2020 First Quarter Report

MARCH 31, 2020

FARM CREDIT BANK OF TEXAS

First Quarter 2020 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 months ended March 31, 2020. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2019 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 March 31, 2020, 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.

CONDITIONS IN THE TEXAS DISTRICT

The United States has been operating under a presidentially declared emergency since March 13, 2020 due to the Coronavirus Disease 2019 (also referred to as COVID-19). The bank continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Loan volume increased as borrowers at both the affiliated associations and within the bank's capital markets portfolio increased their liquidity and cash positions. In response, the bank increased its cash position to accommodate the potential liquidity needs of those borrowers in case of any market disruptions. The bank was able to maintain access to the debt market to redeem and replace callable debt, fund incremental needs and increase liquidity without significant changes to its funding strategies or interest rate risk profiles. The marketability of the liquidity investment portfolio remained active and prices indicative of the marketplace. In addition, the portfolio primarily consists of federal agency-guaranteed collateralized mortgage-backed securities, agency-guaranteed debt and U.S. Treasury securities. Thus, no credit losses were recognized during the first quarter of 2020. Through March 31, 2020 and the date of this report, there have been no observable delinquencies or credit metrics impacting the credit quality of the bank's loan portfolio related to COVID-19. The bank is closely monitoring its loan portfolio overall and is particularly focused on sectors that may be pressured by COVID-19 and its related economic impacts, such as oil and gas, food processing, timber and beef cattle. The bank has adjusted its portfolio monitoring and servicing practices and, if appropriate, will evaluate its allowance for loan losses as changes in outlook occur. Capital levels remained strong to support any adversity or continuing loan demand.

Operationally, the bank continues to function as normal during these challenging times. The bank has witnessed the benefits of past and current technology initiatives which allow both bank and association personnel to work remotely and support both their families and their customer base. As a service provider to its affiliated associations, the bank has facilitated technology and operational changes to provide relief to association borrowers affected by COVID-19 in the form of extending the terms of loan repayments, easing some loan documentation requirements and facilitating participation in the SBA Paycheck Protection Program (PPP). As it relates to the bank's internal controls over financial reporting and disclosure controls and procedures, the controls and procedures continue to operate effectively and no material changes to the controls or financial systems have occurred or are contemplated.

The overall impact of COVID-19 is evolving rapidly, and future events are uncertain. Challenging economic conditions are likely ahead, however, as COVID-19 has caused many countries, including the U.S., to impose restrictions on travel and public gatherings. It is too early to accurately assess the potential impact of COVID-19 on the global, U.S. and district economies. The bank will continue to closely monitor the situation in the coming quarters.

Given the loan portfolio of the bank and district's connection to the performance of the general economy, the bank evaluated these indicators for the first quarter and will continue to keep abreast of information that may impact future performance. The U.S. Bureau of Labor Statistics reported on April 3, 2020, that total nonfarm payroll employment fell by 701,000 in March 2020, and the unemployment rate rose to 4.4% in March 2020 from 3.5% in February 2020. Most of the employment loss was attributable to the leisure and hospitality industries, which have been negatively impacted by COVID-19. The most recent unemployment rates in the district, reported as of February 2020, range from a low of 2.7% in Alabama to a high of 5.4% in Mississippi. In terms of economic activity, U.S. real GDP increased at an annual rate of 2.3% during 2019. Several district states' economies grew at an above-average pace compared to the rest of the country, with Texas reporting a 4.4% annual increase in activity.

West Texas Intermediate oil prices closed March 2020 at about $20 per barrel, down from about $62 per barrel in December 2019. Oil prices were negatively impacted during the first quarter of 2020 by reductions in global demand due to COVID-19 and increasing supply, as a production-limiting agreement between OPEC and other global oil exporters, including Russia, collapsed in March 2020. According to the March 2020 Short Term Energy Outlook released by the U.S. Energy Information Administration, the West Texas Intermediate oil price is projected to average about $38 per barrel during 2020. Respondents to the Federal Reserve Bank of Dallas Energy Survey indicated in March 2020 that they could profitably drill a new well in the Permian Basin with oil prices at about $49 per barrel, on average. Consequently, activity in the oil and gas sector is likely to decline substantially if oil prices remain under significant pressure.

The U.S. Secretary of Agriculture announced in March 2020 that China has continued its progress toward meeting its agriculture-related commitments under the U.S.-China Phase One Trade Agreement. During the first quarter of 2020, the U.S.-Mexico-Canada Agreement (USMCA) was signed into law by the U.S. government and approved by the Canadian Parliament. According to the U.S. Secretary of Agriculture, Canada and Mexico are the two largest export markets for U.S. food and agricultural products.

In its March 2020 World Agricultural Supply and Demand Estimate (WASDE) report, the U.S. Department of Agriculture (USDA) lowered the 2019/20 expected season-average prices for several crops, including corn, soybeans and cotton. Similarly, near-term price expectations for other commodities, such as hogs and pork, were adjusted downward. USDA expects live cattle prices to average slightly lower in 2020 than reported in 2019. Milk prices are also anticipated to decline in 2020 after rising by more than 10% during the previous year. While consumer demand for food products has generally been high during the early weeks of the COVID-19 outbreak in the U.S. and abroad, stay-at-home orders and other macroeconomic forces are disrupting typical purchasing patterns. This has caused volatility in agricultural commodity markets and could lead to challenges for food processing companies and material revisions in USDA forecasts in the coming months.

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.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended March 31, 2020, was $50.5 million, an increase of $5.8 million, or 13.09%, over the same period of 2019. The increase in net income was primarily driven by a $7.6 million increase in net interest income, a $718 increase in noninterest income and a $555 decrease in provision for credit losses, offset by a $3.0 million increase in noninterest expense.

Net Interest Income

Net interest income for the three months ended March 31, 2020, was $71.5 million, an increase of $7.6 million, or 11.89%, from the three months ended March 31, 2019. The increase in net interest income was attributable to a $1.19 billion increase in the bank's average earning assets and a 10-basis-point increase in the net interest rate spread from 91 basis points to 101 basis points. The increased spread is due to a 32-basis-point decrease in the average rate of debt, as compared to a 22-basis-point decrease in the rate on earning assets. The net interest margin of 114 basis points for the three months ended March 31, 2020, was 7 basis points higher than the three months ended March 31, 2019.

During the three months ended March 31, 2020, the bank called $6.48 billion in debt and recognized $7.3 million in concession expense. During the first quarter of 2019, the bank called $765.0 million in debt and recognized $1.6 million in concession expense. The year-over-year increase in callable debt redemptions reflects the substantial downward move in interest rates across the yield curve that occurred throughout the first quarter of 2020. During this period, the bank maintained sufficient market access to redeem and replace callable debt, fund incremental needs, and increase liquidity without significant changes to funding strategies or interest rate risk profiles. This occurred through increased coordination at the System level that began during the month of March as market volatility and disruption resulting from the COVID-19 pandemic impacted the capital markets.

Provision for Credit Losses

The loan loss reversal for the three months ended March 31, 2020, totaled $295, a decrease of $555 from the $260 provision for credit losses recorded for the same period of 2019. The decrease is primarily due to a reduction of general reserves on loans as of March 31, 2020, compared with the same period of 2019.

Noninterest Income

Noninterest income for the three months ended March 31, 2020, was $10.0 million, an increase of $718, or 7.71%, over the same period of 2019. The increase was due mainly to a $1.1 million increase in fees for loan-related services and a $1.0 million increase in other income due to the sale of loans, offset by a $1.1 million decrease in patronage income.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2020, was $31.3 million, an increase of $3.0 million, or 10.70%, over the same period of 2019. The increase primarily consisted of a $1.6 million increase in salaries and employee benefits and a $1.2 million increase in other occupancy and equipment expenses.

Key results of operations comparisons:

	Annualized for the Three Months Ended March 31, 2020	Annualized for the Three Months Ended March 31, 2019
Return on average assets	**0.73%**	0.70%
Return on average shareholders' equity	**10.06%**	9.53%
Net interest income as a percentage of average earning assets	**1.14%**	1.07%
Charge-offs, net of recoveries to average loans	**0.00%**	0.00%
Operating expenses as a percentage of net interest income and noninterest income	**38.43%**	38.66%
Operating expenses as a percentage of average earning assets	**0.50%**	0.48%

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, however, have not yet been recognized in earnings. On 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:

	Three Months Ended March 31,	
	2020	2019
Change in unrealized gains on available-for-sale securities		
Net increase in unrealized gains on investment securities	**$ 53,963**	$ 28,497
Net change in unrealized gains on investment securities	**53,963**	28,497
Change in postretirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(19)**	(19)
Net change in postretirement benefit plans	**(19)**	(19)
Change in cash flow derivative instruments		
Unrealized losses on cash flow derivative instruments	**(68,207)**	(17,894)
Reclassification of losses (gains) recognized in interest expense	**1,665**	(105)
Net change in cash flow derivative instruments	**(66,542)**	(17,999)
Other comprehensive (loss) income	**$ (12,598)**	$ 10,479

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at March 31, 2020, was $20.30 billion, an increase of $798.6 million, or 4.10%, compared to $19.50 billion at December 31, 2019. 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 growth in volume for loan participations resulted from borrowers increasing their liquidity and cash positions as a result of the unknown impact of the COVID-19 virus.

