BUILDING OPERATIONAL & CONTINGENT LIQUIDITY

Example Member

Benefits to Optimizing Pledged Collateral Position

We can help you develop a base and contingency funding strategy that allows you to utilize FHLBank advances for a portion of your base funding and still provide you with sufficient contingency funding sources. Benefits to growing your FHLBank eligible loan (and/or security) collateral base:

- An improved total liquidity position will help reduce examiner concern regarding liquidity – improved operating flexibility and strengthened contingency plan.
  - → Be proactive, not reactive, to exam discussions – define, document, defend liquidity and funding strategy.
- Allows you to be agile in responding to stress scenarios.
- Ability to better access a funding source with maturities and structures to aid in hedging interest rate risk and provide cost savings to enhance bottom line earnings.
  - → Fill funding needs base on desired maturities, costs and risk profile.
  - → Opportunity to replace higher costing other wholesale funding such as brokered or listing service deposits.
- Fortifying a sufficient buffer against deposit migration and need to fill the funding gap when a liquidity need arises.
  - → Provides option to effectively manage overall funding costs through marginal cost of funds analytics when deposit base under pressure.

Expand Your FHLBank-Eligible Collateral With Our Help

Our analysis of your call report indicates that **you may have collateral available to increase your borrowing base and contingent liquidity at FHLBank**. The primary focus of a collateral analysis is on potential collateral not currently being pledged. Pledging these assets will allow you to increase your use of funding from FHLBank and still keep sufficient contingent liquidity capacity.

Current FHLBank Pledged Collateral Position

($millions)		*% of assets*
Unpaid Principal Balance	$ 82.2	14.5%
Lending Value [A]	61.7	10.9%
FHLBank Credit Obligations	44.8	7.9%
Available Capacity	16.9	3.0%
Collateral Utilization [B]	**72.6%**	

40% of assets credit obligations limit

Current Assets Pledged (Lending Value)

		% of assets
Unrestricted Loans	$ 61.7	10.9%
Securities	-	-
Restricted Loans	-	-

25% of restricted assets pledging limit

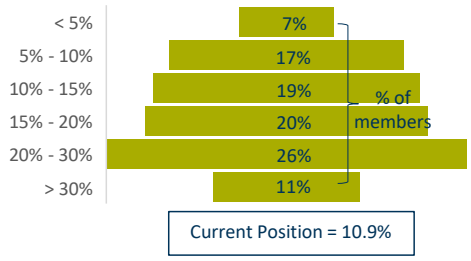
Estimated Add'l Collateral & Pro Forma Collateral Position

[lending value adjusted]	Est. Add'l	Pro Forma	*% of assets*	
	$ 40.3	$ 101.9	18.0%	
	7.9	7.9	1.4%	
	141.7	141.7	25.0%	
	$ 189.8	**$ 251.5**	44.4%	+ 33.5%

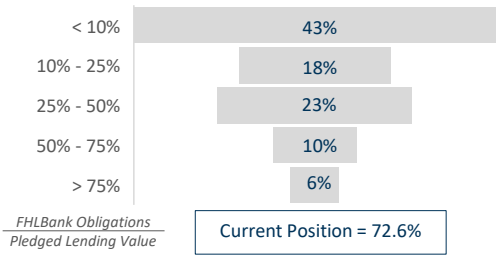
expanded operational & contingency liquidity

Where does your current utilization and pledged collateral position stand against your peers?

A.) Pledged Lending Value / Assets



B.) Collateral Utilization



Building reliable access to funding is essential to effective liquidity management.

Note: FHLB outstanding credit obligations and collateral data as of 2/20/2026

Note: Potential additional collateral capacity is subject to lending value adjustments and eligibility determinations. Potential additional capacity does not include state and local gov't securities or student loans due to the case-by-case nature of their pledging potential. Does not consider any subordinated assets.

Note: Restricted estimated additional collateral takes into consideration the 25% restricted asset pledging limit.

FHLBank Topeka

INTEGRATE FHLBANK FUNDING INTO YOUR BASE FUNDING PLAN

Example Member

Why include FHLBank funding as source of operational funding in your liquidity strategy?

The interest rate environment has radically transformed since March 2022 and we continue to face economic challenges and downside risks. The financial landscape has shifted with retreating liquidity positions, declining market value in bond portfolios, persistent loan growth, and deposit base erosion all contributing to increased utilization of wholesale funding – particularly FHLBank advances.

