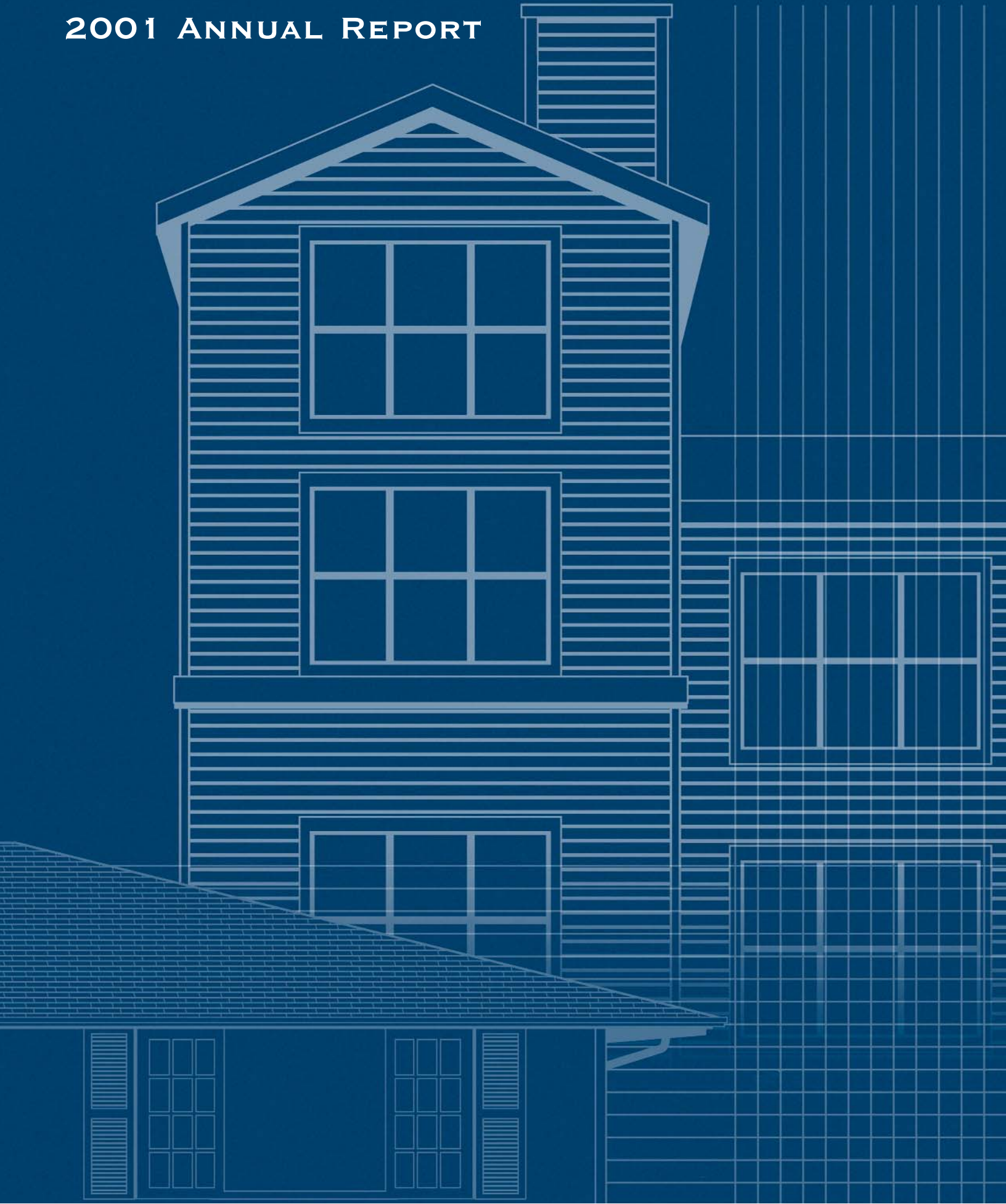


FEDERAL HOME LOAN BANK OF CHICAGO 2001 ANNUAL REPORT



The Federal Home Loan Bank of Chicago's Mission is:

To promote housing finance, in partnership with member financial institutions which provide sound and economical home financing, throughout America and in all phases of financial and economic cycles; and

To provide liquidity, funding, and asset-liability management capability to member institutions on a secured basis with minimal credit risk to the FHLB, and to assist them to provide affordable housing and economic development in their communities.

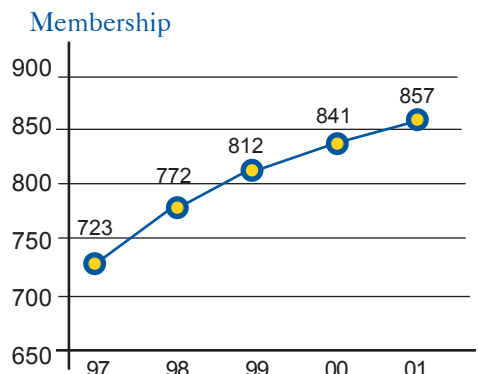
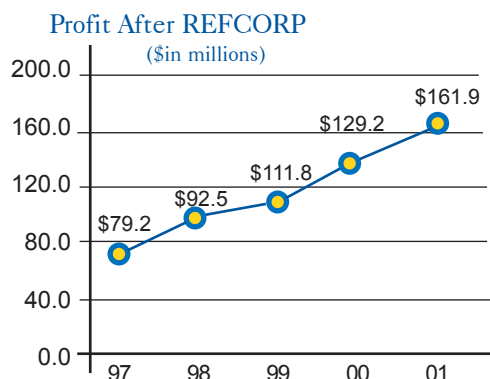
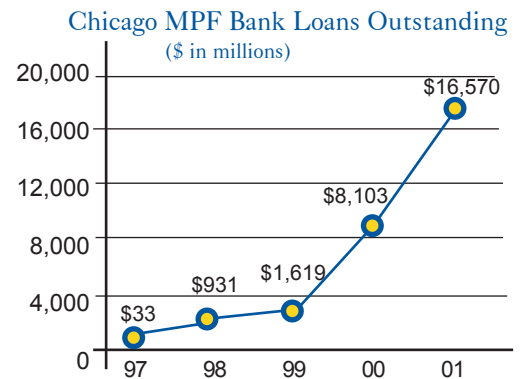
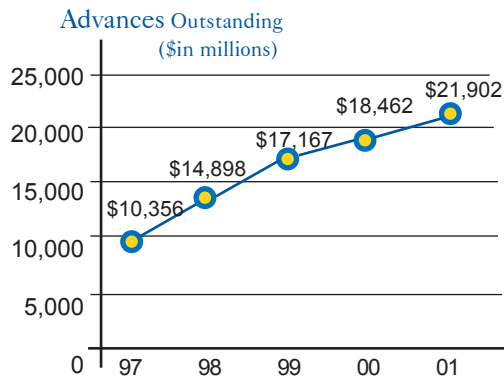
FINANCIAL

