

# Annual Report 2020



## Our Mission

To enhance the quality of life in rural communities by using cooperative principles to provide competitive credit and superior service to our member-owners.



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## To Our Stockholders

Farm Credit Bank of Texas entered 2020 with a strong capital base and a commitment to our mission. Then the coronavirus pandemic took the world by surprise, causing disruptions in the agriculture sector and general economy. Despite unprecedented challenges, the bank continued supporting agriculture and rural communities and achieved solid financial results.



Amie Pala and Jimmy Dodson

Agriculture in our five-state district is vibrant and diverse. Historically low interest rates spurred loan demand, resulting in 10% asset growth. We finished 2020 with \$251.1 million in net income, \$28.2 billion in assets and strong credit quality.

It's difficult for banks to generate earnings in a low-rate environment. Fortunately, our flexible asset/liability and funding strategies enabled us to take advantage of movement in rates. We reduced our interest expense by calling \$16.2 billion in debt and issuing new debt at lower rates.

Financial results are just one measure of our success.

We provide funding, financial products, technology and other services for 14 rural lending cooperatives, also called associations. During the pandemic, we helped district employees stay safe by seamlessly transitioning to working remotely. We also kept the business moving forward.

We continued to fund associations during financial market disruptions. We made technology and operational changes so associations could provide relief to affected borrowers. We continued to roll out applications in our new lending system, including a customer portal for associations. In addition we provided new services, such as a loan pricing index to help associations prepare for the LIBOR phase-out.

The bank wouldn't be celebrating this success if it weren't for Larry Doyle, who retired at the end of 2020 after 17 years as CEO. Larry embraced the cooperative business model. He focused on delivering value to our affiliated co-ops and their borrower-owners. Under his leadership, the bank tripled its asset volume and added diversity while increasing earnings. As a result, we distributed record patronage payments to associations, lowering their funding costs. He also led the charge to deliver modern, innovative technology and financial products across our district.

We look forward to building on his legacy as we carry out our mission in the years to come.

A handwritten signature in black ink, appearing to read 'Jimmy Dodson'.

James F. "Jimmy" Dodson  
Board Chair

A handwritten signature in black ink, appearing to read 'Amie Pala'.

Amie Pala  
Chief Executive Officer

# Top Financial Indicators 2020

## Association and OFI Direct Note Growth

**\$2.1**  
BILLION

OR

**▲15.9%**

## Net Income

**\$251.1**  
MILLION

## Credit Quality

**100%**

Acceptable or Special Mention

## Patronage and Preferred Stock Dividends

**\$214.7**  
MILLION

which represents 85.5% of net income

## Asset Growth

**10.0%**

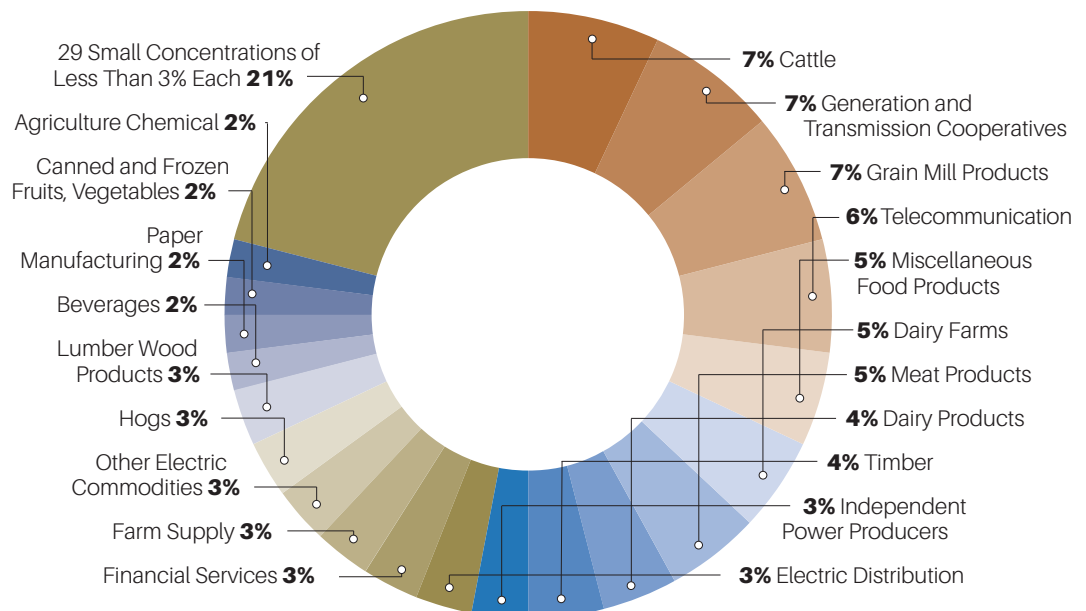
## Regulatory Capital and Liquidity Measures

	At Dec. 31, 2020	Regulatory Requirement
Common equity tier 1 ratio	9.92%	7.00%
Total capital ratio	16.15%	10.50%
Tier 1 leverage ratio	7.11%	5.00%
Liquidity	182 days	90 days

## Capital Level

**\$2.0**  
BILLION

## \$6.8 Billion Capital Markets Portfolio Segmented by Commodity





## Key Accomplishments

### Bank achieves strong financial results in a challenging environment.

Net income increased 23.7% to \$251.1 million, surpassing projections. We reduced our interest expense by taking advantage of low interest rates.

### Assets reach new levels.

Total assets increased 10.0% to \$28.2 billion. Total loan volume increased 11.9% to \$21.8 billion. Credit quality remained very strong.

### Cooperative business model lowers associations' cost of funds.

We shared earnings with the lending co-ops that own the bank by distributing \$99.9 million in patronage on direct note volume. Together, patronage and loan pricing effectively reduced associations' cost of funds to the bank's cost.

### Products and support services help associations serve their customers.

Several operational and technology initiatives are enhancing efficiency, security, risk management and regulatory compliance. In 2020 we commenced the rollout of our new lending system which consists of a fully integrated suite of loan origination and servicing technologies.

### Bank maintains strong capital and liquidity.

Our solid capital position, diversified loans and investments, and interest rate risk and debt management provide stability and growth opportunities. The bank ended the year with \$5.9 billion in cash and investments. It also had \$2.0 billion in shareholders' equity and a total capital ratio of 16.15%.

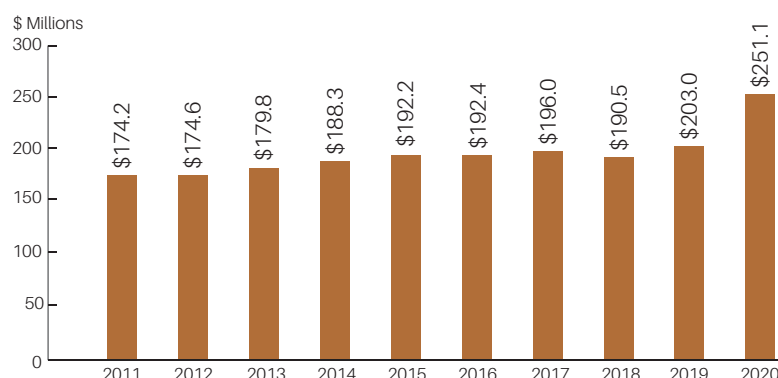
## Financial Highlights

For the Year (in thousands)	2020	2019	2018
Net interest income	\$ 337,978	\$ 271,611	\$ 256,836
(Provision for credit losses) loan loss reversal	(1,081)	588	(4,671)
Noninterest expense, net	(85,760)	(69,245)	(61,635)
Net income	\$ 251,137	\$ 202,954	\$ 190,530
Rate of return on:			
Average assets	0.92%	0.81%	0.81%
Average shareholders' equity	12.58%	10.86%	10.85%
Cash patronage declared	\$ 152,562	\$ 128,112	\$ 110,853

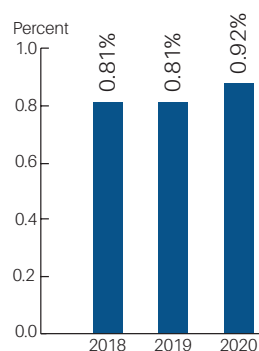
## At Year End (in millions)

Total loans	\$ 21,824	\$ 19,498	\$ 18,057
Total assets	28,228	25,664	24,529
Total liabilities	26,236	23,820	22,752
Total shareholders' equity	1,992	1,844	1,777

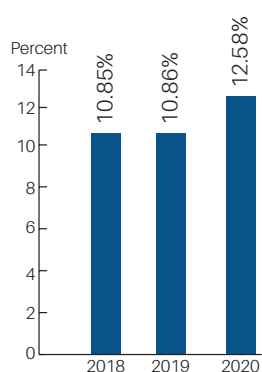
## Bank Net Income



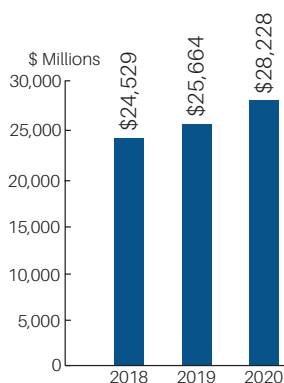
## Return On Average Assets FOR THE YEAR



## Return on Average Equity FOR THE YEAR



## Total Assets Outstanding AT YEAR END



# The Cooperative Advantage

## Cooperating for the Benefit of Our Customers

Farm Credit was established in 1916 to meet the critical need for dependable credit in rural America. It was structured as a nationwide network of customer-owned cooperatives, operating in the best interests of their members.

Our bank is one of four funding banks in the Farm Credit System. We are a federated cooperative, owned by the 14 lending co-ops we serve. We help these associations thrive so they can do the same for agriculture and rural communities.

We give those associations a competitive edge in the marketplace by:

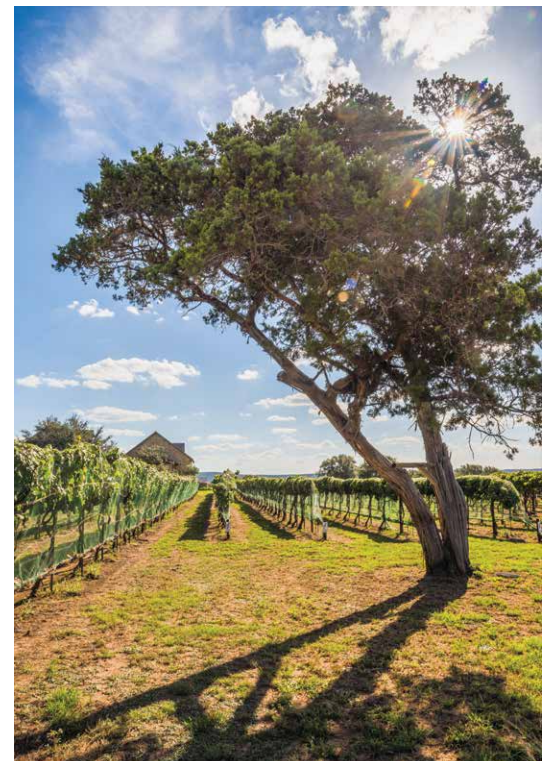
- Providing funding at or below our cost
- Centralizing key functions and services at the bank, freeing associations to focus on their customers
- Maintaining a large, diverse asset base so we can manage risk and generate earnings from sources other than our owners
- Absorbing the cost of our services to associations

Our cooperative business model benefits associations and their borrowers several ways.

## Boosting Agility With Products and Services

The bank provides services in technology, risk management, credit, compliance, accounting and many other areas. This creates greater efficiency and economies of scale for associations than they could achieve on their own without a huge investment.

Associations' loans to their borrowers contributed greatly to our growth in 2020. Likewise, we helped our associations grow and diversify by selling participations in high-quality, low-risk



capital markets loans totaling \$894.4 million. We also partnered with them to finance large agribusinesses in their territories.

Our top priority is to deliver market-driven lending and accounting systems that are user-friendly,



yet powerful enough to handle complex loans. We are preparing to deliver our new software suite districtwide, and several associations are using portions of it now.

We also introduced a user-friendly customer portal. This enables associations and borrowers to share digital documents and loan applications. They can also sign documents electronically and track the status of their loans. A new electronic vault secures the documents.

## **Saving Customers Money Through Patronage and Loan Pricing**

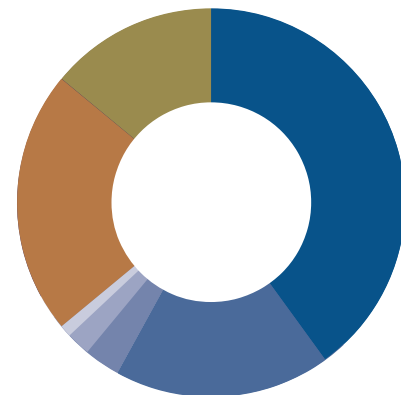
As a Farm Credit System funding bank, we obtain funding through the sale of highly rated Farm Credit notes and bonds.

We lend the funds to our associations and two other financing institutions at our cost, plus a wholesale spread. We then return the spread to them. First, we reduce their loan pricing by funding a portion of their direct notes with our own capital. Second, we distribute much of our earnings to them in the form of patronage payments. In the end, they pay no more for funding than the bank pays.

Our associations pass the value on to the farmers, ranchers, agribusinesses, rural homeowners and landowners they serve. Patronage effectively lowers members' borrowing costs — a unique benefit of doing business with a cooperative.

In total, the bank is returning 85.5% of our 2020 net income to our affiliated lenders and other stockholders. This includes \$159.9 million through five patronage programs and \$54.8 million in preferred stock dividends.

## **What the Bank Did With its 2020 Earnings**



- Paid patronage on:
  - Affiliated lenders' direct notes
  - Participation loans
  - Affiliated lenders' stock in the bank
  - Capitalized Participation Pool
  - Non-Capitalized Participation Pool
- Paid dividends on preferred stock
- Retained earnings for associations' benefit



# We Give Where We Live



The bank and every association supported rural youth by sponsoring livestock shows and awarding scholarships.

Support for community is one of the main co-op principles we follow. And because Farm Credit employees live and work in rural communities, we know where the need is greatest.

In 2020, Farm Credit Bank of Texas and our affiliated lending cooperatives sprang to action when COVID-19 hit. Associations across the district delivered meals, snacks and bottled water to first responders, healthcare workers and truckers. Capital Farm Credit provided \$21,000 in grants to farmers markets across Texas. And together, the bank and associations donated nearly \$75,000 to local food banks.

Severe weather also struck our district. Again, Farm Credit associations were quick to help. During wildfire season, Central Texas Farm Credit donated funds to volunteer fire departments for truck fuel and repairs.



The bank was the title sponsor of the Rodeo Austin Cowboy Breakfast.

After multiple hurricanes hit the Gulf Coast, Louisiana Land Bank provided solar-powered electric fencing to cattle producers without electricity. Southern AgCredit contributed to food drives for Mississippi hurricane victims. And Alabama Farm Credit donated 200 large round bales of hay to cattle producers who lost pasture. In addition, Farm Credit Bank of Texas donated \$100,000 to Red Cross hurricane relief efforts.

We remembered young people too. Ag New Mexico, for instance, helped sponsor 17 youth livestock events and fairs across the state. Texas Farm Credit launched a Youth Ag Video Showcase. This allowed students to win prize money for videos of their 4-H and FFA projects, even if their local fairs were canceled. In total, the bank and associations awarded more than \$350,000 in scholarships to rural youth across five states.

Alabama Ag Credit and Alabama Farm Credit partnered with peanut growers to donate 14,400 jars of peanut butter to food banks.





# Our Customers

## We Support Agriculture and Rural Communities

For more than a century, Farm Credit has helped farmers, ranchers, rural homeowners and agribusinesses achieve their goals and dreams.

Farm Credit offers the agricultural expertise and reliable credit borrowers need to get their start, advance and excel. We help them stay resilient as

agriculture becomes increasingly high tech and capital intensive.

Our bank's role is to provide funding and services that lending cooperatives in five states use to serve their local customer-owners. On the following pages, we introduce some members of our co-op family.

### **Greg Anderson**

Vinemont, Alabama

When a little boy's favorite play is roping the family dog, he's destined to be a rancher. After 23 years as a Navy pilot, Greg Anderson achieved his ranching dream.

He bought 300 acres four years ago, which he named Sullivan Creek Ranch. His goal – build an Akaushi (Japanese Red Wagyu) cattle herd and sell beef directly to the public.

After finding the right land, Anderson looked for the right lender. And that lender was Alabama Farm Credit.

"I wanted to work with people in the community who understand what I'm trying to accomplish. And Alabama Farm Credit does," he says. "They're good people to have on your side."

To produce Prime Akaushi beef, he follows a strict all-natural program. His herd grazes on pastures almost all year, eating hay only in the winter.

Anderson also feeds his cattle non-GMO grain at certain stages of development. And he never uses antibiotic feed, hormones or steroids.

The result – a successful business built on highly marbled beef with healthy fats.

"Greg needed help in making his dream a reality, and that's what Alabama Farm Credit is all about," adds his loan officer, Amanda Stanton.



Greg Anderson



From left, the McCommon family — Nicky, Evan and Taylor — and Evan’s mother, Sandra Evans

## The McCommon Family

Haughton, Louisiana

Mahaffey Farms has come full circle since the 1920s. Once home to orchards, gardens, cattle and hay fields, the farm had reverted to forest by the time the third generation took it on.

Evan McCommon and his family are embracing the old methods and introducing a new generation to fresh seasonal foods. Fruits and vegetables are grown with organic methods. And grass-fed beef and pastured pork, poultry and eggs are in high demand.

Evan manages trees, forage and livestock using an integrated system called silvopasture. This sustainable practice provides shaded pasture for hardy Pineywoods cattle and red wattle hogs. These heritage breeds help control brush and build organic matter in the soil.

The McCommons have now expanded twice.

“They have an impressive operation and have really grown and diversified,” says Jon Fielder, their loan officer at Louisiana Land Bank.

Purchasing an adjacent golf course added irrigated pasture and more room for their farm store and farm-to-table dinners. And the McCommons recently purchased McCain Farms, which produces cured and smoked meats and offers custom processing.

“Adding on to our farm and having our own processing facilities have really helped us increase production,” Evan says.

## Sam and Len Stanley

Levelland, Texas

When Len Stanley started farming 40 years ago, he never imagined how much farming practices would change.

Today, he and his cousin Sam Stanley together and separately grow about 7,300 acres of no-till cotton where technology and data guide every aspect of their cotton operation.

The West Texas farmers use soil moisture probes to take real-time moisture readings at different soil depths and employ variable-rate planters that adjust for soils with higher holding capacity. In addition, the Stanleys converted drip-irrigated fields to a 30/50 row spacing pattern years ago. It was a revolutionary concept and allows for even more efficient water use.

“Sam and Len are well-respected as some of the best operators in the county. They embrace technology and take care of business,” says Douglas Hoelscher, AgTexas vice president and Levelland branch manager.

Evaluating new innovations is perhaps their biggest challenge.

“You have to see how new technology fits your operation — does it gain you net dollars; will it give you knowledge to make better management decisions?” Sam asks.

Len agrees, adding, “AgTexas knows that if we are going to make a decision, we are not going to make it on a whim.”



Sam, left, and Len Stanley



Andy, left, and Jerry Vaz

## Andy and Jerry Vaz

Roswell, New Mexico

New Mexico is known as the Land of Enchantment. But for the Vaz family of Roswell, the state is the land of opportunity.

In 1993, California dairyman Raymond Vaz packed up his family and several hundred dairy cows and moved to eastern New Mexico. The family wanted the opportunity to expand their dairy and grow their own feed — something they couldn't do easily in the San Joaquin Valley.

The move paid off. The family formed Vaz Dairy, and in 2004 sons Jerry and Andy bought the business. Today they milk 3,500 cows and raise 3,000 replacement heifers. They also grow about 60% of their own feed on 1,000 acres of farmland — land that would cost much more in California. Now their children are joining the business too.

For financing — critical to every dairy's success — Vaz Dairy relies on Ag New Mexico along with Chief Lending Officer Shane Hall and Loan Officer Dajah Howell.

"With Ag New Mexico, we get sound financial advice and knowledge about the dairy industry, banking and agriculture," says Jerry. "Shane Hall has always believed in us and our ability."

The respect is mutual. "The Vaz family has contributed so much to the dairy industry and the community," says Hall. "We're proud to help them pursue their goals. It's been a truly symbiotic relationship for all involved."

## Carla Witcher

Hughes Springs, Texas

Carla Witcher loves watching over her flock of more than 52,000 breeder hens and roosters. With the help of Legacy Ag Credit, she now has four new houses where her hens produce fertilized eggs for broiler hatcheries.

Witcher's hatching-egg operation got its start in 2018 when she left an automobile sales career.

The opportunity appealed to Witcher because her parents had raised broiler chickens. She'd maintained their farm — but the broiler houses were empty and outdated. To raise breeder hens, she would have to build new houses.

For financing, Witcher contacted Marc McGahee, vice president of lending with Legacy Ag Credit.

Her loan financed four 600-foot-long houses and equipment. That included a state-of-the-art community nesting system — one of six in the United States.

"Marc, my loan officer, did all the legwork and took care of my loan, while I was taking care of my parents and selling cars," she says.

Now raising breeder hens is Witcher's full-time job.

"One day Carla showed me her Fitbit, and it said she'd walked 7.3 miles [in the barn] that day," says McGahee. "She's a hard worker. She's in the barns and pays attention to detail."



Carla Witcher



# Our Leadership



The bank's directors in 2020, from left: John L. "Jack" Dailey; Lester Little, vice chair; Linda Floerke; M. Philip Guthrie; Dorothy Nichols; Ralph W. "Buddy" Cortese; and James F. "Jimmy" Dodson, chair.

## Farm Credit Bank Of Texas Board Of Directors

Our board of directors establishes policies for the bank, provides strategic direction, oversees management and ensures the bank operates in a safe and sound manner.

The board members have extensive business and leadership experience in a variety of fields. Five directors are farmers or ranchers, elected by the local cooperatives that own the bank. Collectively, the two board-appointed directors have backgrounds in banking, finance, government and law.



### Dr. Larry Boleman



Bank stockholders elected Boleman to a three-year term on the board of directors, effective January 1, 2021. He succeeds Lester Little, who served on the board for 12 years.

Boleman is a retired Texas A&M University executive, animal science professor and Extension beef cattle specialist. He currently is superintendent of the Houston Livestock Show and Rodeo 4-H and FFA Livestock Judging Contest. Prior to his election, he served on the Capital Farm Credit board of directors.

## Senior Management Team

The bank's leaders draw on their experience in the Farm Credit System and in commercial banking, finance, government, information technology and agriculture.

In addition to overseeing day-to-day operations, the team works with the board of directors to establish the bank's business goals and strategies.

Through their vision, combined experience and conservative risk-management approach, they ensure the bank is a stable source of funding and an earnings engine for the district. This strengthens our affiliated lenders' ability to provide competitive credit and superior service for the rural marketplace.

### Amie Pala



On January 1, 2021, Pala succeeded Larry Doyle as chief executive officer following his retirement.

Previously, Pala was the bank's chief financial officer for 10 years, and vice president and treasurer for 15 years. She has extensive experience in banking, treasury management, capital markets and corporate finance. She also holds leadership roles in Farm Credit System work groups, committees and boards.

### Brandon Blaut



Blaut succeeded Amie Pala as the bank's chief financial officer on January 1, 2021.

Previously, Blaut was vice president of finance and loan operations. He has more than 20 years of banking experience, including 14 with the Farm Credit System. Before joining the bank in 2015, he served as chief financial officer and chief credit officer for an association. He started his career in commercial lending.



The bank's senior management team in 2020, from left: Stan Ray, chief administrative officer; Amie Pala, chief financial officer; John Sloan, chief credit officer; Larry Doyle, chief executive officer; Nanci Tucker, general counsel; Ed Benson, chief information and business systems officer; and Nisha Rocap, chief audit executive.

