

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 March 31, 2018

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**

(State or other jurisdiction of incorporation or organization)

**200 East Randolph Drive  
Chicago, IL**

(Address of principal executive offices)

**36-6001019**

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

**60601**

(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

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

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of March 31, 2018, including mandatorily redeemable capital stock, registrant had 18,903,682 total outstanding shares of Class B Capital Stock.

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

(Dollars in millions, except capital stock par value)

	March 31, 2018	December 31, 2017
<b>Assets</b>		
Cash and due from banks	\$ 40	\$ 42
Interest bearing deposits	775	775
Federal Funds sold	9,361	7,561
Securities purchased under agreements to resell	6,250	5,000
<b>Investment securities -</b>		
Trading, 64 and 67 pledged	2,596	233
Available-for-sale	12,388	12,957
Held-to-maturity, 3,791 and 4,538 fair value	3,448	4,157
<b>Investment securities</b>	<b>18,432</b>	<b>17,347</b>
Advances, 917 and 776 carried at fair value	50,840	48,085
MPF Loans held in portfolio, net of (2) and (2) allowance for credit losses	5,357	5,193
Derivative assets	2	3
Other assets, 76 and 118 carried at fair value	334	349
<b>Assets</b>	<b>\$ 91,391</b>	<b>\$ 84,355</b>
<b>Liabilities</b>		
<b>Deposits -</b>		
Noninterest bearing	\$ 53	\$ 51
Interest bearing, 11 and 32 from other FHLBs	632	473
<b>Deposits</b>	<b>685</b>	<b>524</b>
<b>Consolidated obligations, net -</b>		
Discount notes, 0 and 749 carried at fair value	41,483	41,191
Bonds, 4,985 and 5,260 carried at fair value	43,516	37,121
<b>Consolidated obligations, net</b>	<b>84,999</b>	<b>78,312</b>
Derivative liabilities	19	20
Affordable Housing Program assessment payable	86	88
Mandatorily redeemable capital stock	311	311
Other liabilities	228	248
<b>Liabilities</b>	<b>86,328</b>	<b>79,503</b>
Commitments and contingencies - see notes to the financial statements		
<b>Capital</b>		
Class B1 activity stock, 14 and 12 million shares issued and outstanding	1,368	1,241
Class B2 membership stock, 2 and 2 million shares issued and outstanding	211	202
<b>Capital stock - putable, \$100 and \$100 par value per share</b>	<b>1,579</b>	<b>1,443</b>
Retained earnings - unrestricted	2,891	2,845
Retained earnings - restricted	467	452
<b>Retained earnings</b>	<b>3,358</b>	<b>3,297</b>
Accumulated other comprehensive income (loss) (AOCI)	126	112
<b>Capital</b>	<b>5,063</b>	<b>4,852</b>
<b>Liabilities and capital</b>	<b>\$ 91,391</b>	<b>\$ 84,355</b>

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

**Statements of Income (unaudited)**

(Dollars in millions)

	Three months ended March 31,	
	2018	2017
Interest income	\$ 480	\$ 337
Interest expense	356	224
<b>Net interest income</b>	<b>124</b>	<b>113</b>
<b>Noninterest income -</b>		
Derivatives and hedging activities	(3)	3
Instruments held under fair value option	(7)	(2)
MPF fees, 6 and 5 from other FHLBs	8	7
Other, net	2	2
<b>Noninterest income</b>	<b>—</b>	<b>10</b>
<b>Noninterest expense -</b>		
Compensation and benefits	24	25
Operating expenses	15	15
Other	3	2
<b>Noninterest expense</b>	<b>42</b>	<b>42</b>
<b>Income before assessments</b>	<b>82</b>	<b>81</b>
Affordable Housing Program	8	8
<b>Net income</b>	<b>\$ 74</b>	<b>\$ 73</b>

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

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

	Three months ended March 31,	
	2018	2017
<b>Net income</b>	<b>\$ 74</b>	<b>\$ 73</b>
<b>Other comprehensive income (loss) -</b>		
Net unrealized gain (loss) available-for-sale securities	(49)	38
Noncredit OTTI held-to-maturity securities	7	9
Net unrealized gain (loss) cash flow hedges	58	44
Postretirement plans	(2)	(2)
<b>Other comprehensive income (loss)</b>	<b>14</b>	<b>89</b>
<b>Comprehensive income</b>	<b>\$ 88</b>	<b>\$ 162</b>

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

**Statements of Capital (unaudited)**

(Dollars and shares in millions)

	Capital Stock - Putable - B1 Activity		Capital Stock - Putable - B2 Membership		Capital Stock		Retained Earnings			AOCI	Total
	Shares	Value	Shares	Value	Shares	Value	Unrestricted	Restricted	Total		
<b>December 31, 2017</b>	<b>12</b>	<b>\$1,241</b>	<b>2</b>	<b>\$ 202</b>	<b>14</b>	<b>\$1,443</b>	<b>\$ 2,845</b>	<b>\$ 452</b>	<b>\$3,297</b>	<b>\$ 112</b>	<b>\$4,852</b>
Comprehensive income							59	15	74	14	88
Proceeds from issuance of capital stock	9	822	—	1	9	823					823
Repurchases of capital stock	—	(1)	(7)	(686)	(7)	(687)					(687)
Transfers between classes of capital stock	(7)	(694)	7	694							
Cash dividends - class B1							(12)		(12)		(12)
Class B1 annualized rate											3.50%
Cash dividends - class B2							(1)		(1)		(1)
Class B2 annualized rate											1.50%
<b>Total change in period</b>	<b>2</b>	<b>127</b>	<b>—</b>	<b>9</b>	<b>2</b>	<b>136</b>	<b>46</b>	<b>15</b>	<b>61</b>	<b>14</b>	<b>211</b>
<b>March 31, 2018</b>	<b>14</b>	<b>\$1,368</b>	<b>2</b>	<b>\$ 211</b>	<b>16</b>	<b>\$1,579</b>	<b>\$ 2,891</b>	<b>\$ 467</b>	<b>\$3,358</b>	<b>\$ 126</b>	<b>\$5,063</b>
December 31, 2016	12	\$1,160	6	\$ 551	18	\$1,711	\$ 2,631	\$ 389	\$3,020	\$ (36)	\$4,695
Comprehensive income							59	14	73	89	162
Proceeds from issuance of capital stock	4	533	—	1	4	534					534
Repurchases of capital stock	—	(34)	(10)	(926)	(10)	(960)					(960)
Capital stock reclassified to mandatorily redeemable capital stock liability	—	(3)	—	—	—	(3)					(3)
Transfers between classes of capital stock	(6)	(619)	6	619							
Cash dividends - class B1							(9)		(9)		(9)
Class B1 annualized rate											3.00%
Cash dividends - class B2							(1)		(1)		(1)
Class B2 annualized rate											0.85%
<b>Total change in period</b>	<b>(2)</b>	<b>(123)</b>	<b>(4)</b>	<b>(306)</b>	<b>(6)</b>	<b>(429)</b>	<b>49</b>	<b>14</b>	<b>63</b>	<b>89</b>	<b>(277)</b>
March 31, 2017	10	\$1,037	2	\$ 245	12	\$1,282	\$ 2,680	\$ 403	\$3,083	\$ 53	\$4,418

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

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

(Dollars in millions)

Three months ended March 31,		2018	2017
<b>Operating</b>	<b>Net cash provided by (used in) operating activities</b>	<b>\$ 135</b>	<b>\$ 159</b>
<b>Investing</b>	Net change interest bearing deposits	—	(50)
	Net change Federal Funds sold	(1,800)	(4,242)
	Net change securities purchased under agreements to resell	(1,250)	1,800
	<b>Trading securities -</b>		
	Sales	200	801
	Proceeds from maturities and paydowns	2	1
	Purchases	(2,559)	—
	<b>Available-for-sale securities -</b>		
	Proceeds from maturities and paydowns	478	354
	<b>Held-to-maturity securities -</b>		
	Short-term held-to-maturity securities, net	535 <sup>a</sup>	619 <sup>a</sup>
	Proceeds from maturities and paydowns	188	256
	Purchases	(14)	(3)
	<b>Advances -</b>		
	Principal collected	320,511	141,871
	Issued	(323,358)	(139,145)
	<b>MPF Loans held in portfolio -</b>		
	Principal collected	187	264
	Purchases	(355)	(241)
	Other investing activities	3	9
	<b>Net cash provided by (used in) investing activities</b>	<b>(7,232)</b>	<b>2,294</b>
<b>Financing</b>	Net change deposits	161	68
	<b>Discount notes -</b>		
	Net proceeds from issuance	436,144	320,127
	Payments for maturing and retiring	(435,852)	(323,269)
	<b>Consolidated obligation bonds -</b>		
	Net proceeds from issuance	11,586	4,130
	Payments for maturing and retiring	(5,062)	(3,380)
	<b>Capital stock -</b>		
	Proceeds from issuance	823	534
	Repurchases	(687)	(960)
	Cash dividends paid	(13)	(10)
	Other financing activities	(5)	(10)
	<b>Net cash provided by (used in) financing activities</b>	<b>7,095</b>	<b>(2,770)</b>
	<b>Net increase (decrease) in cash and due from banks</b>	<b>(2)</b>	<b>(317)</b>
	Cash and due from banks at beginning of period	42	351
	<b>Cash and due from banks at end of period</b>	<b>\$ 40</b>	<b>\$ 34</b>

<sup>a</sup> Short-term assets and liabilities may be presented on a net basis provided that the original maturity of the asset or liability is three months or less from the date of origination or the date of purchase.

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

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

**Note 1 – Background and Basis of Presentation**

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

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

Our accounting and financial reporting policies conform to generally accepted accounting principles in the United States of America (GAAP). Amounts in prior periods may be reclassified to conform to the current presentation and, if material, are disclosed in the following notes.

In the opinion of management, all normal recurring adjustments have been included for a fair statement of this interim financial information. These unaudited financial statements and the following footnotes should be read in conjunction with the audited financial statements and footnotes for the year ended December 31, 2017, included in our Annual Report on Form 10-K (2017 Form 10-K) starting on page F-1, as filed with the Securities and Exchange Commission (SEC).

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

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

See the **Glossary of Terms** starting on page 58 for the definitions of certain terms used herein.

**Use of Estimates and Assumptions**

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

**Basis of Presentation**

The basis of presentation pertaining to the consolidation of our variable interest entities has not changed since we filed our 2017 Form 10-K. The basis of presentation pertaining to our gross versus net presentation of financial instruments also has not changed since we filed our 2017 Form 10-K.

Refer to **Note 1- Background and Basis of Presentation** to the financial statements in our 2017 Form 10-K with respect to our basis of presentation for consolidation of variable interest entities and our gross versus net presentation of financial instruments for further details.



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

**Note 2 – Summary of Significant Accounting Policies**

Our **Summary of Significant Accounting Policies** through December 31, 2017, can be found in **Note 2 – Summary of Significant Accounting Policies** to the financial statements in our 2017 Form 10-K. We adopted the following policies effective January 1, 2018:

*Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)*

We are required to recognize the portion of instrument-specific credit risk attributable to the total change in fair value of our consolidated obligations that are carried at fair value in our statements of comprehensive income. We measure such instrument-specific credit risk based on our nonperformance risk, which includes our nonperformance risk and the credit risk associated with the joint and several liability of other FHLBs. The new guidance did not have an effect on our financial condition, results of operations, and cash flows at the time of adoption.

*Revenue from Contracts with Customers (ASU 2014-09)*

The revenue recognition guidance did not have any effect on our financial condition, results of operations, or cash flows at the time of adoption. This is because the majority of our financial instruments and other contractual rights that generate revenue are covered by other GAAP, and therefore, were scoped out of this new guidance. Further, our prior method of recognizing service fee revenue was consistent with this new guidance. As a result, no cumulative effect adjustment to our opening balance of retained earnings in 2018 was required under the modified retrospective method.

*Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07)*

We are required to classify the service cost component of our net periodic pension and postretirement benefit costs as compensation costs. All other components of our net periodic pension and postretirement benefit costs are required to be classified as Noninterest expense - Other. Previously, our total net periodic pension and postretirement costs were classified as compensation costs. We made this classification change on a prospective rather than retrospective basis due to materiality. This classification guidance did not have a significant effect on our financial condition, results of operations, and cash flows.

*Classification of Certain Cash Receipts and Cash Payments in the Statement of Cash Flows (ASU 2016-15)*

We classify and disclose interest expense on zero coupon discount notes within operating activities, which is consistent with our prior and current classification practice. As a result, this guidance did have any effect on our financial condition, results of operations, and cash flows at the time of adoption.

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

**Note 3 – Recently Issued but Not Yet Adopted Accounting Standards***Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12)*

In August of 2017, the FASB issued targeted improvements to existing derivatives and hedging guidance to facilitate financial reporting that more closely reflects an entity's risk management activities. We plan to adopt this guidance as of January 1, 2019. We are in the process of determining the expected effect of this guidance on our financial condition, results of operations, and cash flows. Outlined below are the significant changes to existing GAAP guidance that are relevant to us.

Cash Flow Hedges:

- For a cash flow hedge of interest rate risk of a variable-rate financial instrument, we would be able to designate the variability in cash flows attributable to the contractually specified interest rate as the hedged risk. By eliminating the concept of benchmark interest rates for hedges of variable-rate instruments under current GAAP, the amendments remove the requirement to designate only the overall variability in cash flows as the hedged risk in a cash flow hedge of a variable-rate instrument indexed to a non-benchmark interest rate.
- The entire change in fair value of the hedging instrument is recorded in AOCI. Reclassification from AOCI into our statements of income, including hedge ineffectiveness, will depend on whether a recognition event has occurred, such as the discontinuation of the hedge relationship.

