

## FHLBANK TOPEKA ANNOUNCES 2019 FIRST QUARTER RESULTS

**April 29, 2019** - FHLBank Topeka (FHLBank) announces its 2019 first quarter operating results. FHLBank is reporting net income computed in accordance with U.S. generally accepted accounting principles (GAAP) of \$52.8 million for the three months ended March 31, 2019 compared to \$39.6 million for the three months ended March 31, 2018.

During the first quarter of 2019, FHLBank paid a dividend of 2.25 percent on the average outstanding shares of Class A Common Stock and 7.50 percent on the average outstanding shares of Class B Common Stock. Other operating highlights from the first quarter of 2019 are presented below. FHLBank expects to file its Form 10-Q for the quarter ended March 31, 2019 with the Securities and Exchange Commission (SEC) on or about May 9, 2019.

### **Operating Highlights**

Net income for the three months ended March 31, 2019 increased \$13.2 million, or 33.2 percent, compared to the same period in 2018, primarily due to a \$20.5 million net increase in the fair value of trading securities and derivatives that are recorded in other income, offset by a \$3.5 million decline in net interest income after provision for credit losses. The net increase in the fair value of trading securities and derivatives recorded in other income was primarily a result of the decline in end-of-quarter mortgage rates and swap rates from December 31, 2018 to March 31, 2019. Market rates associated with the mortgage investments declined more than the market rates associated with the interest rate swaps so the unrealized gain on the mortgage investments exceeded the corresponding unrealized loss in the fair value of the interest rate swaps.

Net interest income after provision for credit losses for the three months ended March 31, 2019 was \$62.9 million compared to \$66.4 million for the same period in the prior year. The \$3.5 million decline resulted primarily from the impact of the adoption of a new hedge accounting standard on January 1, 2019 that requires gains and losses on designated fair value hedges to be presented in the income statement line item related to the hedged item, which is interest income/expense for FHLBank. The guidance was adopted prospectively, so the gains and losses on fair value hedges in the prior year are presented in other income, which creates a lack of comparability between periods. Fair value losses on designated fair value hedges recorded in net interest income for the three months ended March 31, 2019 were \$4.1 million.

The remaining elements of net interest income were relatively steady for the three months ended March 31, 2019 compared to the prior year period, despite a decrease of \$3.7 billion, or 6.5 percent, in the average balance of interest-earning assets. This decrease in average interest-earning assets included a \$6.1 billion decline in the average balance of advances, partially offset by higher average levels of investment securities and continued strong growth in the average balances of mortgage loans. The decline in the average balance of advances resulted from the change in the relationship between certain short-term rates, as short-term advance rates became less attractive relative to the rate on excess reserves. The overall increase in the level of market interest rates between periods positively impacted net interest income by allowing many assets to effectively reprice upwards, either due to variable rate terms or an increase in derivative net interest settlements between periods. Continued increases in average short-term interest rates and marginally wider spreads on advances between periods caused net interest margin to increase by one basis point for the three months ended March 31, 2019 compared to the prior year period.

The increase in net income combined with a decrease in average capital resulted in an increase in return on average equity (ROE), from 6.10 percent for the three months ended March 31, 2018 to 8.77 percent for the three months ended March 31, 2019. The weighted average dividend rate for the three months ended March 31, 2019 was 6.56 percent, which represented a dividend payout ratio of 45.4 percent, compared to a weighted average dividend rate of 6.01 percent and a payout ratio of 65.1 percent for the same period in 2018.

### **Balance Sheet Highlights**

Total assets increased \$9.7 billion, or 20.4 percent, from December 31, 2018 to March 31, 2019 primarily due to increases in short- and long-term investments, with smaller increases in advances and mortgage loans. The majority of the increase and change in composition of investments was in response to changes to regulatory liquidity requirements effective March 31, 2019, including the purchase of \$3.0 billion in U.S. Treasury obligations since the third quarter of 2018. Total capital increased \$24.6 million, or 1.0 percent, between periods despite a decrease in capital stock, largely due to net income in excess of dividends paid and unrealized gains on available-for-sale securities.

### **Financial Highlights**

Attached are highlights of FHLBank's financial position as of March 31, 2019 and December 31, 2018 and highlights of the results of operations for the quarterly periods ended March 31, 2019 and 2018.