The bank's capital markets loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. 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% of the par value of the loans purchased, and the associations purchased bank stock equal to 8.0% of the purchased loans' par value and 1.6% of the AMBS' par value. During the first quarter 2020, the bank purchased $10.2 million in loan participations from an association, which resulted in a net stock issuance of $610. CPP loans held at March 31, 2020, totaled $124.1 million and were included in loans on the balance sheet. The balance of the AMBS CPP was $26.4 million at March 31, 2020, and was 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 the transactions, the bank redeemed common stock in the amount of 2.0% of the par value of the loans purchased. There were no NCPP loan purchases for the three months ended March 31, 2020. The NCPP loans' balance was $139.2 million at March 31, 2020, and was included in loans on the balance sheet.

Loans classified under the Farm Credit Administration's Uniform Loan Classification System as either acceptable or other assets especially mentioned were 99.6% and 99.5% of total loans and accrued interest at March 31, 2020, and December 31, 2019, respectively.

The table below summarizes the balances of the bank's nonperforming assets at March 31, 2020, compared to the balances at December 31, 2019:

			Change	
	March 31, 2020	December 31, 2019	$	%
Nonaccrual loans	**$ 16,967**	$ 16,765	$ 202	1.20 %
Accruing loans past due 90 days or more	**-**	229	(229)	(100.00)
Accruing formally restructured loans	**2,486**	2,450	36	1.47
Total nonperforming assets	**$ 19,453**	$ 19,444	$ 9	0.05 %

At March 31, 2020, and December 31, 2019, the bank did not have any nonaccrual loans with cash payments 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% of gross loans at March 31, 2020, and December 31, 2019.

At March 31, 2020, the bank had reserves for credit losses totaling $13,002 with an allowance for loan losses of $11,176 and a reserve for credit losses on unfunded commitments of $1,826 related to the bank's capital markets loan portfolio. The allowance for loan losses of $11,176 equated to 0.1% of total loans outstanding and 0.2% of capital market loans outstanding. The $1,826 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 indicated that an allowance on the association direct notes was not warranted. Therefore, the entire balance of the allowance and reserve for credit losses reflected reserves for risks identified in the bank's participation loans.

The allowance for loan losses as a percentage of impaired loans was 57.45% as of March 31, 2020, as compared to 59.08% as of December 31, 2019. At this time, the impact of COVID-19 on the credit quality of the bank's loan portfolio is unknown but closely being monitored.

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 $7.06 billion, or 25.36%, of total assets at March 31, 2020, compared to $5.72 billion, or 22.28%, at December 31, 2019. At March 31, 2020, the bank's cash balance was $1.22 billion, of which $1.21 billion was held at the Federal Reserve Bank. The bank's cash position increased in March to accommodate potential liquidity needs of borrowers as a result of the unknown impact of the COVID-19 virus.

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 March 31, 2020, the bank exceeded all applicable regulatory liquidity requirements and had 240 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 March 31, 2020, 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 $26.5 million at March 31, 2020, and consisted of Farmer Mac 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:

	March 31, 2020		December 31, 2019	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 133,539**	**$ 134,433**	$ 139,016	$ 138,933
Corporate debt	**431,173**	**427,900**	454,963	457,045
Federal agency collateralized mortgage-backed securities:				
GNMA	**2,182,000**	**2,217,501**	2,165,953	2,170,985
FNMA and FHLMC	**2,219,052**	**2,242,324**	2,139,207	2,136,020
U.S. Treasury securities	**325,850**	**327,122**	200,088	200,114
Asset-backed securities	**165,360**	**165,147**	162,837	162,995
Total liquidity investments	**$ 5,456,974**	**$ 5,514,427**	$ 5,262,064	$ 5,266,092

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

	March 31, 2020		December 31, 2019	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	**$ 26,747**	**$ 26,470**	$ 29,867	$ 29,051

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 March 31, 2020, the bank had no investments which were ineligible for liquidity purposes.

Capital Resources

At March 31, 2020, the bank's capital totaled $1,872,300, and consisted of $700,000 of Class B noncumulative subordinated perpetual preferred stock, $334,580 of capital stock, $901,949 of retained earnings and $64,229 of accumulated other comprehensive loss. The capital balance reflected an increase of $28,117 from December 31, 2019, due primarily to net income of $50,463, offset by a $12,598 increase in other comprehensive losses, $6,613 in preferred stock dividends accrued, $2,453 in patronage distributions and $682 in net stock retired. The balance in accumulated other comprehensive loss of $64,229 resulted from $120,584 in unrealized losses on cash flow derivative instruments and $820 in accumulated amortization of other postretirement benefits, offset by unrealized gains on investments of $57,175. The decrease in interest rates for the first three months of 2020 increased the fair value of the liquidity investments but lowered the valuation of the cash flow derivative instruments.

FCA regulations require the bank to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of March 31, 2020, the bank exceeded all regulatory capital requirements.

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

	March 31, 2020	December 31, 2019	Total Regulatory Requirement
Common equity tier 1 ratio	**9.27%**	9.91%	7.00%
Tier 1 capital ratio	**15.32**	16.01	8.50
Total capital ratio	**15.44**	16.12	10.50
Permanent capital ratio	**15.34**	16.03	7.00
Tier 1 leverage ratio	**6.87**	7.26	5.00
UREE leverage ratio	**2.65**	3.06	1.50

As of March 31, 2020, the bank exceeded all regulatory capital requirements.

RATING AGENCY ACTIONS

Fitch Ratings Actions

On March 27, 2020, Fitch Ratings affirmed the bank's long-term and short-term issuer default ratings (IDRs) at "AA-" and "F1+," respectively, with a stable outlook. Due to the application of its updated bank rating criteria, Fitch upgraded the bank's noncumulative perpetual preferred stock rating at "BBB+" and affirmed 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 reflects 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 notching reflecting and the debt's relative positions in the bank's capital structure. The bank's 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 March 31, 2020, there were no district associations under written agreements with the Farm Credit Administration.

On February 13, 2020, the Farm Credit Administration board adopted a proposed rule that would amend parts 614, 615, 620, and 628 of FCA's regulations. FCA's objectives in proposing this rule are as follows:

- To provide technical corrections, amendments, and clarification to certain provisions in FCA's tier 1/tier 2 capital framework for the Farm Credit System (System);

- To incorporate, with appropriate adjustments, the guidance provided in FCA bookletter Tier 1/Tier 2 Capital Framework Guidance (BL-068) (Word);
- To ensure that FCA's capital requirements continue to be comparable to the standardized approach that the other federal banking regulatory agencies have adopted;
- To base the lending and leasing limit on tier 1/tier 2 capital instead of permanent capital, and to align the treatment of investments related to loan participations with their treatment in the tier 1/tier 2 capital framework; and
- To reduce regulatory burden where appropriate.

On April 9, 2020, the Farm Credit Administration voted to delay publication of the proposed rule until at least June 8, 2020.

On February 13, 2020, the Farm Credit Administration approved a final rule to amend accounting classifications for high-risk loans and the criteria for reinstating nonaccrual loans held by Farm Credit System banks and associations. This rulemaking finalizes the proposed rule that was published on April 3, 2019. The final rule reflects changes based on public comments received during the open comment period for the proposed rule. The final rule differs from the proposed rule in three respects:

- Adjusts three definitions in §§ 621.2 to more closely resemble the terminology of the Financial Institutions Examination Council;
- Removes consideration of charge-offs when reinstating a nonaccrual loan under § 621.9 and aligns the categories for high-risk loans in § 621.6 with changes to § 621.9 regarding charge-offs; and
- Limits regulatory text on troubled debt restructuring to GAAP requirements.

On April 9, 2020, the Farm Credit Administration voted to delay publication of the final rule until at least June 8, 2020.

On February 13, 2020, the Farm Credit Administration board approved a final rule to modify eligibility criteria that outside directors must meet to serve on the boards of System institutions. The final rule strengthens the independence of System institution boards by expanding the list of persons who are excluded from serving as outside directors. It finalizes a proposed rule that was published in the Federal Register on August 24, 2018. The final rule differs from the proposed rule in the following respects:

- Limits the application of the immediate family member criteria to only the outside director's institution, that institution's Funding Bank, or any affiliated organization in which that institution has an ownership interest;
- Changes the term "borrower" by inserting the word "current" in the definition to clarify that the eligibility criteria do not include former borrowers; and
- Changes the definition of "controlling interest" to increase the equity percentage from 5% to 10%.

On April 9, 2020, the Farm Credit Administration voted to delay publication of the final rule until at least June 8, 2020.

On March 17, 2020, the Farm Credit Administration published a news release encouraging Farm Credit System institutions to work with System borrowers whose operations have been affected by COVID-19 and the measures taken to prevent its spread. System institutions can help alleviate stress for borrowers affected by COVID-19 in several ways:

- Extending the terms of loan repayments;
- Restructuring borrowers' debt obligations; and
- Easing some loan documentation or credit-extension terms for new loans to certain borrowers.

The agency also offered temporary relief from certain regulatory and reporting requirements to System institutions affected by the pandemic.

On March 27, 2020, the Farm Credit Administration posted an Informational Memorandum providing guidance to Farm Credit System institutions about their role in ensuring critical infrastructure services and functions during the COVID-19 pandemic.