Fair Value Hedges:

- Permits hedged risk to be the changes in fair value based on the contractual coupon's benchmark rate component determined at hedge inception on the hedged item. Only the hedged risk of changes in fair value based on the full contractual coupon cash flows is permitted under existing GAAP.
- Permits hedged risk to be partial-term of the hedged item, which only includes the designated cash flows being hedged.
- Permits hedged risk to be a closed portfolio of prepayable financial assets or one or more beneficial interests secured by a portfolio of prepayable financial instruments in conjunction with a partial-term hedge election. The designated hedged item must have at least one asset or beneficial interest that will be outstanding at the end of the partial-term hedge election -that is, at least one asset or beneficial interest is not expected to be affected by prepayments, defaults, and other factors affecting the timing and amount of cash flows. This designation is referred to as the last-of-layer-method.

Cash Flow Hedges and Fair Value Hedges:

- Requires both the effective and ineffective portion of a hedging relationship to be presented in either interest income or interest expense, whichever is appropriate. As a result, ineffectiveness related to hedging relationships would no longer be presented in derivatives and hedging activities.
- Enables applying the long-haul method of assessing hedge effectiveness in cases where the shortcut method was initially applied but subsequently becomes no longer appropriate. This is provided only if we documented at hedge inception which long-haul methodology we would use in the event the shortcut method is discontinued.
- Enables hedge effectiveness to be qualitatively assessed at the time of adoption for existing hedge relationships and for new hedge relationships entered into after adoption subsequent to their hedge inception in cases where initial quantitative testing is required. Such qualitative assessments would require us to quarterly verify and document that the facts and circumstances underlying the hedging relationship have not changed since hedge inception.

Transition:

- Upon adoption, the modified retrospective method will be applied. This means all cumulative-effect adjustments, which includes eliminating the separate measurement of ineffectiveness to AOCI, will be recognized to the opening balance of retained earnings as of the beginning of January 1, 2019.
- Permits us to modify the risk being hedged without de-designation of the fair value hedging relationship. Such a modification will require us to recognize a cumulative-effect adjustment. We also may elect to de-designate a portion of the modified hedged item. In such cases, we reverse the portion of the cumulative basis adjustment related to the hedged item de-designated cumulative basis adjustment with the offsetting entry recognized as a cumulative effect adjustment.

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

- Permits us to reclassify a debt security from held-to-maturity to available-for-sale if the debt security is eligible to be included in the hedged item involving the last-of-the layer method. Any unrealized gain or loss at the date of the transfer would be recorded in AOCI.
- The presentation and disclosure guidance will be adopted on a prospective basis.

*Measurement of Credit Losses on Financial Instruments (ASU 2016-13)*

In June of 2016, the FASB amended existing GAAP guidance applicable to measuring credit losses on financial instruments. Specifically, the amendment replaces the “incurred loss” impairment methodology applied under current GAAP with an “expected credit losses” methodology. The expected credit losses methodology requires us to estimate all credit losses on financial instruments carried on an amortized cost basis and off-balance-sheet credit exposures over their contractual term. On balance sheet financial instruments include, but are not limited to, advances, MPF Loans held in portfolio, and held-to-maturity (HTM) securities. Off-balance-sheet credit exposure refers to unfunded credit exposures, such as standby letters of credit. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial instrument’s reported amount. Accordingly, the amendment is expected to result in recognizing credit losses in the financial statements on a timelier basis by utilizing forward looking information.

In addition, the accounting for securities is amended as follows:

- Aligns the income statement recognition of credit losses for securities with the reporting period in which changes in collectability occur by recording credit losses (and subsequent reversals) through an allowance rather than a write-down as currently required under GAAP.
- Requires recognition of a credit loss on available-for-sale (AFS) securities into the income statement if the present value of cash flows expected to be collected on the security is less than its amortized cost basis. Additionally, the allowance on AFS debt securities will be limited to the amount by which fair value is less than the amortized cost basis.
- Expands upon the current credit quality disclosures by requiring further disaggregation of financial instruments by their year of origination. This disclosure is expected to help financial statement users better understand credit quality trends of asset portfolios.

The new guidance takes effect January 1, 2020. Upon adoption, any difference in the credit loss amount attributable to both our on balance sheet and off balance sheet financial instruments resulting from applying the expected credit loss methodology compared to our existing incurred loss methodology will be recognized as a cumulative-effect adjustment to our January 1, 2020 opening retained earnings balance. A prospective transition approach is required for debt securities. Accordingly, any OTTI write-downs on securities recognized prior to January 1, 2020 may not be reversed at the time of our adoption. Improvements in expected cash flows for these securities will continue to be accounted for as yield adjustments over their remaining life. Additionally, recoveries for these securities will be recorded in earnings only when received. We are in the process of reviewing the expected effect of this guidance on our financial condition, results of operations, and cash flows.

*Leases (ASU 2016-02)*

In February of 2016, the FASB issued new lease accounting guidance. A modified retrospective transition approach will be utilized at the time of adoption, which is January 1, 2019. The new guidance requires us to recognize operating leases and right-to-use assets with terms exceeding 12 months, if any, in our statements of condition. Our existing practice is to recognize operating leases off-balance sheet. The expense related to our lease payments and the interest expense on our lease obligations will continue to be included in a single line item in our statements of income. We do not expect the new guidance to have a significant effect on our financial condition, results of operations, and cash flows since our existing off-balance sheet operating leases are not material.

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

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

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

	Three months ended March 31,	
	2018	2017
<b>Interest income -</b>		
Trading	\$ 6	\$ 1
Available-for-sale interest income	104	108
Available-for-sale prepayment fees	7	4
<b>Available-for-sale</b>	<b>111</b>	<b>112</b>
Held-to-maturity	46	53
<b>Investment securities</b>	<b>163</b>	<b>166</b>
Advances	214	99
MPF Loans held in portfolio	55	54
Federal funds sold and securities purchased under agreements to resell	44	15
Other	4	3
<b>Interest income</b>	<b>480</b>	<b>337</b>
<b>Interest expense -</b>		
<b>Consolidated obligations -</b>		
Discount notes	183	96
Bonds	169	125
Other	4	3
<b>Interest expense</b>	<b>356</b>	<b>224</b>
<b>Net interest income</b>	<b>\$ 124</b>	<b>\$ 113</b>

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

**Note 5 – Investment Securities**

We classify securities as either trading, held-to-maturity (HTM), or available-for-sale (AFS). Our security disclosures within these classifications are disaggregated by major security types as shown below. Our major security types are based on the nature and risks of the security.

- U.S. Government & other government related may consist of the sovereign debt of the United States; debt issued by government sponsored enterprises (GSE); and non-mortgage-backed securities of the Small Business Administration and Tennessee Valley Authority.
- Federal Family Education Loan Program - asset backed securities (FFELP ABS).
- GSE residential mortgage-backed securities (MBS) issued by Fannie Mae and Freddie Mac.
- Government guaranteed MBS.
- Private label residential MBS.
- State or local housing agency obligations.

**Pledged Collateral**

We disclose the amount of investment securities pledged as collateral pertaining to our derivatives activity on our statements of condition. See **Note 9 - Derivatives and Hedging Activities** for further details.

**Trading Securities**

The following table presents the fair value of our trading securities. Our unrealized gains or losses on trading securities still held on our statement of condition as of the end of the reporting period were not material.

As of	March 31, 2018	December 31, 2017
U.S. Government & other government related	\$ 2,565	\$ 202
<b>Residential MBS</b>		
GSE	30	30
Government guaranteed	1	1
<b>Trading securities</b>	<b>\$ 2,596</b>	<b>\$ 233</b>

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

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

	Amortized Cost Basis	Gross Unrealized Gains in AOCI	Gross Unrealized (Losses) in AOCI	Carrying Amount and Fair Value
<b>As of March 31, 2018</b>				
U.S. Government & other government related	\$ 236	\$ 13	\$ —	\$ 249
State or local housing agency	17	—	—	17
FFELP ABS	3,891	239	—	4,130
<b>Residential MBS</b>				
GSE	6,944	81	(2)	7,023
Government guaranteed	903	18	—	921
Private label	39	9	—	48
<b>Available-for-sale securities</b>	<b>\$ 12,030</b>	<b>\$ 360</b>	<b>\$ (2)</b>	<b>\$ 12,388</b>
<b>As of December 31, 2017</b>				
U.S. Government & other government related	\$ 256	\$ 15	\$ —	\$ 271
State or local housing agency	21	—	—	21
FFELP ABS	3,987	234	(7)	4,214
<b>Residential MBS</b>				
GSE	7,275	132	(1)	7,406
Government guaranteed	971	24	—	995
Private label	40	10	—	50
<b>Available-for-sale securities</b>	<b>\$ 12,550</b>	<b>\$ 415</b>	<b>\$ (8)</b>	<b>\$ 12,957</b>

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

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

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

	Amortized Cost Basis	Non-credit OTTI Recognized in AOCI (Loss)	Carrying Amount	Gross Unrecognized Holding Gains	Gross Unrecognized Holding (Losses)	Fair Value
<b>As of March 31, 2018</b>						
U.S. Government & other government related	\$ 967	\$ —	\$ 967	\$ 16	\$ (2)	\$ 981
State or local housing agency	8	—	8	—	—	8
<b>Residential MBS</b>						
GSE	1,453	—	1,453	46	—	1,499
Government guaranteed	531	—	531	4	—	535
Private label	625	(136)	489	279	—	768
<b>Held-to-maturity securities</b>	<b>\$ 3,584</b>	<b>\$ (136)</b>	<b>\$ 3,448</b>	<b>\$ 345</b>	<b>\$ (2)</b>	<b>\$ 3,791</b>
<b>As of December 31, 2017</b>						
U.S. Government & other government related	\$ 1,531	\$ —	\$ 1,531	\$ 29	\$ (1)	\$ 1,559
State or local housing agency	9	—	9	—	—	9
<b>Residential MBS</b>						
GSE	1,513	—	1,513	62	—	1,575
Government guaranteed	585	—	585	6	—	591
Private label	662	(143)	519	285	—	804
<b>Held-to-maturity securities</b>	<b>\$ 4,300</b>	<b>\$ (143)</b>	<b>\$ 4,157</b>	<b>\$ 382</b>	<b>\$ (1)</b>	<b>\$ 4,538</b>

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

**Contractual Maturity Terms**

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

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost Basis	Carrying Amount and Fair Value	Carrying Amount	Fair Value
<b>As of March 31, 2018</b>				
<b>Year of Maturity -</b>				
Due in one year or less	\$ 22	\$ 22	\$ 140	\$ 139
Due after one year through five years	2	2	157	160
Due after five years through ten years	54	56	123	123
Due after ten years	175	186	555	567
ABS and MBS without a single maturity date	11,777	12,122	2,473	2,802
<b>Total securities</b>	<b>\$ 12,030</b>	<b>\$ 12,388</b>	<b>\$ 3,448</b>	<b>\$ 3,791</b>

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

**Aging of Unrealized Temporary Losses**

The following table presents unrealized temporary losses on our AFS and HTM portfolio for periods less than 12 months and for 12 months or more. We recognized no OTTI charges on these unrealized loss positions. Refer to the Other-Than-Temporary Impairment Analysis section below for further discussion. In the tables below, in cases where the gross unrealized losses for an investment category are less than \$1 million, the losses are not reported.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
<b>Available-for-Sale Securities</b>						
<b>As of March 31, 2018</b>						
U.S. Government & other government related	\$ 3	\$ —	\$ —	\$ —	\$ 3	\$ —
State or local housing agency	9	—	—	—	9	—
FFELP ABS	—	—	635	—	635	—
<b>Residential MBS</b>						
GSE	455	—	753	(2)	1,208	(2)
Private label	—	—	6	—	6	—
<b>Available-for-sale securities</b>	<b>\$ 467</b>	<b>\$ —</b>	<b>\$ 1,394</b>	<b>\$ (2)</b>	<b>\$ 1,861</b>	<b>\$ (2)</b>
<b>As of December 31, 2017</b>						
U.S. Government & other government related	\$ 3	\$ —	\$ —	\$ —	\$ 3	\$ —
State or local housing agency	4	—	—	—	4	—
FFELP ABS	—	—	644	(7)	644	(7)
<b>Residential MBS</b>						
GSE	51	—	801	(1)	852	(1)
Private label	—	—	7	—	7	—
<b>Available-for-sale securities</b>	<b>\$ 58</b>	<b>\$ —</b>	<b>\$ 1,452</b>	<b>\$ (8)</b>	<b>\$ 1,510</b>	<b>\$ (8)</b>
<b>Held-to-Maturity Securities</b>						
<b>As of March 31, 2018</b>						
U.S. Government & other government related	\$ 74	\$ —	\$ 24	\$ (2)	\$ 98	\$ (2)
State or local housing agency	8	—	—	—	8	—
<b>Residential MBS</b>						
GSE	—	—	2	—	2	—
Government-guaranteed	135	—	—	—	135	—
Private label	—	—	734	(136)	734	(136)
<b>Held-to-maturity securities</b>	<b>\$ 217</b>	<b>\$ —</b>	<b>\$ 760</b>	<b>\$ (138)</b>	<b>\$ 977</b>	<b>\$ (138)</b>
<b>As of December 31, 2017</b>						
U.S. Government & other government related	\$ 594	\$ —	\$ 24	\$ (1)	\$ 618	\$ (1)
State or local housing agency	2	—	—	—	2	—
<b>Residential MBS</b>						
GSE	—	—	2	—	2	—
Private label	—	—	769	(143)	769	(143)
<b>Held-to-maturity securities</b>	<b>\$ 596</b>	<b>\$ —</b>	<b>\$ 795</b>	<b>\$ (144)</b>	<b>\$ 1,391</b>	<b>\$ (144)</b>



## Notes to Financial Statements - (Unaudited)

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

**Other-Than-Temporary Impairment Analysis**

We recognized no OTTI charges on HTM or AFS securities for the periods presented. This is because we do not intend to sell these securities, we believe it is more likely than not that we will not be required to sell them prior to recovering their amortized cost basis, and we expect to recover the entire amortized cost basis. For further detail on our accounting policy regarding OTTI please see **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2017 Form 10-K.

