2020 Third Quarter Report

SEPTEMBER 30, 2020

Farm Credit Bank of Texas

Third 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 and nine months ended September 30, 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 September 30, 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.

MATERIAL AND SIGNIFICANT EVENTS

On October 23, 2020, the bank's Chief Executive Officer Larry Doyle announced his retirement effective December 31, 2020, at which time he will transition into a strategic consulting role through the first quarter of 2021. Amie Pala, the bank's current Chief Financial Officer, will succeed Larry Doyle on January 1, 2021, as the bank's Chief Executive Officer.

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 has increased during 2020 at the affiliated associations resulting from the associations' retail customers taking advantage of the low interest rate environment. The bank has been able to maintain access to capital markets to redeem and replace preferred stock and callable debt as well as fund incremental needs. There have been no significant changes to funding strategies, and the bank has maintained compliance with all interest rate risk measures. The impact to the value and liquidity of the liquidity investment portfolio has been limited with no other-than-temporary impairment losses recognized in 2020. The bank is closely monitoring its loan portfolio overall and has adjusted its portfolio monitoring and servicing practices. The credit quality of the bank's loan portfolio remains strong. For the nine months ended September 30, 2020, the bank recorded a qualitative general reserve of approximately $2.0 million for specific sectors within its participations purchased portfolio due to uncertainty from the COVID-19 pandemic. Capital levels remain strong to support any adversity or continuing loan demand.

Operationally, the bank continues to function as normal during these challenging times. The bank's internal controls over financial reporting and disclosure controls and procedures continue to operate effectively, with no material changes to the controls or financial systems having occurred or contemplated.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provided funding and authority to bolster certain programs offered by the United States Department of Agriculture (USDA). On April 17, 2020, the USDA announced a $19 billion Coronavirus Food Assistance Program (CFAP), that provides a $16 billion program of direct payments for agricultural producers that have been impacted by the decline in commodity prices and the disruption in food supply chains related to COVID-19, and a $3 billion food purchase and distribution program. The CARES Act also appropriated funds for the Paycheck Protection Program (PPP), a guaranteed loan program administered by the U.S. Small Business Administration (SBA). The purpose of the program is to support payroll and certain other financial needs of small businesses during the COVID-19 pandemic. The impact of the support programs for agriculture and related industries is undeterminable at this point in time.

The USDA announced on September 18, 2020, that it will provide additional direct assistance of up to $14.0 billion to farmers and ranchers who continue to face market disruptions and associated costs due to COVID-19. Eligible farmers, including row crop, livestock, and specialty crop producers, can sign up for aid at USDA Farm Service Agency offices through mid-December 2020.

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 PPP. The bank is a participant in loans in which a payment deferral program has been offered to borrowers directly affected by COVID-19. To date, the loan volume and number of borrowers impacted has been minimal due to the nature of that portfolio.

The potential impact of COVID-19 on the global, U.S. and district economies creates a high degree of economic uncertainty; however, it is too early to assess the potential impact as conditions continue to unfold. To date, the COVID-19 pandemic has not resulted in a material adverse financial impact to the bank or the Texas District.

The U.S. Bureau of Labor Statistics reported on October 2, 2020, that total nonfarm payroll employment rose month over month by 661,000 in September 2020, and the national unemployment rate declined from 8.4% to 7.9%. The Texas economy showed continued signs of expansion in August 2020, as payrolls increased month over month and the unemployment rate fell from 8.0% to 6.8%. In the Texas District, four out of five district states had unemployment rates below the national level in August 2020. On October 2, 2020, the Bureau of Economic Analysis released second quarter 2020 estimates of real gross domestic product (GDP) in each U.S. state. Real GDP decreased in all 50 states, ranging from -20.4% in the District of Columbia to -42.2% in Hawaii and Nevada. National GDP decreased at an annual rate of 31.4%. The Texas District performed average or better than average in four out of five states, ranging from -28.3% in New Mexico to -32.9% in Mississippi. Although countries around the world continue to be impacted by COVID-19, economists generally believe that the U.S. economy began to recover during the third quarter. According to the Third Quarter 2020 Survey of Professional Forecasters published by the Federal Reserve Bank of Philadelphia, economists expect real GDP to have increased at an annualized rate of about 19.1% in the third quarter of 2020.

West Texas Intermediate (WTI) crude oil prices decreased year over year from approximately $54 per barrel in September 2019 to approximately $40 per barrel at the end of September 2020. On a quarter-over-quarter basis, the average price of WTI rose by approximately $1 per barrel in the third quarter 2020. According to Baker Hughes, the U.S. rotary rig count decreased year over year from 860 rigs during the week ending on September 27, 2019, to 261 rigs during the week ending September 30, 2020. The rig count, often seen as a leading indicator of activity in the petroleum industry, reached a multiyear low in August 2020 of 244 rigs before recovering slightly in September 2020.

According to the most recent USDA farm income projections presented on September 2, 2020, net farm income, a broad measure of profits, is forecasted to increase by $19.0 billion (22.7%) year over year to $102.7 billion in 2020. Net cash farm income is similarly forecasted to increase by $4.9 billion (4.5%) year over year to $115.2 billion in 2020. If realized, both income measures would be above the 20-year inflation-adjusted historical average. According to the USDA, the anticipated increase in net farm income is driven by higher government payments and lower anticipated expenses. Farm equity is forecasted to increase by 0.7%, while debt to equity is expected to rise by 0.4 percentage points to 16.2%.

Weather across most of the U.S. was relatively volatile during the third quarter. The 2020 hurricane season has been one of the most active on record. Tropical systems, such as hurricanes Laura and Sally, brought heavy precipitation, localized flooding and wind damage to affected areas, including along the U.S. Gulf Coast, during the third quarter 2020. Precipitation from these and other storm systems generally ensured that the southeastern U.S. remained relatively drought-free. Conversely, the western half of the country has experienced worsening drought and high temperatures. These conditions have fueled historic wildfires along the West Coast. In early October 2020, Cal Fire reported that over 4 million acres had burned during 2020 in California alone, more than double the prior calendar year record observed in 2018.

In its September 2020 World Agricultural Supply and Demand Estimate (WASDE) report, USDA projected lower season-average prices in the 2020-2021 marketing year for several crops, including corn and cotton.

Meanwhile, USDA expects soybean prices to rise by about 8.0% season over season in the 2020-2021 marketing year. Milk prices have been volatile during 2020, and USDA anticipates that all-milk prices will fall by about 5.0% in 2020 compared to the 2019 average. Steer, barrow and gilt and poultry prices are projected to decrease in 2020 before increasing in 2021.

Farmers in the Texas 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 September 30, 2020, was $67.8 million, an increase of $21.2 million, or 45.47%, over the same period of 2019. The increase in net income was primarily driven by a $21.2 million increase in net interest income and a $4.4 million increase in noninterest income, offset by a $2.3 million increase in noninterest expense and a $2.1 million increase in provision for credit losses.

Net income for the nine months ended September 30, 2020, was $176.5 million, an increase of $34.7 million, or 24.45%, over the same period of 2019. The increase in net income was primarily driven by a $45.0 million increase in net interest income, offset by a $0.9 million decrease in noninterest income, a $7.1 million increase in noninterest expense and a $2.3 million increase in provision for credit losses.

Net Interest Income

Net interest income for the three months ended September 30, 2020, was $90.1 million, an increase of $21.2 million, or 30.72%, from the three months ended September 30, 2019. The increase in net interest income was attributable to a $1.9 billion increase in the bank's average earning assets and a 31-basis-point increase in the net interest rate spread from 94 basis points to 125 basis points. The increase in net interest rate spread was due to a 109-basis-point decrease in the average rate of debt, as compared to a 78-basis-point decrease in the rate on earning assets. The net interest margin of 134 basis points for the three months ended September 30, 2020, was 24 basis points higher than the three months ended September 30, 2019.

Net interest income for the nine months ended September 30, 2020, was $244.2 million, an increase of $45.0 million, or 22.58%, from the nine months ended September 30, 2019. The increase in net interest income was attributable to a $1.7 billion increase in the bank's average earning assets and a 22-basis-point increase in the net interest rate spread from 93 basis points to 115 basis points. The increase in net interest rate spread was due to a 76-basis-point decrease in the average rate of debt, as compared to a 54-basis-point decrease in the rate on earning assets. The net interest margin of 125 basis points for the nine months ended September 30, 2020, was 16 basis points higher than the nine months ended September 30, 2019.

During the three months ended September 30, 2020, the bank called $2.93 billion in debt and recognized $5.0 million in accelerated concession expense as compared to $2.73 billion in debt called and $5.0 million in accelerated concession expense for the same period in 2019. During the nine months ended September 30, 2020, the bank called $14.40 billion in debt and recognized $19.4 million in accelerated concession expense as compared to $4.59 billion in debt called and $8.4 million in accelerated concession expense for the same period in 2019. The year-over-year increase in callable debt redemptions reflected the substantial downward move in interest rates across the yield curve that occurred throughout the first nine months of 2020. Loan volume increased during 2020 at the affiliated associations by $1.44 billion resulting from the associations' retail customers taking advantage of the low interest rate environment. During this period, the bank has been able to maintain access to capital markets to redeem and replace preferred stock and callable debt as well as fund incremental needs. There have been no significant changes to funding strategies, and the bank has maintained compliance with all interest rate risk measures.

Provision for Credit Losses

The provision for credit losses for the three months ended September 30, 2020, totaled $335, an increase of $2,121 from the $1,786 loan loss reversal recorded for the same period of 2019. The provision for credit losses for the three months ended September 30, 2020, primarily reflected an increase in qualitative general reserves associated with uncertainty from the COVID-19 pandemic. The qualitative general reserves were attributed to the following sectors of the participations purchased loan portfolio: beef cattle, dairy, other livestock production and processing, oil and gas, and forestry and wood processing. The provision for credit losses for this period also included a reduction in general reserves due to an improvement in credit quality.