### About FHLBank's Non-GAAP Financial Measures

FHLBank's business model is primarily one of holding assets and liabilities to maturity. As such, FHLBank management believes that certain non-GAAP financial measures are helpful in understanding FHLBank's operating results and provide meaningful period-to-period comparison of FHLBank's long-term economic value in contrast to GAAP results, which can be impacted by fair value changes driven by market volatility or transactions that are considered unpredictable or not routine. FHLBank reports the following non-GAAP financial measures that it believes are useful to stakeholders as key measures of its operating performance: (1) adjusted income, (2) adjusted net interest margin, and (3) adjusted ROE. Reconciliations of these non-GAAP financial measures to the most comparable GAAP measure are included below. Although FHLBank calculates its non-GAAP financial measures consistently from period to period using appropriate GAAP components, non-GAAP financial measures are not required to be uniformly applied and are not audited. Another material limitation associated with the use of the above non-GAAP financial measures is that they have no standardized measurement prescribed by GAAP and may not be comparable to similar non-GAAP financial measures used by other companies. While FHLBank believes the non-GAAP measures contained in this announcement are frequently used by FHLBank's stakeholders in the evaluation of FHLBank's performance, such non-GAAP measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analyses of financial information prepared in accordance with GAAP.

Comparative adjusted income for the three months ended March 31, 2019 and 2018 is calculated as follows:

	Three Months Ended	
	03/31/2019	03/31/2018
	(Amounts in thousands) Unaudited	
<b>Calculation of Adjusted Income:</b>		
Net Income, as reported under GAAP for the period	\$ 52,755	\$ 39,591
Affordable Housing Program (AHP) assessments	5,866	4,406
Income before AHP assessments	58,621	43,997
Derivative (gains) losses <sup>1</sup>	22,305	(18,333)
Trading (gains) losses	(28,755)	26,950
Prepayment fees on terminated advances	(69)	(31)
Net (gains) losses on sale of held-to-maturity securities	—	(34)
Total excluded items	(6,519)	8,552
Adjusted income (a non-GAAP measure)	\$ 52,102	\$ 52,549

<sup>1</sup> Consists of fair value changes on all derivatives and hedging activities excluding net interest settlements (see next table) on economic hedges.

FHLBank's adjusted income, a non-GAAP financial measure which excludes fair value changes in derivatives and trading securities as well as other adjustments, decreased \$0.4 million for the three months ended March 31, 2019 compared to the same period in the prior year. The decrease was due to a \$1.5 million increase in other expenses and a \$0.8 million decrease in other income, partially offset by a \$2.0 million increase in adjusted net interest income (see next table) due to the increase in the average level of swap index rates between quarters and the resulting impact on net interest settlements.

Comparative adjusted net interest income for the three months ended March 31, 2019 and 2018 is calculated as follows:

	<b>Three Months Ended</b>	
	<b>03/31/2019</b>	<b>03/31/2018</b>
	(Dollar amounts in thousands) Unaudited	
<b>Calculation of Adjusted Net Interest Income:</b>		
Net interest income, as reported under GAAP for the period	\$ 63,015	\$ 66,479
(Gains) losses on derivatives qualifying for hedge accounting recorded in net interest income <sup>1</sup>	4,059	—
Net interest settlements on derivatives not qualifying for hedge accounting	(296)	(1,690)
Prepayment fees on terminated advances	(69)	(31)
<b>Adjusted net interest income (a non-GAAP measure)</b>	<b>\$ 66,709</b>	<b>\$ 64,758</b>
Net interest margin, as calculated under GAAP for the period	0.48%	0.47%
Adjusted net interest margin (a non-GAAP measure)	0.51%	0.46%

<sup>1</sup> Beginning January 1, 2019, fair value gains and losses on fair value hedges are required to be presented in the income statement line item related to the hedged item, which impacts net interest income prospectively.

Management uses adjusted income to evaluate the quality of FHLBank's earnings. FHLBank management believes that the presentation of adjusted income as measured for management purposes enhances the understanding of FHLBank's performance by highlighting its underlying results and profitability. Management uses adjusted net interest income to evaluate the earnings impact of economic hedges. Under GAAP, the net interest amount that converts economically swapped fixed rate investments or liabilities to a variable rate is recorded as part of net gains (losses) on derivatives and hedging activities rather than net interest income. Presenting fixed rate investments with the corresponding net interest amount in adjusted net interest income reflects the widening of the spread between the variable rate assets created by the economic hedge and the variable rate liabilities funding them as a result of the increase in LIBOR between periods. Further, beginning January 1, 2019, fair value gains and losses on fair value hedges are required to be presented in the income statement line item related to the hedged item, which impacts net interest income. These fluctuations are excluded from the calculation of adjusted net income and adjusted net interest income.