HIGHLIGHTS

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Total Members	857	841	812
(\$ in thousands)			
Advances Outstanding	\$21,901,609	\$18,462,288	\$17,167,291
MPF® Loans Outstanding	\$16,570,308	\$ 8,102,680	\$ 1,618,768
Total Housing Finance Related Assets	\$ 43,425,895	\$31,445,613	\$23,903,385
Total Assets	\$49,185,897	\$35,388,778	\$29,228,447
Total Capital	\$ 2,502,784	\$ 1,701,268	\$ 1,504,954
Net Income Before REFCORP	\$ 202,427	\$ 161,453	\$ 130,507
Net Income After REFCORP	\$ 161,949	\$ 129,154	\$ 111,789
Average Annual Dividend Rate	6.34%	7.47%	6.69%
Net Interest Income to Average Assets	0.53%	0.66%	0.62%
Operating Expenses to Average Assets	0.10%	0.09%	0.09%
Equity to Risk-Weighted Assets	20.6%	19.2%	18.8%
Equity to Total Assets	5.09%	4.81%	5.15%

FIVE YEAR

PERFORMANCE



TO OUR MEMBERS AND CUSTOMERS



WE ARE PLEASED TO REPORT THAT 2001 WAS ANOTHER VERY successful year for the FHLB Chicago. Net income after REFCORP payments grew 25.4% to \$161.9 million, up from \$129.2 million last year. Net income before REFCORP was \$202.4 million, up from \$161.5 million.

Strong earnings enabled us to provide members with an attractive average dividend of 6.34%. This rate was 135 basis points over the moving average of the one-year Treasury bill, which exceeded our goal of maintaining at least 100 basis points over our Treasury index.

Financial institutions continued to actively seek membership in the FHLB Chicago, although mergers slowed growth in member totals. This year, 48 financial institutions became members. At the end of 2001, total membership stood at 857 thrifts, commercial banks, credit unions, and insurance companies, an all-time high. Since 1991, penetration of the thrift and commercial bank market has increased to 72% of eligible institutions.

Credit customers — members that have used an advance, a letter of credit, an off-balance sheet product, or funded loans through the MORTGAGE PARTNERSHIP FINANCE® Program during the year — ended the year at 669 institutions, or 78% of membership. Advances outstanding reached a record high, ending the year at \$21.9 billion, up from \$18.5 billion in 2000.

The MPF® Program continued to grow rapidly as more member institutions recognize the Program's benefits. System-wide, MPF Program loans outstanding increased 61% to \$24.8 billion. There were 282 Participating Financial Institutions (PFIs) by the end of 2001. For Chicago, MPF Program loans totaled \$16.6 billion while Illinois and Wisconsin PFIs rose to 132. The FHLB districts of Atlanta, Boston, Chicago, Dallas, Des Moines, New York, Pittsburgh, San Francisco, and Topeka are approved to offer the MPF Program. With loans in all 50 states and PFIs in 32 states, the MPF Program has become a nationwide business.

In October, the FHLB Chicago submitted its capital plan to the Federal Housing Finance Board, as required by the Gramm-Leach-Bliley Act. Our capital plan will provide a solid base for the future. The plan, structured to minimize tax and accounting issues for members, establishes two classes of stock: Class A, redeemable on six months' notice, and Class B, redeemable on five years' notice. Although both classes of stock will be issued and redeemed at par of \$100, Class A has features similar to preferred stock, such as dividend and liquidation preferences, while Class B stock will be common stock, the junior position with higher return potential.

Our Community Investment and Affordable Housing Programs continued their success. Members used over \$271.8 million in new CICA credit for housing and economic development initiatives. We awarded \$13.7 million in competitive AHP grants to 77 member-sponsored projects in order to create more than 2,700 units of affordable housing, of which 1,406, or 51%, were targeted for very low income units. Over 25% of our members participated in the Community Investment Program in 2001.

Technology continued to play an important part in our business, as we introduced “eBanking”. eBanking is our customer-specific website which allows members to access many reports regarding their FHLB relationship using the Internet. eMPF™, our transactional website for the MPF Program, continued to operate at a high level of sophistication and efficiency. Enhancements to the eMPF website included giving members the ability to credit enhance and fund loans via the website through an online form.

In order to insure a mission-consistent balance sheet, we maintain a ratio of housing/mission-related assets to consolidated obligations of at least 85%. At year-end, this ratio was 100.4%.

For 2002, we have revised the strategic goal which benchmarked our dividend rate to the one-year Treasury bill. The reduced proportion of Treasury securities in the market has changed their spread dynamics, while the LIBOR market continues to be a liquid, global market, which is closely related to our cost of debt. Reflecting this, our dividend goal is now expressed as a spread to LIBOR. Our strategic goals are thus:

1. A sustainable dividend of 0.75% or more over the moving average of one-year LIBOR.
2. Return on equity above the System average, while making strategic research and development investments.
3. Continuous flow of new products, new ideas, and new marketing and community investment programs.
4. Excellent service as perceived by customers.
5. Continued addition of new members and rapid growth in members participating in MPF
6. Maintain high market penetration and rapid growth in MPF market penetration.
7. Truly AAA/Aaa quality.
8. Total control of every aspect of the business.
9. Continuous focus on productivity enhancement and cost effective new methods.
10. Continuous increase in skills, knowledge, and competence.
11. High energy.
12. An intellectual and managerial leader of the System.

October, 2001 was the 10th anniversary of my joining the FHLB Chicago. I have greatly enjoyed working with you all during this decade of challenge, growth, and successful strategic change.

