

FHLBank Topeka

Executive Summary: Capital Plan

Note: This Executive Summary is presented only as a useful guide for understanding the basics of the FHLBank Topeka's Capital Plan and is not intended to be a substitute for a complete and thorough reading of the enclosed *Information Statement for Capital Conversion*, which contains discussions of the Capital Plan and the risks related to being a Member or stockholder of the FHLBank Topeka after the implementation of its Capital Plan. If any information in this Executive Summary contradicts information included in the *Information Statement for Capital Conversion* or the Capital Plan, those documents will be considered authoritative. Capitalized terms not defined in this Executive Summary shall have the meanings given such terms in the Capital Plan.

Introduction

At the close of business on September 30, 2004 ("Conversion Date"), outstanding shares of the existing capital stock of the Federal Home Loan Bank of Topeka (FHLBank), other than the shares of Members that have opted out of the conversion process, will be converted on a share-for-share basis into shares of Class A Common Stock or Class B Common Stock pursuant to the "Conversion of Shares" provision of the Capital Plan. Thereafter, the FHLBank may issue Capital Stock from time to time either to new Members or to current Members in accordance with the Capital Plan, and as necessary to satisfy the FHLBank's minimum capital requirements established by the Gramm-Leach-Bliley Act. Members wishing to opt out of the conversion process must file written notices with the Finance Board on or before August 31, 2004 ("Opt Out Date"), to withdraw from Membership in the FHLBank. Such notice must also be filed with the FHLBank on the same date. The membership of an institution that files its notice to withdraw on or before the Opt Out Date will terminate on either the Conversion Date of September 30, 2004, or before if the requisite notice period has expired prior to the Conversion Date.

Capital Stock

Two classes of stock, collectively referred to as "Capital Stock," with par values of \$100 will be issued under the Capital Plan: Class A Common Stock with a six-month redemption period and Class B Common Stock with a five-year redemption period. Class A Common Stock may be used to meet a Member's Asset-Based Stock Purchase Requirement and Class B Common Stock may be used to meet a Member's Activity-Based Stock Purchase Requirement. All shares of Capital Stock will be issued at par value and will not trade in a market. All issuances, redemptions and repurchases of such stock by the FHLBank will be completed at par value.

Conversion of Shares

At the close of business on September 30, 2004, each outstanding share of existing FHLBank stock held by Members that do not opt out of the conversion shall be converted, on a share-per-share basis, into Class A Common Stock up to the amount equal to the minimum Asset-Based Stock Purchase Requirement. Additional shares of existing stock that a Member holds beyond the Asset-Based Stock Purchase Requirement following conversion to Class A Common Stock shall be converted into Class B Common Stock on a share-per-share basis. A Member that was a Member of the FHLBank on or before November 12, 1999 ("Pre-1999 Member"), and needs to purchase additional shares of Capital Stock to comply with either the Asset-Based Stock Purchase Requirement or the Activity-Based Stock Purchase Requirement at the time of conversion will have 90 calendar days to purchase the additional required Capital Stock. Pre-1999 Members wishing to avail themselves of the 90-calendar-day period to purchase the additional Capital Stock must provide written notice to the FHLBank at least 30 days prior to the Conversion Date. A Pre-1999 Member, however, must purchase sufficient Capital Stock to meet its Minimum Stock Purchase Requirement prior to engaging, after the Conversion Date, in any Advances or Acquired Member Assets activity, both of which are subject to the Activity-Based Stock Purchase Requirement. All Members that became Members after November 12, 1999, and those Pre-1999 Members that fail to properly exercise the 90-day option must purchase all required Capital Stock on the Conversion Date. The FHLBank will make such required purchases on behalf of such Members by debiting each such Member's demand deposit account on the Conversion Date in an amount equal to the par value of the Capital Stock necessary to bring the Member into compliance with the Minimum Stock Purchase Requirement.

