INVESTING for the FUTURE

2019 THIRD QUARTER REPORT

September 30, 2019

FARM CREDIT BANK OF TEXAS

Third Quarter 2019 Financial Report

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Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands, except as noted)

The following discussion reviews the financial condition and results of operations of the Farm Credit Bank of Texas (bank) for the three and nine months ended September 30, 2019. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2018 Annual Report to shareholders. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

The bank is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The United States is currently served by three Farm Credit Banks (FCBs), each of which has specific authority to fund affiliated associations and other financing institutions (OFIs) which make loans to agricultural producers, farm-related businesses and rural homeowners within a regional chartered territory (or district), and by one Agricultural Credit Bank (ACB), which has the lending authority of an FCB within its chartered territory and nationwide authority to finance agricultural cooperatives and rural utilities. The FCBs and the ACB are collectively referred to as "System banks." As FCBs, the primary purpose of the System banks is to serve as a source of funding for System associations within their districts. The System associations make loans to or for the benefit of borrowers for qualified purposes. At September 30, 2019, the bank provided financing to 14 district associations and certain OFIs.

The accompanying financial statements exclude financial information of the bank's affiliated associations. The bank and its affiliated associations are collectively referred to as the "Texas District." The bank separately publishes certain unaudited combined financial information of the Texas District, including a condensed statement of condition and statement of income, which can be found on the bank's website at *www.farmcreditbank.com*. Such information is not incorporated by reference to, and should not be considered part of, this quarterly report.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended September 30, 2019, was $46.6 million, a decrease of $6.1 million, or 11.60 percent, over the same period of 2018. The decrease in net income consisted of a $7.9 million decrease in noninterest income and a $3.9 million increase in noninterest expense, offset by a $3.7 million increase in net interest income and a $1.9 million decrease in provision for credit losses.

Net income for the nine months ended September 30, 2019, was $141.8 million, an increase of $5.6 million, or 4.09 percent, over the same period of 2018. The increase in net income consisted of a $10.9 million increase in net interest income and a $6.3 million decrease in the provision for credit losses, offset by a $5.9 million decrease in noninterest income and a $5.7 million increase in noninterest expense.

Net Interest Income

Net interest income for the three months ended September 30, 2019, was $69.0 million, an increase of $3.7 million, or 5.74 percent, from the three months ended September 30, 2018. The increase in net interest income was attributable to a $1.3 billion increase in the bank's average earning assets, offset by a 1-basis-point decrease in the net interest rate spread from 95 basis points to 94 basis points. The net interest margin of 110 basis points for the three months ended September 30, 2019 was equal to the three months ended September 30, 2018.

Net interest income for the nine months ended September 30, 2019, was $199.3 million, an increase of $10.9 million, or 5.81 percent, from the nine months ended September 30, 2018. The increase in net interest income was attributable to a $1.5 billion increase in the bank's average earning assets, offset by a 3-basis-point decrease in the net interest rate spread from 96 basis points to 93 basis points. The net interest margin of 109 basis points for the nine months ended September 30, 2019 was equal to prior year. The increase in the bank's average earning assets included growth in its direct notes from associations and capital markets loan portfolio.

Earning asset yields and liability costs are generally influenced by market interest rates and the inversion of the interest rate yield curve has persisted and deepened, contributing to the decline in the bank's net interest spread for the quarter and year-to-date. During the three months ended September 30, 2019, the bank called $2.7 billion in debt and recognized $5.0 million in concession expense as compared to no similar activities for the three months ended September 30, 2018. During the nine months ended September 30, 2019, the bank called $4.6 billion in debt and recognized $8.4 million in concession expense as compared to no similar activities for the nine months ended September 30, 2018.

Provision for Credit Losses

The loan loss reversal for the three months ended September 30, 2019, totaled $1.8 million, a decrease of $1.9 million from the $108 provision for credit losses from the same period of 2018.

The loan loss reversal for the nine months ended September 30, 2019, totaled $1.4 million, a decrease of $6.4 million from the $5.0 million provision for credit losses from the same period of 2018. The decrease is primarily due to reversals of $2.1 million for specific reserves on one agribusiness loan in the three and nine months ended September 30, 2019.

Noninterest Income

Noninterest income for the three months ended September 30, 2019, was $4.8 million, a decrease of $7.9 million, or 62.05 percent, over the same period of 2018. The decrease was due mainly to a $2.7 million decrease in patronage income, a $2.4 million decrease in gains associated with debt extinguishments, and a $2.0 million decrease in fees for loan-related services.

Noninterest income for the nine months ended September 30, 2019, was $27.2 million, a decrease of $5.9 million, or 17.92 percent, over the same period of 2018. The decrease was due mainly to lower refund distributions from the Farm Credit System Insurance Corporation (FCSIC) year-over-year, offset by a $7.5 million gain resulting from the sale of investment securities during June 2019.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2019, was $29.0 million, an increase of $3.9 million, or 15.42 percent, over the same period of 2018. The increase primarily consisted of a $2.1 million increase in salaries and employee benefits and a $1.1 million increase in other operating expenses.

Noninterest expense for the nine months ended September 30, 2019, was $86.0 million, an increase of $5.8 million, or 7.17 percent, over the same period of 2018. The increase primarily consisted of a $2.1 million increase in computer software depreciation and maintenance expense, a $2.0 million increase in other operating expenses, and a $1.0 million increase in salaries and employee benefits.

Key results of operations comparisons:

	Annualized for the Nine Months Ended September 30, 2019	Annualized for the Nine Months Ended September 30, 2018
Return on average assets	**0.74%**	0.78%
Return on average shareholders' equity	**10.03%**	10.48%
Net interest income as a percentage of average earning assets	**1.09%**	1.09%
(Recoveries), net of charge-offs to average loans	**< (0.01)%**	< (0.01)%
Operating expenses as a percentage of net interest income and noninterest income	**37.99%**	36.25%
Operating expenses as a percentage of average earning assets	**0.47%**	0.47%

Other Comprehensive (Loss) Income

Other comprehensive (loss) income consists of certain gains, losses or costs for which values are included in assets or liabilities on the balance sheets, but which have not yet been recognized in earnings. In the balance sheets, they are included in accumulated other comprehensive (loss) income in the shareholders' equity section. For the bank, these elements include unrealized gains or losses on the bank's available-for-sale investment portfolio, elements of certain postretirement benefit changes and changes in the value of cash flow derivative instruments.

The table below summarizes the changes in elements included in other comprehensive loss:

	Nine Months Ended September 30,	
	2019	2018
Change in unrealized gains (losses) on available-for-sale securities		
Change in net unrealized gains (losses)	**$ 98,763**	$ (56,357)
Gain on sale reclassifications to net income	**(7,516)**	-
Net change in unrealized gains (losses) on investment securities	**91,247**	(56,357)
Change in postretirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(58)**	(35)
Net change in postretirement benefit plans	**(58)**	(35)
Change in cash flow derivative instruments		
Unrealized (loss) gain on cash flow derivative instruments	**(65,525)**	13,033
Reclassification of (gain) loss recognized in interest expense	**378**	(207)
Net change in cash flow derivative instruments	**(65,147)**	12,826
Other comprehensive income (loss)	**$ 26,042**	$ (43,566)

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at September 30, 2019, was $19.23 billion, an increase of $1.18 billion, or 6.51 percent, compared to $18.06 billion at December 31, 2018. The increase in the loan portfolio is attributable to growth in the bank's direct notes from associations and the capital markets loan portfolio.

The bank's capital markets loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. The bank also refers to the capital markets portfolio as participations purchased. In addition to purchasing loans from our district associations, which may exceed their hold limits, the bank seeks the purchase of participations and syndications originated outside of the district's territory by other System institutions, commercial banks and other lenders. These loans may be held as earning assets of the bank or sub-participated to the associations or to other System entities.

The bank has purchased loan participations and Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) from associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the bank redeemed common stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations purchased bank stock equal to 8.0 percent of the purchased loans' par value and 1.6 percent of the AMBS' par value. During June 2019, the bank purchased $9.6 million in loan participations from an association, which resulted in a net stock issuance of $578. CPP loans held at September 30, 2019, totaled $122.2 million and were included in "Loans" on the balance sheet. The balance of the AMBS CPP was $30.5 million at September 30, 2019, and is included in "Investment securities" on the balance sheet.

The bank may also purchase loans from district associations in Non-Capitalized Participation Pool (NCPP) transactions. As a condition of these transactions, the bank redeemed common stock in the amount of 2.0 percent of the par value of the loans purchased. There were no NCPP loan purchases for the nine months ended September 30, 2019. The NCPP loans' balance was $158.2 million at September 30, 2019 and is included in "Loans" on the balance sheet.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" were 99.5 percent of total loans and accrued interest at September 30, 2019, and 99.6 percent at December 31, 2018.

During the second quarter of 2019, the bank downgraded the direct loan to one of our affiliated associations to the special mention credit quality classification. As of September 30, 2019, the outstanding direct note balance totaled $231.2 million. The bank's loans to our affiliated associations are collateralized by substantially all of the association assets, and the earnings, capital and loan loss reserves of the association provide a buffer against losses in their retail portfolio. The bank has not made any provision for loan loss or recorded any allowance for credit loss related to our direct note to that affiliated association.

The table below summarizes the balances of the bank's nonperforming assets at September 30, 2019, compared to the balances at December 31, 2018:

	September 30, 2019	Change		December 31, 2018
		$	%	
Nonaccrual loans	**$ 17,934**	$ (1,552)	(7.96) %	$ 19,486
Accruing formally restructured loans	**2,489**	(42)	(1.66)	2,531
Total nonperforming assets	**$ 20,423**	$ (1,594)	(7.24) %	$ 22,017

The decrease in nonaccrual loans was due to repayments. At September 30, 2019, and December 31, 2018, the bank did not have any nonaccrual loans on which cash payments are recognized as interest income and did not have any other property owned (OPO).

Impaired loans, consisting of nonaccrual loans and accruing formally restructured loans, and loans 90 days past due and still accruing interest, constituted 0.1 percent of gross loans at September 30, 2019, and December 31, 2018.

At September 30, 2019, the bank had reserves for credit losses totaling $12,517, including an allowance for loan losses of $10,838 and a reserve for credit losses on unfunded commitments of $1,679 related to the bank's capital markets loan portfolio. The allowance for loan losses of $10,838 equated to 0.1 percent of total loans outstanding and 0.2 percent of capital markets loans outstanding. The $1,679 reserve for losses on unfunded commitments predominantly included a general reserve for losses on unused loan commitments and for losses on letters of credit, representing management's estimate of probable credit losses related to unfunded commitments. Analysis indicates that an allowance on the association direct notes is not warranted, therefore the entire balance of the allowance and reserve for credit losses reflects reserves for risks identified in the bank's participation loans.

The allowance for loan losses as a percentage of impaired loans was 53.07 percent as of September 30, 2019, as compared to 54.39 percent as of December 31, 2018.

Liquidity and Funding Sources

The bank's primary source of liquidity comes from its ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the System banks. The bank continually raises funds in the debt markets to support its mission, to repay maturing Systemwide Debt Securities, and to meet other obligations. As a secondary source of liquidity, the bank maintains an investment portfolio composed primarily of high-quality liquid securities. The securities provide a stable source of income for the bank, and their high quality ensures the portfolio can quickly be converted to cash should the need arise.

Cash and investment securities totaled $5.87 billion, or 22.98 percent, of total assets at September 30, 2019, compared to $6.13 billion, or 24.97 percent, at December 31, 2018. At September 30, 2019, the bank's cash balance was $42.7 million, of which $21.3 million was held at the Federal Reserve Bank.

Each bank is required to maintain a minimum of 120 days of liquidity coverage on a continuous basis. The days of liquidity measurement refers to the number of days that maturing debt could be funded with eligible cash and investment securities. At September 30, 2019, the bank exceeded all applicable regulatory liquidity requirements and had 227 days of liquidity.

Investments

The bank's investments are all considered available for sale, and include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio had a fair value of $5.51 billion at September 30, 2019, and consisted primarily of federal agency-guaranteed collateralized mortgage-backed securities (MBS), corporate debt, agency-guaranteed debt, U.S. Treasury securities and asset-backed securities (ABS). The majority of the liquidity portfolio's MBS includes Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The bank's other investments had a fair value of $30.5 million at September 30, 2019 and consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS), purchased from district associations. The Farmer Mac securities are backed by loans originated by the associations.

Farmer Mac is a government-sponsored enterprise and is examined and regulated by the FCA. It provides a secondary market for agricultural and rural home mortgage loans that meet certain underwriting standards. Farmer Mac is authorized to provide loan guarantees and to be a direct pooler of agricultural mortgage loans. Farmer Mac is owned by both System and non-System investors, and its board of directors has both System and non-System representation. Farmer Mac is not liable for any debt or obligation of any System institution and no System institution other than Farmer Mac is liable for any debt or obligation of Farmer Mac.

