

Balance Sheet

FEDERAL HOME LOAN BANK OF CHICAGO • MEMBER NEWSLETTER • NOVEMBER 2010

FHLBC Files 3Q 2010 Results

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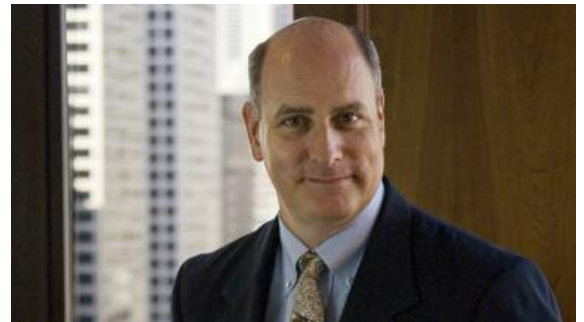
On October 28, the FHLB Chicago emailed a letter from President Matt Feldman announcing preliminary financial results from the third quarter 2010. We then filed our Form 10-Q with the Securities and Exchange Commission (SEC) on November 10. Financial highlights include:

We recorded net income of \$117 million for the third quarter of 2010. Our results were, once again, positively impacted by higher-than-usual prepayment fees on advances and gains on derivative and hedging activities. However, our earnings were reduced by credit-related other-than-temporary-impairment charges of \$76 million on our private-label mortgage-backed securities portfolio.

Our retained earnings reached \$967 million at September 30, 2010, the highest level in our history and a significant indication of our improving financial strength.

Advances at quarter-end were \$18.8 billion, down 11% from the previous quarter-end, and 26% from a year ago. Total assets were \$88.6 billion at September 30, 2010.

Mortgage Partnership Finance[®] (MPF[®]) loans held in portfolio at quarter-end were \$20.1 billion, down \$1.5 billion (7%) from the previous quarter-end. We anticipate continuing reductions in the level of MPF loans on our balance sheet as a result of our 2008 decision not to add MPF loans to our balance sheet. MPF Xtra[®] volumes, however, increased by \$1.3 billion during the third quarter, building



fee income to support our MPF activities.

We continue to await action from our regulator, the Federal Housing Finance Agency (FHFA), on our submitted, but not yet approved, application to convert our capital stock to a structure consistent with the Gramm-Leach-Bliley Act.

Seven of our members have been resolved since the end of the second quarter of 2010. Unfortunately, we anticipate that there will be more resolutions in the future. We have not experienced any credit losses in connection with these resolutions.

We remain in compliance with all of our regulatory capital requirements.

For a fuller explanation of our financial results and other issues mentioned here, please review our Form 10-Q for the third quarter of 2010.

You can access it through our website or the SEC's reporting website, www.sec.gov/edgar. If you have questions, please contact your relationship banker.

This newsletter contains forward-looking statements which are based upon our current expectations and speak only as of the date hereof. These statements may use forward-looking terms, such as "anticipates," "believes," "expects," "could," "plans," "estimates," "may," "should," "will," or their negatives or other variations on these terms. We caution that, by their nature, forward-looking statements involve risk or uncertainty, that actual results could differ materially from those expressed or implied in these forward-looking statements, and that actual events could affect the extent to which a particular objective, projection, estimate, or prediction is realized. These forward-looking statements involve risks and uncertainties including, but not limited to, the risk factors set forth in our periodic filings with the Securities and Exchange Commission, which are available on our website at www.fhlbc.com. We assume no obligation to update any forward-looking statements made in this newsletter.

The mission of the FHLB Chicago is to partner with our member shareholders in Illinois and Wisconsin to provide them competitively priced funding, a reasonable return on their investment in the Bank, and support for community investment activities.

A Sweet Deal on MPF Xtra® Pricing

Join more than 150 FHLB Chicago members that use the MPF Xtra® product to support mortgage lending in their communities and maintain their important customer relationships. Members of any size can sell their conventional mortgage loans, which transfers the interest-rate, prepayment, and credit risks of the loan, and still retain the servicing rights with their valuable customers under the MPF Xtra product.

Thirteen years ago, First Federal Savings and Loan in Shelbyville started using the Mortgage Partnership Finance® (MPF®) Program as a way to better manage its interest-rate risk. At the time, First Federal's portfolio consisted of about 80% long-term, fixed-rate loans, and



allows us to service the customers that meet the criteria [for conventional loans]. For those that don't, we have our in-house product," he said.

"Home lending gives you the first shot at anything else the customer might need," Brachbill continued.

20% adjustable rate loans, said CEO Tadd Brachbill. Now that ratio has flip-flopped.

"The MPF Xtra product

Webinar: Introducing the MPF Xtra Product

Please plan to attend a free webinar on December 1 at 2 p.m.

"Introducing the MPF Xtra Product" will review the benefits of the product and outline how to get started. To register, visit our website, www.fhlbc.com and click on "Events Calendar."

MPF Xtra "makes us as competitive, if not more competitive, than the banks around us." Benefits include:

- Direct access to competitive pricing
- Third-party investor structure eliminates the need for risk-based capital or collateral
- Integrated investor reporting for all MPF loans

MPF Xtra's pricing and service are sweet deals – for you, your community, and your customers.

