. The 10-year Treasury yield rose more than 40 basis points to end at 2.4%. The focus of global financial markets throughout the quarter centered on the Eurozone (Greek) financial crisis, while market participants also continued to await an increase in the Federal Funds rate. We maintained ready access to funding during the quarter.

Cash flows from operating activities

Our operating assets and liabilities support our mission to provide our member shareholders competitively priced funding, a reasonable return on their investment in our capital stock, and support for community investment activities. Operating assets and liabilities can vary significantly in the normal course of business due to the amount and timing of cash flows, which are affected by member-driven activities and market conditions. We believe cash flows from operations, available cash balances and our ability to generate cash through short- and long-term borrowings are sufficient to fund our operating liquidity needs. Net cash provided by (used in) operating activities was $316 million for the six months ended June 30, 2015. This resulted from net income adjusted for non-cash adjustments, which primarily is attributable to a positive net change in the fair value of 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. Net cash provided by (used in) investing activities was $3.2 billion for the six months ended June 30, 2015. This resulted primarily from a net decrease in securities purchased under agreements to resell, federal funds sold, maturities related to held-to-maturity and available-for-sale investment securities, and principal collected on MPF Loans held in portfolio, partially offset by a net increase in advances funded during the period. The net increase in advances and the shift away from investment securities is consistent with our objective to make advances to our members our primary business.

Cash flows from financing activities

Our financing activities primarily reflect cash flows related to issuing and repaying consolidated obligations. Net cash provided by (used in) financing activities was $(2.3) billion for the six months ended June 30, 2015. This was primarily driven by paydowns in excess of issuances related to our consolidated obligation bonds partially offset by a net increase in our consolidated obligation discount notes. The shift to discount note funding was driven by increased demand from our members for short term advances as well as taking advantage of very low short-term interest rates in the market.

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

Consolidated Obligation Bonds and Discount Notes

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

During the first six months of 2015 we relied more on shorter term discount notes to fund our assets as longer term bonds matured. The shift to discount note funding was driven by increased demand from our members for short term advances as well as taking advantage of funding opportunities in discount notes (versus bonds). For the comparable period in 2014, shorter term discount notes declined significantly as we issued more attractively-priced, longer-termed consolidated obligation bonds.

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

Six months ended June 30,	2015	2014
Discount notes	$ 3,489	$ (7,293)
Bonds	(5,609)	5,730
Total consolidated obligations	$ (2,120)	$ (1,563)

Capital Resources

Capital Rules

Under our Amended and Restated Capital Plan of the Federal Home Loan Bank of Chicago, effective as of July 1, 2013 (Capital Plan), our stock consists of two sub-classes of stock, Class B1 stock and Class B2 stock (together, Class B stock), both with a par value of $100 and redeemable on five years' written notice, subject to certain conditions. Under the Capital Plan, each member is required to own capital stock in an amount equal to the greater of a membership stock requirement or an activity stock requirement. Class B1 stock is available for purchase only to support a member's activity stock requirement. Class B2 stock is available to be purchased to support a member's membership stock requirement and any activity stock requirement.

Under our Capital Plan, our Board of Directors may set a threshold of between $5 million and $250 million on the amount of Class B2 stock that would otherwise be held for membership if a member has advances outstanding that have an activity stock requirement in excess of the threshold amount. In that case, the amount of Class B2 stock that exceeds such threshold and is necessary to support advance activity is automatically converted into Class B1 stock. This threshold is currently set at $5 million, which means that we will convert to Class B1 capital stock any capital stock supporting advances that exceeds the lesser of the member's membership requirement or $5 million.

The Board of Directors may periodically adjust members' activity stock requirement for certain new advances within a range of 2% and 6% of a member's outstanding advances. Our Board implemented this provision through a Reduced Capitalization Advance Program (RCAP) as further discussed below. Each member's activity stock requirement remains at 5% for non-RCAP advances.

