FINANCIAL INTELLIGENCE *from* FHLBank Topeka

FHLBank Tenth District Community Bank Trends

Quarterly Analysis / Q2 2021

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The purpose of this analysis is to provide financial and performance trend data for institutions headquartered in FHLBank's Tenth District comprised of Colorado, Kansas, Nebraska and Oklahoma.

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Executive Summary: Where are we today?

The past 18 months can be described as anything but "normal" — substantial asset purchases by the Federal Reserve (Fed), massive spending by the federal government, labor shortages, huge payments to individuals through fiscal stimulus packages, eviction moratoriums, supply-chain bottlenecks and broad-based inflation concerns.

It has been a rollercoaster of social restrictions and reopening of the economy. The impact on individuals, businesses and the economy has been both significant and uneven.

The pace and length of the recovery remains uncertain as the emergence of COVID-19 variants put added pressure on the economy. The full impact of variants on the effectiveness of vaccines remain unknown and is still considered a risk to the economy.

Economic indicators have been mixed recently, signaling that momentum towards recovery has slowed. Fed officials have noted they are in favor of a rollback in asset purchases later this year should the economy make "substantial further progress." Until then, policy accommodation will continue.

The Fed maintains its stance on the ongoing rise in inflation as temporary. It has been noted that much of the increase in inflation is due to the comparison of current prices to very low prices during the height of the pandemic a year ago. Some price pressure is expected to dissipate through the end of the year according to Fed officials.

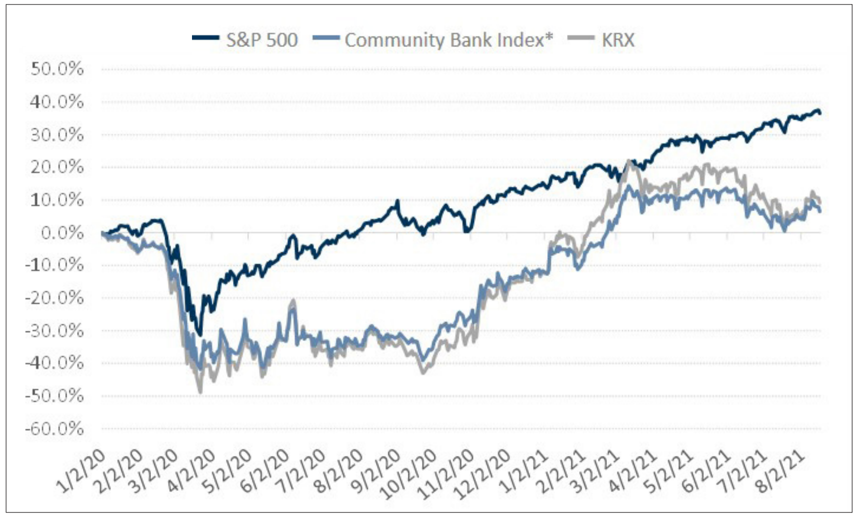
The employment shortfall has been attributed to ongoing COVID-19 concerns, challenges with childcare, enhanced unemployment benefits and people just reconsidering what they really would like out of a job.

Employers have offered higher wages and incentives to try and attract workers. The lack of a growing participating labor force is also reflective of labor supply constraints.

Gregory Daco, chief U.S. economist for Oxford Economics said, "The return to a pre-COVID environment won't happen overnight, and we should be prepared for labor demand and labor supply to be bumpy in the second half of the year as the economy gradually returns to a new post-pandemic normal."

Source: S&P Global Market Intelligence

The upward trajectory of U.S. bank stock performance stalled mid-March after recovering from the trough of 2020. Performance waned mid-June before turning back up late July. On a year-to-date basis, the KBW Nasdaq Regional Banking Index (KRX) is up 23.5% while the Standard and Poor's 500 (S&P 500) and Community Bank Index are both up 23%.



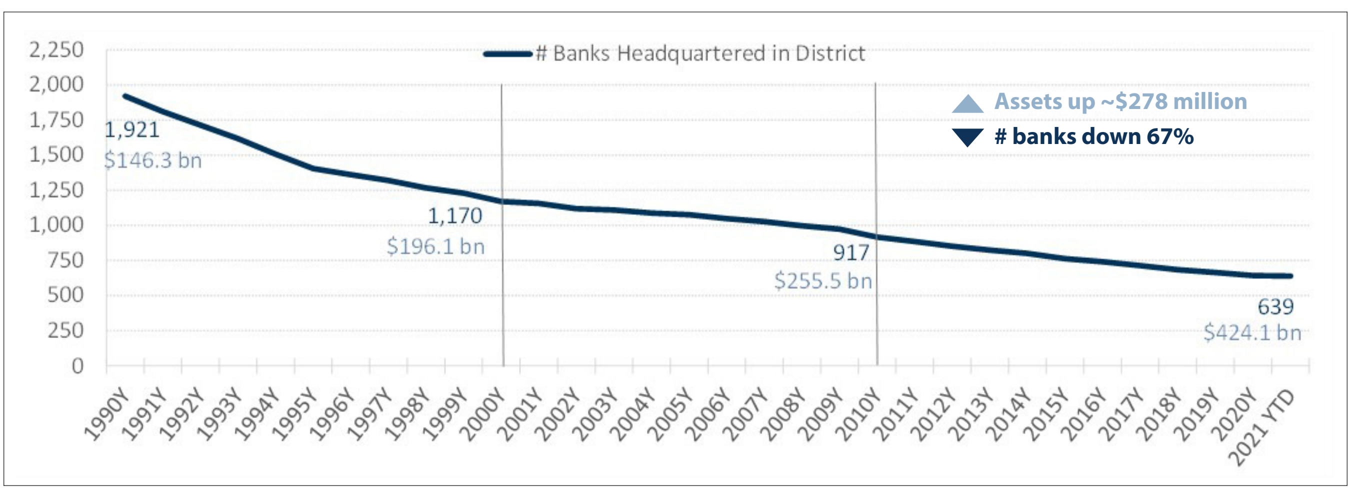
Although bank stocks have underperformed their broad market index peers in recent months, industry research analysts are optimistic on the outlook for the banking sector and their future earnings power.

Following second quarter 2021 earnings season, management teams expressed expectations for some core loan growth – excluding Paycheck Protection Program (PPP) loans – to return in the second half of the year. There were fewer banks that posted negative year-over-year core loan growth in the second quarter compared to the first quarter of 2021.

According to S&P Global Market Intelligence, "As uncertainty surrounding loan growth and interest rates wanes and banks begin to deploy their excess liquidity to drive growth, the analysts expect bank stocks, particularly small- to mid-cap bank stocks, to play catch-up from recent underperformance."

U.S. bank merger and acquisition (M&A) activity has continued its climb back to pre-pandemic levels. There have been 116 total bank deal announcements through July 31, 2021, compared to 111 in all of 2020 nationwide. In the Tenth District (District), 13 M&A transactions have been announced year-to-date, while only eight were announced in 2020. Ten acquisitions have been completed in District, and another eight are pending.

On July 9, 2021, the White House issued an executive order calling on the Justice Department and banking agencies to update guidelines on bank mergers to provide increased scrutiny.



Source: S&P Global Market Intelligence.
**Community Bank Index created by FHLBank Topeka and consists of 77 select publicly traded community banking institutions (assets < $10 billion).*

The White House said "excessive consolidation raises costs for consumers, restricts credit for small businesses and harms low-income communities."

Many industry analysts have noted it is too early to know the true impact on the current pace of M&A activity but believe that larger M&A bank deals are more likely to be subject to increased scrutiny and delay.

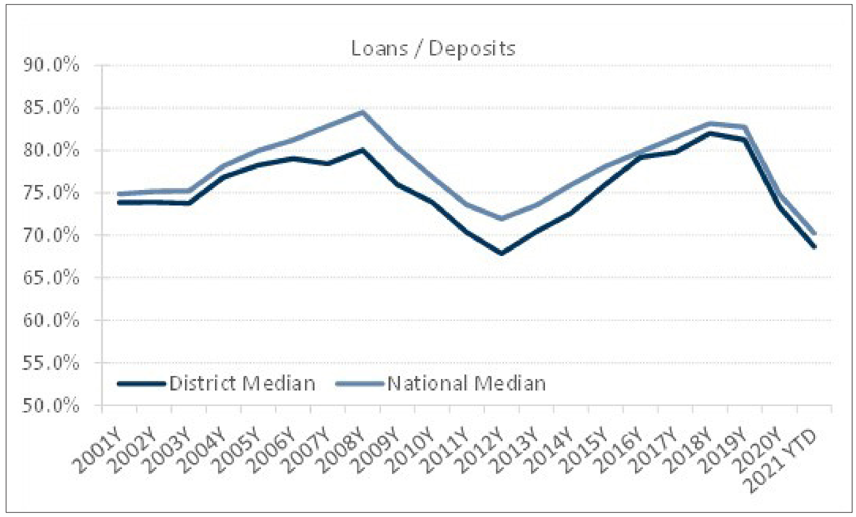
The pace of consolidation in the banking industry is expected to continue through the near term as the sector faces numerous headwinds including low core loan growth, excess liquidity, net interest margin compression and a challenging expense and revenue environment.

Increased size and scale can help offset these hurdles and allow institutions to respond to a changing operating environment, especially when it comes to the digitalization of banking services.

Banking Themes

And the saga continues. Excess liquidity remains on balance sheet with few opportunities to gain yield on earning assets. Competition for loans is fierce. Persistent low interest rates have kept the pressure on earnings and net interest margins.

Loan demand was soft in the second quarter 2021, but the growth in deposit balances did slow compared to prior quarters. When the pandemic began in March 2020, the two dominant downside variables were earnings and the unknown impact – magnitude and duration – of credit losses. While significant asset quality issues have been avoided, the earnings outlook remains cloudy.



Deposit growth exceeded loan growth for the seventh consecutive quarter. Loan-to-deposit ratios are near prior cycle lows or have achieved a new low point. Deposit inflows seen over the past 18 months have proven to be very sticky thus far.

Core loan growth, excluding PPP loans, was positive for the first quarter since pre-pandemic times, albeit at low levels. PPP loan balances fell more than 34% as loans worked their way through the forgiveness process.

There was a pullback in residential lending during the second quarter 2021 as supply fails to keep pace with demand. Unused loan commitments continue to rise as businesses and consumers alike rest on higher cash balances.

Balance sheet composition has evolved on both sides of the balance sheet. Noninterest-bearing deposits now represent more than a quarter of total funding. Borrowings as a percent of assets are at lows not seen in two decades.

On the asset side, cash moved into securities and loans after levels of cash and interest-bearing balances reached new highs for many institutions in the first quarter.

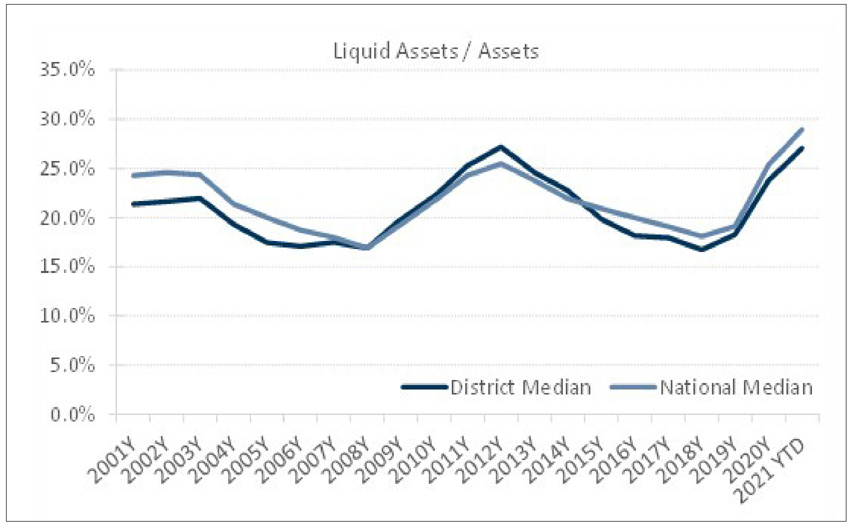
Source: S&P Global Market Intelligence.
Note: See the M&A section for more detail related to FHLBank Tenth District.

Liquidity positions remain elevated and at historic highs as loan demand does not exist to absorb the excess liquidity sitting in the bank system. The environment has been characterized as "a bull market in cash for a while longer."

Based on past economic cycles, the return of loan demand and rising loan-to-deposit ratios is still several periods out – assuming there is no additional influx of liquidity to the banking system and no debilitating shocks to the economy occur.

There is a ton of dry powder held by state and local governments, individual deposit accounts and businesses are flush with cash. At some point, the savers will become spenders – whether funds are moved elsewhere, invested in businesses or spent on goods and services.

Net interest margins drifted lower during the second quarter 2021 amid the persistent low-rate environment and excess liquidity. Security portfolios comprised a greater portion of the asset mix on balance sheet as banks continue to struggle with how to invest excess cash with limited loan demand.



Adding investments is dilutive to margins, but it is better than earning only 15 bps by parking cash at the Fed. Some are hesitant to extend maturities while others are more willing. Both doing "nothing" and adding duration to gain some yield entails risks and impacts earnings.

The asset side of the balance sheet remains fiercely competitive, and pricing is aggressive. With funding costs nearing a floor – how much lower can they go? – spreads are under considerable pressure. Margin pressure appears to be here to stay in the near term.

Source: S&P Global Market Intelligence.

Some management teams are anticipating loan demand to pick up, or return, in the second half of 2021. An opportunity for growth could reside in leveraging new PPP-related relationships established at the height of the pandemic. However, some are also expecting excess liquidity to build further and deposit growth to exceed loan growth.

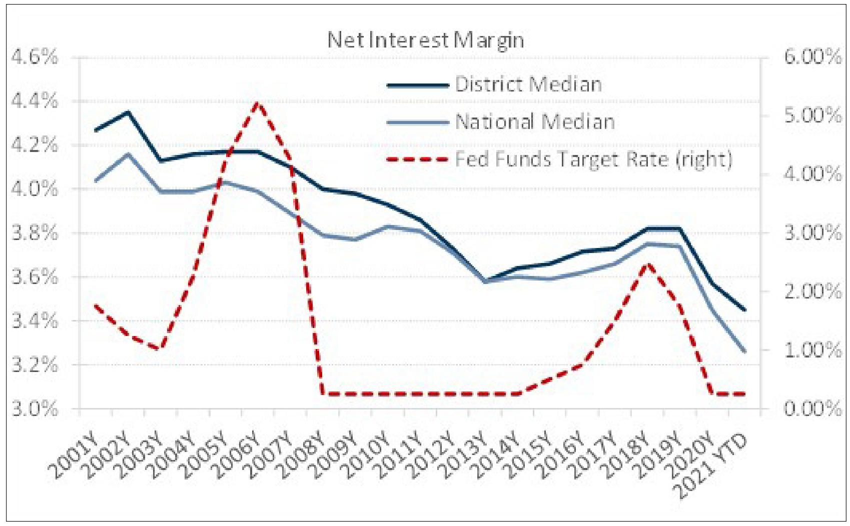
Earnings and margins in 2022 will be challenged as PPP income will dissipate, assets will reprice down and mortgage banking income will slow. Although there is heightened competition for loans, institutions are not compromising on credit quality.

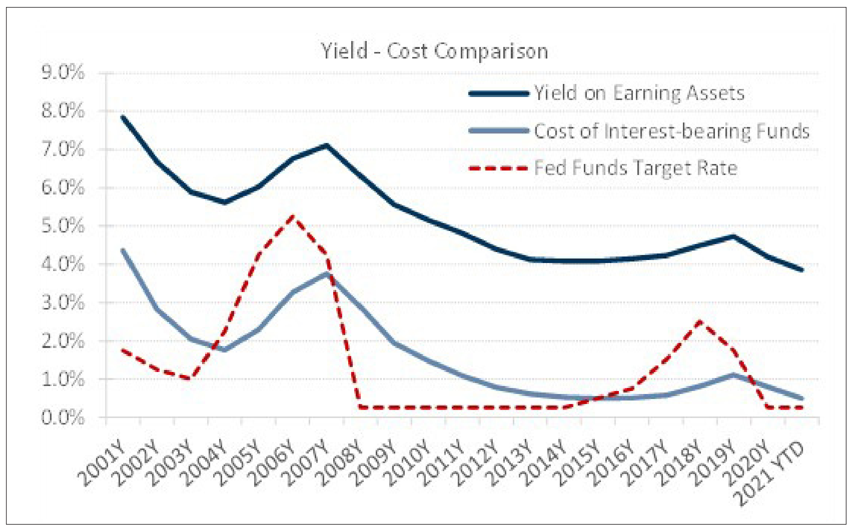
Credit loss provisions materially declined for the second consecutive quarter with numerous institutions booking no or negative provision during the second quarter 2021. Many institutions feel they are well-reserved, or over-reserved, for potential future credit stress.