We are especially proud of our strong relationships with member institutions as your strategic partner for housing finance and thank you for the success the FHLB Chicago has enjoyed. We look forward to continuing our progress through 2002 and beyond.



ALEX J. POLLOCK
PRESIDENT AND CEO

2001 BOARD OF DIRECTORS



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REDEFINING THE MORTGAGE MARKET: THE MPF® PROGRAM

UNDOUBTEDLY THE MOST EXCITING AND INNOVATIVE PROGRAM IN THE mortgage markets today is the alternative method of financing home loans developed by the FHLB Chicago. The MORTGAGE PARTNERSHIP FINANCE® Program creates a partnership between the Federal Home Loan Bank (FHLB) and members which adds much-needed competition and balance to the secondary mortgage market, specifically the traditional Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac. The MPF® Program benefits members as well as American homebuyers.

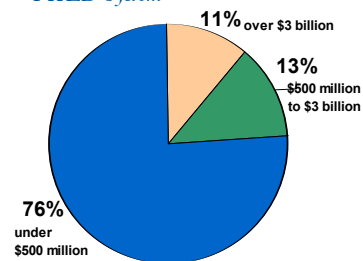
The MPF Program began in 1997 when the FHLB Chicago funded the mortgage loan for a modest three-bedroom bungalow in northwest Chicago. Since then, the MPF Program has grown rapidly due to enthusiastic demand from mortgage lenders. Today, the MPF Program is available through 9 FHLBs.

By December 31, 2001, FHLB members have created \$24.8 billion of MPF Program outstanding loans which represent every state of the country. In only five years, thousands of individuals and families have purchased new homes or lowered the cost of their existing homes as a result.

WHY DOES THE MPF PROGRAM WORK SO WELL? MEMBERS DON'T SELL residential mortgage loans because of credit risk; they sell them because of interest rate risk. With the MPF Program, the FHLB manages the interest rate risk, and the member is rewarded for retaining a principal portion of the credit risk. The better a loan performs, the more profitable the Participating Financial Institution (PFI) becomes. The MPF Program allows the PFI to maintain its customer relationships and is a more efficient way to fund fixed-rate mortgages. The MPF Program provides two sources of improved profits: a better upfront price and improved fee income because PFIs do not pay a guarantee fee — they receive a credit enhancement fee.

Financial institutions of all sizes have joined the program. Of the 132 PFIs in Illinois and Wisconsin as of December 31, 2001, 3% had assets in excess of \$1 billion, 11% had assets less than \$1 billion but greater than \$100 million, and over 86% had assets below \$100 million. Systemwide, the numbers are similar (*see chart 1*). Indeed, the MPF Program is for members of all sizes. Throughout the FHLB System, 282 institutions had become PFIs by December 31, 2001.

Chart 1: PFI Asset Size for FHLB System



Over the past year, MPF Program loans have grown significantly faster than Fannie Mae's or Freddie Mac's total mortgage portfolio, including their mortgage-backed securities. From 2000 to 2001, Fannie Mae grew 19%, Freddie Mac grew 18% and the MPF Program grew 61%. At the same time, the MPF portfolio experienced fewer delinquencies than the national average. For conventional loans, the MPF delinquency rate by the end of 2001 was 0.68%, with the national average at 3.42%.

The MPF Program has been proven to work for Americans of all income levels. Of the more than 276,000 loans funded under the Program by the end of 2001, over half have been funded for borrowers

“ SINCE THE MPF PROGRAM BEGAN IN JUNE 1997, I HAVE HEARD NOTHING BUT GOOD REVIEWS ABOUT ITS INNOVATIVE APPROACH TO FINANCING HOME MORTGAGES. THE NEW COMPETITION WHICH MPF ADDS TO THE SECONDARY MORTGAGE MARKET BENEFITS BOTH COMMUNITY LENDERS AND HOMEBUYERS. THAT IS WHY THE PROGRAM ENJOYS THE OVERWHELMING SUPPORT OF BOTH THE ILLINOIS AND WISCONSIN CONGRESSIONAL DELEGATIONS. ”

U.S. REPRESENTATIVE DON MANZULLO (IL)
HOUSE FINANCIAL SERVICES COMMITTEE



REDEFINING THE MORTGAGE MARKET: THE MPF® PROGRAM

with low to moderate incomes. In total, loans to borrowers with incomes equal to or less than 100% of the MSA Median comprise 50% of MPF loans funded.

The MPF Program has also proven to be a profitable program for the FHLB Chicago. This can be seen as MPF assets have raised the FHLB Chicago's ROE, which, in turn, has allowed the Bank to offer very attractive dividends to members. The post-REFCO return on equity was 8% for 2001, which was the highest in the FHLB System.

THE FHLB CHICAGO SERVES THE FHLB SYSTEM AS THE OPERATIONAL center for the MPF Program. The FHLB Chicago provides many services for other FHLB MPF Banks, including: transaction processing, systems development, pricing, quality assurance, reporting and documenting, product development, master servicing, custody, and research and development.

In April of 2001, the FHLB Chicago implemented a Customer Support Desk for PFIs throughout the country. The Customer Support Desk is staffed by knowledgeable staff ready to assist PFIs and to answer questions about MPF origination and servicing guidelines as well as requests for MPF product descriptions, information, and forms. PFIs can call the toll free number at 1-877-463-6673, Monday through Friday from 8:30 a.m. to 4:30 p.m. (Central Time). PFIs can also e-mail questions and requests to the Help Desk at MPF-Help@fhlbc.com.

THE ELECTRONIC MORTGAGE SYSTEMS CREATED AT THE FHLB CHICAGO ARE all custom-designed, state-of-the-art systems. All financial entries are automated for the MPF Banks. A full 95% of all customer transactions are handled with no human interface. This highly efficient and tightly controlled system has enabled the MPF Program to move forward in an increasingly complex mortgage environment. The controls within these systems are independently examined by KPMG LLP to obtain reasonable assurance of the effectiveness of such controls.

Due to the success of the Program, a special relationship between the FHLB MPF Banks has been created. Within the FHLB Chicago, a newly established department called FHLB Relationships has been commissioned to serve as liaison to other FHLBs. This department coordinates monthly conference calls, arranges quarterly partnership meetings, handles document flow, and maintains complete document files on the relationships. The new arrangement has improved communication between the FHLBs and has had a positive effect on how the MPF Program is viewed nationally.