For more information, visit our website www.fhlbc.com and click on Mortgage Partnership Finance Program. Or, contact your relationship banker or Cecille Duncan at 312-552-2779 or CDuncan@fhlbc.com.

Highlights from the Balance Sheet Management Conferences

In October and November, the Federal Home Loan Bank of Chicago hosted seven Balance Sheet Management Conferences across Illinois and Wisconsin. Ninety-seven current and prospective members attended. Presentations included:

- Stress Testing Your Balance Sheet's Liquidity
- Restructuring Your Balance Sheet with FHLB Chicago Advances
- Case Study: Fundamentals of Balance Sheet and Interest Rate Risk Management

Below are summaries of the presentations; the presentations are posted in their entirety on the home page of eBanking. Please call Patrick Quinn or the Member Transaction Desk at 877-230-1610 with any questions.

Stress Testing Your Balance Sheet's Liquidity

The 2008-2009 credit crisis and current stresses in the financial markets have highlighted the importance of an effective, workable liquidity risk management policy at financial institutions. The crisis has demonstrated that liquidity can evaporate more quickly than expected – and illiquidity can last longer than anticipated. Liquidity risk management is now on par with the other key member risk management practices such as credit risk, market risk, and operational risk.

As your institution manages its liquidity risk, consider the FHLB Chicago for both short- and long-term lending and emergency funding. The Federal Reserve is also a key liquidity provider; it is important to have agreements in place with both.

Then, identify the collateral you will deliver to both, and understand the differences in collateral requirements between the two institutions to ensure maximum flexibility.

When pledging collateral to the Federal Reserve, you should also consider the issues associated with the changing credit conditions of your institution, including primary credit versus secondary credit issues. Also, the FHLB Chicago will lend term.

Restructuring Your Balance Sheet with FHLB Chicago Advances

The current interest rate environment provides members the opportunity to evaluate new FHLB Chicago funding structures via restructurings, which can:

- Extend the duration of liabilities;
- Reduce current period interest expense;
- Potentially amortize prepayment fees; and
- Help members take advantage of historic low advance rates.

Members are encouraged to seek guidance from their accountants, auditors, and others prior to executing a restructuring. In addition, the FHLB Chicago will work with you to identify different advance structures; we'll calculate the advance prepayment fee, apply the appropriate discount, and execute the new advance.

Case Study: Fundamentals of Balance Sheet and Interest Rate Risk Management

The FHLB Chicago offers both fixed-rate advances (with and without options) and floating-rate advances

FHLBC Weekly Market Update Call

You're invited to attend a free conference call every Thursday at 3 p.m. to learn about developments in the financial markets as they relate to member balance sheets. Join Patrick Quinn for 20 minutes to get the week's scoop; Pat has extensive experience in financial markets, including foreign exchange, corporate debt sales, and asset/liability management. There is no need to register.

To join the call, dial 1-866-537-1632 (Passcode: 9883778#). Then log on to www.conferenceplus.com to view the slides.

(with and without caps), which can be used to hedge your income-at-risk in a variety of scenarios depending on the composition of your asset portfolio. In all five risk scenarios for 2011 presented at the conference, the FHLB Chicago showed short-term rates increasing. If indeed the economy improves, and if history is a guide, the increase in rates will not be smooth and trying to lengthen liabilities after the fact will be far less beneficial.

Members are borrowing term for a variety of reasons. They are hedging against future rates, and they are mitigating credit risk by encouraging their customers to take advantage of the low-rate environment. Historic low rates and volatilities could make the use of interest rate caps purchases advantageous when funding is not required.

Three Member Directors Elected to Board

The Federal Home Loan Bank of Chicago announced the results of the 2010 election of Federal Home Loan Bank member directors for member institutions in Illinois

and Wisconsin on November 18. The member directors' terms will begin on January 1, 2011.

Thank you for participating in this year's election process. Your con-

tribution ensures sound representation on our board of directors for the mutual benefit of the Bank and its member-stockholders.

Illinois:		Number of Members Eligible to Vote	519	
		Number of Members Casting Votes	247	
		Total Eligible Votes for Each Directorship	3,544,588	
Votes Received				
Two Member Directors	Roger L. Lehmann President, CEO & Chairman	The Harvard State Bank Harvard, IL	1,127,131	Term Expires: December 31, 2014 (Four-year term)
	Michael G. Steelman Chairman & CEO	Farmers & Merchants State Bank of Bushnell Bushnell, IL	1,268,590	Term Expires: December 31, 2014 (Four-year term)
Wisconsin:		Number of Members Eligible to Vote	271	
		Total Eligible Votes for Each Directorship	2,117,420	
Votes Received				
One Member Director	William W. Sennholz President & CEO	Forward Financial Bank (formerly known as Marshfield Savings Bank) Marshfield, WI	Declared Elected	Term Expires: December 31, 2014 (Four-year term)

Federal Home Loan Bank of Chicago

200 East Randolph Drive
Chicago, IL 60601
www.fhlbc.com

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