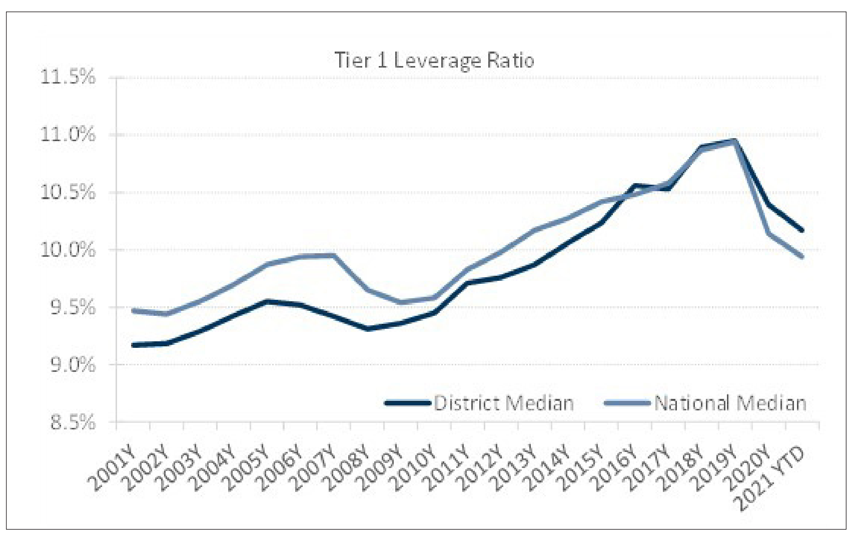
Strong asset quality trends continued during the second quarter 2021. Nonperforming assets remain historically low, reserves are steady and net charge-offs are minimal.

Leverage capital ratios were stable in the second quarter 2021 after falling in first quarter with strong asset growth due to additional stimulus payments and growth in PPP lending.

The number of District banks electing to follow the Community Bank Leverage Ratio (CBLR) framework fell to 318 banks, or half of District community banks with assets less than $10 billion, from 326 quarter-over-quarter. At June 30, 2021, there were 20 community banks that had fallen into the two-quarter grace period after failing to meet the 8.5% threshold.







Source: S&P Global Market Intelligence.

Washington Update

From Ryan Gilliland | FHLBank Topeka's Government Relations Officer

The following are the key takeaways from the 2021 cycle.

- After organizing and prioritizing, President Biden and Congressional Democrats capped the traditional "First 100 Day" sprint with passage of another COVID relief package.
- A June Supreme Court ruling confirmed the President's ability to remove FHFA leadership. After exercising this authority, and removing Director Mark Calabria, Sandra Thompson was installed as acting director at the FHFA.
- Legislation significantly impacting the FHLBank System remains under active consideration, but was not included in the bi-partisan Senate-approved infrastructure bill.
- Upon their return from August recess, Congress will confront a series of time-sensitive votes on government funding, the debt ceiling, flood/highway programs, TANF assistance, and the widely publicized infrastructure and reconciliation bills.
- Democrat leadership faces increasing challenges from vulnerable members confronting new issues they didn't anticipate.

Single-party control in Washington is rare. It's also the universal goal of both parties, who assure middle-of-the-road voters that if only they didn't have to work around those (insert opposing political party) obstructionists, everything would be different.

Unfortunately, as the old adage implies, the fleeting euphoria for the dog that catches the car is quickly replaced by the panic of figuring out what to do when it happens. That's one element of the reason that the controlling party traditionally does not fare well in the first mid-term election of a new presidency.

The year 2021 started the way many expected. President Biden and Congress both had an affirmative agenda; they arrived prepared and motivated, with broad party unity. The "First 100 Days" went mostly according to script, punctuated with another round of long-promised recovery stimulus. The country and economy appeared to be emerging from the pandemic with the wind at our back.

The summer months have been unpredictable, though. The Delta variant and a subsequent series of complicating developments both international and domestic leave Democrats with a list of increasingly difficult political decisions, and a shrinking window of time to address not just must-pass measures, but any of the more grand visions that seemed more attainable just a couple months ago.

The basic political predicament here is common in our increasingly polarized environment. It's broadly the same challenge that Republicans faced the last time they enjoyed universal control in Washington.

Moderate Democrats anticipating tough challengers (either primary or general) in 2022 are already looking ahead with fear that waves of expensive and all-encompassing legislation and declining presidential approval ratings jeopardize their races, while the more progressive base of the party claims that failure to deliver on a perceived mandate from voters to enact sweeping change will doom the party in mid-terms.

This central strategic disagreement leaves party leadership little room for error in navigating the back half of 2021 and early 2022. Razor-thin margins in both chambers mean rank-and-file moderates have extraordinary control over what ultimately passes, but only if they are willing to play hardball with their own leadership.

Upon their return from an abbreviated August recess, Congress will confront a brutal to-do list. In addition to the oncoming debt ceiling crisis, government funding runs out on Sept. 30. These issues could naturally be paired together, but that increases the complexity.

Additionally, federal highway and national flood insurance program authorizations, as well as the federal TANF (Temporary Assistance for Needy Families) program authorization expires on Sept. 30. Add to all this the compounding pressure of the self-imposed Sept. 27 deadline to vote on the bi-partisan infrastructure bill, and it's clear there's just going to be a tremendous amount of pressure this fall.

From the perspective of your Federal Home Loan Banks, this has been a consequential year. The June Supreme Court ruling affirming the power of the President to remove FHFA leadership creates another vector in which regulatory risk becomes increasingly difficult to account for, given the differing priorities of any new administration and the change with which those priorities can impact our operating environment.

In addition, the entire financial services landscape faces new pressures as we endure an unpredictable and uneven economic recovery. We're also evaluating impactful legislation that could specifically alter the way FHLBanks operate in a fundamental way.

Amid those challenges, though, the FHLBanks have once again proven the value of our adaptive model, which allows us to quickly adjust with the market to remain a dependable partner during these periods of uncertainty, while helping our members sustain the communities they serve, as they've so admirably done over the past 18 months.

Defining the Community Bank Groups

At June 30, 2021, there were 639 operating bank institutions headquartered in FHLBank Topeka's Tenth District of Colorado, Kansas, Nebraska, and Oklahoma.

This report displays data by three segments: Asset size, primary business focus and location of bank headquarters.

1. Asset Size

2. Primary Business Focus

- Ag focused banks: agricultural production loans plus real estate loans secured by farmland exceed 50% of total loans and leases
- Commercial focused banks: sum of commercial real estate, commercial and industrial loans, multifamily loans, and other construction and land development loans are greater than 50% of total loans and leases
- Retail banks: 1-4 family residential and consumer loans above 50% of total loans and leases
- Other banks: institutions that do not have a 50% concentration in ag, commercial, or retail related loans

3. Geographically by state (Colorado, Kansas, Nebraska, Oklahoma)

Trend data includes banks that have been acquired but were headquartered in the District at the time of acquisition.

	Headquarters Location					
Asset Size Range	Colorado	Kansas	Nebraska	Oklahoma	Total	
> $1bn	10	16	12	17	55	9%
$500mm-$1bn	7	17	16	27	67	10%
$250mm-$500mm	22	37	33	37	129	20%
$100mm-$250mm	27	69	45	50	191	30%
< $100mm	8	80	52	57	197	31%
Total	74	219	158	188	639	
	12%	34%	25%	29%		

	Primary Business Focus				
Asset Size Range	Agricul.	Comm'l	Retail	Other	Total
> $1bn	0	38	7	10	55
$500mm-$1bn	6	41	4	16	67
$250mm-$500mm	26	54	11	38	129
$100mm-$250mm	53	56	16	66	191
< $100mm	73	26	32	66	197
Total	158	215	70	196	639
	25%	34%	11%	31%	

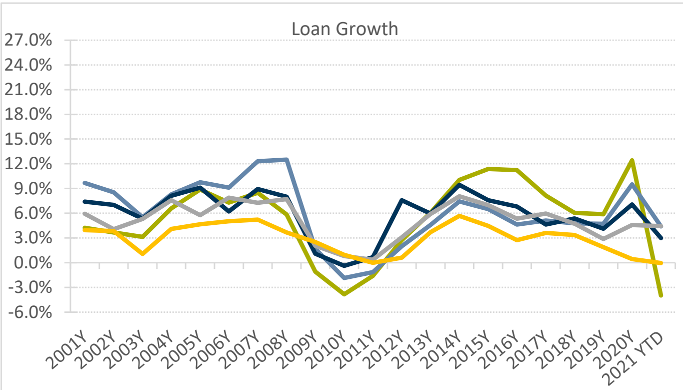
Source: S&P Global Market Intelligence.

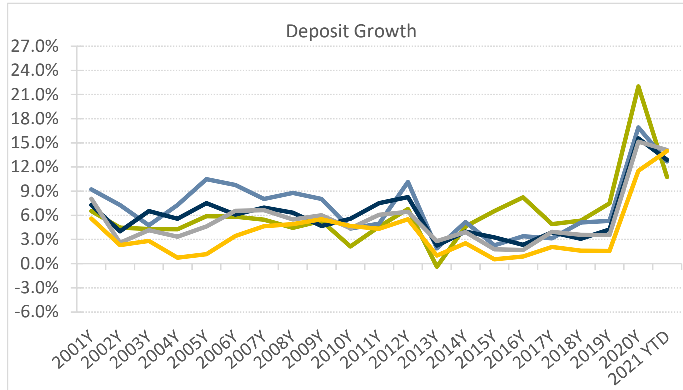
Balance Sheet

Loan & Deposit Growth

by Asset Size

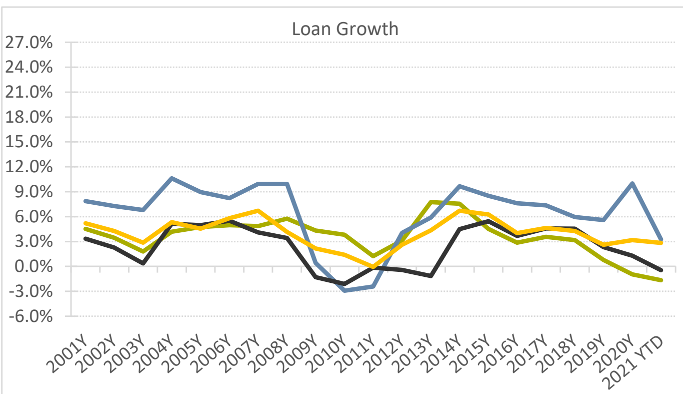
> $1 bn | $500 mm-$1 bn | $250 - $500 mm | $100 - $250 mm | < $100 mm

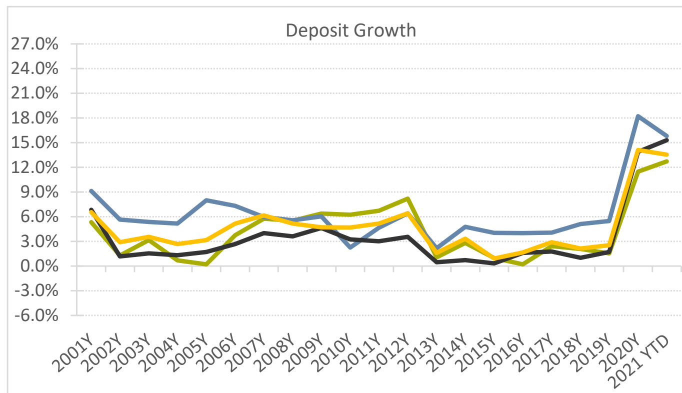




by Primary Business Focus

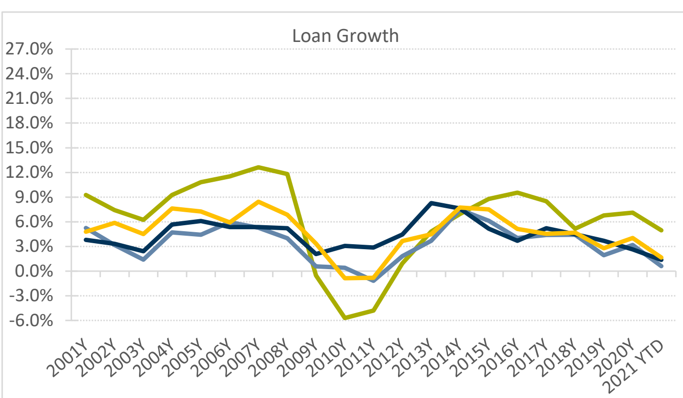
Agricultural | Commercial | Retail | Other

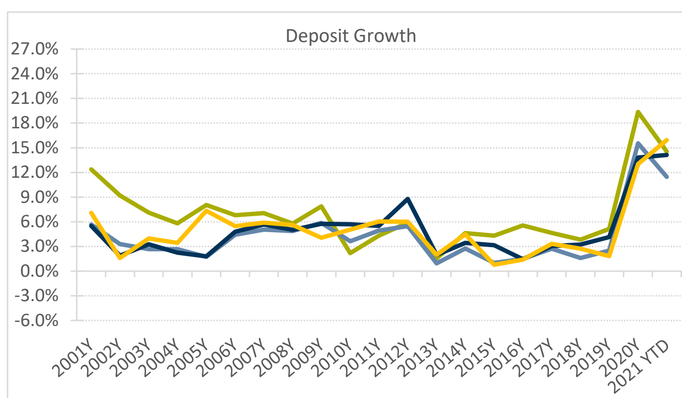




by State

Colorado | Kansas | Nebraska | Oklahoma





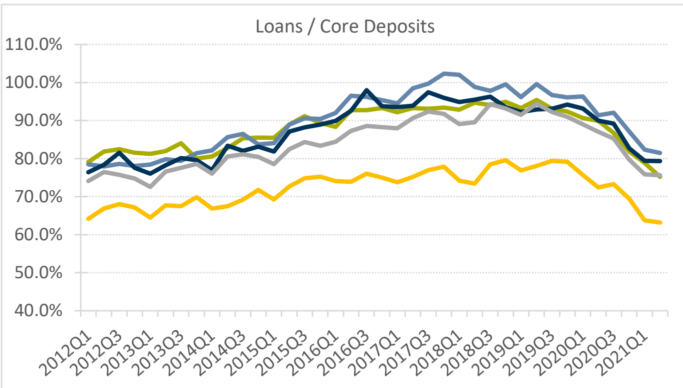
Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.

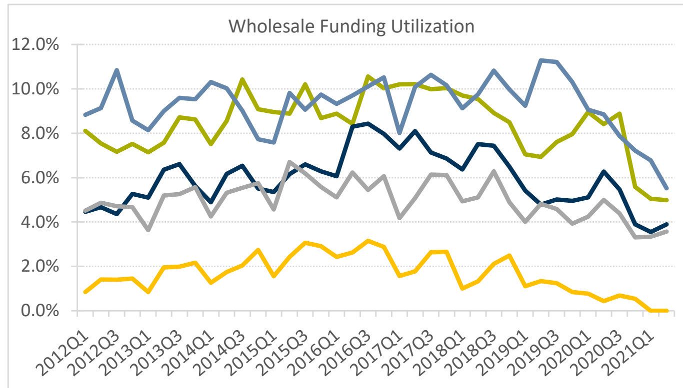
Balance Sheet

Loans / Core Deposits & Wholesale Funding Utilization

by Asset Size

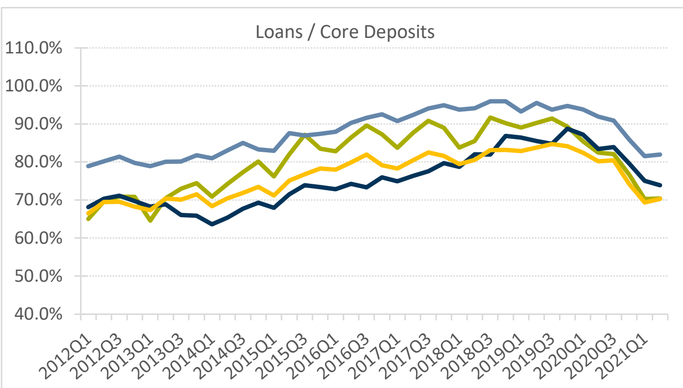
> $1 bn | $500 mm-$1 bn | $250 - $500 mm | $100 - $250 mm | < $100 mm

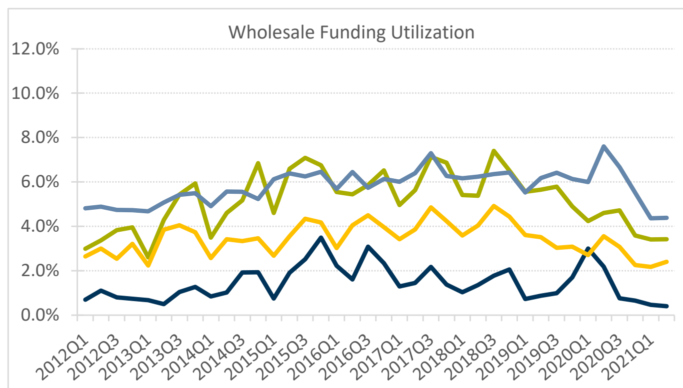




by Primary Business Focus

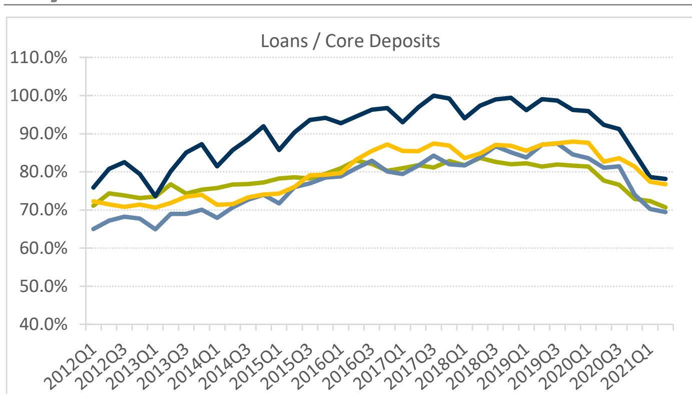
Agricultural | Commercial | Retail | Other