The provision for credit losses for the nine months ended September 30, 2020, totaled $921, an increase of $2,289 from the $1,368 loan loss reversal recorded for the same period of 2019. The provision for credit losses for the nine months ended September 30,2020, primarily reflected an increase in qualitative general reserves associated with uncertainty from the COVID-19 pandemic as previously noted. The loan loss reversal for the nine months ended September 30, 2019, reflected a reversal of specific reserves on one agribusiness loan.

Noninterest Income

Noninterest income for the three months ended September 30, 2020, was $9.2 million, an increase of $4.4 million, or 91.05%, over the same period of 2019. The increase was due mainly to a $3.3 million increase in fees for loan-related services, resulting from prepayment penalty fee income.

Noninterest income for the nine months ended September 30, 2020, was $26.3 million, a decrease of $0.9 million, or 3.27%, over the same period of 2019. The decrease was due mainly to a $7.5 million gain resulting from the sale of investment securities during June 2019, offset by a $6.5 million increase in fees for loan-related services.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2020, was $31.2 million, an increase of $2.3 million, or 7.80%, over the same period of 2019. The increase primarily consisted of a $1.6 million increase in occupancy and equipment expense related to depreciation and maintenance expense on computer equipment and software.

Noninterest expense for the nine months ended September 30, 2020, was $93.2 million, an increase of $7.1 million, or 8.31%, over the same period of 2019. The increase primarily consisted of a $4.8 million increase in occupancy and equipment expense related to depreciation and maintenance expense on computer equipment and software, and a $2.6 million increase in salaries and employee benefits due to normal merit increases and increased staffing.

Key results of operations comparisons:

	Annualized for the Nine Months Ended September 30, 2020	Annualized for the Nine Months Ended September 30, 2019
Return on average assets	**0.86%**	0.74%
Return on average shareholders' equity	**11.82%**	10.03%
Net interest income as a percentage of average earning assets	**1.25%**	1.09%
Charge-offs, net of recoveries to average loans	**0.02%**	<(0.01)%
Operating expenses as a percentage of net interest income and noninterest income	**34.44%**	37.99%
Operating expenses as a percentage of average earning assets	**0.48%**	0.47%

Other Comprehensive Income (Loss)

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

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

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Change in unrealized gains on AFS securities		
Net increase in unrealized gains on AFS securities	**$ 86,647**	$ 98,763
Gain on sale reclassifications to net income	**-**	(7,516)
Net change in unrealized gains on AFS securities	**86,647**	91,247
Change in postretirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**(59)**	(58)
Net change in postretirement benefit plans	**(59)**	(58)
Change in cash flow derivative instruments		
Unrealized losses on cash flow derivative instruments	**(73,910)**	(65,525)
Reclassification of losses recognized in interest expense	**8,982**	378
Net change in cash flow derivative instruments	**(64,928)**	(65,147)
Other comprehensive income	**$ 21,660**	$ 26,042

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at September 30, 2020, was $20.92 billion, an increase of $1.42 billion, or 7.29%, compared to $19.50 billion at December 31, 2019. The increase is due to growth at the affiliated associations resulting from the associations' retail customers taking advantage of the low interest rate environment.

The bank's capital markets loan portfolio, also referred to as the participations purchased 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 2.00% of the par value of the loans purchased, and the associations purchased bank stock equal to 8.00% of the purchased loans' par value and 1.60% of the AMBS' par value. During the first nine months of 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 September 30, 2020, totaled $113.1 million and were included in loans on the balance sheet. The balance of the AMBS CPP was $24.6 million at September 30, 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. There were no NCPP loan purchases for the nine months ended September 30, 2020. The NCPP loans' balance was $125.9 million at September 30, 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 99.73% and 99.48% of total loans and accrued interest at September 30, 2020, and December 31, 2019, respectively.

During the second quarter of 2020, the bank changed the classification on the direct notes to two of its affiliated associations to the acceptable credit quality classification. The direct notes had previously been reflected in the special mention credit quality classification. As of September 30, 2020, the outstanding direct note balances for the two associations totaled $1.05 billion. The bank had not recorded any allowance for credit loss related to the direct notes.

The table below summarizes the balances of the bank's nonperforming assets at September 30, 2020, compared to the balances at December 31, 2019:

					Change	
	September 30, 2020		December 31, 2019		$	%
Nonaccrual loans	**$**	**15,160**	$	16,765	$ (1,605)	(9.57) %
Accruing loans past due 90 days or more		**-**		229	(229)	(100.00)
Accruing formally restructured loans		**2,407**		2,450	(43)	(1.76)
Total nonperforming assets	**$**	**17,567**	$	19,444	$ (1,877)	(9.65) %

The decrease in nonaccrual loans and accruing formally restructured loan balances at September 30, 2020, reflected repayments on the loans within these nonperforming asset types and charge-off activity on nonaccrual loans, offset by the addition of a nonaccrual loan during this time period. The decrease in loans 90 days or more past due but still accruing at September 30, 2020, was associated with one loan that was moved to nonaccrual status. At September 30, 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, accruing formally restructured loans, and loans past due 90 days or more and still accruing interest, constituted 8 basis points of gross loans at September 30, 2020, and 10 basis points at December 31, 2019.

At September 30, 2020, the bank had reserves for credit losses totaling $11,420 with an allowance for loan losses of $9,353 and a reserve for credit losses on unfunded commitments of $2,067 related to the bank's capital markets loan portfolio. The allowance for loan losses of $9,353 equated to 4 basis points of total loans outstanding and 14 basis points of capital market loans outstanding. The $2,067 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. During the third quarter of 2020, charge-off activity of $2.8 million was recorded on a nonaccrual energy loan. In addition, the reserve for credit losses included $2.0 million in qualitative general reserves due to uncertainty from the COVID-19 pandemic within the following sectors: beef cattle, dairy, other livestock production and processing, oil and gas, and forestry and wood processing. Based on the structure and recourse of the association direct notes, analysis indicated that an allowance was not warranted. Therefore, the entire balance of the allowance and reserve for credit losses reflected reserves for risk identified in the bank's participations purchased loan portfolio.

The allowance for loan losses as a percentage of impaired loans was 53.24% at September 30, 2020, as compared to 59.08% at 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, federal funds sold, overnight investments and investment securities totaled $5.82 billion, or 21.37%, of total assets at September 30, 2020, compared to $5.72 billion, or 22.28%, at December 31, 2019. At September 30, 2020, the bank's cash balance was $20.4 million, of which $7.1 million was held at the Federal Reserve Bank.

Each bank is required to maintain a minimum of 90 days of liquidity coverage on a continuous basis. The days of liquidity measurement refers to the number of days that maturing debt could be funded with eligible cash and investment securities. At September 30, 2020, the bank exceeded all applicable regulatory liquidity requirements and had 176 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 $5.49 billion at September 30, 2020, and consisted primarily of federal agency 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 $24.6 million at September 30, 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:

	September 30, 2020		December 31, 2019	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Agency-guaranteed debt	**$ 119,911**	**$ 122,177**	$ 139,016	$ 138,933
Corporate debt	**289,060**	**295,303**	454,963	457,045
Federal agency collateralized mortgage-backed securities:				
GNMA	**2,059,236**	**2,103,680**	2,165,953	2,170,985
FNMA and FHLMC	**2,434,549**	**2,471,540**	2,139,207	2,136,020
U.S. Treasury securities	**324,998**	**325,045**	200,088	200,114
Asset-backed securities	**174,562**	**174,672**	162,837	162,995
Total liquidity investments	**$ 5,402,316**	**$ 5,492,417**	$ 5,262,064	$ 5,266,092

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

	September 30, 2020				December 31, 2019			
	Amortized Cost		Fair Value		Amortized Cost		Fair Value	
Agricultural mortgage-backed securities	**$**	**24,816**	**$**	**24,574**	$	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 September 30, 2020, the bank had no investments which were ineligible for liquidity purposes.

Capital Resources

At September 30, 2020, the bank's capital totaled $2,047,412 and consisted of $750,000 of Class B noncumulative subordinated perpetual preferred stock, $333,697 of capital stock, $993,686 of retained earnings and $29,971 of accumulated other comprehensive loss. The capital balance reflected an increase of $203,229 from December 31, 2019, due primarily to net income of $176,454, net preferred stock issued of $50,000, and a $21,660 decrease in other comprehensive losses, offset by $33,206 in preferred stock dividends accrued and paid, $6,165 in patronage distributions and a $1,565 reduction in capital stock. The balance in accumulated other comprehensive loss of $29,971 resulted from $118,970 in unrealized losses on cash flow derivative instruments and $860 in accumulated amortization of other postretirement benefits, offset by unrealized gains on investments of $89,859. The decrease in interest rates for the first nine months of 2020 increased the fair value of the liquidity investments but lowered the valuation of the cash flow derivative instruments.

On July 15, 2020, the bank issued $350.0 million of Class B noncumulative subordinated perpetual preferred stock, Series 4 (Class B-4 preferred stock), representing three hundred fifty thousand shares at $1,000 per share par value, for net proceeds of $346.1 million with issuance costs of $3.9 million. Dividends on the Class B-4, if declared by the board of directors at its sole discretion, are noncumulative and are payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, commencing September 15, 2020, at an annual fixed rate of 5.70% of par value of $1,000 per share up to, but excluding, September 15, 2025, from and after which date will be paid at an annual rate of the five-year Treasury rate as of the most recent five-year reset dividend determination date plus 5.415%. The Class B-4 is not mandatorily redeemable at any time, but may be redeemed in whole or part at the option of the bank, with prior approval from the FCA, on any dividend payment date on or after September 15, 2025. The Class B-4 ranks pari passu with respect to the existing Class B-2 and Class B-3 preferred stock and senior to all of the bank's other outstanding capital stock. For regulatory purposes, the Class B-4 preferred stock is included in permanent capital, total capital and tier 1 capital within certain limitations.

On July 20, 2020, the bank notified holders of the bank's 10% Class B perpetual noncumulative subordinated preferred stock, Series 1 (Class B-1), of its right to redeem all of the outstanding Class B-1 preferred stock at a total price of $1,000 per share, together with an amount equal to all dividends accrued and unpaid up to, but not including, the redemption date. The redemption date was August 19, 2020, and the redemption price was equal to $1,017.777 per share or $305,333,333.33 in total.