FHLBank uses a comparison of adjusted ROE to the average overnight Federal funds effective rate as a key measure of effective utilization and management of members' capital. The increase in adjusted ROE compared to the same period in the prior year is a function of the change in adjusted net income and in the average balance of capital for the periods. Adjusted ROE as a spread to the average overnight Federal funds effective rate decreased during the three months ended March 31, 2019 compared to the same period in the prior year despite the increase in adjusted ROE due to increases in the target range for the Federal funds effective rate between periods.

Adjusted ROE spread for the three months ended March 31, 2019 and 2018 is calculated as follows:

	<b>Three Months Ended</b>	
	<b>03/31/2019</b>	<b>03/31/2018</b>
	(Dollar amounts in thousands) Unaudited	
<b>Calculation of Adjusted ROE Spread:</b>		
Average GAAP total capital for the period	\$ 2,440,006	\$ 2,632,324
ROE, based upon GAAP net income	8.77%	6.10%
Adjusted ROE, based upon adjusted income	8.66%	8.10%
Average overnight Federal funds effective rate	2.40%	1.45%
Adjusted ROE as a spread to average overnight Federal funds effective rate	6.26%	6.65%

*The information contained in this announcement contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include statements describing the objectives, projections, estimates or future predictions of FHLBank's operations. These statements may be identified by the use of forward-looking terminology such as "anticipate," "believe," "may," "is likely," "could," "estimate," "expect," "will," "intend," "probable," "project," "should" or their negatives or other variations on these terms. FHLBank cautions that by their nature forward-looking statements involve risk or uncertainty and that actual results may differ materially from those expressed in any forward-looking statements as a result of such risks and uncertainties, including but not limited to: governmental actions, including legislative, regulatory, judicial or other developments that affect FHLBank, its members, counterparties or investors, housing government-sponsored enterprises, or the FHLBank System in general; changes in economic and market conditions, including conditions in the mortgage, housing and capital markets; changes in the U.S. government's long-term debt rating and the long-term credit rating of the senior unsecured debt issues of the FHLBank System; changes in demand for FHLBank products and services or consolidated obligations of the FHLBank System; effects of derivative accounting treatment and other accounting rule requirements; the effects of amortization/accretion; gains/losses on derivatives or on trading investments and the ability to enter into effective derivative instruments on acceptable terms; volatility of market prices, interest rates and indices and the timing and volume of market activity; changes in FHLBank's capital structure; membership changes, including changes resulting from member failures or mergers, changes in the principal place of business of members or changes in the Federal Housing Finance Agency regulations on membership standards; our ability to declare dividends or to pay dividends at rates consistent with past practices; soundness of other financial institutions, including FHLBank members, nonmember borrowers, counterparties, and the other FHLBanks; changes in the value or liquidity of collateral underlying advances to FHLBank members or nonmember borrowers or collateral pledged by reverse repurchase and derivative counterparties; changes in the fair value and economic value of, impairment of, and risks associated with FHLBank's investments in mortgage loans and mortgage-backed securities or other assets and the related credit enhancement protections; competitive forces, including competition for loan demand, purchases of mortgage loans and access to funding; the ability of FHLBank to keep pace with technological changes and the ability to develop and support technology and information systems, including the ability to securely access the internet and internet-based systems and services, sufficient to effectively manage the risks of FHLBank's business; the ability of FHLBank to introduce new products and services to meet market demand and to manage successfully the risks associated with new products and services; the ability of each of the other FHLBanks to repay the principal and interest on consolidated obligations for which it is the primary obligor and with respect to which FHLBank has joint and several liability; and the volume and quality of eligible mortgage loans originated and sold by participating members to FHLBank through its various mortgage finance products. Additional risks that might cause FHLBank's results to differ from these forward-looking statements are provided in detail in FHLBank's filings with the SEC, which are available at [www.sec.gov](http://www.sec.gov).*

*All forward-looking statements contained in this announcement are expressly qualified in their entirety by this cautionary notice. The reader should not place undue reliance on such forward-looking statements, since the statements speak only as of the date that they are made, and FHLBank has no obligation and does not undertake publicly to update, revise or correct any forward-looking statement for any reason.*

**FHLBANK TOPEKA**  
Financial Highlights (unaudited)

Selected Financial Data (dollar amounts in thousands):