Report of Management

The undersigned certify that we have reviewed the March 31, 2020, 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

May 8, 2020

Controls and Procedures

As of March 31, 2020, 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 quarterly information statement 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 March 31, 2020, 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

May 8, 2020

(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

May 8, 2020

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

May 8, 2020

Balance Sheets

(dollars in thousands)	March 31, 2020 (Unaudited)	December 31, 2019
Assets		
Cash	**$ 1,222,890**	$ 47,606
Federal funds sold and overnight investments	**298,828**	374,344
Investment securities	**5,540,897**	5,295,143
Loans	**20,296,912**	19,498,293
Less allowance for loan losses	**11,176**	11,487
Net loans	**20,285,736**	19,486,806
Accrued interest receivable	**79,674**	79,901
Premises and equipment, net	**117,351**	108,857
Other assets	**299,973**	271,159
Total assets	**$ 27,845,349**	$ 25,663,816
Liabilities and Shareholders' Equity		
Liabilities		
Bonds and notes, net	**$ 25,661,907**	$ 23,473,906
Accrued interest payable	**70,694**	84,661
Reserve for credit losses	**1,826**	1,809
Preferred stock dividends payable	**21,613**	21,613
Patronage payable	**-**	33,609
Other liabilities	**217,009**	204,035
Total liabilities	**$ 25,973,049**	$ 23,819,633
Commitments and Contingencies (Note 5)		
Shareholders' Equity		
Preferred stock	**700,000**	700,000
Capital stock	**334,580**	335,262
Allocated retained earnings	**52,452**	52,451
Unallocated retained earnings	**849,497**	808,101
Accumulated other comprehensive loss	**(64,229)**	(51,631)
Total shareholders' equity	**1,872,300**	1,844,183
Total liabilities and shareholders' equity	**$ 27,845,349**	$ 25,663,816

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended March 31, 2020	2019
Interest Income		
Loans	**$ 164,677**	$ 158,387
Investment securities	**29,555**	38,210
Total interest income	**194,232**	196,597
Interest Expense		
Bonds and notes	**122,779**	132,739
Net interest income	**71,453**	63,858
(Loan loss reversal) provision for credit losses	**(295)**	260
Net interest income after (loan loss reversal) provision for credit losses	**71,748**	63,598
Noninterest Income		
Patronage income	**2,731**	3,865
Fees for services to associations	**1,260**	1,482
Fees for loan-related services	**2,741**	1,610
Refunds from Farm Credit System Insurance Corporation	**2,380**	2,507
Loss on loans held under fair value option	**-**	(6)
Other income (loss), net	**914**	(150)
Total noninterest income	**10,026**	9,308
Noninterest Expense		
Salaries and employee benefits	**11,835**	10,207
Occupancy and equipment	**7,249**	6,024
FCSIC premiums	**1,739**	1,968
Other components of net periodic postretirement benefit cost	**85**	110
Other operating expenses	**10,403**	9,976
Total noninterest expense	**31,311**	28,285
Net Income	**50,463**	44,621
Other comprehensive (loss) income		
Change in unrealized gain on investments	**53,963**	28,497
Change in postretirement benefit plans	**(19)**	(19)
Change in cash flow derivative instruments	**(66,542)**	(17,999)
Total other comprehensive (loss) income	**(12,598)**	10,479
Comprehensive Income	**$ 37,865**	$ 55,100

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

Statements 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, 2018	$ 700,000	$ 316,463	$ 45,685	$ 796,478	$ (81,693)	$ 1,776,933
Net income	-	-	-	44,621	-	44,621
Other comprehensive income	-	-	-	-	10,479	10,479
Issuance costs on preferred stock	-	-	-	(3)	-	(3)
Preferred stock dividends	-	-	-	(6,612)	-	(6,612)
Patronage distributions						
Cash	-	-	-	(2,367)	-	(2,367)
Shareholders' equity	-	-	(12)	12	-	-
Balance at March 31, 2019	$ 700,000	$ 316,463	$ 45,673	$ 832,129	$ (71,214)	$ 1,823,051
Balance at December 31, 2019	**$ 700,000**	**$ 335,262**	**$ 52,451**	**$ 808,101**	**$ (51,631)**	**$ 1,844,183**
Net income	**-**	**-**	**-**	**50,463**	**-**	**50,463**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(12,598)**	**(12,598)**
Capital stock and allocated retained earnings issued	**-**	**813**	**-**	**-**	**-**	**813**
Capital stock and allocated retained earnings retired	**-**	**(1,495)**	**-**	**-**	**-**	**(1,495)**
Preferred stock dividends	**-**	**-**	**-**	**(6,613)**	**-**	**(6,613)**
Patronage distributions						
Cash	**-**	**-**	**-**	**(2,453)**	**-**	**(2,453)**
Shareholders' equity	**-**	**-**	**1**	**(1)**	**-**	**-**
Balance at March 31, 2020	**$ 700,000**	**$ 334,580**	**$ 52,452**	**$ 849,497**	**$ (64,229)**	**$ 1,872,300**

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

Statements of Cash Flows

(unaudited)

	Three Months Ended March 31,	
(dollars in thousands)	**2020**	2019
Cash Flows From Operating Activities		
Net income	**$ 50,463**	$ 44,621
Reconciliation of net income to net cash provided by operating activities		
(Loan loss reversal) provision for credit losses	**(295)**	260
Depreciation and amortization on premises and equipment	**2,768**	2,123
Discount accretion (premium amortization) on loans	**250**	185
Amortization and accretion on debt instruments	**15,149**	11,034
Premium amortization (discount accretion) on investments	**1,855**	(539)
Decrease in fair value of loans held under fair value option	**-**	6
Gain on sale of loans	**(679)**	-
Allocated equity patronage from System bank	**(2,745)**	(7,231)
Loss on other earning assets	**205**	385
(Gain) loss on sales of premises and equipment	**(10)**	1
Decrease (increase) in accrued interest receivable	**227**	(5,225)
Decrease (increase) in other assets, net	**21,597**	25,360
Decrease (increase) in accrued interest payable	**(13,967)**	5,829
(Decrease) increase in other liabilities, net	**(22,599)**	(22,758)
Net cash provided by operating activities	**52,219**	54,051
Cash Flows From Investing Activities		
Net (increase) decrease in federal funds sold and repurchase agreements	**75,516**	154,173
Investment securities		
Purchases	**(671,694)**	(247,891)
Proceeds from maturities, calls and prepayments	**478,048**	287,591
Increase in loans, net	**(842,143)**	(445,211)
Proceeds from sales of loans	**13,807**	-
Proceeds from sales of premises and equipment	**78**	11
Expenditures for premises and equipment	**(11,330)**	(9,858)
Investments/distributions in other earning assets	**269**	(1,086)
Net cash used in investing activities	**(957,449)**	(262,271)
Cash Flows From Financing Activities		
Bonds and notes issued	**14,000,217**	4,974,681
Bonds and notes retired	**(11,827,365)**	(4,830,030)
Increase in cash collateral posted with a counterparty	**(48,981)**	(2,471)
Issuance costs on preferred stock	**-**	(3)
Capital stock issued	**813**	-
Capital stock retired and allocated retained earnings distributed	**(1,495)**	-
Cash dividends on preferred stock	**(6,613)**	(6,612)
Cash patronage distributions paid	**(36,062)**	(31,928)
Net cash provided by financing activities	**2,080,514**	103,637
Net increase (decrease) in cash	**1,175,284**	(104,583)
Cash at beginning of year	**47,606**	129,478
Cash at End of Quarter	**$ 1,222,890**	$ 24,895
Supplemental Schedule of Noncash Investing and Financing Activities		
Net increase (decrease) in unrealized gains on investment securities	**$ 53,963**	$ 28,497
Preferred stock dividend payable	**21,613**	21,613
Patronage distribution stock adjustment	**1**	(12)
Right-of-use asset recognized in exchange for operating lease liabilities	**432**	10,939
Supplemental schedule of noncash increase in bonds and notes related to hedging activities	**$ 1,121**	$ -
Supplemental information		
Interest paid	**$ 136,746**	$ 126,910

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 unaudited financial statements include the accounts of the Farm Credit Bank of Texas (bank). A description of the organization and operations of the 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, 2019, are contained in the 2019 Annual Report to shareholders (Annual Report). These unaudited first quarter 2020 financial statements should be read in conjunction with the Annual Report.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of the financial statements in accordance with generally accepted accounting principles in the U.S. (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2020. Descriptions of the significant accounting policies are included in the Annual Report. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

The accompanying unaudited financial statements have been prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2019, as contained in the Annual Report.

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 March 31, 2020, the bank provided financing to 14 district associations and certain other financing institutions.

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. With respect to hedge accounting, the guidance allows amendment of formal designation and documentation of hedging relationships in certain circumstances as a result of reference rate reform and provides additional expedients for different types of hedges, if certain criteria are met. The optional amendments can be applied up until December 31, 2022. 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 became 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. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the bank's financial condition or 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 adoption of this guidance will not impact the bank's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

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 became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The bank early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the bank's financial condition or its results of operations, but did impact the fair value measurement disclosures.

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 was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The bank qualifies for the delay in the adoption date and continues to evaluate the impact of adoption on the bank's financial condition and its results of operations.