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 September 30, 2020, the bank exceeded all regulatory capital requirements.

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

	September 30, 2020	December 31, 2019	Total Regulatory Requirements Including Capital Conservation Buffers
Common equity tier 1 ratio	**9.62%**	9.91%	7.00%
Tier 1 capital ratio	**15.95**	16.01	8.50
Total capital ratio	**15.95**	16.12	10.50
Permanent capital ratio	**15.86**	16.03	7.00
Tier 1 leverage ratio	**7.06**	7.26	5.00
UREE leverage ratio	**2.84**	3.06	1.50

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. Based on their sovereign support assessment, Fitch has assigned a support rating of "1" and a support rating floor of "BBB+" for the bank's noncumulative perpetual preferred stock.

Moody's Investors Service Rating Actions

On June 18, 2020, Moody's Investors Service affirmed the bank's issuer rating at "Aa3," its noncumulative preferred stock rating at "Baa1 (hyb)," and its "a1" baseline credit assessment (BCA), with a stable outlook.

DERIVATIVE PRODUCTS

Derivative products are a part of the bank's interest rate risk management process and are used to manage interest rate and liquidity risks and to lower the overall cost of funds. The bank does not hold or enter into derivative transactions for trading purposes. The aggregate notional amount of the bank's derivative products, which consisted of fair value and cash flow hedges, was $1.02 billion at September 30, 2020 as compared to $1.17 billion at December 31, 2019. During the third quarter of 2020, the bank began clearing certain cash flow hedges through a futures commission merchant (FCM), with a clearinghouse or central counterparty (CCP). At September 30, 2020, the notional amount of cleared cash flow hedges was $250.0 million, with outstanding exposure of $34.7 million and collateral posted of $7.3 million and $35.1 million in initial and variation margins, respectively. Cleared derivatives require the payment of initial and variation margin as a protection against default.

LIBOR TRANSITION

In July 2017, the United Kingdom's Financial Conduct Authority, the authority regulating the London Inter-Bank Offered Rate (LIBOR) announced that it will stop persuading or compelling banks to submit rates for the calculation of the LIBOR after 2021. Since this announcement, central banks around the world, including the Federal Reserve, have commissioned working groups with the goal of finding suitable replacements for LIBOR. In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR. SOFR is based on a broad segment of the overnight Treasury repurchase market and is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. The bank and its affiliated associations are currently evaluating the impacts of a potential phase-out of the LIBOR benchmark interest rate, including the possibility of using SOFR as an alternative to LIBOR. The transition from LIBOR to SOFR is expected to be complex and to include the development of term and credit adjustments to minimize, to the extent possible, discrepancies between LIBOR and SOFR. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR-based instruments, including certain of the Farm Credit Systemwide debt securities, the bank's borrowings, loans, investments, derivatives, and other bank assets and liabilities that are indexed to LIBOR. On September 11, 2018, the FCA issued guidance to System institutions on planning and preparing for the expected phase-out of LIBOR. Based on the guidance, System institutions should develop a transition plan defining an orderly roadmap of actions that will reduce LIBOR exposures over time and prepare for the phase-out. The bank established a LIBOR Workgroup, with cross-functional representation from the finance, operations, credit and legal departments. The LIBOR Workgroup is progressing in implementing its transition plan to an alternative benchmark rate.

The following is a summary of variable-rate financial instruments with LIBOR exposure at September 30, 2020:

(in millions)	Due in 2020	Due in 2021	Due in 2022 and Thereafter	Total
Assets				
Loans	$ 76	$ 653	$ 3,077	$ 3,806
Investment securities	20	59	1,327	1,406
Total assets	$ 96	$ 712	$ 4,404	$ 5,212
Liabilites and shareholders' equity				
Bonds and notes, net	$ 1,250	$ 2,765	$ -	$ 4,015
Preferred stock	-	-	400	400
Total liabilities and shareholders' equity	$ 1,250	$ 2,765	$ 400	$ 4,415

Note: Included in this table are preferred stock issuances that currently have fixed dividend rates but convert to LIBOR-indexed variable-rates in the future. The preferred stock is perpetual and may be redeemed in 2022 or thereafter. For additional information regarding preferred stock, see Note 11 in the 2019 Annual Information Statement

(in millions)	Due in 2020	Due in 2021	Due in 2022 and Thereafter	Total
Derivatives (notional amount)	$ -	$ 50	$ 970	$ 1,020

REGULATORY MATTERS

At September 30, 2020, there were no district associations under written agreements with the Farm Credit Administration.

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 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 FCA 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.

On April 1, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on reporting troubled debt restructurings for customers affected by the national emergency declaration for the COVID-19 outbreak.

On April 3, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on the Paycheck Protection Program for small businesses affected by the COVID-19 pandemic. This memorandum was superseded and replaced by an information memorandum on the same subject which the FCA posted on April 7, 2020, together with the FCA's brief supplement explaining that the statutory borrower stock requirement does not apply to loans made under the Paycheck Protection Program. The April 7, 2020, informational memorandum was subsequently superseded and replaced by an updated informational memorandum which the FCA posted on June 18, 2020, and again superseded and replaced by an updated informational memorandum which the FCA posted on July 15, 2020. The supplement to the informational memorandum was also updated.

On June 25, 2020, the FCA, together with four other federal agencies, published a final rule finalizing changes to their swap margin rule to facilitate the implementation of prudent risk management strategies at banks and other entities with significant swap activities. On July 1, 2020, a final rule and interim final rule on margin and capital requirements for covered swap entities were published in the Federal Register. The final rule became effective on August 31, 2020. The interim final rule became effective September 1, 2020.

On August 25, 2020, the FCA published a Final Rule in the Federal Register on Criteria to Reinstate Non-Accrual Loans. The final rule objectives are to:

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

This regulation shall become effective no earlier than 30 days after publication in the Federal Register during which either or both Houses of Congress are in session.

On September 10, 2020, the FCA published a proposed rule in the Federal Register outlining amendments and clarifications to the tier 1/tier 2 regulatory capital framework. The comment period ends on November 9, 2020.

On September 28, 2020, the FCA published a final rule in the Federal Register on Amortization Limits repealing the regulatory requirement that production credit associations (PCAs) amortize their loans in 15 years or less, while requiring System associations to address amortization through their credit underwriting standards and internal controls. This regulation will be effective 30 days after publication in the Federal Register during which either or both Houses of Congress are in session.

On October 8, 2020, the FCA published a final rule in the Federal Register on District Financial Reporting. The objective of the final rule is to improve shareholder access to district financial information by providing an additional method of presenting financial information on a bank's related associations to those banks preparing annual financial statements on a standalone basis.

Report of Management

The undersigned certify that we have reviewed the September 30, 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

November 6, 2020

Controls and Procedures

As of September 30, 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 CEO and CFO 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 September 30, 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

November 6, 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

November 6, 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
Senior Vice President, Chief Financial Officer

November 6, 2020

Balance Sheets

(dollars in thousands)	September 30, 2020 (Unaudited)	December 31, 2019
Assets		
Cash	**$ 20,439**	$ 47,606
Federal funds sold and overnight investments	**285,443**	374,344
Investment securities	**5,516,991**	5,295,143
Loans	**20,919,203**	19,498,293
Less allowance for loan losses	**9,353**	11,487
Net loans	**20,909,850**	19,486,806
Accrued interest receivable	**68,160**	79,901
Premises and equipment, net	**136,271**	108,857
Other assets	**305,506**	271,159
Total assets	**$ 27,242,660**	$ 25,663,816
Liabilities and Shareholders' Equity		
Liabilities		
Bonds and notes, net	**$ 24,915,055**	$ 23,473,906
Accrued interest payable	**61,164**	84,661
Reserve for credit losses	**2,067**	1,809
Preferred stock dividends payable	**11,600**	21,613
Patronage payable	**-**	33,609
Other liabilities	**205,362**	204,035
Total liabilities	**$ 25,195,248**	$ 23,819,633
Commitments and Contingencies (Note 5)		
Shareholders' Equity		
Preferred stock	**750,000**	700,000
Capital stock	**333,697**	335,262
Allocated retained earnings	**52,452**	52,451
Unallocated retained earnings	**941,234**	808,101
Accumulated other comprehensive loss	**(29,971)**	(51,631)
Total shareholders' equity	**2,047,412**	1,844,183
Total liabilities and shareholders' equity	**$ 27,242,660**	$ 25,663,816

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

Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	Quarter Ended September 30, 2020	Quarter Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Interest Income				
Loans	**$ 146,936**	$ 169,942	**$ 466,583**	$ 494,269
Investment securities	**21,344**	34,931	**74,521**	110,049
Total interest income	**168,280**	204,873	**541,104**	604,318
Interest Expense				
Bonds and notes	**78,137**	135,915	**296,860**	405,063
Net interest income	**90,143**	68,958	**244,244**	199,255
Provision for credit lossses (loan loss reversal)	**335**	(1,786)	**921**	(1,368)
Net interest income after provision for credit losses (loan loss reversal)	**89,808**	70,744	**243,323**	200,623
Noninterest Income				
Patronage income	**2,551**	2,909	**7,788**	9,519
Fees for services to associations	**365**	414	**2,643**	2,838
Fees for loan-related services	**5,241**	1,941	**11,722**	5,218
Refunds from Farm Credit System Insurance Corporation	**-**	-	**2,380**	2,507
Loss on loans held under fair value option	**-**	-	**-**	(40)
Gain on sale of investments	**-**	-	**-**	7,516
Other income (loss), net	**1,063**	(438)	**1,786**	(348)
Total noninterest income	**9,220**	4,826	**26,319**	27,210
Noninterest Expense				
Salaries and employee benefits	**11,243**	10,611	**33,775**	31,167
Occupancy and equipment	**6,709**	5,128	**21,419**	16,631
FCSIC premiums	**2,571**	2,174	**6,250**	5,933
Other components of net periodic postretirement benefit cost	**85**	110	**253**	329
Other operating expenses	**10,604**	10,930	**31,491**	31,981
Total noninterest expense	**31,212**	28,953	**93,188**	86,041
Net Income	**67,816**	46,617	**176,454**	141,792
Other comprehensive income (loss)				
Change in unrealized (loss) gain on investments	**(2,503)**	15,910	**86,647**	91,247
Change in postretirement benefit plans	**(19)**	(19)	**(59)**	(58)
Change in cash flow derivative instruments	**5,617**	(19,808)	**(64,928)**	(65,147)
Total other comprehensive income (loss)	**3,095**	(3,917)	**21,660**	26,042
Comprehensive Income	**$ 70,911**	$ 42,700	**$ 198,114**	$ 167,834