Our initial Capital Plan membership stock requirement was the greater of either $10,000 or 1.0% of a member's mortgage assets, subject to adjustment by the Board within a range of 0.5% to 2% of a member's mortgage assets. In January 2015, the Board reduced this membership stock requirement to the greater of either $10,000 or 0.85% of a member’s mortgage assets. A member’s investment in membership stock is subject to a cap equal to the lesser of (1) a dollar cap set by the Board within a range of $25 million and $250 million, and (2) 9.9% of our total capital stock outstanding as of the prior December 31. In January 2015, the Board reduced the dollar cap on membership stock from $250 million to $75 million, which is less than 9.9% of the Bank’s total capital stock at December 31, 2014 and thus the operative cap during 2015 unless the Board sets a new cap.

Membership stock requirements will continue to be recalculated annually, whereas the activity stock requirement and any automatic conversion of Class B2 stock to Class B1 stock related to the threshold will apply on a daily basis. We implemented the revised membership stock requirements discussed above during our annual recalculation in April 2015, using each member's mortgage assets as of December 31, 2014. More than 600 of our members directly benefited from that reduced requirement as we enabled them to request repurchase of their stock to redeploy the capital in their businesses and their communities. As of June 30, 2015, we have repurchased $176 million in excess capital stock resulting from these reduced membership stock requirements.

We may only redeem or repurchase capital stock from a member if, following the redemption or repurchase, the member continues to meet its minimum investment requirement and we remain in compliance with our regulatory capital requirements discussed below.

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

Members that withdraw from membership must wait at least five years after their membership was terminated and all of their capital stock was redeemed or repurchased before being readmitted to membership in any FHLB.

Under the terms of our Capital Plan, our Board of Directors is authorized to amend the Capital Plan, and the FHFA must approve all such amendments before they become effective.

Reduced Capitalization Advance Program

In June 2015 we introduced a new monthly Reduced Capitalization Advance Program (RCAP). Now on a monthly basis members have the opportunity to borrow one or more advances with an activity stock requirement of only 2% for the life of the advance instead of the 5% requirement under our capital plan's general provisions, if the new advances represent an incremental increase in a member's overall level of advances and have maturity dates of at least one year.

Minimum Capital Requirements

For details on our minimum capital requirements, see **Note 11 - Capital** 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 reconciles our capital reported in our statements of condition to the amount of capital stock reported for regulatory purposes. MRCS is included in the calculation of the regulatory capital and leverage ratios but is recorded as a liability in the statements of condition.

	June 30, 2015	December 31, 2014	**Change**
Capital stock	**$ 1,835**	$ 1,902	**$ (67)**
Total retained earnings	**2,575**	2,406	**169**
Total permanent capital	**4,410**	4,308	**102**
Accumulated other comprehensive income (loss)	**139**	217	**(78)**
Total GAAP capital	**$ 4,549**	$ 4,525	**$ 24**
Capital Stock	**$ 1,835**	$ 1,902	**$ (67)**
MRCS	**8**	9	**(1)**
Total retained earnings	**2,575**	2,406	**169**
Regulatory capital	**$ 4,418**	$ 4,317	**$ 101**

Although we have had no OTTI in 2015, credit deterioration may negatively impact our remaining private-label MBS portfolio. We believe that future impairments of this portfolio are possible if unemployment rates, default, delinquency, or loss rates on mortgages were to increase, or there is a further decline in residential real estate value. We cannot predict if or when such impairments will occur, or the impact such impairments may have on our retained earnings and capital position. See page 28 of the **Risk Factors** section of our 2014 Form 10-K.

We may not pay dividends if we fail to satisfy our minimum capital and liquidity requirements under the FHLB Act and FHFA regulations.

On July 30, 2015, our Board of Directors declared a cash dividend at an annualized rate of 2.25% per share of Class B1 activity stock and 0.50% per share of Class B2 membership stock, based on our preliminary financial results for the second quarter of 2015. This dividend, including dividends on mandatorily redeemable capital stock, totals $6 million and will be paid on August 13, 2015. Although we continue to work to maintain our financial strength to support a reasonable dividend, any future dividend determination by our Board will be at our Board's sole discretion and will depend on future operating results, our Retained Earnings and Dividend Policy and any other factors the Board determines to be relevant.