# Five-Year Summary of Selected Financial Data

## Farm Credit Bank of Texas

(dollars in thousands)	2020	2019	2018	2017	2016
<b>Balance Sheet Data</b>					
Cash, federal funds sold and overnight investments	\$ 336,531	\$ 421,950	\$ 410,609	\$ 303,071	\$ 218,380
Investment securities	5,548,167	5,295,143	5,714,638	5,144,985	4,831,375
Loans	21,824,201	19,498,293	18,056,686	17,085,177	15,909,403
Less allowance for loan losses	9,608	11,487	11,974	7,639	7,650
<b>Net loans</b>	<b>21,814,593</b>	<b>19,486,806</b>	<b>18,044,712</b>	<b>17,077,538</b>	<b>15,901,753</b>
Other assets	528,214	459,917	359,191	311,011	270,890
<b>Total assets</b>	<b>\$ 28,227,505</b>	<b>\$ 25,663,816</b>	<b>\$ 24,529,150</b>	<b>\$ 22,836,605</b>	<b>\$ 21,222,398</b>
Obligations with maturities of one year or less	\$ 11,029,378	\$ 9,660,506	\$ 8,721,295	\$ 7,890,433	\$ 9,082,248
Obligations with maturities greater than one year	15,206,594	14,159,127	14,030,922	13,278,288	10,517,898
<b>Total liabilities</b>	<b>26,235,972</b>	<b>23,819,633</b>	<b>22,752,217</b>	<b>21,168,721</b>	<b>19,600,146</b>
Preferred stock	750,000	700,000	700,000	600,000	600,000
Capital stock	359,988	335,262	316,463	301,239	284,038
Allocated retained earnings	59,765	52,451	45,685	39,144	33,171
Unallocated retained earnings	850,607	808,101	796,478	779,403	737,622
Accumulated other comprehensive loss	(28,827)	(51,631)	(81,693)	(51,902)	(32,579)
<b>Total shareholders' equity</b>	<b>1,991,533</b>	<b>1,844,183</b>	<b>1,776,933</b>	<b>1,667,884</b>	<b>1,622,252</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 28,227,505</b>	<b>\$ 25,663,816</b>	<b>\$ 24,529,150</b>	<b>\$ 22,836,605</b>	<b>\$ 21,222,398</b>
<b>Statement of Income Data</b>					
Net interest income	\$ 337,978	\$ 271,611	\$ 256,836	\$ 251,321	\$ 238,321
(Provision for credit losses) Loan loss reversal	(1,081)	588	(4,671)	1,673	(563)
Noninterest expense, net	(85,760)	(69,245)	(61,635)	(57,008)	(45,352)
<b>Net income</b>	<b>\$ 251,137</b>	<b>\$ 202,954</b>	<b>\$ 190,530</b>	<b>\$ 195,986</b>	<b>\$ 192,406</b>
<b>Financial Ratios (unaudited)</b>					
Rate of return on:					
Average assets	0.92%	0.81%	0.81%	0.89%	0.92%
Average shareholders' equity	12.58	10.86	10.85	11.51	11.67
Net interest income to average earning assets	1.28	1.10	1.10	1.16	1.18
Net charge-offs (recoveries) to average loans	0.01	-	-	(0.01)	(0.01)
Total shareholders' equity to total assets	7.06	7.19	7.24	7.30	7.64
Debt to shareholders' equity (:1)	13.17	12.92	12.80	12.69	12.08
Allowance for loan losses to total loans	0.04	0.06	0.07	0.05	0.05
Common equity tier 1 ratio	9.92	9.91	9.92	10.52	n/a
Tier 1 capital ratio	16.07	16.01	16.29	16.59	n/a
Total capital ratio	16.15	16.12	16.42	16.68	n/a
Permanent capital ratio	16.08	16.03	16.31	16.60	17.40
Tier 1 leverage ratio	7.11	7.26	7.39	7.33	n/a
UREE leverage ratio	2.99	3.06	3.08	3.08	n/a
Total surplus ratio	n/a	n/a	n/a	n/a	14.98
Core surplus ratio	n/a	n/a	n/a	n/a	9.97
Net collateral ratio	n/a	n/a	n/a	n/a	107.35
<b>Net Income Distributions</b>					
Preferred stock cash dividends	\$ 54,818	\$ 56,450	\$ 54,727	\$ 50,250	\$ 50,250
Patronage distributions declared					
Cash	\$ 152,562	\$ 128,112	\$ 110,853	\$ 97,982	\$ 96,449
Allocated retained earnings	7,314	6,766	6,541	5,973	5,968





# Management's Discussion & Analysis

(DOLLARS IN THOUSANDS, EXCEPT AS OTHERWISE NOTED)

The following commentary is a discussion and analysis of the financial position and the results of operations of the Farm Credit Bank of Texas (the bank or FCBT) for the years ended December 31, 2020, 2019 and 2018. The commentary should be read in conjunction with the accompanying financial statements, notes to the financial statements (notes) and additional sections of this annual report. The accompanying financial statements were prepared under the oversight of the bank's audit committee.

The bank, together with its affiliated associations (the district), is part of the federally chartered Farm Credit System (System). The district serves Texas, Alabama, Mississippi, Louisiana and most of New Mexico. The bank provides funding to the district associations, which, in turn, provide credit to their borrower-shareholders. As of December 31, 2020, the bank served one Federal Land Credit Association (FLCA), 13 Agricultural Credit Associations (ACAs) and certain Other Financing Institutions (OFIs) which are not part of the System. The FLCA and ACAs are collectively referred to as associations. See Note 1, "Organization and Operations," to the accompanying financial statements for an expanded description of the structure and operations of the bank.

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](http://www.farmcreditbank.com).

## Chief Executive Officer Transition

On October 23, 2020, the bank's Chief Executive Officer (CEO) Larry Doyle announced his retirement effective December 31, 2020. Amie Pala, the bank's Chief Financial Officer, succeeded Larry Doyle on January 1, 2021, as the bank's Chief Executive Officer. To ensure a smooth transition, retired CEO Larry Doyle will serve in a strategic consulting role through the first quarter of 2021.

## Forward-Looking Information

This annual report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government and government-sponsored enterprises; and
- actions taken by the Federal Reserve System in implementing monetary policy.

## Critical Accounting Policies

The financial statements are reported in conformity with generally accepted accounting principles in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, "Summary of Significant Accounting Policies," to the accompanying financial statements. The following is a summary of certain critical policies.

- *Reserves for credit losses* — The bank records reserves for credit losses, consisting of an allowance for loan losses, reported as a reduction of loans on the bank's balance sheet, and a reserve for losses on unfunded commitments, including letters of credit and unused loan commitments, which is reported as a liability on the bank's balance sheet. These reserves are management's best estimate of the amount of probable losses existing in and inherent in our loan portfolio. The allowance for loan losses and reserves for credit losses are increased through provisions for credit losses and loan recoveries and are decreased through loan loss reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which includes loans that may be impaired. Each of these individual loans is evaluated based on the borrower's overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. If the present value of expected future cash flows (or, alternatively, the fair value of the collateral) is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), an impairment is recognized by making an addition to the allowance for loan losses with a corresponding charge to the provision for credit losses or by similarly adjusting an existing valuation allowance.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are used when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Third-party valuation services are utilized by management to obtain fair values for the majority of the bank's investments. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other postretirement benefit obligations, and certain derivative and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the bank's results of operations.
- *Pensions and retirement plans* — The bank and its related associations participate in the district's defined benefit retirement plan (DB plan). The plan is noncontributory, and benefits are based on salary and years of service. As of January 1, 1996, the bank and associations froze participation in their defined benefit pension plan and offered defined contribution retirement plans to all employees hired subsequent to the freeze.

The structure of the district's single-employer DB plan is characterized as multiemployer for participating employers' accounting purposes, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (bank and associations). No portion of any surplus asset is available to any participating employer. Participating employers are jointly and severally liable for the plan obligations. Upon withdrawal or termination of their participation in the plan, a participating employer must pay all associated costs of its withdrawal from the plan, including its unfunded liability (the difference between replacement annuities and the withdrawing employer's share of allocated plan assets). As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination only. The bank records current contributions to the DB plan as an expense in the current year.

The liability and expense for other postemployment benefits is determined actuarially based on certain assumptions, including discount rate and mortality assumptions. The discount rate is used to determine the present value of our future benefit obligations. We selected the discount rate by reference to the Aon AA Only Above-Median Yield Curve, actuarial analyses and industry norms. The Aon yield curves are determined based on actual corporate bond yields for bonds rated AA as of the measurement date. The discount rate at December 31, 2020, was 2.80%, compared to 3.45% at December 31, 2019 and 4.75% at December 31, 2018.

## OVERVIEW

### General

The bank's loan portfolio totaled \$21.82 billion at December 31, 2020, an 11.93% increase from the prior year. The increase in the bank's loan portfolio was mainly due to an increase in the bank's direct loans to associations and an increase in the bank's capital markets loan portfolio. The bank's net income for 2020 was \$251.1 million, an increase of \$48.2 million compared to 2019. The increase in net income was the result of a \$66.4 million increase in net interest income, offset by a \$14.5 million increase in noninterest expense. The increase in net interest income was the result of a \$1.8 billion increase in average earning assets, and an increase in the bank's net interest rate spread of 25 basis points to 1.19%. The increase in net interest spread was due to a decrease in the cost of debt of 84 basis points, offset by a decrease in interest-earning assets of 59 basis points.

### Funding

During 2020, the System continued to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. Investor demand for Systemwide debt securities has remained favorable across all products. The bank has continued to have reliable access to funding at competitive rates and terms necessary to support our lending and business operations. Future ratings action affecting the U.S. government and related entities (including the System) may affect our borrowing cost and/or limit our access to the debt capital markets, reducing our flexibility to issue debt across the full spectrum of the yield curve.

### Conditions in the Texas District

The United States has been operating under a presidentially declared emergency since March 13, 2020, due to the Coronavirus Disease 2019 (also referred to as COVID-19). The bank continues during these unprecedented times to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Loan volume increased during 2020 at the affiliated associations resulting from the associations' retail customers taking advantage of the low interest rate environment. The bank maintained access to capital markets to redeem and replace preferred stock and callable debt as well as fund incremental needs. There were no significant changes to funding strategies, and the bank maintained compliance with all interest rate risk measures. The impact to the value and liquidity of the liquidity investment portfolio was limited with no other-than-temporary impairment losses recognized in 2020. The bank has closely monitored its loan portfolio overall and has adjusted its portfolio monitoring and servicing practices. The credit quality of the bank's loan portfolio remained strong. As of December 31, 2020, the bank recorded a qualitative general reserve of approximately \$3.2 million for specific sectors within its participations purchased portfolio due to uncertainty from the COVID-19 pandemic. Capital levels remained strong to support any adversity or continuing loan demand.

Operationally, the bank continued to function as normal during these challenging times. The bank's internal controls over financial reporting and disclosure controls and procedures continued 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 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, could sign up for aid at USDA Farm Service Agency offices through mid-December 2020.

On December 27, 2020, the President of the United States signed the Consolidated Appropriations Act, 2021 (CAA) into law. According to Congressional Budget Office estimates, the CAA allocates approximately \$868 billion to stimulus and relief programs related to COVID-19, including direct payments to households, continuation of the PPP lending program and an extension of increased federal unemployment benefits. The Congressional Budget Office estimates that the bill provides approximately \$12.7 billion in support payments to producers of commodity crops, specialty crops, dairy, livestock, poultry, renewable fuels and timber. Additionally, the CAA authorizes funds to purchase agricultural products for distribution and provides supplemental funding for existing farm support programs. The impact of the support programs for agriculture and related industries is undeterminable at this point in time.

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.

A surge in COVID-19 cases observed late in 2020 could potentially threaten the economic recovery in the short-term. According to data published by the Centers for Disease Control and Prevention (CDC), new cases of COVID-19 in the U.S. averaged more than 200,000 per day in December 2020. Significant work is underway to develop, approve, distribute, and administer vaccines to the U.S. population. However, the CDC estimates that less than 20.0% of the more than 14 million COVID-19 vaccine doses distributed in 2020 had been administered at year-end. The strength of the U.S. economy in 2021 will likely depend on the trajectory of the pandemic, including the impact of vaccination programs, and related legislative response.

According to the U.S. Bureau of Economic Analysis (BEA), U.S. real gross domestic product (GDP) declined at a seasonally adjusted annualized rate of 31.4% in the second quarter of 2020. Although real GDP increased substantially in the third quarter of 2020, rising at a rate of 33.4%, the U.S. economy has not fully recovered.

The U.S. unemployment rate decreased to 6.7% in November 2020 from 6.9% in the previous month. Although the unemployment rate has nearly doubled year-over-year, it is well below the peak of 14.7% observed in April. The statewide unemployment rates observed in the district as of November 2020 ranged from a low of 4.4% in Alabama to a high of 8.3% in Louisiana. The unemployment rate was 8.1% in Texas.

The U.S. Energy Information Administration (EIA) estimates that the spot price of West Texas Intermediate crude oil averaged below \$40 per barrel in 2020 for the first time since 2003. Although the EIA anticipates that oil prices will improve in 2021, profitability of oil producers will likely remain depressed relative to recent years. This may limit economic activity in certain areas of the district.

The United States Department of Agriculture (USDA) estimates that net farm income increased by about 43.0% in 2020, reaching \$119.6 billion. In inflation-adjusted terms, net farm income is expected to be below the peak observed in 2013, but about 32.0% above the 20-year average. Direct government payments are projected at about \$46.5 billion, accounting for a historically high level of around 39.0% of all farm income, up \$24.0 billion, or 107.0%, compared to 2019. COVID-19-related assistance programs, including the Coronavirus Food Assistance Programs (CFAP1 and CFAP2) and Paycheck Protection Program (PPP), are estimated to provide about \$32.4 billion in support to farmers during 2020.

According to USDA estimates, corn and soybean production rose during the 2020 crop season, while cotton production declined. USDA expects farmers to receive higher prices for corn, soybeans and cotton in the 2020/21 marketing year. Milk prices have been historically volatile in 2020, due primarily to impacts associated with COVID-19. On an annual average basis, the all-milk price is estimated to fall from \$18.63 per hundredweight (cwt) in 2019 to \$18.25/cwt in 2020, and to 16.60/cwt in 2021. Livestock prices have been volatile overall, but the outlook for 2021 is generally positive as the industry is expected to continue to adapt to changing conditions.



During 2021, agricultural producers may be negatively affected by several factors, including volatile commodity prices, export market disruptions, a slowing economy and weather-related challenges. The bank and district are in the process of evaluating the potential impact of the historically low temperatures observed across the central U.S. in February 2021. While the assessment of the full effect on the bank and district's borrowers is on-going, this most recent weather event is not expected to have a significant adverse impact on the bank's or district's overall financial condition and results of operations. The district loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of the district's borrowers primarily rely on non-farm sources of income to repay their loans.

## RESULTS OF OPERATIONS

### Net Income

The bank's net income of \$251.1 million for the year ended December 31, 2020, reflects an increase of 23.74% over 2019, while 2019 net income of \$203.0 million increased by 6.52% from 2018. The return on average assets was 0.92% for the year ended December 31, 2020, compared to the return on average assets of 0.81% for the years ended December 31, 2019 and December 31, 2018.

Changes in the major components of net income for the referenced periods are outlined in the table below and in the discussion following:

	Year Ended December 31,	
	2020 vs. 2019	2019 vs. 2018
Net income (prior period)	\$ 202,954	\$ 190,530
Increase due to:		
(Decrease) increase in interest income	(98,058)	113,153
Decrease (increase) in interest expense	164,425	(98,378)
Increase in net interest income	66,367	14,775
(Increase) decrease in provision for credit losses	(1,669)	5,259
(Decrease) increase in noninterest income	(2,045)	1,697
Increase in noninterest expense	(14,470)	(9,307)
Total change in net income	48,183	12,424
Net income	\$ 251,137	\$ 202,954

Discussion of the changes in components of net income is included in the following narrative.

### Interest Income

Total interest income for the year ended December 31, 2020, was \$705.7 million, a decrease of \$98.1 million, or 12.20%, compared to 2019. Total interest income for the year ended December 31, 2019, was \$803.7 million, an increase of \$113.2 million, or 16.39%, compared to 2018.

The decrease for 2020 was primarily due to a 59-basis-point decrease in the yield on average earning assets, offset by an increase in average interest earning assets of \$1.8 billion. The increase for 2019 was due primarily to a \$1.36 billion increase in average earning assets and a 29-basis-point increase in the average yield.

The following table illustrates the impact that volume and yield changes had on interest income over these periods:

	Year Ended December 31,	
	2020 vs. 2019 <sup>(1)</sup>	2019 vs. 2018 <sup>(1)</sup>
Increase in average earning assets	\$ 1,769,070	\$ 1,362,300
Average yield (prior year)	3.26%	2.97%
Interest income variance attributed to change in volume	57,672	40,460
Average earning assets (current year)	26,396,958	24,627,888
(Decrease) increase in average yield	(0.59)%	0.29%
Interest income variance attributed to change in yield	(155,730)	72,693
Net change in interest income	\$ (98,058)	\$ 113,153

<sup>(1)</sup> The change in interest income not solely due to changes in volume or rate has been allocated in proportion to the absolute dollar amount of the change in volume and rate.

### Interest Expense

Total interest expense for the year ended December 31, 2020, was \$367.7 million, a decrease of \$164.4 million, or 30.90%, compared to the same period of 2019. Total interest expense for the year ended December 31, 2019, was \$532.1 million, an increase of \$98.4 million, or 22.68%, compared to the same period of 2018. The decrease in 2020 was due primarily to the effects of an 84-basis-point decrease in the average cost of debt, offset by an increase of \$1.9 billion in interest-bearing liabilities. The increase in 2019 was due primarily to the effects of a 32-basis-point increase in the average cost of debt and a \$1.27 billion increase in average interest-bearing liabilities.

During 2020, 2019 and 2018, the bank reduced its interest expense by calling and replacing debt totaling \$16.18 billion, \$7.18 billion and \$268.0 million, respectively. During the years ended December 31, 2020 and 2019, the bank recognized concession expense of \$22.2 million and \$12.7 million, respectively. During the year ended December 31, 2018, the bank did not recognize any concession expense.

The following table illustrates the impact that volume and rate changes had on interest expense over these periods:

	Year Ended December 31,	
	2020 vs. 2019 <sup>(1)</sup>	2019 vs. 2018 <sup>(1)</sup>
Increase in average interest-bearing liabilities	\$ 1,910,809	\$ 1,273,943
Average rate (prior year)	2.32%	2.00%
Interest expense variance attributed to change in volume	44,331	25,479
Average interest-bearing liabilities (current year)	24,831,459	22,920,650
(Decrease) increase in average rate	(0.84)%	0.32%
Interest expense variance attributed to change in rate	(208,756)	72,899
Net change in interest expense	\$ (164,425)	\$ 98,378

<sup>(1)</sup> The change in interest expense not solely due to changes in volume or rate has been allocated in proportion to the absolute dollar amount of the change in volume and rate.

### Net Interest Income

Net interest income, the excess of interest income over interest expense, increased by \$66.4 million from 2019 to 2020, and increased by \$14.8 million from 2018 to 2019. The increase in 2020 was due to the effects of a \$1.8 billion increase in average interest-earning assets, and a 25-basis-point increase in the interest rate spread, which is the

difference between the average rate received on interest-earning assets and the average rate paid on interest-bearing debt. The bank's increase in average earning assets included growth in direct notes to district associations and the bank's capital markets loan portfolio.

Net interest income in 2019 was \$14.8 million greater than 2018. The increase in 2019 was due to the effects of a \$1.36 billion increase in average interest-earning assets, partially offset by a 3-basis-point decrease in the interest rate spread.

## ANALYSIS OF NET INTEREST INCOME

	2020		2019		2018	
	Average Balance	Interest	Average Balance	Interest	Average Balance	Interest
Loans	\$ 20,613,853	\$ 610,907	\$ 18,882,265	\$ 661,515	\$ 17,662,587	\$ 563,495
Investments	5,783,105	94,753	5,745,623	142,203	5,603,001	127,070
Total earning assets	26,396,958	705,660	24,627,888	803,718	23,265,588	690,565
Interest-bearing liabilities	24,831,459	367,682	22,920,650	532,107	21,646,707	433,729
Impact of capital	\$ 1,565,499		\$ 1,707,238		\$ 1,618,881	
<b>Net Interest Income</b>		<b>\$ 337,978</b>		<b>\$ 271,611</b>		<b>\$ 256,836</b>
		<b>Average Yield</b>		<b>Average Yield</b>		<b>Average Yield</b>
Yield on loans		2.96%		3.50%		3.19%
Yield on investments		1.64%		2.47%		2.27%
Yield on earning assets		2.67%		3.26%		2.97%
Cost of interest-bearing liabilities		1.48%		2.32%		2.00%
Interest rate spread		1.19%		0.94%		0.97%
Impact of capital		0.09%		0.16%		0.13%
Net interest income/average earning assets		1.28%		1.10%		1.10%

## Provision for Credit Losses

The bank's provision for credit losses for 2020 was \$1.1 million, an increase of \$1.7 million from the \$588 thousand loan loss reversal recorded for 2019. The increase was due to \$3.2 million in qualitative general reserves recorded for the participations purchased loan portfolio due to uncertainty from the COVID-19 pandemic in the following sectors: beef cattle, dairy, other livestock production and processing, oil and gas, forestry and wood processing, other food and kindred products, and grocery and related products. This was offset by a reversal of \$1.6 million related to the payoff of two non-performing loans in 2020.

The bank's loan loss reversal for 2019 was \$588 thousand, a decrease of \$5.2 million from the \$4.7 million provision recorded for 2018. The loan loss reversal recognized in 2019 was primarily due to reversals of \$2.1 million for specific reserves on one agribusiness loan, offset by an increase of \$1.6 million in general reserves due to slight credit quality deterioration in certain sectors of the loan portfolio.

The bank's provision for credit losses for 2018 totaled \$4.7 million, an increase of \$6.3 million from the \$1.7 million loan loss reversal recorded for 2017. The provision recognized in 2018 included required allowances related to loans individually evaluated for impairment of \$7.4 million, offset by decreases in general reserves of \$2.6 million.

## Noninterest Income

Noninterest income for the year ended December 31, 2020, was \$47.2 million, a decrease of \$2.0 million, or 4.15%, compared to 2019. The decrease was primarily due to the gain on the sale of investments in 2019, offset by a \$7.9 million increase in fees for loan-related services during 2020.

Noninterest income for the year ended December 31, 2019, was \$49.2 million, an increase of \$1.7 million, or 3.57%, compared to 2018. The increase was primarily due to a \$12.1 million increase in

the gain on sale of investments, offset by a \$5.9 million decrease in the refund from the Farm Credit System Insurance Corporation (FSCIC), a decrease of \$3.6 million in other income related to gains on the extinguishment of debt, and a \$1.6 million decrease in prepayment penalty fees.

Noninterest income for the year ended December 31, 2018, was \$47.6 million, an increase of \$2.3 million, or 5.19%, compared to 2017. The increase was primarily due to an \$8.4 million increase in the refund from the Farm Credit System Insurance Corporation (FSCIC), and an increase of \$3.6 million in other income related to gains on the extinguishment of debt, offset by a \$1.3 million decrease in prepayment penalty fees, a \$3.7 million decrease in gain on sale of loans, and a \$3.0 million decrease in Rural Business Investment Companies (RBICs) income.

## Noninterest Expense

Noninterest expense totaled \$133.0 million for 2020, an increase of \$14.5 million, or 12.21%, from 2019. The increase was related to a \$5.9 million increase in salaries and employee benefits expense and an increase in occupancy and equipment expense of \$5.8 million due to a \$5.4 million increase in maintenance and depreciation expense on software.

Noninterest expense totaled \$118.5 million for 2019, an increase of \$9.3 million, or 8.52%, from 2018. The \$4.3 million increase in other operating expenses was primarily due to a \$2.6 million increase in professional and contract services. The \$2.7 million increase in occupancy and equipment expenses was primarily due to a \$2.1 million increase in maintenance and depreciation expense on software. The \$1.7 million increase in salaries and benefits is due to normal annual merit increases coupled with an increase in the average number of employees. The \$633 increase in FSCIC premiums is due to an increase in outstanding debt.

Noninterest expense totaled \$109.2 million for 2018, an increase of \$7.0 million, or 6.82%, from 2017. This increase was primarily due to a \$5.3 million increase in professional and contract services, a \$2.8 million increase in salaries and benefits, and a \$2.1 million increase in occupancy and equipment expenses, offset primarily by a \$4.4 million decrease in FCSIC premiums.

Operating expense (salaries and employee benefits, occupancy and equipment, FCSIC premiums, and other operating expenses) statistics are set forth below for each of the three years ended December 31:

	2020	2019	2018
Excess of net interest income over operating expense	\$ 205,016	\$ 153,119	\$ 147,651
Operating expense as a percentage of net interest income	39.3%	43.6%	42.5%
Operating expense as a percentage of net interest income and noninterest income	34.5	36.9	35.9
Operating expense as a percentage of average loans	0.65	0.63	0.62
Operating expense as a percentage of average earning assets	0.50	0.48	0.47

## CORPORATE RISK PROFILE

### Overview

The bank is in the business of funding and participating in agricultural and other loans which requires us to take certain risks in exchange for compensation for the risks undertaken. Management of risks inherent in our business is essential for our current and long-term financial performance. Our goal is to mitigate risk, where appropriate, and to properly and effectively identify, measure, price, monitor and report risks in our business activities.

The major types of risk to which we have exposure are:

- structural risk — risk inherent in our business and related to our structure (an interdependent network of lending institutions);
- credit risk — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed;
- interest rate risk — risk that changes in interest rates may adversely affect our operating results and financial condition;
- liquidity risk — risk of loss arising from the inability to meet obligations when they come due without incurring unacceptable losses;
- operational risk — risk of loss resulting from inadequate or failed internal processes or systems, errors by employees, external cyber risk and data security or external events;
- reputational risk — risk of loss resulting from events, real or perceived, that shape the image of the bank, the System or any System entities, including the impact of investors' perceptions about agriculture, the reliability of district or System financial information, or the overt actions of any district or System institution; and
- political risk — risk of loss of support for the System and agriculture by the federal and state governments.