NOTE 2 — INVESTMENT SECURITIES

Available-for-Sale Investments

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 majority of 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.

A summary of the amortized cost and fair value of the available-for-sale investment securities at March 31, 2020, and December 31, 2019, is included in the following tables.

Investments in the available-for-sale liquidity portfolio at March 31, 2020:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	**$ 133,539**	**$ 1,586**	**$ (692)**	**$ 134,433**	**1.97** %
Corporate debt	**431,173**	**1,225**	**(4,498)**	**427,900**	**2.14**
Federal agency collateralized mortgage-backed securities:					
GNMA	**2,182,000**	**41,329**	**(5,828)**	**2,217,501**	**2.22**
FNMA and FHLMC	**2,219,052**	**32,673**	**(9,401)**	**2,242,324**	**1.78**
U.S. Treasury securities	**325,850**	**1,272**	**-**	**327,122**	**1.36**
Asset-backed securities	**165,360**	**319**	**(532)**	**165,147**	**1.07**
Total liquidity investments	**$5,456,974**	**$ 78,404**	**$ (20,951)**	**$ 5,514,427**	**1.94** %

Investments in the available-for-sale other investments portfolio at March 31, 2020:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	**$ 26,747**	**$ -**	**$ (277)**	**$ 26,470**	**4.88 %**

Investments in the available-for-sale liquidity portfolio at December 31, 2019:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	$ 139,016	$ 480	$ (563)	$ 138,933	2.06 %
Corporate debt	454,963	2,122	(40)	457,045	2.34
Federal agency collateralized mortgage-backed securities:					
GNMA	2,165,953	14,236	(9,204)	2,170,985	2.40
FNMA and FHLMC	2,139,207	5,898	(9,085)	2,136,020	2.12
U.S. Treasury securities	200,088	43	(17)	200,114	1.79
Asset-backed securities	162,837	367	(209)	162,995	2.29
Total liquidity investments	$ 5,262,064	$ 23,146	$ (19,118)	$ 5,266,092	2.25 %

Investments in the available-for-sale other investments portfolio at December 31, 2019:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	$ 29,867	$ -	$ (816)	$ 29,051	4.96 %

The following tables summarize the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale liquidity investments at March 31, 2020.

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	$ -	$ 66,607	$ 67,826	$ -	$ 134,433
Corporate debt	177,436	250,464	-	-	427,900
Federal agency collateralized mortgage-backed securities:					
GNMA	-	-	95,483	2,122,018	2,217,501
FNMA and FHLMC	3,373	89,429	642,927	1,506,595	2,242,324
U.S. Treasury securities	327,122	-	-	-	327,122
Asset-backed securities	5,367	26,598	52,618	80,564	165,147
Total fair value	$ 513,298	$ 433,098	$ 858,854	$ 3,709,177	$ 5,514,427
Total amortized cost	$ 513,648	$ 435,050	$ 846,606	$ 3,661,670	$ 5,456,974
Weighted average yield	1.62%	1.98%	1.83%	2.01%	1.94%

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	$ 10,818	$ 15,652	$ 26,470
Total amortized cost	$ 10,885	$ 15,862	$ 26,747
Weighted average yield	4.74%	4.98%	4.88%

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	$ 22,187	$ (479)	$ 11,397	$ (213)	$ 33,584	$ (692)
Corporate debt	281,731	(4,498)	-	-	281,731	(4,498)
Federal agency collateralized mortgage-backed securities:						
GNMA	286,487	(1,261)	373,601	(4,567)	660,088	(5,828)
FNMA and FHLMC	479,634	(3,475)	499,658	(5,926)	979,292	(9,401)
U.S. Treasury securities	-	-	-	-	-	-
Asset-backed securities	51,608	(532)	-	-	51,608	(532)
Total	$ 1,121,647	$ (10,245)	$ 884,656	$ (10,706)	$ 2,006,303	$ (20,951)

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 months ended March 31, 2020 and 2019, the bank did not recognize any OTTI credit losses and no securities were identified as OTTI at March 31, 2020, and 2019.

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:

	March 31, 2020	December 31, 2019
Direct notes receivable from district associations and OFIs	**$ 13,305,276**	$ 12,976,399
Participations purchased	**6,991,636**	6,521,665
Other bank-owned loans	**-**	229
Total loans	**$ 20,296,912**	$ 19,498,293

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

	March 31, 2020	December 31, 2019
Direct notes receivable from district associations	**$ 13,262,488**	$ 12,935,229
Real estate mortgage	**818,347**	742,630
Production and intermediate term	**748,307**	744,869
Agribusiness		
Loans to cooperatives	**468,566**	354,303
Processing and marketing	**2,930,507**	2,956,140
Farm-related business	**147,708**	70,383
Communications	**609,063**	455,696
Energy (rural utilities)	**1,100,214**	1,057,739
Water and waste disposal	**152,637**	111,830
Rural residential real estate	**2,092**	-
Lease receivables	**11,772**	12,109
Loans to OFIs	**42,788**	41,170
Mission-related	**2,423**	16,195
Total loans	**$ 20,296,912**	$ 19,498,293

The bank's capital markets loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. 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 March 31, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,050,764	$ 371,708	$ 41,903	$ -	$ 1,092,667	$ 371,708
Production and intermediate term	1,444,052	775,666	30,024	1,000	1,474,076	776,666
Agribusiness	2,521,470	1,119,661	-	-	2,521,470	1,119,661
Communications	790,160	180,734	-	-	790,160	180,734
Energy (rural utilities)	1,252,818	152,270	-	-	1,252,818	152,270
Water and waste disposal	170,770	18,000	-	-	170,770	18,000
Rural residential real estate	6,378	-			6,378	-
Lease receivables	13,450	1,690	-	-	13,450	1,690
Mission-related	2,411	-	-	-	2,411	-
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Total	**$ 7,252,273**	**$ 6,469,729**	**$ 71,927**	**$ 1,000**	**$ 7,324,200**	**$ 6,470,729**

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% of the par value of the loans purchased, and the associations bought bank stock equal to 8.0% of the purchased loans' par value and 1.6% of the AMBS's par value. During first quarter 2020, the bank purchased $10.2 million in loan participations from an association, which resulted in a net stock issuance of $610. CPP loans held at March 31, 2020, totaled $124.1 million and were included in loans on the balance sheet. The balance of the AMBS CPP was $26.4 million at March 31, 2020 and was 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 the transactions, the bank redeems common stock in the amount of 2.0% of the par value of the loans purchased. There were no NCPP loan purchases for the three months ended March 31, 2020. The NCPP loans' balance was $139.2 million at March 31, 2020 and was included in loans on the balance sheet.

The bank held loans under the fair value option that matured during the second quarter of 2019 and thus had no balance to reflect at March 31, 2020 or December 31, 2019, respectively.

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

	March 31, 2020	December 31, 2019
Nonaccrual loans:		
Energy & water/waste disposal	**$ 9,968**	$ 9,207
Agribusiness	**6,092**	6,866
Real estate mortgage	**905**	692
Total nonaccrual loans	**16,965**	16,765
Accruing loans past due 90 days or more:		
Real estate mortgage	**-**	229
Total accruing loans past due 90 days or more:	**-**	229
Accruing restructured loans:		
Mission-related	**2,486**	2,450
Total accruing restructured loans	**2,486**	2,450
Total nonperforming loans	**19,451**	19,444
Total nonperforming assets	**$ 19,451**	$ 19,444

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:

	March 31, 2020	December 31, 2019
Real estate mortgage:		
Acceptable	**99.4 %**	98.4 %
OAEM	**-**	0.6
Substandard/Doubtful	**0.6**	1.0
	100.0 %	100.0 %
Production and intermediate term:		
Acceptable	**90.1 %**	95.0 %
OAEM	**7.6**	0.8
Substandard/Doubtful	**2.3**	4.2
	100.0 %	100.0 %
Agribusiness:		
Acceptable	**97.5 %**	97.4 %
OAEM	**1.8**	1.9
Substandard/Doubtful	**0.7**	0.7
	100.0 %	100.0 %
Energy & water/waste disposal:		
Acceptable	**97.2 %**	97.0 %
OAEM	**-**	-
Substandard/Doubtful	**2.8**	3.0
	100.0 %	100.0 %
Communications:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Direct notes to associations:		
Acceptable	**91.6 %**	91.9 %
OAEM	**8.4**	8.1
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 %
Rural residential real estate:		
Acceptable	**100.0 %**	- %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	- %
Total Loans:		
Acceptable	**93.5 %**	93.8 %
OAEM	**6.1**	5.7
Substandard/Doubtful	**0.4**	0.5
	100.0 %	100.0 %

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

March 31, 2020	**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	**$ 681**	**$ 905**	**$ 1,586**	**$ 823,760**	**$ 825,346**	**$ -**
Production and intermediate term	**-**	**-**	**-**	**752,251**	**752,251**	**-**
Agribusiness	**-**	**-**	**-**	**3,564,013**	**3,564,013**	**-**
Energy & water/waste disposal	**-**	**-**	**-**	**1,258,587**	**1,258,587**	**-**
Communications	**-**	**-**	**-**	**609,302**	**609,302**	**-**
Lease receivables	**-**	**-**	**-**	**11,812**	**11,812**	**-**
Direct notes to associations	**-**	**-**	**-**	**13,295,927**	**13,295,927**	**-**
Loans to OFIs	**-**	**-**	**-**	**42,886**	**42,886**	**-**
Mission-related	**-**	**-**	**-**	**2,486**	**2,486**	**-**
Rural residential real estate	**-**	**-**	**-**	**2,098**	**2,098**	**-**
Total	**$ 681**	**$ 905**	**$ 1,586**	**$ 20,363,122**	**$ 20,364,708**	**$ -**