For further information about our Retained Earnings and Dividend Policy, see **Retained Earnings and Dividend Policy** on page 57 in our 2014 Form 10-K**.**

We continue to allocate 20% of our net income each quarter to a restricted retained earnings account in accordance with the Joint Capital Enhancement Agreement that we entered into with the other FHLBs, as further discussed in **Joint Capital Enhancement Agreement** on page F-45 in our 2014 Form 10-K.

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

Critical Accounting Policies

The table below identifies our critical accounting policies and estimates and the page number where a detailed description of each can be found in our 2014 Form 10-K.

Overnight Indexed Swaps (OIS)	Page 60
Estimating Fair Value	Page 60
Joint and Several Liability	Page 61
Other-Than-Temporary Impairment (OTTI)	Page 62
Significant Inputs Used On All Residential Private-Label MBS Securities	Page 62

Significant changes in our critical accounting policies from our 2014 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 changes in accounting policies and recently issued accounting standards on our financial results.

Overnight Indexed Swaps (OIS)

We started using the OIS curve to determine the fair value of our derivative contracts in the first quarter of 2015. The initial effect of using the OIS curve did not have a material effect on our operating activities or financial statements.

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

Risk Management - Credit Risk

Unsecured Short-Term Investments Credit Exposure

We face credit risk on our unsecured short-term investment portfolio that we maintain to provide funds to meet the credit needs of our members and to maintain liquidity. See **Liquidity** on page 47 for a discussion of our liquidity management. Our policy permits unsecured credit investments that can have maturities up to nine months and can consist of commercial paper, certificates of deposit, and Federal Funds sold.

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

We do not invest in financial instruments issued by non-U.S. entities (other than those issued by U.S. branches and agency offices of foreign commercial banks) as we are prohibited from doing so by FHFA regulations. Our unsecured credit exposures to U.S. branches or 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.

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

As of June 30, 2015	AA	A	BBB	Unrated	Total
Domestic U.S. - Interest-Bearing Deposits	$ —	$ 560	$ —	$ —	$ 560
Domestic U.S. - Fed Funds Sold	—	—	100	1	101
U.S. branches and agency offices of foreign commercial banks:					
Canada - Fed Funds Sold	250	400	—	—	650
Total unsecured credit exposure	**$ 250**	**$ 960**	**$ 100**	**$ 1**	**$ 1,311**

In the above table no investments were longer than of overnight duration.

Investment Securities

We hold a variety of investment securities we believe are low risk and mostly government backed or insured such as GSE debt, and FFELP ABS. There was no material change in the credit ratings of these AA or better rated securities since December 31, 2014, and except for private-label MBS as noted below, we have never taken an impairment charge on these securities. For further details see page 66 in our 2014 Form 10-K.

Our private label MBS are predominantly variable rate securities rated below investment grade BBB. There was no material change in overall credit quality since December 31, 2014, nor have we acquired any new private label MBS. We last had an other-than-temporary impairment (OTTI) loss in 2012. For further details see page F-26 and F-27 in our 2014 Form 10-K.

The following table presents the components of amortized cost of our private label MBS (whether or not impaired), and where applicable, the life-to-date OTTI credit impairment taken over time on some of these securities. For further details, see **Note 5 - Investment Securities - Other-Than-Temporary Impairment Analysis** to the financial statements.

As of June 30, 2015	Unpaid Principal Balance	Life-To-Date OTTI Credit Impairment [a]	Other Adjustments [b]	Amortized Cost
Private label MBS	**$ 1,798**	**$ (742)**	**$ 280**	**$ 1,336**

[a] Life-to-date OTTI credit impairment excludes certain adjustments, such as increases in cash flows expected to be collected that have been recognized into net income.

[b] Other Adjustments primarily consists of principal shortfalls and life-to-date accretion of interest related to the discounted present value of previously recognized credit-related impairment losses.