## Structural Risk Management

Structural risk results from the fact that the bank, along with its related associations, is part of the Farm Credit System (System), which is composed of banks and associations that are cooperatively owned, directly or indirectly, by their borrowers. While System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. Further, there is structural risk in that only the banks are jointly and severally liable for the payments of Systemwide debt securities. Although capital at the association level reduces a bank's credit exposure with respect to its direct loans to its affiliated associations, this capital may not be available to support the payment of principal and interest on Systemwide debt securities.

In order to mitigate this risk, the System utilizes two integrated contractual agreements — the Amended and Restated Contractual Interbank Performance Agreement (CIPA), and the Third Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score (CIPA score) is calculated that measures the financial condition and performance of each district using various ratios that take into account the district's and bank's capital, asset quality, earnings, interest-rate risk and liquidity. The CIPA score is then compared against the agreed-upon standard of financial condition and performance that each district must achieve and maintain. The measurement standard established under the CIPA is intended to provide an early-warning mechanism to assist in monitoring the financial condition of each district. The performance standard under the CIPA is based on the average CIPA score over a four-quarter period.

The MAA is designed to provide for the timely identification and resolution of individual bank financial issues and establishes performance criteria and procedures for the banks that provide operational oversight and control over a bank's access to System funding.

As required by the MAA, the banks and the Federal Farm Credit Banks Funding Corporation (Funding Corporation) undertake a periodic formal review of the MAA to consider whether any amendments are appropriate. In connection with the most recent review, the banks and the Funding Corporation agreed to enter into the Third Amended and Restated MAA, which was effective on January 1, 2017.

Periodically, the CIPA model and the MAA performance criteria are reviewed to take into consideration current performance standards in the financial services industry or regulatory changes. As a result of the changes to regulatory capital ratio requirements that became effective January 1, 2017, the performance criteria set forth in the MAA are as follows:

- the defined CIPA scores,
- the tier 1 leverage ratio of a bank, and
- the total capital ratio of a bank.

The bank's tier 1 leverage ratio is tier 1 capital (primarily unallocated retained earnings, the bank's common stock and preferred stock less certain regulatory required deductions) divided by non-risk adjusted assets. The bank's total capital ratio is the sum of the bank's common equity tier 1 capital, additional tier 1 capital and tier 2 capital elements,



minus regulatory deductions and adjustments, divided by risk-adjusted assets.

If a bank fails to meet the above performance criteria, it will be placed into one of three categories. Each category gives the other System banks progressively more control over a bank that has declining financial performance under the MAA performance criteria. A “Category I” bank is subject to additional monitoring and reporting requirements; a “Category II” bank’s ability to participate in issuances of Systemwide debt securities may be limited to refinancing maturing debt obligations; and a “Category III” bank may not be permitted to participate in issuances of Systemwide debt securities. A bank exits these categories by returning to compliance with the agreed-upon performance criteria.

The criteria for the tier 1 leverage ratio and the total capital ratio are:

	<b>Tier 1 Leverage Ratio</b>	<b>Total Capital Ratio</b>
Category I	<5.0%	<10.5%
Category II	<4.0%	<8.0%
Category III	<3.0%	<7.0%

During the year ended December 31, 2020, all banks met the agreed-upon standards for the tier 1 leverage ratio and total capital ratios required by the MAA that became effective January 1, 2017. As of December 31, 2020, all banks met the agreed-upon standard of financial condition and performance required by the CIPA. During the three years ended December 31, 2020, the banks met the defined CIPA score required by the MAA.

## Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolio and derivative counterparty credit exposures. We manage credit risk associated with our lending activities through an assessment of the credit risk profile of an individual borrower. We set our own underwriting standards and lending policies, approved by the board of directors, that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- **character** — borrower integrity and credit history;
- **capacity** — repayment capacity of the borrower based on cash flows from operations or other sources of income;
- **collateral** — protects the lender in the event of default and represents a potential secondary source of loan repayment;
- **capital** — ability of the operation to survive unanticipated risks; and
- **conditions** — requirements that govern intended use of loan funds.

The retail credit risk management process begins with an analysis of the borrower’s credit history, repayment capacity and financial position. Repayment capacity focuses on the borrower’s ability to repay the loan based on cash flows from operations or other sources of income, including non-farm income. Real estate loans with terms greater than 10 years must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate loans with terms greater than 10

years may be made only in amounts up to 85% of the original appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a state, federal or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans greater than \$250,000. This credit risk-rating process incorporates objective and subjective criteria to identify inherent strengths and weaknesses and risks in a particular relationship.

This credit risk-rating process uses a two-dimensional loan rating structure, incorporating a 14-point risk-rating scale to identify and track the probability of borrower default and a separate 4-point scale addressing loss given default. The 14-point risk-rating scale provides for nine “acceptable” categories, one “other assets especially mentioned” (OAEM) category, two “substandard” categories, one “doubtful” category and one “loss” category. The loss given default scale establishes ranges of anticipated principal loss if the loan defaults.

By buying and selling loans or interests in loans to or from other institutions within the System or outside the System, we limit our exposure to either a borrower or commodity concentration. This also allows us to manage growth and capital, and to improve geographic diversification.

Portfolio credit risk is also evaluated with the goal of managing the concentration of credit risk. Concentration risk is reviewed and measured by industry, commodity, geography and customer limits.

## Loans

The bank’s loan portfolio consists of direct notes receivable from district associations and qualifying other financing institutions (OFIs), and the bank’s capital markets loan portfolio. See Note 1, “Organization and Operations,” Note 2, “Summary of Significant Accounting Policies,” and Note 4, “Loans and Reserves for Credit Losses,” to the accompanying financial statements for further discussions.

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

Gross loan volume of \$21.82 billion at December 31, 2020, reflected an increase of \$2.33 billion, or 11.93%, from December 31, 2019. The increase in the loan portfolio from 2019 to 2020 is mainly attributable to a \$2.06 billion increase in the bank’s direct loans to associations and OFIs. The balance of \$19.50 billion at December 31, 2019, reflected an increase of \$1.44 billion, or 7.98%, from December 31, 2018. The increase in the loan portfolio from 2018 to 2019 is mainly attributable to a \$1.15 billion increase in the bank’s direct loans to associations and OFIs and a \$288.5 million increase in the bank’s capital markets loan portfolio.

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) program transactions. CPP purchases result in pay downs on the associations' direct notes at the time of purchase. During 2020, the bank purchased \$10.2 million in loan participations from associations, which resulted in net stock issuances of \$610 thousand. CPP loans held at December 31, 2020, totaled \$105.1 million and were included in loans on the balance sheet. The balance of the Farmer Mac AMBS CPP was \$23.4 million at December 31, 2020, and is included in investment securities on the balance sheet.

The bank also purchased loans from a district association in Non-Capitalized Participation Pool (NCPP) program transactions. NCPP purchases result in pay downs on the associations' direct notes at the time of purchase. There were no NCPP loan purchases for the year ended December 31, 2020. NCPP loans held at December 31, 2020, totaled \$114.2 million, and were included in loans on the balance sheet.

The following table presents each loan category as a percentage of the total loan portfolio:

	December 31,		
	2020	2019	2018
Direct notes receivable from district associations and OFIs	68.9%	66.6%	65.5%
Participations purchased	31.1	33.4	34.5
Total	100.0%	100.0%	100.0%

The following table discloses the credit quality of the bank's loan portfolio:

	December 31,		
	2020	2019	2018
Acceptable	99.1%	93.8%	95.3%
OAEM (special mention)	0.9	5.7	4.3
Substandard/Doubtful	-	0.5	0.4
Total	100.0%	100.0%	100.0%

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. The bank had not recorded any allowance for credit loss related to the direct notes.

The increase in acceptable loans credit quality (as a percentage of total loans) as of December 31, 2019, compared to December 31, 2018, was mainly driven by the movement of loans to acceptable from special mention. The decrease in special mention loans credit quality (as a percentage of total loans) as of December 31, 2020, compared to December 31, 2019, was mainly due to improvements in the underlying performance of loans in this classification. The decrease in substandard/doubtful credit quality is due to repayments of loans within the classification.

The bank's capital markets loan portfolio's concentration of credit risk in various commodities is shown in the following table at December 31:

	Percentage of Portfolio		
Commodity Group	2020	2019	2018
Rural electric	18%	16%	19%
Livestock	10	11	11
Dairy	9	7	7
Grain mill products	7	6	7
Telecommunication	6	5	4
Miscellaneous food products	5	6	5
Meat products	5	5	5
Timber	4	4	4
Other	36	40	38
Total	100%	100%	100%

The diversity of states underlying the bank's capital markets loan portfolio is reflected in the following table:

	December 31,		
States	2020	2019	2018
Texas	17%	19%	18%
California	6	6	6
Illinois	6	6	5
Florida	4	4	4
Missouri	4	4	4
All other states	63	61	63
Total	100%	100%	100%

The balance of the bank's association direct notes sold to another System bank was \$3.85 billion at December 31, 2020, 2019 and 2018, respectively.

## Association Direct Notes

As the preceding table illustrates, 68.9% of the bank's loan portfolio consisted of direct notes from associations and OFIs at December 31, 2020. Terms of direct notes to associations and OFIs are specified in a separate general financing agreement between each association and OFI and the bank, and all assets of each association secure the direct notes to the bank. Each association is a federally chartered instrumentality of the United States and is regulated by the Farm Credit Administration (FCA). See Note 1, "Organization and Operations," to the accompanying financial statements for further discussion of the Farm Credit System.

Direct notes from the associations in Texas represent the majority of the bank's direct notes from all district associations. However, these notes are collateralized by a diverse loan portfolio, both in terms of geography and underlying commodities, which helps to mitigate the concentration risk often associated with one state or locale. Associations in each state have commodity diversification that is being augmented by purchases of loan participations.

The credit exposure of the bank's loans to associations, which are evidenced by direct notes with full recourse, is dependent on the associations' creditworthiness and the ability of their borrowers to repay loans made to them. The credit risk to the bank is mitigated by diversity in the associations' loan portfolios in terms of underlying collateral and income sources, geography and range of individual loan amounts. In addition, the risk-bearing capacities of the associations are assessed quarterly by the bank and are currently deemed adequate to absorb most interest-related shocks. Each association maintains an allowance for loan losses determined by its management and is capitalized to serve its unique market area. Associations

are subject to FCA regulations concerning minimum capital, loan underwriting and portfolio management, and are audited annually by independent auditors. In addition, associations are required by the general financing agreement with the bank to provide copies of their risk-based internal credit review reports and other audit/examination reports. The associations are required to maintain a risk-based internal credit review program including procedures addressing: reviewer qualification and independence, review frequency, accuracy of risk ratings, credit administration, regulatory compliance, scope selection, documentation of audit committee approval of reviewers and audit committee review of the internal control reports. As of December 31, 2020, all associations were in compliance with their general financing agreements with the bank.

Loans held by district associations totaled \$20.07 billion at December 31, 2020, an increase of \$2.30 billion, or 11.62%, from loan volume at December 31, 2019, due to strong loan demand from the low interest rate environment in the chartered territories of the district associations. In 2019 and 2018, association loan volume increased by \$1.19 billion and \$378.4 million, respectively.

The combined associations' concentration of credit risk in various agricultural commodities is shown in the following table at December 31:

Commodity Group	Percentage of Portfolio		
	2020	2019	2018
Livestock	38%	38%	39%
Crops	17	17	17
Timber	9	8	9
Poultry	5	6	5
Cotton	5	5	5
Dairy	4	4	4
Rural home	1	1	1
Other	21	21	20
Total	100%	100%	100%

The diversity of states underlying the combined associations' loan portfolio is reflected in the following table:

States	December 31,		
	2020	2019	2018
Texas	64%	64%	65%
Alabama	9	9	9
Mississippi	8	9	9
Louisiana	4	4	4
All other states	15	14	13
Total	100%	100%	100%

The combined associations' loans by size are shown in the following table at December 31:

Size (thousands)	2020
<\$250	18%
\$250-\$500	14
\$500-\$1,000	15
\$1,000-\$5,000	33
\$5,000-\$25,000	19
\$25,000-\$100,000	1
Total	100%

Credit quality at the district's associations remained strong, with loans classified as "acceptable" or "other assets especially mentioned" (special mention) as a percentage of total loans of 98.7%, 98.3% and 99.6% at December 31, 2020, 2019 and 2018, respectively. Association non-earning assets as a percentage of total loans at December 31, 2020,

were 0.59%, compared to 0.84% and 0.73% at December 31, 2019 and 2018, respectively.

From the perspective of the district, which is the bank and its related associations collectively, the loan portfolio consists only of retail loans. The diversity of the commodity types and income sources supporting district loan repayment further mitigates credit risk at the bank.

The following table illustrates the district's loan portfolio by major commodity segments at December 31:

Commodity Group	Percentage of Portfolio		
	2020	2019	2018
Livestock	31%	31%	32%
Crops	14	14	14
Timber	8	8	7
Dairy	5	5	4
Cotton	4	4	4
Poultry	4	4	4
Rural home	1	1	1
Other	33	33	34
Total	100%	100%	100%

The following table reflects the district's geographic distribution, by major states, at December 31:

States	Percentage of Portfolio		
	2020	2019	2018
Texas	53%	53%	53%
Alabama	7	7	7
Mississippi	6	7	7
Louisiana	4	4	3
California	3	2	2
All other states	27	27	28
Total	100%	100%	100%

## High-Risk Assets

Nonperforming loan volume is composed of nonaccrual loans, formally restructured loans (TDR), and loans 90 days past due still accruing interest, and is referred to as impaired loans. High-risk assets consisted of impaired loans and other property owned (OPO).

The following table discloses the components of the bank's high-risk assets at December 31:

	2020	2019	2018
Nonaccrual loans	\$ 1,341	\$ 16,765	\$ 19,486
Accruing formally restructured loans	2,369	2,450	2,531
Loans past due 90 days or more and still accruing interest	-	229	-
Total impaired loans	3,710	19,444	22,017
Total high-risk assets	\$ 3,710	\$ 19,444	\$ 22,017

High-risk assets at December 31, 2020 decreased by \$15.7 million, or 80.92%, from \$19.4 million at December 31, 2019. At December 31, 2020, \$2.4 million, or 63.85%, were current as to principal and interest, compared to \$16.1 million, or 95.9% at December 31, 2019. At December 31, 2018, \$18.3 million, or 93.7% were current as to principal and interest. There was no OPO at December 31, 2020, December 31, 2019 and December 31, 2018.

The decrease in nonaccrual loans at December 31, 2020 was primarily attributable to payoffs and repayments of loans within this non-performing loan type and charge-off activity. The decrease in nonaccrual loans at December 31, 2019, was primarily attributable to repayments.

## Allowance and Reserve for Credit Losses

The allowance for loan losses at December 31, 2020, totaled \$9.6 million, compared to \$11.5 million at December 31, 2019, and \$12.0 million at December 31, 2018. The decrease from 2019 to 2020 is primarily due to charge-offs of \$2.8 million related to a nonaccrual loan. In addition, the reserve for credit losses included \$3.2 million in qualitative general reserves due to uncertainty from the COVID-19 pandemic within the following sectors: beef cattle, dairy, other live-stock production and processing, oil and gas, forestry and wood processing, other food and kindred products, and grocery and related products. The reserve for credit losses on letters of credit (LOC) and unfunded commitments totaled \$1.9 million, \$1.8 million and \$1.9 million at December 31, 2020, 2019 and 2018, respectively. The allowance and reserve for credit losses in its entirety is related to risks identified in the bank's participation portfolio.

The following table provides an analysis of key statistics related to the allowance and reserve for credit losses at December 31:

	2020	2019	2018
Allowance and reserve for credit losses as a percentage of:			
Average loans	0.06%	0.06%	0.07%
Loans at year end			
Total loans	0.05	0.06	0.07
Participations	0.17	0.18	0.19
Nonaccrual loans	860.70	68.52	61.45
Total high-risk loans	311.11	59.08	54.39
Net charge-offs (recoveries) to average loans	0.01	-	-
Provision (loan loss reversal) expense to average loans	0.01	-	0.03

The activity in the reserves for credit losses is discussed further in Note 4, "Loans and Reserves for Credit Losses," to the accompanying financial statements.

## Interest Rate Risk Management

Asset/liability management is the bank's process for directing and controlling the composition, level and flow of funds related to the bank's and district's interest-rate-sensitive assets and liabilities. The bank is able to manage the balance sheet composition by using various debt issuance strategies and hedging transactions to match its asset cash flows. Management's objective is to generate adequate and stable net interest income in a changing interest rate environment.

The bank uses a variety of techniques to manage its financial exposure to changes in market interest rates. These include monitoring the difference in the maturities or repricing cycles of interest-rate-sensitive assets and liabilities; simulating changes in net interest income under various interest rate scenarios; and monitoring the change in the market value of interest-rate-sensitive assets and liabilities under various interest rate scenarios. The bank measures interest rate risk on a quarterly basis.

The interest rate risk inherent in a district association's loan portfolio is substantially mitigated through its funding relationship with the bank. The bank manages district interest rate risk through its direct loan pricing and funding processes. Under the Farm Credit Act of 1971, as amended, a district association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. An association's indebtedness to the bank, under a general financing agreement between the bank and the association, represents demand borrowings by the association to fund the majority of its loan advances to association members and is secured by the total assets of the association.

The bank's net interest income is determined by the difference between income earned on loans and investments and the interest expense paid on funding sources, typically Systemwide bonds and discount notes. The bank's level of net interest income is affected by both changes in market interest rates and timing differences in the maturities or repricing cycles of interest-bearing assets and liabilities. Depending upon the direction and magnitude of changes in market interest rates, the bank's net interest income may be affected either positively or negatively by the mismatch in the maturity or the repricing cycle of interest-rate-sensitive assets and liabilities.

The bank maintains a loan pricing philosophy that loan rates should be based on competitive market rates of interest. The district associations offer a wide variety of products, including LIBOR- and prime-indexed variable-rate loans and loans with fixed-rate terms ranging from under one year to 30 years. The interest rates on these loans are directly related to the bank's cost to issue debt in the capital markets and a credit spread added for borrower risk.

The bank offers an array of loan programs to associations that are designed to meet the needs of the associations' borrowers. These loan programs have varying repayment terms, including fixed and level principal payments, and a choice of payment frequencies, such as monthly, quarterly, semi-annual and annual payments. Additionally, the bank offers a choice of prepayment options to meet customer needs.



FCBT uses complex modeling tools to manage and measure the risk characteristics of its earning assets and liabilities, including gap and simulation analyses. The following interest rate gap analysis sets forth the bank's interest-earning assets and interest-bearing liabilities outstanding as of December 31, 2020, which are expected to mature or reprice in each of the future time periods shown:

### Interest Rate Gap Analysis

as of December 31, 2020  
Interest-Sensitive Period

	One Month or Less	More Than One Through Six Months	More Than Six Through Twelve Months	Total Twelve Months or Less	More Than One Year but Less Than Five Years	More Than Five Years Non-Rate- Sensitive	Total
<b>Interest-Earning Assets</b>							
Total loans	\$ 4,877,770	\$ 3,497,917	\$ 2,754,504	\$ 11,130,191	\$ 9,402,321	\$ 1,290,348	\$ 21,822,860
Total investments	1,864,410	902,423	602,439	3,369,272	2,076,241	480,472	5,925,985
Total interest-earning assets	6,742,180	4,400,340	3,356,943	14,499,463	11,478,562	1,770,820	27,748,845
<b>Interest-Bearing Liabilities</b>							
Total interest-bearing funds	6,287,123	3,171,624	2,911,153	12,369,900	12,607,618	895,750	25,873,268
Excess of interest-earning assets over interest-bearing liabilities	-	-	-	-	-	1,875,577	1,875,577
Total interest-bearing liabilities	6,287,123	3,171,624	2,911,153	12,369,900	12,607,618	2,771,327	27,748,845
Interest rate sensitivity gap	\$ 455,057	\$ 1,228,716	\$ 445,790	\$ 2,129,563	\$ (1,129,056)	\$ (1,000,507)	
Cumulative interest rate sensitivity gap	\$ 455,057	\$ 1,683,773	\$ 2,129,563	\$ 2,129,563	\$ 1,000,507		

The amount of assets or liabilities shown in each of the time periods was determined based on the earlier of repricing date, contractual maturity or anticipated loan payments, or projected exercise date on callable debt. To reflect the expected cash flow and repricing characteristics of the bank's balance sheet, an estimate of expected prepayments on loans and mortgage-related investments is used to adjust the maturities of the loans and investments in the earning assets section of the gap analysis. Changes in market interest rates will affect the volume of prepayments on loans. Correspondingly, adjustments have been made to reflect the characteristics of callable debt instruments and the effect derivative financial instruments have on the repricing structure of the bank's balance sheet. The "interest rate sensitivity gap" line reflects the mismatch, or gap, in the maturity or repricing of interest-rate-sensitive assets and liabilities. A gap position can be either positive or negative. A positive gap indicates that a greater volume of assets than liabilities reprices or matures in a given time period, and conversely, a negative gap indicates that a greater volume of liabilities than assets reprices or matures in a given time period. On a 12-month cumulative basis, the bank has a positive gap position, indicating that the bank has an exposure to decreasing interest rates. This would occur when interest income on maturing or repricing interest-bearing assets decrease sooner than interest expense on maturing or repricing interest-bearing liabilities.

The cumulative gap, which is a static measure, does not take into consideration the changing value of options available to the bank in order to manage this exposure, specifically the ability to exercise or not exercise options on callable debt. These options are considered when projecting the effects of interest rate changes on net interest income and on the market value of equity in the following tables.

Interest rate risk exposure as measured by simulation modeling calculates the bank's expected net interest income and market value of equity based upon projections of interest-rate-sensitive assets, liabilities, derivative financial instruments and interest rate scenarios. The bank monitors its financial exposure to multiple interest rate scenarios. The bank's policy guideline for the maximum negative impact as a result of a 200-basis-point change in interest rates is 16% for net interest in-

come and 20% for market value of equity. The bank manages its interest rate risk exposure within these guidelines. In the current, relatively low interest rate environment, the downward shock is based on one-half of the three-month Treasury bill rate, which was 4 basis points at December 31, 2020. As of December 31, 2020, projected annual net interest income would increase by 1.43%, if interest rates were to increase by 100 basis points, and would increase by 2.09%, if interest rates were to increase by 200 basis points. As of December 31, 2020, projected annual net interest income would increase by 1.12% if interest rates were to decrease by 4 basis points. Market value of equity is projected to decrease by 1.41% as a result of a 100-basis-point increase in interest rates, and to decrease by 12.19% if interest rates were to increase by 200 basis points as of December 31, 2020. Market value of equity is projected to decrease by 0.20% if interest rates were to decline by 4 basis points as of December 31, 2020.

The following tables set forth the bank's projected sensitivity to interest rate movements as prescribed by policy as of December 31, 2020, based on the bank's interest-earning assets and interest-bearing liabilities:

	December 31, 2020		
	-4	+100	+200
Change in net interest income	1.12%	1.43%	2.09%
Change in market value of equity	-0.20	-1.41	-12.19

The bank may use derivative financial instruments to manage its interest rate risk and liquidity position. Fair value and cash flow interest rate swaps for asset/liability management purposes may be used to change the repricing characteristics of liabilities to match the repricing characteristics of the assets they support. The bank does not hold, and is restricted by policy from holding, derivative financial instruments for trading purposes and is not a party to leveraged derivative transactions.

At December 31, 2020, the bank held interest rate caps with a notional amount of \$145.0 million and a net fair value asset of \$236, receive-fixed interest rate swaps with a notional amount of \$50.0 million and a net fair value asset of \$162, and pay-fixed interest rate swap contracts with a notional amount of \$825.0 million and a net fair value liability of \$73.3 million, net of posted variation margin. See Note 17,

“Derivative Instruments and Hedging Activity,” to the accompanying financial statements for further discussion. For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. 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 pay-floating interest rate swaps. To the extent that the derivatives have a negative fair value, the bank has a payable on the instrument and the counterparty is exposed to the credit risk of the bank. To the extent that the derivatives have a positive fair value, the bank has a receivable on the instrument and is therefore exposed to credit risk from the counterparty. To manage this credit risk, the bank monitors the credit ratings of its counterparties and has bilateral collateral agreements with counterparties. At December 31, 2020, five counterparties’ credit risk exposure to the bank was \$17.0 million, which included \$91.3 million cash collateral posted, and no counterparty had been required to post collateral.

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 December 31, 2020, the notional amount of cleared cash flow hedges was \$250.0 million, with outstanding exposure of \$31.5 million and collateral posted of \$7.3 million and \$33.6 million in initial and variation margins, respectively. Cleared derivatives require the payment of initial and variation margin as a protection against default.

The bank’s activity in derivative financial instruments for 2020 is summarized in the table below:

Activity in Derivative Financial Instruments (Notional Amounts)				
(in millions)	Receive-Fixed Swaps	Pay-Fixed Swaps	Interest Rate Caps	Total
Balance at January 1, 2020	\$ 150	\$ 825	\$ 195	\$ 1,170
Additions	-	-	-	-
Maturities/amortizations	(100)	-	(50)	(150)
<b>Balance at December 31, 2020</b>	<b>\$ 50</b>	<b>\$ 825</b>	<b>\$ 145</b>	<b>\$ 1,020</b>

## Liquidity Risk Management

The bank’s liquidity risk management practices ensure the district’s ability to meet its financial obligations. These obligations include the repayment of Systemwide debt securities as they mature, the ability to fund new and existing loan and other funding commitments, and the ability to fund operations in a cost-effective manner. A primary objective of liquidity risk management is to plan for unanticipated changes in the capital markets.