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	-	-	-	141,792	-	141,792
Other comprehensive income	-	-	-	-	26,042	26,042
Capital stock and allocated retained earnings issued	-	770	-	-	-	770
Capital stock and allocated retained earnings retired	-	(192)	-	-	-	(192)
Issuance costs on preferred stock	-	-	-	(3)	-	(3)
Preferred stock dividends	-	-	-	(34,837)	-	(34,837)
Patronage distributions						
Cash	-	-	-	(7,200)	-	(7,200)
Shareholders' equity	-	-	(12)	12	-	-
Balance at September 30, 2019	$ 700,000	$ 317,041	$ 45,673	$ 896,242	$ (55,651)	$ 1,903,305
Balance at December 31, 2019	**$ 700,000**	**$ 335,262**	**$ 52,451**	**$ 808,101**	**$ (51,631)**	**$ 1,844,183**
Net income	**-**	**-**	**-**	**176,454**	**-**	**176,454**
Other comprehensive income	**-**	**-**	**-**	**-**	**21,660**	**21,660**
Capital stock and allocated retained earnings issued	**-**	**813**	**-**	**-**	**-**	**813**
Capital stock and allocated retained earnings retired	**-**	**(2,378)**	**-**	**-**	**-**	**(2,378)**
Preferred stock issued	**350,000**	**-**	**-**	**-**	**-**	**350,000**
Preferred stock retired	**(300,000)**	**-**	**-**	**-**	**-**	**(300,000)**
Issuance costs on preferred stock	**-**	**-**	**-**	**(3,949)**	**-**	**(3,949)**
Preferred stock dividends	**-**	**-**	**-**	**(33,206)**	**-**	**(33,206)**
Patronage distributions						
Cash	**-**	**-**	**-**	**(6,165)**	**-**	**(6,165)**
Shareholders' equity	**-**	**-**	**1**	**(1)**	**-**	**-**
Balance at September 30, 2020	**$ 750,000**	**$ 333,697**	**$ 52,452**	**$ 941,234**	**$ (29,971)**	**$ 2,047,412**

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

Statements of Cash Flows

(unaudited)

(dollars in thousands)	Nine Months Ended September 30, 2020	2019
Cash Flows From Operating Activities		
Net income	**$ 176,454**	$ 141,792
Reconciliation of net income to net cash provided by operating activities		
Provision for credit losses (loan loss reversal)	**921**	(1,368)
Depreciation and amortization on premises and equipment	**8,088**	6,504
Discount accretion on loans	**279**	432
Amortization and accretion on debt instruments	**39,467**	35,327
Premium amortization on investments	**5,379**	805
Decrease in fair value of loans held under fair value option	**-**	40
Gain on sale of investment securities	**-**	(7,516)
(Gain) loss on sale of loans	**(2,313)**	1
Allocated equity patronage from System bank	**(2,745)**	(7,231)
Loss on other earning assets	**-**	707
Gain on sales of premises and equipment	**(51)**	(45)
Decrease (increase) in accrued interest receivable	**11,742**	(3,494)
Decrease in other assets, net	**15,899**	12,122
(Decrease) increase in accrued interest payable	**(23,498)**	4,595
Decrease in other liabilities, net	**(39,069)**	(6,932)
Net cash provided by operating activities	**190,553**	175,739
Cash Flows From Investing Activities		
Net decrease (increase) in federal funds sold and repurchase agreements	**88,901**	(1,045)
Investment securities		
Purchases	**(1,885,635)**	(1,110,271)
Proceeds from maturities, calls and prepayments	**1,745,054**	1,105,615
Proceeds from sales	**-**	272,762
Increase in loans, net		
Charge-offs on loans	**2,808**	-
All other increases in loans, net	**(1,561,212)**	(1,196,881)
Proceeds from sales of loans	**111,051**	5,939
Proceeds from sales of premises and equipment	**97**	92
Expenditures for premises and equipment	**(35,549)**	(34,389)
Distributions in excess of cumulative equity earnings	**-**	86
Investments/distributions in other earning assets	**(372)**	(3,328)
Net cash used in investing activities	**(1,534,857)**	(961,420)
Cash Flows From Financing Activities		
Bonds and notes issued	**31,593,048**	16,914,866
Bonds and notes retired	**(30,191,365)**	(16,114,615)
Increase in cash collateral posted with a counterparty	**(46,041)**	(30,304)
Preferred stock issued	**350,000**	-
Preferred stock retired	**(300,000)**	-
Issuance costs on preferred stock	**(3,949)**	(3)
Capital stock issued	**813**	770
Capital stock retired and allocated retained earnings distributed	**(2,378)**	(192)
Cash dividends on preferred stock	**(53,230)**	(34,837)
Cash patronage distributions paid	**(29,761)**	(36,761)
Net cash provided by financing activities	**1,317,137**	698,924
Net decrease in cash	**(27,167)**	(86,757)
Cash at beginning of year	**47,606**	129,478
Cash at End of Quarter	**$ 20,439**	$ 42,721
Supplemental Schedule of Noncash Investing and Financing Activities		
Net increase in unrealized gains on investment securities	**$ 86,647**	$ 91,248
Preferred stock dividend payable	**11,600**	21,613
Patronage distribution stock adjustment	**1**	(12)
Right-of-use asset recognized in exchange for operating lease liabilities	**484**	39,619
Supplemental Schedule of Noncash Increase in Bonds and Notes Related to Hedging Activities	**$ 351**	$ -
Supplemental Information		
Interest paid	**$ 320,357**	$ 400,469

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 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 for the year ended December 31, 2019, as contained in the 2019 Annual Report to shareholders (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 bank and its affiliated associations (Texas District) are part of the federally chartered Farm Credit System (System). The bank provides funding to district associations, which, in turn, provide credit to their borrower-members. At September 30, 2020, the bank provided financing to 14 district associations and certain other financing institutions.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs. System entities have adopted this relief for qualifying loan modifications.

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 are effective as of March 12, 2020, through December 31, 2022. The bank is evaluating the impact of adoption on its 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 2019. 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 securities (MBS), U.S. Treasury securities, asset-backed securities (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 September 30, 2020, and December 31, 2019, is included in the following tables.

Investments in the available-for-sale liquidity portfolio at September 30, 2020:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	**$ 119,911**	**$ 2,839**	**$ (573)**	**$ 122,177**	**1.62** %
Corporate debt	**289,060**	**6,243**	**-**	**295,303**	**1.68**
Federal agency collateralized mortgage-backed securities:					
GNMA	**2,059,236**	**45,781**	**(1,337)**	**2,103,680**	**1.94**
FNMA and FHLMC	**2,434,549**	**37,587**	**(596)**	**2,471,540**	**1.27**
U.S. Treasury securities	**324,998**	**48**	**(1)**	**325,045**	**0.24**
Asset-backed securities	**174,562**	**435**	**(325)**	**174,672**	**0.76**
Total liquidity investments	**$ 5,402,316**	**$ 92,933**	**$ (2,832)**	**$ 5,492,417**	**1.48** %

Investments in the available-for-sale other investments portfolio at September 30, 2020:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	**$ 24,816**	**$ 56**	**$ (298)**	**$ 24,574**	**4.38 %**

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 September 30, 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	$ -	$ 103,202	$ 18,975	$ -	$ 122,177
Corporate debt	96,239	199,064	-	-	295,303
Federal agency collateralized mortgage-backed securities:					
GNMA	-	-	79,419	2,024,261	2,103,680
FNMA and FHLMC	-	111,429	643,007	1,717,104	2,471,540
U.S. Treasury securities	325,045	-	-	-	325,045
Asset-backed securities	5,874	45,465	48,234	75,099	174,672
Total fair value	$ 427,158	$ 459,160	$ 789,635	$ 3,816,464	$ 5,492,417
Total amortized cost	$ 426,873	$ 451,160	$ 773,999	$ 3,750,284	$ 5,402,316
Weighted average yield	0.42%	1.44%	1.48%	1.60%	1.48%

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	$ 7,136	$ 17,438	$ 24,574
Total amortized cost	$ 7,080	$ 17,736	$ 24,816
Weighted average yield	4.27%	4.42%	4.38%

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	$ 19,950	$ (355)	$ 10,314	$ (218)	$ 30,264	$ (573)
Corporate debt	-	-	-	-	-	-
Federal agency collateralized mortgage-backed securities:						
GNMA	122,995	(978)	151,989	(359)	274,984	(1,337)
FNMA and FHLMC	113,297	(237)	63,107	(359)	176,404	(596)
U.S. Treasury securities	24,992	(1)	-	-	24,992	(1)
Asset-backed securities	75,286	(139)	31,439	(186)	106,725	(325)
Total	$ 356,520	$ (1,710)	$ 256,849	$ (1,122)	$ 613,369	$ (2,832)

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 nine months ended September 30, 2020, and 2019, the bank did not recognize any OTTI credit losses and no securities were identified as OTTI at September 30, 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:

	September 30, 2020	December 31, 2019
Direct notes receivable from district associations and OFIs	**$ 14,414,438**	$ 12,976,399
Participations purchased	**6,504,765**	6,521,665
Other bank-owned loans	**-**	229
Total loans	**$ 20,919,203**	$ 19,498,293