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

Member Credit Outstanding

The following table presents the number of borrowers and credit outstanding to our borrowers by rating. Our internal rating reflects our assessment of the default risk associated with a member rather than the risk of loss on the credit outstanding. We manage our credit risk through collateral controls and, based on our risk rating, increase over-collateralization requirements as a member deteriorates. As a result, we have never suffered a credit loss from a member default. Credit outstanding consists primarily of outstanding advances and letters of credit. MPF credit enhancement obligations, member derivative exposures, and other obligations make up the rest. 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. Of the total credit outstanding, $34.4 billion were advances (par value) and $5.8 billion were letters of credit at June 30, 2015, compared to $32.3 billion and $3.6 billion at December 31, 2014.

	June 30, 2015					December 31, 2014				
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	**494**	**95%**	**$ 40,053**	**100%**	**$ 106,027**	481	92%	$ 35,651	98%	$ 76,797
4	**6**	**1%**	**85**	**—%**	**139**	15	3%	183	1%	331
5	**22**	**4%**	**201**	**—%**	**323**	25	5%	240	1%	388
Total	**522**	**100%**	**$ 40,339**	**100%**	**$ 106,489**	521	100%	$ 36,074	100%	$ 77,516

The significant increases in collateral loan values are due to the updated loan margins we made available to members effective June 25, 2015, and also large collateral pledges from two of our biggest borrowers. 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.

As a result of the collateral and other credit risk mitigation efforts, we believe our credit outstanding is sufficiently well collateralized and we have not recorded an allowance for credit losses on our advances or other credit products in the periods presented.

MPF Loans

Our allowance declined in 2015 compared to 2014 primarily as a result of change in regulation by AB 2012-02, for further details see **Note 2 - Summary of Significant Accounting Policies** to the financial statements. For details on our allowance for credit losses, please see **Note 8 - Allowance for Credit Losses** to the financial statements.

Mortgage Repurchase Risk

We are exposed to mortgage repurchase risk in connection with our sale of MPF Loans to Fannie Mae under the MPF Xtra product, to third party investors under the MPF Direct product, and to Ginnie Mae for MPF Loans securitized in Ginnie Mae MBS. If a loan eligibility requirement or other warranty is breached, these third parties could require us to repurchase the ineligible MPF Loan or provide an indemnity. We may require the PFI from which we purchased the ineligible MPF Loan to repurchase that loan from us or indemnify us for related losses. Under the MPF Direct product, if a PFI is insolvent, our repurchase liability is limited to a PFI's failure to deliver the required loan documentation and excludes repurchases for breaches of loan level representations and warranties. In addition, if we purchased the ineligible MPF Loan from a PFI of another MPF Bank, the MPF Bank will indemnify us for any losses we may incur.

For the three and six months ended June 30, 2015, we have repurchased $4 million and $13 million of unpaid principal balances related to MPF Xtra loans sold to Fannie Mae. These repurchases represent repurchase requests that have been resolved during the reporting period. Due to recoveries from PFIs we incurred no material losses on these loans. As of June 30, 2015, we have $48 million of unpaid principal with respect to mortgage loans that represent unresolved claims with Fannie Mae, in which a repurchase demand may occur compared to $62 million at December 31, 2014; see **Note 14 - Commitments and Contingencies** to the financial statements. Due to the minimal volume of MPF Loans purchased under the MPF Direct product, we did not estimate any mortgage repurchase liability with respect to MPF Direct loans. We did not estimate any mortgage repurchase liability with respect to MPF Government MBS loans since no MPF Loans were pooled into securities guaranteed by Ginnie Mae under the MPF Government MBS product as of June 30, 2015.

For further details, see **Mortgage Repurchase Risk** on page 74 in our 2014 Form 10-K.

Derivative counterparties

We transact most of our derivatives with large banks and major broker-dealers. Derivative transactions may be either over-the-counter with a counterparty (bilateral derivatives) or over-the-counter cleared through an FCM with a derivatives clearing organization (clearinghouse).

