FHLBank Advances vs. Purchased Deposits

Prepared for: Example Bank

City, State *Month Day, 2020*

Cust ID: XXXX

Purpose & Key Takeaways:

- ✓ FHLBank Topeka recognizes Example Bank has many wholesale funding sources and as your trusted funding partner, thank you for letting us help be a part of your funding decision.
- ✓ We completed an analysis comparing the cost of each CD in your brokered deposit portfolio with the cost of corresponding advances on the same settlement dates and for the same terms.
- ✓ Example Bank would need additional FHLBank funding of $7,513,000 to utilize additional Class B, a key factor to consider when comparing wholesale funding options.
- ✓ After evaluating Example Bank's brokered portfolio, on average, 23 bps could have been saved by utilizing FHLBank advances as the wholesale funding source.
- ✓ Share this analysis with your ALCO and Board to provide documentation and support for your future funding and pricing decisions. This analysis can also be useful in tracking the overall results and effectiveness of your funding strategies.
- ✓ This analysis shows the importance of evaluating all wholesale sources and their related attributes when considering future funding options. Call your FHLBank account manager for a customized, real time comparison.

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EXAMPLE BANK

FHLBank Advances vs. Purchased Deposits

Month Day, 2020

FHLBank Dividend Benefit

- ✓ FHLBank Topeka stock dividends return the majority of bank profits to shareholders. The Class B stock that is used to support activity has a high yield relative to other high credit quality investment alternatives with minimal interest rate and repricing risk.
- ✓ It is imperative to account for all product features and to measure the "real cost" of funding to understand the full impact to the bottom line.
- ✓ The net cost of the advance, less the associated dividend benefit, is calculated and provided below for an accurate and comprehensive cost comparison.

Purchased Deposit Funds Analysis Summary

- The received portfolio included 12 total brokered CD deposits totaling $41.9 million. Detail of the purchased deposit portfolio can be found on page 3.

Portfolio Term Segmentation & Rate Comparison

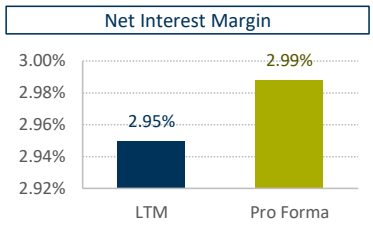
	Purchased Deposits			FHLBank Advance	
Terms of Deposits	Amount ($mm)	Number of CD's	WAR	WAR	Div. Adj. WAR
< 12 Months	$ -	0	-	-	-
13 - 24 Months	-	0	-	-	-
25 - 36 Months	5.1	3	2.90%	3.11%	2.86%
37 - 48 Months	10.5	2	0.87%	0.81%	0.57%
> 48 Months	26.3	7	1.45%	1.47%	1.23%
Total	**$ 41.9**	**12**	**1.48%**	**1.50%**	**1.26%**

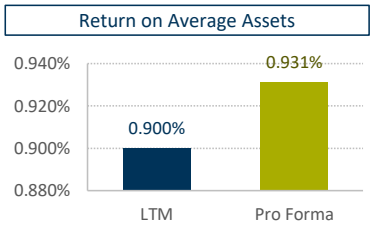
Strategy Cost Comparison: Favorable Funding

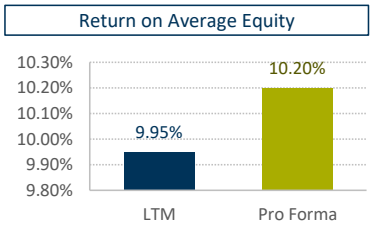
Number of CD's		Amount ($mm)		FHLBank Cost Savings	
FHLBank	Purch. Deps.	FHLBank	Purch. Deps.	($000)	Average bps
-	-	$ -	$ -	$ -	-
-	-	-	-	-	-
1	2	3.0	2.1	4.7	16 bps
2	-	10.5	-	31.7	30 bps
7	-	26.3	-	58.9	21 bps
10	**2**	**$ 39.8**	**$ 2.1**	**$ 95.3**	23 bps
83%	17%	95%	5%		