RISK MANAGEMENT IS ONE OF THE MOST IMPORTANT ASPECTS OF THE MPF Program, and this activity is handled in a unique fashion. The PFI provides a credit enhancement structure to the "AA" subordination level. The FHLB manages the interest rate risk by using a variety of readily traded risk management tools, including: fixed rate/fixed term consolidated obligation bonds, callable consolidated obligation bonds, swaps, and options. The FHLBs have already been successful in managing the risks of mortgage assets for more than a decade.

“ALEX POLLOCK AND HIS TEAM AT THE CHICAGO HOME LOAN BANK ARE TO BE COMMENDED FOR CREATING AND DEVELOPING THE MPF PROGRAM. WE STRONGLY SUPPORT ITS CENTRAL CONCEPT OF IMPROVING THE SECONDARY MORTGAGE MARKET THROUGH ADDED COMPETITION.”

JAMES M. MURPHY, CHAIRMAN,
MORTGAGE BANKERS ASSOCIATION OF AMERICA



SOLD

REDEFINING THE MORTGAGE MARKET: THE MPF[®] PROGRAM

The FHLB Chicago employs state-of-the-art risk measurement and management techniques, including daily mark-to-market of all on- and off-balance sheet instruments as well as daily market sensitivity analysis. Going forward, the FHLB Chicago will continue to develop additional risk management and risk transfer alternatives.

The MPF Program is growing, both in loan volume as well as program options. Some features that will be available to PFIs include a Servicing Released Option and Multiple Remittance Actual/Actual investor servicing.

THE FHLB CHICAGO HAS DISCOVERED, THROUGH DISCUSSIONS WITH MEMBERS, that many institutions would like to be able to sell the servicing of their loans. Currently, we are exploring ways to offer a Servicing Released Option through the MPF Program. This would give the PFI a choice between retaining the loan servicing activity or receiving a servicing released premium.

THE NEW “MULTIPLE REMITTANCE ACTUAL/ACTUAL” OPTION IS CURRENTLY being tested by three members of the FHLB Chicago. Because the FHLB receives the proceeds from P&I payments more quickly, this investor reporting option provides a higher up-front price than the current Single Remittance Actual/Actual option. With the Multiple Remittance Actual/Actual option, the PFI maintains a P&I custodial deposit account at the FHLB Chicago. Whenever total loan collections are greater than \$2,500, net of servicing fees, the PFI simply deposits the funds in its custodial deposit account. In addition to the attractive up-front price, the Multiple Remittance Actual/Actual investor reporting option is much simpler than Scheduled/Scheduled investor reporting.

THE MPF PROGRAM CURRENTLY OFFERS AN ELECTRONIC ONLINE transaction option for PFIs that prefer fast, efficient processing and reporting. Called “eMPF™,” this option is a secure transaction website. By submitting loan files electronically, PFIs can determine if their loans are eligible for delivery and obtain a Credit Enhancement determination, either via batch processing or on a loan level data entry basis. Both conventional and government loans can be submitted through the eMPF Website. The price feature within eMPF allows users to view the current indicative price schedules as well as the credit enhancement, purchased loan balance, interim or accrued interest, agent fee or premium/discount, and net funding amount for each loan submitted in a batch or on a loan level basis. PFIs can also fund loans previously evaluated for credit enhancement through the eMPF website.

The MPF Program also has a new, expanded presence on the FHLB Chicago’s website. When visiting fhlc.com, click on “Mortgage Partnership Finance Program”. There, browsers will find a wide range of useful information, including product descriptions, eMPF instructions, press releases, product bulletins and notices, and much more.

“IT IS FITTING THAT THE MPF PROGRAM IS ESTABLISHED BY THE FHLB CHICAGO. IT SERVES AS A REMINDER OF OUR CITY’S BEST TRADITION; WELCOMING PEOPLE TO SHARE IN OUR NEIGHBORHOODS, TO RAISE FAMILIES HERE, AND TO JOIN WITH US IN MAPPING A BRIGHT FUTURE. LIKE CHICAGO, MPF EMBODIES CREATIVITY, COOPERATION, AND EVEN COMPETITION.”

**U.S. REPRESENTATIVE LUIS V. GUTIERREZ (IL)
HOUSE FINANCIAL SERVICES COMMITTEE**



REDEFINING THE MORTGAGE MARKET: THE MPF[®] PROGRAM

What do PFIs think of the MPF Program?

THE BANK OF LUXEMBURG, LUXEMBURG, WISCONSIN, WAS APPROVED AS A PFI in April of 1999 and had delivered \$70.3 million by year-end 2001. David Luebbbers, President, said, “The MORTGAGE PARTNERSHIP FINANCE Program has enabled us to be competitive with the larger institutions due to the very competitive rates we were able to offer our customers. Our customers are very aware of our loan relationship and are very comfortable dealing with a local bank. We have received calls from our larger competitors inquiring into our rates. The FHLB has allowed us to be an active part of the program. They value our opinion and expertise in the mortgage program. Additionally, the credit enhancement fees have added to our bottom line.”

THE FARMERS STATE BANK AND TRUST COMPANY, JACKSONVILLE, ILLINOIS was approved as a PFI in August of 2000 and had delivered \$6.6 million by year-end 2001. Kevin Heitz, Assistant Vice President, explained why his institution joined the MPF Program. “Like many rural community banks, our residential lending portfolio consisted entirely of three year balloon mortgages. In order to be competitive in today's environment, we needed to offer a fixed rate mortgage product. We tried a third party origination relationship that proved to be confusing to our customers and not very profitable. We tried establishing a relationship with a government sponsored agency only to be told that we lacked the necessary secondary market underwriting experience. Then we heard about MPF. We were amazed at how easy it was to establish a relationship with MPF. The mortgage volume originated in our first year of participation exceeded even our most optimistic projections. Not only are we now able to offer our existing customers a very competitive product, but we've been able to attract new business that, prior to MPF, would have never been a possibility. Our initial goal was merely to retain our existing customer base, but in doing so, it has proven to be very profitable.”

