

October 18, 2005

Dear Members,

The Chicago Federal Home Loan Bank today announced a stock dividend for members equal to an annualized rate of 3.75%, based on the Bank's third quarter financial results. This rate was approved by the Federal Housing Finance Board's Office of Supervision in compliance with their Advisory Bulletin for FHLBs that have not yet registered with the SEC. Members' accounts will be credited on November 15.

We also are announcing two actions intended to maintain the Bank's capital base and increase the capacity of the Bank to provide service to our members, continue strengthening our balance sheet, and work toward the implementation of a new capital structure.

- To help ensure an adequate capital base for the Bank as it continues serving the housing finance needs of its members, the Bank's Board of Directors has decided to discontinue redemptions of excess, or "voluntary," capital stock. While we regret the need to take this action, we believe it is essential to the long-term ability of the Bank to provide ever-greater service to members and to transition to a new capital structure.

Let me assure you we are working as quickly as possible to address the conditions that have required this action. Our goal is to finalize with the Finance Board our retained earnings policy as rapidly as possible and address alternative means of capitalizing our assets, such as our ongoing work on risk-transfer strategies for MPF<sup>®</sup> assets and consideration of other possible financing tools, including subordinated debt.

- The second action designed to enhance the Bank's ability to serve its members is an amendment of the Written Agreement by the Finance Board reducing the Bank's minimum capital ratio from 5.1% to 4.5%. Currently, the Bank's capital ratio is approximately 5.5%. The amendment also requires the Bank to maintain minimum total capital stock of \$3.964 billion, which represents the actual balance at the close of business on October 18, 2005, including the amount of the stock dividend approved today. Additionally, FHLB stock may not be redeemed if doing so would cause the Bank to fail to meet any of its minimum capital requirements.

Reducing our capital ratio will allow us to expand our advances business and other earning assets, generating additional profits to both build retained earnings and pay future dividends. This is an important step in our plan to continue building financial strength while serving our members.

The Chicago FHLB has worked very hard this year to serve our members as a reliable source of liquidity and funding, while continuing the evolution of the MPF Program and implementation of a variety of risk management procedures. The business provided and supported by our members has been the most important factor in the growth and development of the Bank over the past several years. We are grateful for that backing. Our focus remains first and foremost on continuing to meet our members' needs so we can continue to enjoy your support. The attached news release will provide additional details.

Please feel free to direct questions to your Relationship Manager or contact Charles A. Huston, Executive Vice President, at 312-565-5715.

Thank you for your continued support and loyalty.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Mike Thomas". The signature is fluid and cursive, with a large initial "J." and a long, sweeping underline.

Mike Thomas  
President and CEO