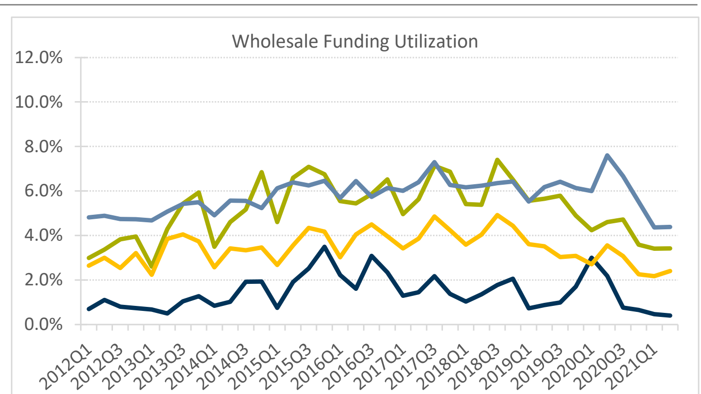




by State

Colorado | Kansas | Nebraska | Oklahoma





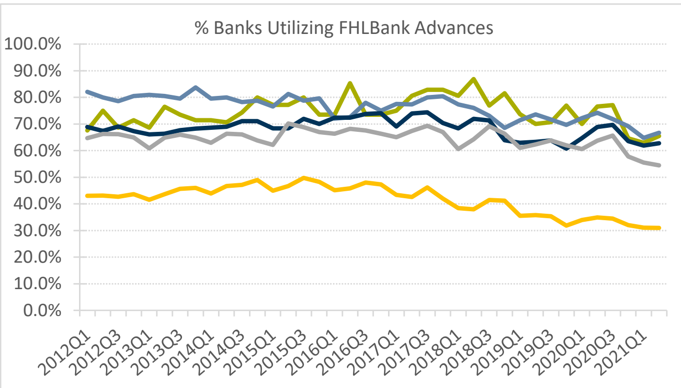
Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.
Note: Loans / Core deposits = Loans / (Total Deposits - CDs > $250k - Brokered Deposits < $250k - Listing Service Deposits)
Note: Wholesale Funding Utilization = (Total Borrowings + Net Brokered Deposits (excludes brokered reciprocal deposits) + Listing Service Deposits) / (Total Borrowings + Total Deposits)

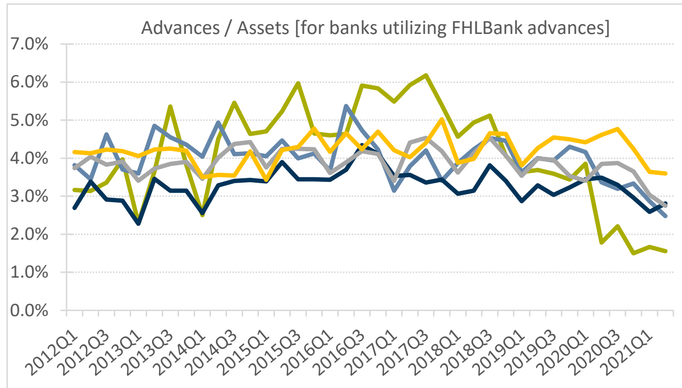
Balance Sheet

FHLBank Advance Utilization

by Asset Size

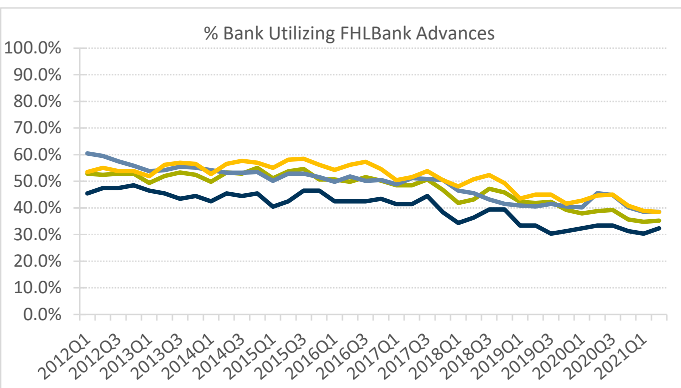
> $1 bn | $500 mm-$1 bn | $250 - $500 mm | $100 - $250 mm | < $100 mm

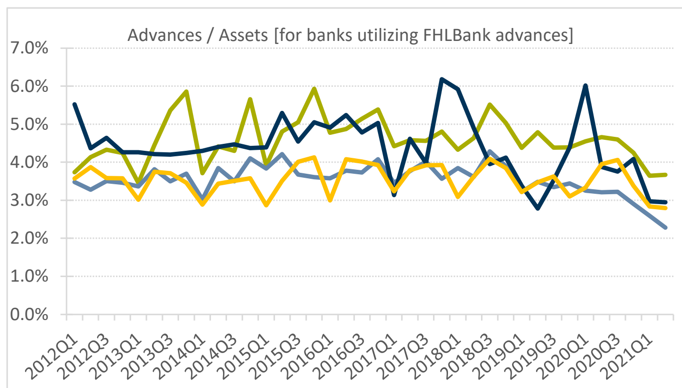




by Primary Business Focus

Agricultural | Commercial | Retail | Other





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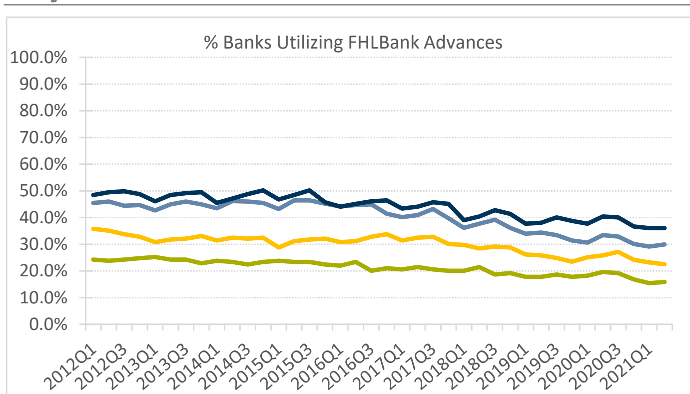
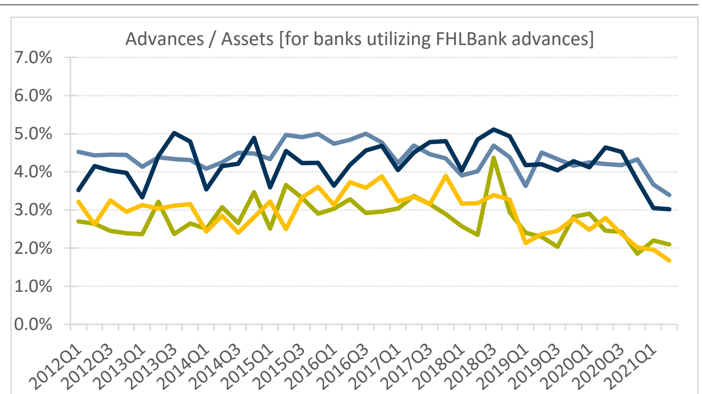




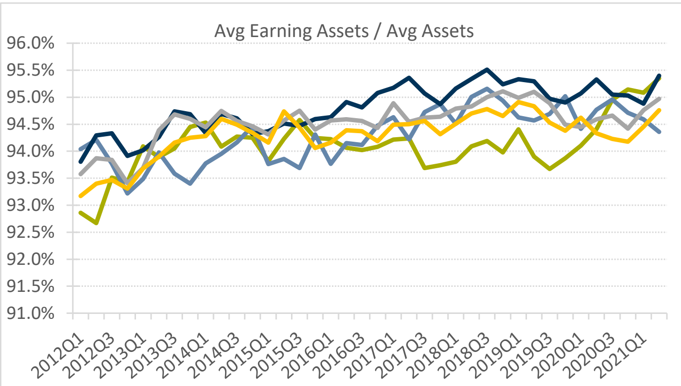
Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.

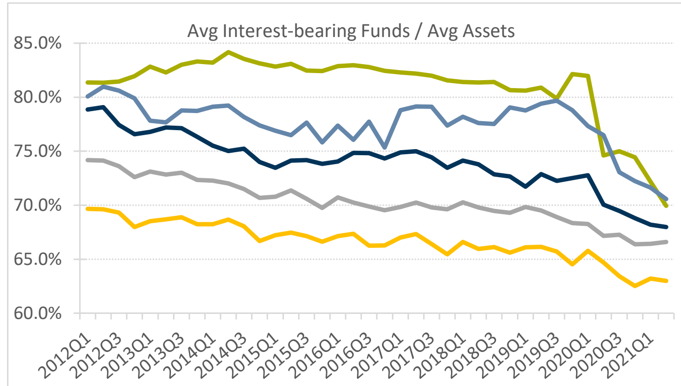
Balance Sheet

Avg Earning Assets / Avg Assets & Avg Int-bearing Funds / Avg Assets

by Asset Size

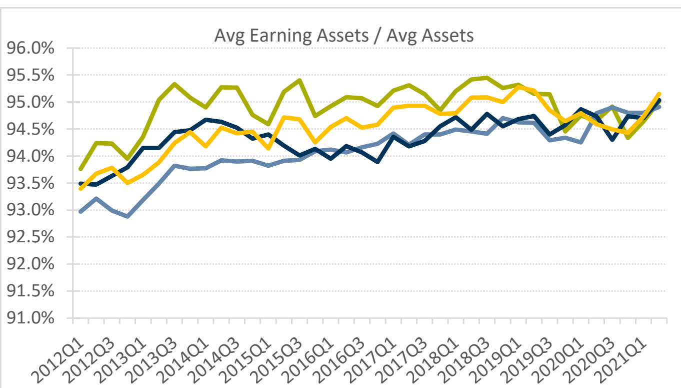
> $1 bn | $500 mm-$1 bn | $250 - $500 mm | $100 - $250 mm | < $100 mm

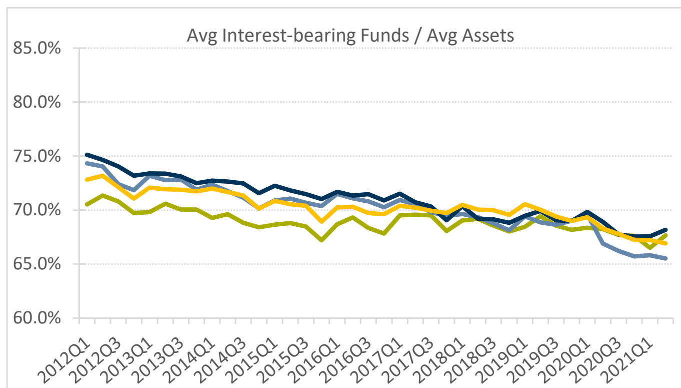




by Primary Business Focus

Agricultural | Commercial | Retail | Other





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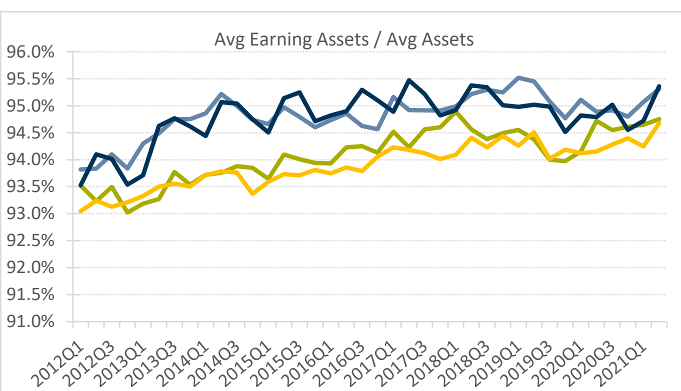
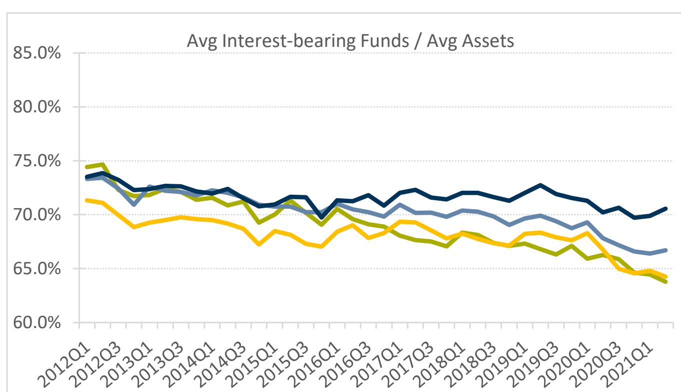




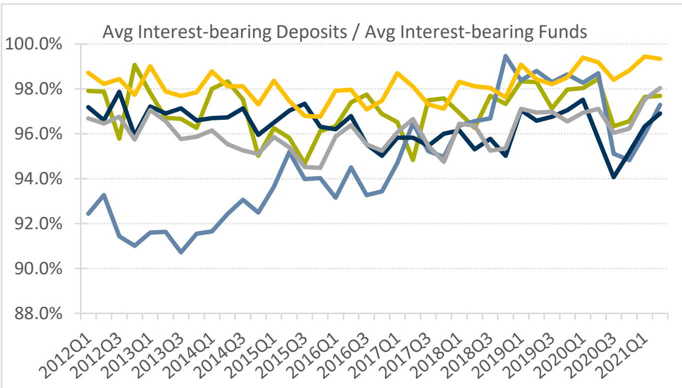
Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.

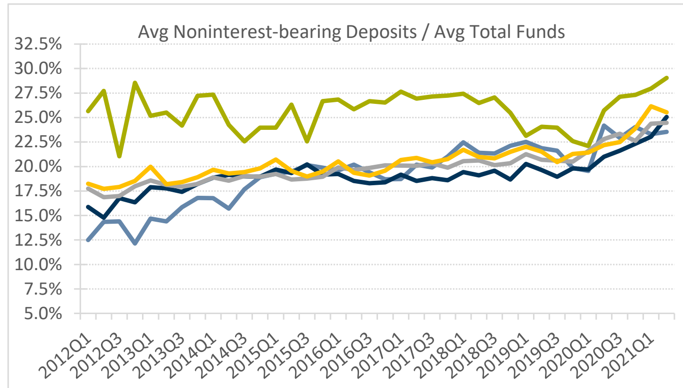
Balance Sheet

Avg Interest-bearing Deposits / Avg Interest-bearing Funds & Avg Noninterest-bearing Deposits / Avg Total Funds

by Asset Size

> $1 bn | $500 mm-$1 bn | $250 - $500 mm | $100 - $250 mm | < $100 mm





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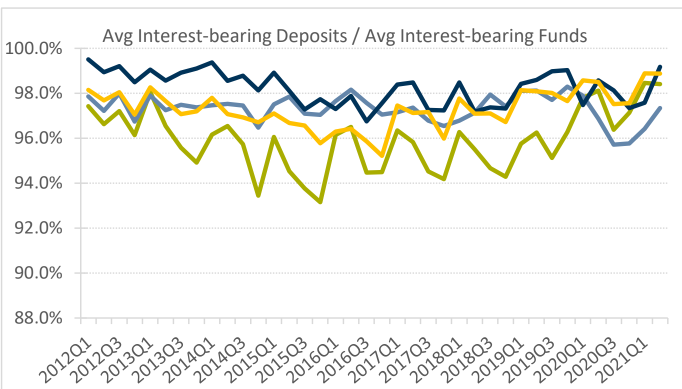