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

	September 30, 2020	December 31, 2019
Direct notes receivable from district associations	**$ 14,385,805**	$ 12,935,229
Real estate mortgage	**765,918**	742,630
Production and intermediate term	**735,738**	744,869
Agribusiness		
Loans to cooperatives	**437,143**	354,303
Processing and marketing	**2,596,325**	2,956,140
Farm-related business	**157,466**	70,383
Communications	**558,243**	455,696
Energy (rural utilities)	**1,093,861**	1,057,739
Water and waste disposal	**144,814**	111,830
Rural residential real estate	**1,824**	-
Lease receivables	**11,087**	12,109
Loans to OFIs	**28,633**	41,170
Mission-related	**2,346**	16,195
Total loans	**$ 20,919,203**	$ 19,498,293

The bank's capital markets loan portfolio, also referred to as the participations purchased 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 direct notes receivable from district associations and loan participations purchased and sold, excluding syndications, at September 30, 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	$ 1,048,200	$ 367,583	$ 47,162	$ -	$ 1,095,362	$ 367,583
Production and intermediate term	1,603,461	931,086	24,110	912	1,627,571	931,998
Agribusiness	2,292,662	1,116,038	8,520	-	2,301,182	1,116,038
Communications	785,662	226,970	-	-	785,662	226,970
Energy (rural utilities)	1,215,880	122,023	-	-	1,215,880	122,023
Water and waste disposal	186,277	41,315	-	-	186,277	41,315
Rural residential real estate	5,883	-	-	-	5,883	-
Lease receivables	12,703	1,627	-	-	12,703	1,627
Mission-related	2,337	-	-	-	2,337	-
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Total	**$ 7,153,065**	**$ 6,656,642**	**$ 79,792**	**$ 912**	**$ 7,232,857**	**$ 6,657,554**

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 2.00% of the par value of the loans purchased, and the associations bought bank stock equal to 8.00% of the purchased loans' par value and 1.60% of the AMBS's par value. During the first nine months of 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 September 30, 2020, totaled $113.1 million and were included in loans on the balance sheet. The balance of the AMBS CPP was $24.6 million at September 30, 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 2.00% of the par value of the loans purchased. There were no NCPP loan purchases for the nine months ended September 30, 2020. The NCPP loans balance was $125.9 million at September 30, 2020, and was included in loans on the balance sheet.

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

	September 30, 2020	December 31, 2019
Nonaccrual loans:		
Energy & water/waste disposal	**$ 7,806**	$ 9,207
Agribusiness	**5,783**	6,866
Real estate mortgage	**1,571**	692
Total nonaccrual loans	**15,160**	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	**2,407**	2,450
Total accruing restructured loans	**2,407**	2,450
Total nonperforming loans	**17,567**	19,444
Total nonperforming assets	**$ 17,567**	$ 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:

	September 30, 2020	December 31, 2019
Real estate mortgage:		
Acceptable	**99.8 %**	98.4 %
OAEM	**-**	0.6
Substandard/Doubtful	**0.2**	1.0
	100.0 %	100.0 %
Production and intermediate term:		
Acceptable	**89.1 %**	95.0 %
OAEM	**9.7**	0.8
Substandard/Doubtful	**1.2**	4.2
	100.0 %	100.0 %
Agribusiness:		
Acceptable	**97.1 %**	97.4 %
OAEM	**1.7**	1.9
Substandard/Doubtful	**1.2**	0.7
	100.0 %	100.0 %
Energy & water/waste disposal:		
Acceptable	**99.4 %**	97.0 %
OAEM	**-**	-
Substandard/Doubtful	**0.6**	3.0
	100.0 %	100.0 %
Communications:		
Acceptable	**100.0 %**	100.0 %
OAEM	**-**	-
Substandard/Doubtful	**-**	-
	100.0 %	100.0 %
Direct notes to associations:		
Acceptable	**100.0 %**	91.9 %
OAEM	**-**	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	**99.1 %**	93.8 %
OAEM	**0.6**	5.7
Substandard/Doubtful	**0.3**	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:

September 30, 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	**$ 259**	**$ 1,571**	**$ 1,830**	**$ 770,024**	**$ 771,854**	**$ -**
Production and intermediate term	**-**	**-**	**-**	**739,076**	**739,076**	**-**
Agribusiness	**-**	**-**	**-**	**3,205,088**	**3,205,088**	**-**
Energy & water/waste disposal	**-**	**-**	**-**	**1,244,034**	**1,244,034**	**-**
Communications	**201**	**-**	**201**	**558,180**	**558,381**	**-**
Lease receivables	**-**	**-**	**-**	**11,126**	**11,126**	**-**
Direct notes to associations	**-**	**-**	**-**	**14,415,725**	**14,415,725**	**-**
Loans to OFIs	**-**	**-**	**-**	**28,689**	**28,689**	**-**
Mission-related	**-**	**-**	**-**	**2,407**	**2,407**	**-**
Rural residential real estate	**-**	**-**	**-**	**1,830**	**1,830**	**-**
Total	**$ 460**	**$ 1,571**	**$ 2,031**	**$ 20,976,179**	**$ 20,978,210**	**$ -**

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 was as follows:

	At September 30, 2020			At December 31, 2019		
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with a related allowance for credit losses:						
Energy & water/waste disposal	**$ -**	**$ -**	**$ -**	$ 9,207	$ 9,231	$ 2,579
Agribusiness	**5,713**	**5,825**	**1,199**	6,219	6,332	2,006
Mission-related	**168**	**168**	**54**	168	168	52
Total	**$ 5,881**	**$ 5,993**	**$ 1,253**	$ 15,594	$ 15,731	$ 4,637
Impaired loans with no related allowance for credit losses:						
Energy & water/waste disposal	**$ 7,806**	**$ 18,262**	**$ -**	$ -	$ 7,623	$ -
Agribusiness	**70**	**70**	**-**	647	647	-
Mission-related	**2,239**	**2,239**	**-**	2,282	2,282	-
Real estate mortgage	**1,571**	**1,571**	**-**	921	921	-
Processing and marketing	**-**	**1,192**	**-**	-	1,192	-
Total	**$ 11,686**	**$ 23,334**	**$ -**	$ 3,850	$ 12,665	$ -
Total impaired loans:						
Energy & water/waste disposal	**$ 7,806**	**$ 18,262**	**$ -**	$ 9,207	$ 16,854	$ 2,579
Agribusiness	**5,783**	**5,895**	**1,199**	6,866	6,979	2,006
Mission-related	**2,407**	**2,407**	**54**	2,450	2,450	52
Real estate mortgage	**1,571**	**1,571**	**-**	921	921	-
Processing and marketing	**-**	**1,192**	**-**	-	1,192	-
Total	**$ 17,567**	**$ 29,327**	**$ 1,253**	$ 19,444	$ 28,396	$ 4,637

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2020		September 30, 2019		**September 30, 2020**		September 30, 2019	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Energy & water/waste disposal	**$ 8,652**	**$ -**	$ 9,679	$ -	**$ 8,718**	**$ -**	$ 9,859	$ -
Agribusiness	**5,833**	**-**	7,653	-	**5,894**	**-**	7,446	-
Mission-related	**162**	**-**	166	3	**164**	**7**	168	10
Total	**$ 14,647**	**$ -**	$ 17,498	$ 3	**$ 14,776**	**$ 7**	$ 17,473	$ 10
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 1,418**	**$ 20**	$ 778	$ -	**$ 1,461**	**$ 36**	$ 836	$ -
Energy & water/waste disposal	**101**	**-**	286	-	**368**	**-**	158	-
Agribusiness	**71**	**-**	75	-	**179**	**-**	147	-
Mission-related	**2,184**	**-**	2,261	34	**2,218**	**68**	2,295	105
Total	**$ 3,774**	**$ 20**	$ 3,400	$ 34	**$ 4,226**	**$ 104**	$ 3,436	$ 105
Total impaired loans:								
Real estate mortgage	**$ 1,418**	**$ 20**	$ 778	$ -	**$ 1,461**	**$ 36**	$ 836	$ -
Energy & water/waste disposal	**8,753**	**-**	9,965	-	**9,086**	**-**	10,017	-
Agribusiness	**5,904**	**-**	7,728	-	**6,073**	**-**	7,593	-
Mission-related	**2,346**	**-**	2,427	37	**2,382**	**75**	2,463	115
Total	**$ 18,421**	**$ 20**	$ 20,898	$ 37	**$ 19,002**	**$ 111**	$ 20,909	$ 115

At September 30, 2020, impaired loans of $5.9 million had a related specific allowance of $1.3 million, while the remaining $11.7 million of impaired loans had no related specific allowance as a result of adequate collateralization.

The average recorded investment in impaired loans for the three months ended September 30, 2020, was $18.4 million. The bank recognized interest income of $20 on impaired loans during the three months ended September 30, 2020.