As of March 31, 2018, we had a base case short-term housing price forecast for all markets with projected changes ranging from -7.0% to +12.0% over the twelve month period beginning January 1, 2018. For the vast majority of markets, the short-term forecast has changes ranging from +1.0% to +6.0%.

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

	Three months ended March 31,	
	2018	2017
<b>Beginning Balance</b>	\$ 477	\$ 520
<b>Reductions:</b>		
Increases in cash flows expected to be collected and recognized into interest income	(9)	(12)
<b>Ending Balance</b>	<u>\$ 468</u>	<u>\$ 508</u>

**Ongoing Litigation**

On October 15, 2010, we instituted litigation relating to 64 private label MBS bonds we purchased. As of March 31, 2018, the remaining litigation covers three private label MBS bonds in the aggregate outstanding principal amount of \$38 million.

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

**Note 6 – Advances**

We offer a wide range of fixed- and variable-rate advance products with different maturities, interest rates, payment characteristics and optionality.

The following table presents our advances by terms of contractual maturity. Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay advances with or without penalties.

As of March 31, 2018	Amount	Weighted Average Contractual Interest Rate
Due in one year or less	\$ 22,954	1.74%
One to two years	2,435	1.84%
Two to three years	2,204	2.01%
Three to four years	1,898	1.79%
Four to five years	4,326	2.08%
More than five years	17,049	1.83% <sup>a</sup>
<b>Par value</b>	<b>\$ 50,866</b>	<b>1.82%</b>

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

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

The following table reconciles the par value of our advances to the carrying amount on our statements of condition as of the dates indicated.

As of	March 31, 2018	December 31, 2017
<b>Par value</b>	\$ 50,866	\$ 48,020
Fair value hedging adjustments	(13)	69
Other adjustments	(13)	(4)
<b>Advances</b>	<b>\$ 50,840</b>	<b>\$ 48,085</b>

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

As of March 31, 2018	Par Value	% of Total Outstanding
One Mortgage Partners Corp.	\$ 11,000 <sup>a</sup>	21.6%
The Northern Trust Company	7,000	13.8%
BMO Harris Bank, NA	5,975	11.7%

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

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

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

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

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

As of	March 31, 2018	December 31, 2017
Medium term (15 years or less)	\$ 290	\$ 285
Long term (greater than 15 years)	4,995	4,835
<b>Unpaid principal balance</b>	<b>5,285</b>	5,120
Net premiums, credit enhancement and deferred loan fees	57	55
Fair value hedging adjustments	17	20
<b>MPF Loans held in portfolio, before allowance for credit losses</b>	<b>5,359</b>	5,195
Allowance for credit losses on MPF Loans	(2)	(2)
<b>MPF Loans held in portfolio, net</b>	<b>\$ 5,357</b>	<b>\$ 5,193</b>
Conventional mortgage loans	\$ 4,321	\$ 4,133
Government Loans	964	987
<b>Unpaid principal balance</b>	<b>\$ 5,285</b>	<b>\$ 5,120</b>

The above table excludes MPF Loans acquired under the MPF Xtra, MPF Direct, and MPF Government MBS products. See **Note 2 - Summary of Significant Accounting Policies** in our 2017 Form 10-K for information related to the accounting treatment of these off balance sheet MPF Loan products.

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

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

**Note 8 – Allowance for Credit Losses**

See **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2017 Form 10-K for further details regarding our allowance for credit losses methodology for each of the portfolio segments discussed below.

We have identified our portfolio segments as shown below:

- Member credit products (advances, letters of credit and other extensions of credit to borrowers);
- Conventional MPF Loans held in portfolio;
- Government Loans held in portfolio; and
- Federal Funds Sold and Securities Purchased Under Agreements to Resell.

**Member Credit Products**

We have not recorded any allowance for credit losses for our member credit products portfolio segment based upon our credit analysis and the repayment history on member credit products. We had no member credit products that were past due, on nonaccrual status, involved in a troubled debt restructuring or otherwise considered impaired. We have not recorded a separate liability to reflect credit losses on our member credit products with off-balance sheet credit exposure.

**Conventional MPF Loans Held in Portfolio**

For further detail of our **MPF Risk Sharing Structure** see page F-16 in our 2017 Form 10-K. There has been no material activity in our allowance for credit losses since December 31, 2017. The following table presents the recorded investment and the allowance for credit losses in conventional MPF Loans by impairment methodology.

As of	March 31, 2018	December 31, 2017
<b>Recorded investment -</b>		
Individually evaluated for impairment	\$ 47	\$ 49
Collectively evaluated for impairment	4,357	4,167
<b>Recorded investment</b>	<b>\$ 4,404</b>	<b>\$ 4,216</b>
<b>Allowance for credit losses -</b>		
Collectively evaluated for impairment	\$ 2	\$ 2

**Government Loans Held in Portfolio**

Servicers are responsible for absorbing any losses incurred on Government Loans held in portfolio that are not recovered from the government insurer or guarantor. We did not establish an allowance for credit losses on our Government Loans held in portfolio for the reporting periods presented based on our assessment that our servicers have the ability to absorb such losses. Further, Government Loans were not placed on nonaccrual status or disclosed as troubled debt restructurings for the same reason.

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

**Credit Quality Indicators - MPF Loans Held in Portfolio**

The following table summarizes our recorded investment in MPF Loans by our key credit quality indicators, which include:

- "Serious delinquency rate" consists of MPF Loans that are 90 days or more past due or in the process of foreclosure, as a percentage of the total recorded investment. MPF Loans that are both 90 days or more past due and in the process of foreclosure are only included once in our serious delinquency rate calculation.
- "Past due 90 days or more still accruing interest" consists of MPF Loans that are either insured or guaranteed by the government or conventional mortgage loans that are well secured (by collateral that have a realizable value sufficient to discharge the debt or by the guarantee or insurance, such as primary mortgage insurance, of a financially responsible party) and in the process of collection. We do not recognize interest income on impaired conventional MPF Loans.

As of	March 31, 2018			December 31, 2017		
	Conventional	Government	Total	Conventional	Government	Total
Past due 30-59 days	\$ 78	\$ 47	\$ 125	\$ 74	\$ 48	\$ 122
Past due 60-89 days	20	15	35	21	16	37
Past due 90 days or more	46	21	67	48	21	69
<b>Past due</b>	<b>144</b>	<b>83</b>	<b>227</b>	<b>143</b>	<b>85</b>	<b>228</b>
Current	4,260	900	5,160	4,073	921	4,994
<b>Recorded investment</b>	<b>\$ 4,404</b>	<b>\$ 983</b>	<b>\$ 5,387</b>	<b>\$ 4,216</b>	<b>\$ 1,006</b>	<b>\$ 5,222</b>
In process of foreclosure	\$ 19	\$ 7	\$ 26	\$ 21	\$ 7	\$ 28
Serious delinquency rate	1.06%	2.08%	1.25%	1.16%	2.11%	1.34%
Past due 90 days or more and still accruing interest	\$ 8	\$ 20	\$ 28	\$ 8	\$ 21	\$ 29
Impaired loans without an allowance for credit losses and on nonaccrual status	47	—	47	49	—	49
Unpaid principal balance of impaired loans without an allowance for credit losses	50	—	50	53	—	53

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

We only held overnight Federal Funds sold and Securities Purchased Under Agreements to Resell as of March 31, 2018, and December 31, 2017. We did not have any longer term Federal Funds sold and Securities Purchased Under Agreements to Resell arrangements. We did not establish an allowance for credit losses for our overnight Federal Funds sold since all Federal Funds sold were repaid according to their contractual terms. We also did not establish an allowance for credit losses for overnight securities purchased under agreements to resell since all payments due under the contractual terms have been received and we hold sufficient underlying collateral.

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

**Note 9 – Derivatives and Hedging Activities**

Refer to **Note 2 - Summary of Significant Accounting Policies** in our 2017 Form 10-K for our accounting policies for derivatives.

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

- A bilateral agreement with an individual counterparty for over-the-counter derivative transactions.
- Clearinghouses classified as Derivatives Clearing Organizations (DCOs) through Futures Commission Merchants (FCMs), which are clearing members of the DCOs, for cleared derivative transactions.

*Managing Interest Rate Risk*

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

*Managing Credit Risk on Derivative Agreements*

*Over-the-counter (bilateral) Derivative Transactions:* We are subject to credit risk due to the risk of nonperformance by counterparties to our derivative agreements. For bilateral derivative agreements, the degree of counterparty risk depends on the extent to which master netting arrangements, collateral requirements and other credit enhancements are included in such contracts to mitigate the risk. We manage counterparty credit risk through credit analysis, collateral requirements and adherence to the requirements set forth in our policies and FHFA regulations. We require collateral agreements on all over-the-counter derivatives. Additionally, collateral related to over-the-counter derivatives with member institutions includes collateral assigned to us, as evidenced by a written security agreement, and which may be held by the member institution for our benefit. Based on credit analyses and collateral requirements, we do not anticipate any credit losses on our over-the-counter derivative agreements. See **Note 16 - Fair Value** in our 2017 Form 10-K for discussion regarding our fair value methodology for over-the-counter derivative assets and liabilities, including an evaluation of the potential for the fair value of these instruments to be affected by counterparty credit risk.

For nearly all of our bilateral derivative transactions executed prior to March 1, 2017, and for all transactions entered into after March 1, 2017, our bilateral derivative agreements are fully collateralized with a zero unsecured threshold in accordance with variation margin requirements issued by the U.S. federal bank regulatory agencies and the Commodity Futures Trading Commission (CFTC). For certain transactions executed prior to March 1, 2017, we may be required to post net additional collateral with our counterparties if there is deterioration in our credit rating. If our credit rating had been lowered from its current rating to the next lower rating by a major credit rating agency, such as Standard and Poor's or Moody's, the amount of collateral we would have been required to deliver would not have been material at March 31, 2018.

*Cleared Derivative Transactions:* Cleared derivative transactions are subject to variation and initial margin requirements established by the DCO and its clearing members. As a result of rule changes adopted by our DCOs, variation margin payments are characterized as settlement of a derivative's mark-to-market exposure and not as collateral against the derivative's mark-to-market exposure. See **Note 1 - Background and Basis of Presentation** and **Note 2 - Summary of Significant Accounting Policies** for further discussion. We post our initial margin collateral payments and make variation margin settlement payments through our FCMs, on behalf of the DCO, which could expose us to institutional credit risk in the event that the FCMs or the DCO fail to meet their obligations. Clearing derivatives through a DCO mitigates counterparty credit risk exposure because the DCO is substituted for individual counterparties and variation margin settlement payments are made daily through the FCMs for changes in the value of cleared derivatives. The DCO determines initial margin requirements for cleared derivatives. In this regard, we pledged \$64 million of investment securities that can be sold or repledged, as part of our initial margin related to cleared derivative transactions at March 31, 2018. Additionally, an FCM may require additional initial margin to be posted based on credit considerations, including but not limited to, if our credit rating downgrades. We had no requirement to post additional initial margin by our FCMs at March 31, 2018.

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

The following table presents details on the notional amounts, and cleared and bilateral derivative assets and liabilities on our statements of condition. To conform with our current presentation method, we reclassified variation margin for cleared derivatives as of December 31, 2017, in the amounts of \$16 million on our derivative assets and \$168 million on our derivative liabilities, to the appropriate interest rate contracts line items.

As of	March 31, 2018			December 31, 2017		
	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
<b>Derivatives in hedge accounting relationships-</b>						
Interest rate contracts	\$ 28,258	\$ 37	\$ 397	\$ 26,655	\$ 25	\$ 367
<b>Derivatives not in hedge accounting relationships-</b>						
Interest rate contracts	24,829	155	84	20,506	199	122
Other	888	1	1	810	1	1
<b>Derivatives not in hedge accounting relationships</b>	<b>25,717</b>	<b>156</b>	<b>85</b>	<b>21,316</b>	<b>200</b>	<b>123</b>
<b>Gross derivative amount before netting adjustments and cash collateral</b>	<b>\$ 53,975</b>	<b>193</b>	<b>482</b>	<b>\$ 47,971</b>	<b>225</b>	<b>490</b>
Netting adjustments and cash collateral		(191)	(463)		(222)	(470)
<b>Derivatives on statements of condition</b>		<b>\$ 2</b>	<b>\$ 19</b>		<b>\$ 3</b>	<b>\$ 20</b>
Cash collateral received on derivative assets		\$ 39			\$ 35	
Cash collateral posted on derivative liabilities			\$ 310			\$ 284

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

For the periods ending	Three months ended March 31,	
	2018	2017
Fair value hedges - interest rate contracts	\$ 2	\$ 2
Cash flow hedges - interest rate contracts	1	1
<b>Economic hedges -</b>		
Interest rate contracts	(7)	—
Other	1	—
<b>Economic hedges</b>	<b>(6)</b>	<b>—</b>
<b>Noninterest income on derivatives and hedging activities</b>	<b>\$ (3)</b>	<b>\$ 3</b>

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

The following table presents details regarding the offsetting of our derivative assets and liabilities on our statements of condition.