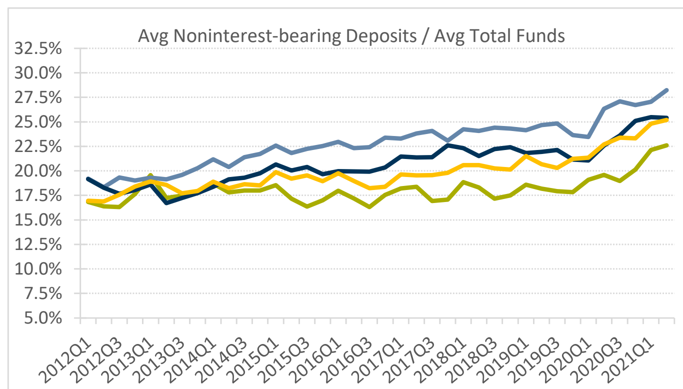

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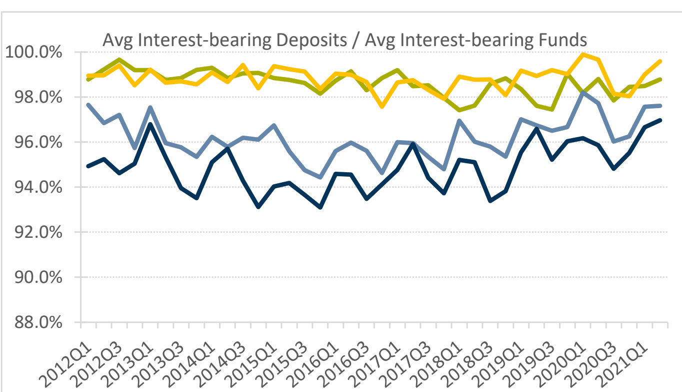
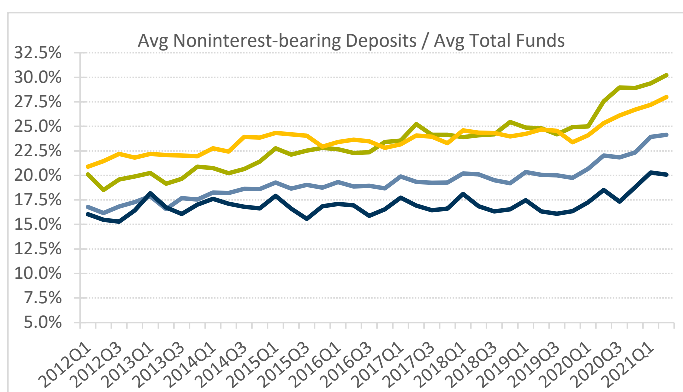
Colorado | Kansas | Nebraska | Oklahoma



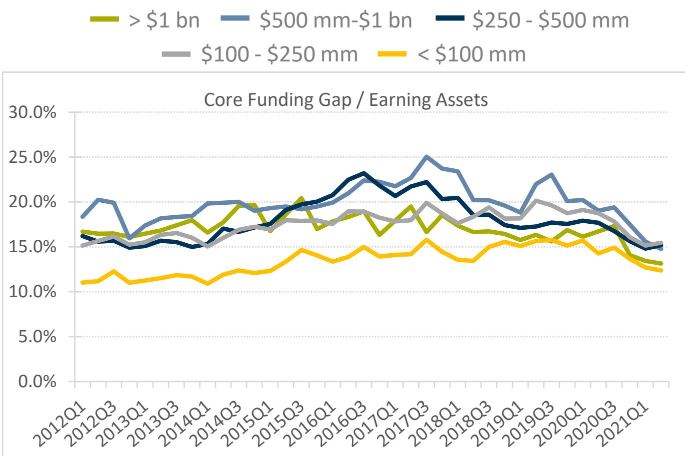


Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.

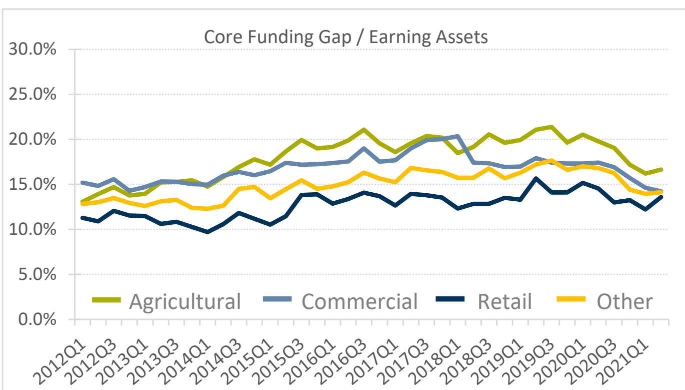
Balance Sheet

Core Funding Gap / Earning Assets & Balance Sheet Observations

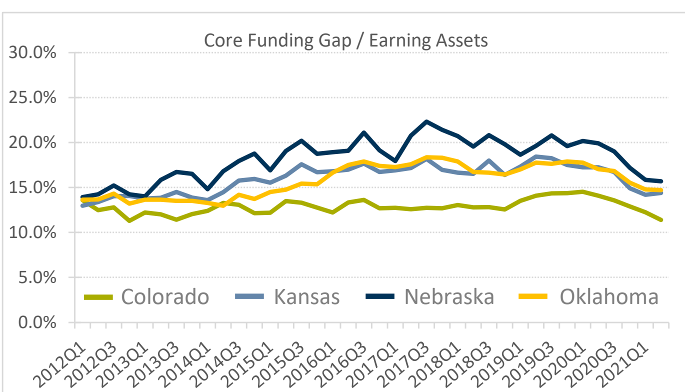
by Asset Size



by Primary Business Focus



by State



Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.
Note: Core Funding Gap = Earning Assets Less Core Deposits

Balance Sheet Observations

Loan & Deposit Growth Trends

- Both loan and deposit growth slowed during the second quarter with median deposit growth again outpacing loan growth for the seventh consecutive quarter.
- Excluding PPP loans, the median loan growth was 6.6%, after declining for four straight quarters. Median total loan growth was 1.4%.
  - All peer segments saw improved loan growth after contracting during the first quarter.
  - PPP loans fell $6.2 billion to $11.9 billion during the second quarter.
  - Excluding PPP loans, aggregate loans grew $3.8 billion or 1.5%, with commercial real estate lending up $1.5 billion.
  - 1-4 family residential lending slowed during the second quarter with aggregate balances growing only $0.4 billion or 0.5%. This is the lowest quarter-over-quarter increase since 2015.
- Aggregate deposits increased $4 billion or 5.8% quarter-over-quarter. The median deposit growth for District banks was 2.9% quarter-over-quarter.
  - The peer segments with the largest growth during the second quarter were retail focused banks, those headquartered in Colorado and the largest banks.
  - Since year-end 2019, aggregate deposit balances have ballooned 26.1%.

Wholesale Funding

- The pace of declining loan-to-deposit and loan-to-core deposit ratios slowed during the second quarter for most banks. Some institutions saw an increase in these ratios.
- Wholesale funding trends were flat to down slightly for most banks.
- Average loans pledged to the Fed's PPP Liquidity Facility ticked down to $3.7 billion during the second quarter compared to $3.8 billion during the first quarter.
- The number of banks utilizing FHLBank advance funding was up slightly in the second quarter across most segments.

Balance Sheet Composition

- Earning assets continue to climb for all peer segments except for banks with assets of $500 million - $1 billion, which declined for a third straight quarter.
- Noninterest-bearing deposits continue to reach new highs, representing a greater portion of bank funding profiles.

Capital

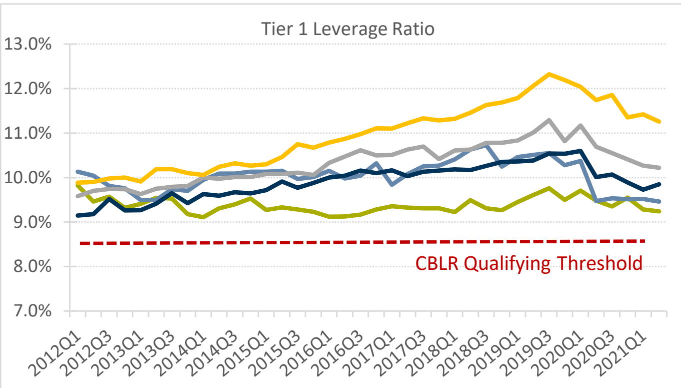
- Solid capital positions remain intact despite falling in the first quarter due to strong asset growth.
- Total risk-based capital ratios were generally up across peer segments except those with assets $250 million - $1 billion.

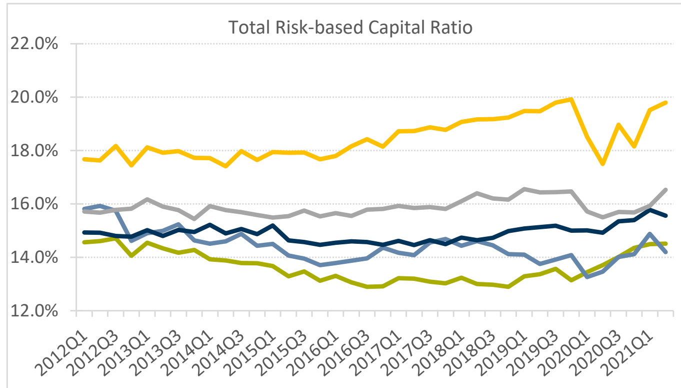
Balance Sheet

Capital: Tier 1 Leverage & Total Risk-based Capital

by Asset Size

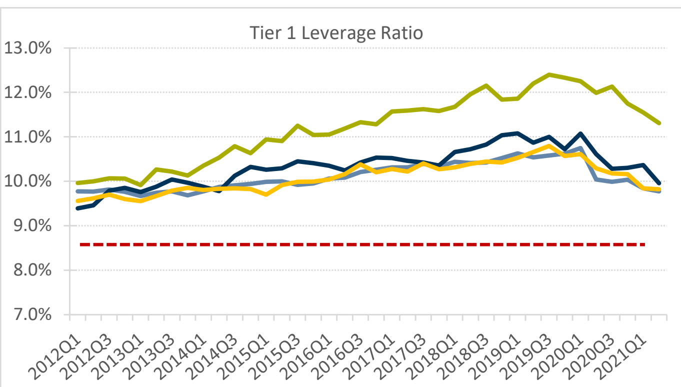
> $1 bn | $500 mm-$1 bn | $250 - $500 mm | $100 - $250 mm | < $100 mm

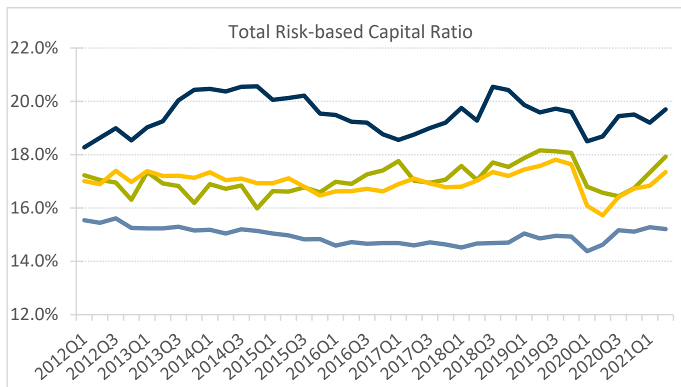




by Primary Business Focus

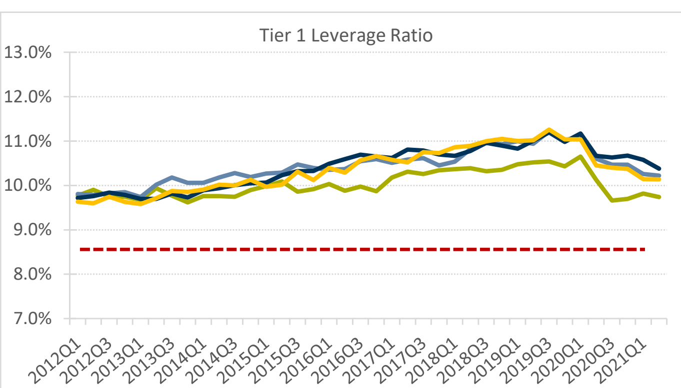
Agricultural | Commercial | Retail | Other

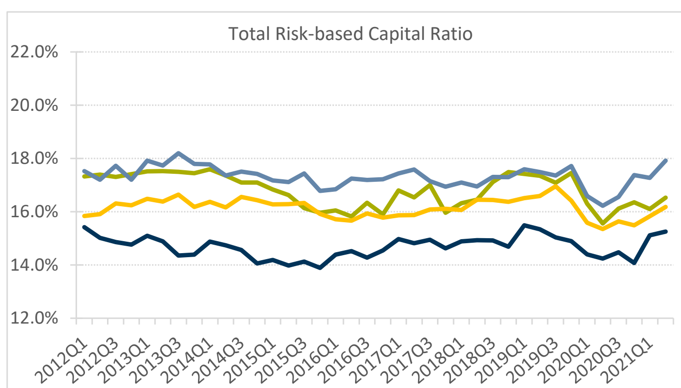




by State

Colorado | Kansas | Nebraska | Oklahoma



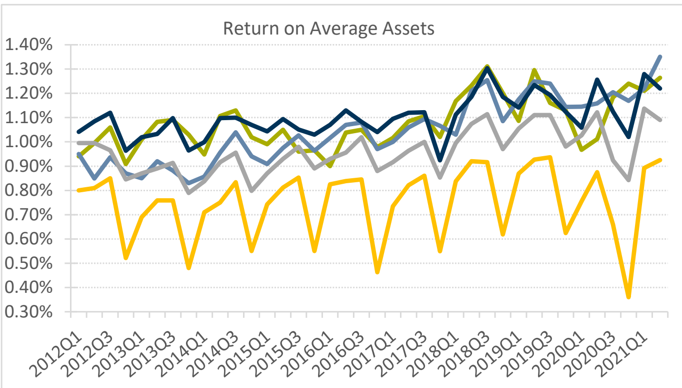


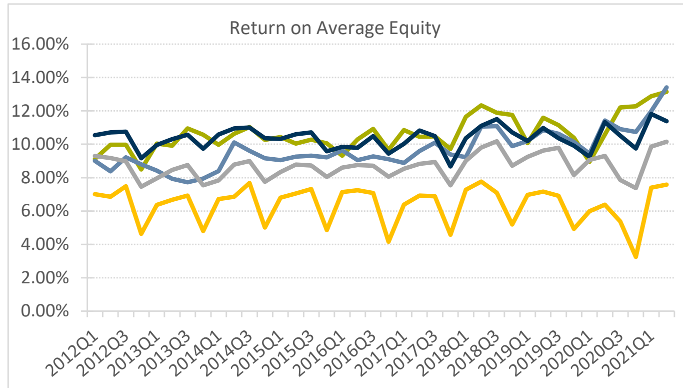
Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.

Profitability & Performance
*Return on Average Assets & Return on Average Equity**

by Asset Size

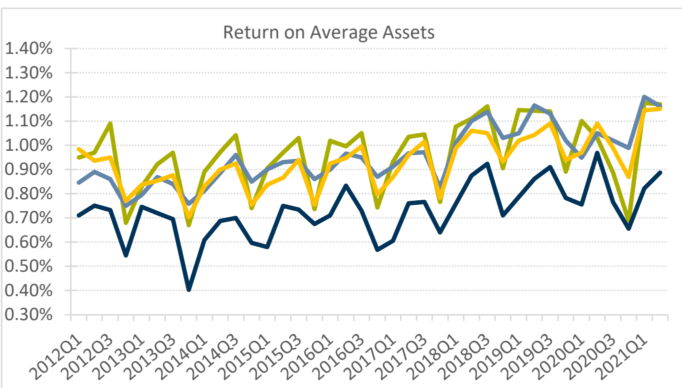
> $1 bn | $500 mm-$1 bn | $250 - $500 mm | $100 - $250 mm | < $100 mm

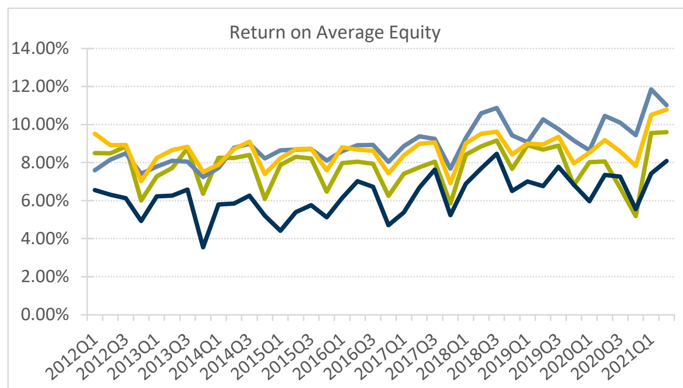




by Primary Business Focus

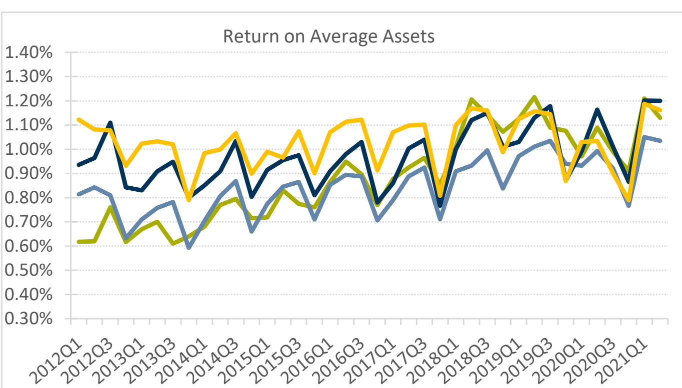
Agricultural | Commercial | Retail | Other