The MPF Program has proven to be a success in a very short time. The Program creates greater competition in the secondary mortgage market, has grown to include most of the FHLBs in the System, and creates a larger role for PFIs in home financing. It represents a major commitment to technological infrastructure and demands a high level of control and risk management. The MPF Program will continue to grow to satisfy the mortgage needs of our members.

“MORTGAGE PARTNERSHIP FINANCE” and “MPF” are registered trademarks of the Federal Home Loan Bank of Chicago.

“eMPF” is a trademark of the Federal Home Loan Bank of Chicago.

“THE SECONDARY MORTGAGE MARKET NEEDS MORE COMPETITION, WHICH IS WHAT MPF PROVIDES. MPF HAS SIGNIFICANT POTENTIAL FOR THE MORTGAGE INDUSTRY.”

LEWIS S. RANIERI, FMR. VICE CHAIRMAN, SALOMON BROTHERS, INC.
FMR. CHAIRMAN, BANK UNITED



THE MANY BENEFITS OF COMMUNITY INVESTMENT

THE FHLB CHICAGO OFFERS MEMBERS A WIDE VARIETY OF REDUCED-COST products under the Community Investment and Affordable Housing programs. Members can strengthen their community reinvestment activities by taking advantage of subsidy and grant programs, lower rate financing products, and by seeking technical assistance for community development financing, ranging from affordable housing to industrial activities.

THE COMMUNITY INVESTMENT CASH ADVANCES OFFER BELOW MARKET RATE advances to finance qualifying community lending projects. These advances are generally priced 45 basis points below regular FHLB Chicago advances and are available for terms ranging from one month to 30 years. Members can, in turn, lend these funds to homebuyers, for-profit, not-for-profit, or public developers of housing, economic development projects, community facilities, and infrastructure.

The Community Investment Program (CIP) provides advances to finance housing and economic development projects. CIP funds may be used to:

- Finance economic development projects that benefit low- and moderate-income families and workers (<80% of area median income) or that are located in qualified geographic areas such as low- and moderate-income neighborhoods, Empowerment Zones, or Enterprise Communities.
- Finance the purchase or rehabilitation of housing for rent by families whose incomes do not exceed 115% of area median income;
- Finance home purchases by families whose incomes not not exceed 115% of area median income.

THE ECONOMIC DEVELOPMENT ADVANCE (EDA) PROVIDES ADVANCES FOR community and economic development projects inclusive of community facilities, infrastructure, Brownfields projects, and small businesses. A \$25 million pool has been reserved for use in the program. The advances are for five to 10 years at the CIP rate, with a significant rate discount in the first year. Members are encouraged to call the Community Investment Department to inquire about availability.

CIP STANDBY LETTERS OF CREDIT ARE AVAILABLE TO FACILITATE RESIDENTIAL housing finance and economic development. They may be used in a variety of ways, including collateralization of public unit deposits and as a credit enhancement for financial instruments involving community lending. As with CIP advances, the letters of credit are also available at a reduced cost to members.

In 2001, the Community Investment Program generated over \$271.8 million in new Community Investment Cash Advance (CICA) credit.

“THE COMMUNITY INVESTMENT PROGRAMS OFFERED BY THE CHICAGO FHLB SERVE A VITAL ROLE IN THE AFFORDABLE HOUSING EFFORTS IN ILLINOIS AND WISCONSIN. THE HOME LOAN BANK SERVES AS A STRATEGIC PARTNER WITH ITS MEMBER INSTITUTIONS TO PROMOTE PROJECTS THAT NOT ONLY PROVIDE BASIC HOUSING NEEDS, BUT ALSO ENRICH THE SURROUNDING COMMUNITY.”

MICHAEL M.F. LIU, ASSISTANT SECRETARY OF PUBLIC & INDIAN HOUSING
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT



THE MANY BENEFITS OF COMMUNITY INVESTMENT

THE AFFORDABLE HOUSING PROGRAM (AHP) PROVIDES GRANTS TO MEMBER institutions to assist in the creation and preservation of housing for lower income families and individuals. The FHLB Chicago always contributes a minimum of 10% of its previous year's net income to the AHP fund.

FHLB Chicago members have access to affordable housing funds through a competitive application process conducted twice a year, in April and October. The subsidy is provided as a direct payment through the member to reduce the cost of the housing, or, in special circumstances, as a subsidized loan. The AHP subsidy must be used to finance the purchase, construction, or rehabilitation of either owner-occupied housing for households at or below 80% of area median income or affordable rental housing with at least 20% of the units occupied by households with incomes at or below 50% of area median income.

In 2001, the FHLB Chicago awarded \$13.7 million in competitive AHP grants to 77 member-sponsored projects in order to create more than 2,700 units of affordable housing, of which about 1,400 (1,406) or 51% were targeted for very low income units. Over \$2.67 million (\$2,678,045.80) in down-payment and closing cost assistance grants was disbursed using 2001 AHP set-aside funds through the Downpayment Plus® Program.

LASALLE BANK, NATIONAL ASSOCIATION IN CHICAGO HAS BEEN A STRONG supporter of the FHLB Chicago's Affordable Housing Program, receiving AHP awards for some 50 projects assisting very low, low and moderate income households. Many projects offer more than affordable housing, as is the case in the aptly named "Brand New Beginnings" on Chicago's south side. This project offers supportive, permanent housing to 24 formerly homeless women and their children. A comprehensive social service and training program is offered through a network of agencies and an on-site social worker. The building owner and developer, Brand New Beginnings, is a subsidiary of The Chicago Coalition for the Homeless, and has connected thousands of women with employment, childcare, and housing services. The three-story building underwent a \$2.7 million rehabilitation, with financing from LaSalle Bank, N.A., the Illinois Housing Development Authority, and the City of Chicago in addition to the \$115,000 AHP subsidy.

ANCHORBANK, FSB IN MADISON, WISCONSIN IS ANOTHER FREQUENT USER OF AHP funds, having received 20 AHP project awards. The financial institution recently partnered with Wisconsin Good Samaritan Housing to construct senior housing in the small rural community of Fennimore, Wisconsin. The 16-unit, one-story building, located next to an existing nursing care center, offers an independent housing option for very low income seniors who want to remain in the community. In addition to affordable housing, the project offers supportive services to help with shopping, house-keeping, home health care, and transportation. The \$112,000 AHP subsidy through AnchorBank, FSB plugged a financing gap in the \$1.2 million project that was financed with a HUD capital advance.