The bank’s primary source of liquidity is the ability to issue Systemwide debt securities, which are the general unsecured joint and several obligations of the System banks as discussed below. 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.

While the bank’s primary source of liquidity is the ability to access the capital markets to issue Systemwide debt, the bank also maintains other contingency funding sources including repurchase agreements with several commercial banks, a \$75 million uncommitted Federal Funds line of credit and reciprocal emergency lending agreements with other System entities. These alternative funding sources are subject to various terms and conditions, and as a result, there can be no assurance that funding will be available if needed by the bank. In addition, the Funding Corporation provides contingency financing mechanisms which include emergency and non-emergency purchases of federal funds from counterparties and direct issuance of Systemwide debt securities to institutional investors.

FCSIC insures the timely payment of principal and interest on Systemwide debt securities. FCSIC maintains the Insurance Fund for this purpose and for certain other purposes. In the event a System bank is unable to timely pay principal or interest on any insured debt obligation for which that bank is primarily liable, FCSIC must expend amounts in the Insurance Fund to the extent available to insure the timely payment of principal and interest on the debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the System banks on the debt obligation cannot be invoked until the Insurance Fund is exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation. The insurance provided through use of the Insurance Fund is not an obligation of and is not a guarantee by the U.S. government.

FCSIC has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to FCSIC. Under its existing statutory authority, FCSIC may use these funds to provide assistance to the System banks in demanding market circumstances which threaten the banks’ ability to pay maturing debt obligations. The agreement provides for advances of up to \$10.00 billion and terminates on September 30, 2021, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is at the discretion of FCSIC, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding will be available if needed by the System.

FCA regulations require each bank to maintain a minimum of 90 days of liquidity coverage on a continuous basis, assuming no access to the capital markets. Liquidity coverage is defined as the number of days that maturing Systemwide debt securities could be funded with cash and eligible liquidity investments maintained by the bank. Regulations on liquidity reserve requirement divided the existing eligible liquidity reserve requirement into three levels: Level 1 consists of cash and cash-like instruments and must provide 15 days of coverage; Level 2 consists primarily of government guaranteed securities and must provide 30 days of coverage (combined with Level 1); and Level 3 consists primarily of agency guaranteed securities and must provide a total of 90 days

of coverage (combined with Level 1 and Level 2). Additionally, regulations require the bank to maintain a supplemental liquidity reserve above the 90-day minimum to cover cash flow requirements unique to the bank. At December 31, 2020, the bank met all individual level criteria and had a total of 182 days of liquidity coverage, as compared with 211 days at December 31, 2019.

## Funding Sources

The bank continually raises funds to support its mission to provide credit and related services to the rural and agricultural sectors, repay maturing Systemwide debt securities and meet other obligations. As a government-sponsored enterprise, the bank has had access to the nation's and world's capital markets. This access has provided us with a dependable source of competitively priced debt that is critical to support our mission of providing funding to the rural and agricultural sectors. Moody's Investors Service and Standard & Poor's rate the System's long-term debt as Aaa and AA+, respectively. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's government-sponsored enterprise status. Standard and Poor's rating on long-term debt of AA+ is in concert with its sovereign credit rating on the United States of America at AA+. Material changes to the factors considered could result in a different debt rating. However, as a result of the System's financial performance, credit quality and standing in the capital markets, we anticipate continued access to funding necessary to support System needs. The U.S. government does not guarantee, directly or indirectly, Systemwide debt securities.

The types and characteristics of securities are described in Note 10, "Bonds and Notes," to the accompanying financial statements. As a condition of the bank's participation in the issuance of Systemwide debt securities, the bank is required by regulation to maintain specified eligible assets as collateral in an amount equal to or greater than the total amount of bonds and notes outstanding for which the bank is liable. At December 31, 2020, the bank had excess collateral of \$1.75 billion. Management expects the bank to maintain sufficient collateral to permit its continued participation in Systemwide debt issuances in the foreseeable future.

The bank receives ratings from two rating agencies:

- 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.
- 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.

The following table provides a summary of the period-end balances of the debt obligations of the bank:

	December 31,		
(dollars in thousands)	2020	2019	2018
Bonds outstanding	\$ 22,660,531	\$ 22,172,811	\$ 20,992,624
Average effective interest rates	1.03%	2.02%	2.27%
Average remaining life (years)	2.4	2.3	2.6
Discount notes outstanding	\$ 3,212,898	\$ 1,301,095	\$ 1,504,740
Average effective interest rates	0.20%	1.89%	2.44%
Average remaining life (days)	145	136	143

During 2020, the bank called debt totaling \$16.18 billion, resulting in \$22.2 million in concession expense. During 2019, the bank called debt totaling \$7.18 billion, resulting in \$12.7 million in concession expense.

The following table provides a summary of the average balances of the debt obligations of the bank:

	Year Ended December 31,		
	2020	2019	2018
Average interest-bearing liabilities outstanding	\$ 24,831,459	\$ 22,920,650	\$ 21,646,707
Average interest rates on interest-bearing liabilities	1.48%	2.32%	2.00%

## Investments

As permitted under FCA regulations, a bank is authorized to hold eligible investments for the purposes of maintaining a diverse source of liquidity, profitably managing short-term surplus funds and managing interest rate risk. The bank is authorized to hold an amount not to exceed 35.0% of loans outstanding. The bank's holdings are within this limit as of December 31, 2020.

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 eligibility criteria, the investment becomes ineligible for inclusion in the liquidity portfolio. On January 1, 2019, the Farm Credit Administration's revised investment regulations became effective and, among other things, removed references to credit ratings and substituted the eligibility requirements with appropriate standards of creditworthiness.

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

At December 31, 2020 and December 31, 2019, the bank held no securities that were designated as other-than-temporarily impaired investments (OTTI) and the bank recognized no credit losses related to OTTI securities.

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 \$5.52 billion at December 31, 2020, and consisted primarily of federal agency-guaranteed collateralized mortgage-backed securities (MBS), corporate debt, agency-guaranteed debt, U.S. Treasury securities, asset-backed securities (ABS) and commercial paper. 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 liquidity investment portfolio consisted of the following at December 31:

	2020		2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Agency-guaranteed debt	\$ 111,760	\$ 114,379	\$ 139,016	\$ 138,933
Commercial paper	49,990	49,991	-	-
Corporate debt	279,024	284,832	454,963	457,045
Federal agency collateralized mortgage-backed securities:				
GNMA	1,959,146	1,996,574	2,165,953	2,170,985
FNMA and FHLMC	2,421,854	2,456,080	2,139,207	2,136,020
U.S. Treasury securities	426,451	426,453	200,088	200,114
Asset-backed securities	196,231	196,394	162,837	162,995
<b>Total liquidity investments</b>	<b>\$ 5,444,456</b>	<b>\$ 5,524,703</b>	<b>\$ 5,262,064</b>	<b>\$ 5,266,092</b>

During the year ended December 31, 2019, six investment securities were sold for total proceeds of \$415.1 million with a combined book value of \$403.0 million, resulting in gains of \$12.1 million recognized in noninterest income and previously reflected in accumulated other comprehensive loss. There were no sales of investments in 2020.

The bank's other investments consisted of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS), purchased from district associations as part of the bank's CPP program. The Farmer Mac AMBS are not included in the bank's liquidity portfolio. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements. As a part of the CPP program, any positive impact to the net income of the bank can be returned as patronage to the association if declared by the bank's board of directors. The declared patronage approximates the net earnings of the respective pool.

Farmer Mac is a government-sponsored enterprise and is examined and regulated by FCA. It provides secondary market arrangements for agricultural and rural home mortgage loans that meet certain underwriting standards. Farmer Mac is authorized to provide loan guarantees or 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 bank's other investment portfolio consisted of Farmer Mac AMBS securities at December 31:

	2020		2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Agricultural mortgage-backed securities	\$ 23,704	\$ 23,464	\$ 29,867	\$ 29,051

## Capital Adequacy

Total shareholders' equity at December 31, 2020, was \$1.99 billion compared to \$1.84 billion and \$1.78 billion at December 31, 2019 and 2018, respectively. The total shareholders' equity increase of \$147.4 million during 2020 was due primarily to net income of \$251.1 million, a decrease of \$22.8 million in accumulated other comprehensive loss and an increase of \$50.0 million for the issuance of preferred stock, offset by \$159.9 million in patronage declared, and \$54.8 million in dividends paid on preferred stock. The bank declared patronage of \$159.9 million which included \$99.9 million in direct loan patronage, \$37.6 million in patronage on certain participations, \$7.7 million in patronage based on the associations' and OFIs' stock investment in the bank, and \$7.4 million in CPP and NCPP patronage. The bank's goal is to provide direct loan patronage at a level that would result in a cost of funds to district associations equal to the bank's marginal cost of funds, which was achieved for the year ended 2020, 2019 and 2018.

On July 15, 2020, the bank issued \$350.0 million of Class B non-cumulative 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 non-cumulative 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.

Preferred stock totaled \$750.0 million at December 31, 2020, and \$700.0 million at December 31, 2019 and 2018. Class B noncumulative subordinated perpetual preferred stock included \$300.0 million of Class B Series 2 issued in July 2013 (Class B-2 preferred stock), \$100.0 million of Class B Series 3 issued in June 2018 (Class B-3 preferred stock), and \$350.0 million of Class B Series 4 issued in July 2020 (Class B-4 preferred stock).

Dividends on the Class B-2 preferred stock, 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, 2013, at an annual fixed rate of 6.75% of par value of \$100 per share, up to, but excluding September 15, 2023, from and after which date will be paid at an annual rate of the 3-Month USD LIBOR plus 4.01%. Dividends on the Class B-3 preferred stock, 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, 2018, at an annual fixed rate of 6.20% of par value of \$1,000 per share up to, but excluding June 15, 2028, from and after which date will be paid at an annual rate of the 3-Month USD LIBOR plus 3.223%.

The Class B preferred stock ranks senior to all of our outstanding common stock. "Dividend/patronage stopper" clauses in the preferred stock offerings require the payment or declaration of current period dividends on the preferred stock issuances before any other patronage can be declared, and were required before payment of the December 31, 2020, bank investment and direct note patronage to associations and OFIs could be paid.

Accumulated other comprehensive loss decreased \$22.8 million, or 44.17%, to a \$28.8 million loss at December 31, 2020, from a \$51.6 million loss at December 31, 2019, due to an increase of \$76.8 million in unrealized net gains on the bank's investments, offset by an increase of \$53.9 million in unrealized losses on the bank's cash flow hedges and a \$90 decrease related to retirement benefits. The increase in unrealized net gains on investments was primarily attributable to net unrealized gains on available-for-sale investments as a result of declines in interest rates. The \$53.9 million increase in unrealized losses on cash flow hedges is the result of changes in the valuation of interest rate swaps the bank held during 2020 as a result of declines in interest rates.

Capital adequacy is evaluated using various ratios for which the FCA has established regulatory minimums. Effective January 1, 2017, the new regulatory capital ratios were implemented by the bank. 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. Regulatory ratios remained well above regulatory minimums, including the conservation and leverage buffers at December 31, 2020.

The following table reflects the bank's capital ratios at December 31:

	2020	2019	2018	2017	Total Regulatory Requirement Including Capital Conservation Buffers
Permanent capital ratio	<b>16.08%</b>	16.03%	16.31%	16.60%	7.00%
Common equity tier 1 ratio	<b>9.92</b>	9.91	9.92	10.52	7.00
Tier 1 capital ratio	<b>16.07</b>	16.01	16.29	16.59	8.50
Total capital ratio	<b>16.15</b>	16.12	16.42	16.68	10.50
Tier 1 leverage ratio	<b>7.11</b>	7.26	7.39	7.33	5.00
UREE leverage ratio	<b>2.99</b>	3.06	3.08	3.08	1.50

	2016	2015	2014	2013	Regulatory Minimum
Total surplus ratio	14.98%	15.48%	15.86%	17.29%	7.00%
Core surplus ratio	9.97	9.88	10.07	10.12	3.50
Net collateral ratio*	107.35	107.70	108.00	108.67	103.00

\*The bank's minimum net collateral ratio for regulatory purposes while any subordinated debt was outstanding was 104.00. The bank redeemed all of its outstanding subordinated debt in June 2016.

## Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors, external cyber risk and data security, or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. The board of directors is required, by regulation, to adopt an internal control policy that provides adequate direction to the institution in establishing effective control over and accountability for operations, programs and resources. The policy must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution;
- adoption of internal audit and control procedures;
- direction for the operation of a program to review and assess its assets;
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation;
- adoption of asset quality classification standards;
- adoption of standards for assessing credit administration, including the appraisal of collateral; and
- adoption of standards for the training required to initiate a program.

In general, we address operational risk through the organization's internal governance structure. Exposure to operational risk is typically identified with the assistance of senior management, and internal audit plans are risk-based and are re-evaluated on an annual basis, or more frequently, if necessary. The board of directors is responsible for defining the role of the audit committee in providing oversight and review of the institution's internal controls.

## Reputational Risk Management

Reputational risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the bank, the System or any of its entities. The bank and its affiliated associations could be harmed if its reputation were impacted by negative publicity about the System as a whole, an individual System entity or the agriculture industry in general.

Reputational risk is the direct responsibility of each System entity. For reputational issues that have broader consequences for the System as a whole, System governance will communicate guidance to the System supporting those business practices that are consistent with our mission.

## Political Risk Management

We, as part of the System, are an instrumentality of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agricultural and rural America. The System and its borrowers may be significantly affected by federal legislation that affects the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government.

We manage political risk by actively supporting The Farm Credit Council (Council), which is a full-service, federal trade association representing the System before Congress, the executive branch and others. The Council provides the mechanism for “grassroots” involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, we take an active role in representing the individual interests of System institutions and their borrowers before Congress. In addition to the Council, each district has its own council, which is a member of the Council. The district councils represent the interests of their members on a local and state level, as well as on a federal level.

## 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 fullest 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.

On December 18, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on the transition away from LIBOR, in which they emphasized that the IBA proposal is not intended to slow down the transition and that Farm Credit System institutions should continue reducing LIBOR exposures as soon as practicable. The memorandum stated the bank

should adopt a 2021 transition plan with steps and timeframes to accomplish the following:

- reduce LIBOR exposure,
- stop the inflow of new LIBOR volume,
- develop and implement loan products with alternative reference rates,
- assess and, if necessary, revise fallback language on legacy LIBOR indexed loans and contracts,
- adjust operations processes, including accounting and management information systems to handle alternative reference rates, and
- communicate pending or imminent changes to customers, as appropriate.

The following is a summary of variable-rate financial instruments with LIBOR exposure at December 31, 2020:

<i>(in millions)</i>	Due in 2021	Due in 2022	Due in 2023 and Thereafter	Total
<b>Assets</b>				
Loans	\$ 688	\$ 367	\$ 3,046	\$ 4,101
Investment securities	59	55	1,153	1,267
<b>Total assets</b>	<b>\$ 747</b>	<b>\$ 422</b>	<b>\$ 4,199</b>	<b>\$ 5,368</b>
<b>Liabilities and shareholders' equity</b>				
Bonds and notes, net	\$ 2,885	\$ -	\$ -	\$ 2,885
Preferred stock	-	-	400	400
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,885</b>	<b>\$ -</b>	<b>\$ 400</b>	<b>\$ 3,285</b>

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 2023 or thereafter. For additional information regarding preferred stock, see Note 11 in the 2020 Annual Report.

<i>(in millions)</i>	Due in 2021	Due in 2022	Due in 2023 and Thereafter	Total
Derivatives (notional amount)	\$ 50	\$ 30	\$ 940	\$ 1,020

## Recent Accounting Pronouncements

The recent accounting pronouncements are described in Note 2, “Summary of Significant Accounting Policies,” to the accompanying financial statements.

## Regulatory Matters

At December 31, 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.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which provided 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. The bank has adopted this relief for qualifying loan modifications. In response to the CARES Act, the Farm Credit Administration issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. This TDR guidance applied to modifications made beginning March 1, 2020 and terminated on December 31, 2020.

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 Nonaccrual 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 became effective on October 21, 2020.

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 ended 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 became effective on November 19, 2020.

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. This regulation became effective on December 4, 2020.

On December 18, 2020, the FCA posted an informational memorandum providing guidance to Farm Credit System institutions on the transition away from LIBOR. The guidance supplements the informational memorandum issued on September 11, 2018 on planning for the LIBOR phaseout. The informational memorandum summarizes the ICE Benchmark Administration’s (IBA) proposal to cease publication of the one-week and two-month U.S. dollar LIBOR tenors by year-end 2021 while continuing to publish the remaining, more heavily used, LIBOR tenors until June 30, 2023. The FCA agreed with a joint statement by the federal banking regulatory agencies that the proposal will allow most legacy LIBOR contracts to mature before LIBOR disruptions occur and stressing the importance of having robust fallback language.



## Report of Management

The financial statements of the Farm Credit Bank of Texas (bank) are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, except as noted. Other financial information included in this annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the bank's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. To monitor compliance, the internal audit staff of the Farm Credit Bank of Texas audits the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The financial statements are audited by PricewaterhouseCoopers LLP (PwC), independent auditors. In addition, our independent auditors have audited our internal accounting controls as of December 31, 2020. In addition, the bank is examined by the Farm Credit Administration.

In the opinion of management, the financial statements are true and correct and fairly state the financial position of the Farm Credit Bank of Texas at December 31, 2020, 2019 and 2018. The independent auditors have direct access to the audit committee, which is composed solely of directors who are not officers or employees of the bank.

The undersigned certify that we have reviewed the December 31, 2020, annual 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

Amie Pala  
Chief Executive Officer

Brandon Blaut  
Senior Vice President, Chief Financial Officer

March 1, 2021





## Report of Audit Committee

The audit committee (committee) is composed of the entire board of directors of the Farm Credit Bank of Texas (bank). The committee oversees the bank's system of internal controls and the adequacy of management's action with respect to recommendations arising from those internal control activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the bank's website at [www.farmcreditbank.com](http://www.farmcreditbank.com). In 2020, 13 committee meetings were held, with some of these meetings including executive sessions between the committee and PricewaterhouseCoopers LLP (PwC) and the bank's internal auditor. The committee approved the appointment of PwC as independent auditors for 2020.

Management is responsible for the bank's internal controls and for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the bank's financial statements in accordance with auditing standards generally accepted in the United States of America in addition to the bank's internal control over financial reporting and to issue a report thereon. The committee's responsibilities include monitoring and overseeing these processes.

In this context, the committee reviewed and discussed the bank's audited financial statements for the year ended December 31, 2020, with management and PwC. The committee also reviewed with PwC the matters required to be discussed by Auditing Standard No. 16 (Communications with Audit Committees).

PwC has provided to the committee the written communications regarding their independence. The committee discussed with appropriate representatives of PwC the firm's independence from the bank. The committee also approved the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the auditor's independence. Furthermore, throughout 2020 the committee has discussed with management and PwC such other matters and received such assurances from them as the committee deemed appropriate. Both PwC and the bank's internal auditor directly provided reports on significant matters to the committee.

M. Philip Guthrie, Chair  
Dr. Larry Boleman, Vice Chair  
Ralph W. Cortese  
John L. Dailey  
James F. Dodson  
Linda C. Floerke  
Dorothy Nichols

Audit Committee Members

March 1, 2021



## Report on Internal Control Over Financial Reporting

The Farm Credit Bank of Texas' (bank's) principal executive and principal financial officer are responsible for establishing and maintaining adequate internal control over financial reporting for the bank's financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the bank's principal executive and principal financial officer, or persons performing similar functions, with review by the bank's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information used in the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America (GAAP). Internal controls over financial reporting include 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 financial information in accordance with GAAP, and that receipts and expenditures 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 its financial statements.

The bank's management has completed an assessment of the effectiveness of internal controls over financial reporting as of December 31, 2020. In making the assessment, management used the updated Internal Control – Integrated Framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission on May 14, 2013, commonly referred to as the "COSO 2013 Framework."

Based on the assessment performed, the bank concluded that as of December 31, 2020, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the bank determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2020. A review of the assessment performed was reported to the bank's audit committee.

The effectiveness of the bank's internal control over financial reporting as of December 31, 2020, has been audited by PricewaterhouseCoopers LLP, independent auditors, which expresses an unqualified opinion on the effectiveness of the bank's internal control over financial reporting as of December 31, 2020.



## Evaluation of Disclosure Controls and Procedures

As of December 31, 2020, management of the Farm Credit Bank of Texas (bank) carried out an evaluation with the participation of the bank's management, including the chief executive officer (CEO) and chief financial officer (CFO), of the effectiveness of the design and operation of their respective disclosure controls and procedures<sup>(1)</sup> with respect to this annual stockholder report. This evaluation is based on testing of the design and effectiveness of key internal controls, certifications and other information furnished to the principal executive officer and principal financial officer of the bank, as well as incremental procedures performed by the bank. Based upon and as of the date of the bank's evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective in alerting them on a timely basis of any material information relating to the bank that is required to be disclosed by the bank in the annual and quarterly stockholder reports it files or submits to the Farm Credit Administration. There have been no significant changes in the bank's internal control over financial reporting<sup>(2)</sup> that occurred during the quarter ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the bank's internal control over financial reporting.

<sup>(1)</sup> 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 annual stockholder report is recorded, processed, summarized and reported, within the time periods specified under the rules and regulations of the Farm Credit Administration.

<sup>(2)</sup> 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 officers and principal financial officers, or persons performing similar functions, and effected by the bank's board 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 managements 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, Amie Pala, certify that:

1. I have reviewed the 2020 Annual Report of the Farm Credit Bank of Texas (bank).
2. Based on my knowledge, this annual stockholder 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 annual stockholder 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<sup>1</sup> and internal control over financial reporting<sup>2</sup> 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 annual stockholder 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 annual stockholder report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual stockholder report based on such evaluation; and
  - (d) disclosed in this annual stockholder 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  
Chief Executive Officer

March 1, 2021

<sup>(1)</sup> See footnote 1 on evaluation of disclosure controls and procedures report

<sup>(2)</sup> See footnote 2 on evaluation of disclosure controls and procedures report



# Certification

I, Brandon Blaut, certify that:

1. I have reviewed the 2020 Annual Report of the Farm Credit Bank of Texas (bank).
2. Based on my knowledge, this annual stockholder 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 annual stockholder 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<sup>1</sup> and internal control over financial reporting<sup>2</sup> 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 annual stockholder 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 annual stockholder report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual stockholder report based on such evaluation; and
  - (d) disclosed in this annual stockholder 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.



Brandon Blaut  
Senior Vice President, Chief Financial Officer

March 1, 2021

<sup>(1)</sup> See footnote 1 on evaluation of disclosure controls and procedures report

<sup>(2)</sup> See footnote 2 on evaluation of disclosure controls and procedures report



## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Farm Credit Bank of Texas

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying balance sheets of Farm Credit Bank of Texas (the "Company") as of December 31, 2020, 2019 and 2018, and the related statements of comprehensive income, of changes in shareholders' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Basis for Opinions***

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on the Company's financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the relevant ethical requirements relating to our audit, which include standards of the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct and the Farm Credit Administration's independence rules set forth in 12 CFR Part 621, *Accounting and Reporting Requirements*, Subpart E, *Auditor Independence*.

We conducted our audits in accordance with the auditing standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control

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based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### ***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### ***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### ***Allowance for Loan Losses – Loans Collectively Evaluated for Impairment***

As described in Notes 2 and 4 to the financial statements, the allowance for loan losses was \$9.61 million, of which \$9.55 million is related to loans collectively evaluated for impairment as of December 31, 2020. Management's estimate of the allowance for loan losses related to loans collectively evaluated for impairment is determined using a two-dimensional loan rating model that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is management's estimate of the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating, and loss given default is management's estimate as to the anticipated loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months. As disclosed by management, the level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. Factors considered by management in determining and supporting the levels of allowances for loan losses are the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.



The principal considerations for our determination that performing procedures relating to the allowance for loan losses - loans collectively evaluated for impairment is a critical audit matter are the significant judgment by management in determining the allowance for loan losses, which in turn led to a high degree of auditor judgment, subjectivity and effort in performing audit procedures and evaluating audit evidence relating to management's estimated probability of default and estimated loss given default assumptions, as well as management's consideration of environmental factors in determining the allowance for loan losses.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included testing the effectiveness of controls relating to management's allowance for loan losses estimation process, which included controls over the estimated probability of default and estimated loss given default assumptions, as well as management's consideration of environmental factors used within the allowance for loan losses related to loans collectively evaluated for impairment. These procedures also included, among others, testing management's process for determining the allowance for loan losses, which included (i) testing the completeness and accuracy of certain data used in the estimate; (ii) evaluating the appropriateness of the methodology and models; and (iii) evaluating the reasonableness of management's estimated probability of default and estimated loss given default assumptions, as well as the reasonableness of management's consideration of environmental factors in determining the allowance for loan losses.