	Derivative Assets			Derivative Liabilities		
	Bilateral	Cleared	Total	Bilateral	Cleared	Total
<b>As of March 31, 2018</b>						
<b>Derivatives with legal right of offset -</b>						
Gross recognized amount	\$ 183	\$ 9	\$ 192	\$ 461	\$ 20	\$ 481
Netting adjustments and cash collateral	(182)	(9)	(191)	(453)	(10)	(463)
<b>Derivatives with legal right of offset - net</b>	<b>1</b>	<b>—</b>	<b>1</b>	<b>8</b>	<b>10</b>	<b>18</b>
Derivatives without legal right of offset	1	—	1	1	—	1
<b>Derivatives on statements of condition</b>	<b>2</b>	<b>—</b>	<b>2</b>	<b>9</b>	<b>10</b>	<b>19</b>
<b>Less:</b>						
Noncash collateral received or pledged and cannot be sold or repledged	—	—	—	—	10	10
<b>Net amount</b>	<b>\$ 2</b>	<b>\$ —</b>	<b>\$ 2</b>	<b>\$ 9</b>	<b>\$ —</b>	<b>\$ 9</b>
<b>As of December 31, 2017</b>						
<b>Derivatives with legal right of offset -</b>						
Gross recognized amount	\$ 216	\$ 8	\$ 224	\$ 476	\$ 13	\$ 489
Netting adjustments and cash collateral	(214)	(8)	(222)	(463)	(7)	(470)
<b>Derivatives with legal right of offset - net</b>	<b>2</b>	<b>—</b>	<b>2</b>	<b>13</b>	<b>6</b>	<b>19</b>
Derivatives without legal right of offset	1	—	1	1	—	1
<b>Derivatives on statements of condition</b>	<b>3</b>	<b>—</b>	<b>3</b>	<b>14</b>	<b>6</b>	<b>20</b>
<b>Less:</b>						
Noncash collateral received or pledged and cannot be sold or repledged	—	(1)	(1)	—	6	6
<b>Net amount</b>	<b>\$ 3</b>	<b>\$ 1</b>	<b>\$ 4</b>	<b>\$ 14</b>	<b>\$ —</b>	<b>\$ 14</b>

At March 31, 2018, we had \$55 million of additional credit exposure on cleared derivatives due to pledging of noncash collateral to our DCOs for initial margin, which exceeded our derivative liability position. We had \$60 million of comparable exposure at December 31, 2017.



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

**Fair Value Hedges**

The following table presents our fair value hedging results by the type of hedged item. We had no gain (loss) for hedges that no longer qualified as a fair value hedge. Additionally, the table indicates where fair value hedging results are classified in our statements of income. In this regard, the **Amount Recorded in Net Interest Income** column includes the following:

- The amortization of closed fair value hedging adjustments, which are included in the interest income/expense line item of the respective hedged item type.
- The effect of net interest settlements attributable to open derivative hedging instruments, which are recorded directly to the interest income/expense line item of the respective hedged item type.

	Gain (Loss) on Hedging Instrument	Gain (Loss) on Hedged Item	Total Ineffectiveness Recognized in Derivatives and Hedging Activities	Amount Recorded in Net Interest Income
<b>Three months ended March 31, 2018</b>				
Available-for-sale securities	\$ 37	\$ (37)	\$ —	\$ (18)
Advances	84	(82)	2	(2)
MPF Loans held for portfolio	—	—	—	(1)
Consolidated obligation bonds	(124)	124	—	(2)
<b>Total</b>	<b>\$ (3)</b>	<b>\$ 5</b>	<b>\$ 2</b>	<b>\$ (23)</b>
<b>Three months ended March 31, 2017</b>				
Available-for-sale securities	\$ 25	\$ (26)	\$ (1)	\$ (24)
Advances	12	(10)	2	(11)
MPF Loans held for portfolio	—	—	—	(2)
Consolidated obligation bonds	9	(8)	1	13
<b>Total</b>	<b>\$ 46</b>	<b>\$ (44)</b>	<b>\$ 2</b>	<b>\$ (24)</b>

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

*Cash Flow Hedges*

We are exposed to the variability in the total net proceeds received from forecasted zero-coupon discount note issuances, which is attributable to changes in the benchmark interest rate, London Interbank Offering Rate ("LIBOR"). As a result, we enter into cash flow hedge relationships utilizing derivative agreements to hedge the total net proceeds received from our "rolling" forecasted zero-coupon discount note issuances attributable to changes in LIBOR. The maximum length of time over which we are hedging this exposure is 3 years. We reclassify amounts in AOCI into our statements of income in the same periods during which the hedged forecasted transaction affects our earnings. We had no discontinued hedges for the periods presented. The deferred net gains (losses) on derivative instruments in AOCI that are expected to be reclassified to earnings during the next twelve months were not material as of March 31, 2018.

The following table presents our cash flow hedging results by type of hedged item. Additionally, the table indicates where cash flow hedging results are classified in our statements of income. In this regard, the **Amount Recorded in Net Interest Income** column includes the following:

- The amortization of closed cash flow hedging adjustments, which are reclassified from AOCI into the interest income/expense line item of the respective hedged item type.
- The effect of net interest settlements attributable to open derivative hedging instruments, which are recorded directly to the interest income/expense line item of the respective hedged item type.

	<b>Ineffectiveness Recorded in Derivatives and Hedging Activities</b>	<b>Effective Portion Recorded in AOCI</b>	<b>Amount Recorded in Net Interest Income</b>
<b>Three months ended March 31, 2018</b>			
Discount notes	\$ 1	\$ 59	\$ (35)
<b>Three months ended March 31, 2017</b>			
Advances	\$ —	\$ —	\$ 2
Discount notes	1	46	(45)
Bonds	—	—	(1)
<b>Total</b>	<b>\$ 1</b>	<b>\$ 46</b>	<b>\$ (44)</b>

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

**Note 10 – Consolidated Obligations**

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

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

As of	March 31, 2018	December 31, 2017
Carrying Amount	\$ 41,483	\$ 41,191
Weighted Average Interest Rate	1.50%	1.23%

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 March 31, 2018	Contractual Maturity	Weighted Average Interest Rate	By Maturity or Next Call Date
Due in one year or less	\$ 21,458	1.47%	\$ 32,707
One to two years	8,539	1.57%	7,697
Two to three years	3,168	1.57%	1,788
Three to four years	3,954	2.03%	570
Four to five years	3,064	2.55%	678
Thereafter	3,690	2.72%	433
<b>Total par value</b>	<b>\$ 43,873</b>	<b>1.73%</b>	<b>\$ 43,873</b>

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

As of	March 31, 2018	December 31, 2017
Noncallable	\$ 30,042	\$ 23,644
Callable	13,831	13,703
<b>Par value</b>	<b>43,873</b>	<b>37,347</b>
Fair value hedging adjustments	(335)	(214)
Other adjustments	(22)	(12)
<b>Consolidated obligation bonds</b>	<b>\$ 43,516</b>	<b>\$ 37,121</b>

The following table summarizes the consolidated obligations of the FHLBs and those for which we are the primary obligor. We did not accrue a liability for our joint and several liability related to the other FHLBs' share of the consolidated obligations as of March 31, 2018, and December 31, 2017. See **Note 17 - Commitments and Contingencies** in our 2017 Form 10-K for further details.

Par values as of	March 31, 2018			December 31, 2017		
	Bonds	Discount Notes	Total	Bonds	Discount Notes	Total
FHLB System total consolidated obligations	\$ 629,431	\$ 389,799	\$ 1,019,230	\$ 642,211	\$ 392,049	\$ 1,034,260
FHLB Chicago as primary obligor	43,873	41,530	85,403	37,347	41,235	78,582
As a percent of the FHLB System	7%	11%	8%	6%	11%	8%

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

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

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

**Minimum Capital Requirements**

For details on our minimum capital requirements, including how the ratios below were calculated, see **Minimum Capital Requirements** on page F-44 of our 2017 Form 10-K. We complied with our minimum regulatory capital requirements as shown below.

	March 31, 2018		December 31, 2017	
	Requirement	Actual	Requirement	Actual
Risk-based capital	\$ 1,131	\$ 5,248	\$ 1,075	\$ 5,051
Total regulatory capital	\$ 3,656	\$ 5,248	\$ 3,374	\$ 5,051
Total regulatory capital ratio	4.00%	5.74%	4.00%	5.99%
Leverage capital	\$ 4,570	\$ 7,873	\$ 4,218	\$ 7,577
Leverage capital ratio	5.00%	8.61%	5.00%	8.98%

Total regulatory capital and leverage capital includes mandatorily redeemable capital stock (MRCS) but does not include AOCI. Under the FHFA regulation on capital classifications and critical capital levels for the FHLBs, we are adequately capitalized.

The following members had regulatory capital stock exceeding 10% of our total regulatory capital stock outstanding (which includes MRCS):

As of March 31, 2018	Regulatory Capital Stock Outstanding	% of Total Outstanding	Amount of Which is Classified as a Liability (MRCS)
BMO Harris Bank, NA	\$ 269	14.2%	\$ —
One Mortgage Partners Corp.	245 <sup>a</sup>	13.0%	245
The Northern Trust Company	215	11.4%	—

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

**Repurchase of Excess Capital Stock**

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

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

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

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

	Net Unrealized - Available-for- sale Securities	Non-credit OTTI - Held-to- maturity Securities	Net Unrealized - Cash Flow Hedges	Post- Retirement Plans	AOCI
<b>Three months ended March 31, 2018</b>					
<b>Beginning balance</b>	\$ 407	\$ (143)	\$ (147)	\$ (5)	\$ 112
Change in the period recorded to the statements of condition, before reclassifications to statements of income	(49)	7	59	(2)	15
<b>Amounts reclassified in period to statements of income:</b>					
Non-interest gain (loss)	—	—	(1)		(1)
<b>Ending balance</b>	<b>\$ 358</b>	<b>\$ (136)</b>	<b>\$ (89)</b>	<b>\$ (7)</b>	<b>\$ 126</b>
<b>Three months ended March 31, 2017</b>					
<b>Beginning balance</b>	\$ 459	\$ (177)	\$ (312)	\$ (6)	\$ (36)
Change in the period recorded to the statements of condition, before reclassifications to statements of income	38	9	46	(2)	91
<b>Amounts reclassified in period to statements of income:</b>					
Net interest income	—	—	(1)		(1)
Non-interest gain (loss)	—	—	(1)		(1)
<b>Ending balance</b>	<b>\$ 497</b>	<b>\$ (168)</b>	<b>\$ (268)</b>	<b>\$ (8)</b>	<b>\$ 53</b>

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

**Note 13 - Fair Value**

The following table is a summary of the fair value estimates and related levels in the hierarchy. The carrying amounts are per the statements of condition. Fair value estimates represent the exit prices that we would receive to sell assets or pay to transfer liabilities in an orderly transaction with market participants at the measurement date. They do not represent an estimate of our overall market value as a going concern, as they do not take into account future business opportunities or profitability of assets and liabilities. We had no transfers between levels for the periods shown. See **Note 2 - Summary of Significant Accounting Policies** in our 2017 Form 10-K for our fair value policies and **Note 16 - Fair Value** in our 2017 Form 10-K for our valuation techniques and significant inputs.

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Netting & Cash Collateral
<b>March 31, 2018</b>						
<b>Carried at amortized cost</b>						
Cash and due from banks	\$ 40	\$ 40	\$ 40	\$ —	\$ —	
Interest bearing deposits	775	775	775	—	—	
Federal Funds sold and securities purchased under agreements to resell	15,611	15,611	—	15,611	—	
Held-to-maturity securities	3,448	3,791	—	3,023	768	
Advances	49,923	49,961	—	49,961	—	
MPF Loans held in portfolio, net	5,354	5,405	—	5,391	14	
Other assets	138	138	—	138	—	
<b>Carried at fair value on a recurring basis</b>						
Trading securities	2,596	2,596	—	2,596	—	
Government related non-MBS, ABS, and MBS	12,340	12,340	—	12,340	—	
Private label residential MBS	48	48	—	—	48	
<b>Available-for-sale securities</b>	<b>12,388</b>	<b>12,388</b>	<b>—</b>	<b>12,340</b>	<b>48</b>	
Advances - fair value option election	917	917	—	917	—	
Derivative assets	2	2	—	193	—	\$ (191) <sup>a</sup>
Other assets - fair value option election	76	76	—	76	—	
<b>Carried at fair value on a nonrecurring basis</b>						
MPF Loans held in portfolio, net	3	3	—	—	3	
Other assets	1	1	—	—	1	
<b>Total financial assets</b>	<b>91,272</b>	<b>\$ 91,704</b>	<b>\$ 815</b>	<b>\$ 90,246</b>	<b>\$ 834</b>	<b>\$ (191)</b>
Other non financial assets	119					
<b>Total assets</b>	<b>\$ 91,391</b>					
<b>Carried at amortized cost</b>						
Deposits	\$ (685)	\$ (685)	\$ —	\$ (685)	\$ —	
Consolidated obligation discount notes	(41,483)	(41,479)	—	(41,479)	—	
Consolidated obligation bonds	(38,531)	(38,605)	—	(38,605)	—	
Mandatorily redeemable capital stock	(311)	(311)	(311)	—	—	
Other liabilities	(106)	(106)	—	(106)	—	
<b>Carried at fair value on a recurring basis</b>						
Consolidated obligation bonds - fair value option	(4,985)	(4,985)	—	(4,985)	—	
Derivative liabilities	(19)	(19)	—	(482)	—	\$ 463 <sup>a</sup>
<b>Total financial liabilities</b>	<b>(86,120)</b>	<b>\$ (86,190)</b>	<b>\$ (311)</b>	<b>\$ (86,342)</b>	<b>\$ —</b>	<b>\$ 463</b>
Other non financial liabilities	(208)					
<b>Total liabilities</b>	<b>\$ (86,328)</b>					