We are subject to credit risk due to the risk of nonperformance by counterparties to our derivative agreements. The amount of credit risk on derivatives depends on the extent to which netting procedures, collateral requirements and other credit enhancements are used and are effective in mitigating the risk. We manage credit risk through credit analysis, collateral management and other credit enhancements. We are also required to follow the requirements set forth by applicable regulation.

Bilateral Derivatives. We are subject to credit risk due to nonperformance by counterparties to derivative agreements. We require collateral on bilateral derivative agreements. The amount of net unsecured credit exposure that is permissible with respect to a counterparty depends on the credit rating of that counterparty. The counterparty must deliver collateral to us if the total market value of our exposure to that counterparty rises above a specific trigger point. As a result of these risk mitigation initiatives, we do not anticipate any credit losses on our bilateral derivative agreements with counterparties as of June 30, 2015.

Cleared Derivatives. We are subject to credit risk due to nonperformance by the clearinghouse. The requirement that we post initial and variation margin through the FCM, on behalf of the clearinghouse, exposes us to institutional credit risk in the event that the FCM or the clearinghouse fails to meet their obligations. Clearing derivatives through a clearinghouse mitigates counterparty credit risk exposure because individual counterparties are replaced by the central clearinghouse counterparty and collateral is posted daily for changes in the value of cleared derivatives. We do not anticipate any credit losses on our cleared derivatives as of June 30, 2015.

The contractual or notional amount of derivative agreements reflects our involvement in the various classes of financial instruments. Our maximum credit risk with respect to derivative agreements is the estimated cost of replacing interest-rate swaps, forward agreements and purchased caps and floors if the counterparty defaults, minus the value of any related collateral. In determining maximum credit risk, we consider, with respect to each counterparty, accrued interest receivables and payables as well as the legal right to net assets and liabilities.

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

The following table presents our derivative positions with credit exposure. Rating used was the lowest rating among the three largest NRSROs. Non-cash collateral pledged consists of initial margin we posted through our FCMs, on behalf of the clearinghouses for cleared derivatives.

	Net Derivatives Fair Value Before Collateral	Cash Collateral Pledged	Non-cash Collateral Pledged	Net Credit Exposure to Counterparties
As of June 30, 2015				
Asset positions with credit exposure -				
Bilateral derivatives -				
A rated	**$ 1**	**$ (1)**	**$ —**	**$ —**
Liability positions with credit exposure -				
Bilateral derivatives -				
AA rated	**(49)**	**49**	**—**	**—**
Cleared derivatives	**(139)**	**135**	**64**	**60**
Net with non-member counterparties	**(187)**	**183**	**64**	**60**
Member institutions	**1**	**—**	**—**	**1**
Total	**$ (186)**	**$ 183**	**$ 64**	**$ 61**
As of December 31, 2014				
Asset positions with credit exposure -				
Bilateral derivatives -				
A rated	$ 7	$ (6)	$ —	$ 1
Liability positions with credit exposure -				
Bilateral derivatives -				
A rated	(16)	16	—	—
Cleared derivatives	(166)	168	71	73
Net with non-member counterparties	(175)	178	71	74
Member institutions	3	—	—	3
Total	$ (172)	$ 178	$ 71	$ 77

Legislative and Regulatory Development

FHFA Core Mission Achievement Advisory Bulletin 2015-05

On July 14, 2015, the FHFA issued an advisory bulletin establishing a core mission asset ratio by which the FHFA will assess each FHLB's core mission achievement. Core mission achievement is determined using a ratio of primary mission assets, which includes advances and mortgage loans acquired from members (also referred to as acquired member assets), to consolidated obligations. The core mission asset ratio will be determined at year-end and calculated using annual average par values.