December 31, 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	$ 2,963	$ 921	$ 3,884	$ 745,107	$ 748,991	$ 229
Production and intermediate term	-	-	-	748,771	748,771	-
Agribusiness	-	-	-	3,398,526	3,398,526	-
Energy & water/waste disposal	-	-	-	1,174,853	1,174,853	-
Communications	-	-	-	455,974	455,974	-
Lease receivables	-	-	-	12,150	12,150	-
Direct notes to associations	-	-	-	12,969,086	12,969,086	-
Loans to OFIs	-	-	-	41,270	41,270	-
Mission-related	-	-	-	16,439	16,439	-
Total	$ 2,963	$ 921	$ 3,884	$ 19,562,176	$ 19,566,060	$ 229

Additional impaired loan information is as follows:

	At March 31, 2020			At December 31, 2019		
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	**$ 9,969**	**$ 9,018**	**$ 2,567**	$ 9,207	$ 9,231	$ 2,579
Agribusiness	**6,018**	**6,131**	**2,006**	6,219	6,332	2,006
Mission-related	**172**	**172**	**53**	168	168	52
Total	**$ 16,159**	**$ 15,321**	**$ 4,626**	$ 15,594	$ 15,731	$ 4,637
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 905**	**$ 905**	**$ -**	$ 921	$ 921	$ -
Agribusiness	**74**	**75**	**-**	647	647	-
Processing and marketing	**-**	**1,192**	**-**	-	1,192	-
Energy & water/waste disposal	**-**	**8,599**	**-**	-	7,623	-
Mission-related	**2,314**	**2,314**	**-**	2,282	2,282	-
Total	**$ 3,293**	**$ 13,085**	**$ -**	$ 3,850	$ 12,665	$ -
Total impaired loans:						
Real estate mortgage	**$ 905**	**$ 905**	**$ -**	$ 921	$ 921	$ -
Agribusiness	**6,092**	**6,206**	**2,006**	6,866	6,979	2,006
Processing and marketing	**-**	**1,192**	**-**	-	1,192	-
Energy & water/waste disposal	**9,969**	**17,617**	**2,567**	9,207	16,854	2,579
Mission-related	**2,486**	**2,486**	**53**	2,450	2,450	52
Total	**$ 19,452**	**$ 28,406**	**$ 4,626**	$ 19,444	$ 28,396	$ 4,637

	For the Three Months Ended			
	March 31, 2020		March 31, 2019	
Impaired loans with a related allowance for credit losses:	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Energy & water/waste disposal	**$ 8,674**	**$ -**	$ 10,060	$ -
Agribusiness	**6,033**	**-**	7,327	-
Mission-related	**166**	**1**	170	3
Total	**$ 14,873**	**$ 1**	$ 17,557	$ 3
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 807**	**$ -**	$ 900	$ -
Energy & water/waste disposal	**142**	**-**	10	-
Agribusiness	**392**	**-**	253	-
Mission-related	**2,258**	**6**	2,334	36
Total	**$ 3,599**	**$ 6**	$ 3,497	$ 36
Total impaired loans:				
Real estate mortgage	**$ 807**	**$ -**	$ 900	$ -
Energy & water/waste disposal	**8,816**	**-**	10,070	-
Agribusiness	**6,425**	**-**	7,580	-
Mission-related	**2,424**	**7**	2,504	39
Total	**$ 18,472**	**$ 7**	$ 21,054	$ 39

At March 31, 2020, impaired loans of $16.2 million had a related specific allowance of $4.6 million, while the remaining $3.3 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 March 31, 2020, was $18.5 million. The bank recognized interest income of $7 on impaired loans during the three months ended March 31, 2020.

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	Rural Residential Real Estate	Direct Notes to Associations	Loans to OFIs	Mission-Related	Total
Allowance for Credit Losses:											
Balance at December 31, 2019	$ 166	$ 1,085	$ 6,097	$ 345	$ 3,699	$ 40	$ -	$ -	$ -	$ 55	$ 11,487
Charge-offs	-	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-	-
(Loan loss reversal) provision for credit losses	18	(49)	71	(40)	(292)	(2)	-	-	-	(1)	(295)
Other *	(1)	(62)	63	(5)	(11)	-	-	-	-	-	(16)
Balance at March 31, 2020	$ 183	$ 974	$ 6,231	$ 300	$ 3,396	$ 38	$ -	$ -	$ -	$ 54	$ 11,176
Individually evaluated for impairment	$ -	$ -	$ 2,006	$ -	$ 2,567	$ -	$ -	$ -	$ -	$ 53	$ 4,626
Collectively evaluated for impairment	183	974	4,225	300	829	38	-	-	-	1	6,550
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2020	$ 183	$ 974	$ 6,231	$ 300	$ 3,396	$ 38	$ -	$ -	$ -	$ 54	$ 11,176
Balance at December 31, 2018	$ 120	$ 799	$ 5,975	$ 364	$ 4,635	$ 29	$ -	$ -	$ -	$ 52	$ 11,974
Charge-offs	-	-	-	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-	-	-	-
(Loan loss reversal) provision for credit losses	(2)	31	572	(42)	(304)	3	-	-	-	2	260
Other *	1	2	(9)	(7)	(18)	-	-	-	-	-	(31)
Balance at March 31, 2019	$ 119	$ 832	$ 6,538	$ 315	$ 4,313	$ 32	$ -	$ -	$ -	$ 54	$ 12,203
Individually evaluated for impairment	$ -	$ -	$ 3,527	$ -	$ 2,674	$ -	$ -	$ -	$ -	$ 51	$ 6,252
Collectively evaluated for impairment	119	832	3,011	315	1,639	32	-	-	-	3	5,951
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2019	$ 119	$ 832	$ 6,538	$ 315	$ 4,313	$ 32	$ -	$ -	$ -	$ 54	$ 12,203
Recorded Investments in loans outstanding:											
Ending balance at March 31, 2020	$ 825,346	$ 752,251	$ 3,564,013	$ 609,302	$ 1,258,587	$ 11,812	$ 2,098	$ 13,295,927	$ 42,886	$ 2,486	$ 20,364,708
Individually evaluated for impairment	$ 905	$ -	$ 6,093	$ -	$ 9,969	$ -	$ -	$ 13,295,927	$ -	$ 2,486	$ 13,315,380
Collectively evaluated for impairment	$ 824,441	$ 752,251	$ 3,557,920	$ 609,302	$ 1,248,618	$ 11,812	$ 2,098	$ -	$ 42,886	$ -	$ 7,049,328
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance at March 31, 2019	$ 698,013	$ 742,299	$ 3,227,805	$ 409,038	$ 1,334,924	$ 13,139	$ -	$ 12,069,449	$ 40,852	$ 16,412	$ 18,551,931
Individually evaluated for impairment	$ 835	$ -	$ 7,329	$ -	$ 10,150	$ -	$ -	$ 12,069,449	$ -	$ 2,569	$ 12,090,332
Collectively evaluated for impairment	$ 697,178	$ 742,299	$ 3,220,476	$ 409,038	$ 1,324,774	$ 13,139	$ -	$ -	$ 40,852	$ 13,843	$ 6,461,599
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. TDRs 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. These loans are included as impaired loans in the impaired loans table above.

As of March 31, 2020, the total recorded investment in TDRs was $9.4 million, including $6.9 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 $2.3 million at March 31, 2020, and $1.6 million at December 31, 2019.

The following table provides information on outstanding loans restructured in TDRs at period end:

	Total Loans Modified as TDRs		TDRs in Nonaccrual Status	
	March 31, 2020	December 31, 2019	**March 31, 2020**	December 31, 2019
Agribusiness	**$ 6,205**	$ 6,979	**$ 6,205**	$ 6,979
Real estate mortgage	**676**	692	**676**	692
Mission-related	**2,486**	2,450	**-**	-
Total	**$ 9,367**	$ 10,121	**$ 6,881**	$ 7,671

There were no new loans designated as TDRs during the three months ended March 31, 2020, or March 31, 2019. During both periods 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.

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 two lease amendments which extended 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 include certain operating expenses passed through from the landlord and were $1,307 and $1,022 for the three months ended March 31, 2020, and 2019, respectively.

The bank entered a lease for copiers in September 2016 and a lease for postage machines in June 2017. The copiers lease had an original term ending March 2020 but was replaced by a new lease of new copiers and is effective January 2020 through March 2023. The postage machines lease is effective through August 2020. Lease expenses for the copiers and postage machines were $51 and $75 for the three months ended March 31, 2020, and 2019, respectively.