The following table summarizes the bank's available-for-sale liquidity portfolio holdings:

	September 30, 2019		December 31, 2018	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 151,374**	**$ 151,693**	$ 170,800	$ 167,923
Corporate debt	**440,266**	**442,175**	365,382	363,537
Federal agency collateralized mortgage-backed securities:				
GNMA	**2,376,431**	**2,391,421**	2,671,043	2,630,995
FNMA and FHLMC	**2,054,900**	**2,054,731**	2,157,582	2,130,136
U.S. Treasury securities	**299,621**	**299,784**	298,300	298,083
Asset-backed securities	**173,807**	**174,173**	88,292	88,257
Total liquidity investments	**$ 5,496,399**	**$ 5,513,977**	$ 5,751,399	$ 5,678,931

The bank's other investments portfolio consisted of Farmer Mac AMBS securities as follows:

	September 30, 2019		December 31, 2018	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 31,385**	**$ 30,513**	$ 37,781	$ 35,707

FCA regulations also define eligible investments by specifying credit criteria and percentage of investment portfolio limit for each investment type. If an investment no longer meets the eligibility criteria, the investment becomes ineligible for inclusion in the liquidity portfolio. At September 30, 2019, the bank had no investments which were ineligible for liquidity purposes.

During the nine months ended September 30, 2019, three investment securities were sold for total proceeds of $272.8 million, resulting in gains of $7.5 million recognized in noninterest income.

Capital Resources

At September 30, 2019, the bank's capital totaled $1,903,305, and consisted of $700,000 of Class B noncumulative subordinated perpetual preferred stock, $317,041 of capital stock, $941,915 of retained earnings and $55,651 of accumulated other comprehensive loss. The capital balance reflected an increase of $126,372 from December 31, 2018, due primarily to net income of $141,792, a $26,042 decrease in other comprehensive losses offset by $34,837 in preferred stock dividends accrued, $7,200 in patronage distributions and $3 in issuance cost on preferred stock. The balance in accumulated other comprehensive loss of $55,651 resulted from unrealized gains on investments of $16,706, $72,272 in unrealized losses on cash flow derivative instruments and $85 in accumulated amortization of other postretirement benefits. The decrease in interest rates for the first nine months of 2019 increased the fair value of the liquidity investments but lowered the valuation of the cash flow derivative instruments.

The following table reflects the bank's regulatory capital ratios as of:

	September 30, 2019	December 31, 2018	Total Regulatory Minimums
Common equity tier 1 ratio	**9.82%**	9.92%	7.00%
Tier 1 capital ratio	**16.03**	16.29	8.50
Total capital ratio	**16.16**	16.42	10.50
Permanent capital ratio	**16.05**	16.31	7.00
Tier 1 leverage ratio	**7.21**	7.39	5.00
UREE leverage ratio	**2.97**	3.08	1.50

As of September 30, 2019, the bank exceeded all regulatory capital minimums.

CONDITIONS IN THE TEXAS DISTRICT

In Texas, the seasonally adjusted employment growth rate from December to August 2019 was 2.8 percent. The economy continues to add jobs, and the unemployment rate remains at a historic low of 3.4 percent. In each of the five district states, Alabama, Louisiana, Mississippi, New Mexico and Texas, employment growth has been positive year-to-date through August. Per the Bureau of Labor Statistics, the unemployment rates in the five district states ranged from a low of 3.1 percent to a high of 5.2 percent as of August 2019.

Texas is the number one producer of oil and natural gas in the nation. West Texas Intermediate (WTI) crude oil prices decreased from $58.47 per barrel in June 2019 to $56.41 on September 26, 2019. Upon a disruption in oil production in Saudi Arabia, Brent oil futures experienced the biggest one-day percentage gain since the contract began trading in 1988, reaching a level of $69.02 per barrel, while WTI closed at $62.90 per barrel on September 16, 2019. However, President Trump authorized, if necessary, the release of oil from the nation's reserves, and prices started to normalize. Crude oil production has been increasing in the U.S., with most of the growth coming from the Permian region of Texas and New Mexico. The Energy Information Administration forecasts generally lower wholesale electricity prices in 2019 compared to 2018 related to lower natural gas fuel costs. Energy consumption is reaching its seasonal peak this quarter, and is expected to start decreasing as part of its cycle.

In the trade arena, the U.S. signed an initial "first stage" of a bilateral trade agreement with Japan on September 25. Japan represents the top destination for U.S. beef exports, and top two destination for U.S. pork exports. Nonetheless, exports to Japan of these two commodities decreased from January to July 2019. Phasing out a high 38.5 percent tariff on U.S. beef to Japan was one of the benefits that the U.S. had lost when it withdrew from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in 2017. The trade agreement with Japan is expected to similarly lower or eliminate tariffs in stages for U.S. agricultural products such as beef, pork, cheese, whey, sweet corn and ethanol. In return, the U.S. is expected to reduce or eliminate tariffs on some industrial goods, green tea, and soy sauce coming from Japan. The agreement is also expected to set new rules for digital trade between the two countries. A trade agreement with China is still under negotiations, and the next round of talks is scheduled to take place in October. Likewise, the United States-Mexico-Canada Agreement, an agreement with other top destinations for U.S. exports, is signed but not ratified by the U.S. Congress.

The United States Department of Agriculture (USDA), on August 30, updated its net farm income forecast for 2019. The agency expects net farm income to increase 4.8 percent from 2018 to 2019. If realized, inflation-adjusted net farm income would remain slightly below its historical average of $90.1 billion. The USDA data indicates that a 42.5 percent increase in direct government farm payments for a total of $19.5 billion and flat expenses are the driving forces behind the income increase. Liquidity measures are expected to weaken, with the forecast for working capital levels decreasing 18 percent, and farm debt rising by 3.4 percent.

Tropical Storm Imelda moved slowly ashore near Freeport, Texas during the third week of September, producing rainfall south and east of Houston. Heavy rain was also noted across eastern Texas and western Louisiana, easing some abnormal dryness developed in the area. However, around central and south Texas, according to the U.S. Drought Monitor, there are some short-term severe and extreme drought areas. Similarly, New Mexico seems to be affected by a short-term severe drought area in a portion of the northwest of the state. Increases in abnormally dry to moderate drought conditions were reported for northern Alabama.

This year brought one of wettest winters and springs in history, delaying crop plantings and exposing them to early season freezes. However, overall pasture and range conditions continue to be historically favorable.

In the district, Texas and New Mexico have some of the lowest scores in the Pasture Condition Index, followed by Alabama. Louisiana and Mississippi have both above average pasture conditions.

As a result of one of the wettest winters and springs in history, U.S. corn and soybeans are behind schedule in terms of progress. According to the USDA's data, less than 10 percent of the U.S. corn crop has been harvested compared to more than 70 percent of the Texas district corn crop. However, the Texas district represents about 5 percent of total area planted in the United States. Corn future prices decreased in August about 9.8 percent and the USDA is projecting an average farm price for 2019/20 to remain unchanged from 2018/19 at $3.6 per bushel. Cotton in the district seems to be a little behind schedule compared to last year's progress and the five-year average progress. The Texas district plants about 60 percent of total cotton area in the United States. Cotton conditions in the district are better than the last year's average conditions. Cotton prices have decreased more than 20 percent on an annual basis. The USDA is projecting the season average farm price to decrease from 70 cents per pound in 2018/19 to 58 cents per pound in 2019/20. Soybean prices have also decreased, and the USDA is projecting an average farm price of $8.50 per bushel. The Texas district has harvested more than 30 percent of the soybean area planted, and crop conditions in the district are similar to last year's conditions and to the five-year average conditions. Additionally, the USDA is projecting a 12.6 percent increase on the annual average class III milk price in 2019, and a 3.6 percent price increase in 2020.

Farmers in the district utilize risk management tools, such as federally-sponsored crop insurance programs and forward, futures and options contracts, to mitigate risk and enhance margins. The district portfolio continues to be supported by strong credit quality, high levels of capital, low advance rates and diversification.

RATING AGENCY ACTIONS

Fitch Ratings Actions

On April 3, 2019, Fitch Ratings affirmed the bank's long-term and short-term issuer default ratings (IDRs) at "AA-" and "F1+," respectively, with a stable outlook. Fitch also affirmed the bank's noncumulative perpetual preferred stock rating at "BBB" and its support floor at "AA-." Fitch affirmed the Farm Credit System's long-term and short-term IDRs at "AAA" and "F1+," respectively, with a stable outlook, and its support floor at "AAA." As a government-sponsored entity, the System benefits from implicit government support. The ratings and rating outlook are directly linked to the U.S. sovereign rating. The affirmation of the System banks' IDRs reflect their prudent, conservative credit culture, their unique funding advantage and their structural second-loss position on the majority of their loan portfolio.

Moody's Investors Service Rating Actions

On September 18, 2019, Moody's Investors Service affirmed the bank's issuer rating at "Aa3" and its noncumulative preferred stock rating at "Baa1 (hyb)," with a stable outlook. The Aa3 issuer rating reflects the bank's "a1" baseline credit assessment (BCA), very high cooperative support from the other Federal Farm Credit Banks and moderate support from the U.S. government, which has an "Aaa," stable outlook. The bank's preferred stock rating incorporated the bank's BCA, very high cooperative support from the other Federal Farm Credit Banks and the debt's relative positions in the bank's capital structure. The bank's "a1" BCA incorporates its solid capital levels, adequate risk-adjusted profitability and liquidity, as well as the benefits associated with its lending to related associations and their strong capital levels. The "a1" BCA is one of Moody's highest assessments of any financial institution, both domestically and globally.

REGULATORY MATTERS

At September 30, 2019, there were no district associations under written agreements with the Farm Credit Administration.

On June 12, 2018, the Farm Credit Administration (FCA) published a final rule revising the requirements governing the eligibility of investments for System banks and associations. The stated objectives of the final rule were as follows:

- To strengthen investment practices at System banks and associations to enhance their safety and soundness;
- To ensure that System banks hold sufficient high-quality liquid investments for liquidity purposes;
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers and their cooperatives in times of financial stress;
- To comply with the requirements of section 939A of the Dodd-Frank Act;
- To modernize the investment eligibility criteria for System banks; and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

The regulation became effective January 1, 2019.

On January 22, 2019, the Farm Credit Administration issued an information memorandum citing the fact that effective December 20, 2018, the Agriculture Improvement Act of 2018 repealed the limitations on bank director compensation contained in section 4.21 of the Farm Credit Act of 1971, as amended. As a result, beginning in 2019, the Farm Credit Administration will no longer calculate the maximum annual compensation adjustments in FCA regulation § 611.400(b)(c), but will continue to review System bank director compensation to ensure that pay levels do not adversely affect the safety and soundness of System institutions.

On February 21, 2019, an advance notice of proposed rulemaking on ways to collect, evaluate, and report data on the System's service to young, beginning, and small farmers (YBS) was published in the Federal Register. The purpose of the advance notice of proposed rulemaking is to gather public input on how FCA might:

- Improve the accuracy, transparency, and process by which FCA ensures that YBS Farmer data is properly collected and reported by the System;
- Clarify the definitions of terms related to the collection, reporting, and identification of YBS Farmer data;
- Ensure the definitions of YBS Farmers and related terms remain relevant and reflective of the evolving agricultural economy; and
- Evaluate the effectiveness of each System institution’s YBS program to achieve its mission of serving YBS Farmers.

The comment period ended on May 22, 2019.

On March 19, 2019, an interim final rule on margin and capital requirements for covered swap entities was published in the Federal Register. Five federal agencies acted to ensure that qualifying swaps may be transferred from a United Kingdom (UK) entity to an affiliate in the European Union (EU) or the United States without triggering new margin requirements. The interim final rule adopted would ensure that any legacy swap currently exempt from the agencies’ rule on margin for non-cleared swaps would not become subject to the rule if such swap is amended solely for the purpose of transferring it to an affiliate as a result of a non-negotiated UK withdrawal from the EU. The comment period ended on April 18, 2019.

On April 3, 2019, a proposed rule was published in the Federal Register on the criteria for reinstating nonaccrual loans. The objectives of the proposed rule are to:

- Enhance the usefulness of high-risk loan categories;
- Replace the subjective measure of "reasonable doubt" used for reinstating loans to accrual status with a measurable standard;
- Improve the timely recognition of a change in a loan's status; and
- Update existing terminology and make other grammatical changes.

The comment period ended on June 3, 2019.

On September 18, 2019, a proposed rule was published in the Federal Register to address changes to allow Farm Credit System (FCS or System) associations to purchase and hold the portion of certain loans that non-FCS lenders originate and sell in the secondary market, and that the United States Department of Agriculture (USDA) unconditionally guarantees or insures as to the timely payment of principal and interest. The objectives of the proposed rule are to authorize FCS associations to buy as investments for risk management purposes, portions of certain loans that non-System lenders originate, and the USDA fully guarantees as to principal and interest to:

- Augment the liquidity of rural credit markets;
- Reduce the capital burden on community banks and other non-System lenders who choose to sell their USDA guaranteed portions of loans, so they may extend additional credit in rural areas; and
- Enhance the ability of associations to manage risk.

The comment period ends on November 18, 2019.

On September 23, 2019, a proposed rule was published in the Federal Register to address changes to capital and other regulations, including certain regulatory disclosure requirements, in response to recent changes in the U.S. generally accepted accounting principles (U.S. GAAP). The objectives of the proposed rule are to:

- Ensure that the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. GAAP; and
- Ensure that conforming amendments to other regulations accurately reference credit losses.

The comment period ends on November 22, 2019.