The advisory bulletin provides the FHFA's expectations for each FHLB's strategic plan based on its ratio, which are:

- when the ratio is 70% or higher, the strategic plan should include an assessment of the FHLB's prospects for maintaining at least this level;
- when the ratio is between 55% and 70%, the strategic plan should explain the FHLB's plan to increase its mission focus; and
- when the ratio is below 55%, the strategic plan should include an explanation of the circumstances that caused the ratio to be at that level and detailed plans to increase the ratio. The advisory bulletin provides that if an FHLB maintains a ratio below 55% over the course of several consecutive reviews, then the FHLB's board of directors should consider possible strategic alternatives.

Our core mission activities primarily include the issuance of advances. In addition, we acquire member assets through the MPF Program. We expect our core mission achievement ratio at year-end will be between 55% and 70%.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Measurement of Market Risk Exposure

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

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

		Option Risk		Basis Risk	
	Yield Curve Risk	Implied Volatility	Prepayment Speeds	Spread to Swap Curve	Mortgage Spread
As of June 30, 2015					
Advances	**$ (3)**	**$ —**	**$ —**	**$ (9)**	**$ —**
MPF Loans	**(1)**	**(3)**	**(3)**	**(2)**	**1**
Mortgage Backed Securities	**(5)**	**(1)**	**(1)**	**(6)**	**—**
Other interest earning assets	**(1)**	**—**	**—**	**(3)**	**—**
Interest-bearing liabilities	**8**	**9**	**—**	**8**	**—**
Derivatives	**2**	**(6)**	**—**	**—**	**—**
Total	**$ —**	**$ (1)**	**$ (4)**	**n/m**	**$ 1**
As of December 31, 2014					
Advances	$ (3)	$ —	$ —	$ (11)	$ —
MPF Loans	(1)	(3)	(3)	(2)	1
Mortgage Backed Securities	(6)	(1)	(1)	(7)	—
Other interest earning assets	(1)	—	—	(4)	—
Interest-bearing liabilities	10	12	—	9	—
Derivatives	2	(9)	—	—	—
Total	$ 1	$ (1)	$ (4)	n/m	$ 1

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

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

As of June 30, 2015, our sensitivity to changes in implied volatility was $(1) million. At December 31, 2014, our sensitivity to changes in implied volatility was $(1) million. These sensitivities are limited in that they do not incorporate other risks, including but not limited to, non-parallel changes in yield curves, prepayment speeds, and basis risk related to differences between the swap and the other curves. Option positions embedded in our mortgage assets and callable debt impact our yield curve risk profile, such that swap curve changes significantly greater than one basis point cannot be linearly interpolated from the table above.

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

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

June 30, 2015			December 31, 2014		
Down 200 bps	**Base**	**Up 200 bps**	Down 200 bps	Base	Up 200 bps
3.3	**1.0**	**1.0**	3.2	-0.3	0.2

Duration gap is another measure of interest rate sensitivity. Duration gap is calculated by dividing the dollar duration of equity by the fair value of assets. A positive duration gap indicates an exposure to rising interest rates. As of June 30, 2015, our duration gap was 0.8 months, compared to -0.2 months as of December 31, 2014.

As of June 30, 2015, on a U.S. GAAP basis, our fair value surplus (relative to book value) was $436 million, and our market value of equity to book value of equity ratio was 110%. At December 31, 2014, our fair value surplus was $618 million and our market value of equity to book value of equity ratio was 114%. The reduction in market value to book value was partly driven by the increase in our capital and the gradual pay down of assets at a fair value premium to book value that are replaced by assets at par. This is a trend that is expected to continue. Our market to book value of total capital for regulatory risk-based capital purposes differs from this GAAP calculation, as discussed in **Note 11 - Capital**.

Our Asset/Liability Management Committee provides oversight of risk management practices and policies. This includes routine reporting to senior 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.