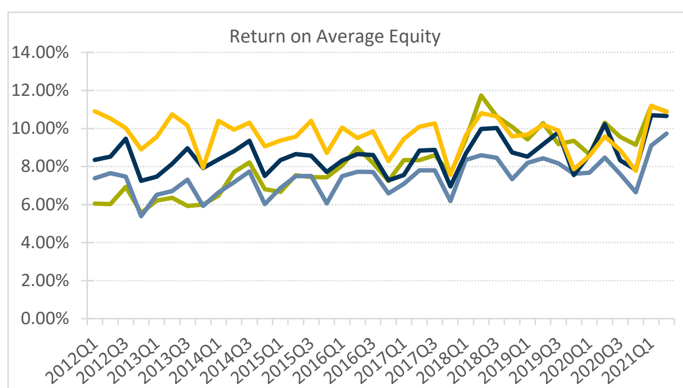




by State

Colorado | Kansas | Nebraska | Oklahoma





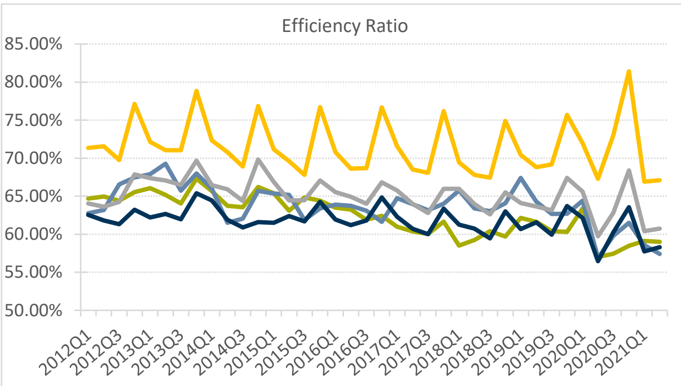
Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.
** S-corporations tax effected at 21% for comparative purposes.*

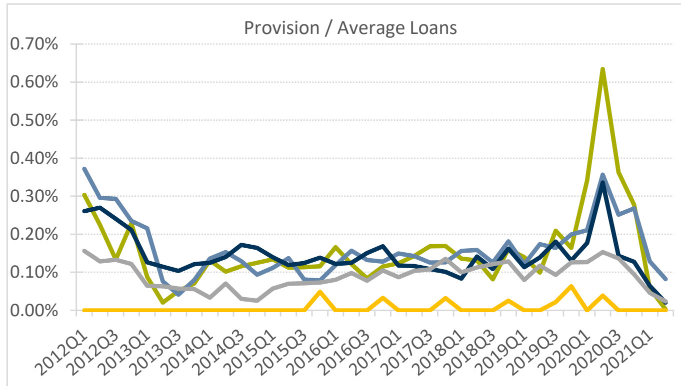
Profitability & Performance

Efficiency Ratio & Provision / Average Loans

by Asset Size

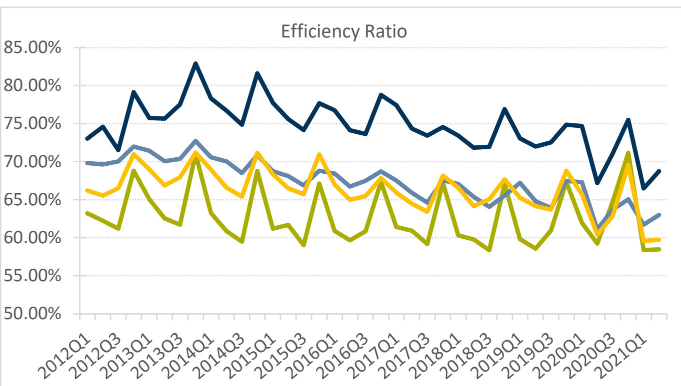
> $1 bn | $500 mm-$1 bn | $250 - $500 mm | $100 - $250 mm | < $100 mm

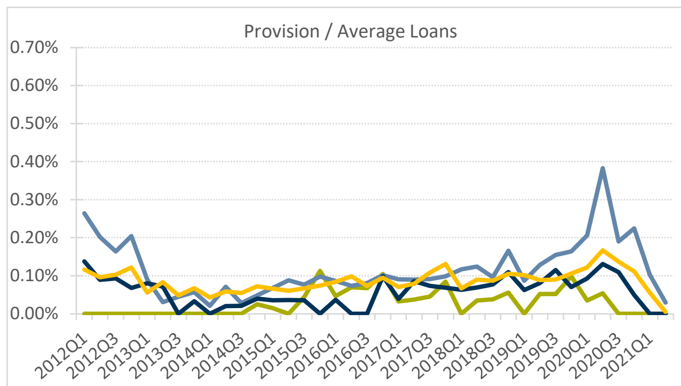




by Primary Business Focus

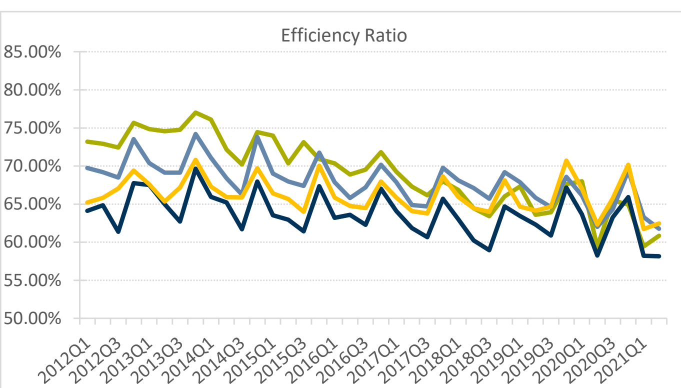
Agricultural | Commercial | Retail | Other

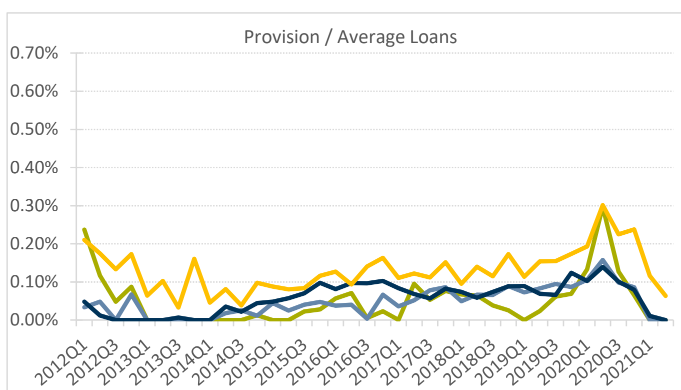




by State

Colorado | Kansas | Nebraska | Oklahoma





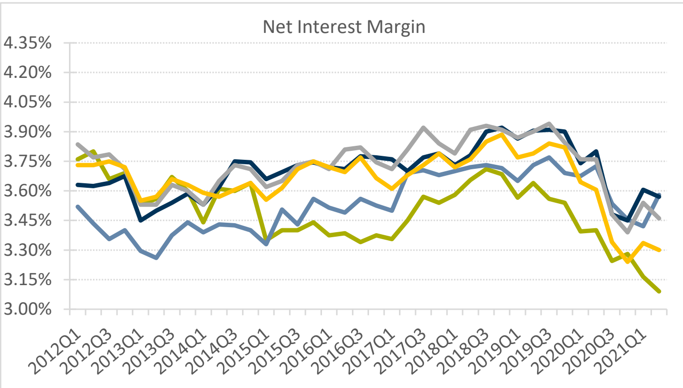
Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.

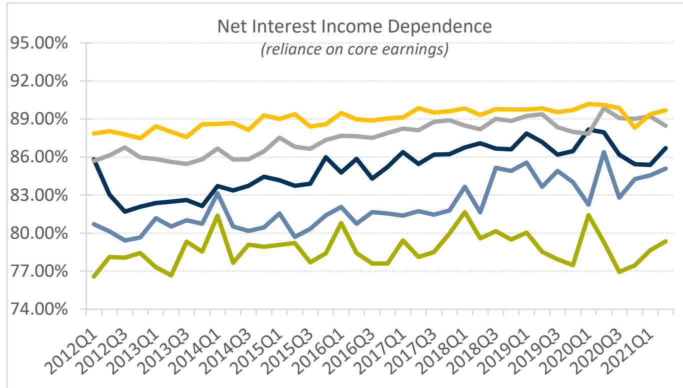
Profitability & Performance

Net Interest Margin & Net Interest Income Dependence

by Asset Size

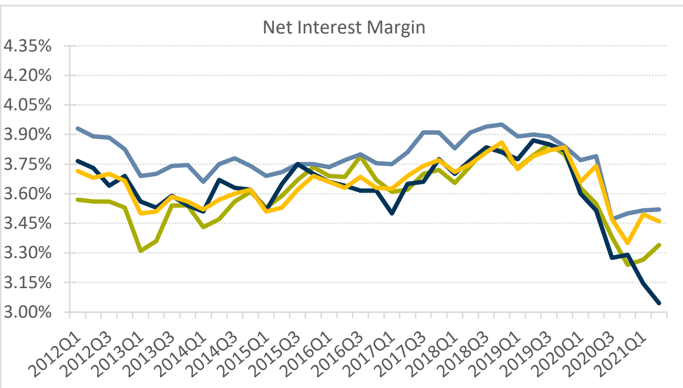
> $1 bn | $500 mm-$1 bn | $250 - $500 mm | $100 - $250 mm | < $100 mm

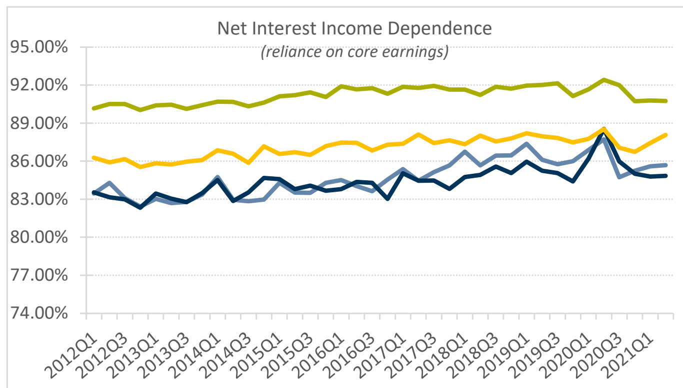




by Primary Business Focus

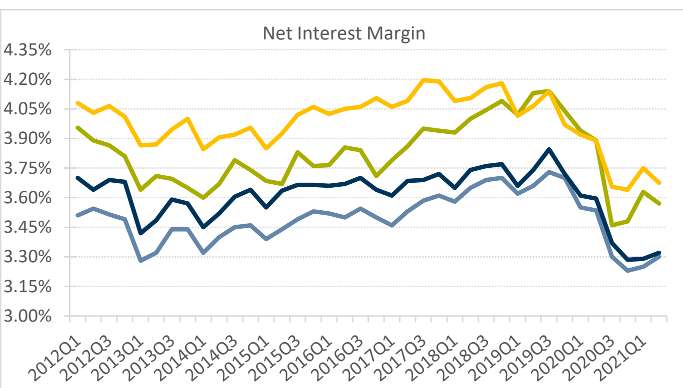
Agricultural | Commercial | Retail | Other

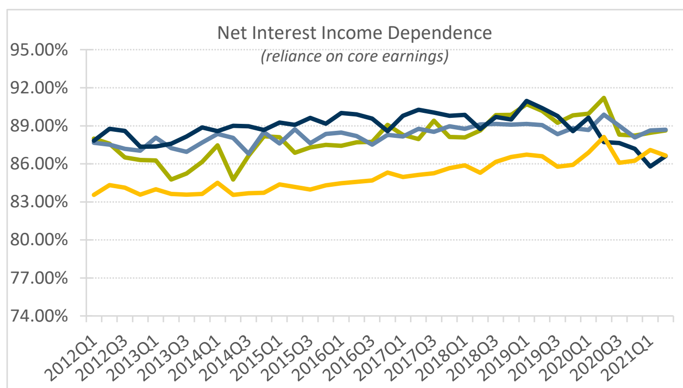




by State

Colorado | Kansas | Nebraska | Oklahoma





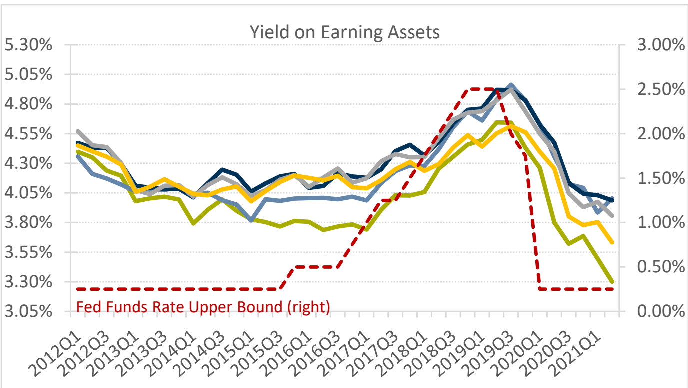
Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.
Note: Net Interest Income Dependence = Net Interest Income / (Net Interest Income + Noninterest Income)

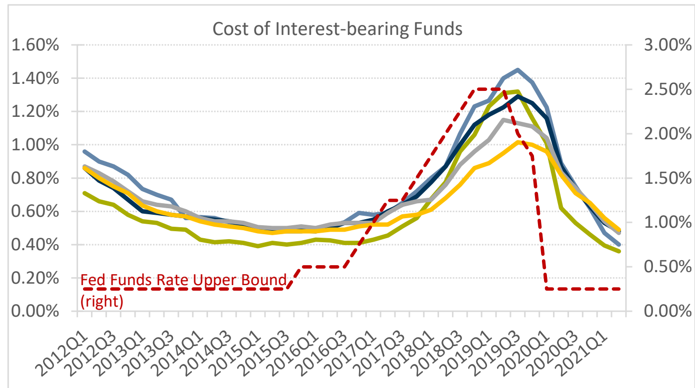
Profitability & Performance

Yield on Earning Assets & Cost of Interest-bearing Funds

by Asset Size

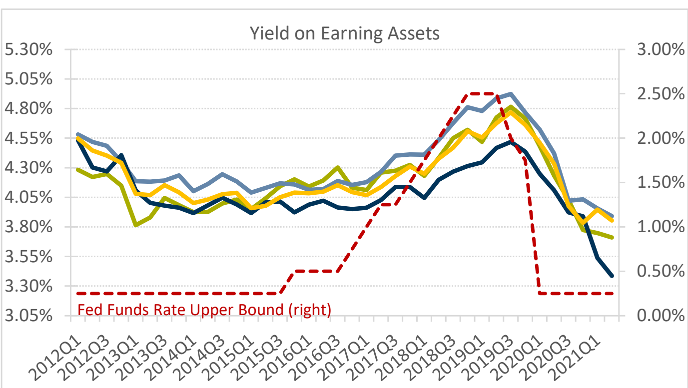
> $1 bn | $500 mm-$1 bn | $250 - $500 mm | $100 - $250 mm | < $100 mm

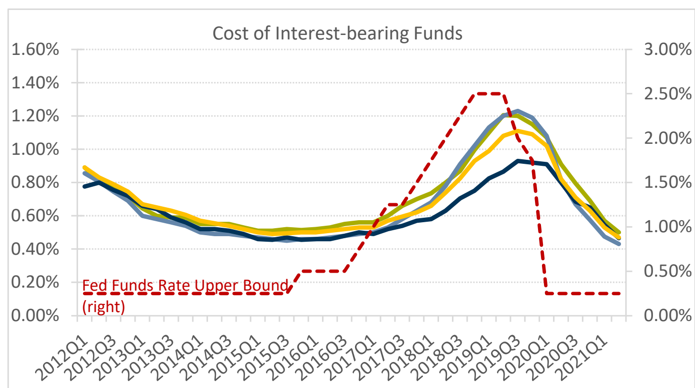




by Primary Business Focus

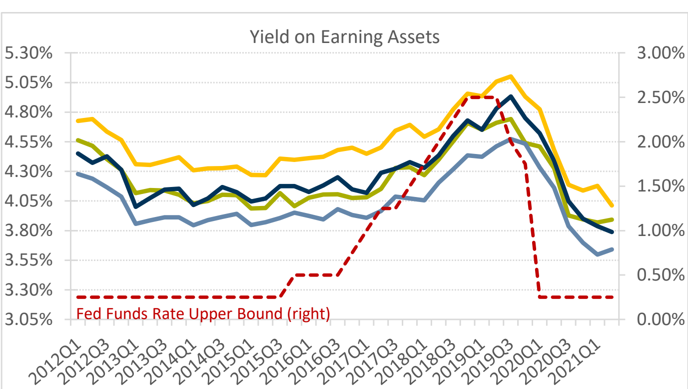
Agricultural | Commercial | Retail | Other

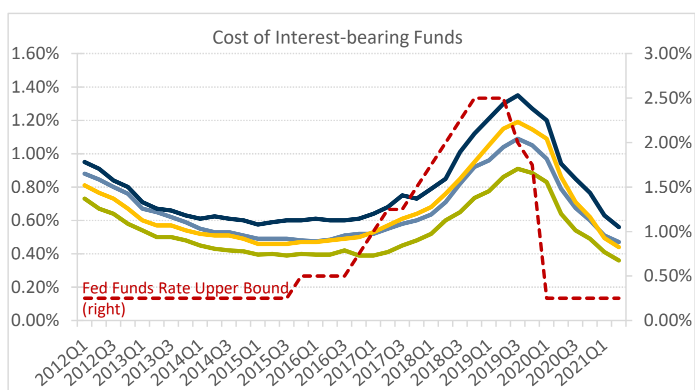




by State

Colorado | Kansas | Nebraska | Oklahoma

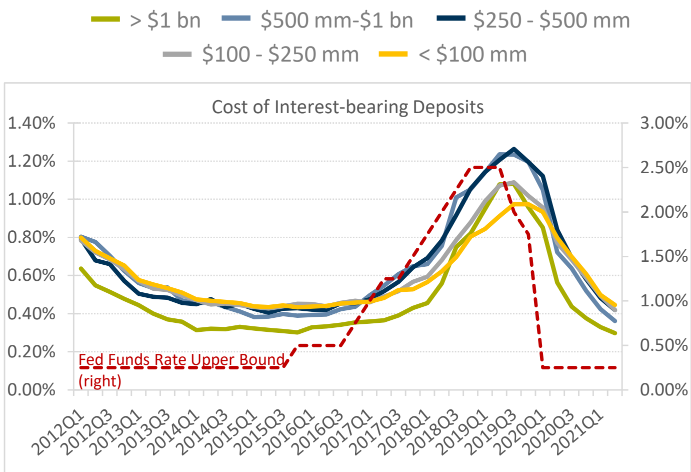




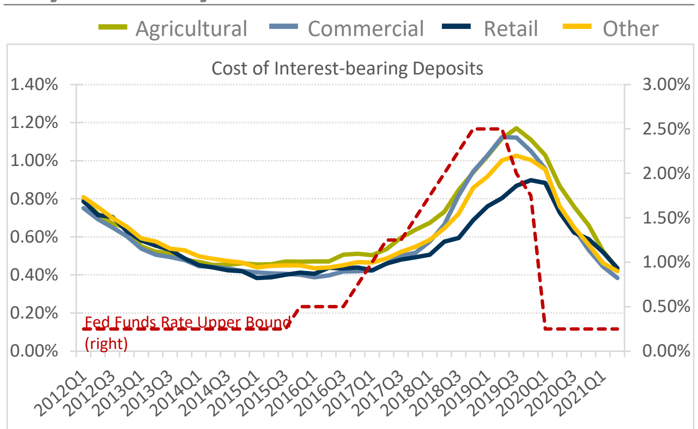
Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.