Report of Management

The undersigned certify that we have reviewed the September 30, 2019, quarterly report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

James F. Dodson
Chairman of the Board

Larry R. Doyle
Chief Executive Officer

Amie Pala
Senior Vice President, Chief Financial Officer

November 8, 2019

Controls and Procedures

As of September 30, 2019, management of the Farm Credit Bank of Texas (bank) carried out an evaluation with the participation of the bank's management, including the chief executive officer (CEO) and senior vice president, chief financial officer (CFO), of the effectiveness of the design and operation of the respective disclosure controls and procedures(1) with respect to this quarterly report. This evaluation is based on testing of the design and effectiveness of key internal controls, certifications and other information furnished by the principal executive officer and principal financial officer of the bank, as well as incremental procedures performed by the bank. Based upon and as of the date of the bank's evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective in alerting them on a timely basis of any material information relating to the bank that is required to be disclosed by the bank in the annual and quarterly information statements it files or submits to the Farm Credit Administration.

There have been no significant changes in the bank's internal control over financial reporting(2) that occurred during the quarter ended September 30, 2019, that have materially affected, or are reasonably likely to materially affect, the bank's internal control over financial reporting.

Larry R. Doyle Chief Executive Officer	Amie Pala Senior Vice President, Chief Financial Officer

November 8, 2019

(1) For purposes of this discussion, ''disclosure controls and procedures'' are defined as controls and procedures of the bank that are designed to ensure that the financial information required to be disclosed by the bank in this quarterly information statement is recorded, processed, summarized and reported within the time periods specified under the rules and regulations of the Farm Credit Administration.

(2) For purposes of this discussion, ''internal control over financial reporting'' is defined as a process designed by, or under the supervision of, the bank's principal executive officer and principal financial officer, or persons performing similar functions, and effected by the bank's boards of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the bank's financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the bank's financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the bank are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the bank's assets that could have a material effect on the bank's financial statements.

CERTIFICATION

I, Larry R. Doyle, chief executive officer of Farm Credit Bank of Texas (bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

1. I have reviewed this quarterly report of the bank.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the bank as of, and for, the periods presented in this report.
4. The bank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the bank and have:
   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the bank is made known to us, particularly during the period in which this report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the bank's internal control over financial reporting that occurred during the bank's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the bank's internal control over financial reporting.
5. The bank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the bank's auditors and the bank's audit committee:
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the bank's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the bank's internal control over financial reporting.

Larry R. Doyle
Chief Executive Officer

November 8, 2019

CERTIFICATION

I, Amie Pala, senior vice president, chief financial officer of Farm Credit Bank of Texas (bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

1. I have reviewed this quarterly report of the bank.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the bank as of, and for, the periods presented in this report.
4. The bank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the bank and have:
   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the bank is made known to us, particularly during the period in which this report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the bank's internal control over financial reporting that occurred during the bank's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the bank's internal control over financial reporting.
5. The bank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the bank's auditors and the bank's audit committee:
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the bank's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the bank's internal control over financial reporting.

Amie Pala

Amie Pala
Senior Vice President, Chief Financial Officer

November 8, 2019

Balance Sheets

(dollars in thousands)	September 30, 2019 (Unaudited)	December 31, 2018
Assets		
Cash	**$ 42,721**	$ 129,478
Federal funds sold and overnight investments	**282,176**	281,131
Investment securities	**5,544,490**	5,714,638
Loans (includes $9,345 held at fair value at December 31, 2018)	**19,232,818**	18,056,686
Less allowance for loan losses	**10,838**	11,974
Net loans	**19,221,980**	18,044,712
Accrued interest receivable	**79,628**	76,134
Premises and equipment, net	**100,584**	72,746
Other assets	**268,652**	210,311
Total assets	**$ 25,540,231**	$ 24,529,150
Liabilities and Shareholders' Equity		
Liabilities		
Bonds and notes, net	**$ 23,332,942**	$ 22,497,364
Accrued interest payable	**91,293**	86,699
Reserve for credit losses	**1,679**	1,900
Preferred stock dividends payable	**21,613**	21,613
Patronage payable	**-**	29,561
Other liabilities	**189,399**	115,080
Total liabilities	**$ 23,636,926**	$ 22,752,217
Commitments and Contingencies (Note 5)		
Shareholders' Equity		
Preferred stock	**700,000**	700,000
Capital stock	**317,041**	316,463
Allocated retained earnings	**45,673**	45,685
Unallocated retained earnings	**896,242**	796,478
Accumulated other comprehensive loss	**(55,651)**	(81,693)
Total shareholders' equity	**1,903,305**	1,776,933
Total liabilities and shareholders' equity	**$ 25,540,231**	$ 24,529,150

The accompanying notes are an integral part of these financial statements.

Statements of Comprehensive Income
(unaudited)

(dollars in thousands)	Quarter Ended September 30, 2019	Quarter Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Interest Income				
Loans	**$ 169,942**	$ 145,468	**$ 494,269**	$ 409,070
Investment securities	**34,931**	33,739	**110,049**	89,416
Total interest income	**204,873**	179,207	**604,318**	498,486
Interest Expense				
Bonds and notes	**135,915**	113,994	**405,063**	310,172
Net interest income	**68,958**	65,213	**199,255**	188,314
(Loan loss reversal) provision for credit losses	**(1,786)**	108	**(1,368)**	4,954
Net interest income after provision for credit losses	**70,744**	65,105	**200,623**	183,360
Noninterest Income				
Patronage income	**2,909**	5,582	**9,519**	13,199
Fees for services to associations	**414**	941	**2,838**	2,889
Fees for loan-related services	**1,941**	3,962	**5,218**	7,148
Refunds from Farm Credit System Insurance Corporation	**-**	-	**2,507**	8,397
Loss on loans held under fair value option	**-**	(49)	**(40)**	(204)
Gain on sale of investments	**-**	-	**7,516**	-
Other income (loss), net	**(438)**	2,280	**(348)**	1,720
Total noninterest income	**4,826**	12,716	**27,210**	33,149
Noninterest Expenses				
Salaries and employee benefits	**10,611**	8,548	**31,167**	30,135
Occupancy and equipment	**5,128**	4,739	**16,631**	14,516
FCSIC premiums	**2,174**	1,861	**5,933**	5,299
Other components of net periodic postretirement benefit cost	**110**	112	**329**	335
Other operating expenses	**10,930**	9,824	**31,981**	29,999
Total noninterest expense	**28,953**	25,084	**86,041**	80,284
Net Income	**46,617**	52,737	**141,792**	136,225
Other comprehensive income (loss)				
Change in unrealized gain (loss) on investments	**15,910**	(13,538)	**91,247**	(56,357)
Change in postretirement benefit plans	**(19)**	(12)	**(58)**	(35)
Change in cash flow derivative instruments	**(19,808)**	5,557	**(65,147)**	12,826
Total other comprehensive income (loss)	**(3,917)**	(7,993)	**26,042**	(43,566)
Comprehensive Income	**$ 42,700**	$ 44,744	**$ 167,834**	$ 92,659

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2017	$ 600,000	$ 301,239	$ 39,144	$ 779,403	$ (51,902)	$ 1,667,884
Net income	-	-	-	136,225	-	136,225
Other comprehensive loss	-	-	-	-	(43,566)	(43,566)
Capital stock and allocated retained earnings issued	-	7,967	-	-	-	7,967
Capital stock and allocated retained earnings retired	-	(4,364)	-	-	-	(4,364)
Preferred stock issued	100,000	-	-	-	-	100,000
Issuance costs on preferred stock	-	-	-	(1,333)	-	(1,333)
Preferred stock dividends	-	-	-	(33,115)	-	(33,115)
Patronage distributions						
Cash	-	-	-	(7,972)	-	(7,972)
Balance at September 30, 2018	$ 700,000	$ 304,842	$ 39,144	$ 873,208	$ (95,468)	$ 1,821,726
Balance at December 31, 2018	**$ 700,000**	**$ 316,463**	**$ 45,685**	**$ 796,478**	**$ (81,693)**	**$ 1,776,933**
Net income	**-**	**-**	**-**	**141,792**	**-**	**141,792**
Other comprehensive income	**-**	**-**	**-**	**-**	**26,042**	**26,042**
Capital stock and allocated retained earnings issued	**-**	**770**	**-**	**-**	**-**	**770**
Capital stock and allocated retained earnings retired	**-**	**(192)**	**-**	**-**	**-**	**(192)**
Issuance cost on preferred stock	**-**	**-**	**-**	**(3)**	**-**	**(3)**
Preferred stock dividends	**-**	**-**	**-**	**(34,837)**	**-**	**(34,837)**
Patronage distributions						
Cash	**-**	**-**	**-**	**(7,200)**	**-**	**(7,200)**
Shareholders' equity	**-**	**-**	**(12)**	**12**	**-**	**-**
Balance at September 30, 2019	**$ 700,000**	**$ 317,041**	**$ 45,673**	**$ 896,242**	**$ (55,651)**	**$ 1,903,305**

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

(unaudited)

(dollars in thousands)	Nine Months Ended September 30, 2019	2018
Cash Flows From Operating Activities		
Net income	**$ 141,792**	$ 136,225
Reconciliation of net income to net cash provided by operating activities		
(Loan loss reversal) provision for credit losses	**(1,368)**	4,954
Depreciation and amortization on premises and equipment	**6,504**	5,945
(Premium amortization) discount accretion on loans	**432**	775
Amortization and accretion on debt instruments	**35,327**	30,108
Premium amortization (discount accretion) on investments	**805**	2,199
Decrease in fair value of loans held under fair value option	**40**	204
Gain on sale of investment securities	**(7,516)**	-
Loss on sale of loans	**1**	106
Allocated equity patronage from System bank	**(7,231)**	(14,789)
Loss on other earning assets	**707**	859
Gain on sales of premises and equipment	**(45)**	(78)
Increase in accrued interest receivable	**(3,494)**	(13,972)
Decrease (increase) in other assets, net	**12,122**	(28,075)
Increase in accrued interest payable	**4,595**	24,018
Decrease in other liabilities, net	**(6,932)**	(17,066)
Net cash provided by operating activities	**175,739**	131,413
Cash Flows From Investing Activities		
Net (increase) decrease in federal funds sold	**(1,045)**	66,901
Investment securities		
Purchases	**(1,110,271)**	(1,640,026)
Proceeds from maturities, calls and prepayments	**1,105,615**	1,057,821
Proceeds from sales	**272,762**	-
Increase in loans, net	**(1,196,881)**	(1,011,136)
Proceeds from sales of loans	**5,939**	60,446
Proceeds from sales of premises and equipment	**92**	183
Expenditures for premises and equipment	**(34,389)**	(21,770)
Distributions in excess of cumulative equity earnings	**86**	114
Investment in other earning assets	**(3,328)**	(2,539)
Net cash used in investing activities	**(961,420)**	(1,490,006)
Cash Flows From Financing Activities		
Bonds and notes issued	**16,914,866**	10,319,384
Bonds and notes retired	**(16,114,615)**	(9,019,153)
Prepayments on debt extinguishment costs	**-**	114
Increase in cash collateral posted with a counterparty	**(30,304)**	-
Preferred stock issued	**-**	100,000
Issuance costs on preferred stock	**(3)**	(1,333)
Repayments on capital lease obligations	**-**	(281)
Capital stock issued	**770**	7,967
Capital stock retired and allocated retained earnings distributed	**(192)**	(4,364)
Cash dividends on preferred stock	**(34,837)**	(33,115)
Cash patronage distributions paid	**(36,761)**	(39,390)
Net cash provided by financing activities	**698,924**	1,329,829
Net decrease in cash	**(86,757)**	(28,764)
Cash at beginning of year	**129,478**	56,183
Cash at End of Quarter	**$ 42,721**	$ 27,419
Supplemental Schedule of Noncash Investing and Financing Activities		
Net increase (decrease) in unrealized gains on investment securities	**$ 91,248**	$ (56,356)
Preferred stock dividend payable	**21,613**	21,613
Patronage distribution stock adjustment	**(12)**	-
Right-of-use asset recognized in exchange for operating lease liabilities	**39,619**	-
Supplemental schedule of noncash increase in bonds and notes related to hedging activities	**$ 134**	$ -
Supplemental information		
Interest paid	**$ 400,469**	$ 286,154

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Unaudited (dollar amounts in thousands, except per share amounts and as otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of the Farm Credit Bank of Texas (bank). The significant accounting policies followed and the financial condition and results of operations of the bank as of and for the year ended December 31, 2018, are contained in the 2018 Annual Report to shareholders (Annual Report). These unaudited third quarter 2019 financial statements should be read in conjunction with the Annual Report.

In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations of the bank, and conform to generally accepted accounting principles. The preparation of these financial statements requires the use of management's estimates. The results of operations for any interim period are not necessarily indicative of the results to be expected for the entire year.

The bank and its affiliated associations (Texas District) are part of the federally chartered Farm Credit System (System). The bank provides funding to district associations, which, in turn, provide credit to their borrower-members. At September 30, 2019, the bank provided financing to 14 district associations and certain other financing institutions.