“TO REMAIN A VITAL FORCE IN OUR NATION’S HOUSING FINANCE SYSTEM, FEDERAL HOME LOAN BANKS MUST CONTINUE TO LOOK FOR NEW WAYS TO SERVE THEIR MEMBERS. INNOVATIONS LIKE THE MPF PROGRAM POINT THE WAY.”

JOHN T. KORSMO, CHAIRMAN
FEDERAL HOUSING FINANCE BOARD



THE MANY BENEFITS OF COMMUNITY INVESTMENT

SINCE 1996, THE FHLB CHICAGO HAS DEDICATED UP TO 15% OF ITS AHP funds for a special homeownership program, Downpayment Plus®, that is not part of the competitive AHP process. The Downpayment Plus Program allows all FHLB Chicago members to provide downpayment and closing cost assistance grants when they provide first mortgage financing to income-eligible first-time home buyers.

Grants of up to \$3,000 were available to borrowers whose incomes were 80% or less of the area median income. Funds are available on a first-come, first-served basis, with per-member limits established yearly. The funds are separately administered for each state by non-profit organizations. Members who want to participate in the program should contact the program sponsor for the state in which they are headquartered. In Illinois, contact the Illinois League of Financial Institutions and in Wisconsin, contact the Wisconsin Partnership for Housing Development.

Over \$2.67 million in downpayment and closing cost assistance grants were disbursed from \$3.5 million available through the Downpayment Plus Program in 2001.

NEW TO THE FHLB CHICAGO IS THE HOMEOWNERSHIP INDIVIDUAL Development Account (HIDA) initiative. Under the HIDA program, the FHLB Chicago provides matching grant funds through a member institution for a participating household. The FHLB Chicago will match \$1 to every \$1 saved by that household, up to \$1000, provided that the savings is used for down payment accumulation. At the end of a pre-determined savings period, the participating household must complete the purchase of a home.

A participating household that receives a grant must have a household income of no more than 80% of the median income for the area, adjusted by family size, as published annually by HUD. They must also be first-time homebuyers. Households that qualify are required to complete a homeownership counseling program provided by, or based on one provided by, an organization experienced in homeownership counseling. The FHLB Chicago will provide the funds to help pay for the counseling program.

The HIDA program requires that all funds be expended by December 31, 2003. Approved programs also must provide progress reports to the FHLB Chicago. In 2001, the FHLB Chicago awarded over \$400,000 in matching grants for 14 programs.

In 2001, Eldridge Edgecombe joined the FHLB Chicago as Senior Vice President of the Community Investment Department, replacing Michael M. Liu, who left to become Assistant Secretary for Public and Indian Housing at the U.S. Department of Housing and Urban Development. Mr. Edgecombe comes to Chicago from the Cincinnati FHLB where he was the COO of that bank's Housing and Community Investment staff. He has more than 28 years of housing and financial experience.

"Downpayment Plus" is a registered trademark of the Federal Home Loan Bank of Chicago.

“THE GREATEST SELLING POINT OF MPF IS ITS PROMISE OF AN ATTRACTIVE PROFIT POTENTIAL FOR LENDERS ON BOTH A STAND-ALONE BASIS AND RELATIVE TO FANNIE MAE AND FREDDIE MAC. UNDER MPF, LENDERS CAN EARN RETURNS FOR ASSUMING MORTGAGE CREDIT RISK, VERSUS THE PAYMENT OF GUARANTEE FEES TO FANNIE MAE AND FREDDIE MAC. . . . WE BELIEVE MPF COULD PROVIDE LENDERS WITH A NEW AVENUE WITH WHICH TO GENERATE HIGH RETURNS ON CAPITAL FOR THE MANAGEMENT OF A LAYER OF CREDIT RISK.”

FOX-PITT, KELTON REPORT: GSE COMPETITION —
A BIGGER ISSUE THAN INVESTORS MAY REALIZE

Advance Plans

fhlbc.com

Deposit Products

MORTGAGE PARTNERSHIP FINANCE[®] Program

Community Investment Programs

Non-Credit Services

Off Balance Sheet Products



AT THE FOREFRONT:

TECHNOLOGICAL ADVANCES

EACH YEAR, TECHNOLOGY BECOMES MORE AND MORE IMPORTANT IN RUNNING a highly responsive, efficient business. The FHLB Chicago works diligently to ensure that the Local Area Network and all related computer systems are performing efficiently and effectively. Through the use of a strong technological base, the FHLB Chicago is poised to lead the way into the new century.

THE TECHNOLOGICAL ADVANCE MOST READILY APPARENT TO MEMBERS in 2001 was eBanking, our customer-specific report website. eBanking offers members/customers of the FHLB Chicago Internet access to many of their statements and reports, including five “operations” reports: Daily Cash Management Statement, Monthly Cash Management Statement, Safekeeping Monthly P&I Statement, Monthly DDA Statement, and Wire Activity Report, and four “marketing” reports: Customer Profile Daily, Profile Prior Month, Profile Prior Quarter, and the Advances by Maturity Date reports.

