

January 18, 2006

To Our Members,

The Board of Directors of the Chicago Federal Home Loan Bank today declared a dividend based on fourth quarter earnings equal to an annualized rate of 3 percent. We are pleased to note that this dividend will be paid in cash, rather than in stock, in response to the wishes of many stockholders. The dividend was approved by our regulator, the Federal Housing Finance Board following extensive discussions. It represents a payout ratio of 65 percent of Adjusted Core Net Income for the fourth quarter. Your DID account will be credited on February 15.

While our overall income trends during this period were comparable to the third quarter, our earnings for the quarter declined due to several accounting events. First, during the fourth quarter, we determined it was appropriate to write down the carrying value of a software platform in our Mortgage Partnership Finance[®] business by \$12 million* because it is no longer expected to produce significant revenue. This software was specifically developed to support one of several servicing released options currently available to MPF[®] participants. Partially offsetting this change was an adjustment to our MPF[®] loan loss allowance that factors in the credit enhancement we receive from participating members. This change increased quarterly revenue by approximately \$6 million*.

Also during the quarter, the Bank received notifications from four members of their intent to withdraw from membership following our capital stock action announcement in mid-October. As a result, the outstanding stock held by these members was reclassified to the liability section of our balance sheet and the dividend for the fourth quarter on this stock was accrued as interest expense. This action reduced net income by \$1.5 million*. At year-end, 881 members continued holding stock in the Bank worth approximately \$4 billion.

On a broader note, we are making progress toward resolving issues regarding our capital structure. Last month, we submitted to the Finance Board a revised Business Plan and Retained Earnings Policy and proposed revisions to our business strategy. When agreement is reached on these matters with the Finance Board, these policies will set the future course for the Bank and establish the foundation for our relationship with members, including the management of our capital structure and redemption processes for our stock. These are necessary components of our plans to gain flexibility as we move the Bank forward.

* Unaudited results before assessments for REFCORP and the Affordable Housing Program.

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On December 14th, we re-filed our Form 10 registration statement with the SEC and expect to become a registrant in mid-February. Completion of this process will satisfy an important regulatory requirement and increase the transparency of our financial statements for member stockholders and FHLB bond investors.

Resolving the discontinuation of stock redemptions and establishing a clear future course for the Bank is our highest priority. I look forward to communicating further with you on these issues during the first quarter. We are working hard every day to provide value to our members through the products and services we offer and the return on your stock investment.

Summary year-end financial information will be available soon. In the meantime, we welcome your questions. Please feel free to contact your Relationship Manager or Charlie Huston, Executive Vice President of Member Relationship Management. If you would prefer, you may call me directly.

Thank you for your continued support and loyalty.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Thomas", with a stylized flourish at the end.

Mike Thomas
President and CEO