In May 2019, the Financial Accounting Standards Board (FASB) issued guidance entitled "Financial Instruments — Credit Losses, Targeted Transition Relief." The guidance provides entities that have certain instruments within the scope of Subtopic 326-20, Financial Instruments — Credit Losses — Measured at Amortized Cost, with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of Topic 326, Measurement of Credit Losses on Financial Instruments. The guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early adoption permitted. The bank is evaluating the impact of adoption on the bank's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The bank is evaluating the impact of adoption on the bank's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The bank is evaluating the impact of adoption on the bank's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The bank is evaluating the impact of adoption on the bank's financial condition and its results of operations.

In August 2017, the FASB issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing, and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the bank's financial condition or its results of operations.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to develop credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The bank is evaluating the impact of adoption on the bank's financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the bank's financial condition or its results of operations but did impact the lease disclosures. The bank adopted this guidance on January 1, 2019 and upon adoption, recorded a $10.9 million right of use asset and a $14.2 million lease liability. The bank elected the hindsight and certain practical expedients, which among other things, allowed for the carry forward of the historical lease classification and the determination of the lease term for existing leases. Refer to Note 4 of the accompanying financial statements for additional information.

NOTE 2 — INVESTMENT SECURITIES

Investments Available-for-Sale

The bank's available-for-sale investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of agency-guaranteed debt instruments, mortgage-backed investments (MBS), U.S. Treasury securities, asset-backed investments (ABS) and corporate debt. The liquidity portfolio's MBS were federal agency-guaranteed collateralized MBS, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The bank's other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased from district associations.

During the nine months ended September 30, 2019, three investment securities were sold for total proceeds of $272.8 million with a combined book value of $265.3 million, resulting in gains of $7.5 million recognized in noninterest income and previously reflected in accumulated other comprehensive loss. The bank uses the specific identification method to determine the cost of securities sold.

A summary of the amortized cost and fair value of investment securities available-for-sale at September 30, 2019, and December 31, 2018, is included in the following tables.

Investments in the available-for-sale liquidity portfolio at September 30, 2019:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	**$ 151,374**	**$ 786**	**$ (467)**	**$ 151,693**	**2.13** %
Corporate debt	**440,266**	**1,942**	**(33)**	**442,175**	**2.57**
Federal agency collateralized mortgage-backed securities:					
GNMA	**2,376,431**	**22,528**	**(7,538)**	**2,391,421**	**2.50**
FNMA and FHLMC	**2,054,900**	**7,021**	**(7,190)**	**2,054,731**	**2.25**
U.S. Treasury securities	**299,621**	**163**	**-**	**299,784**	**2.37**
Asset-backed securities	**173,807**	**540**	**(174)**	**174,173**	**2.52**
Total liquidity investments	**$ 5,496,399**	**$ 32,980**	**$ (15,402)**	**$ 5,513,977**	**2.39** %

Investments in the available-for-sale other investments portfolio at September 30, 2019:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	**$ 31,385**	**$ -**	**$ (872)**	**$ 30,513**	**5.06 %**

Investments in the available-for-sale liquidity portfolio at December 31, 2018:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 170,800	$ 96	$ (2,973)	$ 167,923	2.23 %
Corporate debt	365,382	51	(1,896)	363,537	2.84
Federal agency collateralized mortgage-backed securities:					
GNMA	2,671,043	5,172	(45,220)	2,630,995	2.74
FNMA and FHLMC	2,157,582	2,124	(29,570)	2,130,136	2.47
U.S. Treasury securities	298,300	28	(245)	298,083	2.38
Asset-backed securities	88,292	42	(77)	88,257	2.72
Total liquidity investments	$ 5,751,399	$ 7,513	$ (79,981)	$ 5,678,931	2.61 %

Investments in the available-for-sale other investments portfolio at December 31, 2018:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 37,781	$ -	$ (2,074)	$ 35,707	4.90 %

The following tables summarize the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale liquidity investments at September 30, 2019.

Investments in the available-for-sale liquidity portfolio:

	Due in One Year Or Less	Due After One Year Through Five Years	Due After Five Years Through 10 years	Due After 10 years	Total
Agency-guaranteed debt	$ -	$ 35,293	$ 116,400	$ -	$ 151,693
Corporate debt	194,469	247,706	-	-	442,175
Federal agency collateralized mortgage-backed securities:					
GNMA	-	-	79,243	2,312,178	2,391,421
FNMA and FHLMC	8,414	123,651	445,806	1,476,860	2,054,731
U.S. Treasury securities	299,784	-	-	-	299,784
Asset-backed securities	-	43,917	40,458	89,798	174,173
Total fair value	$ 502,667	$ 450,567	$ 681,907	$ 3,878,836	$ 5,513,977
Total amortized cost	$ 502,311	$ 449,338	$ 681,828	$ 3,862,922	$ 5,496,399
Weighted average yield	2.43%	2.47%	2.18%	2.42%	2.39%

Investments in the available-for-sale other investments portfolio:

	Due After One Year Through Five Years	Due After Five Years Through 10 Years	Total
Fair value of agricultural mortgage-backed securities	$ 12,421	$ 18,092	$ 30,513
Total amortized cost	$ 12,752	$ 18,633	$ 31,385
Weighted average yield	4.85%	5.20%	5.06%

Other-Than-Temporarily Impaired Investments Evaluation

The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by investment category, and the length of time the securities have been in a continuous unrealized loss position. The continuous loss position is based on the date the impairment occurred.

	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	$ 11,388	$ (31)	$ 60,960	$ (436)	$ 72,348	$ (467)
Corporate debt	24,944	(33)	-	-	24,944	(33)
Federal agency collateralized mortgage-backed securities:						
GNMA	374,692	(623)	839,592	(6,915)	1,214,284	(7,538)
FNMA and FHLMC	515,215	(1,441)	802,839	(5,749)	1,318,054	(7,190)
U.S. Treasury securities	-	-	-	-	-	-
Asset-backed securities	34,665	(174)	-	-	34,665	(174)
Total	$ 960,904	$ (2,302)	$ 1,703,391	$ (13,100)	$ 2,664,295	$ (15,402)

The bank evaluates investment securities for other-than-temporary impairment (OTTI) on a quarterly basis. Impairment is considered to be other than temporary if the bank (i) intends to sell the security, (ii) is more likely than not to be required to sell the security before recovering its costs or (iii) does not expect to recover the security's entire amortized cost basis (even if it does not intend to sell). For the three and nine months ended September 30, 2019 and 2018, the bank did not recognize any other-than-temporary impairment credit losses and no securities were identified as OTTI at September 30, 2019 and 2018.

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

Loans, including direct notes to district associations and other financing institutions (OFIs), participations purchased and other bank-owned loans, comprised the following categories at:

	September 30, 2019	December 31, 2018
Direct notes receivable from district associations and OFIs	**$ 12,882,836**	$ 11,823,267
Participations purchased	**6,349,753**	6,233,167
Other bank-owned loans	**229**	252
Total loans	**$ 19,232,818**	$ 18,056,686

A summary of the bank's loans by type follows:

	September 30, 2019	December 31, 2018
Direct notes receivable from district associations	**$ 12,841,517**	$ 11,786,926
Real estate mortgage	**664,916**	709,274
Production and intermediate term	**696,889**	731,302
Agribusiness		
Loans to cooperatives	**361,741**	321,233
Processing and marketing	**2,879,760**	2,658,208
Farm-related business	**61,369**	49,278
Communications	**476,566**	408,135
Energy (rural utilities)	**1,068,781**	1,199,509
Water and waste disposal	**111,321**	126,785
Lease receivables	**12,443**	13,420
Loans to OFIs	**41,319**	36,341
Mission-related	**16,196**	16,275
Total loans	**$ 19,232,818**	$ 18,056,686

The bank's capital markets loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. The bank also refers to the capital markets portfolio as participations purchased. In addition to purchasing loans from our district associations, which may exceed their hold limits, the bank seeks the purchase of participations and syndications originated outside of the district's territory by other System institutions, commercial banks and other lenders. These loans may be held as earning assets of the bank or sub-participated to the associations or other System entities.

The bank purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations.

The following table presents information regarding the balances of loan participations purchased and sold, excluding syndications, at September 30, 2019:

	Other Farm Credit Institutions		**Non-Farm Credit Institutions**		**Total**	
	Participations Purchased	**Participations Sold**	**Participations Purchased**	**Participations Sold**	**Participations Purchased**	**Participations Sold**
Real estate mortgage	$ 986,390	$ 339,189	$ -	$ -	$ 986,390	$ 339,189
Production and intermediate term	1,558,399	913,196	30,569	-	1,588,968	913,196
Agribusiness	2,198,736	980,326	-	-	2,198,736	980,326
Communications	659,667	182,886	-	-	659,667	182,886
Energy (rural utilities)	1,224,125	155,199	-	-	1,224,125	155,199
Water and waste disposal	128,963	17,482	-	-	128,963	17,482
Lease receivables	14,181	1,751	-	-	14,181	1,751
Mission-related	2,411	-	-	-	2,411	-
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Total	**$ 6,772,872**	**$ 6,440,029**	**$ 30,569**	**$ -**	**$ 6,803,441**	**$ 6,440,029**

The following table presents information regarding the balances of loan participations purchased and sold, excluding syndications, at December 31, 2018:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,033,721	$ 344,753	$ -	$ 2,430	$ 1,033,721	$ 347,183
Production and intermediate term	1,605,107	916,050	27,935	14,849	1,633,042	930,899
Agribusiness	1,974,846	853,328	-	-	1,974,846	853,328
Communications	513,866	105,365	-	-	513,866	105,365
Energy (rural utilities)	1,355,543	155,863	-	-	1,355,543	155,863
Water and waste disposal	142,311	15,324	-	-	142,311	15,324
Lease receivables	15,246	1,841	-	-	15,246	1,841
Mission-related	2,485	-	-	-	2,485	-
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Total	$ 6,643,125	$ 6,242,524	$ 27,935	$ 17,279	$ 6,671,060	$ 6,259,803

The bank has purchased loan participations and Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) from associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the bank redeemed common stock in the amount of 2.0 percent of the par value of the loans purchased, and the associations bought bank stock equal to 8.0 percent of the purchased loans' par value and 1.6 percent of the AMBS' par value. During June 2019, the bank purchased $9.6 million in loan participations from an association, which resulted in a net stock issuance of $578. CPP loans held at September 30, 2019, totaled $122.2 million and were included in "Loans" on the balance sheets. The balance of the AMBS CPP was $30.5 million at September 30, 2019, and is included in "Investment securities" on the balance sheet.

The bank may also purchase loans from district associations in Non-Capitalized Participation Pool (NCPP) transactions. As a condition of these transactions, the bank redeems common stock in the amount of 2.0 percent of the par value of the loans purchased. There were no NCPP loan purchases for the nine months ended September 30, 2019. The NCPP loans balance was $158.2 million at September 30, 2019, and is included in "Loans" on the balance sheet.

During 2012, the bank elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. At December 31, 2018, the fair value and unpaid principal balance of the loans held under the fair value option were $9,345 and $9,160 respectively. The loans held under the fair value option matured during the second quarter of 2019 and thus no balance is reflected at September 30, 2019. Fair value was used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. On these instruments, the related contractual interest income and premium amortization were recorded as interest income in the Statements of Comprehensive Income. The remaining changes in fair value on these instruments were recorded as net gains (losses) in noninterest income on the Statements of Comprehensive Income. The fair value of these instruments was included in Level 2 in the fair value hierarchy for assets recorded at fair value on a recurring basis at December 31, 2018.