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

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Netting
<b>December 31, 2017</b>						
<b>Carried at amortized cost</b>						
Cash and due from banks	\$ 42	\$ 42	\$ 42	\$ —	\$ —	
Interest bearing deposits	775	775	775	—	—	
Federal Funds sold and securities purchased under agreements to resell	12,561	12,561	—	12,561	—	
Held-to-maturity securities	4,157	4,538	—	3,734	804	
Advances	47,309	47,336	—	47,336	—	
MPF Loans held in portfolio, net	5,186	5,306	—	5,295	11	
Other assets	119	119	—	119	—	
<b>Carried at fair value on a recurring basis</b>						
Trading securities	233	233	—	233	—	
Government related non-MBS, ABS, and MBS	12,907	12,907	—	12,907	—	
Private label residential MBS	50	50	—	—	50	
<b>Available-for-sale securities</b>	<b>12,957</b>	<b>12,957</b>	<b>—</b>	<b>12,907</b>	<b>50</b>	
Advances - fair value option election	776	776	—	776	—	
Derivative assets	3	3	—	225	—	\$ (222) <sup>a</sup>
Other assets - fair value option election	118	118	—	118	—	
<b>Carried at fair value on a nonrecurring basis</b>						
MPF Loans held in portfolio, net	7	7	—	—	7	
Other assets	3	3	—	—	3	
<b>Total financial assets</b>	<b>84,246</b>	<b>\$ 84,774</b>	<b>\$ 817</b>	<b>\$ 83,304</b>	<b>\$ 875</b>	<b>\$ (222)</b>
Other non financial assets	109					
<b>Total assets</b>	<b>\$ 84,355</b>					
<b>Carried at amortized cost</b>						
Deposits	(524)	(524)	—	(524)	—	
Consolidated obligation discount notes	(40,442)	(40,437)	—	(40,437)	—	
Consolidated obligation bonds	(31,861)	(32,011)	—	(32,011)	—	
Mandatorily redeemable capital stock	(311)	(311)	(311)	—	—	
Other liabilities	(94)	(94)	—	(94)	—	
<b>Carried at fair value on a recurring basis</b>						
Consolidated obligation discount notes - fair value option	(749)	(749)	—	(749)	—	
Consolidated obligation bonds - fair value option	(5,260)	(5,260)	—	(5,260)	—	
Derivative liabilities	(20)	(20)	—	(490)	—	470 <sup>a</sup>
<b>Total financial liabilities</b>	<b>(79,261)</b>	<b>\$ (79,406)</b>	<b>\$ (311)</b>	<b>\$ (79,565)</b>	<b>\$ —</b>	<b>\$ 470</b>
Other non financial liabilities	(242)					
<b>Total liabilities</b>	<b>\$ (79,503)</b>					

<sup>a</sup> 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, by contract (e.g., master netting agreement) or otherwise, to offset cash flow obligations between us and our counterparty into a single net payable or receivable. See **Note 9 - Derivatives and Hedging Activities**.

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

**Fair Value Option**

We may elect the fair value option for financial instruments, such as advances, MPF Loans held for sale, and consolidated obligation discount notes and bonds, in cases where hedge accounting treatment may not be achieved due to the inability to meet the hedge effectiveness testing criterion. Financial instruments for which we elected the fair value option along with their related fair value are shown on our **Statements of Condition**. Refer to our **Note 2 – Summary of Significant Accounting Policies** to the financial statements in our 2017 Form 10-K for further details.

The following table presents the changes in fair values of financial assets and liabilities carried at fair value under the fair value option. These changes were recognized in noninterest income - instruments held under the fair value option in our statements of income.

	Three months ended March 31,	
	2018	2017
Advances	\$ (9)	\$ —
Consolidated obligation bonds	5	(1)
Other assets	(3)	(1)
<b>Noninterest income - Instruments held under fair value option</b>	<b>\$ (7)</b>	<b>\$ (2)</b>

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

As of	March 31, 2018		December 31, 2017	
	Advances	Consolidated Obligation Bonds	Advances	Consolidated Obligation Bonds
Unpaid principal balance	\$ 935	\$ 5,003	\$ 786	\$ 5,270
Fair value over (under) UPB	(18)	(18)	(10)	(10)
Fair value	<b>\$ 917</b>	<b>\$ 4,985</b>	<b>\$ 776</b>	<b>\$ 5,260</b>



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

**Note 14 – Commitments and Contingencies**

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

As of	March 31, 2018			December 31, 2017		
	Expire within one year	Expire after one year	Total	Expire within one year	Expire after one year	Total
Unsettled consolidated obligation bonds	\$ 72	\$ —	\$ 72	\$ —	\$ —	\$ —
Unsettled consolidated obligation discount notes	1,000	—	1,000	—	—	—
Member standby letters of credit	16,534	3,598 <sup>a</sup>	20,132	15,703	3,869 <sup>a</sup>	19,572
Housing authority standby bond purchase agreements	33	297	330	—	337	337
Advance commitments	1,413	13	1,426	151	—	151
MPF delivery commitments	443	—	443	371	—	371
Other	6	—	6	14	—	14
<b>Commitments</b>	<b>\$ 19,501</b>	<b>\$ 3,908</b>	<b>\$ 23,409</b>	<b>\$ 16,239</b>	<b>\$ 4,206</b>	<b>\$ 20,445</b>

<sup>a</sup> Contains \$744 million and \$750 million of member standby letters of credit at March 31, 2018, and December 31, 2017, which were renewable annually.

For a description of defined terms see **Note 17 - Commitments and Contingencies** to the financial statements in our 2017 Form 10-K.

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

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

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

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

*Members*

The following table summarizes material balances we had with our members who are related parties as defined above (including their affiliates) as of the periods presented. The related impacts to our Statements of Income were immaterial.

As of	March 31, 2018	December 31, 2017
Assets - Advances	\$ 183	\$ 165
Liabilities - Deposits	7	13
Equity - Capital Stock	9	10

*Other FHLBs*

From time to time, we may loan to, or borrow from, other FHLBs. These transactions are done at market terms that are no more favorable than the terms of comparable transactions with other counterparties. These transactions are overnight, maturing the following business day.

In addition, we provide programmatic and operational support in our role as the administrator of the MPF Program on behalf of the other MPF Banks for a fee.

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

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

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

<b>As of or for the three months ended</b>	<b>March 31, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>	<b>June 30, 2017</b>	<b>March 31, 2017</b>
<b>Selected statements of condition data</b>					
Investments <sup>a</sup>	\$ 34,818	\$ 30,683	\$ 31,885	\$ 29,461	\$ 28,547
Advances	50,840	48,085	50,153	46,844	42,328
MPF Loans held in portfolio, net	5,357	5,193	5,024	4,965	4,940
Total assets	91,391	84,355	87,488	81,779	76,109
Consolidated obligation discount notes, net	41,483	41,191	45,460	37,944	32,806
Consolidated obligation bonds, net	43,516	37,121	35,890	37,878	37,662
Mandatorily redeemable capital stock (MRCS) recorded as a liability	311	311	308	303	301
Capital stock	1,579	1,443	1,557	1,526	1,282
Retained earnings	3,358	3,297	3,219	3,153	3,083
Total capital	5,063	4,852	4,872	4,746	4,418
<b>Other selected data at period end</b>					
Member standby letters of credit outstanding	\$ 20,132	\$ 19,572	\$ 15,411	\$ 13,220	\$ 12,360
MPF Loans par value outstanding - FHLB System <sup>b</sup>	\$ 52,582	51,563	\$ 49,970	\$ 48,260	\$ 46,728
MPF Loans par value outstanding - FHLB Chicago PFIs <sup>b</sup>	12,692	12,484	12,187	11,987	11,730
Number of members	719	720	717	721	726
Total employees (full and part time)	461	460	457	457	452
<b>Selected statements of income data</b>					
Net interest income after provision for credit losses	\$ 124	\$ 130	\$ 124	\$ 116	\$ 113
Non-interest gain (loss)	—	13	5	16	10
Non-interest expense	42	45	43	44	42
Net income	74	88	77	79	73
<b>Other selected data during the periods</b>					
MPF Loans par value amounts funded - FHLB System <sup>b</sup>	\$ 2,494	\$ 3,280	\$ 3,474	\$ 3,088	\$ 2,073
Number of PFIs funding MPF products - FHLB System <sup>b</sup>	720	750	769	776	730
MPF Loans par value amounts funded - FHLB Chicago PFIs <sup>b</sup>	566	\$ 729	655	620	517
Number of PFIs funding MPF products - FHLB Chicago <sup>b</sup>	174	175	175	176	160
<b>Selected ratios (rates annualized)</b>					
Total regulatory capital to assets ratio	5.74%	5.99%	5.81%	6.09%	6.13%
Market value of equity to book value of equity	107%	107%	107%	108%	108%
Primary mission asset ratio <sup>c</sup>	69.1%	67.3%	67.2%	67.2%	67.0%
Dividend rate class B1 activity stock-period paid	3.50%	3.30%	3.30%	3.15%	3.00%
Dividend rate class B2 membership stock-period paid	1.50%	1.25%	1.25%	1.05%	0.85%
Return on average assets	0.33%	0.41%	0.36%	0.39%	0.36%
Return on average equity	5.82%	7.34%	6.54%	6.99%	6.46%
Average equity to average assets	5.67%	5.59%	5.50%	5.58%	5.57%
Net yield on average interest-earning assets	0.55%	0.60%	0.59%	0.58%	0.57%
Return on average Regulatory Capital spread to three month LIBOR index	3.77%	5.54%	4.89%	5.47%	5.09%
Cash dividends	\$ 13	\$ 10	\$ 11	\$ 9	\$ 10
Dividend payout ratio	18%	11%	14%	11%	14%

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

<sup>b</sup> Includes all MPF products, on and off our balance sheet. See **Mortgage Partnership Finance Program** on page 8 in our 2017 Form 10-K.

<sup>c</sup> In 2015, the FHFA issued an advisory bulletin that provides guidance relating to how the FHFA will assess each FHLB's core mission achievement by using a ratio of primary mission assets (which includes advances and mortgage loans acquired from members) to consolidated obligations. The primary mission asset ratios presented in this 10-Q are on an annual average year to date basis. See **Mission Asset Ratio** on page 5 in our 2017 Form 10-K for more information.

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

### **Forward-Looking Information**

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

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

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

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

- membership changes, including the withdrawal of members due to restrictions on our dividends or the loss of members through mergers and consolidations or through regulatory requirements; changes in the financial health of our members, including the resolution of some members; risks related to expanding our membership to include more institutions with regulators and resolution processes with which we have less experience;
- increased reliance on short-term funding and changes in investor demand and capacity for consolidated obligations and/or the terms of interest rate derivatives and similar agreements, including changes in the relative attractiveness of consolidated obligations as compared to other investment opportunities; changes in our cost of funds due to concerns over U.S. fiscal policy, and any related rating agency actions impacting FHLB consolidated obligations;
- political events, including legislative, regulatory, judicial, or other developments that affect us, our members, our counterparties and/or investors in consolidated obligations, including, among other things, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and related regulations and proposals and legislation related to housing finance and GSE reform; changes by our regulator or changes affecting our regulator and changes in the FHLB Act or applicable regulations as a result of the Housing and Economic Recovery Act of 2008 (Housing Act) or as may otherwise be issued by our regulator; the potential designation of us as a nonbank financial company for supervision by the Federal Reserve;
- recent regulatory changes to FHLB membership requirements by the FHFA;
- the ability of each of the other FHLBs to repay the principal and interest on consolidated obligations for which it is the primary obligor and with respect to which we have joint and several liability;
- the pace of technological change and our ability to develop and support technology and information systems, including our ability to protect the security of our information systems and manage any failures, interruptions or breaches in our information systems or technology services provided to us through third party vendors;
- our ability to attract and retain skilled employees;
- the impact of new accounting standards and the application of accounting rules, including the impact of regulatory guidance on our application of such standards and rules;
- the impact of the application of auditor independence rules to our independent auditor;
- the volatility of reported results due to changes in the fair value of certain assets and liabilities; and
- our ability to identify, manage, mitigate, and/or remedy internal control weaknesses and other operational risks.

For a more detailed discussion of the risk factors applicable to us, see **Risk Factors** in our 2017 Form 10-K on page 16.

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

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

## **Executive Summary**

### **First Quarter 2018 Financial Highlights**

- Advances outstanding increased \$2.7 billion to \$50.8 billion at March 31, 2018, up from \$48.1 billion at December 31, 2017.
- MPF Loans held in portfolio increased to \$5.4 billion at March 31, 2018, up from \$5.2 billion at December 31, 2017, as new MPF Loan purchases continued to moderately outpace paydown and maturity activity.
- Total investment securities increased 6% to \$18.4 billion at March 31, 2018, up from \$17.3 billion at December 31, 2017, as we increased our purchase of Treasury securities for liquidity purposes.
- Total assets increased to \$91.4 billion as of March 31, 2018, compared to \$84.4 billion as of December 31, 2017.
- We recorded net income of \$74 million in the first quarter of 2018, up from \$73 million in the first quarter of 2017.
- Net interest income for the first quarter of 2018 was \$124 million, up from \$113 million for the first quarter of 2017, as we benefited both from the rising rate environment and higher levels of interest earning assets.
- Letters of credit commitments increased to \$20.1 billion at March 31, 2018, up from \$19.6 billion at December 31, 2017.
- We remained in compliance with all of our regulatory capital requirements as of March 31, 2018.

## **Summary and Outlook**

### *First Quarter 2018 Dividend*

On April 24, 2018, the Bank's Board of Directors increased the dividend declared per share on both sub-classes of capital stock. Based on the Bank's preliminary financial results for the first quarter of 2018, the Board of Directors declared a dividend of 4.00% (annualized) for Class B1 activity capital stock (an increase of 50 basis points from the previous quarter) and a dividend of 1.60% (annualized) for Class B2 membership capital stock (an increase of 10 basis points from the previous quarter).

The Bank pays a higher dividend per share on Class B1 activity stock than on Class B2 membership stock to reward members who use the Bank's advances and, thereby, support the financial health of the entire cooperative. The higher dividend members receive on Class B1 activity stock has the effect of lowering their cost of borrowing from the Bank.