	<b>03/31/2019</b>	<b>12/31/2018</b>
<b>Financial Position</b>		
Investments <sup>1</sup>	\$ 18,522,066	\$ 10,305,382
Advances	29,862,995	28,730,113
Mortgage loans held for portfolio, net	8,701,250	8,410,462
<i>Total assets</i>	57,427,696	47,715,256
Deposits	544,500	473,820
Consolidated obligations, net <sup>2</sup>	54,185,278	44,574,726
<i>Total liabilities</i>	54,948,846	45,261,004
Total capital stock	1,508,396	1,524,537
Retained earnings	942,840	914,022
<i>Total capital</i>	2,478,850	2,454,252
Regulatory capital <sup>3</sup>	2,454,784	2,442,156
<b>Three Months Ended</b>		
	<b>03/31/2019</b>	<b>03/31/2018</b>
<b>Results of Operations</b>		
Interest income	\$ 373,314	\$ 275,793
Interest expense	310,299	209,314
Net interest income before loan loss (reversal) provision	63,015	66,479
Provision (reversal) for credit losses on mortgage loans	78	30
Net gains (losses) on trading securities	28,755	(26,950)
Net gains (losses) on derivatives and hedging activities	(18,542)	16,643
Other income	2,461	3,320
Other expenses	16,990	15,465
Income before assessments	58,621	43,997
AHP assessments	5,866	4,406
Net income	52,755	39,591
Weighted average dividend rate <sup>4</sup>	6.56%	6.01%

<sup>1</sup> Investments include held-to-maturity securities, available-for-sale securities, trading securities, interest-bearing deposits, Federal funds sold and securities purchased under agreements to resell.

<sup>2</sup> Consolidated obligations are bonds and discount notes that FHLBank is primarily liable to repay.

<sup>3</sup> Regulatory capital is defined as the sum of FHLBank's permanent capital, plus the amounts paid in by its stockholders for Class A Common Stock; any general loss allowance, if consistent with GAAP and not established for specific assets; and other amounts from sources determined by the Federal Housing Finance Agency as available to absorb losses. Permanent capital is defined as the amount paid in for Class B Common Stock plus the amount of FHLBank's retained earnings, as determined in accordance with GAAP. Regulatory capital includes all capital stock subject to mandatory redemption that has been reclassified to a liability.

<sup>4</sup> Weighted average dividend rates are dividends paid in cash and stock on both classes of stock divided by the average capital stock eligible for dividends.

*Average Balances and Yields (dollar amounts in thousands):*

	<b>Three Months Ended</b>			
	<b>03/31/2019</b>		<b>03/31/2018</b>	
	<b>Average Balance</b>	<b>Yield</b>	<b>Average Balance</b>	<b>Yield</b>
<b>Interest-earning assets:</b>				
Investments <sup>1,2,3</sup>	\$ 17,169,537	2.65%	\$ 15,985,877	1.90%
Advances <sup>3,4</sup>	27,707,072	2.75	33,788,170	1.69
Mortgage loans <sup>5,6</sup>	8,537,768	3.48	7,367,886	3.28
Other interest-earning assets	49,229	3.16	48,884	3.39
<b>Total earning assets</b>	<b>\$ 53,463,606</b>	<b>2.83%</b>	<b>\$ 57,190,817</b>	<b>1.96%</b>
<b>Interest-bearing liabilities:</b>				
Deposits	\$ 513,230	2.12%	\$ 543,393	1.20%
Consolidated obligations <sup>3,7</sup>	50,429,536	2.47	53,991,081	1.56
Other borrowings	69,428	2.70	39,837	2.94
<b>Total interest-bearing liabilities</b>	<b>\$ 51,012,194</b>	<b>2.47%</b>	<b>\$ 54,574,311</b>	<b>1.56%</b>
<b>Net interest spread</b>		<b>0.36%</b>		<b>0.40%</b>
<b>Net interest margin<sup>8</sup></b>		<b>0.48%</b>		<b>0.47%</b>

<sup>1</sup> Investments include held-to-maturity securities, available-for-sale securities, trading securities, interest-bearing deposits, Federal funds sold and securities purchased under agreements to resell.

<sup>2</sup> The non-credit portion of the other-than-temporary impairment discount on held-to-maturity securities and the fair value adjustment on available-for-sale securities are excluded from the average balance for calculations of yield since the changes are adjustments to equity.

<sup>3</sup> Interest income/expense and average rates include the effect of associated derivatives that qualify for hedge accounting treatment. For 2019, interest amounts reported for advances, investments, and consolidated obligations include realized and unrealized gains (losses) on hedged items and derivatives in qualifying hedge relationships. Prior period interest amounts do not conform to new hedge accounting guidance adopted January 1, 2019.

<sup>4</sup> Advance income includes prepayment fees on terminated advances.

<sup>5</sup> Credit enhancement fee payments are netted against interest earnings on the mortgage loans.

<sup>6</sup> Mortgage loans average balances include outstanding principal for non-performing conventional loans. However, these loans no longer accrue interest.

<sup>7</sup> Consolidated obligations are bonds and discount notes that FHLBank is primarily liable to repay.

<sup>8</sup> Net interest margin is defined as net interest income as a percentage of average earning assets.