The average recorded investment in impaired loans for the nine months ended September 30, 2020, was $19.0 million. The bank recognized interest income of $111 on impaired loans during the nine months ended September 30, 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 June 30, 2020	$ 261	$ 1,333	$ 5,957	$ 439	$ 3,441	$ 60	$ -	$ -	$ -	$ 53	$ 11,544
Charge-offs	-	-	-	-	(2,808)	-	-	-	-	-	(2,808)
Recoveries	5	-	-	-	-	-	-	-	-	-	5
Provision for credit losses (loan loss reversal)	19	425	408	(89)	(453)	23	-	-	-	2	335
Other *	(4)	(26)	(186)	(16)	511	(1)	-	-	-	(1)	277
Balance at September 30, 2020	$ 281	$ 1,732	$ 6,179	$ 334	$ 691	$ 82	$ -	$ -	$ -	$ 54	$ 9,353
Balance at December 31, 2019	$ 166	$ 1,085	$ 6,097	$ 345	$ 3,699	$ 40	$ -	$ -	$ -	$ 55	$ 11,487
Charge-offs	-	-	-	-	(2,808)	-	-	-	-	-	(2,808)
Recoveries	11	-	-	-	-	-	-	-	-	-	11
Provision for credit losses (loan loss reversal)	107	891	526	14	(660)	43	-	-	-	-	921
Other *	(3)	(244)	(444)	(25)	460	(1)	-	-	-	(1)	(258)
Balance at September 30, 2020	$ 281	$ 1,732	$ 6,179	$ 334	$ 691	$ 82	$ -	$ -	$ -	$ 54	$ 9,353
Individually evaluated for impairment	$ -	$ -	$ 1,199	$ -	$ -	$ -	$ -	$ -	$ -	$ 54	$ 1,253
Collectively evaluated for impairment	281	1,732	4,980	334	691	82	-	-	-	-	8,100
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2020	$ 281	$ 1,732	$ 6,179	$ 334	$ 691	$ 82	$ -	$ -	$ -	$ 54	$ 9,353
Balance at June 30, 2019	$ 119	$ 753	$ 6,663	$ 282	$ 4,264	$ 27	$ -	$ -	$ -	$ 53	$ 12,161
Charge-offs	-	-	-	-	-	-	-	-	-	-	-
Recoveries	5	-	-	-	-	-	-	-	-	-	5
Provision for credit losses (loan loss reversal)	(1)	135	(1,950)	26	(12)	15	-	-	-	1	(1,786)
Other *	-	(39)	477	1	19	-	-	-	-	-	458
Balance at September 30, 2019	$ 123	$ 849	$ 5,190	$ 309	$ 4,271	$ 42	$ -	$ -	$ -	$ 54	$ 10,838
Balance at December 31, 2018	$ 120	$ 799	$ 5,975	$ 364	$ 4,635	$ 29	$ -	$ -	$ -	$ 52	11,974
Charge-offs	-	-	-	-	-	-	-	-	-	-	-
Recoveries	11	-	-	-	-	-	-	-	-	-	11
Provision for credit losses (loan loss reversal)	(8)	129	(1,148)	(47)	(309)	13	-	-	-	2	(1,368)
Other *	-	(79)	363	(8)	(55)	-	-	-	-	-	221
Balance at September 30, 2019	$ 123	$ 849	$ 5,190	$ 309	$ 4,271	$ 42	$ -	$ -	$ -	$ 54	$ 10,838
Individually evaluated for impairment	$ -	$ -	$ 2,006	$ -	$ 2,662	$ -	$ -	$ -	$ -	$ 52	$ 4,720
Collectively evaluated for impairment	123	849	3,184	309	1,609	42	-	-	-	2	6,118
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2019	$ 123	$ 849	$ 5,190	$ 309	$ 4,271	$ 42	$ -	$ -	$ -	$ 54	$ 10,838
Recorded Investments in loans outstanding:											
Ending balance at September 30, 2020	$ 771,854	$ 739,076	$ 3,205,088	$ 558,381	$ 1,244,034	$ 11,126	$ 1,830	$ 14,415,725	$ 28,689	$ 2,407	$ 20,978,210
Individually evaluated for impairment	$ 1,570	$ -	$ 5,783	$ -	$ 7,807	$ -	$ -	$ 14,415,725	$ -	$ 2,407	$ 14,433,292
Collectively evaluated for impairment	$ 770,284	$ 739,076	$ 3,199,305	$ 558,381	$ 1,236,227	$ 11,126	$ 1,830	$ -	$ 28,689	$ -	$ 6,544,918
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance at September 30, 2019	$ 670,575	$ 701,254	$ 3,320,390	$ 476,797	$ 1,186,970	$ 12,483	$ -	$ 12,873,971	$ 41,427	$ 16,333	$ 19,300,200
Individually evaluated for impairment	$ 708	$ -	$ 7,595	$ -	$ 9,631	$ -	$ -	$ 12,873,971	$ -	$ 2,489	$ 12,894,394
Collectively evaluated for impairment	$ 669,867	$ 701,254	$ 3,312,795	$ 476,797	$ 1,177,339	$ 12,483	$ -	$ -	$ 41,427	$ 13,844	$ 6,405,806
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

* 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 September 30, 2020, the total recorded investment in TDRs was $9.0 million, including $6.6 million classified as nonaccrual and $2.4 million classified as accrual, with specific allowance for loan losses of $1.3 million. Additional commitments to lend to borrowers whose loans have been modified in TDRs were $2.3 million at September 30, 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	
	September 30, 2020	December 31, 2019	**September 30, 2020**	December 31, 2019
Agribusiness	**$ 5,895**	$ 6,979	**$ 5,895**	$ 6,979
Real estate mortgage	**666**	692	**666**	692
Mission-related	**2,407**	2,450	**-**	-
Total	**$ 8,968**	$ 10,121	**$ 6,561**	$ 7,671

There were no new loans designated as TDRs during the three or nine months ended September 30, 2020, or September 30, 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 into 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 $1,107 for the three months ended September 30, 2020, and 2019, respectively. Lease expenses for the facility were $3,829 and $3,139 for the nine months ended September 30, 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 had an original term ending August 2020 but was renewed and is effective July 2020 through September 2023. Lease expenses for the copiers and postage machines were $52 and $62 for the three months ended September 30, 2020, and 2019, respectively. Lease expenses for the copiers and postage machines were $178 and $198 for the nine months ended September 30, 2020, and 2019, respectively.

The components of lease expense were as follows:

	Classification on Statements of Comprehensive Income	Three Months Ended September 30,		Nine Months Ended September 30,	
		2020	2019	**2020**	2019
Operating lease cost	Occupancy and equipment	**$ 1,359**	$ 1,169	**$ 4,007**	$ 3,337

Other information related to leases was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	**2020**	2019
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows for operating leases	**$ 677**	$ 465	**$ 2,018**	$ 1,805
ROU assets obtained in exchange for new lease obligations:				
Operating leases	**$ 52**	$ 29,882	**$ 484**	$ 29,882

At September 30, 2020, the weighted-average remaining lease term for the building, copier and postage leases was 14.15 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 September 30, 2020:

	Maturities of Lease Liabilities
Remainder of 2020	$ 688
2021	2,780
2022	2,858
2023	2,837
2024	3,051
Thereafter	38,117
Total undiscounted cash flows	50,331
Less interest expense	6,559
Lease liability	**$ 43,772**

The lease expense for leases with terms of 12 months or less was $9 and $24 for the three months ended September 30, 2020, and 2019, respectively. The lease expense for leases with terms of 12 months or less was $27 and $131 for the nine months ended September 30, 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 September 30, 2020, were approximately $309.07 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 September 30, 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	**$ 285,443**	$ -	$ 285,443	$ -
Available-for-sale investments				
Agency-guaranteed debt	**122,177**	-	122,177	-
Corporate debt	**295,303**	-	295,303	-
Mortgage-backed securities	**4,575,220**	-	4,517,025	58,195
U.S. Treasury securities	**325,045**	-	325,045	-
Asset-backed securities	**174,672**	-	174,672	-
Other available-for-sale investments	**24,574**	-	-	24,574
Derivative assets	**588**	-	588	-
Assets held in nonqualified benefit trusts	**1,087**	1,087	-	-
Collateral assets	**63,741**	63,741	-	-
Total assets	**$ 5,867,850**	$ 64,828	$ 5,720,253	$ 82,769
Liabilities:				
Derivative liabilities	**$ 82,823**	$ -	$ 82,823	$ -
Letters of credit	**1,743**	-	-	1,743
Total liabilities	**$ 84,566**	$ -	$ 82,823	$ 1,743

The table below represents a reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the period from June 30, 2020, to September 30, 2020:

	Assets		Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Letters of Credit	Net
Balance at June 30, 2020	$ 125,210	$ 25,110	$ 1,777	$ 148,543
Net (losses) gains included in other comprehensive income	(52)	22	-	(30)
Purchases, issuances and (settlements)	58,246	(558)	(34)	57,722
Transfers out of Level 3	(125,209)	-	-	(125,209)
Balance at September 30, 2020	$ 58,195	$ 24,574	$ 1,743	$ 81,026
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 September 30, 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 September 30, 2020	$ (52)	$ 22	$ -	$ (30)

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 September 30, 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	141	574	-	715
Purchases, issuances and (settlements)	224,239	(5,051)	913	218,275
Transfers out of Level 3	(166,185)	-	-	(166,185)
Balance at September 30, 2020	$ 58,195	$ 24,574	$ 1,743	$ 81,026
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 September 30, 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 September 30, 2020	$ 141	$ 574	$ -	$ 715

There were transfers of assets out of Level 3 to other levels during the nine months ended September 30, 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 was included in Level 3 because the 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 September 30, 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	**$ 4,734**	**$ -**	**$ -**	**$ 4,734**
Total assets	**$ 4,734**	**$ -**	**$ -**	**$ 4,734**

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 June 30, 2019, to September 30, 2019:

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

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 September 30, 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	218	1,202	-	1,436
Purchases, issuances and (settlements)	25,000	92,550	(6,397)	(56)	111,209
Transfers out of Level 3	(25,016)	(92,768)	-	-	(117,784)
Balance at September 30, 2019	$ -	$ -	$ 30,513	$ 620	$ 29,893
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 September 30, 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 September 30, 2019	$ 16	$ 218	$ 1,202	$ -	$ 1,436

There were transfers of assets out of Level 3 to other levels during the three and nine months ended September 30, 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:

	Total	Fair Value Measurement 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:

September 30, 2020:	**Total Carrying Amount**	**Fair Value Measurement Using** **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	**$ 20,439**	**$ 20,439**	**$ -**	**$ -**	**$ 20,439**
Net loans	**20,909,850**	**-**	**-**	**21,352,487**	**21,352,487**
Total assets	**$ 20,930,289**	**$ 20,439**	**$ -**	**$ 21,352,487**	**$ 21,372,926**
Liabilities:					
Systemwide debt securities	**$ 24,915,055**	**$ -**	**$ -**	**$ 25,328,641**	**$ 25,328,641**
Total liabilities	**$ 24,915,055**	**$ -**	**$ -**	**$ 25,328,641**	**$ 25,328,641**

December 31, 2019:	Total Carrying Amount	Fair Value Measurement Using 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.

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				Range of Inputs / Weighted Average	
	September 30, 2020	December 31, 2019	**Valuation Technique(s)**	**Unobservable Input**	**September 30, 2020**	December 31, 2019
Other investments	**$ 24,574**	$ 29,051	Discounted cash flow	Prepayment rates	**2.4% - 38.0% / 8.00%**	2.4% - 38.0% / 9.40%
Mortgage-backed securities	**58,195**	-	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.