### **Strong Member Activity Continues**

During 2017, we reported strong growth in member activity and that activity continued in the first quarter of 2018. Advances outstanding with members were \$50.8 billion and letters of credit were \$20.1 billion at quarter-end. MPF Program activity continued to grow with \$5.4 billion in MPF Loans outstanding on balance sheet at quarter-end.

### **Community Investment Programs in Full Swing**

The first quarter of 2018 was a busy time for our Community Investment programs. The application period for Community First® Capacity-Building Grants was announced on March 6, Community First Disaster Relief Program funding for flood-hit communities in Wisconsin became available on March 12, the 2018 Downpayment Plus® (DPP®) Programs opened on March 12, and trainings for the 2018 competitive Affordable Housing Program have begun in anticipation of the round opening on May 7.

### **FHFA Issues Proposed Rule Amending the Affordable Housing Program Regulations**

FHFA recently published proposed amendments to the AHP regulations. The amendments offer some benefits to the AHP program, but also pose some challenges that could impact the development and implementation of AHP funding. See **Legislative and Regulatory Developments** starting on page 52 for more details on the proposed amendments.

### **News from Our District**

In April, Wisconsin Governor Scott Walker signed into law the 2017 Wisconsin Act 340, an omnibus banking act containing three provisions impacting the Bank. See **Legislative and Regulatory Developments** starting on page 52 for more details on this act.

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

## Critical Accounting Policies

For a detailed description of our Critical Accounting Policies and Estimates see page 38 in our 2017 Form 10-K.

Also see **Note 2 - Summary of Significant Accounting Policies** and **Note 3 - Recently Issued but Not Yet Adopted Accounting Standards** to the financial statements in this Form 10-Q for the impact of changes in accounting policies and recently issued accounting standards on our financial results subsequent to December 31, 2017.

## Results of Operations

### Net Interest Income

Net interest income is the difference between the amount we recognize into interest income on our interest earning assets and the amount we recognize into interest expense on our interest bearing liabilities. These amounts were determined in accordance with GAAP and were based on the underlying contractual interest rate terms of our interest earning assets and interest bearing liabilities as well as the following items:

- Net interest paid or received on interest rate swaps that are accounted for as fair value or cash flow hedges;
- Amortization of premiums;
- Accretion of discounts;
- OTTI security yield adjustments due to either subsequent increases or decreases in estimated cash flows;
- Amortization of hedge adjustments;
- Advance and investment prepayment fees; and
- MPF credit enhancement fees.

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

- *Average Balance:* Average balances are calculated using daily balances. Amortized cost basis is used to compute the average balances for most of our financial instruments, including MPF Loans held in portfolio that are on nonaccrual status and available for sale securities. The calculation of the yield on our available for sale securities does not give effect to changes in fair value that are reflected as a component of accumulated other comprehensive income (AOCI). Fair value is used to compute average balances for our trading securities and financial instruments carried at fair value under the fair value option.
- *Total Interest:* Total interest includes the net interest income components, as discussed above, applicable to our interest earning assets and interest bearing liabilities.
- *Yield/Rate:* Effective yields/rates are based on total interest and average balances as defined above. Yields/rates are calculated on an annualized basis.
- Any changes due to the combined volume/rate variance have been allocated to volume.



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

## Increase or decrease in interest income and expense due to volume or rate variances

	March 31, 2018			March 31, 2017			Increase (decrease) due to		
	Average Balance	Total Interest	Yield/Rate	Average Balance	Total Interest	Yield/Rate	Volume	Rate	Net Change
For the three months ended									
Investment securities	\$ 18,438	\$ 163	3.54%	\$ 19,771	\$ 166	3.36%	\$ (12)	\$ 9	\$ (3)
Advances	52,814	214	1.62%	45,193	99	0.88%	31	84	115
MPF Loans held in portfolio	5,226	55	4.21%	4,956	54	4.36%	3	(2)	1
Federal funds sold and securities purchased under agreements to resell	11,968	44	1.47%	8,639	15	0.69%	12	17	29
Other	1,216	4	1.32%	1,329	3	0.90%	—	1	1
<b>Interest income on interest bearing assets</b>	<b>89,662</b>	<b>480</b>	<b>2.14%</b>	<b>79,888</b>	<b>337</b>	<b>1.69%</b>	<b>53</b>	<b>90</b>	<b>143</b>
Noninterest bearing assets	668			639					
<b>Total assets</b>	<b>90,330</b>			<b>80,527</b>					
Consolidated obligation discount notes									
	42,995	183	1.70%	37,121	96	1.03%	25	62	87
Consolidated obligation bonds									
	41,141	169	1.64%	37,679	125	1.33%	15	29	44
Other									
	850	4	1.88%	900	3	1.33%	—	1	1
<b>Interest expense on interest bearing liabilities</b>	<b>84,986</b>	<b>356</b>	<b>1.68%</b>	<b>75,700</b>	<b>224</b>	<b>1.18%</b>	<b>37</b>	<b>95</b>	<b>132</b>
Noninterest bearing liabilities	252			328					
<b>Total liabilities</b>	<b>85,238</b>			<b>76,028</b>					
<b>Net yield on interest earning assets</b>	<b>\$ 89,662</b>	<b>\$ 124</b>	<b>0.55%</b>	<b>\$ 79,888</b>	<b>\$ 113</b>	<b>0.57%</b>	<b>\$ 15</b>	<b>\$ (4)</b>	<b>\$ 11</b>

The following is an analysis of the preceding table and unless otherwise indicated, comparisons apply to the three month periods ending March 31, 2018 compared to March 31, 2017.

- Interest income from investment securities declined as MBS/ABS matured or paid down and we did not make new investments in MBS/ABS under FHFA regulatory limits as discussed in **Investments** on page 10 in our 2017 Form 10-K. One of the limits is that our investment in MBS/ABS cannot exceed three times our total regulatory capital. We expect to resume making MBS and ABS investments sometime in 2018, subject to regulatory limitations.
- Interest income from advances increased primarily due to a rise in interest rates, which resulted primarily from rate hikes by the Federal Reserve Bank during 2017. Interest income also increased to a lesser extent as a result of higher member demand for advances.
- Interest income from MPF Loans held in portfolio was essentially unchanged from 2017.
- Interest income from Federal Funds sold and securities purchased under agreements to resell increased both due to higher volumes outstanding and increases in interest rates by the Federal Reserve Bank. We increased the amounts of these liquid assets as demand for our advances and letters of credit increased.
- Interest expense on both our shorter termed consolidated obligation discount notes and our longer termed consolidated obligation bonds increased primarily due to rising short and long term interest rates, and to a lesser extent, an increase in notes and bonds outstanding.
- For details of the effect our fair value and cash flow hedge activities had on our net interest income see **Total Net Effect Gain (Loss) of Hedging Activities** table on the following page.



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

**Noninterest Income**

	Three months ended March 31,	
	2018	2017
Derivatives and hedging activities	\$ (3)	\$ 3
Instruments held under fair value option	(7)	(2)
MPF fees, 6 and 5 from other FHLBs	8	7
Other, net	2	2
<b>Noninterest income</b>	<b>\$ —</b>	<b>\$ 10</b>

The following is an analysis of the above table and unless otherwise indicated, comparisons apply to the three month periods ending March 31, 2018 and March 31, 2017.

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

Derivatives and hedging activities, and instruments held under the fair value option were not significant to our statements of income over the periods presented. Instead, the majority of the effect from our derivatives and hedging activities is recorded in net interest income. The following table details the effect of all of these transactions on our statements of income.

**Total Net Effect Gain (Loss) of Hedging Activities**

	Advances	Investments	MPF Loans	Discount Notes	Bonds	Other	Total
<b>Three months ended March 31, 2018</b>							
Recorded in net interest income	\$ (2)	\$ (18)	\$ (1)	\$ (35)	\$ (2)	\$ —	\$ (58)
Recorded in derivatives & hedging activities	14	1	(1)	1	(17)	(1)	(3)
Recorded on instruments held under fair value option	(9)	—	(4)	—	6	—	(7)
<b>Total net effect gain (loss) of hedging activities</b>	<b>\$ 3</b>	<b>\$ (17)</b>	<b>\$ (6)</b>	<b>\$ (34)</b>	<b>\$ (13)</b>	<b>\$ (1)</b>	<b>\$ (68)</b>
<b>Three months ended March 31, 2017</b>							
Recorded in net interest income	\$ (9)	\$ (24)	\$ (2)	\$ (45)	\$ 12	\$ —	\$ (68)
Recorded in derivatives & hedging activities	2	—	(1)	1	1	—	3
Recorded in other, net	—	1	—	—	—	—	1
Recorded in instruments held under fair value option	—	—	—	—	(2)	—	(2)
<b>Total net effect gain (loss) of hedging activities</b>	<b>\$ (7)</b>	<b>\$ (23)</b>	<b>\$ (3)</b>	<b>\$ (44)</b>	<b>\$ 11</b>	<b>\$ —</b>	<b>\$ (66)</b>

*MPF fees (including from other FHLBs)*

A majority of MPF fees are from other FHLBs that pay us a fixed membership fee to participate in the MPF Program and a volume based fee for us to provide services related to their on balance sheet MPF Loans. MPF fees also include income from off-balance sheet MPF Loan products and other related transaction fees. These fees offset a portion of the expenses we incur to administer the program. MPF fees have grown as off balance sheet MPF Loan volume increased during the periods presented.

*Other, net*

Other, net consists primarily of fee income we earn from member standby letters of credit products, as noted in **Item 2. Selected Financial Data**.

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

### Noninterest Expense

	Three months ended March 31,	
	2018	2017
Compensation and benefits	\$ 24	\$ 25
Operating expenses	15	15
Other	3	2
<b>Noninterest expense</b>	<b>\$ 42</b>	<b>\$ 42</b>

The following is an analysis of the preceding table and unless otherwise indicated, comparisons apply to the three month periods ending March 31, 2018 and March 31, 2017.

We had 461 employees as of March 31, 2018, compared to 452 as of March 31, 2017. Compensation and benefit expenses declined slightly due to a decline in anticipated pension expense recorded during the first quarter. However, we can not predict future return trends at this time and this reduction may not be sustained.

Other consists primarily of our share of the funding for the FHFA, our regulator, and the Office of Finance, which manages the consolidated obligation debt issuances of the FHLBs. In addition, Other includes MPF related non-operating expenses/gains on the sale of real estate owned.

### Assessments

We record the Affordable Housing Program (AHP) assessment expense at a rate of 10% of income before assessments, excluding interest expense on MRCS. See **Note 11 - Affordable Housing Program** in our 2017 Form 10-K for further details.

### Other Comprehensive Income (Loss)

	Three months ended March 31,		Balance remaining in AOCI as of March 31, 2018
	2018	2017	
Net unrealized gain (loss) available-for-sale securities	\$ (49)	\$ 38	\$ 358
Noncredit OTTI held-to-maturity securities	7	9	(136)
Net unrealized gain (loss) cash flow hedges	58	44	(89)
Postretirement plans	(2)	(2)	(7)
<b>Other comprehensive income (loss)</b>	<b>\$ 14</b>	<b>\$ 89</b>	<b>\$ 126</b>

The following is an analysis of the above table and unless otherwise indicated, comparisons apply to the three month periods ending March 31, 2018 and March 31, 2017.

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

The net unrealized loss on our available for sale (AFS) portfolio for 2018 is attributable to the reversal of net unrealized gains from prior reporting periods. The net unrealized gains on our AFS securities reverse as these securities approach maturity. This is because we expect to receive par value at the maturity of these AFS securities. As of March 31, 2018, we had a net unrealized gain balance remaining in AOCI attributable to our AFS portfolio.

#### *Noncredit OTTI on held-to-maturity securities*

We recorded unrealized noncredit impairments on held-to-maturity securities during the last financial crisis. As the market has recovered and because we intend to hold these securities to maturity, we are recording accretion to the carrying amount of the

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

securities, reversing the remaining loss balance in AOCI. The annual accretion gains declined in 2018 and are expected to continue to decline as the securities near maturity.

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

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

We did not recognize any instrument-specific credit risk in our statements of comprehensive income as of March 31, 2018 due to our credit standing.

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

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

**Statements of Condition**

	March 31, 2018	December 31, 2017
Cash and due from banks, interest bearing deposits, Federal Funds sold, and securities purchased under agreement to resell	\$ 16,426	\$ 13,378
Investment securities	18,432	17,347
Advances	50,840	48,085
MPF Loans held in portfolio, net of allowance for credit losses	5,357	5,193
Other	336	352
<b>Assets</b>	<b>91,391</b>	<b>84,355</b>
Consolidated obligation discount notes	41,483	41,191
Consolidated obligation bonds	43,516	37,121
Other	1,329	1,191
<b>Liabilities</b>	<b>86,328</b>	<b>79,503</b>
Capital stock	1,579	1,443
Retained earnings	3,358	3,297
Accumulated other comprehensive income (loss)	126	112
<b>Capital</b>	<b>5,063</b>	<b>4,852</b>
<b>Total liabilities and capital</b>	<b>\$ 91,391</b>	<b>\$ 84,355</b>

The following is an analysis of the above table and comparisons apply to March 31, 2018 compared to December 31, 2017.

**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.

We increased the amounts of these liquid assets as demand for our advances and letters of credit increased.

**Investment Securities**

Investment securities increased as we purchased \$2.6 billion in short term U.S. Government securities during the first quarter of 2018. This increase was partially offset by declines in MBS/ABS securities that matured or paid down and were not replaced, as noted in **Results of Operations** on page 40.

**Advances**

Advances increased to the highest outstanding quarter end balance in our history due to strong market demand for funding in our district. While advance demand is strong, it is possible that member demand for our advances could decline in future periods should their funding needs change, or to the extent they elect alternative funding resources. In addition, as our advances with captive insurance companies mature, our total advance levels may decrease.