The following is a summary of the transactions on loans for which the fair value option has been elected for the nine months ended September 30, 2019:

Balance at January 1, 2019	**$ 9,345**
Net losses on financial instruments under fair value option	**(40)**
Maturities, repayments and calls by issuers	**(9,160)**
Premium amortization	**(145)**
Balance at September 30, 2019	**$ -**

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	September 30, 2019	December 31, 2018
Nonaccrual loans:		
Energy & water/waste disposal	**$ 9,631**	$ 10,276
Agribusiness	**7,595**	8,257
Real estate mortgage	**708**	953
Total nonaccrual loans	**17,934**	19,486
Accruing restructured loans:		
Mission-related	**2,489**	2,531
Total accruing restructured loans	**2,489**	2,531
Total nonperforming assets	**$ 20,423**	$ 22,017

One credit quality indicator utilized by the bank is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table presents loans and related accrued interest classified under the Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2019	December 31, 2018
Real estate mortgage:		
Acceptable	**96.9 %**	96.5 %
OAEM	**1.1**	1.1
Substandard/Doubtful	**2.0**	2.4
	100.0 %	100.0 %
Production and intermediate term:		
Acceptable	**94.8 %**	95.2 %
OAEM	**0.8**	-
Substandard/Doubtful	**4.4**	4.8
	100.0 %	100.0 %
Agribusiness:		
Acceptable	**97.3 %**	99.5 %
OAEM	**2.2**	0.2
Substandard/Doubtful	**0.5**	0.3
	100.0 %	100.0 %
Energy & water/waste disposal:		
Acceptable	**96.3 %**	98.8 %
OAEM	**0.5**	0.4
Substandard/Doubtful	**3.2**	0.8
	100.0 %	100.0 %
Communications:		
Acceptable	**99.1 %**	96.4 %
OAEM	**0.9**	3.6
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Direct notes to associations:		
Acceptable	**91.9 %**	93.7 %
OAEM	**8.1**	6.3
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Loans to other financing institutions:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Mission-related:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Lease receivables:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Total Loans:		
Acceptable	**93.6 %**	95.3 %
OAEM	**5.9**	4.3
Substandard/Doubtful	**0.5**	0.4
	100.0 %	100.0 %

The following tables provide an age analysis for the entire loan portfolio, including accrued interest and nonaccrual loans as of:

September 30, 2019	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment > 90 Days and Accruing**
Real estate mortgage	**$ 487**	**$ 708**	**$ 1,195**	**$ 669,380**	**$ 670,575**	**$ -**
Production and intermediate term	**-**	**-**	**-**	**701,254**	**701,254**	**-**
Agribusiness	**-**	**-**	**-**	**3,320,390**	**3,320,390**	**-**
Energy & water/waste disposal	**-**	**-**	**-**	**1,186,970**	**1,186,970**	**-**
Communications	**-**	**-**	**-**	**476,797**	**476,797**	**-**
Lease receivables	**-**	**-**	**-**	**12,483**	**12,483**	**-**
Direct notes to associations	**-**	**-**	**-**	**12,873,971**	**12,873,971**	**-**
Loans to OFIs	**-**	**-**	**-**	**41,427**	**41,427**	**-**
Mission-related	**-**	**-**	**-**	**16,333**	**16,333**	**-**
Total	**$ 487**	**$ 708**	**$ 1,195**	**$ 19,299,005**	**$ 19,300,200**	**$ -**

December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ -	$ 1,236	$ 1,236	$ 713,882	$ 715,118	$ -
Production and intermediate term	-	-	-	734,377	734,377	-
Agribusiness	-	-	-	3,046,354	3,046,354	-
Energy & water/waste disposal	-	-	-	1,333,469	1,333,469	-
Communications	-	-	-	408,266	408,266	-
Lease receivables	-	-	-	13,463	13,463	-
Direct notes to associations	-	-	-	11,816,423	11,816,423	-
Loans to OFIs	-	-	-	36,435	36,435	-
Mission-related	-	-	-	16,520	16,520	-
Total	$ -	$ 1,236	$ 1,236	$ 18,119,189	$ 18,120,425	$ -

Additional impaired loan information is as follows:

	At September 30, 2019			At December 31, 2018		
Impaired loans with a related allowance for credit losses:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Energy & water/waste disposal	**$ 9,631**	**$ 9,663**	**$ 2,662**	$ 10,277	$ 10,277	$ 2,679
Agribusiness	**7,520**	**7,617**	**2,006**	7,684	7,684	3,527
Mission-related	**172**	**172**	**52**	172	172	50
Total	**$ 17,323**	**$ 17,452**	**$ 4,720**	$ 18,133	$ 18,133	$ 6,256
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 708**	**$ 708**	**$ -**	$ 953	$ 1,236	$ -
Agribusiness	**75**	**75**	**-**	572	572	-
Processing and marketing	**-**	**1,192**	**-**	-	1,192	-
Energy & water/waste disposal	**-**	**7,623**	**-**	-	7,623	-
Mission-related	**2,317**	**2,318**	**-**	2,359	2,359	-
Total	**$ 3,100**	**$ 11,916**	**$ -**	$ 3,884	$ 12,982	$ -
Total impaired loans:						
Real estate mortgage	**$ 708**	**$ 708**	**$ -**	$ 953	$ 1,236	$ -
Agribusiness	**7,595**	**7,692**	**2,006**	8,256	8,256	3,527
Processing and marketing	**-**	**1,192**	**-**	-	1,192	-
Energy & water/waste disposal	**9,631**	**17,286**	**2,662**	10,277	17,900	2,679
Mission-related	**2,489**	**2,490**	**52**	2,531	2,531	50
Total	**$ 20,423**	**$ 29,368**	**$ 4,720**	$ 22,017	$ 31,115	$ 6,256

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2019		September 30, 2018		**September 30, 2019**		September 30, 2018	
Impaired loans with a related allowance for credit losses:	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Energy & water/waste disposal	**$ 9,679**	**$ -**	$ 10,905	$ -	**$ 9,859**	**$ -**	$ 7,470	$ -
Agribusiness	**7,653**	**-**	8,495	-	**7,446**	**-**	5,628	-
Mission-related	**166**	**3**	170	4	**168**	**10**	180	11
Total	**$ 17,498**	**$ 3**	$ 19,570	$ 4	**$ 17,473**	**$ 10**	$ 13,278	$ 11
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 778**	**$ -**	$ 1,208	$ -	**$ 836**	**$ -**	$ 2,107	$ -
Energy & water/waste disposal	**286**	**-**	-	-	**158**	**-**	14	-
Agribusiness	**75**	**-**	-	-	**147**	**-**	-	-
Mission-related	**2,261**	**34**	2,337	36	**2,295**	**105**	2,359	108
Total	**$ 3,400**	**$ 34**	$ 3,545	$ 36	**$ 3,436**	**$ 105**	$ 4,480	$ 108
Total impaired loans:								
Real estate mortgage	**$ 778**	**$ -**	$ 1,208	$ -	**$ 836**	**$ -**	$ 2,107	$ -
Energy & water/waste disposal	**9,965**	**-**	10,905	-	**10,017**	**-**	7,484	-
Agribusiness	**7,728**	**-**	8,495	-	**7,593**	**-**	5,628	-
Mission-related	**2,427**	**37**	2,507	40	**2,463**	**115**	2,539	119
Total	**$ 20,898**	**$ 37**	$ 23,115	$ 40	**$ 20,909**	**$ 115**	$ 17,758	$ 119

At September 30, 2019, impaired loans of $17.3 million had a related specific allowance of $4.7 million, while the remaining $3.1 million of impaired loans had no related specific allowance as a result of adequate collateralization.

The average recorded investment in impaired loans for the three months ended September 30, 2019, was $20.9 million. The bank recognized interest income of $37 on impaired loans during the three months ended September 30, 2019.

The average recorded investment in impaired loans for the nine months ended September 30, 2019, was $20.9 million. The bank recognized interest income of $115 on impaired loans during the nine months ended September 30, 2019.

A summary of changes in the allowance and reserves for credit losses and period end recorded investment (including accrued interest) in loans follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Lease Receivables	Direct Notes to Associations	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses:										
Balance at June 30, 2019	$ 119	$ 753	$ 6,663	$ 282	$ 4,264	$ 27	$ -	$ -	$ 53	$ 12,161
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	5	-	-	-	-	-	-	-	-	5
(Loan loss reversal) provision for credit losses	(1)	135	(1,950)	26	(12)	15	-	-	1	(1,786)
Other *	-	(39)	477	1	19	-	-	-	-	458
Balance at September 30, 2019	$ 123	$ 849	$ 5,190	$ 309	$ 4,271	$ 42	$ -	$ -	$ 54	$ 10,838
Balance at December 31, 2018	$ 120	$ 799	$ 5,975	$ 364	$ 4,635	$ 29	$ -	$ -	$ 52	$ 11,974
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	11	-	-	-	-	-	-	-	-	11
(Loan loss reversal) provision for credit losses	(8)	129	(1,148)	(47)	(309)	13	-	-	2	(1,368)
Other *	-	(79)	363	(8)	(55)	-	-	-	-	221
Balance at September 30, 2019	$ 123	$ 849	$ 5,190	$ 309	$ 4,271	$ 42	$ -	$ -	$ 54	$ 10,838
Individually evaluated for impairment	$ -	$ -	$ 2,006	$ -	$ 2,662	$ -	$ -	$ -	$ 52	$ 4,720
Collectively evaluated for impairment	123	849	3,184	309	1,609	42	-	-	2	6,118
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2019	$ 123	$ 849	$ 5,190	$ 309	$ 4,271	$ 42	$ -	$ -	$ 54	$ 10,838
Balance at June 30, 2018	$ 87	$ 967	$ 5,582	$ 390	$ 4,823	$ 31	$ -	$ -	$ 54	$ 11,934
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	5	-	-	-	-	-	-	-	-	5
(Loan loss reversal) provision for credit losses	(4)	(9)	240	(38)	(77)	(1)	-	-	(3)	108
Other *	-	(58)	247	4	77	-	-	-	4	274
Balance at September 30, 2018	$ 88	$ 900	$ 6,069	$ 356	$ 4,823	$ 30	$ -	$ -	$ 55	$ 12,321
Balance at December 31, 2017	$ 117	$ 954	$ 2,679	$ 364	$ 3,439	$ -	$ -	$ -	$ 86	7,639
Charge-offs	-	-	-	-	-	-	-	-	-	-
Recoveries	11	-	-	120	-	-	-	-	-	131
(Loan loss reversal) provision for credit losses	(43)	93	3,672	(133)	1,381	30	-	-	(46)	4,954
Other *	3	(147)	(282)	5	3	-	-	-	15	(403)
Balance at September 30, 2018	$ 88	$ 900	$ 6,069	$ 356	$ 4,823	$ 30	$ -	$ -	$ 55	$ 12,321
Individually evaluated for impairment	$ -	$ -	$ 3,842	$ -	$ 2,779	$ -	$ -	$ -	$ 52	$ 6,673
Collectively evaluated for impairment	88	900	2,227	356	2,044	30	-	-	3	5,648
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2018	$ 88	$ 900	$ 6,069	$ 356	$ 4,823	$ 30	$ -	$ -	$ 55	$ 12,321
Recorded Investments in loans outstanding:										
Ending balance at September 30, 2019	$ 670,575	$ 701,254	$ 3,320,390	$ 476,797	$ 1,186,970	$ 12,483	$ 12,873,971	$ 41,427	$ 16,333	$ 19,300,200
Individually evaluated for impairment	$ 708	$ -	$ 7,595	$ -	$ 9,631	$ -	$ 12,873,971	$ -	$ 2,489	$ 12,894,394
Collectively evaluated for impairment	$ 669,867	$ 701,254	$ 3,312,795	$ 476,797	$ 1,177,339	$ 12,483	$ -	$ 41,427	$ 13,844	$ 6,405,806
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance at September 30, 2018	$ 626,141	$ 709,434	$ 3,020,671	$ 396,065	$ 1,327,858	$ 13,781	$ 11,937,943	$ 36,444	$ 16,416	$ 18,084,753
Individually evaluated for impairment	$ 1,204	$ -	$ 8,601	$ -	$ 10,277	$ -	$ 11,937,943	$ -	$ 2,571	$ 11,960,596
Collectively evaluated for impairment	$ 624,937	$ 709,434	$ 3,012,070	$ 396,065	$ 1,317,581	$ 13,781	$ -	$ 36,444	$ 13,845	$ 6,124,157
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

* Reserve for losses and unfunded commitments on letters of credit recorded in other liabilities

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of September 30, 2019, the total recorded investment in TDR loans was $10.9 million, including $8.4 million classified as nonaccrual and $2.5 million classified as accrual, with specific allowance for loan losses of $2.1 million. Additional commitments to lend to borrowers whose loans have been modified in TDRs were $1.1 million at September 30, 2019, and there were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2018.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table:

	Total Loans Modified as TDRs		TDRs in Nonaccrual Status	
	September 30, 2019	December 31, 2018	**September 30, 2019**	December 31, 2018
Agribusiness	**$ 7,692**	$ 7,684	**$ 7,692**	$ 7,684
Real estate mortgage	**708**	1,236	**708**	1,236
Mission-related	**2,489**	2,531	**-**	-
Total	**$ 10,889**	$ 11,451	**$ 8,400**	$ 8,920

There were no new loans designated as troubled debt restructurings during the three or nine months ended September 30, 2019. During the period there were no payment defaults on loans that were restructured during the previous 12 months. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the nine months ended September 30, 2018. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring.

For the nine months ended September 30, 2018:

	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Agribusiness	$ 7,739	$ 8,588
Total	$ 7,739	$ 8,588

NOTE 4 — LEASES

The bank evaluates arrangements at inception to determine if it meets the criteria for a lease. Leases with an initial term of twelve months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. Operating leases are included in other assets for right-of-use (ROU) assets and other liabilities for lease liabilities on the balance sheet.

ROU assets represent the bank's right to use an underlying asset for the lease term and lease liabilities represent the bank's obligation to make lease payments arising from the lease. Operating ROU assets and liabilities are recognized based on the present value of the lease payments over the lease term. The bank's lease terms may include options to extend or terminate the lease when it is reasonably certain that the bank will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The bank maintains a lease for its headquarters facility in Austin, Texas. The original lease was effective from September 2003 through August 2013. The bank has since entered into two lease amendments which extend the lease through December 2034. This lease is for approximately 111,500 square feet of office space ranging from $18 per square foot to $38 per square foot during its term. Lease expenses for the facility including certain operating expenses passed through from the landlord were $3,139 and $3,093 for the nine months ended September 30, 2019, and 2018, respectively.

The bank entered into a lease for copiers and a lease for postage machines on September 15, 2016, and June 1, 2017, respectively. The copier lease was effective September 15, 2016 and its term is from September 15, 2016 to March 15, 2020. The postage lease was effective June 1, 2017 and its term is from June 1, 2017 to August 31, 2020. Lease expenses for the copiers and postage were $198 and $181 for the nine months ended September 30, 2019, and 2018, respectively.