Impact to Profitability Using FHLBank Advance Funding

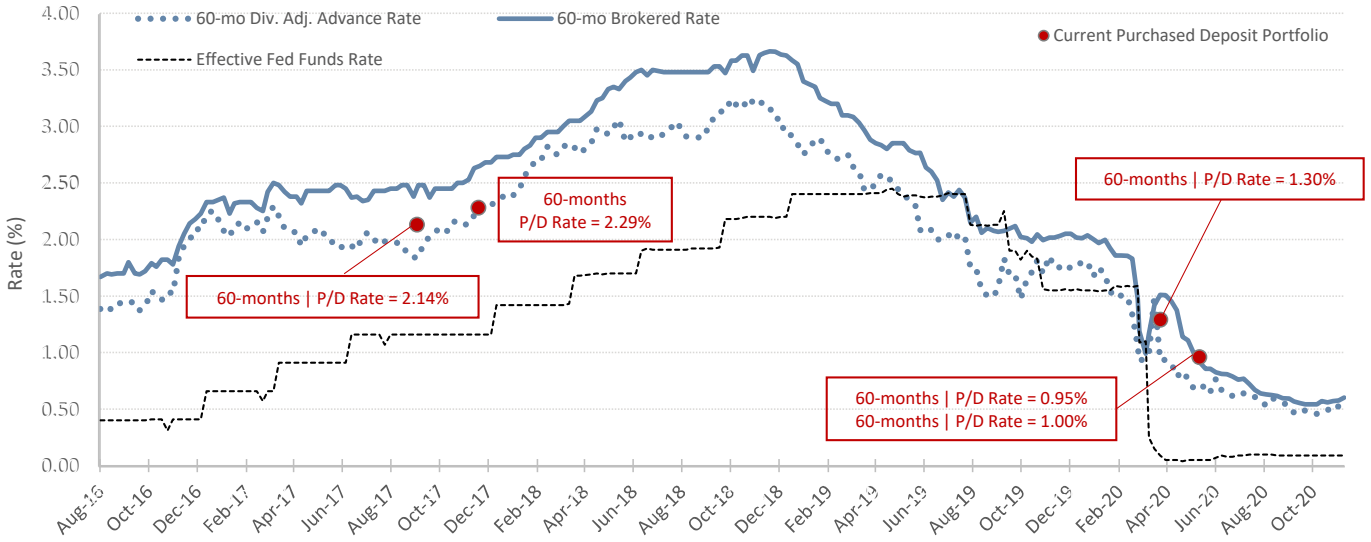
LTM = Last Twelve Months







Funding Rate Comparison | FHLBank Advances vs. Brokered Deposits



*Note: The dividend adjusted rate reflects the average diividend benefit since the date of settlement - taking into account the change in the class B dividend rate. The dividend benefit assumes we subtract an alternative investment (interest paid on excess reserves) from the class B dividend rate, and then multiply by the 4.50% activity stock requirement. Current dividend benefit = ((5.25 - 0.10) * 4.50) = 23 bps.*

Note: Brokered deposit rate sources may include UBS, Raymond James, BNY Mellon, Finance 500, and DA Davidson.

EXAMPLE BANK

FHLBank Advances vs. Purchased Deposits

Purchased Deposit Portfolio - Maturity Detail

Portfolio Maturity Segmentation

Maturity Date	Amount ($)	Number of CD's	WAR
Due 2020	$ 1,247,000	1	1.85%
Due 2021	5,124,000	3	2.90%
Due 2022	8,788,000	2	2.22%
Due 2023	-	-	-
Due 2024	10,487,000	2	0.87%
Due 2025 & Beyond	16,238,000	4	1.00%
Total	**$ 41,884,000**	**12**	**1.48%**

Upcoming 2021 & 2022 Maturities

Maturity Date	Amount ($)	Term (mos)	Rate	
4/23/2021	$ 1,273,000	36	2.65%	A
5/7/2021	846,000	36	2.75%	A
8/30/2021	3,005,000	36	3.04%	
9/8/2022	3,962,000	60	2.14%	B
11/28/2022	4,826,000	60	2.29%	

Funding Strategy Cost Comparison

Current FHLBank Collateral & Stock Summary (as of Month Day, 2020)

FHLBank Collateral Position

Collateral Pledged	$ 61,068,589
Required Collateral	-
Unused Collateral	61,068,589
Coverage Ratio	0%

FHLBank Stock Position

	Held	Required	Excess	Dividend
Class A Shares	$ 337,500	$ 337,500	$ -	0.25%
Class B Shares	500	-	500	5.25%

Dividend Impact on Advance Cost = [(Class A Shares x 0.25%) + (Class B Shares x 5.25%)] / Funded Credit Obligations