A handwritten signature in black ink that reads "Price Waterhouse Coopers LLP".

Austin, Texas  
March 1, 2021

We have served as the Company's auditor since at least 2002. We have not been able to determine the specific year we began serving as auditor of the Company.

# Balance Sheets

Farm Credit Bank of Texas

(dollars in thousands)	December 31,		
	2020	2019	2018
<b>Assets</b>			
Cash	\$ 128,302	\$ 47,606	\$ 129,478
Federal funds sold and overnight investments	208,229	374,344	281,131
Investment securities	5,548,167	5,295,143	5,714,638
Loans (includes \$9,345 held at fair value for 2018)	21,824,201	19,498,293	18,056,686
Less allowance for loan losses	9,608	11,487	11,974
Net loans	21,814,593	19,486,806	18,044,712
Accrued interest receivable	64,984	79,901	76,134
Premises and equipment, net	142,002	108,857	72,746
Other assets	321,228	271,159	210,311
<b>Total assets</b>	<b>\$ 28,227,505</b>	<b>\$ 25,663,816</b>	<b>\$ 24,529,150</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities</b>			
Bonds and notes, net	\$ 25,873,429	\$ 23,473,906	\$ 22,497,364
Accrued interest payable	58,595	84,661	86,699
Reserve for credit losses	1,934	1,809	1,900
Preferred stock dividends payable	11,600	21,613	21,613
Patronage payable	37,487	33,609	29,561
Other liabilities	252,927	204,035	115,080
<b>Total liabilities</b>	<b>26,235,972</b>	<b>23,819,633</b>	<b>22,752,217</b>
<b>Commitments and Contingencies (Note 14)</b>			
<b>Shareholders' Equity</b>			
Preferred stock	750,000	700,000	700,000
Capital stock	359,988	335,262	316,463
Allocated retained earnings	59,765	52,451	45,685
Unallocated retained earnings	850,607	808,101	796,478
Accumulated other comprehensive loss	(28,827)	(51,631)	(81,693)
<b>Total shareholders' equity</b>	<b>1,991,533</b>	<b>1,844,183</b>	<b>1,776,933</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 28,227,505</b>	<b>\$ 25,663,816</b>	<b>\$ 24,529,150</b>

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



# Statements of Comprehensive Income

## Farm Credit Bank of Texas

(dollars in thousands)	Year Ended December 31,		
	2020	2019	2018
<b>Interest Income</b>			
Loans	\$ 610,907	\$ 661,515	\$ 563,495
Investment securities	94,753	142,203	127,070
<b>Total interest income</b>	<b>705,660</b>	<b>803,718</b>	<b>690,565</b>
<b>Interest Expense</b>			
Bonds and notes	367,682	532,107	433,729
<b>Net Interest Income</b>	<b>337,978</b>	<b>271,611</b>	<b>256,836</b>
Provision for credit losses (loan loss reversal)	1,081	(588)	4,671
Net interest income after provision for credit losses (loan loss reversal)	<b>336,897</b>	<b>272,199</b>	<b>252,165</b>
<b>Noninterest Income</b>			
Patronage income	23,669	24,079	25,130
Fees for services to associations	3,179	3,903	3,740
Fees for loan-related services	16,355	8,412	9,599
Refunds from Farm Credit System Insurance Corporation	2,380	2,507	8,397
Loss on loans held under fair value option	-	(40)	(256)
Gain on sale of investments	-	12,126	-
Other income (loss), net	1,619	(1,740)	940
<b>Total noninterest income</b>	<b>47,202</b>	<b>49,247</b>	<b>47,550</b>
<b>Noninterest Expense</b>			
Salaries and employee benefits	49,899	43,815	42,091
Occupancy and equipment	28,087	22,271	19,611
FCSIC premiums	8,720	7,933	7,300
Other components of net periodic postretirement benefit cost	253	439	446
Other operating expenses	46,003	44,034	39,737
<b>Total noninterest expense</b>	<b>132,962</b>	<b>118,492</b>	<b>109,185</b>
<b>Net Income</b>	<b>\$ 251,137</b>	<b>\$ 202,954</b>	<b>\$ 190,530</b>
<b>Other comprehensive income (loss)</b>			
Change in postretirement benefit plans	(90)	(774)	1,788
Change in unrealized gain (loss) on investments	76,795	77,753	(17,728)
Change in cash flow derivative instruments	(53,901)	(46,917)	(13,851)
Total other comprehensive income (loss)	<b>22,804</b>	<b>30,062</b>	<b>(29,791)</b>
<b>Comprehensive Income</b>	<b>\$ 273,941</b>	<b>\$ 233,016</b>	<b>\$ 160,739</b>

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

# Statements of Changes In Shareholders' Equity

## Farm Credit Bank of Texas

	Preferred Stock	Capital Stock	Retained Earnings		Accumulated Other Comprehensive Loss	Total Shareholders' Equity
(dollars in thousands)			Allocated	Unallocated		
Balance at December 31, 2017	\$ 600,000	\$ 301,239	\$ 39,144	\$ 779,403	\$ (51,902)	\$ 1,667,884
Net income	-	-	-	190,530	-	190,530
Other comprehensive loss	-	-	-	-	(29,791)	(29,791)
Capital stock and allocated retained earnings issued	-	29,675	-	-	-	29,675
Capital stock and allocated retained earnings retired	-	(14,451)	-	-	-	(14,451)
Preferred stock issued	100,000	-	-	-	-	100,000
Issuance cost on preferred stock	-	-	-	(1,334)	-	(1,334)
Preferred stock dividends	-	-	-	(54,727)	-	(54,727)
Patronage distributions						
Cash	-	-	-	(110,853)	-	(110,853)
Shareholders' equity	-	-	6,541	(6,541)	-	-
Balance at December 31, 2018	\$ 700,000	\$ 316,463	\$ 45,685	\$ 796,478	\$ (81,693)	\$ 1,776,933
Net income	-	-	-	202,954	-	202,954
Other comprehensive income	-	-	-	-	30,062	30,062
Capital stock and allocated retained earnings issued	-	21,450	-	-	-	21,450
Capital stock and allocated retained earnings retired	-	(2,651)	-	-	-	(2,651)
Issuance cost on preferred stock	-	-	-	(3)	-	(3)
Preferred stock dividends	-	-	-	(56,450)	-	(56,450)
Patronage distributions						
Cash	-	-	-	(128,112)	-	(128,112)
Shareholders' equity	-	-	6,766	(6,766)	-	-
Balance at December 31, 2019	\$ 700,000	\$ 335,262	\$ 52,451	\$ 808,101	\$ (51,631)	\$ 1,844,183
Net income	-	-	-	251,137	-	251,137
Other comprehensive income	-	-	-	-	22,804	22,804
Capital stock and allocated retained earnings issued	-	27,709	-	-	-	27,709
Capital stock and allocated retained earnings retired	-	(2,983)	-	-	-	(2,983)
Preferred stock issued	350,000	-	-	-	-	350,000
Preferred stock retired	(300,000)	-	-	-	-	(300,000)
Issuance cost on preferred stock	-	-	-	(3,949)	-	(3,949)
Preferred stock dividends	-	-	-	(44,806)	-	(44,806)
Patronage distributions						
Cash	-	-	-	(152,562)	-	(152,562)
Shareholders' equity	-	-	7,314	(7,314)	-	-
Balance at December 31, 2020	\$ 750,000	\$ 359,988	\$ 59,765	\$ 850,607	\$ (28,827)	\$ 1,991,533

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

# Statements of Cash Flows

## Farm Credit Bank of Texas

Year Ended December 31,

<i>(dollars in thousands)</i>	2020	2019	2018
<b>Cash Flows From Operating Activities</b>			
Net income	\$ 251,137	\$ 202,954	\$ 190,530
Reconciliation of net income to net cash provided by operating activities			
Provision for credit losses (loan loss reversal)	1,081	(588)	4,671
Depreciation and amortization on premises and equipment	10,670	8,741	8,005
Discount accretion on loans (premium amortization)	1,495	(914)	109
Amortization and accretion on debt instruments	46,103	46,836	41,975
Premium amortization on investments	6,456	1,404	1,722
Decrease in fair value of loans held under fair value option	-	40	258
Gain on sale of investment securities	-	(12,126)	-
(Gain) loss on sale of loans	(2,946)	1	106
Allocated equity patronage from System bank	(2,745)	(7,231)	(14,789)
Loss on other earning assets	-	2,181	2,684
Gain on sales of premises and equipment	(58)	(80)	(77)
Decrease (increase) in accrued interest receivable	14,918	(3,768)	(17,804)
(Increase) decrease in other assets, net	(15,073)	(1,706)	10,363
(Decrease) increase in accrued interest payable	(26,066)	(2,038)	22,890
(Decrease) increase in other liabilities, net	(24,363)	2,236	(6,518)
<b>Net cash provided by operating activities</b>	<b>260,609</b>	<b>235,942</b>	<b>244,125</b>
<b>Cash Flows From Investing Activities</b>			
Net decrease (increase) in federal funds sold and overnight investments	166,115	(93,213)	(34,243)
Investment securities			
Purchases	(2,561,691)	(1,566,645)	(1,932,968)
Proceeds from maturities, calls and prepayments	2,379,005	1,659,463	1,343,864
Proceeds from sales	-	415,154	-
Increase in loans, net	(2,417,974)	(1,439,889)	(1,066,881)
Proceeds from sale of loans	111,051	6,254	101,897
Proceeds from sale of premises and equipment	185	195	183
Expenditures for premises and equipment	(43,943)	(44,966)	(31,452)
Distributions in excess of cumulative equity earnings	-	86	271
Investment in other earning assets	(673)	(4,540)	(3,388)
<b>Net cash used in investing activities</b>	<b>(2,367,925)</b>	<b>(1,068,101)</b>	<b>(1,622,717)</b>
<b>Cash Flows From Financing Activities</b>			
Bonds and notes issued	40,955,587	24,257,010	14,511,288
Bonds and notes retired	(38,602,167)	(23,327,304)	(13,007,268)
Increase in cash collateral posted with a counterparty	(32,684)	(17,700)	-
Prepayments on debt extinguishment costs	-	-	146
Preferred stock issued	350,000	-	100,000
Preferred stock retired	(300,000)	-	-
Issuance costs on preferred stock	(3,949)	(3)	(1,334)
Repayments on capital lease obligation	-	-	(281)
Capital stock issued	27,709	21,450	29,675
Capital stock retired and allocated retained earnings distributed	(2,983)	(2,651)	(14,451)
Cash dividends on preferred stock	(54,818)	(56,450)	(53,177)
Cash patronage distributions paid	(148,683)	(124,065)	(112,711)
<b>Net cash provided by financing activities</b>	<b>2,188,012</b>	<b>750,287</b>	<b>1,451,887</b>
Net increase (decrease) in cash	80,696	(81,872)	73,295
Cash at beginning of year	47,606	129,478	56,183
<b>Cash at End of Year</b>	<b>\$ 128,302</b>	<b>\$ 47,606</b>	<b>\$ 129,478</b>
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>			
Net increase (decrease) in unrealized gains on investment securities	\$ 76,795	\$ 77,754	\$ (17,729)
Preferred stock dividends payable	11,600	21,613	21,613
Patronage distributions cash payable	37,487	33,609	29,561
Patronage distribution allocated equities	7,314	6,766	6,541
Right-of-use asset recognized in exchange for operating lease liabilities	484	39,871	-
<b>Supplemental Schedule of Noncash Increase in Bonds and Notes Related to Hedging Activities</b>	<b>162</b>	<b>95</b>	<b>-</b>
<b>Supplemental Disclosure of Cash Flow Information</b>			
Interest paid	\$ 393,748	\$ 534,145	\$ 410,839

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



# Notes to Financial Statements

## Farm Credit Bank of Texas

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

### Note 1 — Organization and Operations

#### A. Organization:

The Farm Credit Bank of Texas (FCBT or bank) is one of the banks of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations established by acts of Congress. The System is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

As of December 31, 2020, the nation was served by three Farm Credit Banks (FCBs), each of which has specific lending authority within its chartered territory, and one Agricultural Credit Bank (ACB) — collectively, the “System banks” — which has nationwide lending authority for lending to cooperatives. The ACB also has the lending authorities of an FCB within its chartered territories. The bank is chartered to serve the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serves one or more Federal Land Credit Associations (FLCAs) and/or Agricultural Credit Associations (ACAs). The bank and its related associations collectively are referred to as the Farm Credit Bank of Texas and affiliated associations (district). The district’s one FLCA, 13 ACA parent associations, each containing two wholly-owned subsidiaries (an FLCA and a Production Credit Association [PCA]), certain Other Financing Institutions (OFIs) and preferred stockholders jointly owned the bank at December 31, 2020. The FLCA and ACAs collectively are referred to as associations.

Each FCB and the ACB provides funding for its district associations and is responsible for supervising their activities. The FCBs and/or associations make loans to or for the benefit of eligible borrower-stockholders for qualified agricultural and rural purposes. District associations borrow the majority of their funds from their related bank. The System banks obtain a substantial majority of funds for their lending operations through the sale of consolidated Systemwide bonds and notes to the public, but also obtain a portion of their funds from internally generated earnings and from the issuance of common and preferred stock.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the bank and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Insurance Fund. The Insurance Fund is required to be used to (1) insure the timely payment of principal and interest on Systemwide debt

obligations (insured debt), (2) ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses, by FCSIC, of providing assistance to certain troubled System institutions and to cover the operating expenses of FCSIC. Each System bank has been required to pay premiums, which may be passed on to the associations, into the Insurance Fund based on its annual average adjusted outstanding insured debt until the assets in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2.0% of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as FCSIC in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, FCSIC is required to reduce premiums and may return excess funds above the secure base amount to System institutions.

#### B. Operations:

The Farm Credit Act sets forth the types of authorized lending activities, persons eligible to borrow and financial services which can be offered by the bank.

The bank lends primarily to the district associations in the form of revolving lines of credit (direct notes) to fund the associations’ loan portfolios. These direct notes are collateralized by a pledge of substantially all of each association’s assets. The terms of the revolving direct notes are governed by a general financing agreement between the bank and each association. Each advance is structured so that the principal cash flow, repricing characteristics and underlying index (if any) of the advance match those of the assets being funded. By match-funding the association loans, the interest rate risk is effectively transferred to the bank.

Advances are also made to fund general operating expenses of the associations. The FLCA borrows money from the bank and, in turn, originates and services long-term real estate and agribusiness loans to their members. ACAs borrow from the bank and in turn originate and service long-term mortgage loans through the FLCA subsidiary and short- and intermediate-term loans through the PCA subsidiary. The OFIs borrow from the bank and in turn originate and service short- and intermediate-term loans to their members. An association’s indebtedness to the bank, under a general financing agreement between the bank and the association, represents demand borrowings by the association to fund the majority, but not all, of its loan advances to association member-borrowers.

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, human resources and marketing. The fees charged by the bank for these services are included in the bank’s noninterest income.

The bank is also authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents and farm-related businesses. The bank may also lend to qualifying financial institutions engaged in lending to eligible borrowers.

The bank, in conjunction with other System banks, jointly owns service organizations which were created to provide a variety of services for the System. The bank has ownership interests in the following service organizations:

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) — provides for the issuance, marketing and processing of Systemwide debt securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- Farm Credit System Building Association — leases premises and equipment to the FCA, as required by the Farm Credit Act.
- Farm Credit System Association Captive Insurance Company — reciprocal insurer that provides insurance services to its member organizations.

In addition, The Farm Credit Council acts as a full-service, federated trade association which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

## Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the bank conform to generally accepted accounting principles in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires the management of the bank to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these notes as applicable. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the determination of fair value of financial instruments and subsequent impairment analysis.

The accompanying financial statements include the accounts of the bank and reflect the investments in and allocated earnings of the service organizations in which the bank has partial ownership interests.

The multiemployer structure of certain retirement and benefit plans of the district results in the recording of these plans only in the combined financial statements of the district.

### A. Cash:

Cash, as included in the financial statements, represents cash on hand and on deposit at banks and the Federal Reserve.

### B. Federal Funds Sold and Overnight Investments:

The bank holds federal funds sold and other overnight funds primarily to maintain a liquidity reserve and manage short-term surplus funds. Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions.

### C. Investment Securities:

The bank, as permitted under FCA regulations, holds eligible investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds and managing interest rate risk in an amount not to exceed 35% of its total outstanding loans.

The bank's investments are to be held for an indefinite time period and, accordingly, have been classified as available for sale at December 31, 2020, 2019 and 2018. These investments are reported at fair value, and unrealized holding gains and losses on investments are netted and reported as a separate component of members' equity on the balance sheet (accumulated other comprehensive gain/loss). Changes in the fair value of these investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other-than-temporarily impaired.

The bank reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the bank would record an additional other-than-temporary impairment and adjust the yield of the security prospectively. The amount of total other-than-temporary impairment for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporary impairment and its fair value.

Gains and losses on the sales of investments available for sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. The bank does not hold investments for trading purposes.

All or a portion of the unrealized holding gain or loss of an available-for-sale security that is designated as a hedged item in a fair value hedge must be recognized in earnings during the period of the hedge.

The bank may also hold additional investments in accordance with other investment programs approved by the FCA. These programs allow the bank to make investments that further the System's mission to serve rural America. These other investments are not included in the bank's liquidity calculations and are not covered by the eligible investment limitations specified by the FCA regulations. Agricultural mortgage-backed securities (AMBS) issued by the Federal Agricultural Mortgage Corporation (Farmer Mac) are considered other investments in the available-for-sale portfolio and are also excluded from the limitation and the bank's liquidity calculations.

The bank's holdings in investment securities are more fully described in Note 3, "Investment Securities."

#### D. Loans and Reserves for Credit Losses:

Long-term real estate mortgage loans can have maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs and any unearned income or unamortized premium or discount. Interest on loans is accrued and credited to interest income based on the daily principal amount outstanding. Funds which are held by the bank on behalf of the borrowers, where legal right of setoff exists and which can be used to reduce outstanding loan balances at the bank's discretion, are netted against loans on the balance sheets.

Loan origination fee income is capitalized and the fee is amortized over the life of the related loans as an adjustment to yield.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described herein. Impaired loans include nonaccrual loans, troubled debt restructurings (TDRs), and loans 90 days past due still accruing interest. A loan is past due when any contractually scheduled loan payments have not been received in full on or before the contractual due date and remains due.

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the bank or association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the bank's economic loss and avoid foreclosure. Concessions vary by program, are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. In accordance with FCA regulations, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year). Loans are charged off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, the interest portion of payments received in cash are recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments received are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when contractual principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The bank uses a two-dimensional loan rating model based on an internally generated combined System risk-rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a 9 to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the bank's allowance for loan losses evaluation, and is generally incorporated into the bank's loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a



level considered adequate by management to provide for probable and estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience.

The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss. The determination of the allowance for loan losses is based on management's current judgments about the credit quality of its loan portfolio. A specific allowance may be established for impaired loans under authoritative accounting guidance. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral-dependent.

The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Management considers the following factors in determining and supporting the levels of allowances for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. Generally, for loans individually evaluated, the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

#### E. Other Property Owned:

Other property owned (OPO), consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value, based on appraisal, less estimated selling costs upon acquisition and is included in other assets on the balance sheet. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value, established by ap-

praisal, less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net losses (gains) on OPO in the statements of comprehensive income.

#### F. Premises and Equipment:

Premises and equipment are carried at cost less accumulated depreciation. Depreciation expense is calculated using the straight-line method over the estimated useful lives of three years for automobiles, and three to 10 years for furniture, equipment and certain leasehold improvements. Computer software and hardware are amortized over three to 10 years. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are charged to operating expense, and improvements are capitalized and amortized over the remaining useful life of the asset.

#### G. Other Assets and Other Liabilities:

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.

The bank is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the bank on such balances. There were no significant balances of ACPs at December 31, 2020, 2019 and 2018.

Investment in another System bank represents nonmarketable investments consisting of stock in another institution regulated by the FCA. This investment is carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Derivative financial instruments are included on the balance sheet at fair value, as either other assets or other liabilities.

#### H. Employee Benefit Plans:

Employees of the bank participate in one of two districtwide retirement plans (a defined benefit plan and a defined contribution plan) and are eligible to participate in the 401(k) plan of the district. Within the 401(k) plan, a certain percentage of employee contributions is matched by the bank. The 401(k) plan costs are expensed as incurred. Additionally, certain qualified individuals in the bank may participate in a separate, nonqualified 401(k) plan.

The structure of the district's defined benefit plan (DB plan) is characterized as multiemployer, since neither the assets, liabilities nor cost of the plan is segregated or separately accounted for

by participating employers (bank and associations). No portion of any surplus assets is available to any participating employer. Participating employers are jointly and severally liable for the plan obligations. Upon withdrawal or termination of their participation in the plan, a participating employer must pay all associated costs of its withdrawal from the plan, including its unfunded liability (the difference between replacement annuities and the withdrawing employer's share of allocated plan assets). As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon combination at the district level only. The bank records current contributions to the DB plan as an expense in the current year.

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, will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100% of the related premiums.

Authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits other than pensions (primarily health care benefits) to an employee and an employee's beneficiaries and covered dependents during the years that the employee renders service necessary to become eligible for these benefits.

#### **I. Income Taxes:**

The bank is exempt from federal and certain other income taxes as provided in the Farm Credit Act. However, the Tax Cuts and Jobs Act of 2017 created a new excise tax on excess tax-exempt organization executive compensation effective for tax years beginning after December 31, 2017.

#### **J. Derivative Instruments and Hedging Activity:**

In the normal course of business, the bank may enter into derivative financial instruments, including interest rate swaps and caps, which are principally used to manage interest rate risk on assets, liabilities and anticipated transactions. Derivatives are recorded on the balance sheet as assets and liabilities at fair value.

Changes in the fair value of derivatives are recorded in current period earnings or accumulated other comprehensive income (loss) depending on the use of the derivative and whether it qualifies for hedge accounting. For fair-value hedge transactions, which hedge changes in the fair value of assets, liabilities or firm commitments, changes in the fair value of the derivative are recorded in earnings and will generally be offset by changes in the hedged item's fair value. For cash flow hedge transactions, which hedge the exposure to variability in expected future cash flows, changes in the fair value of the derivative will generally be offset by an entry to accumulated other comprehensive income (loss) in shareholders' equity. The ineffective portion of all hedges is

recorded in current period earnings. For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings.

The bank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) firm commitments or forecasted transactions. The bank also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The bank uses regression analysis (or other statistical analysis) to assess the effectiveness of its hedges. The bank discontinues hedge accounting prospectively when the bank determines that 1) a derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; 2) the derivative expires or is sold, terminated, or exercised; 3) it is no longer probable that the forecasted transaction will occur; 4) a hedged firm commitment no longer meets the definition of a firm commitment; or 5) management determines that designating the derivative as a hedging instrument is no longer appropriate. For cash flow hedges, when the bank discontinues hedge accounting, any remaining accumulated other comprehensive income (loss) would be amortized into earnings over the remaining life of the original hedged item. For fair value hedges, when the bank discontinues hedge accounting, changes in fair value of the derivative will be recorded in current period earnings. The bank may use interest rate swaps whose critical terms match the corresponding hedged item, thereby qualifying for short-cut treatment under the provisions of authoritative accounting guidance, and are presumed to be highly effective in offsetting changes in the fair value. The bank would discontinue hedge accounting prospectively if it were determined that a hedge had not been or is not expected to be effective as a hedge. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the bank will carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings. See Note 17, "Derivative Instruments and Hedging Activity," for additional disclosures about derivative instruments.

#### **K. Fair Value Measurements:**

The Financial Accounting Standards Board (FASB) guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

It describes three levels of inputs that may be used to measure fair value:

**Level 1** — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds, which relate to our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities, commercial paper and derivative contracts. The market value of collateral assets and liabilities is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

Level 3 — Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes the bank's Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) and certain loans.

The fair value disclosures are presented in Note 16, "Fair Value Measurements."

#### **L. Off-Balance-Sheet Credit Exposures:**

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and the third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

#### **M. Recently Issued or Adopted Accounting Pronouncements:**

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provided 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. The bank has adopted this relief for qualifying loan modifications. In response to the CARES Act, the Farm Credit Administration issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. This TDR guidance applied to modifications made beginning March 1, 2020 and terminated on December 31, 2020.

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 guidance is to be applied on a prospective basis with no retrospective impact. The bank applied the optional practical expedients available under the guidance to modifications of its loan contracts and certain derivatives contracts related to the LIBOR transition in the fourth quarter of 2020. The impact of the adoption was not material to the bank's financial condition or results of operations.

In January 2021, the FASB issued an update to the March 2020 guidance whereby certain derivative instruments may be modified to change the rate used for margining, discounting, or contract price alignment. The optional amendments are effective as of March 12, 2020, through December 31, 2022 and may be applied on a full retrospective basis within the effective period, or on a prospective basis with no retrospective impact. The bank is evaluating the impact of adoption on the bank's financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." 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 did not impact the bank's financial condition or its results of operations. The bank modified its Annual Report disclosures for 2020.