		Amounts Not Offset on the Balance Sheet		
September 30, 2020	**Gross Amounts of Assets/Liabilities Presented on the Balance Sheet**	**Cash Collateral Pledged**	**Investment Securities Received/Pledged as Collateral**	**Net Amount**
Assets:				
Interest rate swaps and other derivatives	**$ 588**	**$ -**	**$ -**	**$ 588**
Federal funds sold and overnight investments	**$ 285,443**	**$ -**	**$ -**	**$ 285,443**
Liabilities:				
Interest rate swaps and other derivatives	**$ 83,853**	**$ (63,734)**	**$ -**	**$ 20,119**
December 31, 2019				
Assets:				
Interest rate swaps and other derivatives	$ 1,852	$ -	$ -	$ 1,852
Federal funds sold and overnight investments	$ 374,344	$ -	$ -	$ 374,344
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 September 30, 2020, the bank held interest rate caps with a notional amount of $145.0 million and a net fair value asset of $237, receive-fixed interest rate swaps with a notional amount of $50.0 million and a net fair value asset of $351, and pay-fixed interest rate swaps with a notional amount of $825.0 million and a net fair value liability of $82.8 million, net of posted variation margin. The primary types of derivative instruments used and the activity (notional amount of derivatives) during the nine months ended September 30, 2020, are summarized in the following table:

	Receive-Fixed Swaps	Pay-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2020	$ 150,000	$ 825,000	$ 195,000	$ 1,170,000
Additions	-	-	-	-
Maturities/Amortizations	(100,000)	-	(50,000)	(150,000)
Balance at September 30, 2020	**$ 50,000**	**$ 825,000**	**$ 145,000**	**$ 1,020,000**

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 September 30, 2020, and December 31, 2019, bilateral counterparties' credit exposure to the bank was $28.1 million and $35.5 million, respectively. At September 30, 2020, the bank had posted $56.4 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 September 30, 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	$ (3,163)	$ (81,377)	$ (84,540)	$ (84,540)	$ (56,430)	$ (28,110)
A1	12	-	12	12	-	12
Total	**$ (3,151)**	**$ (81,377)**	**$ (84,528)**	**$ (84,528)**	**$ (56,430)**	**$ (28,098)**

* 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 September 30, 2020, the bank had a carrying amount of $50.4 million for the hedged items, which included $351 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, which included $95 for the cumulative amount of fair value hedging adjustments.

Cash Flow Hedges

The bank now clears certain cash flow hedges through a futures commission merchant (FCM), with a clearinghouse or central counterparty (CCP). At September 30, 2020, the notional amount of cleared cash flow hedges was $250.0 million, with outstanding exposure of $34.7 million and collateral posted of $7.3 million and $35.1 million in initial and variation margins, respectively. The bank's derivative instruments at September 30, 2020, and December 31, 2019, which are designated and qualify as a cash flow hedge, all met the standards for accounting treatment that presume full effectiveness. Thus, the effective portion of the gain or loss on the derivative was reported as a component of other comprehensive income (OCI). In the next 12 months, we expect to reclassify to earnings losses of $228 recorded in accumulated other comprehensive loss (AOCL) as of September 30, 2020. These amounts will offset the cash flows associated with the hedged forecasted transactions.

The following table represents the fair value of derivative instruments, inclusive of posted variation margin for cleared activity as of September 30, 2020, and December 31, 2019.

	Balance Sheet Location	**Fair Value September 30, 2020**	Fair Value December 31, 2019	**Balance Sheet Location**	**Fair Value September 30, 2020**	Fair Value December 31, 2019
Interest rate caps	Other assets	**$ 237**	$ 98	Other liabilities	**$ -**	$ -
Pay-fixed swaps	Other assets	**-**	1,660	Other liabilities	**(82,823)**	(54,919)

	Gain (Loss) Recognized in AOCL on Derivatives at September 30, 2020	2019		**Amount of Loss Reclassified From AOCL at September 30, 2020**	2019
Interest rate caps	**$ (139)**	$ 366	Interest expense	**$ (267)**	$ (206)
Pay-fixed swaps	**66,975**	65,142	Interest expense	**(1,640)**	(155)

NOTE 9 — CAPITAL

In June of 2020, the association Class A common stockholders of the bank approved an amendment to the bank's Capitalization Bylaws. The amendment became effective in June of 2020 and enlarged the authorized number of shares of preferred stock that may be issued by the bank to that number of shares that will result in a total par value of issued and outstanding preferred stock not to exceed $1.5 billion at any one time.

On July 15, 2020, the bank issued $350.0 million of Class B noncumulative subordinated perpetual preferred stock, Series 4 (Class B-4 preferred stock), representing three hundred fifty thousand shares at $1,000 per share par value, for net proceeds of $346.1 million with issuance costs of $3.9 million. Dividends on the Class B-4, if declared by the board of directors at its sole discretion, are noncumulative and are payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, commencing September 15, 2020, at an annual fixed rate of 5.70% of par value of $1,000 per share up to, but excluding, September 15, 2025, from and after which date will be paid at an annual rate of the five-year Treasury rate as of the most recent five-year reset dividend determination date plus 5.415%. The Class B-4 is not mandatorily redeemable at any time, but may be redeemed in whole or part at the option of the bank, with prior approval from the FCA, on any dividend payment date on or after September 15, 2025. The Class B-4 ranks pari passu with respect to the existing Class B-2 and Class B-3 preferred stock and senior to all of the bank's other outstanding capital stock. For regulatory purposes, the Class B-4 preferred stock is included in permanent capital, total capital and tier 1 capital within certain limitations.

On July 20, 2020, the bank notified holders of the bank's 10% Class B perpetual non-cumulative subordinated preferred stock, Series 1 (Class B-1), of its right to redeem all of the outstanding Class B-1 preferred stock at a total price of $1,000 per share, together with an amount equal to all dividends accrued and unpaid up to, but not including, the redemption date. The redemption date was August 19, 2020, and the redemption price was equal to $1,017.777 per share or $305,333,333.33 in total.

The 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 September 30, 2020, the bank exceeded all regulatory capital requirements.

The following table reflects the bank's capital ratios:

Risk-adjusted	**Regulatory Requirements Including Capital Conservation Buffers**	**As of September 30, 2020**	As of December 31, 2019
Common equity tier 1 ratio	7.00%	**9.62%**	9.91%
Tier 1 capital ratio	8.50	**15.95**	16.01
Total capital ratio	10.50	**15.95**	16.12
Permanent capital ratio	7.00	**15.86**	16.03
Non-risk-adjusted			
Tier 1 leverage ratio	5.00%	**7.06%**	7.26%
UREE leverage ratio	1.50	**2.84**	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 September 30, 2020:

(dollars in thousands)	Common Equity Tier 1 Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Permanent Capital Ratio
Numerator:				
Unallocated retained earnings	$ 922,631	$ 922,631	$ 922,631	$ 922,631
Common Cooperative Equities:				
Purchased other required stock ≥7 years	298,197	298,197	298,197	298,197
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	-	837,500	837,500	837,500
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	13,605	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(152,298)	(152,298)	(152,298)	(152,298)
Other regulatory required deductions	(272)	(76,244)	(89,849)	(89,849)
Total	**$ 1,156,752**	**$ 1,918,280**	**$ 1,918,280**	**$ 1,904,675**
Denominator:				
Risk-adjusted assets excluding allowance	12,024,121	$ 12,024,121	$ 12,024,121	$ 12,024,121
Regulatory Adjustments and Deductions:				
Allowance for loan losses	-	-	-	(11,262)
Total	**$ 12,024,121**	**$ 12,024,121**	**$ 12,024,121**	**$ 12,012,859**

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 September 30, 2020:

(dollars in thousands)	**Tier 1 Leverage Ratio**	**UREE Leverage Ratio**
Numerator:		
Unallocated retained earnings	$ 922,631	$ 922,631
Common Cooperative Equities:		
Purchased other required stock ≥7 years	298,197	-
Allocated stock ≥7 years	36,042	-
Allocated equities:		
Allocated equities held ≥ 7 years	52,452	-
Noncumulative perpetual preferred stock	837,500	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(152,298)	(152,298)
Other regulatory required deductions	(76,244)	-
Total	**$ 1,918,280**	**$ 770,333**
Denominator:		
Total Assets	27,398,547	$ 27,398,547
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(234,723)	(234,723)
Total	**$ 27,163,824**	**$ 27,163,824**

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 nine months ended September 30, 2020, and the same period for 2019:

	Other Postretirement Benefits	
	2020	2019
Service cost	**$ 170**	$ 166
Interest cost	**312**	387
Amortization of prior service cost	**(59)**	(58)
	$ 423	$ 495

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 nine months ended September 30, 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	86,647	86,647		
Net change in unrealized gains on AFS securities	86,647	86,647		
Change in postretirement benefit plans:				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(59)		(59)	
Net change in postretirement benefit plans	(59)		(59)	
Change in cash flow derivative instruments:				
Unrealized losses on cash flow derivative instruments	(73,910)			(73,910)
Reclassification of losses recognized in interest expense	8,982			8,982
Net change in cash flow derivative instruments	(64,928)			(64,928)
Total other comprehensive income (loss)	**21,660**	**86,647**	**(59)**	**(64,928)**
Balance at September 30, 2020	**$ (29,971)**	**$ 89,859**	**$ (860)**	**$ (118,970)**

The following is a summary of the components of AOCL and the changes that occurred during the nine months ended September 30, 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	98,763	98,763		
Gain on sale reclassifications to net income	(7,516)	(7,516)		
Net change in unrealized gains on AFS securities	91,247	91,247		
Change in postretirement benefit plans:				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(58)		(58)	
Net change in postretirement benefit plans	(58)		(58)	
Change in cash flow derivative instruments:				
Unrealized losses on cash flow derivative instruments	(65,525)			(65,525)
Reclassification of losses recognized in interest expense	378			378
Net change in cash flow derivative instruments	(65,147)			(65,147)
Total other comprehensive income (loss)	26,042	91,247	(58)	(65,147)
Balance at September 30, 2019	$ (55,651)	$ 16,706	$ (85)	$ (72,272)

The following table summarizes reclassifications from AOCL to the statements of comprehensive income for the nine months ended September 30, 2020, and the same period for 2019:

Component of AOCL	Amount Reclassified from AOCL 2020	Amount Reclassified from AOCL 2019	Location of Losses (Gains) Recognized in the Statements of Comprehensive Income
Amortization of net credits on post-retirement benefit plan	**$ (59)**	$ (58)	Salaries and employee benefits
Amortization of cash flow hedges	**8,982**	378	Interest expense
Total reclassifications	**$ 8,923**	$ 320	

NOTE 12 — SUBSEQUENT EVENTS

On October 23, 2020, the bank's Chief Executive Officer Larry Doyle announced his retirement effective December 31, 2020, at which time he will transition into a strategic consulting role through the first quarter of 2021. Amie Pala, the bank's current Chief Financial Officer, will succeed Larry Doyle on January 1, 2021, as the bank's Chief Executive Officer.