Minimum Stock Purchase Requirement

Each Member is required to hold Capital Stock as a condition to (1) becoming and remaining a Member of the FHLBank (Asset-Based Stock Purchase Requirement; Class A Common Stock) and (2) entering into specified activities with the FHLBank, including but not limited to access to the FHLBank's credit products, and selling Acquired Member Assets to the FHLBank (Activity-Based Stock Purchase Requirement; Class A Common Stock up to a Member's Asset-Based Stock Purchase Requirement and Class B Common Stock to the extent that the Activity-Based Stock Purchase Requirement exceeds a Member's Asset-Based Stock Purchase Requirement). The minimum Capital Stock purchase is the sum of the Asset-Based Stock Purchase Requirement and the Activity-Based Stock Purchase Requirement.

Asset-Based Stock Purchase Requirement

The amount of Class A Common Stock that a Member must acquire and maintain is the Asset-Based Stock Purchase Requirement equal initially to 0.2 percent of a Member's total assets as of December 31 of the preceding calendar year; at a minimum, \$1,000, and at a maximum, \$1,000,000. The FHLBank's Board of Directors can adjust the percentage of total assets within a range of not less than 0.1 percent and not greater than 0.4 percent of a Member's total assets. The maximum dollar amount may permissibly fall within a range of not less than \$500,000 and not greater than \$2,500,000, also subject to change at the discretion of the Board of Directors. The Asset-Based Stock Purchase Requirement will be calculated by April 20th of each year and adjustments made on the last business day of April.

Activity-Based Stock Purchase Requirement

The amount of Class B Common Stock that a Member must acquire and maintain is the Activity-Based Stock Purchase Requirement equal to the sum of the following less the Member's Asset-Based Stock Purchase Requirement:

- (1) 5.0 percent of the principal amount of Advances outstanding to the Member (permissible range is not less than 4.0 percent and not greater than 6.0 percent), plus
- (2) 2.0 percent of the current outstanding principal balance of Acquired Member Assets (AMA) originated by or through the Member and acquired by the FHLBank (permissible range is from 0.0 percent to not greater than 6.0 percent) subject to a maximum AMA requirement of 1.5 percent of the Member's total assets as of December 31 of the preceding calendar year (permissible range is not less than 1.0 percent and not greater than 3.0 percent of the Member's total assets as of December 31 of the preceding year), plus
- (3) 0.0 percent of the principal amount of letters of credit outstanding at the request of the Member (permissible range is from 0.0 percent to not greater than 1.0 percent), plus
- (4) 0.0 percent of the notional principal of the outstanding interest rate exchange agreements with the Member (permissible range is from 0.0 percent to not greater than 2.0 percent).

Change in Minimum Stock Purchase Requirement

After the Conversion Date, the Board of Directors of the FHLBank has the right to adjust from time to time the above percentages, and to adjust the cap on the dollar amount of Capital Stock any Member must purchase as a result of the Asset-Based Stock Purchase Requirement or the Activity-Based Stock Purchase Requirement in order to comply with Bank Act requirements to maintain capital levels at or above the minimum Regulatory Capital Requirements. The Board of Directors may apply any such revised Activity-Based Stock Purchase Requirement to all activity then outstanding or only to activity which arises after the effective date of the change. Each Member is required to comply within 60 calendar days with any adjustments in the Minimum Stock Purchase Requirement, or the FHLBank will take action as set forth in the Capital Plan to purchase the required stock on behalf of the Member.

Dividends

The FHLBank may declare and pay non-cumulative dividends, expressed as a percentage rate per annum, in either cash or Class B Common Stock to Capital Stockholders. Class A Common Stockholders and Class B Common Stockholders will share equally in dividend payments up to the Dividend Parity Threshold. The Dividend Parity Threshold is determined at the discretion of the FHLBank's Board of Directors and may be based on a published interest rate index or an internally calculated reference interest rate based upon any of the FHLBank's assets or liabilities. The FHLBank must notify Members of the initial Dividend Parity Threshold prior to the Conversion Date and of any changes to the Dividend Parity Threshold at least 90 days prior to a dividend payment. Dividends in excess of the Dividend Parity Threshold may be paid on Class A Common Stock or Class B Common Stock at the discretion of the Board of Directors, provided, however, that the dividend rate per annum paid on Class B Common Stock must equal or exceed the dividend rate per annum paid on the Class A Common Stock.