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 amended 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 3 — Investment Securities

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 investment securities (MBS), U.S. Treasury securities, asset-backed investment securities (ABS), commercial paper and corporate debt. The liquidity portfolio's MBS were federal agency-guaranteed collateralized MBS, including the 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 in 2010, 2012 and 2014, as a part of the bank's Capitalized Participation Pool (CPP) program. In accordance with this program, any positive impact to the net income of the bank can be returned as patronage to the association if declared by the bank's board of directors. The declared patronage approximates the net earnings of the respective pool. The Farmer Mac securities are backed by loans originated by the associations and previously held by the associations under the Farmer Mac long-term standby commitments to purchase agreements.

During the year ended December 31, 2019, six investment securities were sold for total proceeds of \$415.1 million with a combined book value of \$403.0 million, resulting in gains of \$12.1 million recognized in noninterest income and previously reflected in accumulated other comprehensive loss. The bank uses the specific identification method to determine the cost of securities sold. No investment securities were sold during the year ended December 31, 2020.

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

	2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	\$ 111,760	\$ 2,633	\$ (14)	\$ 114,379	1.61 %
Commercial paper	49,990	1	-	49,991	0.22
Corporate debt	279,024	5,808	-	284,832	1.69
Federal agency collateralized mortgage-backed securities:					
GNMA	1,959,146	39,163	(1,735)	1,996,574	1.87
FNMA and FHLMC	2,421,854	34,715	(489)	2,456,080	1.20
U.S. Treasury securities	426,451	22	(20)	426,453	0.11
Asset-backed securities	196,231	457	(294)	196,394	0.68
<b>Total liquidity investments</b>	<b>\$ 5,444,456</b>	<b>\$ 82,799</b>	<b>\$ (2,552)</b>	<b>\$ 5,524,703</b>	<b>1.36%</b>

	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
<b>Total liquidity investments</b>	<b>\$ 5,262,064</b>	<b>\$ 23,146</b>	<b>\$ (19,118)</b>	<b>\$ 5,266,092</b>	<b>2.25%</b>

	2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agency-guaranteed debt	\$ 170,800	\$ 96	\$ (2,973)	\$ 167,923	2.23%
Corporate debt	365,382	51	(1,896)	363,537	2.84
Federal agency collateralized mortgage-backed securities:					
GNMA	2,671,043	5,172	(45,220)	2,630,995	2.74
FNMA and FHLMC	2,157,582	2,124	(29,570)	2,130,136	2.47
U.S. Treasury securities	298,300	28	(245)	298,083	2.38
Asset-backed securities	88,292	42	(77)	88,257	2.72
<b>Total liquidity investments</b>	<b>\$ 5,751,399</b>	<b>\$ 7,513</b>	<b>\$ (79,981)</b>	<b>\$ 5,678,931</b>	<b>2.61%</b>

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

	2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 23,704	\$ 26	\$ (266)	\$ 23,464	4.28 %
	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%
	2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 37,781	\$ -	\$ (2,074)	\$ 35,707	4.90%

There were no investments in a held-to-maturity portfolio at December 31 in 2020, 2019 or 2018.

A summary of contractual maturity, amortized cost, estimated fair value and weighted average yield of the available-for-sale liquidity portfolio at December 31, 2020:

	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	\$ -	\$ 108,881	\$ 5,498	\$ -	\$ 114,379
Commercial paper	49,991	-	-	-	49,991
Corporate debt	76,074	208,758	-	-	284,832
Federal agency collateralized mortgage-backed securities					
GNMA	-	-	71,967	1,924,607	1,996,574
FNMA and FHLMC	-	106,133	718,022	1,631,925	2,456,080
U.S. Treasury securities	426,453	-	-	-	426,453
Asset-backed securities	30,442	47,108	45,937	72,907	196,394
<b>Total fair value</b>	<b>\$ 582,960</b>	<b>\$ 470,880</b>	<b>\$ 841,424</b>	<b>\$ 3,629,439</b>	<b>\$ 5,524,703</b>
Total amortized cost	\$ 582,882	\$ 462,015	\$ 826,964	\$ 3,572,595	\$ 5,444,456
Weighted average yield	0.25%	1.44%	1.30%	1.55%	1.36%

Collateralized mortgage obligations (CMOs) have stated contractual maturities in excess of 15 years. However, the security structure of the CMOs is designed to produce a relatively short-term life. At December 31, 2020, the CMO portfolio had a weighted average remaining life of 3.25 years.

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

	Due After One Year Through Five Years	Due After Five Years Through 10 Years	Total
Fair value of agricultural mortgage-backed securities	\$ 10,245	\$ 13,219	\$ 23,464
Total amortized cost	\$ 10,350	\$ 13,354	\$ 23,704
Weighted average yield	4.32%	4.25%	4.28%

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.

December 31, 2020						
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	\$ -	\$ -	\$ 9,975	\$ (14)	\$ 9,975	\$ (14)
Federal agency collateralized mortgage-backed securities						
GNMA	242,805	(1,418)	141,308	(317)	384,113	(1,735)
FNMA and FHLMC	112,470	(262)	50,426	(227)	162,896	(489)
U.S. Treasury securities	101,035	(20)	-	-	101,035	(20)
Asset-backed securities	64,137	(115)	29,921	(179)	94,058	(294)
Total	\$ 520,447	\$ (1,815)	\$ 231,630	\$ (737)	\$ 752,077	\$ (2,552)
December 31, 2019						
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	\$ 19,825	\$ (135)	\$ 56,907	\$ (428)	\$ 76,732	\$ (563)
Corporate debt	9,938	(40)	-	-	9,938	(40)
Federal agency collateralized mortgage-backed securities						
GNMA	531,068	(1,904)	794,460	(7,300)	1,325,528	(9,204)
FNMA and FHLMC	753,788	(3,232)	776,603	(5,853)	1,530,391	(9,085)
U.S. Treasury securities	100,106	(17)	-	-	100,106	(17)
Asset-backed securities	34,111	(209)	-	-	34,111	(209)
Total	\$ 1,448,836	\$ (5,537)	\$ 1,627,970	\$ (13,581)	\$ 3,076,806	\$ (19,118)
December 31, 2018						
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency-guaranteed debt	\$ 12,571	\$ (76)	\$ 121,927	\$ (2,898)	\$ 134,498	\$ (2,974)
Corporate debt	274,317	(1,082)	39,219	(813)	313,536	(1,895)
Federal agency collateralized mortgage-backed securities						
GNMA	312,108	(2,000)	1,407,873	(43,220)	1,719,981	(45,220)
FNMA and FHLMC	239,890	(687)	1,332,521	(28,883)	1,572,411	(29,570)
U.S. Treasury securities	248,732	(245)	-	-	248,732	(245)
Asset-backed securities	51,411	(74)	3,027	(3)	54,438	(77)
Total	\$ 1,139,029	\$ (4,164)	\$ 2,904,567	\$ (75,817)	\$ 4,043,596	\$ (79,981)

## Other-Than-Temporarily Impaired Investments Evaluation

As more fully disclosed in Note 2, "Summary of Significant Accounting Policies," the guidance for other-than-temporary impairment contemplates numerous factors in determining whether

an impairment is other-than-temporary, including: (i) whether or not an entity intends to sell the security, (ii) whether it is more likely than not that an entity would be required to sell the security before recovering its costs or (iii) whether or not an entity expects



to recover the security's entire amortized cost basis (even if it does not intend to sell). The bank performs a quarterly evaluation on a security-by-security basis considering all available information. If the bank intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the bank does not intend to sell securities in an unrealized loss position, other-than-temporary impairment is considered using various factors, including the length of time and the extent to which the fair value is less than cost; adverse conditions specifically related to the industry, geographic area and the condition of the underlying collateral; payment structure of the security; ratings by rating agencies; the creditworthiness of bond insurers; and volatility of the fair value changes. The bank uses estimated cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist. In estimating cash flows, the bank considers factors such as expectations of relevant market and economic data, including underlying loan level data for mortgage-backed and asset-backed securities and credit enhancements.

There were no other-than-temporarily impaired (OTTI) securities at December 31, 2020, 2019 or 2018.

#### Note 4 — Loans and Reserves for Credit Losses

Loans comprised the following categories at December 31:

	2020	2019	2018
Direct notes receivable from district associations and OFIs	\$ 15,033,669	\$ 12,976,399	\$ 11,823,267
Participations purchased	6,790,532	6,521,665	6,233,167
Other bank-owned loans	-	229	252
<b>Total loans</b>	<b>\$ 21,824,201</b>	<b>\$ 19,498,293</b>	<b>\$ 18,056,686</b>

A summary of the bank's loan types at December 31 follows:

	2020	2019	2018
Direct notes receivable from district associations	\$ 15,002,072	\$ 12,935,229	\$ 11,786,926
Real estate mortgage	825,679	742,630	709,274
Production and intermediate term	815,698	744,869	731,302
Agribusiness			
Loans to cooperatives	474,133	354,303	321,233
Processing and marketing	2,566,234	2,956,140	2,658,208
Farm-related business	174,520	70,383	49,278
Communications	583,708	455,696	408,135
Energy (rural utilities)	1,200,204	1,057,739	1,199,509
Water and waste disposal	135,472	111,830	126,785
Rural home	1,801	-	-
Mission-related	2,344	16,195	16,275
Lease receivables	10,739	12,109	13,420
Loans to other financing institutions	31,597	41,170	36,341
<b>Total</b>	<b>\$ 21,824,201</b>	<b>\$ 19,498,293</b>	<b>\$ 18,056,686</b>

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

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

The following table presents information on loan participations, excluding syndications, at December 31, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 1,064,585	\$ 364,698	\$ 53,046	\$ -	\$ 1,117,631	\$ 364,698
Production and intermediate term	1,680,212	931,104	28,918	1,346	1,709,130	932,450
Agribusiness	2,250,482	1,026,113	8,109	-	2,258,591	1,026,113
Communications	813,496	229,311	-	-	813,496	229,311
Energy (rural utilities)	1,318,944	118,713	-	-	1,318,944	118,713
Water and waste disposal	160,452	24,872	-	-	160,452	24,872
Rural residential real estate	5,824	-	-	-	5,824	-
Lease receivables	12,323	1,594	-	-	12,323	1,594
Direct note receivable from district associations	-	3,850,000	-	-	-	3,850,000
Mission-related	2,337	-	-	-	2,337	-
<b>Total</b>	<b>\$ 7,308,655</b>	<b>\$ 6,546,405</b>	<b>\$ 90,073</b>	<b>\$ 1,346</b>	<b>\$ 7,398,728</b>	<b>\$ 6,547,751</b>

A substantial portion of the bank's loan portfolio consists of direct notes receivable from district associations. As described in Note 1, "Organization and Operations," these notes are used by the associations to fund their loan portfolios, and therefore the bank's implicit concentration of credit risk in various agricultural commodities approximates that of the district as a whole. Loan concentrations are considered to exist when there are amounts loaned to borrowers engaged in similar activities, which could cause them to be similarly impacted by economic or other conditions. A substantial portion of the associations' lending activities is collateralized and the associations' exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the bank's credit risk exposure is considered in the bank's allowance for loan losses.

At December 31, 2020, the bank had a total of \$3.85 billion of district association direct notes sold to another System bank. The sales included participations of 11 direct notes receivable from district associations. These sales provide diversification benefits among Farm Credit entities.

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

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loans. Interest income recognized and cash payments received on nonaccrual impaired loans are applied in a similar manner as for nonaccrual loans, as described in Note 2, "Summary of Significant Accounting Policies."

The bank has purchased loan participations and Farmer Mac guaranteed AMBS from associations in CPP transactions. As a condition of the transactions, the bank redeemed stock in the amount of 2.0% of the par value of the loans and AMBS purchased, and the associations bought bank stock equal to 8.0% of the purchased loans' par value and 1.6% of the Farmer Mac AMBS' par value. During 2020, the bank purchased \$10.2 million in loan participations from associations, which resulted in net stock issuances of \$610 thousand. CPP loans held at December 31, 2020, totaled \$105.1 million and were included in loans on the balance sheet. The balance of the Farmer Mac AMBS CPP was \$23.4 million at December 31, 2020, and is included in investment securities on the balance sheet.

The bank also purchased loans from district associations in Non-Capitalized Participation Pool (NCPP) transactions. As a condition of these transactions, the bank redeems common stock in the amount of 2.0% of the par value of the loans purchased. There were no NCPP loan purchases for the year ended December 31, 2020. NCPP loans held at December 31, 2020, totaled \$114.2 million, and were included in loans on the balance sheet.

The following table presents information concerning nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due, collectively referred to as "impaired loans." Restructured loans are loans whose terms have been modified and where concessions have been granted because of borrower financial difficulties. The bank's impaired loans consisted of participations purchased; no direct notes to district associations were impaired at December 31, 2020, 2019 and 2018.

	December 31,		
	2020	2019	2018
Nonaccrual loans			
Current as to principal and interest	\$ -	\$ 16,073	\$ 18,250
Past due	1,341	692	1,236
Total nonaccrual loans	1,341	16,765	19,486
Loans past due 90 days or more and still accruing interest	-	229	-
Impaired accrual loans			
Restructured accrual loans	2,369	2,450	2,531
Total impaired accrual loans	2,369	2,450	2,531
Total impaired loans	\$ 3,710	\$ 19,444	\$ 22,017

The decrease in nonaccrual loans for the comparable periods presented was attributable to repayments.

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

	2020	December 31, 2019	2018
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 1,341	\$ 692	\$ 953
Agribusiness	-	6,866	8,257
Energy & water/waste disposal	-	9,207	10,276
Total nonaccrual loans	<u>1,341</u>	<u>16,765</u>	<u>19,486</u>
<b>Accruing loans past due 90 days or more:</b>			
Real estate mortgage	-	229	-
<b>Accruing restructured loans:</b>			
Mission-related	2,369	2,450	2,531
Total nonperforming loans and assets	<u>\$ 3,710</u>	<u>\$ 19,444</u>	<u>\$ 22,017</u>

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 are 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 Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2020	2019	2018
<b>Real estate mortgage:</b>			
Acceptable	99.7%	98.4%	96.5%
OAEM	0.1	0.6	1.1
Substandard/Doubtful	0.2	1.0	2.4
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Production and intermediate term:</b>			
Acceptable	91.8%	95.0%	95.2%
OAEM	8.2	0.8	-
Substandard/Doubtful	-	4.2	4.8
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Agribusiness:</b>			
Acceptable	95.7%	97.4%	99.5%
OAEM	4.2	1.9	0.2
Substandard/Doubtful	0.1	0.7	0.3
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Energy &amp; water/waste disposal:</b>			
Acceptable	99.7%	97.0%	98.8%
OAEM	-	-	0.4
Substandard/Doubtful	0.3	3.0	0.8
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Rural home:</b>			
Acceptable	100.0%	-%	-%
OAEM	-	-	-
Substandard/Doubtful	-	-	-
	<u>100.0%</u>	<u>-%</u>	<u>-%</u>
<b>Communications:</b>			
Acceptable	100.0%	100.0%	96.4%
OAEM	-	-	3.6
Substandard/Doubtful	-	-	-
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Direct notes to associations:</b>			
Acceptable	100.0%	91.9%	93.7%
OAEM	-	8.1	6.3
Substandard/Doubtful	-	-	-
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Loans to other financing institutions:</b>			
Acceptable	100.0%	100.0%	100.0%
OAEM	-	-	-
Substandard/Doubtful	-	-	-
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Mission-related:</b>			
Acceptable	100.0%	100.0%	100.0%
OAEM	-	-	-
Substandard/Doubtful	-	-	-
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Lease receivables:</b>			
Acceptable	100.0%	100.0%	100.0%
OAEM	-	-	-
Substandard/Doubtful	-	-	-
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<b>Total loans:</b>			
Acceptable	99.1%	93.8%	95.3%
OAEM	0.9	5.7	4.3
Substandard/Doubtful	-	0.5	0.4
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The following tables provide an aging analysis of past due loans (including accrued interest) as of:

	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 Greater Than 90 Days Past Due and Accruing
December 31, 2020						
Real estate mortgage	\$ 388	\$ 1,341	\$ 1,729	\$ 829,661	\$ 831,390	\$ -
Production and intermediate term	-	-	-	818,507	818,507	-
Agribusiness	-	-	-	3,227,160	3,227,160	-
Energy & water/waste disposal	-	-	-	1,340,612	1,340,612	-
Rural home	-	-	-	1,807	1,807	-
Lease receivables	-	-	-	10,777	10,777	-
Communications	-	-	-	583,838	583,838	-
Direct notes to associations	-	-	-	15,031,851	15,031,851	-
Loans to OFIs	-	-	-	31,653	31,653	-
Mission-related	-	-	-	2,369	2,369	-
<b>Total</b>	<b>\$ 388</b>	<b>\$ 1,341</b>	<b>\$ 1,729</b>	<b>\$ 21,878,235</b>	<b>\$ 21,879,964</b>	<b>\$ -</b>

	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 Greater Than 90 Days Past Due and Accruing
December 31, 2019						
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	-
Lease receivables	-	-	-	12,150	12,150	-
Communications	-	-	-	455,974	455,974	-
Direct notes to associations	-	-	-	12,969,086	12,969,086	-
Loans to OFIs	-	-	-	41,270	41,270	-
Mission-related	-	-	-	16,439	16,439	-
<b>Total</b>	<b>\$ 2,963</b>	<b>\$ 921</b>	<b>\$ 3,884</b>	<b>\$ 19,562,176</b>	<b>\$ 19,566,060</b>	<b>\$ 229</b>

	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 Greater Than 90 Days Past Due and Accruing
December 31, 2018						
Real estate mortgage	\$ -	\$ 1,236	\$ 1,236	\$ 713,882	\$ 715,118	\$ -
Production and intermediate term	-	-	-	734,377	734,377	-
Agribusiness	-	-	-	3,046,354	3,046,354	-
Energy & water/waste disposal	-	-	-	1,333,469	1,333,469	-
Lease receivables	-	-	-	13,463	13,463	-
Communications	-	-	-	408,266	408,266	-
Direct notes to associations	-	-	-	11,816,423	11,816,423	-
Loans to OFIs	-	-	-	36,435	36,435	-
Mission-related	-	-	-	16,520	16,520	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 1,236</b>	<b>\$ 1,236</b>	<b>\$ 18,119,189</b>	<b>\$ 18,120,425</b>	<b>\$ -</b>

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs and may also reflect a previous direct write-down of the investment.

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.

As of December 31, 2020, the total recorded investment of TDRs was \$3,034, with \$2,369 classified as accrual and \$665 classified as nonaccrual, with specific allowance for loan losses of \$55.

There were no payment defaults on TDRs that occurred within 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.

There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2020, and December 31, 2018. At December 31, 2019, there were additional commitments of \$1,558 to lend to borrowers whose loans were modified in TDRs.

There were no new TDRs identified during the years ended December 31, 2020 and December 31, 2019. The following table presents additional information regarding TDRs, which includes both accrual and nonaccrual loans with TDR designation, that occurred during the year ended December 31, 2018. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

For the year ended December 31, 2018:

	Premodification Outstanding Recorded Investment*	Postmodification Outstanding Recorded Investment*
TDRs:		
Mission-related	\$ 7,739	\$ 8,588
Total	\$ 7,739	\$ 8,588

\*The recorded investment is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

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

	Total Loans Modified as TDRs			TDRs in Nonaccrual Status		
	December 31,			December 31,		
	2020	2019	2018	2020	2019	2018
Real estate mortgage	\$ 665	\$ 692	\$ 1,236	\$ 665	\$ 692	\$ 1,236
Agribusiness	-	6,979	7,684	-	6,979	7,684
Mission-related	2,369	2,450	2,531	-	-	-
Total	\$ 3,034	\$ 10,121	\$ 11,451	\$ 665	\$ 7,671	\$ 8,920

Additional impaired loan information at December 31, 2020, is as follows:

	Recorded Investment	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>Impaired loans with a related allowance for credit losses:</b>					
Agribusiness	\$ -	\$ -	\$ -	\$ 5,049	\$ 1,416
Energy & water/waste disposal	-	-	-	7,001	-
Mission-related	164	164	55	163	8
Total	\$ 164	\$ 164	\$ 55	\$ 12,213	\$ 1,424
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 1,341	\$ 1,341	\$ -	\$ 1,431	\$ 50
Agribusiness	-	-	-	134	-
Processing and marketing	-	1,192	-	-	-
Energy & water/waste disposal	-	-	-	276	-
Mission-related	2,205	2,205	-	2,209	82
Total	\$ 3,546	\$ 4,738	\$ -	\$ 4,050	\$ 1,548
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 1,341	\$ 1,341	\$ -	\$ 1,431	\$ 50
Agribusiness	-	-	-	5,183	1,416
Processing and marketing	-	1,192	-	-	-
Energy & water/waste disposal	-	-	-	7,277	-
Mission-related	2,369	2,369	55	2,372	90
Total	\$ 3,710	\$ 4,902	\$ 55	\$ 16,263	\$ 1,556

Additional impaired loan information at December 31, 2019, is as follows:

	Recorded Investment	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>Impaired loans with a related allowance for credit losses:</b>					
Agribusiness	\$ 6,219	\$ 6,332	\$ 2,006	\$ 7,194	\$ -
Energy & water/waste disposal	9,207	9,231	2,579	9,708	-
Mission-related	168	168	52	167	13
Total	\$ 15,594	\$ 15,731	\$ 4,637	\$ 17,069	\$ 13
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 921	\$ 921	\$ -	\$ 858	\$ 8
Agribusiness	647	647	-	148	-
Processing and marketing	-	1,192	-	-	-
Energy & water/waste disposal	-	7,623	-	118	-
Mission-related	2,282	2,282	-	2,286	139
Total	\$ 3,850	\$ 12,665	\$ -	\$ 3,410	\$ 147
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 921	\$ 921	\$ -	\$ 858	\$ 8
Agribusiness	6,866	6,979	2,006	7,342	-
Processing and marketing	-	1,192	-	-	-
Energy & water/waste disposal	9,207	16,854	2,579	9,826	-
Mission-related	2,450	2,450	52	2,453	152
Total	\$ 19,444	\$ 28,396	\$ 4,637	\$ 20,479	\$ 160



Additional impaired loan information at December 31, 2018, is as follows:

	Recorded Investment	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
<b>Impaired loans with a related allowance for credit losses:</b>					
Agribusiness	\$ 7,684	\$ 7,684	\$ 3,527	\$ 5,896	\$ -
Energy & water/waste disposal	10,277	10,277	2,679	8,177	-
Mission-related	172	172	50	178	14
Total	\$ 18,133	\$ 18,133	\$ 6,256	\$ 14,251	\$ 14
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 953	\$ 1,236	\$ -	\$ 1,832	\$ -
Agribusiness	572	572	-	-	-
Processing and marketing	-	1,192	-	-	-
Energy & water/waste disposal	-	7,623	-	11	-
Mission-related	2,359	2,359	-	2,355	143
Total	\$ 3,884	\$ 12,982	\$ -	\$ 4,198	\$ 143
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 953	\$ 1,236	\$ -	\$ 1,832	\$ -
Agribusiness	8,256	8,256	3,527	5,896	-
Processing and marketing	-	1,192	-	-	-
Energy & water/waste disposal	10,277	17,900	2,679	8,188	-
Mission-related	2,531	2,531	50	2,533	157
Total	\$ 22,017	\$ 31,115	\$ 6,256	\$ 18,449	\$ 157

\*Unpaid principal balance represents the recorded principal balance of the loans.