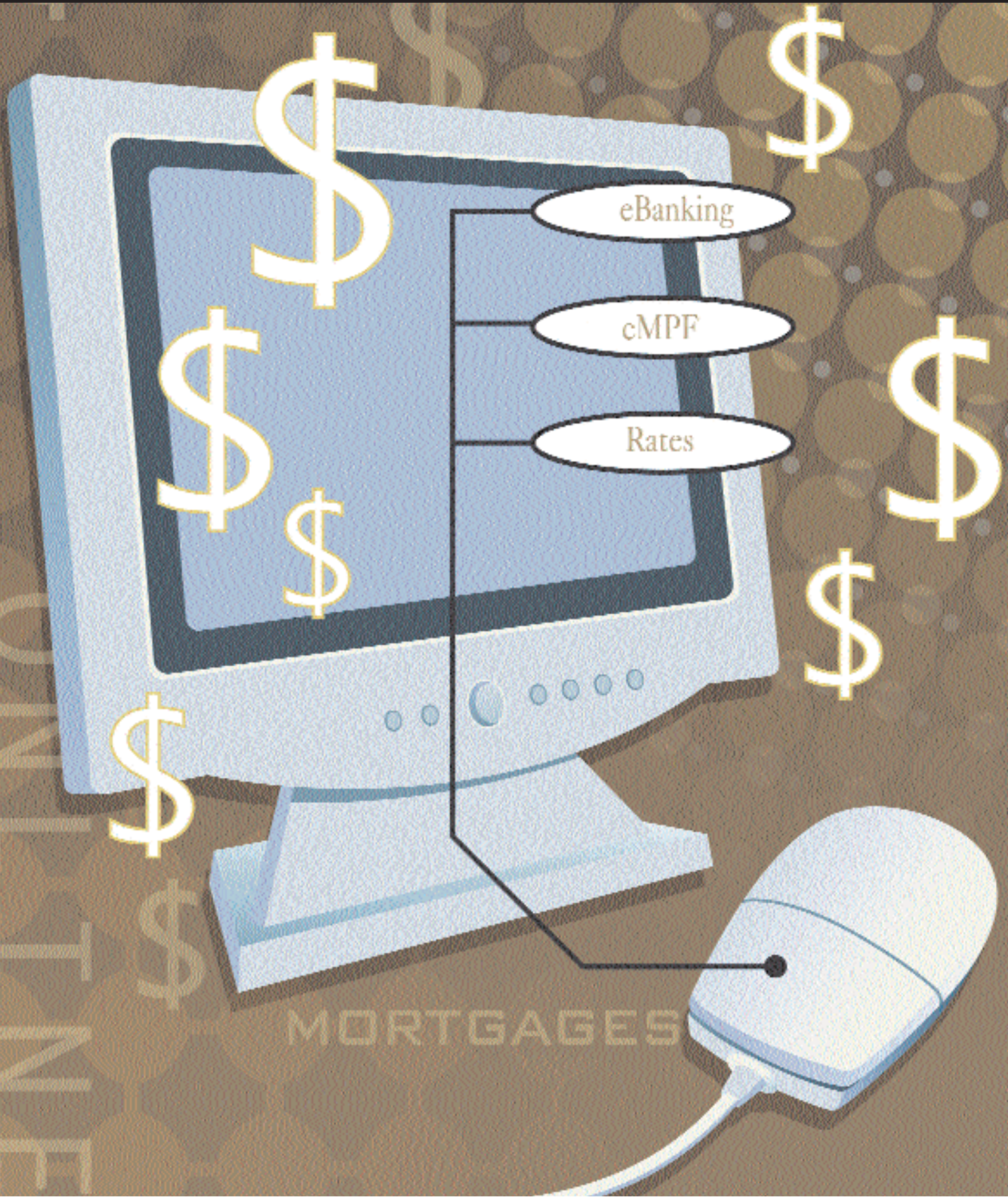
The Daily Cash Management Statement replaced our old “Dial-A-Statement” system, which was decommissioned in December after many years of reliable service. Other reports were mailed and/or faxed to members, depending upon prior arrangements. All of these reports have been greatly improved for eBanking and many also offer several months of history online. Perhaps the greatest benefit for members is that these reports are now only minutes away and can be accessed at a member’s convenience. There is no charge for this service.

Over time, many more reports will be added to eBanking. We invite all members to take advantage of the system. To access eBanking, simply go to our website, located at www.fhlbc.com. First, click on “Members”, then click on “eBanking”. Enter your ID and password to have full access to a multitude of valuable information. To request additional passwords, members are encouraged to call Joe Bliujus at 312-565-5347.

THE FHLB CHICAGO HAS ESTABLISHED A BUSINESS RECOVERY CENTER, geographically separate and able to operate independently. Intended to take over for bank operations should a disaster arise, considerable resources over the years have been invested in the Center to ensure members that business will continue. The FHLB Chicago had to move operations to the Center during the tragic events of September 11. The 111 East Wacker building was closed and employees had to vacate the building. The FHLB Chicago completed a successful move to the Center and within a few hours, systems were up and available to members and business was conducted for the remainder of the afternoon and evening. On the next day, operations moved back to 111 East Wacker.

“IT IS CLEAR THAT THE MPF PROGRAM IS HERE TO STAY, AND THAT IT WILL CONTINUE TO GROW, SINCE MPF OFFERS ORIGINATORS AN ATTRACTIVE ALTERNATIVE SOURCE OF EXECUTION . . . WE EXPECT THE MPF PROGRAM TO BE A GROWING FIXTURE IN THE MORTGAGE LANDSCAPE.”

PAINWEBBER MORTGAGE STRATEGIST



THE FHLB CHICAGO

SHOWS LEADERSHIP

ONE OF THE FHLB CHICAGO'S GOALS IS TO DEMONSTRATE LEADERSHIP IN managerial and financial arenas. Over the past year, there have been many examples of leadership. Perhaps the most visible example is the success of the MPF Program.

Financial leadership can be shown in advance and mortgage loan growth from 2000 to 2001. The FHLB Chicago ranked first in the FHLB System with a 44.8% growth rate and first in ROE after REFCO with 8.01%. The FHLB Chicago ranked second in total net income growth with 25.4% while ranking third in interest margin of .55%. Diversification is also an important goal of the FHLB Chicago, one of the most diversified banks in the FHLB System.

The FHLB Chicago also leads the System in FAS 133 accounting issues and implementation, and developed Homeownership Individual Development Accounts for consumer downpayment accumulation. Management for the FHLB Chicago served in a lead role on the System's Funding Task Force project and developed an alternative legal and policy approach to multi-district membership.

THE FHLB CHICAGO DEVELOPED A UNIQUE CAPITAL PLAN, WHICH WAS submitted to the Finance Board in Washington in October, 2001 under the provisions stipulated in the Gramm-Leach-Bliley Act. The FHLB Chicago's philosophy is to create capital that members want, rather than viewing capital as a penalty for membership.

The plan, structured to minimize tax and accounting issues for members, establishes two classes of stock: Class A, redeemable on six months' notice, and Class B, redeemable on five years' notice. Although both classes of stock will be issued and redeemed at par of \$100, Class A has features similar to preferred stock, such as dividend and liquidation preferences, while Class B stock will be analogous to common stock, the junior position with higher return potential.