Amounts presented on the Balance Sheet are as follows:

	Balance Sheet Classification	**As of September 30, 2019**	As Previously Reported December 31, 2018	Lease Standard Adjustment	As Adopted January 1, 2019
Operating leases	Operating lease right-of-use asset-building	**$ 39,501**	$ -	$ 10,658	$ 10,658
	Operating lease right-of-use asset-other	**118**	-	281	281
Total lease assets		**$ 39,619**	$ -	$ 10,939	$ 10,939
Operating leases	Operating lease right-of-use liabilities-building	**$ 42,794**	$ -	$ 13,942	$ 13,942
	Operating lease right-of-use liabilities-other	**118**	-	281	281
Total lease liabilities		**$ 42,912**	$ -	$ 14,223	$ 14,223

The components of lease expense were as follows:

	Classification on Statement of Comprehensive Income	**Nine Months Ended September 30, 2019**
Operating lease cost	Occupancy and equipment	**$ 3,337**

Other information related to leases was as follows:

	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	**$ 1,805**
Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	**$ 29,882**

The weighted-average remaining lease term for the building, copier and postage leases is 15.21 years and the weighted-average discount rate is 2.42 percent. The discount rates were determined using the bank's incremental borrowing rate for bonds for terms relative to the lease terms. The following are the undiscounted cash flows for the operating leases at September 30, 2019:

	Maturities of Lease Liabilities
Remainder of 2019	$ 55
2020	2,619
2021	2,633
2022	2,712
2023	2,793
Thereafter	41,168
Total undiscounted cash flows	51,980
Less interest expense	9,068
Lease liability	**$ 42,912**

The lease expense for leases with terms of 12 months or less was $131 and $24 for the nine months ended September 30, 2019, and 2018, respectively.

NOTE 5 — COMMITMENTS AND CONTINGENCIES

The bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the bank is jointly and severally liable for the consolidated Systemwide bonds and notes of the other System banks. Total consolidated bank and Systemwide obligations of the System at September 30, 2019, were approximately $282.86 billion.

In the normal course of business, the bank has various outstanding commitments and contingent liabilities, including the possibility of actions against the bank in which claims for monetary damages may be asserted. Management and legal counsel are not aware of any other pending lawsuits or actions. Upon the basis of current information, management and legal counsel are of the opinion that the ultimate liability, if any, resulting from lawsuits or other pending actions will not be material in relation to the financial position, results of operations or cash flows of the bank.

NOTE 6 — FAIR VALUE MEASUREMENTS

Authoritative accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies," of the 2018 Annual Report for a more complete description.

Assets and liabilities measured at fair value on a recurring basis at September 30, 2019, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurement							
		Total		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Assets:								
Federal funds	**$**	**282,176**	$	-	$	282,176	$	-
Investments available-for-sale:								
Agency-guaranteed debt		**151,693**		-		151,693		-
Corporate debt		**442,175**		-		442,175		-
Mortgage-backed securities		**4,446,152**		-		4,446,152		-
U.S. Treasury securities		**299,784**		-		299,784		-
Asset-backed securities		**174,173**		-		174,173		-
Other investments available-for-sale		**30,513**		-		-		30,513
Loans valued under the fair value option		**-**		-		-		-
Derivative assets		**866**		-		866		-
Assets held in nonqualified benefit trusts		**916**		916		-		-
Collateral assets		**30,304**		30,304		-		-
Total assets	**$**	**5,858,752**	$	31,220	$	5,797,019	$	30,513
Liabilities:								
Derivative liabilities	**$**	**71,831**	$	-	$	71,831	$	-
Letters of credit		**620**		-		-		620
Total liabilities	**$**	**72,451**	$	-	$	71,831	$	620

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the period from June 30, 2019, to September 30, 2019:

	Assets				Liabilities			
		Mortgage-Backed Securities		Agricultural Mortgage-Backed Securities		Letters of Credit		Total
Balance at June 30, 2019	**$**	**40,338**	**$**	**31,972**	**$**	**489**	**$**	**71,821**
Net gains included in other comprehensive income		**-**		**157**		**-**		**157**
Purchases, issuances and (settlements)		**-**		**(1,616)**		**131**		**(1,747)**
Transfers out of Level 3		**(40,338)**		**-**		**-**		**(40,338)**
Balance at September 30, 2019	**$**	**-**	**$**	**30,513**	**$**	**620**	**$**	**29,893**

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the period from January 1, 2019, to September 30, 2019:

	Assets			Liabilities	
	Asset-Backed Securities	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Letters of Credit	Net
Balance at January 1, 2019	$ -	$ -	$ 35,708	$ 676	$ 35,032
Net gains included in other comprehensive income	16	218	1,202	-	1,436
Purchases, issuances and (settlements)	25,000	92,550	(6,397)	(56)	111,209
Transfers out of Level 3	(25,016)	(92,768)	-	-	(117,784)
Balance at September 30, 2019	$ -	$ -	$ 30,513	$ 620	$ 29,893

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the three and nine months ended September 30, 2019. Agricultural mortgage-backed securities (AMBS) are included in Level 3 due to limited activity or less transparency around inputs to their valuation. Mortgage-backed securities (or MBS) and asset-backed securities (or ABS) were included in Level 3 due to the fact that their valuation was based on Level 3 criteria (broker quotes). Transfers out of Level 3 occur at quarter end at the time information from pricing vendors becomes available. The liability for letters of credit are included in Level 3 because their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at September 30, 2019, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans	$ 12,726	$ -	$ -	$ 12,726
Total assets	$ 12,726	$ -	$ -	$ 12,726

Assets and liabilities measured at fair value on a recurring basis at December 31, 2018, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurement			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds	$ 281,131	$ -	$ 281,131	$ -
Investments available for sale:				
Agency-guaranteed debt	167,923	-	167,923	-
Corporate debt	363,537	-	363,537	-
Mortgage-backed securities	4,761,131	-	4,761,131	-
U.S. Treasury securities	298,083	-	298,083	-
Asset-backed securities	88,257	-	88,257	-
Other investments available-for-sale	35,708	-	-	35,708
Loans valued under the fair value option	9,345	-	9,345	-
Derivative assets	10,700	-	10,700	-
Assets held in nonqualified benefit trusts	682	682	-	-
Total assets	$ 6,016,497	$ 682	$ 5,980,107	$ 35,708
Liabilities:				
Derivative liabilities	$ 16,143	$ -	$ 16,143	$ -
Letters of credit	676	-	-	676
Total liabilities	$ 16,819	$ -	$ 16,143	$ 676

The following table represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the period from June 30, 2018, to September 30, 2018:

	Assets	Liabilities	
	Agricultural Mortgage-Backed Securities	Letters of Credit	Net
Balance at June 30, 2018	$ 39,427	$ 709	$ 38,718
Net (losses) gains included in other comprehensive income	(40)	-	(40)
Purchases, issuances and settlements	(2,082)	(103)	(1,979)
Balance at September 30, 2018	$ 37,305	$ 606	$ 36,699

The following table represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the period from January 1, 2018, to September 30, 2018:

	Assets		Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Letters of Credit	Total
Balance at January 1, 2018	$ -	$ 43,317	$ 846	$ 42,471
Net losses (gains) included in other comprehensive income	95	(170)	-	(75)
Purchases, issuances and settlements	91,561	(5,842)	(240)	85,959
Transfers out of Level 3	(91,656)	-	-	(91,656)
Balance at September 30, 2018	$ -	$ 37,305	$ 606	$ 36,699

There were no transfers of assets or liabilities into or out of Level 1 from other levels during the three months ended September 30, 2018. Agricultural mortgage-backed securities (AMBS) are included in Level 3 due to limited activity or less transparency around inputs to their valuation. Mortgage-backed securities (or MBS) are included in Level 3 due to the fact that their valuation was based on Level 3 criteria (broker quotes). The liability for letters of credit are included in Level 3 because their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2018, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurement			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans	$ 11,875	$ -	$ -	$ 11,875
Total assets	$ 11,875	$ -	$ -	$ 11,875

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Balance Sheet for each of the fair value hierarchy values are summarized as follows:

September 30, 2019:		**Fair Value Measurement Using**			
	Total Carrying Amount	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
Assets:					
Cash	**$ 42,721**	**$ 42,721**	**$ -**	**$ -**	**$ 42,721**
Net loans	**19,221,980**	**-**	**-**	**19,442,734**	**19,442,734**
Total assets	**$ 19,264,701**	**$ 42,721**	**$ -**	**$ 19,442,734**	**$ 19,485,455**
Liabilities:					
Systemwide debt securities	**$ 23,332,942**	**$ -**	**$ -**	**$ 23,527,450**	**$ 23,527,450**
Total liabilities	**$ 23,332,942**	**$ -**	**$ -**	**$ 23,527,450**	**$ 23,527,450**

December 31, 2018:	Total Carrying Amount	Fair Value Measurement: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:					
Cash	$ 129,478	$ 129,478	$ -	$ -	$ 129,478
Net loans	18,044,712	-	-	17,860,769	17,860,769
Total assets	$ 18,174,190	$ 129,478	$ -	$ 17,860,769	$ 17,990,247
Liabilities:					
Systemwide debt securities	$ 22,497,364	$ -	$ -	$ 22,367,133	$ 22,367,133
Total liabilities	$ 22,497,364	$ -	$ -	$ 22,367,133	$ 22,367,133

Valuation Techniques

As more fully discussed in Note 2, “Summary of Significant Accounting Policies” of the 2018 Annual Report, authoritative accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following represent a brief summary of the valuation techniques used by the bank for assets and liabilities:

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using observable inputs from quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. Among other securities, this would include certain mortgage-backed securities and asset-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Level 3 assets at September 30, 2019, included the bank’s AMBS portfolio, which is valued by the bank using a model that incorporates underlying rates and current yield curves.

To estimate the fair value of the majority of the investments held, including certain non-agency securities, the bank obtains prices from third-party pricing services.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans would be classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Derivatives

Derivative positions are valued using internally developed models that use as their basis quoted prices, and would be classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include interest rate caps and interest rate swaps.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, including the LIBOR and Overnight Index Swap curves and volatility assumptions about future interest rate movements.

Collateral Assets (Cash Collateral Posted with a Counterparty)

Derivative contracts are supported by bilateral collateral agreements with counterparties requiring the bank to post collateral in the event certain dollar thresholds of credit exposure are reached. The market value of cash collateral posted with a counterparty is the face value plus accrued interest, as that approximates fair value.

Letters of Credit

The fair value of letters of credit approximates the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans

Fair value is estimated by discounting the expected future cash flows using the banks' and/or the associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the banks' and/or the associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

The bank elected the fair value option for certain callable loans purchased on the secondary market at a significant premium. The fair value option provides an irrevocable option to elect fair value as an alternative measurement for selected financial assets. Fair value is used for both the initial and subsequent measurement of the designated instrument, with the changes in fair value recognized in net income. The fair value of securities is estimated using pricing models that utilize observable inputs, quoted prices for similar securities received from pricing services or discounted cash flows. Accordingly, these assets were classified within Level 2 at December 31, 2018.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under accounting impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Bonds and Notes

Systemwide debt securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between System debt instruments and Treasury securities. We estimate an appropriate yield-spread taking into consideration selling group member (banks and securities dealers) yield indications, observed new government-sponsored enterprise debt security pricing and pricing levels in the related U.S. dollar interest rate swap market.

Other Property Owned

Other property owned (OPO) is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of OPO involves the use of independent appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are vendor pricing, prepayment rates, probability of default and loss severity in the event of default.

Quoted market prices may not be available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

	Valuation Technique(s)	**Unobservable Input**	**Range of Inputs / Weighted Average**
Other investments	Discounted cash flow	Prepayment rates	2.3% - 38.0% / 9.57%

With regard to impaired loans and OPO, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and OPO and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Federal funds sold	Carrying value	Par/principal
Investment securities available for sale	Quoted prices Discounted cash flow	Price for similar security Constant prepayment rate Appropriate interest rate yield curve
Interest rate caps	Discounted cash flow	Appropriate interest rate yield curve Annualized volatility
Interest rate swaps	Discounted cash flow	Benchmark yield curve Counterparty credit risk Volatility

NOTE 7 — ASSET/LIABILITY OFFSETTING

Derivative transactions with swap dealers include bilateral collateral and netting agreements that require the net settlement of covered contracts. Notwithstanding collateral and netting provisions, our derivative assets and liabilities are not offset in the accompanying balance sheets. The amount of collateral received or pledged is calculated on a net basis, by counterparty.

The following table summarizes derivative assets and liabilities and amounts of collateral exchanged pursuant to our agreements.

		Amounts Not Offset in the Balance Sheet		
September 30, 2019	Gross Amounts of Assets/Liabilities Presented in the Balance Sheets	Cash Collateral Pledged	Investment Securities Received/Pledged as Collateral	Net Amount
Assets:				
Interest rate swaps and other derivatives	$ 865	$ -	$ -	$ 865
Liabilities:				
Interest rate swaps and other derivatives	$ 71,831	$ (30,250)	$ -	$ 41,581

At December 31, 2018, we had no cash collateral or investment securities received or pledged as part of the agreements.