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans were as follows at December 31:

	2020	2019	2018
Interest income which would have been recognized under the original loan terms	\$ 1,591	\$ 1,946	\$ 2,476
Less: interest income recognized	1,556	160	157
Foregone interest income	\$ 35	\$ 1,786	\$ 2,319

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
<b>Allowance for credit losses:</b>											
Balance at											
December 31, 2019	\$ 166	\$ 1,085	\$ 6,097	\$ 345	\$ 3,699	\$ 40	\$ -	\$ -	\$ -	\$ 55	\$ 11,487
Charge-offs	-	-	-	-	(2,846)	-	-	-	-	-	(2,846)
Recoveries	11	-	-	-	-	-	-	-	-	-	11
Provision for credit losses (loan loss reversal)	151	1,017	444	2	(572)	39	-	-	-	-	1,081
Other*	(14)	(227)	(345)	(6)	467	-	-	-	-	-	(125)
Balance at											
December 31, 2020	\$ 314	\$ 1,875	\$ 6,196	\$ 341	\$ 748	\$ 79	\$ -	\$ -	\$ -	\$ 55	\$ 9,608
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55	\$ 55
Collectively evaluated for impairment	314	1,875	6,196	341	748	79	-	-	-	-	9,553
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at											
December 31, 2020	\$ 314	\$ 1,875	\$ 6,196	\$ 341	\$ 748	\$ 79	\$ -	\$ -	\$ -	\$ 55	\$ 9,608
<b>Recorded investments in loans outstanding:</b>											
Balance at											
December 31, 2020	\$ 831,390	\$ 818,507	\$ 3,227,160	\$ 583,838	\$ 1,340,612	\$ 10,777	\$ 1,807	\$ 15,031,851	\$ 31,653	\$ 2,369	\$21,879,964
Ending balance for loans individually evaluated for impairment	\$ 1,341	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,031,851	\$ -	\$ 2,369	\$15,035,561
Ending balance for loans collectively evaluated for impairment	\$ 830,049	\$ 818,507	\$ 3,227,160	\$ 583,838	\$ 1,340,612	\$ 10,777	\$ 1,807	\$ -	\$ 31,653	\$ -	\$ 6,844,403
Ending balance for loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

	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
<b>Allowance for credit losses:</b>											
Balance at											
December 31, 2018	\$ 120	\$ 799	\$ 5,975	\$ 364	\$ 4,635	\$ 29	\$ -	\$ -	\$ -	\$ 52	\$ 11,974
Charge-offs	-	-	-	-	-	-	-	-	-	-	-
Recoveries	11	-	-	-	-	-	-	-	-	-	11
(Loan loss reversal) provision for credit losses	36	285	(49)	(11)	(863)	11	-	-	-	3	(588)
Other*	(1)	1	171	(8)	(73)	-	-	-	-	-	90
Balance at											
December 31, 2019	\$ 166	\$ 1,085	\$ 6,097	\$ 345	\$ 3,699	\$ 40	\$ -	\$ -	\$ -	\$ 55	\$ 11,487
Individually evaluated for impairment	\$ -	\$ -	\$ 2,006	\$ -	\$ 2,579	\$ -	\$ -	\$ -	\$ -	\$ 52	\$ 4,637
Collectively evaluated for impairment	166	1,085	4,091	345	1,120	40	-	-	-	3	6,850
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at											
December 31, 2019	\$ 166	\$ 1,085	\$ 6,097	\$ 345	\$ 3,699	\$ 40	\$ -	\$ -	\$ -	\$ 55	\$ 11,487
<b>Recorded investments in loans outstanding:</b>											
Balance at											
December 31, 2019	\$ 748,991	\$ 748,771	\$ 3,398,526	\$ 455,974	\$ 1,174,853	\$ 12,150	\$ -	\$ 12,969,086	\$ 41,270	\$ 16,439	\$19,566,060
Ending balance for loans individually evaluated for impairment	\$ 692	\$ -	\$ 6,866	\$ -	\$ 9,207	\$ -	\$ -	\$ 12,969,086	\$ -	\$ 2,450	\$12,988,301
Ending balance for loans collectively evaluated for impairment	\$ 748,299	\$ 748,771	\$ 3,391,660	\$ 455,974	\$ 1,165,646	\$ 12,150	\$ -	\$ -	\$ 41,270	\$ 13,989	\$ 6,577,759
Ending balance for loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

	Production and		Energy and		Lease		Direct Notes		Loans		Mission-Related		Total
	Real Estate	Intermediate			Water/Waste	Receivables	to Associations		to OFIs				
	Mortgage	Term	Agribusiness	Communications	Disposal								
<b>Allowance for credit losses:</b>													
Balance at													
December 31, 2017	\$ 117	\$ 954	\$ 2,679	\$ 364	\$ 3,439	\$ -	\$ -	\$ -	\$ -	\$ 86	\$ -	\$ 7,639	
Charge-offs	-	-	-	-	-	-	-	-	-	-	-	-	
Recoveries	11	-	-	120	-	-	-	-	-	-	-	131	
Provision for credit losses (loan loss reversal)	(10)	(138)	3,846	(126)	1,132	29	-	-	-	(62)	-	4,671	
Other*	2	(17)	(550)	6	64	-	-	-	-	28	-	(467)	
Balance at													
December 31, 2018	\$ 120	\$ 799	\$ 5,975	\$ 364	\$ 4,635	\$ 29	\$ -	\$ -	\$ -	\$ 52	\$ -	\$ 11,974	
Individually evaluated for impairment	\$ -	\$ -	\$ 3,527	\$ -	\$ 2,680	\$ -	\$ -	\$ -	\$ -	\$ 50	\$ -	\$ 6,257	
Collectively evaluated for impairment	120	799	2,448	364	1,955	29	-	-	-	2	-	5,717	
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-	-	
Balance at													
December 31, 2018	\$ 120	\$ 799	\$ 5,975	\$ 364	\$ 4,635	\$ 29	\$ -	\$ -	\$ -	\$ 52	\$ -	\$ 11,974	
<b>Recorded investments in loans outstanding:</b>													
Balance at													
December 31, 2018	\$ 715,118	\$ 734,377	\$ 3,046,354	\$ 408,266	\$ 1,333,469	\$ 13,463	\$ 11,816,423	\$ 36,435	\$ 16,520	\$ 18,120,425			
Ending balance for loans individually evaluated for impairment	\$ 953	\$ -	\$ 8,257	\$ -	\$ 10,277	\$ -	\$ 11,816,423	\$ -	\$ 2,531	\$ 11,838,441			
Ending balance for loans collectively evaluated for impairment	\$ 714,165	\$ 734,377	\$ 3,038,097	\$ 408,266	\$ 1,323,192	\$ 13,463	\$ -	\$ 36,435	\$ 13,989	\$ 6,281,984			
Ending balance for loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			

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

The bank's reserves for credit losses include the allowance for loan losses and a reserve for losses on unfunded commitments. The reserve for losses on unfunded commitments includes letters of credit and unused loan commitments, and is recorded in other liabilities on the balance sheet. At December 31, 2020, 2019 and 2018, the reserve totaled \$1,934, \$1,809 and \$1,900, respectively, representing management's estimate of probable credit losses related to letters of credit and unfunded commitments.

## Note 5 — Leases

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

ROU assets represent the bank's right to use an underlying asset for the lease term and lease liabilities represent the bank's obligation to make lease payments arising from the lease. Operating ROU assets and liabilities are recognized based on the present value of the lease

payments over the lease term. The bank's lease terms may include options to extend or terminate the lease when it is reasonably certain that the bank will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The bank maintains a lease for its headquarters facility in Austin, Texas. The original lease was effective from September 2003 through August 2013. The bank has since entered into two lease amendments which extend the lease through December 2034. Lease expenses for the facility include certain operating expenses passed through from the landlord that were \$5,136, \$4,437 and \$4,095 for the years ended December 31, 2020, 2019 and 2018, 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 copiers and was effective January 2020 through March 2023. The postage machines lease had an original term ending August 2020 but was renewed and was effective July 2020 through September 2023. Lease expenses for the copiers and postage were \$227, \$263 and \$245 for the years ended December 31, 2020, 2019 and 2018, respectively.

Amounts presented on the balance sheet are as follows:

	Balance Sheet Classification	As of December 31, 2020
Operating leases	Operating lease right-of-use asset building	\$ 38,466
	Operating lease right-of-use asset other	355
Total lease assets		<u>\$ 38,821</u>
Operating leases	Operating lease right-of-use liabilities building	\$ 43,183
	Operating lease right-of-use liabilities other	355
Total lease liabilities		<u>\$ 43,538</u>

The components of lease expense are as follows:

	Classification on Statement of Comprehensive Income	Year Ended December 31, 2020
Operating lease cost	Occupancy and equipment	\$ 5,363

Other information related to leases includes:

	Year Ended December 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	\$ 2,707
Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	\$ 484

The weighted-average remaining lease term for the building, copier and postage leases is 13.90 years and the weighted-average discount rate is 2.41%. 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 December 31, 2020:

	Maturities of Lease Liabilities
2021	\$ 2,785
2022	2,863
2023	2,837
2024	3,051
2025	3,481
Thereafter	34,636
Total undiscounted cash flows	49,653
Less interest expense	6,115
Lease liability	<u>\$ 43,538</u>

The lease expense for leases with terms of 12 months or less was \$29, \$139 and \$72 for the twelve months ended December 31, 2020, 2019 and 2018, respectively.

## Note 6 — Premises and Equipment

Premises and equipment comprised the following at:

	December 31,		
	2020	2019	2018
Leasehold improvements	\$ 3,029	\$ 3,090	\$ 2,643
Computer equipment and software	196,665	152,850	108,883
Furniture and equipment	3,763	3,874	3,835
	<u>203,457</u>	<u>159,814</u>	<u>115,361</u>
Accumulated depreciation	(61,455)	(50,957)	(42,615)
Total	<u>\$ 142,002</u>	<u>\$ 108,857</u>	<u>\$ 72,746</u>

The increase in computer equipment and software is due to the bank's internally developed software for a suite of products in the lending cycle.

## 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 sheet. The amount of collateral received or pledged is calculated on a net basis by counterparty.

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

December 31, 2020	Gross Amounts of Assets/Liabilities Presented on the Balance Sheet	Amounts Not Offset on the Balance Sheet		Net Amount
		Cash Collateral Pledged	Investment Securities Received/Pledged as Collateral	
Assets:				
Interest rate swaps and other derivatives	\$ 398	\$ -	\$ -	\$ 398
Federal funds sold and overnight investments	\$ 208,229	\$ -	\$ -	\$ 208,229
Liabilities:				
Interest rate swaps and other derivatives	\$ 73,347	\$ (57,684)	\$ -	\$ 15,663

December 31, 2019	Gross Amounts of Assets/Liabilities Presented on the Balance Sheet	Amounts Not Offset on the Balance Sheet		Net Amount
		Cash Collateral Pledged	Investment Securities Received/Pledged as Collateral	
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

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

## Note 8 — Other Property Owned

OPO, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value, based on appraisal, less estimated selling costs upon acquisition. There was no OPO at December 31, 2020, December 31, 2019 and December 31, 2018, respectively, and there were no sales of OPO during the last three years.

## Note 9 — Other Assets and Other Liabilities

Other assets comprised the following at December 31:

	2020	2019	2018
Investment in another			
System bank	\$ 152,062	\$ 149,317	\$ 142,086
Other accounts receivable	44,074	40,180	37,193
RBIC investments	15,168	14,495	12,222
Fair value of derivatives	7,702	1,852	10,700
Operating lease right-of-use asset	38,821	39,871	-
Cash collateral posted with derivative counterparties	50,380	17,670	-
Other	13,021	7,774	8,110
Total	\$ 321,228	\$ 271,159	\$ 210,311

Other liabilities comprised the following at December 31:

	2020	2019	2018
Payable to associations for cash management services	\$ 37,317	\$ 40,075	\$ 33,654
Accounts payable – participations	24,453	1,499	969
Accounts payable – other	37,373	32,660	33,136
Fair value of derivatives	73,347	54,919	16,143
Operating lease liabilities	43,538	43,959	-
Obligation for nonpension postretirement benefits	12,532	12,231	11,085
Mortgage life additional reserve	4,371	4,238	4,107
FCSIC premium payable	8,720	7,933	7,300
Accrued building lease payable	-	-	2,885
Other	11,276	6,521	5,801
Total	\$ 252,927	\$ 204,035	\$ 115,080

## Note 10 — Bonds and Notes

### Systemwide Debt Securities:

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide debt securities issued by the banks through the Funding Corporation. Systemwide bonds and discount notes (Systemwide debt securities) are the joint and several liability of the System banks. Certain conditions must be met before the bank can participate in the issuance of Systemwide debt securities. As one condition of participation, the bank is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets, at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide debt securities, or bank and other bonds, with a security interest in any assets of the banks. In general, each bank determines its participation in each issue of Systemwide debt securities based on its funding and operating requirements, subject to the availability of eligible assets as described above and subject to Funding Corporation determinations

and FCA approval. At December 31, 2020, the bank had such specified eligible assets totaling \$27.68 billion and obligations and accrued interest payable totaling \$25.93 billion, resulting in excess eligible assets of \$1.75 billion.

The System banks and the Funding Corporation have entered into the Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information to the Funding Corporation and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liability. At December 31, 2020, the bank was and currently remains in compliance with the conditions and requirements of the System banks' and the Funding Corporation's MAA.

Each issuance of Systemwide debt securities ranks equally, in accordance with the FCA regulations, with other unsecured Systemwide debt securities. Systemwide debt securities are not issued under an indenture, and no trustee is provided with respect to these securities. Systemwide debt securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The bank's participation in Systemwide debt securities at December 31, 2020, follows (dollars in thousands):

Year of Maturity	Systemwide					
	Bonds		Discount Notes		Total	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2021	\$ 7,453,937	0.71%	\$ 3,212,898	0.20%	\$ 10,666,835	0.56%
2022	5,740,818	0.94	-	-	5,740,818	0.94
2023	2,956,643	1.47	-	-	2,956,643	1.47
2024	2,324,968	1.35	-	-	2,324,968	1.35
2025	1,590,428	1.08	-	-	1,590,428	1.08
Subsequent years	2,593,737	1.29	-	-	2,593,737	1.29
Total	\$ 22,660,531	1.03%	\$ 3,212,898	0.20%	\$ 25,873,429	0.93%

In the preceding table, the weighted average interest rate reflects the effects of interest rate caps and interest rate swaps used to manage the interest rate risk on the bonds and notes issued by the bank. The bank's interest rate swap strategy is discussed more fully in Note 2, "Summary of Significant Accounting Policies," and Note 17, "Derivative Instruments and Hedging Activity."

Discount notes are issued with maturities ranging from one to 365 days. The average maturity of discount notes at December 31, 2020, was 145 days.

The bank's Systemwide debt, including callable debt, consisted of the following as of December 31, 2020 (dollars in thousands):

Year of Maturity	Amount (Par)	Range of First Call
2021	\$ 135,000	1/23/2021-1/26/2021
2022	665,000	1/2/2021-12/15/2021
2023	980,000	1/4/2021-12/21/2021
2024	1,085,000	1/6/2021-8/26/2022
2025	1,330,000	1/4/2021-9/22/2022
Subsequent years	2,405,000	1/2/2021-10/29/2025
Total	\$ 6,600,000	1/2/2021-10/29/2025

Callable debt may be called on the first call date and, generally, every day thereafter with seven days' notice. Expenses associated with the exercise of call options on debt issuances are included in interest expense.

As described in Note 1, "Organization and Operations," the Insurance Fund is available to insure the timely payment of principal and interest on Systemwide debt securities (insured debt) of insured System banks to the extent net assets are available in the Insurance Fund. All other liabilities in the financial statements are uninsured. At December 31, 2020, the assets of the Insurance Fund aggregated \$5.46 billion; however, due to the other authorized uses of the Insurance Fund, there is no assurance that the amounts in the Insurance Fund will be sufficient to fund the timely payment of principal and interest on an insured debt obligation in the event of a default by any System bank having primary liability thereon.

FCSIC has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to FCSIC. Under its existing statutory authority, FCSIC may use these funds to provide assistance to the System banks in demanding market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to \$10.00 billion and terminates on September 30, 2021, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is in the discretion of FCSIC, and each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding will be available if needed by the System.

While the bank's primary source of liquidity is the ability to access the capital markets to issue Systemwide debt, the bank also maintains other contingency funding sources including repurchase agreements with several commercial banks, a \$75 million uncommitted Federal Funds line of credit and reciprocal emergency lending agreements with other System entities. These alternative funding sources are subject to various terms and conditions, and as a result, there can be no assurance that funding will be available if needed by the bank. In addition, the Funding Corporation provides contingency financing mechanisms which include emergency and non-emergency purchases of federal funds from counterparties and direct issuance of Systemwide debt securities to institutional investors.

## Note 11 — Shareholders' Equity

During the second quarter 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 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.

Descriptions of the bank's equities, capitalization requirements, and regulatory capitalization requirements and restrictions are provided below.

### A. Description of Bank Equities:

**Class B Series 1 Noncumulative Subordinated Perpetual Preferred Stock (Class B-1 preferred stock)** – On August 26, 2010, the bank issued \$300.0 million of Class B noncumulative subordinated perpetual preferred stock, representing 300,000 shares at \$1,000 per share par value for net proceeds of \$296.6 million. Dividends on the preferred stock, declared by the board of directors at its sole discretion, were noncumulative and were payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10% of par value of \$1,000 per share. The Class B-1 preferred stock was not mandatorily redeemable at any time, but could be redeemed in whole or in part at the option of the bank after the dividend payment date in June 2020. The Class B-1 preferred stock ranked, both as to dividends and upon liquidation, senior to all outstanding capital stock. In 2020, \$20.3 million of Class B-1 preferred stock dividends were declared and paid. In 2019 and 2018, Class B-1 preferred stock dividends totaling \$30.0 million were declared

and paid. 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.

**Class B Series 2 Noncumulative Subordinated Perpetual Preferred Stock (Class B-2 preferred stock)** – On July 23, 2013, the bank issued \$300.0 million of Class B noncumulative subordinated perpetual preferred stock, Series 2, representing three million shares at \$100 per share par value, for net proceeds of \$296.0 million. Dividends on the Class B-2 preferred stock, 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, 2013, at an annual fixed rate of 6.75% of par value of \$100 per share up to, but excluding September 15, 2023, from and after which date will be paid at an annual rate of the 3-Month USD LIBOR plus 4.01%. The Class B-2 preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank on any dividend payment date on or after September 15, 2023. The Class B-2 preferred stock ranks, both as to dividends and upon liquidation, *pari passu* with respect to the existing Class B-3 and Class B-4 preferred stock, and senior to all other classes of the bank's outstanding capital stock. Class B-2 preferred stock dividends are required by "dividend/patronage stopper" clauses to be declared and accrued before payment of bank investment and direct note patronage to associations and OFIs can be paid. In 2020, 2019 and 2018, Class B-2 preferred stock dividends totaling \$20.2 million were declared and paid. At December 31, 2020, dividends payable on Class B-2 preferred stock totaled \$5.0 million.

**Class B Series 3 Noncumulative Subordinated Perpetual Preferred Stock (Class B-3 preferred stock)** – On June 25, 2018, the bank issued \$100.0 million of Class B noncumulative subordinated perpetual preferred stock, Series 3 (Class B-3 preferred stock), representing one hundred thousand shares at \$1,000 per share par value, for net proceeds of \$98.7 million. Dividends on the Class B-3 preferred stock, 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, 2018, at an annual fixed rate of 6.20% of par value of \$1,000 per share up to, but excluding June 15, 2028, from and after which date will be paid at an annual rate of the 3-Month USD LIBOR plus 3.223%. The Class B-3 preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank on any dividend payment date on or after June 15, 2028. The Class B-3 preferred stock ranks *pari passu* with respect to the existing Class B-2 and Class B-4 preferred stock, and senior to all of the bank's outstanding capital stock. In 2020, Class B-3 preferred stock dividends totaling \$6.2



million were declared and paid. In 2019, Class B-3 preferred stock dividends totaling \$6.2 million were declared and paid. In 2018, Class B-3 preferred stock dividends totaling \$2.9 million were declared and paid. At December 31, 2020, dividends payable on Class B-3 preferred stock totaled \$1.6 million.

**Class B Series 4 Noncumulative Subordinated Perpetual Preferred Stock (Class B-4 preferred stock)** – 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. In 2020, Class B-4 preferred stock dividends totaling \$8.0 million were declared and paid. At December 31, 2020, dividends payable on Class B-4 preferred stock totaled \$5.0 million.

**Class A Voting Common Stock** – According to the bank's by-laws, the minimum and maximum stock investments that the bank may require of the ACAs and FLCA are 2% (or one thousand dollars, whichever is greater) and 5%. The investments in the bank are required to be in the form of Class A voting common stock (with a par value of \$5 per share) and allocated retained earnings. The current investment required of the associations is 2% of their average borrowings from the bank. Under the CPP program, the stock investment that the bank requires is 1.6% of each Farmer Mac AMBS pool and 8% of each loan pool. Under the NCPP program, the bank redeems stock in the amount of 2.0% of the par value of the loans purchased. No Class A voting common stock may be retired except at the sole discretion of the bank's board of directors, and provided that after such retirement, the bank shall meet minimum capital adequacy standards as may from time to time be promulgated by the FCA or such higher level as the board may from time to time establish in the bank's Capital Plan. There were 71.8 million shares, 66.9 million shares and 63.1 million shares of Class A voting common stock issued and outstanding at December 31, 2020, 2019 and 2018, respectively.

**Class A Nonvoting Common Stock** – The bank requires OFIs to make cash purchases of Class A nonvoting common stock (with a par value of \$5 per share) in the bank based on a minimum stock investment of 2% (or one thousand dollars, whichever is greater) and on a maximum of 5%. The current investment required of the OFIs is 2% of their average borrowings from the bank. No Class A nonvoting common stock may be retired except at the sole discretion of the bank's board of directors, and provided that after such retirement, the bank shall meet minimum capital adequacy standards as may from time to time be promulgated by the FCA or such higher level as the board may from time to time establish in the bank's Capital Plan. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. There were 154 thousand shares of Class A nonvoting common stock issued and outstanding at December 31, 2020. There were 163 thousand shares of Class A non-voting common stock issued and outstanding at 2019 and 2018.

Allocated retained earnings of \$59,765, \$52,451 and \$45,685 at December 31, 2020, 2019 and 2018, respectively, consisted of allocated equity for the payment of patronage on loans participated with another System bank.

At December 31, the bank's equities included the following:

	2020	2019	2018
Class A voting common stock – associations	\$ 359,217	\$ 334,446	\$ 315,646
Class A nonvoting common stock – other financing institutions	771	816	817
Total common stock	359,988	335,262	316,463
Preferred stock	750,000	700,000	700,000
Allocated retained earnings other entities	59,765	52,451	45,685
Total allocated retained earnings	59,765	52,451	45,685
Total capital stock and allocated retained earnings	\$ 1,169,753	\$ 1,087,713	\$ 1,062,148

Patronage may be paid to the holders of Class A voting common stock, Class A nonvoting stock and allocated retained earnings of the bank, as the board of directors may determine by resolution, subject to the capitalization requirements defined by the FCA. During 2020, \$152,562 in cash patronage was declared to district associations, OFIs and other entities, compared to \$128,112 in 2019 and \$110,853 in 2018. Cash patronage in 2020 consisted of direct loan patronage of \$99,882, patronage on certain participations of \$37,611, patronage on association and OFI investment in the bank of \$7,681, and capitalized and noncapitalized participation pool patronage of \$7,388.

## B. Regulatory Capitalization Requirements and Restrictions:

The Farm Credit Administration (FCA) sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with common equity tier 1, tier 1 capital and total capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a tier 1 leverage ratio and an unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio that are applicable to both the banks and associations. The permanent capital ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past. 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.

The Farm Credit Act has defined permanent capital to include all capital except stock and other equities that may be retired upon the repayment of the holder's loan or otherwise at the option of the holder, or is otherwise not at risk. Risk-adjusted assets have been defined by regulations as the balance sheet assets and off-balance sheet commitments adjusted by various percentages ranging from 0 to 1,250%, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

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

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

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

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary executive bonuses are restricted or prohibited without prior FCA approval.