Restrictions on Dividends

The FHLBank cannot declare a dividend if 1) the FHLBank's capital position is below its minimum Regulatory Capital Requirements; 2) the FHLBank's capital position will be below its minimum Regulatory Capital Requirements after paying the dividend; 3) the principal or interest due on any consolidated obligations issued by the Office of Finance has not been paid in full; 4) the FHLBank fails to provide the Finance Board quarterly certification required by section 966.9(b)(1) of the Finance Board's rules prior to declaring or paying dividends for a quarter; or 5) the FHLBank is unable to provide the required certification, projects that it will fail to comply with statutory or regulatory liquidity requirements or will be unable to timely and fully meet all of its obligations, actually fails to satisfy these requirements or obligations, or negotiates to enter or enters into an agreement with another FHLBank to obtain financial assistance to meet its current obligations.

Minimum Regulatory Capital Requirements

The GLB Act specifies that each FHLBank must meet certain minimum Regulatory Capital Requirements, including the maintenance of a minimum level of permanent capital as a cushion against loss. The FHLBank must maintain:

- (1) a total capital ratio of at least 4.0 percent. The total capital ratio is the ratio of the FHLBank's total capital to its total assets. Total capital is the sum of: (a) Capital Stock; (b) retained earnings; (c) the amount of the FHLBank's general allowance for losses (if any); and (d) such other amounts (if any) as may be approved by the Finance Board. All are determined in accordance with generally accepted accounting principles;
- (2) a leverage capital ratio of at least 5.0 percent. The leverage capital ratio is the ratio of (a) 1.5 times the sum of the FHLBank's Class B Common Stock and retained earnings, plus the other components of total capital detailed in (1) above to (b) its total assets; and
- (3) permanent capital in an amount equal to or greater than the "Risk-Based Capital Requirement" which is equal to the sum of its credit risk, market risk and operations risk capital requirements.
 - a. "Credit risk capital requirement" is the sum of the capital charges for the FHLBank's assets, off-balance-sheet items and derivatives contracts. These charges are calculated using the methodology and risk weights assigned to each classification in the Finance Board's regulations;
 - b. "Market risk capital requirement" is the sum of (a) the market value of the FHLBank's portfolio at risk utilizing a model and approach approved by the Finance Board and calculated in accordance with the methodology in the Finance Board's regulations; and (b) the amount, if any, by which the market value of total capital is less than 85 percent of the book value of total capital; and
 - c. "Operations risk capital requirement" is 30 percent of the sum of the FHLBank's (a) credit risk capital requirement and (b) market risk capital requirement.

Redemption Requests

A Member may make a written request, not in connection with a notice of withdrawal, for the Redemption of a part of its Class A Common Stock or all or part of its Class B Common Stock. The applicable Redemption periods of six months for Class A Common Stock and five years for Class B Common Stock shall commence upon the FHLBank's receipt of a written Redemption request. Subject to certain limitations, the FHLBank will redeem a Member's Excess Stock at the end of the applicable Redemption period. On each written Redemption request, the FHLBank will notify the Member within five business days of the FHLBank's receipt if the FHLBank does not intend to Repurchase or cannot Repurchase the Class A Common Stock and/or Class B Common Stock covered by the redemption request prior to the end of the Redemption period.

