

TO OUR MEMBERS AND CUSTOMERS

The first half of 2002 was very successful for your Chicago Bank. Net income after REFCORP was \$89.0 million, up 55.7% from \$57.2 million for the first half of 2001. The FHLB Chicago ranked first in the FHLB System in return on equity.

The Mortgage Partnership Finance® Program continued to grow rapidly. Nationwide, total outstanding loans were \$30.6 billion, up \$5.8 billion from year-end, producing an annualized growth rate of 47%. Most of the increase is attributable to growth in the portfolio of conventional loans, which grew at an annualized rate of 83% during the same period. Nationwide, participating financial institutions (PFIs) rose to 345 members. In Chicago, PFIs increased to 141 and loans outstanding grew to \$20.6 billion.

At June 30, total membership at the Chicago Bank was 874 financial institutions, the highest in history. Advances outstanding were \$24.3 billion, \$5.2 billion higher than at the same time last year. Credit customers during the first half of 2002 were 630 institutions, which represented 72% of total membership. The average dividend for the year to date was 5.00%, an attractive 199 basis points over the moving average of one-year LIBOR.

Our Community Investment and Affordable Housing Programs continued their success. More than \$115 million in new CICA credit has been originated in 2002 and over \$8.2 million in AHP subsidies were awarded to 48 projects sponsored by member institutions and their nonprofit partners.

On June 12, the Federal Housing Finance Board approved the FHLB Chicago's new Capital Plan in accordance with the Gramm-Leach-Bliley Act. This plan allows the creation of a more permanent capital base and offers members flexibility and choice through two classes of stock. We will keep you informed as we move toward implementation tentatively in late 2003.

As always, our commitment is to turn financial expertise, innovation, and funding capacity into value for all members, and we look forward to continuing to be your strategic ally in mortgage finance.



Alex J. Pollock
President and CEO

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**Federal
Home Loan Bank
of Chicago**

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FEDERAL HOME LOAN BANK OF CHICAGO 2002 SEMI-ANNUAL REPORT



STATEMENT OF CONDITION

June 30, 2002 and 2001 (Unaudited \$ In thousands)

	June 30, 2002	June 30, 2001
Assets		
Cash and due from banks	\$ 3,144	\$ 4,108
Securities purchased under resale agreements	305,160	49,910
Investments:		
Held-to-maturity securities	4,705,156	4,874,017
Securities held at fair value	3,282,788	642,294
Federal funds sold	2,793,000	2,470,000
Advances	24,329,739	19,171,896
Mortgage loans net of loan loss reserve	20,671,025	9,830,095
Loans to other FHLBanks	287,000	—
Accrued interest receivable	294,891	198,444
Bank premises and equipment, net	18,842	16,187
Derivative assets	225,593	235,981
Other assets	22,418	12,066
Total Assets	\$ 56,938,756	\$ 37,504,998
Liabilities		
Deposits	\$ 3,165,383	\$ 2,071,761
Securities sold under repurchase agreement	1,200,000	—
Consolidated obligations:		
Bonds	37,392,567	24,785,356
Discount notes	11,457,960	7,940,939
Total consolidated obligations	48,850,527	32,726,295
Accrued interest payable	440,187	402,080
Affordable Housing Program	40,066	31,101
Payable to REFCORP	12,225	6,770
Derivative liabilities	299,636	273,920
Other liabilities	23,946	23,484
Total Liabilities	54,031,970	35,535,411
Capital		
Capital stock outstanding (\$100 par value)	2,805,098	1,892,952
Retained earnings	135,215	70,632
Accumulated other comprehensive income - OCI FAS 133	(33,527)	6,003
Total Capital	2,906,786	1,969,587
Total Liabilities and Capital	\$ 56,938,756	\$ 37,504,998

STATEMENT OF INCOME

For the Six Months Ended June 30, 2002 and 2001 (Unaudited \$ In thousands)

	June 30, 2002	June 30, 2001
Interest Income		
Advances	\$ 289,432	\$ 516,616
Securities purchased under resale agreements	1,408	1,261
Federal funds sold	24,280	58,465
Investments:		
Held-to-maturity securities	67,154	158,515
Securities held at fair value	77,393	20,105
Mortgage loans	595,860	299,847
Loans to other FHLBanks	119	95
Total Interest Income	1,055,646	1,054,904
Interest Expense		
Consolidated obligations	842,610	903,215
Deposits	23,507	52,139
Securities sold under repurchase agreements	17,618	—
Other borrowings	3	—
Total Interest Expense	883,738	955,354
Net Interest Income Before Loan Loss Provision	171,908	99,550
Loan loss provision	1,709	377
Net Interest Income After Loan Loss Provision	170,199	99,173
Other Income		
Prepayment fees, net	622	233
Service fees	522	530
Unrealized net gains on securities held at fair value	84,664	13,117
Net losses on derivatives and hedging activities	(112,245)	(15,595)
Other, net	8,936	716
Total Other Income	(17,501)	(999)
Other Expense		
Operating expenses	21,067	17,019
Finance Board and Office of Finance expenses	1,404	913
Other, net	9,061	3,017
Total Other Expense	31,532	20,949
Income Before Assessments	121,166	77,225
Affordable Housing Program	9,894	6,353
REFCORP assessment	22,255	14,283
Income Before Cumulative Effect of Change in Accounting Principles	89,017	56,589
Cumulative effect of change in accounting principles	—	573
Net Income	\$ 89,017	\$ 57,162

These statements should be read in conjunction with the audited financial statements and the related notes thereto for the year ended December 31, 2001. These may be obtained by contacting the Banking Group at (312) 565-5689. Certain amounts in the 2001 financial statements have been reclassified to conform with the 2002 presentation.