NOTE 8 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The bank maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet liabilities so that the net interest margin is not adversely affected by movements in interest rates. The bank considers the strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The bank may enter into derivative transactions to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. Under interest rate swap arrangements, the bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional amount, with at least one stream based on a specified floating-rate index. The bank may purchase interest rate options, such as caps, in order to reduce the impact of rising interest rates on its floating-rate debt.

At September 30, 2019, the bank held interest rate caps with a notional amount of $195.0 million and a net fair value asset of $82, pay fixed interest rate swaps with a notional amount of $825.0 million and a net fair value liability of $71.2 million, and pay floating interest rate swaps with a notional amount of $150.0 million and a net fair value asset of $134. The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during the nine months ended September 30, 2019, are summarized in the following table:

	Pay-Floating Swaps	Pay-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2019	$ -	$ 825,000	$ 195,000	$ 1,020,000
Additions	150,000	-	-	150,000
Maturities/Amortizations	-	-	-	-
Balance at September 30, 2019	**$ 150,000**	**$ 825,000**	**$ 195,000**	**$ 1,170,000**

To minimize the risk of credit losses, the bank maintains collateral agreements to limit exposure to agreed-upon thresholds, deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing and levels of exposure to individual counterparties. The bank typically enters into master agreements that contain netting provisions. These provisions allow the bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. At September 30, 2019, and December 31, 2018, counterparties' credit exposure to the bank was $40.7 million and $5.4 million, respectively. At September 30, 2019, the bank had posted $30.3 million of cash as collateral, and no counterparty had been required to post collateral. At December 31, 2018, the bank had posted no cash or securities as collateral, nor had any counterparty been required to post collateral.

Derivative – Counterparty Exposure

The following table represents the credit ratings of counterparties to whom the bank has credit exposure with at September 30, 2019:

	Remaining Years to Maturity (1)					
	Less Than One to Five Years	More Than Five Years	Total Gains (Losses)	Exposure	Collateral Posted	Exposure Net of Collateral
Moody's Credit Rating						
Aa2	$ 717	$ (51,433)	$ (50,716)	$ (50,716)	$ (28,930)	$ (21,786)
Aa3	(44)	(20,226)	(20,270)	(20,270)	(1,320)	(18,950)
A1	3	-	3	3	-	3
Total	**$ 676**	**$ (71,659)**	**$ (70,983)**	**$ (70,983)**	**$ (30,250)**	**$ (40,733)**

(1) Represents gain or loss positions on derivative instruments with individual counterparties. Net gains or losses represent the exposure to credit loss estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts within a maturity category. Within each maturity category, contracts in a loss position are netted against contracts in a gain position with the same counterparty.

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item (principally, debt securities) attributable to the hedge risk are recognized in current earnings. The bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. Recorded in the bank's Balance Sheet are cumulative basis adjustments for value hedges for systemwide debt securities of $150.0 million for the carrying amount of the hedged item and $134 for the cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged item at September 30, 2019. The bank did not have fair value hedges at December 31, 2018.

Cash Flow Hedges

The bank's derivative instruments at September 30, 2019 and December 31, 2018, which are designated and qualify as a cash flow hedge, all meet the standards for accounting treatment that presume full effectiveness. Thus, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income.

	Balance Sheet Location	**Fair Value September 30, 2019**	Fair Value December 31, 2018	**Balance Sheet Location**	**Fair Value September 30, 2019**	Fair Value December 31, 2018
Interest rate caps	Other assets	**$ 82**	$ 448	Other liabilities	**$ -**	$ -
Pay fixed swaps	Other assets	**650**	10,253	Other liabilities	**(71,831)**	(16,143)

	Loss Recognized in OCI on Derivatives at September 30, 2019	2018		**Amount of Gain (Loss) Reclassified From AOCI at September 30, 2019**	2018
Interest rate caps	**$ 366**	$ 101	Interest expense	**$ (206)**	$ (114)
Pay fixed swaps	**65,142**	12,932	Interest (expense) income	**(155)**	321

In the next 12 months, we expect to reclassify to earnings losses of $3.4 million recorded in AOCI as of September 30, 2019. These amounts will offset the cash flows associated with the hedged forecasted transactions.

NOTE 9 — CAPITAL

Effective January 1, 2017, the regulatory capital requirements for System banks and associations were modified. The new requirements replaced existing core surplus and total surplus ratio requirements with common equity tier 1, tier 1 capital and total capital risk-based capital ratio requirements. The new regulations also added a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect.

The following table reflects the bank's capital ratios:

Risk-adjusted	**Regulatory Minimums**	**Conservation Buffers***	**Total Regulatory Minimums**	**As of September 30, 2019**	As of December 31, 2018
Common equity tier 1 ratio	4.5%	2.5% *	7.0%	**9.82%**	9.92%
Tier 1 capital ratio	6.0	2.5 *	8.5	**16.03**	16.29
Total capital ratio	8.0	2.5 *	10.5	**16.16**	16.42
Permanent capital ratio	7.0	0.0	7.0	**16.05**	16.31
Non-risk-adjusted					
Tier 1 leverage ratio	4.0	1.0	5.0	**7.21**	7.39
UREE leverage ratio	1.5	0.0	1.5	**2.97**	3.08

*The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020. There is no phase-in period for the tier 1 leverage ratio. Amounts shown reflect the full capital conservation buffers.

Risk-adjusted assets have been defined by FCA regulations as the statement of condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months;
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status; and,
- Inclusion of unfunded commitments for direct notes from district associations.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus noncumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary bonus payments to senior officers are restricted or prohibited without prior FCA approval.

The components of the bank's risk-adjusted capital, based on 90-day average balances, were as follows at September 30, 2019:

(dollars in thousands)	**Common Equity Tier 1 Ratio**	**Tier 1 Capital Ratio**	**Total Capital Ratio**	**Permanent Capital Ratio**
Numerator:				
Unallocated retained earnings	$ 894,558	$ 894,558	$ 894,558	$ 894,558
Common Cooperative Equities:				
Purchased other required stock ≥7 years	280,999	280,999	280,999	280,999
Allocated stock ≥7 years	36,042	36,042	36,042	36,042
Allocated equities:				
Allocated equities held ≥7 years	45,673	45,673	45,673	45,673
Noncumulative perpetual preferred stock	-	700,000	700,000	700,000
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	14,278	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(149,553)	(149,553)	(149,553)	(149,553)
Other regulatory required deductions	(297)	(297)	(297)	(297)
Total	**$ 1,107,422**	**$ 1,807,422**	**$ 1,821,700**	**$ 1,807,422**
Denominator:				
Risk-adjusted assets excluding allowance	$ 11,272,954	$ 11,272,954	$ 11,272,954	$ 11,272,954
Regulatory Adjustments and Deductions:				
Allowance for loan losses	-	-	-	(12,147)
Total	**$ 11,272,954**	**$ 11,272,954**	**$ 11,272,954**	**$ 11,260,807**

The components of the bank's risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2018:

(dollars in thousands)	Common Equity Tier 1 Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Permanent Capital Ratio
Numerator:				
Unallocated retained earnings	$ 889,359	$ 889,359	$ 889,359	$ 889,359
Common Cooperative Equities:				
Purchased other required stock ≥7 years	267,785	267,785	267,785	267,785
Allocated stock ≥7 years	36,042	36,042	36,042	36,042
Allocated equities:				
Allocated equities held ≥7 years	39,429	39,429	39,429	39,429
Noncumulative perpetual preferred stock	-	700,000	700,000	700,000
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	14,155	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(142,322)	(142,322)	(142,322)	(142,322)
Other regulatory required deductions	(256)	(256)	(256)	(256)
Total	$ 1,090,037	$ 1,790,037	$ 1,804,192	$ 1,790,037
Denominator:				
Risk-adjusted assets excluding allowance	$ 10,988,322	$ 10,988,322	$ 10,988,322	$ 10,988,322
Regulatory Adjustments and Deductions:				
Allowance for loan losses	-	-	-	(12,317)
Total	$ 10,988,322	$ 10,988,322	$ 10,988,322	$ 10,976,005

The components of the bank's non-risk-adjusted capital, based on 90-day average balances, were as follows at September 30, 2019:

(dollars in thousands)	**Tier 1 Leverage Ratio**	**UREE Leverage Ratio**
Numerator:		
Unallocated retained earnings	$ 894,558	$ 894,558
Common Cooperative Equities:		
Purchased other required stock ≥7 years	280,999	-
Allocated stock ≥7 years	36,042	-
Allocated equities:		
Allocated equities held ≥ 7 years	45,673	-
Noncumulative perpetual preferred stock	700,000	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(149,553)	(149,553)
Other regulatory required deductions	(297)	-
Total	**$ 1,807,422**	**$ 745,005**
Denominator:		
Total Assets	$ 25,224,739	$ 25,224,739
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(156,931)	(156,931)
Total	**$ 25,067,808**	**$ 25,067,808**

The components of the bank's non-risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2018:

(dollars in thousands)	Tier 1 Leverage Ratio	UREE Leverage Ratio
Numerator:		
Unallocated retained earnings	$ 889,359	$ 889,359
Common Cooperative Equities:		
Purchased other required stock ≥7 years	267,785	-
Allocated stock ≥7 years	36,042	-
Allocated equities:		
Allocated equities held ≥ 7 years	39,429	-
Noncumulative perpetual preferred stock	700,000	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(142,322)	(142,322)
Other regulatory required deductions	(256)	-
Total	$ 1,790,037	$ 747,037
Denominator:		
Total Assets	$ 24,382,460	$ 24,382,460
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(154,254)	(154,254)
Total	$ 24,228,206	$ 24,228,206

NOTE 10 — EMPLOYEE BENEFIT PLANS

In addition to pension benefits, the bank provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities. Bank employees hired after January 1, 2004, may be eligible for retiree medical benefits for themselves and their spouses at their expense and will be responsible for 100 percent of the related premiums. The following table summarizes the components of net periodic benefit costs for the bank's other postretirement benefit costs for the nine months ended September 30:

	Other Postretirement Benefits	
	2019	2018
Service cost	**$ 166**	$ 205
Interest cost	**387**	370
Amortization of prior service cost	**(58)**	(104)
Amortization of net actuarial loss	**-**	69
	$ 495	$ 540

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

The structure of the district's defined benefit pension plan is characterized as multiemployer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations).

NOTE 11 — ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

Accumulated other comprehensive loss (AOCL) includes the accumulated balance of certain gains, losses or costs for which values are included in assets or liabilities on the balance sheets, but which have not yet been recognized in earnings. For the bank, these elements include unrealized gains or losses on the bank's available-for-sale investment portfolio, amortization of retirement benefit elements and changes in the value of cash flow derivative instruments.

The following is a summary of the components of accumulated other comprehensive income (loss) (AOCI) and the changes occurring during the nine months ended September 30, 2019:

	Total	Unrealized (Loss) Gain on Investments	Postretirement Benefit Plans	Cash Flow Derivative Instruments
Balance at January 1, 2019	$ (81,693)	$ (74,541)	$ (27)	$ (7,125)
Change in unrealized losses on available-for-sale securities				
Net change in unrealized losses on investment securities	98,763	98,763		
Gain on sale reclassifications to net income	(7,516)	(7,516)		
Net change in unrealized losses on securities	91,247	91,247		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(58)		(58)	
Net change in postretirement benefit plans	(58)		(58)	
Change in cash flow derivative instruments				
Unrealized loss on cash flow derivative instruments	(65,525)			(65,525)
Reclassification of loss recognized in interest expense	378			378
Net change in cash flow derivative instruments	(65,147)			(65,147)
Total other comprehensive (loss) income	**26,042**	**91,247**	**(58)**	**(65,147)**
Balance at September 30, 2019	**$ (55,651)**	**$ 16,706**	**$ (85)**	**$ (72,272)**

The following is a summary of the components of accumulated other comprehensive (loss) income (AOCI) and the changes occurring during the nine months ended September 30, 2018:

	Total	Unrealized Gain (Loss) on Investments	Postretirement Benefit Plans	Cash Flow Derivative Instruments
Balance at January 1, 2018	$ (51,902)	$ (56,813)	$ (1,815)	$ 6,726
Change in unrealized gains on available-for-sale securities				
Net change in unrealized losses on investment securities	(56,357)	(56,357)		
Net change in unrealized losses on securities	(56,357)	(56,357)		
Change in postretirement benefit plans				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(35)		(35)	
Net change in postretirement benefit plans	(35)		(35)	
Change in cash flow derivative instruments				
Unrealized gain on cash flow derivative instruments	13,033			13,033
Reclassification of loss recognized in interest expense	(207)			(207)
Net change in cash flow derivative instruments	12,826			12,826
Total other comprehensive (loss) income	(43,566)	(56,357)	(35)	12,826
Balance at September 30, 2018	$ (95,468)	$ (113,170)	$ (1,850)	$ 19,552

The following table summarizes reclassifications from AOCI to the statements of comprehensive income for the nine months ended September 30:

Component of AOCL	**Amount Reclassified from AOCL**		**Location of Gain (Loss) Recognized in the Statement of Comprehensive Income**
	2019	2018	
Amortization of net credits on post-retirement benefit plan	**$ (58)**	$ (35)	Salaries and employee benefits
Amortization on cash flow hedges	**378**	(207)	Interest expense
Total reclassifications	**$ 320**	$ (242)	

NOTE 12 — SUBSEQUENT EVENTS

The bank has evaluated subsequent events through November 8, 2019, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of November 8, 2019.