Redemption Request Cancellation Fee

A Member may cancel any request to redeem Capital Stock and may also cancel any request to withdraw from Membership, which cancellation shall automatically constitute a cancellation of the Member's Stock Redemption request for all of the Member's Stock. As to a Redemption request made of the FHLBank that is not in connection with a notice of withdrawal, an automatic cancellation of a Member's stock Redemption request will occur five business days from the end of the Redemption period if the FHLBank is prevented from redeeming a Member's stock during this five-day period because the Redemption would cause the Member to fail to meet its Minimum Stock Purchase Requirement. Unless otherwise waived under the Capital Plan, a Member shall pay a Redemption Request Cancellation Fee of 1.0 percent of the par value of Class A Common Stock plus an increasing percentage of the par value of Class B Common Stock equal to 1.0 percent if cancelled in the first year of the Redemption period, 2.0 percent if cancelled in the second year, 3.0 percent if cancelled in the third year, 4.0 percent if cancelled in the fourth year, and 5.0 percent if cancelled in the fifth year under any of the above mentioned situations.

Repurchase of Excess Stock

Subject to certain limitations, the FHLBank may, at its sole discretion, develop a Repurchase program as to Excess Stock that a Member is not required to hold to meet the Member's Minimum Stock Purchase Requirement or may Repurchase such Excess Stock at the written request of a Member for par value payable in cash. In the event that the FHLBank institutes a Repurchase program on its own initiative, the FHLBank shall provide a Member not less than five business days' written notice of its intent to make such Repurchase.

Exchange of Excess Stock

Subject to certain limitations, the FHLBank may, in its sole discretion, elect to establish a regular Exchange program upon not less than 30 calendar days' notice to Members prior to the first Exchange or occasionally Exchange all or a portion of shares of Excess Class B Common Stock for shares of Class A Common Stock upon not less than five business days' written notice to the Member of the Exchange. Members may direct the FHLBank to pay cash in lieu of Class A Common Stock upon 30 calendar days' written notice. Likewise, the FHLBank at its discretion may exchange excess shares of Class A Common Stock for shares of Class B Common Stock or excess shares of Class B Common Stock for shares of Class A Common Stock per a Member's written request provided that the FHLBank will continue to meet its Regulatory Capital Requirements. Excess Class A Common Stock, if any, will be automatically exchanged for Class B Common Stock when necessary for a Member to meet its Activity-Based Stock Purchase Requirement.

Limitations on Redemption and Repurchase

In no event may the FHLBank redeem or Repurchase any Capital Stock if, following the Redemption: 1) the FHLBank would fail to meet any of its minimum Regulatory Capital Requirements; 2) the Member would fail to meet its Minimum Stock Purchase Requirement in Capital Stock; 3) the Finance Board or the FHLBank's Board of Directors has determined that the FHLBank has incurred, or is likely to incur, losses that result in charges against the FHLBank's capital and the Finance Board has not granted the FHLBank written permission to continue the Redemption; 4) the Board of Directors of the FHLBank suspends stock Redemption due to its reasonable belief that continued Redemption of stock would cause the FHLBank to fail to meet its minimum

Regulatory Capital Requirements, prevent the FHLBank from maintaining adequate capital against a potential risk that may not adequately be reflected in its minimum Regulatory Capital Requirements, or otherwise prevent the FHLBank from operating in a safe and sound manner; 5) the principal or interest due on any consolidated obligation issued by the Office of Finance has not been paid in full; 6) the FHLBank fails to provide the Finance Board quarterly certification required by section 966.9(b)(1) of the Finance Board's rules prior to declaring or paying dividends for a quarter; or 7) the FHLBank is unable to provide the required certification, projects that it will fail to comply with statutory or regulatory liquidity requirements or will be unable to timely and fully meet all of its obligations, actually fails to satisfy these requirements or obligations, or negotiates to enter or enters into an agreement with another FHLBank to obtain financial assistance to meet its current obligations.

Voting for Director Elections

For each director position, each Member located in the state to be represented by the directorship shall be entitled to cast one vote for each share of Capital Stock that the Member was required to hold as of December 31 of the calendar year immediately preceding the election year (the "Record Date"); except that the number of votes that each Member may cast for each directorship shall not exceed the average number of shares of Capital Stock that were required to be held by all Members located in that state on the Record Date. This limitation shall be calculated separately for holdings of Class A Common Stock and Class B Common Stock. There are no voting preferences for any share of Capital Stock.