This approach is more voluntary than many other proposed plans. It will allow clearer signals from members, in keeping with the cooperative structure of the FHLB Chicago. Through voluntary stock purchases, FHLB Chicago members will help determine how many assets the bank can support, rather than determining for members how much capital they must buy.

The capital plan is still in the process of discussion with the FHF. Members will be informed of the progress of the plan later in 2002.

THE FHLB CHICAGO, ITS MANAGEMENT, AND ITS STAFF ARE PROUD of the strong leadership role the bank has taken throughout the FHLB System. With examples such as the MPF Program, the FHLB Chicago remains ready to assist members with their financial needs far into the future. The Bank will continue to work towards demonstrating its leadership and financial expertise.

STATEMENT OF CONDITION

	December 31,	
	2001	2000
	(In thousands)	
Assets		
Cash and due from banks (Note 3)	\$ 2,099	\$ 4,194
Securities purchased under agreements to resell (Note 4)	49,895	45,685
Federal funds sold	3,165,000	2,397,000
Investments:		
Held-to-maturity securities includes \$187,895,320 and \$181,025,000 pledged in 2001 and 2000 (Note 5)	5,254,416	5,779,596
Securities held at fair value (Note 6)	1,826,176	—
Advances (Note 7)	21,901,609	18,462,288
Mortgage loans net of allowance for credit losses of \$3,339,520 in 2001 and \$1,502,568 in 2000 (Note 9)	16,570,308	8,102,680
Accrued interest receivable	242,021	578,352
Bank premises and equipment, net	19,455	12,394
Derivative assets (Note 15)	149,627	—
Other assets	5,291	6,589
Total Assets	\$ 49,185,897	\$ 35,388,778
Liabilities and Capital		
Liabilities		
Deposits: (Note 10)		
Demand and overnight	\$ 1,527,712	\$ 1,654,290
Term	109,702	155,075
Other	122,802	200,767
Total deposits	1,760,216	2,010,132
Borrowings:		
Securities sold under agreements to repurchase (Note 11)	800,000	—
Total Borrowings	800,000	—
Consolidated obligations, net: (Note 12)		
Discount notes	8,995,376	4,948,713
Bonds	34,273,282	25,953,135
Total consolidated obligations, net	43,268,658	30,901,848
Accrued interest payable	446,532	664,059
Affordable Housing Program (Note 8)	36,816	31,979
Payable to REFCORP (Note 13)	18,053	8,696
Derivative liabilities (Note 15)	330,509	—
Other liabilities	22,329	70,796
Total Liabilities	46,683,113	33,687,510
Commitments and contingencies (Notes 8, 12, 13, 14 and 18)		
Capital (Note 13)		
Capital stock (\$100 par value) issued and outstanding shares: 23,943,341 shares in 2001 and 16,308,053 shares in 2000	2,394,334	1,630,805
Retained earnings (subject to restrictions)	110,429	70,463
Accumulated other comprehensive income:		
Unrealized loss relating to hedging activities	(1,979)	—
Total Capital	2,502,784	1,701,268
Total Liabilities and Capital	\$ 49,185,897	\$ 35,388,778

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

STATEMENT OF INCOME

	For the Years Ended December 31,		
	2001	2000	1999
	(In thousands)		
Interest Income:			
Advances	\$ 882,358	\$ 1,185,628	\$ 871,143
Interest-bearing deposits in banks	76	—	—
Securities purchased under agreements to resell	2,200	3,775	23,115
Federal funds sold	96,481	155,326	136,615
Investments:			
Held-to-maturity securities	278,900	409,428	351,548
Securities held at fair value	50,293	-	-
Mortgage loans, including fees	723,983	360,314	81,985
Loans to other FHLBanks	295	541	247
Total interest income	<u>2,034,586</u>	<u>2,115,012</u>	<u>1,464,653</u>
Interest Expense:			
Consolidated obligations	1,740,900	1,797,074	1,127,748
Deposits	82,208	105,705	168,182
Securities sold under agreements to repurchase	1,107	—	—
Borrowings from other FHLBanks	—	4	—
Other borrowings	27	—	188
Total interest expense	<u>1,824,242</u>	<u>1,902,783</u>	<u>1,296,118</u>
Net Interest Income	<u>210,344</u>	<u>212,229</u>	<u>168,535</u>
Provisions for credit losses on mortgage loans	1,810	906	452
Net Interest Income after Provision for Credit Losses	<u>208,534</u>	<u>211,323</u>	<u>168,083</u>
Other Income:			
Service fees	1,033	1,067	1,099
Net loss on securities held at fair values	(4,872)	—	—
Net gain on derivatives and hedging activities	62,996	—	—
Other, net	2,958	1,340	1,105
Total other income	<u>62,115</u>	<u>2,407</u>	<u>2,204</u>
Other Expenses:			
Operating	38,332	29,844	24,434
Finance Board and Office of Finance	2,018	1,641	1,610
Other	10,449	4,567	1,272
Total other expenses	<u>50,799</u>	<u>36,052</u>	<u>27,316</u>
Income before Assessments	<u>219,850</u>	<u>177,678</u>	<u>142,971</u>
Affordable Housing Program	17,996	14,355	12,464
REFCORP (Note 1)	40,478	32,299	—
Total Assessments	<u>58,474</u>	<u>46,654</u>	<u>12,464</u>
Income before Extraordinary Item and cumulative effect of change in accounting principle	<u>161,376</u>	<u>131,024</u>	<u>130,507</u>
Extraordinary loss on early extinguishment of debt	—	(1,870)	—
Cumulative effect of change in accounting principle	573	—	—
Net Income	<u>\$ 161,949</u>	<u>\$ 129,154</u>	<u>\$ 130,507</u>
The accompanying notes are an integral part of these financial statements.			
Supplemental Disclosure: (unaudited)			
Net Income	\$ 161,949	\$ 129,154	\$ 130,507
REFCORP capital distribution	—	—	18,718
Income after REFCORP capital distribution	<u>\$ 161,949</u>	<u>\$ 129,154</u>	<u>\$ 111,789</u>

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