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

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

In addition to our MPF Loans held in portfolio, we have MPF off-balance sheet products, where we buy and concurrently resell MPF Loans to Fannie Mae or other third party investors or pool and securitize them into Ginnie Mae MBS.

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

**Liquidity, Funding, & Capital Resources**

**Liquidity**

For the period ending March 31, 2018, we maintained a liquidity position in accordance with FHFA regulations and guidance, and policies established by our Board of Directors. Based upon our excess liquidity position described below, we anticipate remaining in compliance with our liquidity requirements. See **Liquidity, Funding, & Capital Resources** on page 48 in our 2017 Form 10-K for a detailed description of our liquidity requirements. We use different measures of liquidity as follows:

**Overnight Liquidity** – Our policy requires us to maintain overnight liquid assets at least equal to 3.5% or \$3.2 billion of total assets. As of March 31, 2018, our overnight liquidity was \$24.0 billion or 26% of total assets, giving us an excess overnight liquidity of \$20.8 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 March 31, 2018, we had excess liquidity of \$49.6 billion to support member deposits.

**Contingency Liquidity** – The cumulative five business day liquidity measurement assumes there is a localized credit crisis for all FHLBs where the FHLBs do not have the ability to issue new consolidated obligations or borrow unsecured funds from other sources (e.g., purchasing Federal Funds or customer deposits). Our net liquidity in excess of our total uses and reserves over a cumulative five-business-day period was \$16.9 billion as of March 31, 2018.

In addition to the liquidity measures discussed above, FHFA guidance requires us to maintain daily liquidity through short-term investments in an amount at least equal to our anticipated cash outflows under two different scenarios. One scenario assumes that we cannot access the capital markets for 15 days and that during that time members do not renew any maturing, prepaid, and called advances. The second scenario assumes that we cannot access the capital markets for five days and that during that period we will automatically renew maturing and called advances for all members except for very large, highly rated members. These additional requirements are more stringent than the contingency liquidity requirement discussed above and are designed to enhance our protection against temporary disruptions in access to the FHLB debt markets in response to a rise in capital markets volatility. As a result of this guidance, we are maintaining increased balances in short-term investments. In addition, we fund certain overnight or shorter-term investments and advances with debt that has a maturity that extends beyond the maturities of the related investments or advances. For a discussion of how this may impact our earnings, see page 18 in the **Risk Factors** section of our 2017 Form 10-K. In July the FHFA proposed to rescind certain minimum regulatory liquidity requirements for the FHLBs as further discussed in **Legislative and Regulatory Developments** on page 14 in our 2017 Form 10-K.

We are sensitive to maintaining an appropriate liquidity and funding balance between our financial assets and liabilities, and we measure and monitor the risk of refunding such assets as liabilities mature (refunding risk). In measuring the level of assets requiring refunding, we take into account their contractual maturities, as further described in the notes to the financial statements. In addition, we make certain assumptions about their expected cash flows. These assumptions include: calls for assets with such features, projected prepayments and scheduled amortizations for our MPF Loans held in portfolio, MBS and ABS investments. The following table presents the unpaid principal balances of (1) MPF Loans held in portfolio, (2) AFS securities, and (3) HTM securities (including ABS and MBS investments), by expected principal cash flows. The table is illustrative of our assumptions about the expected rather than contractual cash flows of our assets, including prepayments made in advance of maturity.

As of March 31, 2018	MPF Loans Held in Portfolio	Investment Securities	
		Available-for Sale	Held-to- Maturity
<b>Year of Expected Principal Cash Flows</b>			
One year or less	\$ 694	\$ 2,553	\$ 1,316
After one year through five years	2,051	7,475	1,943
After five years through ten years	1,351	1,371	435
After ten years	1,189	531	118
<b>Total</b>	<b>\$ 5,285</b>	<b>\$ 11,930</b>	<b>\$ 3,812</b>

We consider our liabilities available to fund assets until their contractual maturity. For further discussion of the liquidity risks related to our access to funding, see page 22 of the **Risk Factors** section in our 2017 Form 10-K.

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

**Funding**

*Conditions in Financial Markets*

In March 2018, the Federal Open Market Committee (FOMC) raised the target range for the federal fund rate by 25 basis points to a range of 1.50 percent to 1.75 percent. This is the sixth rate hike since the FOMC began to raise rates in December 2015. The markets anticipate another 25 basis point increase in the target range for the federal fund rate in the second quarter of 2018.

We maintained ready access to funding during the first quarter of 2018.

*Cash flows from operating activities*

Three months ended March 31,	2018	2017
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 135</b>	<b>\$ 159</b>

The decline in net cash provided by operating activities resulted primarily from a noncash adjustment related to derivatives and hedging activities.

*Cash flows from investing activities with significant changes*

Three months ended March 31,	2018	2017
Liquid assets (Federal Funds sold, securities purchased under agreements to resell, and interest bearing deposits)	\$ (3,050)	\$ (2,492)
Investment securities	(1,170)	2,028
Advances	(2,847)	2,726
Other	(165)	32
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (7,232)</b>	<b>\$ 2,294</b>

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

- The increase in liquid assets reflect our increased liquidity needs to meet the demands of our members.
- Securities held for investment reflect the purchases made in our trading security portfolio in 2018. The rest of our investment security portfolio continued to paydown in 2018.
- Advances reflect the increase in advances outstanding during 2018, as compared to the reduction in advances outstanding in 2017.

*Cash flows from financing activities with significant changes*

Three months ended March 31,	2018	2017
Consolidated obligation discount notes	\$ 292	\$ (3,142)
Consolidated obligation bonds	6,524	750
Capital stock	136	(426)
Other	143	48
<b>Net cash provided by (used in) financing activities</b>	<b>\$ 7,095</b>	<b>\$ (2,770)</b>

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

- An increase in 2018 in the amount of our consolidated obligations used to fund the growth in our balance sheet, compared to 2017, when there was a net decrease in our consolidated obligations outstanding. In first quarter of 2018, we relied primarily on consolidated obligation bonds for our funding.
- An increase in capital stock outstanding as members purchased capital stock to support their advance borrowings.

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

## Capital Resources

### *Capital Rules*

Under the Second Amended and Restated Capital Plan of the Federal Home Loan Bank of Chicago, effective October 1, 2015 (Capital Plan), our stock consists of two sub-classes of stock, Class B1 activity stock and Class B2 membership stock (together, Class B stock), both with a par value of \$100 and redeemable on five years' written notice, subject to certain conditions. Each member is required to own capital stock in an amount equal to the greater of a membership stock requirement or an activity stock requirement. Class B1 activity stock is available to support a member's activity stock requirement. Class B2 membership stock is available to support a member's membership stock requirement and any activity stock requirement.

Under our Capital Plan, our Board of Directors may set a threshold of between \$10,000 and \$75 million on the amount of Class B2 membership stock that would otherwise be held for membership if a member has advances outstanding that have an activity stock requirement in excess of the threshold amount. In that case, the amount of Class B2 membership stock that exceeds such threshold and is necessary to support advance activity is automatically converted into Class B1 activity stock. That threshold is currently set at \$10,000, which means that we will convert to Class B1 activity capital stock any capital stock supporting advances that exceeds the lesser of the member's membership requirement or \$10,000.

The Board of Directors may periodically adjust members' activity stock requirement for certain new advances within a range of 2% and 6% of a member's outstanding advances. Our Board implemented this provision through the Reduced Capitalization Advance Program (RCAP) as further discussed below. Each member's activity stock requirement remains at 4.5% for non-RCAP advances.

Our Capital Plan allows for an activity stock requirement for MPF Loans acquired for our portfolio within a range of 0% and 6%, which our Board has set at 0%. Should the Board decide to introduce this capital requirement, we intend to notify members sufficiently in advance of the change and apply that change only to future acquisitions.

The Board may periodically adjust members' membership stock requirement within a range of 0.20% to 2% of a member's mortgage assets. Each member's membership stock requirement is the greater of either \$10,000 or 0.40% of a member's mortgage assets. A member's investment in membership stock is subject to a cap equal to the lesser of (1) a dollar cap set by the Board within a range of \$10,000 and \$75 million, and (2) 9.9% of our total capital stock outstanding as of the prior December 31. The cap on each member's membership stock requirement is now \$5 million, which is less than 9.9% of the Bank's total capital stock outstanding at December 31, 2017, and is thus the operative cap during the remainder of 2018 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 membership stock to Class B1 activity stock related to the threshold will apply on a daily basis.

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

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.

For details on our capital stock requirements under our Capital Plan during 2017, see **Capital Resource** on page 53 of our 2017 Form 10-K. 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.

For details on our minimum regulatory capital requirements see **Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements in this Form 10-Q, and **Minimum Capital Requirements** on page F-44 of our 2017 Form 10-K.

### *Reduced Capitalization Advance Program*

RCAP allows members to borrow one or more advances with an activity stock requirement of only 2% for the life of the advance instead of the 4.5% requirement under our Capital Plan's general provisions. As of March 31, 2018, and December 31, 2017, RCAP advances outstanding total \$24.7 billion to 157 members and \$24.7 billion to 158 members, respectively.



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

**Repurchase of Excess Capital Stock**

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

For details on the financial and capital thresholds relating to repurchases, see **Repurchase of Excess Capital Stock** on page 57 of our 2017 Form 10-K.

*Capital Amounts*

The following table reconciles our capital reported in our statements of condition to the amount of capital stock reported for regulatory purposes. MRCS is included in the calculation of the regulatory capital and leverage ratios but is recorded in other liabilities in our statements of condition.

	March 31, 2018	December 31, 2017	Change
Capital Stock	\$ 1,579	\$ 1,443	\$ 136
MRCS	311	311	—
<b>Regulatory capital stock</b>	<b>1,890</b>	1,754	<b>136</b>
Retained earnings	3,358	3,297	61
<b>Regulatory capital</b>	<b>\$ 5,248</b>	\$ 5,051	<b>\$ 197</b>
Capital stock	\$ 1,579	\$ 1,443	\$ 136
Retained earnings	3,358	3,297	61
Accumulated other comprehensive income (loss)	126	112	14
<b>GAAP capital</b>	<b>\$ 5,063</b>	\$ 4,852	<b>\$ 211</b>

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

Although we have had no OTTI year to date in 2018, credit deterioration may negatively impact our remaining private label MBS portfolio. We cannot predict if or when impairments will occur, or the impact these impairments may have on our retained earnings and capital position. See the **Risk Factors** section on page 16 of our 2017 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 April 24, 2018, our Board of Directors declared a 4.00% dividend (annualized) for Class B1 activity stock and a 1.60% dividend (annualized) for Class B2 membership stock based on our preliminary financial results for the first quarter of 2018. This dividend, including dividends on mandatorily redeemable capital stock, totaled \$16 million and is scheduled for payment on May 15, 2018. The Class B2 capital stock dividend is intended to enhance the value of membership; the Class B1 capital stock dividend reduces the effective cost of borrowing from the Bank and rewards our members who support the entire cooperative by using our advance products.

Although we continue to work to maintain our financial strength to support a reasonable dividend, any future dividend determination by our Board will be at our Board's sole discretion and will depend on future operating results, our Retained Earnings and Dividend Policy and any other factors the Board determines to be relevant. For further information see **Retained Earnings & Dividends** on page 57 in our 2017 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 2017 Form 10-K.



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

**Risk Management - Credit Risk**

*Managing Our Credit Risk Exposure Related to Member Credit Products*

Our credit risk rating system focuses primarily on our member's overall financial health and takes into account the member's asset quality, earnings, and capital position. For further information please see **Member Credit Risk Ratings** on page 61 in our 2017 Form 10-K.

The following table presents the number of members and related credit outstanding to them by credit risk rating. Credit outstanding consists primarily of outstanding advances and letters of credit. MPF credit enhancement obligations, member derivative exposures, and other obligations make up the rest. Of the total credit outstanding, \$50.9 billion were advances (par value) and \$20.1 billion were letters of credit at March 31, 2018, compared to \$48.0 billion and \$19.6 billion at December 31, 2017.

Rating	March 31, 2018			December 31, 2017		
	Borrowing Members	Credit Outstanding	Collateral Loan Value	Borrowing Members	Credit Outstanding	Collateral Loan Value
1-3	485	\$ 70,532	\$ 120,774	495	\$ 67,105	\$ 116,810
4	6	487	565	7	498	577
5	11	107	229	11	120	234
Total	502	\$ 71,126	\$ 121,568	513	\$ 67,723	\$ 117,621

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

*MPF Loans and Related Exposures*

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

**Credit Risk Exposure** - Our credit risk exposure on conventional MPF Loans held in portfolio is the potential for credit losses due to borrower default on contractual principal and interest, which would result from the depreciation in the value of the real estate collateral securing the MPF Loan, offset by our ability to recover losses from PMI, Recoverable CE Fees, and the CE Amount which may include SMI. The PFI is required to pledge collateral to secure any portion of its CE Amount that is a direct obligation of the PFI. For further details see **Loss Structure for Credit Risk Sharing Products** on page 9 of our 2017 Form 10-K, and **Credit Risk Exposure** and **Setting Credit Enhancement Levels** on page 63 of our 2017 Form 10-K.

Mortgage Repurchase Risk

For details on our mortgage repurchase risk in connection with our sale of MPF Loans to third party investors and MPF Loans securitized into MBS when a loan eligibility requirement or other warranty is breached, see **Mortgage Repurchase Risk** on page 65 in our 2017 Form 10-K.

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

*Investment Securities*

We hold a variety of AA or better rated investment securities, mostly government backed or insured securities such as GSE debt and FFELP ABS, and we believe these investments are low risk. There were no material changes in the credit ratings of these securities since December 31, 2017. For further details see **Investment Securities by Rating** on page 67 in our 2017 Form 10-K. Except for private label MBS, we have never taken an impairment charge on our investment securities.