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*.

ADDITIONAL REGULATORY INFORMATION
(unaudited)

Disclosure Map

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

Disclosure Requirement	Description	September 30, 2020 Quarterly Report Reference
Scope of Application	Corporate entity and structure	Page 51
Capital Structure	Regulatory capital components	Page 52
Capital Adequacy	Risk-weighted assets	Page 53
	Regulatory capital ratios	Page 54
Capital Buffers	Quantitative disclosures	Page 54
Credit Risk	Summary of exposures	Page 54
	Industry distribution	Page 55
	Contractual maturity	Page 55
	Geographic distribution	Page 56
	Impaired loans and allowance for credit losses	Note 3 – Pages 27-34
Counterparty Credit Risk-Related Exposures	Counterparty exposures	Page 56
Credit Risk Mitigation	Exposures with reduced capital requirements	Page 56
Securitization	Securitization exposures	Page 56
Equities	General description	Page 57
Interest Rate Risk for Non-Trading Activities	Interest rate sensitivity	Page 57

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

During the third quarter of 2020, there was a net issuance of $50 million in preferred stock. Refer to Note 9 of the accompanying financial statements for additional details. No other significant qualitative changes occurred for the third 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 exclude information of the bank's affiliated associations. The bank and its affiliated associations are collectively referred to as the "Texas District." The bank has no subsidiaries; therefore, the financial statements are only those of the bank and are not consolidated with any other entity.

Capital Structure

The following table provides a summary of the bank's capital structure at September 30, 2020:

(dollars in thousands)		Three-Month Average Daily Balance
Common equity tier 1 capital (CET1)		
Common cooperative equities:		
Purchased other required stock ≥7 years	$	298,197
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		922,631
Paid-in capital		-
Regulatory adjustments and deductions made to CET1		(152,570)
Total CET1	$	1,156,752
Additional tier 1 capital (AT1)		
Noncumulative perpetual preferred stock	$	837,500
Regulatory adjustments and deductions made to AT1 capital		(75,972)
Total AT1 capital		761,528
Total tier 1 capital	$	1,918,280
Tier 2 capital		
Common cooperative equities not included in CET1	$	-
Tier 2 capital elements (allowance for loan losses)		13,605
Regulatory adjustments and deductions made to Tier 2 capital		(13,605)
Total tier 2 capital (T2)	$	-
Total capital	$	1,918,280

Capital Adequacy and Capital Buffers

The bank's risk-adjusted regulatory capital ratios are calculated by dividing the relevant total capital elements by risk-weighted assets. The following table provides the bank's risk-weighted assets at September 30, 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)	2,834,250
Exposures to depository institutions, foreign banks and credit unions	311
Exposures to public sector entities	-
Corporate exposures, including borrower loans and exposures to other financing institutions	6,522,246
Residential mortgage exposures	-
Past due and nonaccrual exposures	24,363
Securitization exposures	40,253
Exposures to other assets	984,460
Total Risk-Weighted Assets, On-Balance Sheet	10,405,883
Off-Balance Sheet:	
Letters of Credit	59,792
Commitments	1,638,168
Repo-styled transactions	-
Over-the-Counter Derivatives	1,167
Unsettled transactions	-
Cleared transactions	-
All other off-balance sheet exposures	8,688
Total Risk-Weighted Assets, Off-Balance Sheet	1,707,815
Total Risk-Weighted Assets Before Adjustments	**12,113,698**
Additions:	
Intra-System Equity Investments	152,570
Deductions:	
Regulatory Capital Deductions	(242,147)
Total Standardized Risk-Weighted Assets	**$ 12,024,121**

Capital and Leverage Ratios

As of September 30, 2020, the bank was well-capitalized and exceeded all capital requirements. The bank's excess leverage of 2.06% is equal to the tier 1 leverage ratio minus the minimum tier 1 leverage ratio requirement. Because the bank's capital and leverage ratios exceeded the minimum regulatory requirements of 10.50% and 5.00%, respectively, the bank currently has no limitations on its distributions and discretionary bonus payments. The aggregate amount of eligible retained income was $32,246 as of September 30, 2020. The regulatory minimum capital ratios include fully phased-in capital conservation buffers that became effective January 1, 2020. There was no phase-in period for the tier 1 leverage ratio.

	Regulatory Requirements Including Capital Conservation Buffers	Ratios as of September 30, 2020	Calculated Buffers
Common equity tier 1 capital ratio	7.00%	9.62%	2.62%
Tier 1 capital ratio	8.50	15.95	7.45
Total capital ratio	10.50	15.95	5.45
Tier 1 leverage ratio	5.00	7.06	2.06

Credit Risk

System entities have specific lending authorities within their chartered territories. The bank is chartered to serve its associations in Texas, Alabama, Mississippi, Louisiana and most of New Mexico. Our chartered territory is referred to as the district. FCBT serves its chartered territory by lending to the district's Federal Land Credit Association (FLCA) and Agricultural Credit Associations (ACAs). The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired based on characteristics such as probability of default (PD) and loss given default (LGD). Allowance needs by geographic region are only considered in circumstances that may not otherwise be reflected in the PD and LGD such as flooding or drought. There was no allowance attributed to a geographic area as of September 30, 2020.

Refer to the Risk-Adjusted Asset table on page 52 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 September 30, 2020.

	Total Exposure
Direct notes receivable from district associations	$ 17,583,403
Real estate mortgage	839,421
Production and intermediate term	1,210,853
Agribusiness	
Loans to cooperatives	899,558
Processing and marketing	3,843,225
Farm-related business	308,155
Communications	625,355
Energy (rural utilities)	2,037,209
Water and waste disposal	254,214
Mission-related	2,346
Rural residential real estate	1,824
Leases	11,172
Loans to other financing institutions	70,000
Total	$ 27,686,735

The following table provides an overview of the remaining contractual maturity of the bank's credit risk portfolio categorized by exposure at September 30, 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	$ 4,423,780	$ 8,471,204	$ 8,024,219	$ 20,919,203
Off-balance sheet commitments				
Financial letters of credit	13,128	54,037	2,750	69,915
Performance letters of credit	3,043	10,938	-	13,981
Commercial letters of credit	2,515	794	-	3,309
Unfunded commitments	4,132,386	2,373,562	174,379	6,680,327
Investments	427,158	466,296	4,623,537	5,516,991
Derivatives (notional)	50,000	270,000	700,000	1,020,000
Total	**$ 9,052,010**	**$ 11,646,831**	**$ 13,524,885**	**$ 34,223,726**

The following table illustrates the bank's total exposure (including commitments) by geographic distribution based on the headquarters location of the underlying retail loans for the bank and affiliated associations as of September 30, 2020:

State	Percentage
Texas	56 %
Alabama	7
Mississippi	7
Louisiana	4
New Mexico	2
All other states	24
	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 among interest rate caps, pay-fixed swaps and receive-fixed swaps, which were traded in OTC markets as of September 30, 2020.

	Notional	Gross Positive Fair Values
Interest rate caps	$ 145,000	$ 237
Pay-fixed swaps	825,000	-
Receive-fixed swaps	50,000	351
Total Derivatives	**$ 1,020,000**	**$ 588**

The following table provides the total exposure covered by guarantees/credit derivatives for each separately disclosed credit risk portfolio and the risk-weighted asset amount associated with that exposure. The bank did not hold eligible financial collateral for its loan, investment and derivative portfolios at September 30, 2020.

Government Guaranteed Asset Type (dollars in thousands)	90-Day Average Balance	Risk Weighting	Risk-Weighted Amount
Investments	$ 3,037,882	0%	$ -
Loans	2,214	0%	-
Total	$ 3,040,096		$ -

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 did not transfer any exposures that it had originated or purchased from a third party in connection with a securitization of assets as of September 30, 2020, nor did it have any outstanding exposures that it intended to be securitized as of September 30, 2020. The bank did not retain any credit-related re-securitization exposures as of September 30, 2020.

Below is an overview of our purchased securitization exposures held as of September 30, 2020, by exposure type and categorized by risk-weighting band and risk-based capital approach. As of September 30, 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	2,070,088	0%
FNMA and FHLMC	Standardized risk weighting	2,415,186	0%-20%
Total agency MBS		$ 4,485,274	
Asset-backed securities:			
Small Business Administration	Standardized risk weighting	123,889	0%
Asset-backed securities	Gross-up	51,143	20%-100%
Total asset-backed securities		$ 175,032	

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 September 30, 2020 (dollars in thousands)	Disclosed in Other Assets	Life-to-Date (Losses) Recognized in Retained Earnings*
RBICs	$ 14,868	$ (6,325)

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

Interest Rate Risk

The following tables set forth the bank's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy, based on the bank's interest-earning assets and interest-bearing liabilities at September 30, 2020:

Basis points:	-5*	+100	+200
Change in net interest income	1.31%	-0.53%	-1.11%
Change in market value of equity	0.03%	-5.09%	-17.80%

*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 $750 million noncumulative perpetual preferred stock is included in liabilities.