NOTE 13 — COMBINED DISTRICTWIDE FINANCIAL STATEMENTS

The accompanying financial statements exclude financial information of the bank's affiliated associations. The bank and its affiliated associations are collectively referred to as the "Texas District." The bank separately publishes certain unaudited combined financial information of the Texas District, including a condensed statement of condition and statement of income, which can be found on the bank's website at *www.farmcreditbank.com*. Such information is not incorporated by reference to, and should not be considered part of, this quarterly report.

ADDITIONAL REGULATORY INFORMATION
(unaudited)

Disclosure Map

The following table summarizes the interim disclosure requirements and indicates where each matter is disclosed in this quarterly report.

Disclosure Requirement	Description	September 30, 2019 Quarterly Report Reference
Scope of Application	Corporate entity and structure	Page 49
Capital Structure	Regulatory capital components	Page 50
Capital Adequacy	Risk-weighted assets	Page 51
	Regulatory capital ratios	Page 52
Capital Buffers	Quantitative disclosures	Page 52
Credit Risk	Summary of exposures	Page 53
	Geographic distribution	Page 54
	Industry distribution	Page 53
	Contractual maturity	Page 53
	Impaired loans and allowance for credit losses	Note 3 – Pages 24-31
Counterparty Credit Risk-Related Exposures	Counterparty exposures	Page 54
Credit Risk Mitigation	Exposures with reduced capital requirements	Page 54
Securitization	Securitization exposures	Page 55
Equities	General description	Page 55
Interest Rate Risk for Non-Trading Activities	Interest rate sensitivity	Page 55

The following disclosures contain regulatory disclosures as required under Farm Credit Administration (FCA) Regulation 628.63 for risk-adjusted ratios: common equity tier 1, tier 1 capital and total capital. Refer to Note 9 of the accompanying financial statements for information regarding the statutorily required permanent capital ratio. As required, these disclosures are made available for at least three years, and can be accessed at Farm Credit Bank of Texas' website at *www.farmcreditbank.com*. FCA Regulation Section 628.62(a) requires each System bank to provide timely public disclosures at the end of each calendar quarter. Qualitative disclosures that typically do not change each quarter may be disclosed annually after the end of the fourth calendar quarter, provided that any significant changes are disclosed in the interim.

No other significant qualitative changes occurred for the third quarter of 2019 to be included within this disclosure as compared to the disclosures as of December 31, 2018.

Scope of Application

The disclosures herein relate to the Farm Credit Bank of Texas (FCBT or bank). The bank and its related associations are collectively referred to as the Farm Credit Bank of Texas and affiliated associations (Texas District). The bank has no subsidiaries; therefore the financial statements are only those of the bank and are not consolidated with any other entity.

Capital Structure

The following table provides a summary of the bank's capital structure at September 30, 2019:

(dollars in thousands)		Three-Month Average Daily Balance
Common equity tier 1 capital (CET1)		
Common cooperative equities:		
Purchased other required stock ≥7 years	$	**280,999**
Allocated stock ≥7 years		**36,042**
Other required member purchased stock		-
Allocated equities:		
Qualified allocated equities subject to retirement		**45,673**
Nonqualified allocated equities subject to retirement		-
Nonqualified allocated equities not subject to retirement		-
Unallocated retained earnings		**894,558**
Paid-in capital		-
Regulatory adjustments and deductions made to CET1		**(149,850)**
Total CET1	**$**	**1,107,422**
Additional tier 1 capital (AT1)		
Noncumulative perpetual preferred stock	**$**	**700,000**
Regulatory adjustments and deductions made to AT1 capital		**-**
Total AT1 capital		**700,000**
Total tier 1 capital	**$**	**1,807,422**
Tier 2 capital		
Common cooperative equities not included in CET1	**$**	**-**
Tier 2 capital elements (allowance for loan losses)		**14,278**
Regulatory adjustments and deductions made to Tier 2 capital		**-**
Total tier 2 capital (T2)	**$**	**14,278**
Total capital	**$**	**1,821,700**

Capital Adequacy and Capital Buffers

The bank's risk-adjusted regulatory capital ratios are calculated by dividing the relevant total capital elements by risk-weighted assets. The following table provides the bank's risk-weighted assets at September 30, 2019:

(dollars in thousands)		Three-Month Average Daily Balance
On-Balance Sheet Assets:		
Exposures to sovereign entities	$	-
Exposures to supranational entities and Multilateral Development Banks		-
Exposures to government-sponsored entities (direct notes to associations)		2,541,409
Exposures to depository institutions, foreign banks and credit unions		1,935
Exposures to public sector entities		-
Corporate exposures, including borrower loans and exposures to other financing institutions		6,131,040
Residential mortgage exposures		-
Past due and nonaccrual exposures		27,888
Securitization exposures		52,440
Exposures to other assets		983,198
Total Risk-Weighted Assets, On-Balance Sheet		9,737,910
Off-Balance Sheet:		
Letters of Credit		53,167
Commitments		1,478,799
Over-the-Counter Derivatives		1,014
Unsettled transactions		-
Cleared transactions		-
All other off-balance sheet exposures		2,064
Total Risk-Weighted Assets, Off-Balance Sheet		1,535,044
Total Risk-Weighted Assets Before Adjustments		**11,272,954**
Additions:		
Intra-System Equity Investments		149,850
Deductions:		
Regulatory Capital Deductions		(149,850)
Total Standardized Risk-Weighted Assets	**$**	**11,272,954**

Capital Conservation and Leverage Buffers

As of September 30, 2019, the bank was well-capitalized and exceeded all capital requirements to which it was subject, including applicable capital buffers. The bank's capital conservation buffer is the lowest of the calculated buffer listed in the table below at 5.32 percent. The bank's leverage buffer of 3.21 percent is equal to the tier 1 leverage ratio minus the minimum tier 1 leverage ratio requirement. Because the bank's conservation and leverage buffers exceed the minimum buffer requirements of 2.5 percent and 1 percent, respectively, the bank currently has no limitations on its distributions and discretionary bonus payments. The aggregate amount of eligible retained income was $33,827 as of September 30, 2019.

	Regulatory Minimums	Required Buffers	Ratios as of September 30, 2019	Calculated Buffers
Common equity tier 1 capital ratio*	4.5%	2.5%	9.82%	5.32%
Tier 1 capital ratio*	6.0%	2.5%	16.03%	10.03%
Total capital ratio*	8.0%	2.5%	16.16%	8.16%
Capital conservation buffer				5.32%
Tier 1 leverage ratio	4.0%	1.0%	7.21%	3.21%
Leverage buffer				3.21%

*Includes fully phased-in capital conservation buffers which will be effective January 1, 2020. There is no phase-in period for the tier 1 leverage ratio.

Credit Risk

System entities have specific lending authorities within their chartered territories. The bank is chartered to serve its associations in Texas, Alabama, Mississippi, Louisiana and most of New Mexico. Our chartered territory is referred to as the district. FCBT serves its chartered territory by lending to the district's Federal Land Credit Association (FLCA) and Agricultural Credit Associations (ACAs). The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired based on characteristics such as probability of default (PD) and loss given default (LGD). Allowance needs by geographic region are only considered in circumstances that may not otherwise be reflected in the PD and LGD such as flooding or drought. There was no allowance attributed to a geographic area as of September 30, 2019.

Refer to the Risk-Adjusted Asset table on page 51 for the bank's total and average loans, investment securities, off-balance-sheet commitments and OTC derivatives. The following table illustrates the bank's total exposure (including commitments) by loan type as of September 30, 2019.

	Total Exposure
Direct notes receivable from district associations	$ 16,363,952
Real estate mortgage	739,799
Production and intermediate term	1,144,287
Agribusiness	
Loans to cooperatives	810,041
Processing and marketing	3,982,831
Farm-related business	159,796
Communications	519,263
Energy (rural utilities)	1,833,544
Water and waste disposal	170,366
Mission-related	16,196
Leases	12,528
Loans to other financing institutions	76,000
Total	$ 25,828,603

The following table provides an overview of the remaining contractual maturity of the bank's credit risk portfolio categorized by exposure at September 30, 2019. The remaining contractual maturity for the bank's direct notes from associations is included in the loans line item based on the contractual terms of the underlying association retail loans. Unfunded commitments for direct notes from associations reflects the aggregate remaining amount that the associations can borrow from the bank and is included in the table within the due in one year or less column within the unfunded commitments line item.

(dollars in thousands)	Due in one year or less	Due after one year through five years	Due after five years	Total
Loans	$ 3,749,914	$ 8,252,658	$ 7,230,246	$ 19,232,818
Off-balance-sheet commitments				
Financial letters of credit	23,789	44,586	-	68,375
Performance letters of credit	2,672	5,804	-	8,476
Commercial letters of credit	1,509	27	-	1,536
Unfunded commitments	4,295,736	2,139,772	81,890	6,517,398
Investments	502,667	462,988	4,578,835	5,544,490
Derivatives (notional)	150,000	300,000	720,000	1,170,000
Total	**$ 8,726,287**	**$ 11,205,835**	**$ 12,610,971**	**$ 32,543,093**

The following table illustrates the bank's total exposure (including commitments) by geographic distribution based on the headquarters location of the underlying retail loans for the bank and affiliated associations as of September 30, 2019:

State	Percentage
Texas	49 %
Mississippi	6
Alabama	6
Louisiana	3
California	3
All other states	33
	100 %

Refer to Note 3 of the accompanying financial statements for amounts of impaired loans with or with no related allowance, loans in nonaccrual status and greater than 90 days past due, loans past due greater than 90 days and still accruing, the allowance at the end of each reporting period, charge-offs during the period, and changes in components of our allowance for credit losses.

Counterparty Credit Risk and Credit Risk Mitigation

The table below shows derivatives by underlying exposure type, segregated between interest rate caps and pay fixed swaps, both of which are traded in over-the-counter markets as of September 30, 2019.

	Notional	Gross Positive Fair Values
Interest rate caps	$ 195,000	$ 82
Pay fixed swaps	825,000	650
Pay floating swaps	150,000	134
Total Derivatives	**$ 1,170,000**	**$ 866**

The following table provides the total exposure covered by guarantees/credit derivatives for each separately disclosed credit risk portfolio and the risk-weighted asset amount associated with that exposure. The bank did not hold eligible financial collateral for its loan, investment and derivative portfolios at September 30, 2019.

Government Guaranteed Asset Type (dollars in thousands)	90-Day Average Balance	Risk Weighting	Risk-Weighted Amount
Investments	$ 3,207,853	0%	$ -
Loans	2,285	0%	-
Total	$ 3,210,138		$ -

Securitization

The bank currently only participates in credit-related securitizations as investors through the purchase of asset-backed securities (ABS) as included in its investment portfolio. The bank also holds securitization exposures through the purchase of U.S. government and agency guaranteed securities. The bank has not transferred any exposures that it has originated or purchased from a third party in connection with a securitization of assets as of September 30, 2019, nor does it have any outstanding exposures that it intends to be securitized as of September 30, 2019. As of September 30, 2019, the bank did not retain any credit-related re-securitization exposures.

Below is an overview of our purchased securitization exposures held as of September 30, 2019, by exposure type and categorized by risk-weighting band and risk-based capital approach. As of September 30, 2019, the bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital.

Description of Securitization	Risk-Based Capital Approach	Exposure Amount (dollars in thousands)	Risk Weighted
Agency MBS:			
GNMA	Standardized Risk Weight	$ 2,376,430	0%
FNMA and FHLMC	Standardized Risk Weight	2,054,900	20%
Total Agency MBS		$ 4,431,330	
Asset-backed securities:			
Small Business Administration	Standardized Risk Weight	$ 128,879	0%
Asset-backed securities	Gross-up	44,107	20%-100%
Total Asset-backed securities		$ 172,986	

Equities

The bank is a limited partner in certain Rural Business Investment Companies (RBICs) for various relationship and strategic reasons. These RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. These investments are accounted for under the equity method, as the bank is considered to have significant influence. These investments are not publicly traded, and the book value approximates fair value. The bank had no unrealized gains or losses not recognized either on the balance sheet or through earnings.

As of September 30, 2019 (dollars in thousands)	Disclosed in Other Assets	Life-to-Date Losses Recognized in Retained Earnings*
RBICs	$ 14,757	$ (3,767)

*Retained earnings is included in common equity tier 1 and total capital ratios

Interest Rate Risk

The following tables set forth the bank's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy, based on the bank's interest-earning assets and interest-bearing liabilities at September 30, 2019:

Basis points:	-91	+100	+200
Change in net interest income	11.48%	2.73%	3.58%
Change in market value of equity	(0.22%)	(4.03%)	(12.41%)

*When the 3-month Treasury bill is below 4.00 percent, the shock-down 200 scenario is replaced with a shock-down equal to half of the 3-month Treasury bill. The bank measures interest rate risk on a quarterly basis.

For interest rate risk management, the $700.0 million noncumulative perpetual preferred stock is included in liabilities.