Our private label MBS are predominantly variable rate securities rated below investment grade (BBB). There were no material changes in overall credit quality since December 31, 2017, nor have we acquired any new private label MBS. We last had an other-than-temporary impairment (OTTI) loss on private label MBS in 2012. We currently have unrealized gains on these securities as their market values have improved from the impaired values and subsequent to 2012 we have begun recording accretion gains on these securities back into income. For further details see **Note 5 - Investment Securities** to the financial statements.

*Unsecured Short-Term Investments*

See **Unsecured Short-Term Investments** page 70 in our 2017 Form 10-K for further details on our unsecured short-term investments as well as policies and procedures to limit and monitor our unsecured credit risk exposure.

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 March 31, 2018	AA	A	BBB	Below BBB	Total
<b>Domestic U.S.</b>					
Interest-Bearing Deposits	\$ —	\$ 775	\$ —	\$ —	\$ 775
Fed Funds Sold	975	—	191	20	1,186
<b>U.S. branches and agency offices of foreign commercial banks - Federal Funds sold:</b>					
Australia	1,500	—	—	—	1,500
Canada	—	1,900	—	—	1,900
France	—	500	—	—	500
Japan	—	700	—	—	700
Netherlands	—	650	—	—	650
Norway	—	600	—	—	600
Sweden	1,625	700	—	—	2,325
<b>Total unsecured credit exposure</b>	<b>\$ 4,100</b>	<b>\$ 5,825</b>	<b>\$ 191</b>	<b>\$ 20</b>	<b>\$ 10,136</b>

All \$10.1 billion of the unsecured credit exposure shown in the above table were overnight investments.

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

*Managing Our Credit Risk Exposure Related to Derivative Agreements*

See **Note 9 - Derivatives and Hedging Activities** to the financial statements for a discussion of how we manage our credit risk exposure related to derivative agreements. We have credit exposure on net asset positions where we have not received adequate collateral from our counterparties. We also have credit exposure on net liability positions where we have pledged collateral in excess of our liability to a counterparty.

The following table presents our derivative positions where we have such credit exposures. The rating used was the lowest rating among the three largest NRSROs. Non-cash collateral pledged consists of initial margin we posted through our FCMs, on behalf of the DCOs for cleared derivatives and is included in our derivative positions with credit exposure.

	Net Derivative Fair Value Before Collateral	Cash Collateral Pledged	Noncash Collateral Pledged	Net Credit Exposure to Counterparties
<b>As of March 31, 2018</b>				
<b>Non-member counterparties -</b>				
<b>Undercollateralized asset positions -</b>				
Bilateral derivatives -				
BBB	\$ 20	\$ (20)	\$ —	\$ — <sup>a</sup>
<b>Overcollateralized liability positions -</b>				
Bilateral derivatives -				
A rated	(54)	55	—	1
BBB	(70)	70	—	— <sup>a</sup>
Cleared derivatives	(9)	—	64	55
<b>Non-member counterparties</b>	<b>(113)</b>	<b>105</b>	<b>64</b>	<b>56</b>
Member institutions	1	—	—	1
<b>Total</b>	<b>\$ (112)</b>	<b>\$ 105</b>	<b>\$ 64</b>	<b>\$ 57</b>
<b>As of December 31, 2017</b>				
<b>Nonmember counterparties -</b>				
<b>Undercollateralized asset positions -</b>				
<b>Bilateral derivatives -</b>				
BBB	\$ 8	\$ (8)	\$ —	\$ — <sup>a</sup>
<b>Overcollateralized liability positions -</b>				
<b>Bilateral derivatives -</b>				
AA rated	(52)	52	—	— <sup>a</sup>
A rated	(75)	76	—	1
<b>Cleared derivatives</b>	<b>(6)</b>	<b>—</b>	<b>67</b>	<b>61</b>
<b>Nonmember counterparties</b>	<b>(125)</b>	<b>121</b>	<b>67</b>	<b>63</b>
Member counterparties	1	—	—	1
<b>Total</b>	<b>\$ (124)</b>	<b>\$ 121</b>	<b>\$ 67</b>	<b>\$ 64</b>

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

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

## **Legislative and Regulatory Developments**

Significant regulatory actions and developments are summarized below.

**2017 Wisconsin Act 340.** On April 16, 2018, Wisconsin Governor Scott Walker signed into law the 2017 Wisconsin Act 340 which includes three provisions we believe will benefit the Bank and our Wisconsin members.

- The first provision clarifies in the Wisconsin public deposit statute that FHLB letters of credit are acceptable collateral substitutes for public unit deposits. This clarification may help our Wisconsin bank and credit union members more easily obtain low-cost local funding.
- The second provision provides protections for the Bank under state insurance insolvency law by limiting the stay authority applicable to the Bank and removing the Bank from the voidable preference provisions. These protections will allow our Wisconsin insurance company members to receive improved securities collateral values when borrowing from us.
- The third provision allows the Wisconsin Department of Financial Institutions to share their confidential exam reports of state-chartered banks, thrifts, and credit unions with the Bank. Federal law has long required federal banking regulators to share their exam reports with the FHLBs. This provision will help our Wisconsin-chartered depository members receive similar collateral values as federally-chartered institutions when borrowing from us.

**FHFA Proposed Amendments to Affording Housing Program ("AHP") Regulations.** On March 14, 2018, the FHFA published a proposed rule to amend the operating requirements of the FHLBs' AHP. The proposal is open for public comment through June 12, 2018. If adopted as proposed, among other updates, the AHP rule would:

- require an FHLB to create its own scoring criteria that are designed to satisfy new regulatory outcome requirements, replacing the existing regulatory scoring guidelines;
- permit an FHLB to voluntarily increase its AHP homeownership set-aside funding program to 40% of annual available funds (up from the current rule's 35% annual limit);
- increase the per-household set-aside grant amount to \$22,000 with an annual housing price inflation adjustment (up from the current fixed limit of \$15,000);
- remove the retention agreement requirement for owner-occupied units;
- further align AHP monitoring with certain federal government funding programs;
- increase threshold requirements for certain project types, such as projects dedicated to homeless or special needs populations; and
- authorize an FHLB using market research empirical data to create special targeted grant programs that would be a subset of the regular AHP competitive funding program.

The rule, as proposed, would represent a substantial overhaul of the existing regulation on the FHLBs' AHP and fundamentally change the structure and methodology for awarding grants to affordable housing projects. The proposed rule would also increase AHP's complexity and administrative burden.

The rule, as proposed, would require changes in the areas of operations, communications, and information systems of the FHLBs. It would also require increased Board and Affordable Housing Advisory Council action and increased communications and education with members and sponsors. We do not believe, the rule, if adopted substantially as proposed, would be material to our financial condition or results of operation, since, among other things, it would not increase the annual AHP funding requirement. However, we expect there will be increased costs related to implementing the rule requirements and making related adjustments to our systems. In addition, if the rule is adopted as proposed, the Bank expects a possible change to the types of projects that may be funded on a go-forward basis in the Bank's district, with a commensurate impact on AHP sponsors and their respective communities.

**Office of the Comptroller of the Currency ("OCC"), Federal Reserve Board ("FRB"), Federal Deposit Insurance Corporation ("FDIC"), Farm Credit Administration and FHFA Proposed Rule on Margin and Capital Requirements for Covered Swap Entities.** On February 21, 2018, the OCC, FRB, FDIC, Farm Credit Administration, and the FHFA published a proposed amendment to each agency's final rule on Margin and Capital Requirements for Covered Swap Entities ("Swap Margin Rules") to conform the definition of "eligible master netting agreement" in such rules to the FRB's, OCC's and FDIC's final qualified financial contract ("QFC") rules. It also clarifies that a legacy swap would not be deemed to be a covered swap under the Swap Margin Rules if it is amended to conform to the QFC rules. The QFC rules previously published by the OCC, FRB, and FDIC require their respective regulated entities to amend covered QFCs to limit a counterparty's immediate termination or exercise of default rights in the event of bankruptcy or receivership of the regulated entity or its affiliate(s).

Comments on the proposed rule were due by April 23, 2018. We continue to evaluate the proposed rule, but do not expect this rule, if adopted substantially as proposed, to materially affect our financial condition or results of operations.

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

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

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

Scenario as of	March 31, 2018		December 31, 2017	
	Change in Market Value of Equity	Loss Limit	Change in Market Value of Equity	Loss Limit
-200 bp	\$ 156	\$ (370)	\$ 202	\$ (370)
-100 bp	56	(155)	66	(155)
-50 bp	31	(60)	31	(60)
-25 bp	17	(30)	16	(30)
+25 bp	(18)	(30)	(17)	(30)
+50 bp	(38)	(60)	(37)	(60)
+100 bp	(79)	(155)	(83)	(155)
+200 bp	(178)	(370)	(195)	(370)

**Measurement of Market Risk Exposure**

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

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

	Option Risk			Basis Risk	
	Yield Curve Risk	Implied Volatility	Prepayment Speeds	Spread to Swap Curve	Mortgage Spread
<b>As of March 31, 2018</b>	\$ (1)	\$ (2)	\$ (2)	(12)	\$ 1
As of December 31, 2017	(1)	(2)	(2)	(13)	1

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

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

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

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

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

As of March 31, 2018, our sensitivity to changes in implied volatility was \$(2) million. At December 31, 2017, our sensitivity to changes in implied volatility was \$(2) 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 tables 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.

Scenario as of	Duration of equity		
	Down 200 bps	Base	Up 200 bps
<b>March 31, 2018</b>	<b>2.1</b>	<b>1.2</b>	<b>1.8</b>
December 31, 2017	2.9	1.2	2.2

As of March 31, 2018, on a U.S. GAAP basis, our fair value surplus (relative to book value) was \$358 million, and our market value of equity to book value of equity ratio was 107%, compared to \$371 million and 107% at December 31, 2017. Our market to book value of total capital for regulatory risk-based capital purposes differs from this GAAP calculation, as discussed in **Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements.

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

**Item 4. Controls and Procedures.**

**Disclosure Controls and Procedures**

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

**Changes in Internal Control Over Financial Reporting**

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

**Consolidated Obligations**

Our disclosure controls and procedures include controls and procedures for accumulating and communicating information relating to our joint and several liability for the consolidated obligations of other FHLBs. For further information, see **Item 9A. Controls and Procedures** on page 81 of our 2017 Form 10-K.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

For a discussion of the litigation relating to private label MBS bonds purchased by the Bank, see **Item 3. Legal Proceedings** on page 30 of our 2017 Form 10-K.

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

**Item 1A. Risk Factors.**

In addition to the information presented in this report, readers should carefully consider the factors set forth in the **Risk Factors** section on page 16 in our 2017 Form 10-K, which could materially affect our business, financial condition, or future results. These risks are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also severely affect us.

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

Not applicable.

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

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.



**Item 6. Exhibits.**

- [31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer](#)
- [31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer](#)
- [32.1 Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer](#)
- [32.2 Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer](#)
- 101.INS XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

## Glossary of Terms

**Advances:** Secured loans to members.

**ABS:** Asset backed securities.

**AFS:** Available-for-sale securities.

**AOCI:** Accumulated Other Comprehensive Income.

**Capital Plan:** The Second Amended and Restated Capital Plan of the Federal Home Loan Bank of Chicago, effective as of October 1, 2015.

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

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

**CFTC:** Commodity Futures Trading Commission

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

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

**DCO:** Derivatives Clearing Organization. A clearinghouse, clearing association, clearing corporation, or similar entity that enables each party to an agreement, contract, or transaction to substitute, through novation or otherwise, the credit of the DCO for the credit of the parties; arranges or provides, on a multilateral basis, for the settlement or netting of obligations; or otherwise provides clearing services or arrangements that mutualize or transfer credit risk among participants.

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

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

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

**Fannie Mae:** Federal National Mortgage Association.

**FASB:** Financial Accounting Standards Board.

**FCM:** Futures Commission Merchant.

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

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

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

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

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

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

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

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

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

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

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

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

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

**GSE:** Government sponsored enterprise.

**HFS:** Held for sale.

**HTM:** Held-to-maturity securities.

**LIBOR:** London Interbank Offered Rate.

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

**MBS:** Mortgage-backed securities.

**Moody's:** Moody's Investors Service.

**MPF<sup>®</sup>:** Mortgage Partnership Finance.

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

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

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

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

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

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

**MRCS:** Mandatorily redeemable capital stock.

**NRSRO:** Nationally Recognized Statistical Rating Organization.

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

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

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

**PMI:** Primary Mortgage Insurance.

**PwC:** PricewaterhouseCoopers LLP.

**RCAP:** Reduced Capitalization Advance Program.

**Recorded Investment:** Recorded investment in a loan is its amortized cost basis plus related accrued interest receivable, if any. Recorded investment is not net of an allowance for credit losses but is net of any direct charge-off on a loan. Amortized cost basis is defined as either the amount funded or the cost to purchase MPF Loans. Specifically, the amortized cost basis includes the initial fair value amount of the delivery commitment as of the purchase or settlement date, agent fees (i.e., market risk premiums or discounts paid to or received from PFIs), if any, subsequently adjusted, if applicable, for accretion, amortization, collection of cash, charge-offs, and cumulative basis adjustments related to fair value hedges.

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

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

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

**REO:** Real estate owned.

**SEC:** Securities and Exchange Commission.

**SMI:** Supplemental mortgage insurance.

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

**UPB:** Unpaid Principal Balance.

**U.S.:** United States

**Signatures**

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

**FEDERAL HOME LOAN BANK OF CHICAGO**

/s/ Matthew R. Feldman

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Name: Matthew R. Feldman

Title: President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 8, 2018

/s/ Roger D. Lundstrom

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Name: Roger D. Lundstrom

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

Date: May 8, 2018