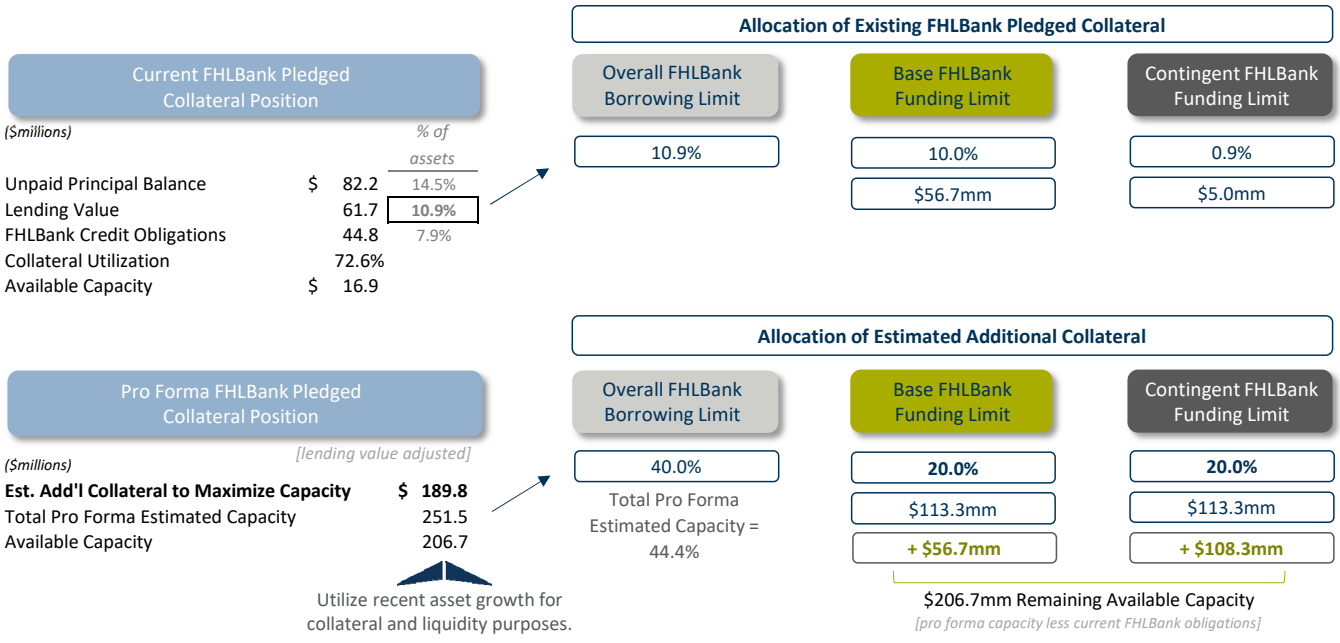
FHLBank is an important source of funding for both operational, or base, liquidity and as part of your contingent funding plan. In the current environment, **we suggest allocating a larger portion of your FHLBank funding limit to base liquidity** and take advantage of the cost and efficiency FHLBank advances provide. Not all powder, or capacity, at FHLBank needs to be kept "*dry*". Utilization of FHLBank advances can do the following:

- Provide lower cost funding when FHLBank advances are inexpensive relative to other funding sources.
- Hedge interest rate risk and option risk in your loan portfolio.
- Supplement core funding when asset growth exceeds core funding growth.
- Provide funding for seasonally based asset growth.
- Leverage excess liquidity for short-term low-risk, earnings enhancement strategies.
- Increase your ability to strengthen the FHLBank cooperative by fueling increased revenues that can be used to support member-benefitting initiatives and funding for housing and community development.

Have you reviewed your policies to ensure they allow for meaningful borrowing flexibility, with sufficient collateral pledged, to secure funding if needed? Most of the loans you originate and hold in portfolio are illiquid assets – and in some cases, your held-to-maturity securities portfolio.

Pledging more of these loans will allow you to convert non-saleable loans to liquidity and will prevent idle non-productive cash from sitting on balance sheet.

Illustrative Allocation of Operational & Contingent Liquidity



- What are your funding and liquidity policy metrics and what are your established limits?
- Other sources of funds can also be used for contingency liquidity purposes to augment the portion of the FHLBank limit allocated to contingency funding by efficiently leveraging collateral pledged to the Federal Reserve, corporate credit unions or other facility that is not eligible at FHLBank.
  → If not already established, consider putting a subordination agreement in place with the applicable facility to boost liquidity access.
- Based on the maximum borrowing capacity of up to 40% of assets, we suggest maintaining FHLBank utilization generally around 15-20% of total funding as part of your base liquidity strategy, keeping the remaining 20% of the policy limit available to fund the balance sheet during stress events.

Contact your Regional Account Manager for more detailed liquidity planning strategies & liquidity strategy support.

FHLBank Topeka