The components of lease expense were as follows:

	Classification on Statements of Comprehensive Income	Three Months Ended March 31,	
		2020	2019
Operating lease cost	Occupancy and equipment	**$ 1,358**	$ 1,097

Other information related to leases was as follows:

	Three Months Ended March 31, **2020**	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	**$ 670**	$ 670
ROU assets obtained in exchange for new lease obligations:		
Operating leases	**$ 432**	$ -

At March 31, 2020, the weighted-average remaining lease term for the building, copier and postage leases was 14.64 years and the weighted-average discount rate was 2.41%. At December 31, 2019, the weighted-average remaining lease term for the building, copiers and postage machines leases was 14.98 years and the weighted-average discount rate was 2.42%. 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 March 31, 2020:

	Maturities of Lease Liabilities
Remainder of 2020	$ 2,116
2021	2,769
2022	2,848
2023	2,827
2024	3,051
Thereafter	38,121
Total undiscounted cash flows	51,732
Less interest expense	7,508
Lease liability	**$ 44,224**

The lease expense for leases with terms of 12 months or less was $8 and $53 for the three months ended March 31, 2020, and 2019, 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 March 31, 2020, were approximately $314.86 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 2019 Annual Report for a more complete description.

Assets and liabilities measured at fair value on a recurring basis at March 31, 2020, 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 and other overnight funds	**$ 298,828**	$ -	$ 298,828	$ -
Available-for-sale investments				
Agency-guaranteed debt	**134,433**	-	134,433	-
Corporate debt	**427,900**	-	427,900	-
Mortgage-backed securities	**4,459,825**	-	4,418,849	40,976
U.S. Treasury securities	**327,122**	-	327,122	-
Asset-backed securities	**165,147**	-	165,147	-
Other available-for-sale investments	**26,470**	-	-	26,470
Derivative assets	**1,327**	-	1,327	-
Assets held in nonqualified benefit trusts	**844**	844	-	-
Collateral assets	**66,681**	66,681	-	-
Total assets	**$ 5,908,577**	$ 67,525	$ 5,773,606	$ 67,446
Liabilities:				
Derivative liabilities	**$ 120,234**	$ -	$ 120,234	$ -
Letters of credit	**830**	-	-	830
Total liabilities	**$ 121,064**	$ -	$ 120,234	$ 830

The table below represents a reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the period from January 1, 2020, to March 31, 2020:

	Assets		**Liabilities**	
	Mortgage-Backed Securities	**Agricultural Mortgage-Backed Securities**	**Letters of Credit**	**Net**
Balance at January 1, 2020	**$ -**	**$ 29,051**	**$ 830**	**$ 28,221**
Net gains included in other comprehensive income	**108**	**539**	**-**	**647**
Purchases, issuances and (settlements)	**40,868**	**(3,120)**	**-**	**37,748**
Balance at March 31, 2020	**$ 40,976**	**$ 26,470**	**$ 830**	**$ 66,616**
The amount of gains/losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at March 31, 2020	-	-	-	-
The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at March 31, 2020	**$ 108**	**$ 539**	**$ -**	**$ 647**

There were no transfers of assets or liabilities into or out of Level 3 from other levels during the three months ended March 31, 2020. Agricultural mortgage-backed securities (AMBS) were included in Level 3 due to limited activity or less transparency around inputs to their valuation. Mortgage-backed securities (MBS) were included in Level 3 since their valuation was based on Level 3 criteria (broker quotes). The liability for letters of credit were included in Level 3 because their valuation, based on fees charged for similar agreements, may not closely correlate to a fair value for instruments not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2020, 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	**$ 10,688**	**$ -**	**$ -**	**$ 10,688**
Total assets	**$ 10,688**	**$ -**	**$ -**	**$ 10,688**

Assets and liabilities measured at fair value on a recurring basis at December 31, 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 and other overnight funds	$ 374,344	$ -	$ 374,344	$ -
Available-for-sale investments				
Agency-guaranteed debt	138,933	-	138,933	-
Corporate debt	457,045	-	457,045	-
Mortgage-backed securities	4,307,005	-	4,307,005	-
U.S. Treasury securities	200,114	-	200,114	-
Asset-backed securities	162,995	-	162,995	-
Other available-for-sale investments	29,051	-	-	29,051
Derivative assets	1,853	-	1,853	-
Assets held in nonqualified benefit trusts	890	890	-	-
Collateral assets	17,670	17,670	-	-
Total assets	$ 5,689,900	$ 18,560	$ 5,642,289	$ 29,051
Liabilities:				
Derivative liabilities	$ 54,919	$ -	$ 54,919	$ -
Letters of credit	830	-	-	830
Total liabilities	$ 55,749	$ -	$ 54,919	$ 830

The following table represents a reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the period from January 1, 2019, to March 31, 2019:

	Assets			Liabilities	
	Asset-Backed Securities	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Letters of Credit	Total
Balance at January 1, 2019	$ -	$ -	$ 35,708	$ 676	$ 35,032
Net gains included in other comprehensive income	16	142	440	-	598
Purchases, issuances and settlements	25,000	52,288	(1,661)	(58)	75,685
Balance at March 31, 2019	$ 25,016	$ 52,430	$ 34,487	$ 618	$ 111,315
The amount of gains/losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at March 31, 2019	-	-	-	-	-
The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at March 31, 2019	$ 16	$ 142	$ 440	$ -	$ 598

There were no transfers of assets or liabilities into or out of Level 3 from or to other levels during the three months ended March 31, 2019. AMBS were included in Level 3 due to limited activity or less transparency around inputs to their valuation. MBS and asset-backed securities were 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 were included in Level 3 because their valuation, based on fees currently charged for similar agreements, did not closely correlate to a fair value for instruments not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 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:				
Loans	$ 11,093	$ -	$ -	$ 11,093
Total assets	$ 11,093	$ -	$ -	$ 11,093

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:

March 31, 2020:		**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	**$ 1,222,890**	**$ 1,222,890**	**$ -**	**$ -**	**$ 1,222,890**
Net loans	**20,285,736**	**-**	**-**	**20,718,313**	**20,718,313**
Total assets	**$ 21,508,626**	**$ 1,222,890**	**$ -**	**$ 20,718,313**	**$ 21,941,203**
Liabilities:					
Systemwide debt securities	**$ 25,661,907**	**$ -**	**$ -**	**$ 26,105,290**	**$ 26,105,290**
Total liabilities	**$ 25,661,907**	**$ -**	**$ -**	**$ 26,105,290**	**$ 26,105,290**

December 31, 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	$ 47,606	$ 47,606	$ -	$ -	$ 47,606
Net loans	19,486,806	-	-	19,725,502	19,725,502
Total assets	$ 19,534,412	$ 47,606	$ -	$ 19,725,502	$ 19,773,108
Liabilities:					
Systemwide debt securities	$ 23,473,906	$ -	$ -	$ 23,656,235	$ 23,656,235
Total liabilities	$ 23,473,906	$ -	$ -	$ 23,656,235	$ 23,656,235

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies" of the 2019 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 March 31, 2020, included the bank's AMBS portfolio and a portion of the MBS portfolio.

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 valued through internally developed models that use as their basis quoted prices, 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 through 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 bank's 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 bank's 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 held loans under the fair value option that matured during the second quarter of 2019 and thus no balance was reflected at March 31, 2020 or December 31, 2019, respectively.

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 inclusive of some uncertainty at the reporting date.

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

	Fair Value at		Valuation Technique(s)	Unobservable Input	Range of Inputs / Weighted Average	
	March 31, 2020	December 31, 2019			**March 31, 2020**	December 31, 2019
Other investments	**$ 26,470**	$ 29,051	Discounted cash flow	Prepayment rates	**2.4% - 38.0% / 10.81%**	2.4% - 38.0% / 9.40%
Mortgage-backed securities	**40,976**	-	Vendor priced	-	-	-

In 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 consider 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
Available-for-sale investment securities	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 on the accompanying balance sheets. The amount of collateral received or pledged is calculated on a net basis, by counterparty.

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

	Gross Amounts of Assets/Liabilities Presented on the Balance Sheet	Amounts Not Offset on the Balance Sheet: Cash Collateral Pledged	Amounts Not Offset on the Balance Sheet: Investment Securities Received/Pledged as Collateral	Net Amount
March 31, 2020				
Assets:				
Interest rate swaps and other derivatives	**$ 1,327**	**$ -**	**$ -**	**$ 1,327**
Overnight repurchase agreements	**$ 298,828**	**$ -**	**$ -**	**$ 298,828**
Liabilities:				
Interest rate swaps and other derivatives	**$ 120,234**	**$ (66,650)**	**$ -**	**$ 53,584**
December 31, 2019				
Assets:				
Interest rate swaps and other derivatives	$ 1,852	$ -	$ -	$ 1,852
Overnight repurchase agreements	$ 125,000	$ -	$ -	$ 125,000
Liabilities:				
Interest rate swaps and other derivatives	$ 54,919	$ (17,670)	$ -	$ 37,249

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 March 31, 2020, the bank held interest rate caps with a notional amount of $195.0 million and a net fair value asset of $207, pay-fixed interest rate swaps with a notional amount of $825.0 million and a net fair value liability of $120.2 million, and pay-floating interest rate swaps with a notional amount of $150.0 million and a net fair value asset of $1.1 million. The primary types of derivative instruments used and the activity (notional amount of derivatives) during the three months ended March 31, 2020, are summarized in the following table:

	Pay-Floating Swaps	Pay-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2019	$ 150,000	$ 825,000	$ 195,000	$ 1,170,000
Additions	-	-	-	-
Maturities/Amortizations	-	-	-	-
Balance at March 31, 2020	**$ 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 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 March 31, 2020, and December 31, 2019, counterparties' credit exposure to the bank was $52.2 million and $35.5 million, respectively. At March 31, 2020, the bank had posted $66.7 million of cash as collateral, and no counterparty had been required to post collateral. At December 31, 2019, the bank had posted $17.7 million of cash as collateral, and no counterparty had been required to post collateral.