Profitability & Performance
Cost of Interest-bearing Deposits & Observations

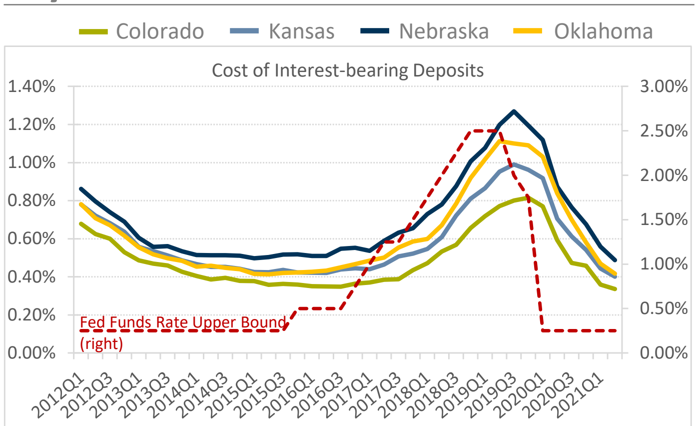
by Asset Size



by Primary Business Focus



by State



Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.

Observations

Earnings Metrics

- Median second quarter return metrics were mixed on a quarterly basis across peer groups.
  - On a year-over-year basis, median ROAA and ROAE metrics were up 9 bps and 117 bps, respectively.
  - The District ROAE median reached a new nine-year high for the second quarter.
- Credit loss provisions materially declined for the second consecutive quarter with many institutions booking no provision or a negative provision during the second quarter.
- Median net interest margins ticked down for many banks after improving in the first quarter.
  - The median net interest margin for banks with assets $500 million - $1 billion and ag focused banks were up 16 bps and 8 bps, respectively.
- While the District median efficiency ratio strengthened during the second quarter, many peer segments showed an increase in operating expenses.
  - All peer sets, except ag focused banks, reached new nine-year lows within the past year.

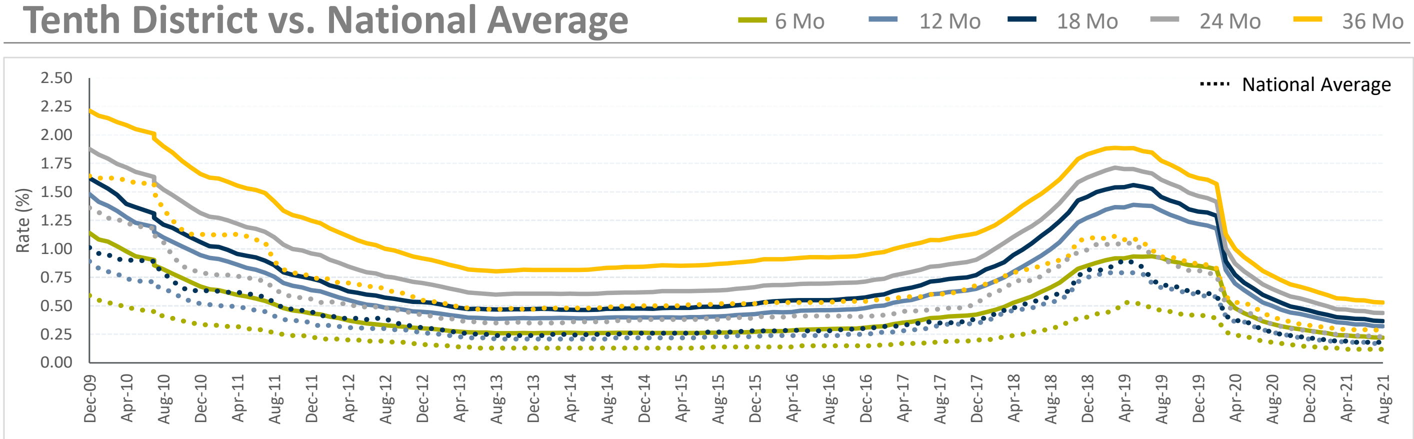
Yields & Costs

- Yields on earning assets continued their downward trend in the second quarter as many banks reach new lows.
  - The median yield on earning assets is now down 100 bps since year-end 2019.
  - The median yield on earning assets for banks with assets $500 million - $1 billion improved 12 bps quarter-over-quarter. This group of banks had the greatest shift of assets into securities during the second quarter.
  - Opportunities to grow quality, higher-yielding assets remains a challenge, but banks are eager for loan demand to return.
- The floor for cost of interest-bearing deposits continues to push lower for nearly all peer segments. Most banks have now gone below Great Recession lows.
  - The institutions with the largest drops in deposit costs are banks $250mm - $1bn and Nebraska banks as well as ag and commercial focused banks.
- The average rates offered on both time deposits and non-maturity accounts continue to remain above the national average, although the gap has narrowed.
  - Nebraska and Kansas continue to offer slightly higher rates on deposit products compared to Colorado and Nebraska.

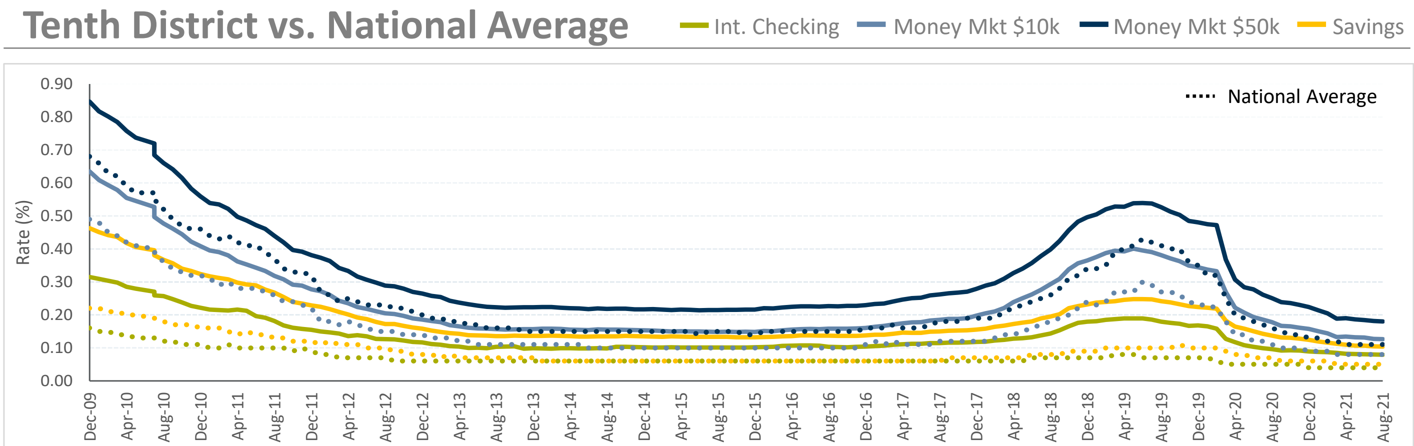
Profitability & Performance

Historical Average Rate Trends: Time Deposits & Non-Maturity Accounts

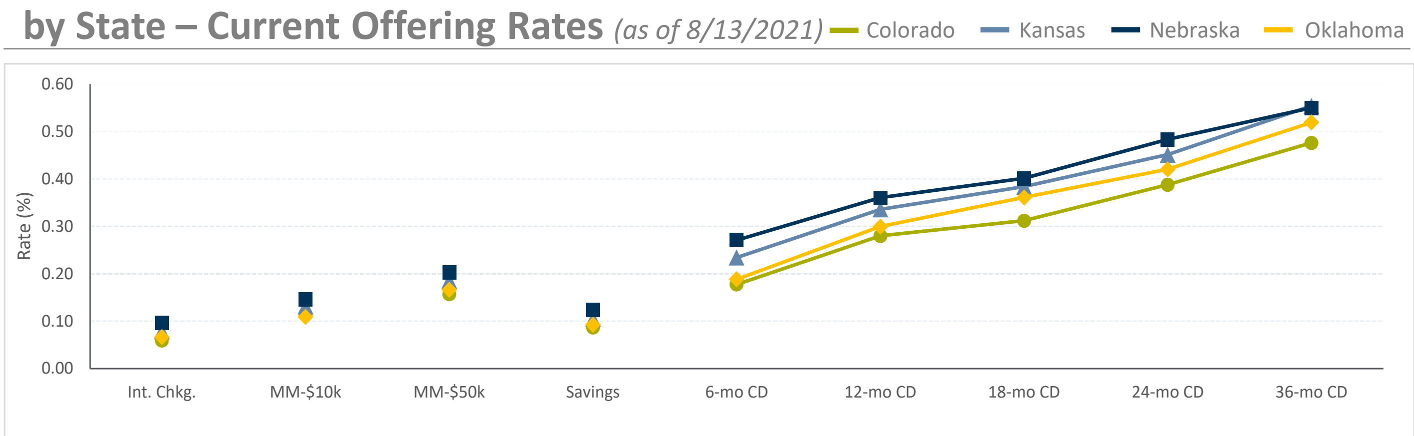
Tenth District vs. National Average



Tenth District vs. National Average



by State – Current Offering Rates *(as of 8/13/2021)*



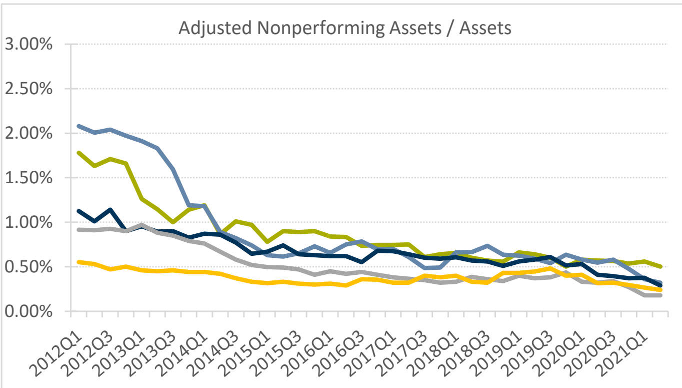
Source: S&P Global Market Intelligence. Rates through 8/13/2021.
Note: Includes banks and credit unions that report deposit rates to the RateWatch service.

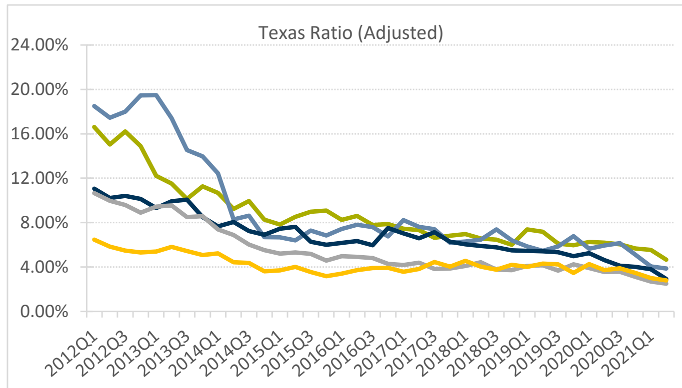
Asset Quality

Adjusted Nonperforming Assets / Assets & Texas Ratio

by Asset Size

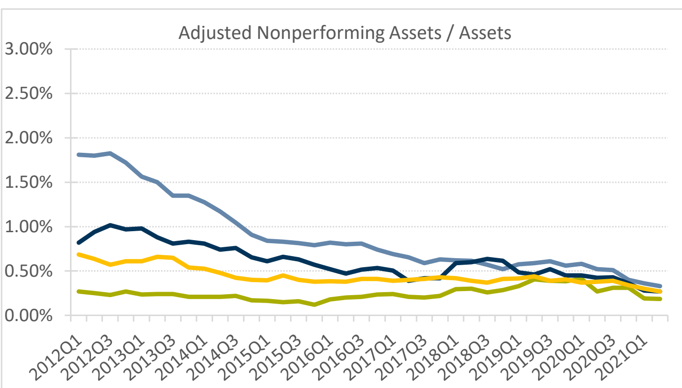
> $1 bn | $500 mm-$1 bn | $250 - $500 mm | $100 - $250 mm | < $100 mm

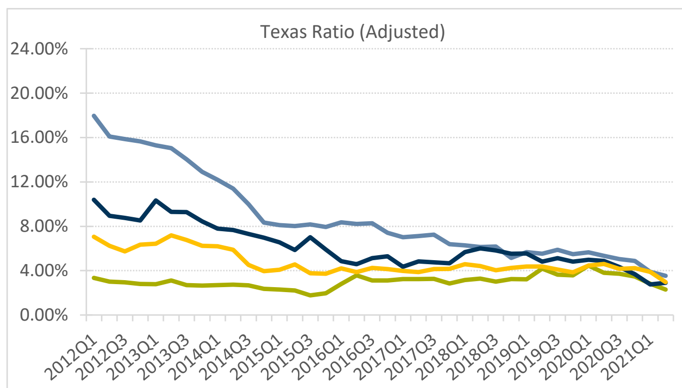




by Primary Business Focus

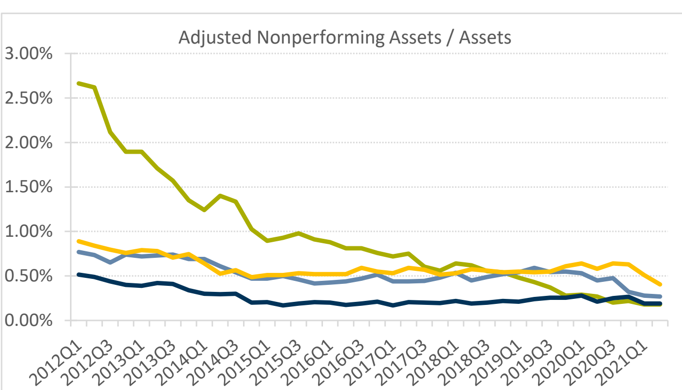
Agricultural | Commercial | Retail | Other

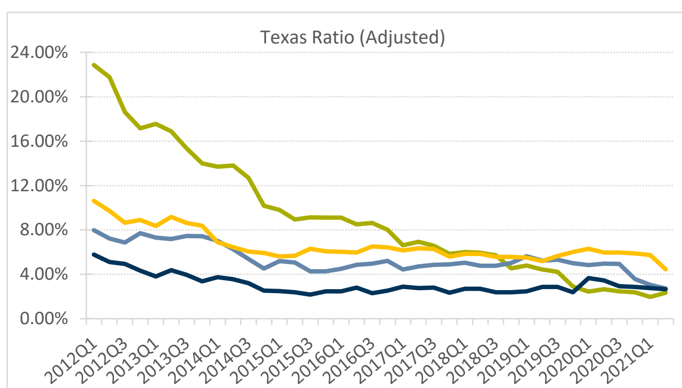




by State

Colorado | Kansas | Nebraska | Oklahoma





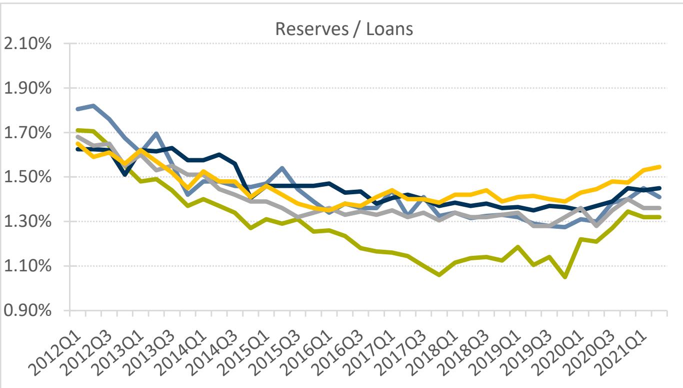
Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.
Note: Adjusted nonperforming assets adjusted for U.S. government guaranteed portion of loans.
Note: Texas Ratio = (Adjusted Nonperforming Assets + Adjusted Loans 90 Days Past Due) / (Tangible Equity + Reserves)