Current Dividend Impact = 0.00%

Purchased Deposit Funding Strategy

	Example A	Example B	Total
Replace/Renew Funds	$ 2,119,000	$ 3,962,000	$ 6,081,000
Term (Months)	36	60	
Brokered Rate	0.47%	0.70%	0.62%
Annual Interest	$ 9,959	$ 27,734	$ 37,693

FHLBank Advance Funding Strategy

		Example A	Example B	Total
1	Amount	$ 2,119,000	$ 3,962,000	$ 6,081,000
2	Term (Months)	36	60	
3	Stated Rate	0.38%	0.60%	0.52%
4	Annual Interest	$ 8,052	$ 23,772	$ 31,824
5	Stock Activity Req't	95,400	178,300	273,700
6	*Add'l Stock Req'd*	-	-	-
	FHLBank Dividend Benefit (See Appendix for Stock Position Impact)			
7	Divid. Increase	$ -	$ -	$ -
8	Net Advance Cost	$ 8,052	$ 23,772	$ 31,824
9	Effective Rate	0.38%	0.60%	0.52%

Pro Forma FHLBank Stock & Collateral Positions

		Held	Required	Excess
10	Class A Shares	337,500	337,500	63,800
11	Class B Shares	500	-	500
12	Pro Forma Remaining Unused Collateral:			$ 54,987,589
13	Pro Forma Collateral Coverage Ratio:			1004%

Recommended Strategy & Benefit

Example A Recommendation -- 36 Month Term

FHLBank Advance Funding Strategy: Cost Savings = $1,907 = 9 bps

Example B Recommendation -- 60 Month Term

FHLBank Advance Funding Strategy: Cost Savings = $3,962 = 10 bps

Total Funding Strategy Recommendation

FHLBank Advance Funding Strategy: Cost Savings = $5,869 = 10 bps

Funding Strategy Considerations

-- What is the anticipated use or need for funding as current purchased deposit funding comes due?

-- If expecting to replace/renew maturing deposits, what term and rate structure(s) are you considering?

-- What liquidity and funding measures are you managing to and how does your funding decision impact those ratios?

- Liquidity ratios are not impacted based on chosen wholesale funding source, brokered deposits vs. FHLBank advances
- Reliance on traditional, static measures of liquidity, such as the loan-to-deposit, are becoming obsolete as the industry is moving toward a more dynamic evaluation of liquidity that considers cash flows as they relate to the balance sheet and the role of an institution's business plan or strategy.

-- The marginal impact to each new advance dollar will lower the effective dividend rate by 24 bps, if fully utilizing class B stock.

Considerations for Utilizing FHLBank Advances

✓ Incorporate the value of the dividend into decision making.

✓ Keep in mind if your prior month average advance-to-asset ratio is at least 10%, you will receive a 5 bps discount off the standard pricing tier if the volume discount or other special offerings are not greater for fixed rate advances with terms greater than 12 months (excludes convertibles and structured advances).

✓ Review current collateral capacity to ensure sufficient collateral is available to be utilized and, if necessary, evaluate ability to pledge additional collatera

✓ Additional value-add features to consider when assessing funding options:

- ✓ **Funding flexibility** - customize advance structure to fit your needs
- ✓ **Execution** - get exactly the right amount at exactly the right term, exactly when you need it
- ✓ **No fees or hidden costs**

APPENDIX:

FHLBank Advances vs. Purchased Deposits

Example Bank Purchased Deposit Funds Portfolio vs. FHLBank Advance Rate Comparison

Current Purchased Deposit Portfolio | **FHLBank Advance**

	Account/Ref	Settle Date	Maturity Date	Amount	Term (mos)	Rate	Historical Rate	Div. Adj. Rate	Avg. LOC Rate
1	Deposit 1	11/16/15	11/16/20	$ 1,247,000	60	1.85%	2.08%	**1.84%**	1.42%
2	Deposit 2	9/8/17	9/8/22	3,962,000	60	2.14%	2.04%	**1.79%**	1.86%
3	Deposit 3	11/28/17	11/28/22	4,826,000	60	2.29%	2.45%	**2.20%**	1.90%
4	Deposit 4	4/23/18	4/23/21	1,273,000	36	2.65%	3.08%	**2.83%**	1.96%
5	Deposit 5	5/8/18	5/7/21	846,000	36	2.75%	3.08%	**2.83%**	1.96%
6	Deposit 6	8/30/18	8/30/21	3,005,000	36	3.04%	3.13%	**2.88%**	1.95%
7	Deposit 7	3/27/20	3/27/25	962,000	60	1.30%	1.23%	**0.99%**	0.47%
8	Deposit 8	5/14/20	5/14/24	5,487,000	48	0.85%	0.82%	**0.58%**	0.37%
9	Deposit 9	5/14/20	5/14/25	5,313,000	60	0.95%	0.91%	**0.67%**	0.37%
10	Deposit 10	5/15/20	5/15/24	5,000,000	48	0.90%	0.80%	**0.56%**	0.36%
11	Deposit 11	5/15/20	5/15/25	5,000,000	60	1.00%	0.88%	**0.64%**	0.36%
12	Deposit 12	6/5/20	6/5/26	4,963,000	72	1.00%	1.14%	**0.90%**	0.35%
	Total			**$ 41,884,000**		**1.48%**	**1.50%**	**1.26%**	**0.91%**