Derivative – Counterparty Exposure

The following table represents the credit ratings of counterparties to whom the bank had credit exposure at March 31, 2020:

	Remaining Years to Maturity					
	Less Than One Year to Five Years	More Than Five Years	Total Gains (Losses) *	Exposure	Collateral Posted	Exposure Net of Collateral
Moody's Credit Rating						
Aa2	$ (2,885)	$ (81,767)	$ (84,652)	$ (84,652)	$ (54,600)	$ (30,052)
Aa3	(2,152)	(32,050)	(34,202)	(34,202)	(12,050)	(22,152)
A1	13	-	13	13	-	13
Total	**$ (5,024)**	**$ (113,817)**	**$ (118,841)**	**$ (118,841)**	**$ (66,650)**	**$ (52,191)**

* Represents gain or loss positions on derivative instruments with individual counterparties. Net gains or losses represent the exposure to credit losses 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. At March 31, 2020, the bank had a carrying amount of $151.1 million for the hedged items, of which included $1.1 million for the cumulative amount of fair value hedging adjustments. At December 31, 2019, the bank had a carrying amount of $150.0 million for the hedged items, of which included $95 for the cumulative amount of fair value hedging adjustments.

Cash Flow Hedges

The bank's derivative instruments at March 31, 2020, and December 31, 2019, 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 (OCI). In the next 12 months, we expect to reclassify to earnings losses of $9.8 million recorded in accumulated other comprehensive loss (AOCL) as of March 31, 2020. These amounts will offset the cash flows associated with the hedged forecasted transactions.

	Balance Sheet Location	Fair Value March 31, 2020	Fair Value December 31, 2019	Balance Sheet Location	Fair Value March 31, 2020	Fair Value December 31, 2019
Interest rate caps	Other assets	$ **207**	$ 98	Other liabilities	$ **-**	$ -
Pay fixed swaps	Other assets	**-**	1,660	Other liabilities	**(120,234)**	(54,919)

	Gain (Loss) Recognized in OCI on Derivatives at March 31, 2020	2019
Interest rate caps	$ **(109)**	$ 245
Pay fixed swaps	**68,388**	17,649

	Amount of Gain (Loss) Reclassified From AOCL at March 31, 2020	2019
Interest expense	$ **(97)**	$ (61)
Interest (expense) income	**(1,640)**	166

NOTE 9 — CAPITAL

The Farm Credit Administration (FCA) sets minimum regulatory capital requirements for banks and associations. These requirements are split into minimum requirements for risk-adjusted ratios and non-risk-adjusted ratios. The risk-adjusted ratios include common equity tier 1, tier 1 capital, total capital, and permanent risk-based capital ratios. The non-risk-adjusted ratios include tier 1 leverage and unretained earnings equivalents (UREE) leverage ratios. The regulatory minimum capital ratios include fully phased-in capital conservation buffers that became effective for us January 1, 2020. There was no phase-in period for the tier 1 leverage. As of March 31, 2020, the bank exceeded all regulatory capital requirements.

The following table reflects the bank's capital ratios:

Risk-adjusted	Regulatory Requirement	As of March 31, 2020	As of December 31, 2019
Common equity tier 1 ratio	7.00%	**9.27%**	9.91%
Tier 1 capital ratio	8.50	**15.32**	16.01
Total capital ratio	10.50	**15.44**	16.12
Permanent capital ratio	7.00	**15.34**	16.03
Non-risk-adjusted			
Tier 1 leverage ratio	5.00	**6.87**	7.26
UREE leverage ratio	1.50	**2.65**	3.06

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 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, 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 March 31, 2020:

(dollars in thousands)	**Common Equity Tier 1 Ratio**	**Tier 1 Capital Ratio**	**Total Capital Ratio**	**Permanent Capital Ratio**
Numerator:				
Unallocated retained earnings	$ 834,101	$ 834,101	$ 834,101	$ 834,101
Common Cooperative Equities:				
Purchased other required stock ≥7 years	299,548	299,548	299,548	299,548
Allocated stock ≥7 years	36,042	36,042	36,042	36,042
Allocated equities:				
Allocated equities held ≥7 years	52,452	52,452	52,452	52,452
Noncumulative perpetual preferred stock	-	700,000	700,000	700,000
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	13,294	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(150,126)	(150,126)	(150,126)	(150,126)
Other regulatory required deductions	(297)	(297)	(297)	(297)
Total	**$ 1,071,720**	**$ 1,771,720**	**$ 1,785,014**	**$ 1,771,720**
Denominator:				
Risk-adjusted assets excluding allowance	$ 11,564,560	$ 11,564,560	$ 11,564,560	$ 11,564,560
Regulatory Adjustments and Deductions:				
Allowance for loan losses	-	-	-	(11,484)
Total	**$ 11,564,560**	**$ 11,564,560**	**$ 11,564,560**	**$ 11,553,076**

The components of the bank's risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2019:

(dollars in thousands)	Common Equity Tier 1 Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Permanent Capital Ratio
Numerator:				
Unallocated retained earnings	$ 924,451	$ 924,451	$ 924,451	$ 924,451
Common Cooperative Equities:				
Purchased other required stock ≥7 years	281,395	281,395	281,395	281,395
Allocated stock ≥7 years	36,042	36,042	36,042	36,042
Allocated equities:				
Allocated equities held ≥7 years	45,746	45,746	45,746	45,746
Noncumulative perpetual preferred stock	-	700,000	700,000	700,000
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	12,525	-
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	$ 1,137,784	$ 1,837,784	$ 1,850,309	$ 1,837,784
Denominator:				
Risk-adjusted assets excluding allowance	$ 11,477,211	$ 11,477,211	$ 11,477,211	$ 11,477,211
Regulatory Adjustments and Deductions:				
Allowance for loan losses	-	-	-	(10,845)
Total	$ 11,477,211	$ 11,477,211	$ 11,477,211	$ 11,466,366

The components of the bank's non-risk-adjusted capital, based on 90-day average balances, were as follows at March 31, 2020:

(dollars in thousands)	**Tier 1 Leverage Ratio**	**UREE Leverage Ratio**
Numerator:		
Unallocated retained earnings	$ 834,101	$ 834,101
Common Cooperative Equities:		
Purchased other required stock ≥7 years	299,548	-
Allocated stock ≥7 years	36,042	-
Allocated equities:		
Allocated equities held ≥ 7 years	52,452	-
Noncumulative perpetual preferred stock	700,000	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(150,126)	(150,126)
Other regulatory required deductions	(297)	-
Total	**$ 1,771,720**	**$ 683,975**
Denominator:		
Total Assets	$ 25,961,414	$ 25,961,414
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(169,611)	(169,611)
Total	**$ 25,791,803**	**$ 25,791,803**

The components of the bank's non-risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2019:

(dollars in thousands)	Tier 1 Leverage Ratio	UREE Leverage Ratio
Numerator:		
Unallocated retained earnings	$ 924,451	$ 924,451
Common Cooperative Equities:		
Purchased other required stock ≥7 years	281,395	-
Allocated stock ≥7 years	36,042	-
Allocated equities:		
Allocated equities held ≥ 7 years	45,746	-
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	$ 1,837,784	$ 774,898
Denominator:		
Total Assets	$ 25,488,006	$ 25,488,006
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(160,010)	(160,010)
Total	$ 25,327,996	$ 25,327,996

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% 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 three months ended March 31, 2020 and the same period for 2019:

	Other Postretirement Benefits	
	2020	2019
Service cost	**$ 56**	$ 55
Interest cost	**104**	129
Amortization of prior service cost	**(19)**	(19)
	$ 141	$ 165

The components of net periodic benefit cost other than the service cost component are included in other components of net periodic postretirement benefit cost in the income statements.