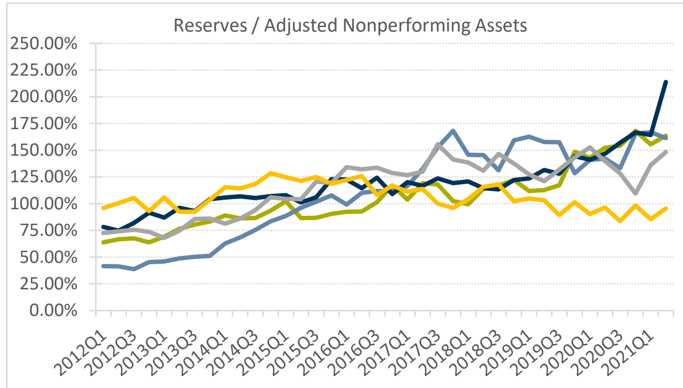
Asset Quality

Reserves / Loans & Reserves / Adjusted Nonperforming Assets

by Asset Size

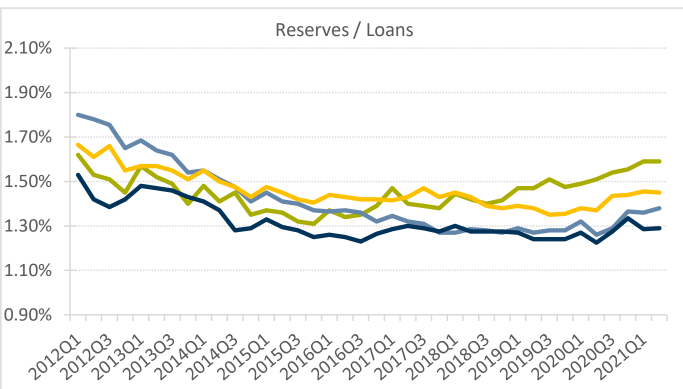
> $1 bn | $500 mm-$1 bn | $250 - $500 mm | $100 - $250 mm | < $100 mm

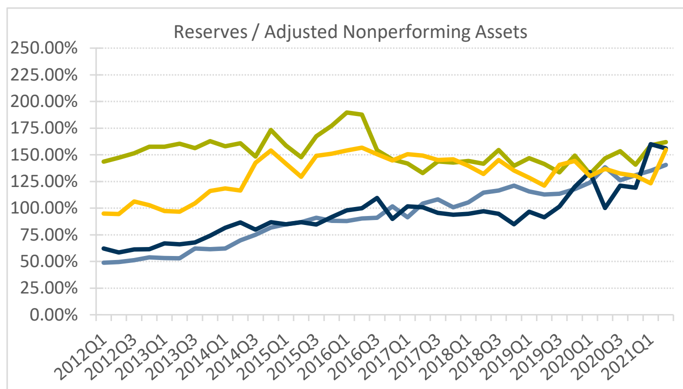




by Primary Business Focus

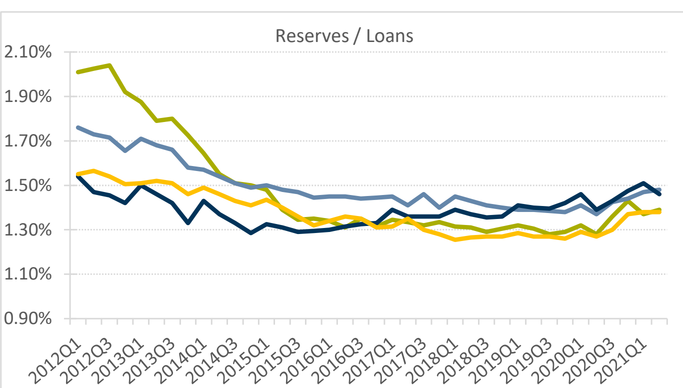
Agricultural | Commercial | Retail | Other

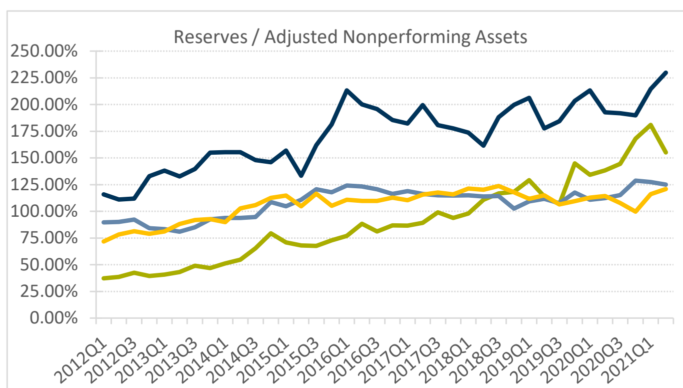




by State

Colorado | Kansas | Nebraska | Oklahoma





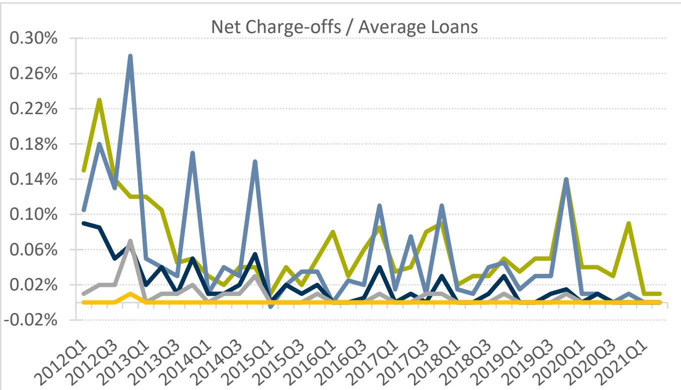
Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.
Note: Adjusted nonperforming assets adjusted for U.S. government guaranteed portion of loans.

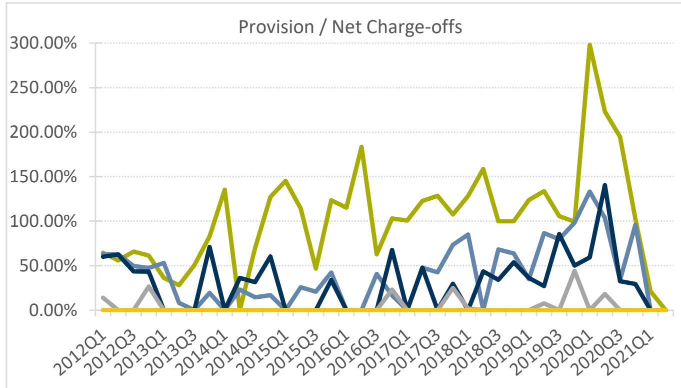
Asset Quality

Net Charge-offs / Average Loans & Provision / Net Charge-offs

by Asset Size

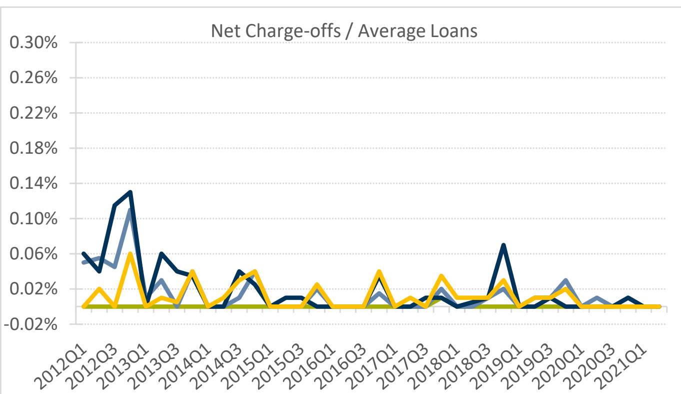
> $1 bn $500 mm-$1 bn $250 - $500 mm $100 - $250 mm   < $100 mm

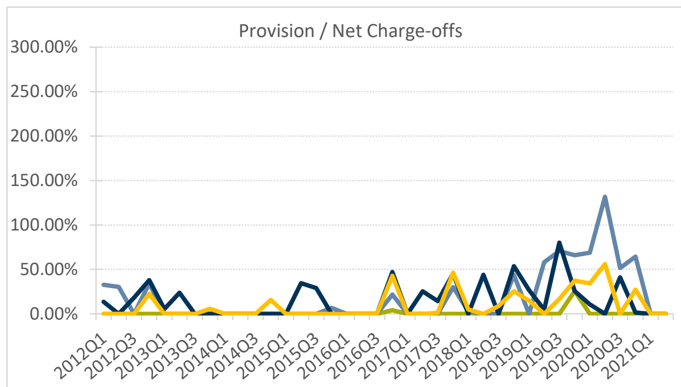




by Primary Business Focus

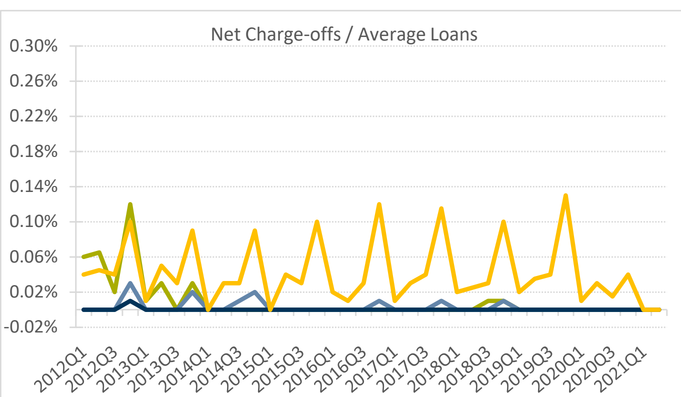
Agricultural   Commercial   Retail   Other

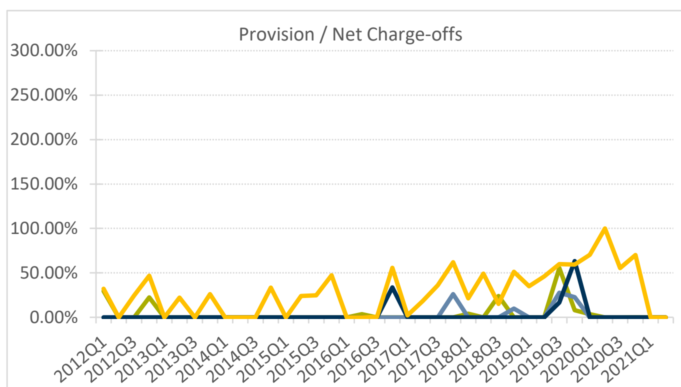




by State

Colorado   Kansas   Nebraska   Oklahoma





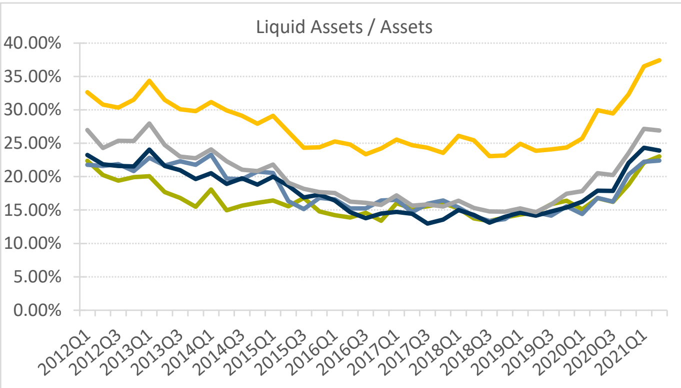
Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.

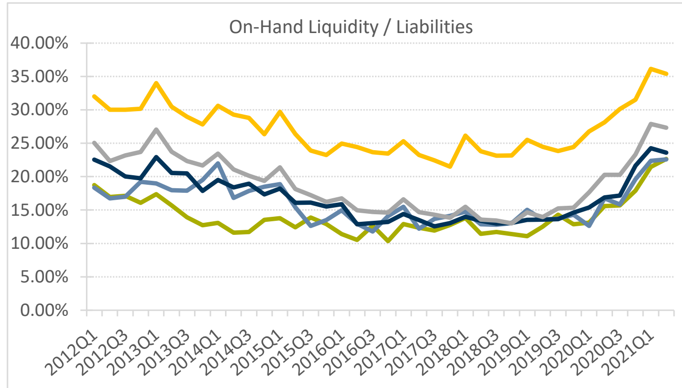
Liquidity

Liquid Assets / Assets & On-Hand Liquidity / Liabilities

by Asset Size

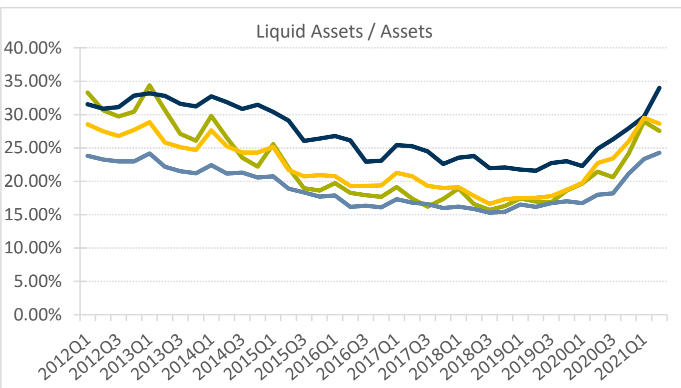
> \$1 bn | \$500 mm-\$1 bn | \$250 - \$500 mm | \$100 - \$250 mm | < \$100 mm

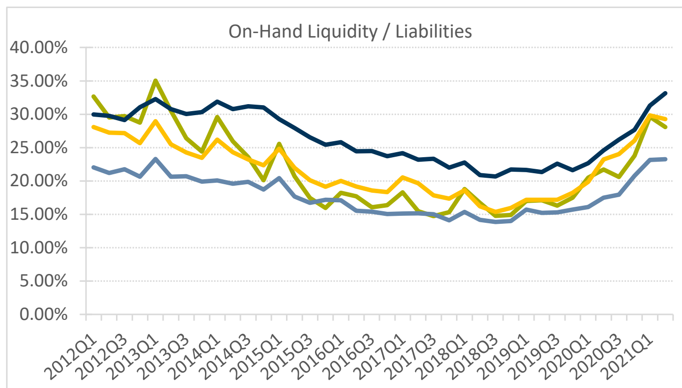




by Primary Business Focus

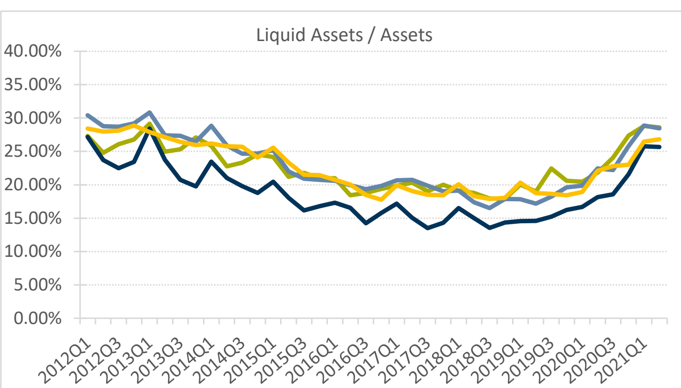
Agricultural | Commercial | Retail | Other

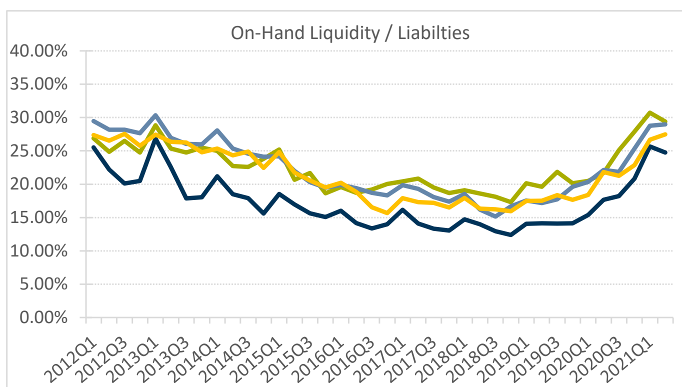




by State

Colorado | Kansas | Nebraska | Oklahoma





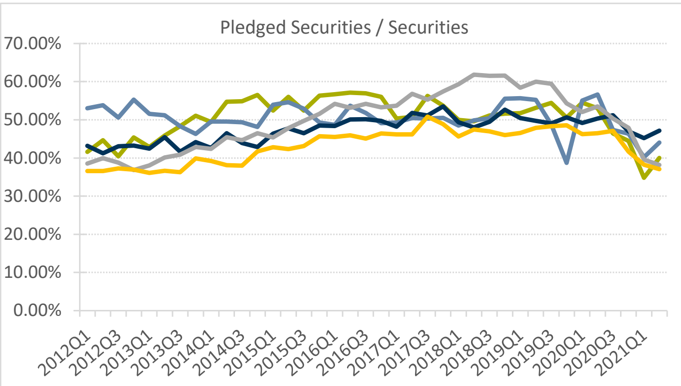
Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.
Note: Liquid Assets = Cash & Interest-bearing Balances + Securities + Fed Funds Sold & Reverse Repo Agreements + Trading Account Assets - Pledged Securities
Note: On-hand Liquidity = Interest-bearing Balances + Securities + Fed Funds Sold & Reverse Repo Agreements - Fed Funds Purchased & Repo Agreements - Pledged Securities