	June 30, 2015		December 31, 2014	
Scenario as of	**Change in Market Value of Equity**	**Loss Limit**	Change in Market Value of Equity	Loss Limit
-200 bp	**$ 198.0**	**$ (185.0)**	$ 118.6	$ (185.0)
-100 bp	**96.2**	**(77.5)**	28.5	(77.5)
-50 bp	**46.3**	**(30.0)**	(0.6)	(30.0)
-25 bp	**21.9**	**(15.0)**	(2.4)	(15.0)
+25 bp	**(10.5)**	**(30.0)**	4.1	(30.0)
+50 bp	**(20.3)**	**(60.0)**	9.2	(60.0)
+100 bp	**(39.4)**	**(155.0)**	12.9	(155.0)
+200 bp	**(82.7)**	**(370.0)**	7.0	(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 85 of our 2014 Form 10-K.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On October 15, 2010, the Bank instituted litigation relating to 64 private label MBS bonds purchased by the Bank in an aggregate original principal amount of $4.29 billion. The litigation was brought in state court in the states of Washington, California and Illinois. The Washington action has been resolved and was dismissed with prejudice on December 5, 2013. The California action has been resolved and was dismissed with prejudice on January 27, 2014. The Illinois action, which currently relates to nine private label MBS bonds with an aggregate original principal amount of $546 million, is proceeding in discovery.

In the Illinois action, the Bank asserts claims for untrue or misleading statements in the sale of securities, signing or circulating securities documents that contained material misrepresentations, and negligent misrepresentation. The Bank seeks the remedies of rescission, recovery of damages, and recovery of reasonable attorneys' fees and costs of suit. As of July 31, 2015, defendants in the Illinois litigation include the following entities and affiliates thereof: American Enterprise Investment Services, Inc.; Ameriprise Financial Services, Inc.; Goldman Sachs & Co.; Sand Canyon Acceptance Corporation; and Morgan Stanley & Co., Incorporated.

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

Item 1A. Risk Factors.

In addition to the information presented in this report, readers should carefully consider the factors set forth in the **Risk Factors** section on page 19 in our 2014 Form 10-K, which could materially affect our business, financial condition, or future results. These risks are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also severely affect us.

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

Not applicable.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer
32.1	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer
32.2	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Glossary of Terms

Advances: Secured loans to members.

ABS: Asset-backed-securities.

AFS: Available-for-sale securities.

AOCI: Accumulated Other Comprehensive Income.

Capital Plan: The Amended and Restated Capital Plan of the Federal Home Loan Bank of Chicago, effective as of July 1, 2013.

CDFI: Community development financial institution.

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

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

Discount notes: Consolidated obligations with a term of one year or less, which sell at less than their face amount and are redeemed at par value when they mature.

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

Excess capital stock: Capital stock held by members in excess of their minimum investment requirement.

Fannie Mae: Federal National Mortgage Association.

FASB: Financial Accounting Standards Board.

FCM: Futures Commission Merchant.

FDIC: Federal Deposit Insurance Corporation.

FFELP: Federal Family Education Loan Program.

FHA: Federal Housing Administration.

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

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

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

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

FHLBC: The Federal Home Loan Bank of Chicago

Freddie Mac: Federal Home Loan Mortgage Corporation.

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

Ginnie Mae: Government National Mortgage Association.

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

Government Loans: Mortgage loans insured or guaranteed by the Federal Housing Administration (FHA), the Department of Housing and Urban Development (HUD), the Department of 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.

LIBOR: London Interbank Offered Rate.

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

MBS: Mortgage-backed securities.

Moody's: Moody's Investors Service.

MPF®: Mortgage Partnership Finance.

MPF Banks: FHLBs that participate in the MPF program.

MPF Direct product: The MPF Program product under which we acquire jumbo MPF Loans from PFIs and concurrently resell them to a third party investor.

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

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

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

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

MRCS: mandatorily redeemable capital stock.

NRSRO: Nationally Recognized Statistical Rating Organization.

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

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

OTTI: Other-than-temporary impairment.

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

PMI: Primary Mortgage Insurance.

RCAP: Reduced Capitalization Advance Program.

Regulatory capital: Regulatory capital stock plus retained earnings.

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

REO: Real estate owned.

RHS: Department of Agriculture Rural Housing Service.

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

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: August 6, 2015

/s/ Roger D. Lundstrom

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

Date: August 6, 2015