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

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 (AFS) 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 AOCL and the changes that occurred during the three months ended March 31, 2020:

	Total	Unrealized Gains on Investments	Postretirement Benefit Plans	Cash Flow Derivative Instruments
Balance at January 1, 2020	$ (51,631)	$ 3,212	$ (801)	$ (54,042)
Change in unrealized gains on AFS securities:				
Change in net unrealized gains on AFS securities	53,963	53,963		
Net change in unrealized gains on AFS securities	53,963	53,963		
Change in postretirement benefit plans:				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(19)		(19)	
Net change in postretirement benefit plans	(19)		(19)	
Change in cash flow derivative instruments:				
Unrealized loss on cash flow derivative instruments	(68,207)			(68,207)
Reclassification of gain recognized in interest expense	1,665			1,665
Net change in cash flow derivative instruments	(66,542)			(66,542)
Total other comprehensive (loss) income	**(12,598)**	**53,963**	**(19)**	**(66,542)**
Balance at March 31, 2020	**$ (64,229)**	**$ 57,175**	**$ (820)**	**$ (120,584)**

The following is a summary of the components of AOCL and the changes that occurred during the three months ended March 31, 2019:

	Total	Unrealized (Losses) Gains on Investments	Postretirement Benefit Plans	Cash Flow Derivative Instruments
Balance at January 1, 2019	$ (81,693)	$ (74,541)	$ (27)	$ (7,125)
Change in unrealized gains on AFS securities:				
Net change in unrealized gains on AFS securities	28,497	28,497		
Net change in unrealized gains on AFS securities	28,497	28,497		
Change in postretirement benefit plans:				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(19)		(19)	
Net change in postretirement benefit plans	(19)		(19)	
Change in cash flow derivative instruments:				
Unrealized loss on cash flow derivative instruments	(17,894)			(17,894)
Reclassification of loss recognized in interest expense	(105)			(105)
Net change in cash flow derivative instruments	(17,999)			(17,999)
Total other comprehensive income (loss)	10,479	28,497	(19)	(17,999)
Balance at March 31, 2019	$ (71,214)	$ (46,044)	$ (46)	$ (25,124)

The following table summarizes reclassifications from AOCL to the statements of comprehensive income for the three months ended March 31, 2020 and the same period for 2019:

Component of AOCL	Amount Reclassified from AOCL		Location of Gains (Losses) Recognized in the Statements of Comprehensive Income
	2020	2019	
Amortization of net credits on post-retirement benefit plan	**$ (19)**	$ (19)	Salaries and employee benefits
Amortization of cash flow hedges	**1,665**	(105)	Interest expense
Total reclassifications	**$ 1,646**	$ (124)	

NOTE 12 — SUBSEQUENT EVENTS

The bank has evaluated subsequent events through May 8, 2020, which is the date the financial statements were issued. There are no significant subsequent events requiring disclosure as of May 8, 2020.

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	March 31, 2020 Quarterly Report Reference
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	Regulatory capital ratios	Page 51
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Counterparty Credit Risk-Related Exposures	Counterparty exposures	Page 52
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Equities	General description	Page 53
Interest Rate Risk for Non-Trading Activities	Interest rate sensitivity	Page 54

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's 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 first quarter of 2020 to be included within this disclosure as compared to the disclosures as of December 31, 2019.

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 March 31, 2020:

(dollars in thousands)		Three-Month Average Daily Balance
Common equity tier 1 capital (CET1)		
Common cooperative equities:		
Purchased other required stock ≥7 years	**$**	**299,548**
Allocated stock ≥7 years		**36,042**
Other required member purchased stock		-
Allocated equities:		
Qualified allocated equities subject to retirement		**52,452**
Nonqualified allocated equities subject to retirement		-
Nonqualified allocated equities not subject to retirement		-
Unallocated retained earnings		**834,101**
Paid-in capital		-
Regulatory adjustments and deductions made to CET1		**(150,423)**
Total CET1	**$**	**1,071,720**
Additional tier 1 capital (AT1)		
Noncumulative perpetual preferred stock	**$**	**700,000**
Regulatory adjustments and deductions made to AT1 capital		**-**
Total AT1 capital		**700,000**
Total tier 1 capital	**$**	**1,771,720**
Tier 2 capital		
Common cooperative equities not included in CET1	**$**	**-**
Tier 2 capital elements (allowance for loan losses)		**13,294**
Regulatory adjustments and deductions made to Tier 2 capital		**-**
Total tier 2 capital (T2)	**$**	**13,294**
Total capital	**$**	**1,785,014**

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 March 31, 2020:

(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)	2,590,408
Exposures to depository institutions, foreign banks and credit unions	5,926
Exposures to public sector entities	-
Corporate exposures, including borrower loans and exposures to other financing institutions	6,361,838
Residential mortgage exposures	-
Past due and nonaccrual exposures	24,716
Securitization exposures	38,724
Exposures to other assets	1,064,496
Total Risk-Weighted Assets, On-Balance Sheet	10,086,108
Off-Balance Sheet:	
Letters of Credit	50,771
Commitments	1,424,396
Repo-styled transactions	112
Over-the-Counter Derivatives	1,426
Unsettled transactions	-
Cleared transactions	-
All other off-balance sheet exposures	1,747
Total Risk-Weighted Assets, Off-Balance Sheet	1,478,452
Total Risk-Weighted Assets Before Adjustments	**11,564,560**
Additions:	
Intra-System Equity Investments	150,423
Deductions:	
Regulatory Capital Deductions	(150,423)
Total Standardized Risk-Weighted Assets	**$ 11,564,560**

Capital and Leverage Ratios

As of March 31, 2020, the bank was well-capitalized and exceeded all capital requirements. The bank's excess leverage of 1.87% is equal to the tier 1 leverage ratio minus the minimum tier 1 leverage ratio requirement. Because the bank's capital and leverage ratios exceed the minimum regulatory requirements of 10.5% and 5.0%, respectively, the bank currently has no limitations on its distributions and discretionary bonus payments. The aggregate amount of eligible retained income was $18,393 as of March 31, 2020. The regulatory minimum capital ratios include fully phased-in capital conservation buffers that became effective for January 1, 2020. There was no phase-in period for the tier 1 leverage ratio.

	Regulatory Minimums	Ratios as of March 31, 2020	Calculated Buffers
Common equity tier 1 capital ratio	7.0%	9.27%	2.27%
Tier 1 capital ratio	8.5%	15.32%	6.82%
Total capital ratio	10.5%	15.44%	4.94%
Tier 1 leverage ratio	5.0%	6.87%	1.87%

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 March 31, 2020.

Refer to the Risk-Adjusted Asset table on page 50 for the bank's total and average loans, investment securities, off-balance sheet commitments and over-the-counter (OTC) derivatives. The following table illustrates the bank's total exposure (including commitments) by loan type as of March 31, 2020.

	Total Exposure
Direct notes receivable from district associations	$ 17,176,354
Real estate mortgage	900,384
Production and intermediate term	1,215,962
Agribusiness	
Loans to cooperatives	837,834
Processing and marketing	3,852,823
Farm-related business	232,689
Communications	648,401
Energy (rural utilities)	1,838,051
Water and waste disposal	186,992
Mission-related	2,423
Rural residential real estate	2,092
Leases	11,857
Loans to other financing institutions	76,000
Total	$ 26,981,862

The following table provides an overview of the remaining contractual maturity of the bank's credit risk portfolio categorized by exposure at March 31, 2020. 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. It is included in the unfunded commitments line item within the due in one year or less column.

(dollars in thousands)	Due in one year or less	Due after one year through five years	Due after five years	Total
Loans	$ 3,807,753	$ 9,203,438	$ 7,285,721	$ 20,296,912
Off-balance sheet commitments				
Financial letters of credit	47,598	15,084	-	62,682
Performance letters of credit	5,764	7,240	-	13,004
Commercial letters of credit	1,833	732	-	2,565
Unfunded commitments	4,788,686	1,723,069	94,944	6,606,699
Investments	513,298	443,916	4,583,683	5,540,897
Derivatives (notional)	150,000	300,000	720,000	1,170,000
Total	**$ 9,314,932**	**$ 11,693,479**	**$ 12,684,348**	**$ 33,692,759**

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 March 31, 2020:

State	Percentage
Texas	49 %
Alabama	6
Mississippi	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, pay-fixed swaps and pay-floating swaps, which are traded in OTC markets as of March 31, 2020.

	Notional	Gross Positive Fair Values
Interest rate caps	$ 195,000	$ 207
Pay-fixed swaps	825,000	-
Pay-floating swaps	150,000	1,120
Total Derivatives	**$ 1,170,000**	**$ 1,327**

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 March 31, 2020.

Government Guaranteed Asset Type (dollars in thousands)	90-Day Average Balance	Risk Weighting	Risk-Weighted Amount
Investments	$ 3,063,145	0%	$ -
Loans	2,285	0%	-
Total	$ 3,065,430		$ -

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 March 31, 2020, nor does it have any outstanding exposures that it intends to be securitized as of March 31, 2020. As of March 31, 2020, the bank did not retain any credit-related re-securitization exposures.

Below is an overview of our purchased securitization exposures held as of March 31, 2020, by exposure type and categorized by risk-weighting band and risk-based capital approach. As of March 31, 2020, 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 Weighting**
Agency MBS:			
GNMA	Standardized risk weighting	$ 2,182,000	0%
FNMA and FHLMC	Standardized risk weighting	2,219,052	20%
Total agency MBS		$ 4,401,052	
Asset-backed securities:			
Small Business Administration	Standardized risk weighting	$ 132,253	0%
Asset-backed securities	Gross-up	32,487	20%-100%
Total asset-backed securities		$ 164,740	

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 either carried on the balance sheet or recognized through earnings.

As of March 31, 2020 (dollars in thousands)	**Disclosed in Other Assets**	**Life-to-Date Losses Recognized in Retained Earnings***
RBICs	$ 14,022	$ (5,446)

*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 March 31, 2020:

Basis points:	**-6***	**+100**	**+200**
Change in net interest income	1.49%	(0.96%)	0.88%
Change in market value of equity	0.08%	(3.23%)	(10.96%)

*When the 3-month Treasury bill is below 4.00%, 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.