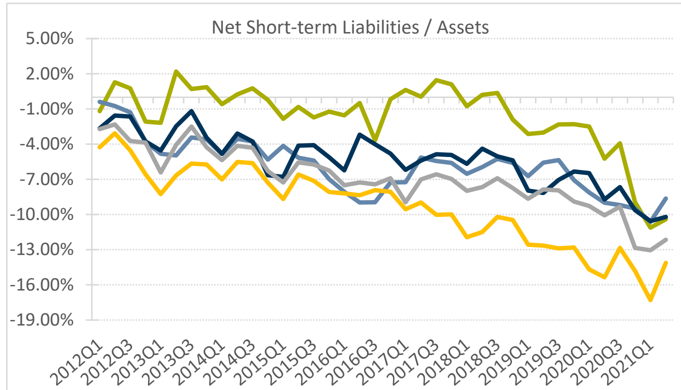
Liquidity

Pledged Securities / Securities & Net Short-term Liabilities / Assets

by Asset Size

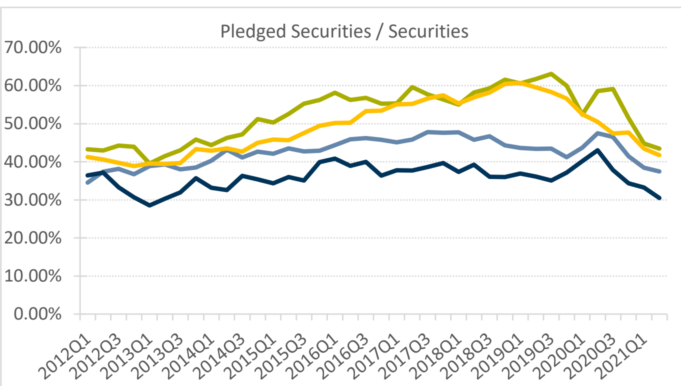
> $1 bn | $500 mm-$1 bn | $250 - $500 mm | $100 - $250 mm | < $100 mm

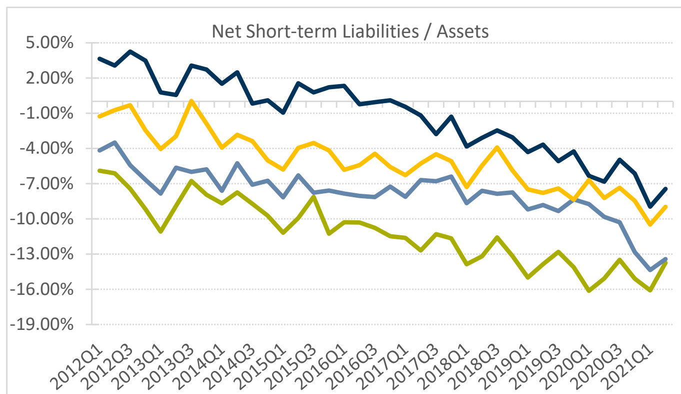




by Primary Business Focus

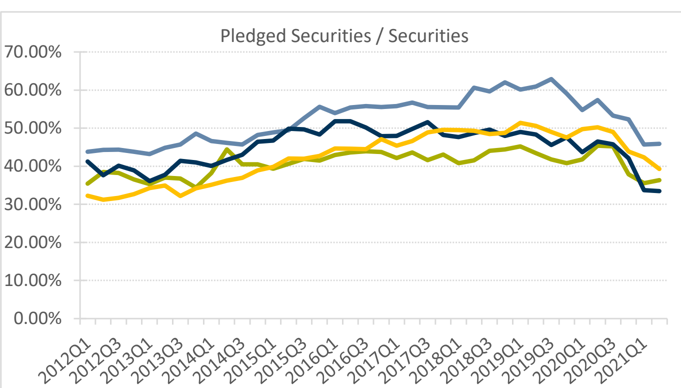
Agricultural | Commercial | Retail | Other

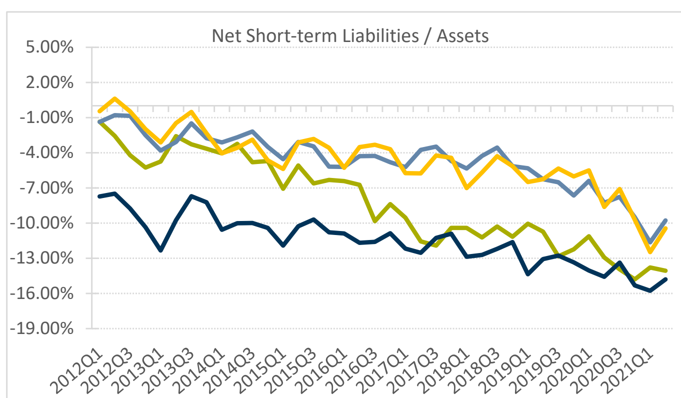




by State

Colorado | Kansas | Nebraska | Oklahoma



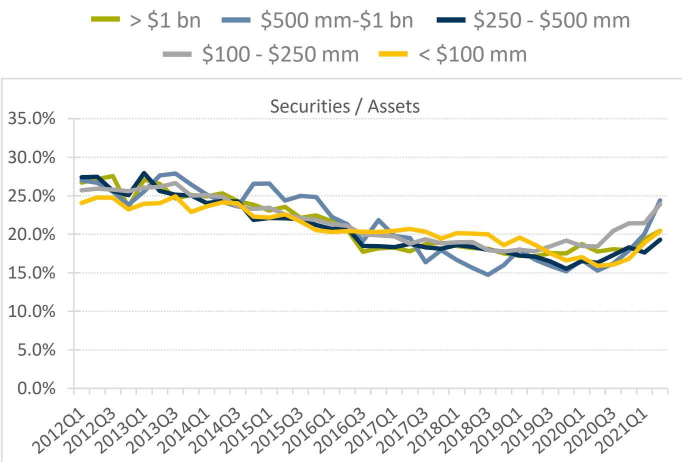


Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.
Note: Net-Short Term Liabilities = Short-term Liabilities – Short-term Assets

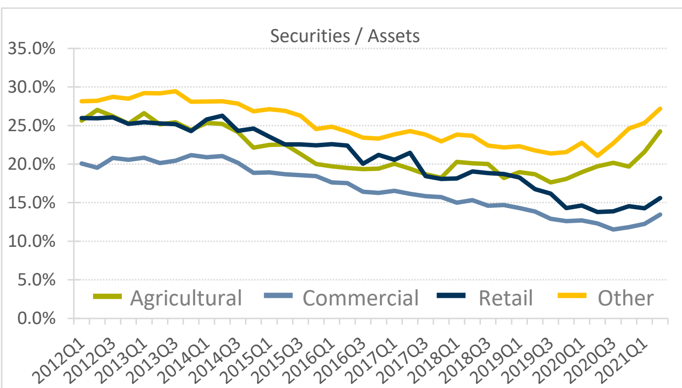
Liquidity

Securities / Assets & Observations

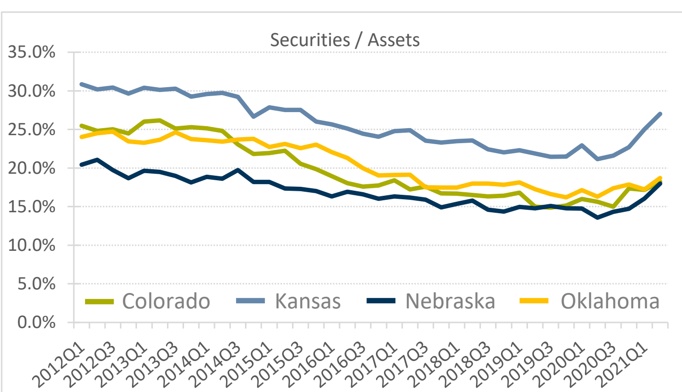
by Asset Size



by Primary Business Focus



by State



Asset Quality & Liquidity Observations

Asset Quality Trends

- Strong asset quality trends continued during the second quarter.
- Adjusted nonperforming assets-to-assets and Texas ratios are down for all peer groups on a year-over-year basis. On a quarterly basis the median is down-to-flat on a quarter-over-quarter basis for most peer segments.
  - The median Texas ratio ticked up slightly for retail focused banks and those banks located in Colorado.
- Reserve levels were generally flat during the second quarter across most sectors.
  - Banks headquartered in Nebraska and those with assets $500 million - $1 billion saw reserves fall 5 bps and 4 bps, respectively.
  - The District's largest banks have seen the greatest rise in reserves as a percent of loans since year-end 2019 at 27 bps. They also have the lowest level of reserves compared to the other asset peer segments.
- Net charge-offs remain muted through the second quarter of 2021.

Liquidity Trends

- Liquid assets as a percent of assets fell slightly for most peer segments while others moved slightly higher for the second quarter. The District median fell 0.6%.
  - The median for retail focused banks increased 4.3% in the second quarter, a new nine year high. The largest banks, smallest banks and commercial focused banks all gained 0.9%.
- Cash and interest-bearing balances fell back some since reaching their nine-year peaks at year-end 2020 or the quarter-ended March 31, 2021, as security portfolios grew for all peer segments during the second quarter.
  - As a percent of assets, cash + interest-bearing balances fell 1.3% quarter-over-quarter while the median securities-to-assets ratio increased 2.3% in the second quarter.
  - Security portfolios grew $5.4 billion, or 6.0%, during the second quarter to $94.8 billion.
- Pledged securities generally trended down to flat during the second quarter even as securities balances grew.
  - Banks with assets $100 million - $1 billion slightly increased pledged securities.
- As banks moved some excess cash into higher-yielding assets, the downward trend in net short-term liabilities-to-assets ratio reversed course during the second quarter.

Source: S&P Global Market Intelligence.
Note: Trend data represents the median for each group.
Note: Core Funding Gap = Earning Assets Less Core Deposits

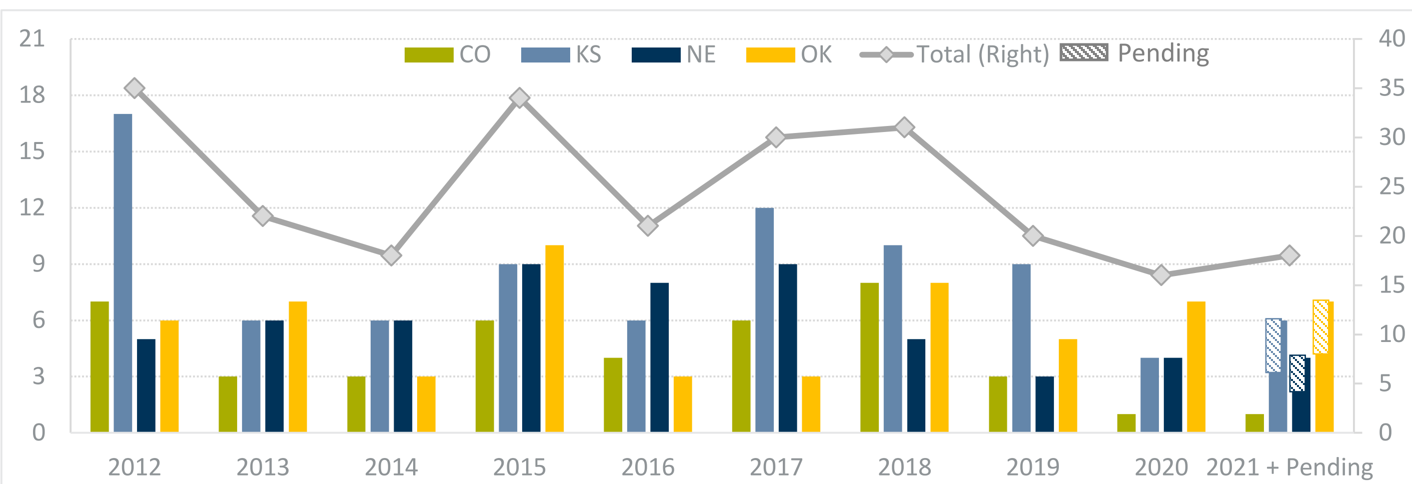
FHLBank Tenth District Merger and Acquisition Activity

- 237 banks have been acquired since year-end 2011.
  - Colorado (42), Kansas (82), Nebraska (57) and Oklahoma (56)
  - 79% of the banks acquired had less than $250 million in assets at time of announcement.
  - 33 banks have been acquired by an institution headquartered outside the District and 13 have been acquired by investor groups/private investors.

- After slowing in 2020, M&A has stirred back to life. Through August 5, 2021, 10 banks have been acquired and eight are announced acquisition targets.
  - Three banks were acquired by a bank out of District and another two are pending.
    - A bank located in Omaha, Neb., is slated to be acquired by a credit union headquartered in Iowa.

- Future M&A activity may be influenced by the following factors:
  - Persistent low interest rate environment
  - Projected low/slow loan growth
  - Disconnect of pricing expectations
  - Nonbank competitive pressures
  - Necessary technology investments
  - Succession planning
  - Need to create efficiencies and grow scale
  - Regulatory burden

M&A Since Year-end 2011



Source: S&P Global Market Intelligence; data as of 8/5/2021.

FHLBank Tenth District Merger and Acquisition Activity

Additional M&A data

- Acquisition activity has been largely dominated by smaller institutions, but size has trended higher in recent years.
- The median asset size of banks acquired in Colorado has been notably greater compared to the other District states.
  - Colorado also has been targeted the most by banks headquartered outside the District, accounting for 18 of the 33 total out-of-District acquirers.
- Out-of-District acquirers have appetites for larger banks.
  - Although out-of-District acquirers account for only 33 of 237 completed acquisitions over the past 9+ years, total assets acquired equate to $28.7 billion or 48% of aggregate assets acquired since 2011.
    - Total assets of the two pending out-of-District acquisitions total $419 million.
  - Since 2012, at least three of the completed acquisitions each year were by out-of-District banking institutions.

Median Size of Target (by State):

($ millions)	CO	KS	NE	OK	Median
2012	$ 78.0	$ 48.5	$ 40.2	$ 76.9	$ 56.5
2013	80.6	76.4	79.1	163.9	85.7
2014	260.1	54.8	42.9	39.5	57.2
2015	203.5	43.5	44.7	90.7	71.7
2016	743.8	42.6	55.0	18.3	59.7 *
2017	178.6	41.1	109.0	320.0	109.3
2018	289.4	103.6	45.9	96.4	102.4
2019	307.2	97.3	41.8	61.7	119.0
2020	122.3	137.3	69.7	73.2	105.4
2021	-	127.6	83.7	-	83.7
Pending	89.4	102.2	383.3	295.3	220.3
Median	$ 178.6	$ 76.4	$ 55.0	$ 76.9	$ 78.0

Aggregate Assets of Targets (by State):

($ millions)	CO	KS	NE	OK	Total
2012	$ 1,889	$ 1,469	$ 278	$ 479	$ 4,116
2013	305	1,244	428	994	2,971
2014	760	463	334	2,494	4,051
2015	1,395	716	425	1,235	3,770 *
2016	2,455	644	649	94	3,843
2017	2,278	970	6,590	3,042	12,879
2018	5,935	2,362	413	865	9,575
2019	4,258	1,601	221	796	6,874
2020	122	517	8,677	805	10,121
2021	-	255	84	-	339
Pending	89	1,018	383	1,089	2,579
Total	$ 19,487	$ 11,258	$ 18,481	$ 11,892	$ 61,118

In-District Acquisitions (by Asset Size):

	< $100mm	$100mm - $250mm	$250mm - $500mm	$500mm - $1.0 bn	> $1.0 bn	Total
2012	27	4	1	3	0	35
2013	13	6	2	1	0	22
2014	12	3	2	0	1	18
2015	22	7	4	1	0	34 *
2016	14	1	2	3	0	20
2017	13	9	5	0	3	30
2018	15	7	6	2	1	31
2019	10	5	3	1	1	20
2020	8	6	1	0	1	16
2021	2	1	0	0	0	3
Pending	4	1	4	1	0	10
Total	140	50	30	12	7	239
	58.6%	20.9%	12.6%	5.0%	2.9%	

- 172 M&A deals have occurred between in-state peers.
- Banking institutions located within the District have acquired 20 banks headquartered outside of the four-state District since year-end 2011.
  - There are currently two pending acquisitions with targets located out-of-District (Texas and Wyoming).
  - Markets in Missouri (7), Texas (4), and Arkansas (3) have been primary targets.

Source: S&P Global Market Intelligence; data as of 8/5/2021.
**Financials not available for 1 institution.*