Strategy Cost Comparison

**compared to dividend adjusted rate*

Strategy	Cost Savings ($)	Cost Savings (bps)
FHLBank	**$ 152**	**1 bps**
FHLBank	**13,851**	**35 bps**
FHLBank	**4,332**	**9 bps**
PurchDeps	2,309	18 bps
PurchDeps	690	8 bps
FHLBank	**4,712**	**16 bps**
FHLBank	**2,983**	**31 bps**
FHLBank	**14,747**	**27 bps**
FHLBank	**14,811**	**28 bps**
FHLBank	**16,935**	**34 bps**
FHLBank	**17,935**	**36 bps**
FHLBank	**4,817**	**10 bps**

Total FHLBank Cost Savings

$ 95,277

Note: The dividend adjusted rate reflects the average diividend benefit since the date of settlement - taking into account the change in the class B dividend rate. The dividend benefit assumes we subtract an alternative investment (interest paid on excess reserves) from the class B dividend rate, and then multiply by the 4.50% activity stock requirement.
*Current dividend benefit = ((5.25 - 0.10) * 4.50) = 23 bps.*

Note: Average Line of Credit rate since settlement date of purchased deposit.

Disclaimer

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APPENDIX:

FHLBank Advance Funding Strategy - Stock and Dividend Support

Current FHLBank Stock Position

	Held	Required	Excess	Dividend Rates	Current Ann. Divid.	Excess Req'd Class A Mbrshp.
Class A Shares	$ 337,500	$ 337,500	$ -	0.25%	$ 844	$ 337,500
Class B Shares	500	-	500	5.25%	26	
Total	$ 338,000	$ 337,500	$ 500		$ 870	

Activity Based Requirement	4.50%
Stock Activity Requirement	$ -
Funded Credit Obligations	-
Add'l Funding to Utilize Class B Stock	7,513,000

Example A - FHLBank Advance Funding Strategy - Impact to FHLBank Stock Position

Amount of Advance $ 2,119,000

Activity Based Requirement	4.50%		
Stock Requirement	95,400	---------->	Excess Required Class A Membership Utilized 95,400
Additional Stock Required?	No		Excess Class B Utilized -
			Excess Class A Utilized - Moved to B -
			Additional Activity Stock Required -

New Stock Position & Dividends

	Held	Required	Excess	Dividend Rates	Current Ann. Divid.	New Ann. Divid.	Dividend Increase	
Class A	$ 337,500	$ 337,500	$ 242,100	0.25%	$ 844	$ 844	$ -	
Class B	500	-	500	5.25%	26	26	-	
Total	$ 338,000	$ 337,500	$ 242,600		$ 870	$ 870	$ -	page 2, line 7

New Excess Stock Position:

Required Class A Membership	$ 242,100
Class A	-
Class B	500

Example B - FHLBank Advance Funding Strategy - Impact to FHLBank Stock Position

Amount of Advance $ 3,962,000

Activity Based Requirement	4.50%		
Stock Requirement	178,300	---------->	Excess Required Class A Membership Utilized 178,300
Additional Stock Required?	No		Excess Class B Utilized -
			Excess Class A Utilized - Moved to B -
			Additional Activity Stock Required -

Total Pro Forma Stock Position & Dividends

	Held	Required	Excess	Dividend Rates	New Ann. Divid.	Pro Forma Ann. Divid.	Dividend Increase	
Class A	$ 337,500	$ 337,500	$ 63,800	0.25%	$ 844	$ 844	$ -	
Class B	500	-	500	5.25%	26	26	-	
Total	$ 338,000	$ 337,500	$ 64,300		$ 870	$ 870	$ -	page 2, line 7

New Excess Stock Position:

Required Class A Membership	$ 63,800
Class A	-
Class B	500