The following table reflects the bank's capital ratios at December 31:

	2020	2019	2018	Total Regulatory Requirements Including Capital Conservation Buffers
Permanent capital ratio	16.08%	16.03%	16.31%	7.00%
Common equity tier 1 ratio	9.92	9.91	9.92	7.00
Tier 1 capital ratio	16.07	16.01	16.29	8.50
Total capital ratio	16.15	16.12	16.42	10.50
Tier 1 leverage ratio	7.11	7.26	7.39	5.00
UREE leverage ratio	2.99	3.06	3.08	1.50

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

	Common Equity Tier 1 Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Permanent Capital Ratio
Numerator:				
Unallocated retained earnings	\$ 976,278	\$ 976,278	\$ 976,278	\$ 976,278
Common Cooperative Equities:				
Purchased other required stock $\geq 7$ years	298,233	298,233	298,233	298,233
Allocated stock $\geq 7$ years	36,042	36,042	36,042	36,042
Allocated equities:				
Allocated equities held $\geq 7$ years	52,532	52,532	52,532	52,532
Noncumulative perpetual preferred stock	-	750,000	750,000	750,000
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	9,712	-
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)	(272)	(272)	(272)
Total	\$ 1,210,515	\$ 1,960,515	\$ 1,970,227	\$ 1,960,515
Denominator:				
Risk-adjusted assets excluding allowance	\$ 12,201,112	\$ 12,201,112	\$ 12,201,112	\$ 12,201,112
Regulatory Adjustments and Deductions:				
Allowance for loan losses	-	-	-	(7,647)
Total	\$ 12,201,112	\$ 12,201,112	\$ 12,201,112	\$ 12,193,465

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

	Tier 1 Leverage Ratio	UREE Leverage Ratio
Numerator:		
Unallocated retained earnings	\$ 976,278	\$ 976,278
Common Cooperative Equities:		
Purchased other required stock $\geq 7$ years	298,233	-
Allocated stock $\geq 7$ years	36,042	-
Allocated equities:		
Allocated equities held $\geq 7$ years	52,532	-
Noncumulative perpetual preferred stock	750,000	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(152,298)	(152,298)
Other regulatory required deductions	(272)	-
Total	\$ 1,960,515	\$ 823,980
Denominator:		
Total Assets	\$ 27,734,761	\$ 27,734,761
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(161,156)	(161,156)
Total	\$ 27,573,605	\$ 27,573,605

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

	Common Equity Tier 1 Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Permanent Ratio
Numerator:				
Unallocated retained earnings	\$ 924,451	\$ 924,451	\$ 924,451	\$ 924,451
Common Cooperative Equities:				
Purchased other required stock $\geq 7$ years	281,395	281,395	281,395	281,395
Allocated stock $\geq 7$ years	36,042	36,042	36,042	36,042
Allocated equities:				
Allocated equities held $\geq 7$ 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	<u>\$ 1,137,784</u>	<u>\$ 1,837,784</u>	<u>\$ 1,850,309</u>	<u>\$ 1,837,784</u>
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	<u>\$ 11,477,211</u>	<u>\$ 11,477,211</u>	<u>\$ 11,477,211</u>	<u>\$ 11,466,366</u>

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

	Tier 1 Leverage Ratio	UREE Leverage Ratio
Numerator:		
Unallocated retained earnings	\$ 924,451	\$ 924,451
Common Cooperative Equities:		
Purchased other required stock $\geq 7$ years	281,395	-
Allocated stock $\geq 7$ years	36,042	-
Allocated equities:		
Allocated equities held $\geq 7$ 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	<u>\$ 1,837,784</u>	<u>\$ 774,898</u>
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	<u>\$ 25,327,996</u>	<u>\$ 25,327,996</u>

### C. Accumulated Other Comprehensive Income (Loss):

Following is a summary of the components of accumulated other comprehensive income (loss) and the changes occurring during the year ended December 31, 2020:

	Total	Unrealized Gain on Investments	Postretirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2020	\$ (51,631)	\$ 3,212	\$ (801)	\$ (54,042)
Change in unrealized gains on available-for-sale (AFS) securities:				
Change in net unrealized gains	76,795	76,795		
Net change in unrealized gains on AFS securities	76,795	76,795		
Change in postretirement benefit plans:				
Actuarial losses	(13)		(13)	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(77)		(77)	
Net change in postretirement benefit plans	(90)		(90)	
Change in cash flow derivative instruments:				
Unrealized loss on cash flow derivative instruments	(55,859)			(55,859)
Reclassification of loss recognized in interest expense	1,958			1,958
Net change in cash flow derivative instruments	(53,901)			(53,901)
Total other comprehensive income (loss)	22,804	76,795	(90)	(53,901)
Balance, December 31, 2020	\$ (28,827)	\$ 80,007	\$ (891)	\$ (107,943)

Following is a summary of the components of accumulated other comprehensive income (loss) and the changes occurring during the year ended December 31, 2019:

	Total	Unrealized (Loss) Gain on Investments	Postretirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2019	\$ (81,693)	\$ (74,541)	\$ (27)	\$ (7,125)
Change in unrealized gains (losses) on available-for-sale (AFS) securities:				
Change in net unrealized gains	89,879	89,879		
Gain on sale reclassifications to net income	(12,126)	(12,126)		
Net change in unrealized gains on AFS securities	77,753	77,753		
Change in postretirement benefit plans:				
Actuarial losses	(697)		(697)	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(77)		(77)	
Net change in postretirement benefit plans	(774)		(774)	
Change in cash flow derivative instruments:				
Unrealized loss on cash flow derivative instruments	(48,444)			(48,444)
Reclassification of loss recognized in interest expense	1,527			1,527
Net change in cash flow derivative instruments	(46,917)			(46,917)
Total other comprehensive income (loss)	30,062	77,753	(774)	(46,917)
Balance, December 31, 2019	\$ (51,631)	\$ 3,212	\$ (801)	\$ (54,042)

Following is a summary of the components of accumulated other comprehensive (loss) income and the changes occurring during the year ended December 31, 2018:

	Total	Unrealized Loss on Investments	Postretirement Benefit Plans	Cash Flow Derivative Instruments
Balance, January 1, 2018	\$ (51,902)	\$ (56,813)	\$ (1,815)	\$ 6,726
Change in unrealized losses on AFS securities:				
Change in unrealized losses on AFS securities	(17,728)	(17,728)		
Net change in unrealized losses on AFS securities	(17,728)	(17,728)		
Change in postretirement benefit plans:				
Actuarial gains and plan amendments	1,835		1,835	
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(47)		(47)	
Net change in postretirement benefit plans	1,788		1,788	
Change in cash flow derivative instruments:				
Unrealized loss on cash flow derivative instruments	(13,814)			(13,814)
Reclassification of gain recognized in interest expense	(37)			(37)
Net change in cash flow derivative instruments	(13,851)			(13,851)
Total other comprehensive income (loss)	(29,791)	(17,728)	1,788	(13,851)
Balance, December 31, 2018	\$ (81,693)	\$ (74,541)	\$ (27)	\$ (7,125)

The following table summarizes amounts reclassified out of accumulated other comprehensive (loss) income to current earnings:

Description	Amount Reclassified From Accumulated Other Comprehensive Loss			Location of Gain (Loss) Recognized in Statements of Comprehensive Income
	2020	2019	2018	
Unrealized gain on securities				
Gain on sale reclassifications to net income	\$ -	\$ 12,126	\$ -	Gain on sale of investments
Postretirement benefit plans				
Amortization of prior service credits	77	77	47	Salaries and employee benefits
Cash flow derivative instruments				
(Losses) gains on cash flow derivatives	(1,958)	(1,527)	37	Interest expense
	<u>\$ (1,881)</u>	<u>\$ 10,676</u>	<u>\$ 84</u>	

## Note 12 — Employee Benefit Plans

Employees of the bank participate in either the district's defined benefit retirement plan (DB plan) or in a nonelective defined contribution feature (DC plan) within the Farm Credit Benefits Alliance 401(k) plan. In addition, all benefits-eligible employees are qualified to participate in the Farm Credit Benefits Alliance 401(k) plan.

The structure of the district's DB 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). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon district combination only. The bank records current contributions to the DB plan as an expense in the current year.

The DB plan is noncontributory, and benefits are based on salary and years of service. As of January 1, 1996, the bank and associations froze participation in their defined benefit pension plan and offered defined contribution retirement plans to all employees hired subsequent to the freeze. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees. The plan sponsor is the board of directors of the bank. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. Actuarial information regarding the DB pension plan accumulated benefit obligation and plan asset is calculated for the district as a whole and is presented in the district's unaudited 2020 Annual Report. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2020.

The risks of participating in this multiemployer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the participating employer chooses to stop participating in the multiemployer plan, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan for projected benefit obligations in excess of plan assets, the bank's contributions, and the percent of bank contribution to total plan contributions for the years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
Projected benefit obligation	\$ 405,892	\$ 399,897	\$ 360,261
Fair value of plan assets	254,237	264,796	244,809
Funded status of plan	62.6%	66.2%	68.0%
Bank's contribution	\$ 609	\$ 744	\$ 706
Percent of bank's contribution to total contributions	10.1%	9.1%	7.2%

The funded status presented above is based on the percent of plan assets to projected benefit obligations. DB plan funding is based on the percent of plan assets to the accumulated benefit obligation, which was 64.3%, 68.0% and 70.1% at December 31, 2020, 2019 and 2018, respectively.

The expected long-term rate of return assumption is determined independently for each defined benefit pension plan. Generally, plan trustees use historical return information to establish a best-estimate range for each asset class in which the plan is invested. Plan trustees select the most appropriate rate for the plan from the best-estimate range, taking into consideration the duration of the benefit liabilities and plan sponsor investment policies.

Actuarial information regarding the DB pension plan accumulated benefit obligation and plan assets is calculated for the district as a whole and is presented in the district's unaudited 2020 Annual Report.

Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and all employees hired on or after January 1, 1996. Participants in the non-elective pension feature of the DC plan direct the placement of their employers' contributions (5% of eligible compensation during 2020) made on their behalf into various investment alternatives.

The district also participates in the Farm Credit Benefits Alliance 401(k) plan, which offers a pre-tax and after-tax Roth compensation deferral feature. Employers match 100% of employee contributions for the first 3% of eligible compensation and then match 50% of employee contributions on the next 2% of eligible compensation, for a maximum employer contribution of 4% of eligible compensation.

Certain executive or highly compensated employees in the bank are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (Supplemental 401(k) Plan). This plan allows district employers to elect to participate in any or all of the following benefits:

- Restored Employer Contributions – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year
- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

Contributions of \$211, \$171 and \$159 were made to this plan for the years ended December 31, 2020, 2019 and 2018. There were no distributions from the plan in 2020, 2019 and 2018. The fair value of accumulated benefits and funded balance in the plan totaled \$1,186 at December 31, 2020.

The following table presents the bank's retirement benefit expenses for the years ended:

	2020	2019	2018
District DB plan	\$ 609	\$ 744	\$ 706
DC plan	1,775	1,574	1,522
401(k) plan	1,340	1,210	1,159
Supplemental 401(k) plan	211	171	159
Total	\$ 3,935	\$ 3,699	\$ 3,546

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 on the balance sheet. Bank employees hired on or 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 tables reflect the benefit obligation, cost, funded status and actuarial assumptions for the bank's other postretirement benefits, and additional information for accumulated benefits in excess of plan assets for the years ended December 31, 2020, 2019 and 2018:

	Other Postretirement Benefits		
	2020	2019	2018
<b>Change in projected benefit obligation</b>			
Projected benefit obligation,			
beginning of year	\$ 12,231	\$ 11,085	\$ 12,521
Service cost	227	222	274
Interest cost	415	516	493
Plan participants' contributions	80	76	65
Plan amendments	-	-	(466)
Actuarial loss (gain)	13	697	(1,370)
Benefits paid	(434)	(365)	(432)
Projected benefit obligation,			
end of year	\$ 12,532	\$ 12,231	\$ 11,085
<b>Change in plan assets</b>			
Plan assets at fair value,			
beginning of year	-	-	-
Actual return on plan assets	-	-	-
Company contributions	354	289	367
Plan participants' contributions	80	76	65
Benefits paid	(434)	(365)	(432)
Plan assets at fair value, end of year	-	-	-
<b>Unfunded status at end of year</b>	<b>\$ (12,532)</b>	<b>\$ (12,231)</b>	<b>\$ (11,085)</b>
<b>Amounts recognized on the balance sheet consist of:</b>			
Other postretirement liabilities	\$ (12,532)	\$ (12,231)	\$ (11,085)
Accumulated other			
comprehensive loss	891	801	27
<b>Amounts recognized in</b>			
<b>accumulated other</b>			
<b>comprehensive loss</b>			
Net actuarial loss	\$ 1,203	\$ 1,189	\$ 493
Prior service credit	(312)	(388)	(466)
Total accumulated other comprehensive loss	\$ 891	\$ 801	\$ 27
<b>Net periodic benefit cost</b>			
Service cost	\$ 227	\$ 222	\$ 274
Interest cost	415	516	493
Expected return on plan assets	-	-	-
Amortization of:			
Prior service cost credit	(77)	(77)	(139)
Net actuarial loss	-	-	92
Total periodic benefit cost	\$ 565	\$ 661	\$ 720
<b>Other changes to plan assets</b>			
<b>and projected benefit obligations</b>			
<b>recognized in other</b>			
<b>comprehensive (income) loss</b>			
Net actuarial (gain) loss	\$ 13	\$ 697	\$ (1,370)
Amortization of net actuarial gain	-	-	(92)
Prior service costs	77	77	(466)
Amortization of prior service costs	-	-	140
Net change	\$ 90	\$ 774	\$ (1,788)
<b>Additional details regarding plans with</b>			
<b>accumulated (post-retirement) benefit</b>			
<b>obligations in excess of plan assets:</b>			
Accumulated (post-retirement) benefit	\$ 12,532	\$ 12,231	\$ 11,085
obligation			
Fair value of plan assets	-	-	-

	Other Postretirement Benefits		
	2020	2019	2018
<b>Weighted-average assumptions</b>			
<b>used to determine benefit</b>			
<b>obligation at year end</b>			
Measurement date	12/31/2020	12/31/2019	12/31/2018
Discount rate	2.80%	3.45%	4.75%
Health care cost trend rate			
assumed for next year			
(pre/post-65)	6.60%/6.20%	6.90%/6.40%	7.30%/6.90%
Ultimate health care cost			
trend rate	4.50%	4.50%	4.50%
Year that the rate reaches			
the ultimate trend rate	2029	2029	2027
<b>Weighted-average assumptions</b>			
<b>used to determine net periodic</b>			
<b>cost for the year</b>			
Measurement date	12/31/2019	12/31/2018	12/31/2017
Discount rate	3.45%	4.75%	4.00%
Health care cost trend rate			
assumed for next year			
(pre/post-65)	6.90%/6.40%	7.30%/6.90%	7.70%/6.90%
Ultimate health care cost			
trend rate	4.50%	4.50%	4.50%
Year that the rate reaches			
the ultimate trend rate	2029	2027	2026

## Expected Future Cash Flow Information

### Expected Benefit Payments

Fiscal 2021	\$ 402
Fiscal 2022	427
Fiscal 2023	431
Fiscal 2024	470
Fiscal 2025	485
Fiscal 2026 - 2030	2,790

### Expected Contributions

Fiscal 2021	\$ 402
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The bank's plan for other postretirement benefits does not have plan assets.

## Note 13 — Related Party Transactions

As discussed in Note 1, "Organization and Operations," the bank lends funds to the district associations to fund their loan portfolios. Interest income recognized on direct notes receivable from district associations was \$375,567, \$379,104 and \$319,224 for 2020, 2019 and 2018, respectively. Further disclosure regarding these related party transactions is found in Note 4, "Loans and Reserves for Credit Losses," and Note 11, "Shareholders' Equity."

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, marketing and other services. Income derived by the bank from these activities was \$3,179, \$3,903 and \$3,740 for 2020, 2019 and 2018, respectively, and was included in the bank's noninterest income.

The bank had no transactions with nor loans to directors or senior officers, their immediate family members, or any organizations with which such senior officers or directors are affiliated, during 2020, 2019 and 2018.



## Note 14 — Commitments and Contingencies

The district has various outstanding commitments and contingent liabilities as discussed elsewhere in these notes.

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 other System banks. The total bank and consolidated Systemwide debt obligations of the System at December 31, 2020, were approximately \$322.66 billion.

In the normal course of business, the bank incurs a certain amount of claims, litigation, and other legal and administrative proceedings, all of which are considered incidental to the normal conduct of business. The bank believes it has meritorious defenses to the claims currently asserted against it, and, with respect to such legal proceedings, intends to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interest of the bank and its shareholders.

On at least a quarterly basis, the bank assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For those matters where it is probable that the bank would incur a loss and the amount of the loss could be reasonably estimated, the bank would record a liability in its financial statements. These liabilities would be increased or decreased to reflect any relevant developments on a quarterly basis. For other matters, where a loss is not probable or the amount of the loss is not estimable, the bank does not record a liability.

Currently, other actions are pending against the bank in which claims for monetary damages are asserted. Upon the basis of current information, management and legal counsel are of the opinion that any resulting losses are not probable, and that the ultimate liability, if any, resulting from a lawsuit and other pending actions will not be material in relation to the financial position, results of operations or cash flows of the bank.

## Note 15 — Financial Instruments With Off-Balance Sheet Risk

The bank may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage its exposure to interest rate risk. These financial instruments include commitments to extend credit and commercial letters of credit. The instruments involve, to varying degrees,

elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2020, the bank had \$3.37 billion of commitments to extend credit and \$110.7 million of letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon.

The bank provides letters of credit, which are irrevocable agreements to guarantee payments of specified financial obligations. As a guarantor, the bank recognizes a liability for the fair value of the obligation undertaken in issuing the guarantee. The bank's liability for the fair value of these obligations is determined by applying a risk-adjusted spread percentage to these obligations. As of December 31, 2020, the maximum potential amount of future payments that the bank may be required to make under the bank's outstanding letters of credit was \$110.7 million, with a fair value of \$2.5 million, which is included in other liabilities on the balance sheet. These outstanding letters of credit have expiration dates ranging from 2021 to 2028.

The credit risk involved in issuing commitments and letters of credit is essentially the same as that involved in extending loans to customers, and the same credit policies are applied by management. In the event of funding, the credit risk amounts are equal to the contract amounts, assuming that counterparties fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the counterparty. At December 31, 2020, 2019 and 2018, the bank had a reserve for losses on letters of credit and unfunded commitments of \$1,934, \$1,809 and \$1,900, respectively, representing management's estimate of probable credit losses related to letters of credit and unfunded commitments.

## Note 16 — 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,” for additional information and “Valuation Techniques” at the end of this note.

Assets and liabilities measured at fair value on a recurring basis at December 31, 2020, for each of the fair value hierarchy values are summarized below:

Fair Value Measurement				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Federal funds and other overnight funds	\$ 208,229	\$ -	\$ 208,229	\$ -
Available-for-sale investments				
Commercial paper	49,991	-	49,991	-
Corporate debt	284,832	-	284,832	-
U.S. Treasury securities	426,453	-	426,453	-
Agency-guaranteed debt	114,379	-	114,379	-
Mortgage-backed securities	4,452,654	-	4,376,740	- 75,914
Asset-backed securities	196,394	-	196,394	-
Other available-for-sale investments	23,464	-	-	23,464
Derivative assets	398	-	398	-
Assets held in nonqualified benefit trusts	1,186	1,186	-	-
Collateral assets	50,380	50,380	-	-
Total assets	\$ 5,808,360	\$ 51,566	\$ 5,657,416	\$ 99,378
<b>Liabilities:</b>				
Letters of credit	\$ 2,513	\$ -	\$ -	\$ 2,513
Derivative liabilities	73,347	-	73,347	-
Total liabilities	\$ 75,860	\$ -	\$ 73,347	\$ 2,513

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2020:

	Assets		Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Letters of Credit	Total
Balance at January 1, 2020	\$ -	\$ 29,051	\$ 830	\$ 28,221
Net gains included in other comprehensive income	165	577	-	742
Purchases, issuances and settlements	300,129	(6,164)	1,683	292,282
Transfers out of Level 3	(224,380)	-	-	(224,380)
Balance at December 31, 2020	\$ 75,914	\$ 23,464	\$ 2,513	\$ 96,865
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 December 31, 2020				
	-	-	-	-
The amount of gains/losses for the period included in other comprehensive income attributing to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2020				
	\$ 165	\$ 577	\$ -	\$ 742

There were transfers of assets or liabilities into or out of Level 3 from other levels during the year ended December 31, 2020. Transfers of mortgage-backed securities from Level 3 into Level 2 were the result of market pricing becoming subsequently available. 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 December 31, 2020 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement			
	Total	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Loans	\$ 107	-	\$ -	\$ 107
<b>Total assets</b>	<b>\$ 107</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 107</b>

Assets and liabilities measured at fair value on a recurring basis at December 31, 2019, for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Federal funds and other overnight funds	\$ 374,344	\$ -	\$ 374,344	\$ -
Available-for-sale investments				
Corporate debt	457,045	-	457,045	-
U.S. Treasury securities	200,114	-	200,114	-
Agency-guaranteed debt	138,933	-	138,933	-
Mortgage-backed securities	4,307,005	-	4,307,005	-
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	-	-
<b>Total assets</b>	<b>\$ 5,689,900</b>	<b>\$ 18,560</b>	<b>\$ 5,642,289</b>	<b>\$ 29,051</b>
<b>Liabilities:</b>				
Letters of credit	\$ 830	\$ -	\$ -	\$ 830
Derivative liabilities	54,919	-	54,919	-
<b>Total liabilities</b>	<b>\$ 55,749</b>	<b>\$ -</b>	<b>\$ 54,919</b>	<b>\$ 830</b>

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2019:

	Assets			Liabilities	
	Asset- Backed Securities	Mortgage- Backed Securities	Agricultural Mortgage- Backed Securities	Letters of Credit	Total
Balance at January 1, 2019	\$ -	\$ -	\$ 35,708	\$ 676	\$ 35,032
Net gains included in other comprehensive income	16	218	1,258	-	1,492
Purchases, issuances and settlements	25,000	92,550	(7,915)	154	109,481
Transfers out of Level 3 into Level 2	(25,016)	(92,768)	-	-	(117,784)
<b>Balance at December 31, 2019</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 29,051</b>	<b>\$ 830</b>	<b>\$ 28,221</b>

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 December 31, 2019

- - - - -

The amount of gains/losses for the period included in other comprehensive income attributing to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2019

\$ 16 \$ 218 \$ 1,258 \$ - \$ 1,492

There were transfers of assets or liabilities into or out of Level 3 from other levels during the year ended December 31, 2019. Transfers of asset-backed and mortgage-backed securities from Level 3 into Level 2 were the result of market pricing becoming subsequently available. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. The liability for letters of credit is included in Level 3 because their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2019 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Total (Level 1)	(Level 2)	(Level 3)	
Assets:				
Loans	\$ 11,093	\$ -	\$ -	\$ 11,093
Total assets	\$ 11,093	\$ -	\$ -	\$ 11,093

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

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

The table below represents a reconciliation of all Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended December 31, 2018:

	Assets	Liabilities	
	Agricultural Mortgage- Backed Securities	Letters of Credit	Total
Balance at January 1, 2018	\$ 43,317	\$ 846	\$ 42,471
Net gains included in other comprehensive income	173	-	173
Purchases, issuances and settlements	(7,782)	(170)	(7,612)
Balance at December 31, 2018	\$ 35,708	\$ 676	\$ 35,032
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 December 31, 2018	-	-	-
The amount of gains/losses for the period included in other comprehensive income attributing to the change in unrealized gains or losses relating to assets or liabilities still held at December 31, 2018	\$ 173	\$ -	\$ 173

There were no transfers of assets or liabilities into or out of Level 3 from other levels during the year ended December 31, 2018. Agricultural mortgage-backed securities are included in Level 3 due to limited activity or less transparency around inputs to their valuation. The liability for letters of credit is included in Level 3 because their valuation, based on fees currently charged for similar agreements, may not closely correlate to a fair value for instruments that are not regularly traded in the secondary market.

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

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

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

December 31, 2020					
Fair Value Measurements Using					
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets:</b>					
Cash	\$ 128,302	\$ 128,302	\$ -	\$ -	\$ 128,302
Net loans	21,814,593	-	-	22,231,536	22,231,536
Total assets	\$ 21,942,895	\$ 128,302	\$ -	\$ 22,231,536	\$ 22,359,838
<b>Liabilities:</b>					
Systemwide debt securities	\$ 25,873,429	-	-	\$ 26,245,712	\$ 26,245,712
Total liabilities	\$ 25,873,429	\$ -	\$ -	\$ 26,245,712	\$ 26,245,712

December 31, 2019					
Fair Value Measurements Using					
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets:</b>					
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
<b>Liabilities:</b>					
Systemwide debt securities	\$ 23,473,906	-	-	\$ 23,656,235	\$ 23,656,235
Total liabilities	\$ 23,473,906	\$ -	\$ -	\$ 23,656,235	\$ 23,656,235

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

## VALUATION TECHNIQUES

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," 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 in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following represent a brief summary of the valuation techniques used by the bank for assets and liabilities:

### *Investment Securities*

Where quoted prices are available in an active market, available-for-sale securities would be classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services or discounted cash flows. Generally, these securities would be classified as Level 2. Among other securities, this would include certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Level 3 assets at December 31, 2020, included the bank's Farmer Mac AMBS portfolio and select mortgage-backed securities.

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

### *Assets Held in Nonqualified Benefits Trusts*

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

### *Derivatives*

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

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

### *Collateral Assets (Cash Collateral Posted with a Counterparty)*

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

### *Letters of Credit*

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

### *Loans*

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

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

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

### *Loans Evaluated for Impairment*

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

### *Bonds and Notes*

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

indications, observed new government-sponsored enterprise debt security pricing and pricing levels in the related U.S. dollar interest rate swap market.

### 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 prepayment rates, probability of default and loss severity in the event of default inclusive of some uncertainty at the reporting date. 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.

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. 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 December 31,		
	2020	2019	2018
Other investments	\$ 23,464	\$ 29,051	\$ 35,708
Mortgage-backed securities	75,914	-	-

	Valuation Technique(s)	Unobservable Input	Range of Inputs / Weighted Average at December 31,		
			2020	2019	2018
Other investments	Discounted cash flow	Prepayment rates	1.4%-44.5% / 8.86%	2.4%-38.0% / 9.40%	2.3%-38.0% / 10.21%
Mortgage-backed securities	Vendor priced	-	-	-	-

In regard to non-recurring measurements for impaired loans, 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 take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

### Information About Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Federal funds sold	Carrying value	Par/principal
Available-for-sale investment securities	Quoted prices Discounted cash flow	Price for similar security Constant prepayment rate Appropriate interest rate yield curve
Loans held under the fair value option	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

### Information About Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Actual balance
Loans	Discounted cash flow	Prepayment forecasts Appropriate interest rate yield curve Probability of default Loss severity
Systemwide debt securities	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk

## Note 17 — Derivative Instruments and Hedging Activity

The bank maintains an overall interest rate risk management strategy that incorporates the use of derivative products 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 movements in interest rates do not adversely affect the net interest margin. 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. Interest rate swaps allow the bank to raise borrowings in the government-sponsored entities market and modify the repricing characteristics of that debt to better match those of the earning assets. Under interest rate swap arrangements, the bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal 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 December 31, 2020, the bank held interest rate caps with a notional amount of \$145.0 million and a net fair value asset of \$236, receive-fix interest rate swaps with a notional amount of \$50.0 million and a net fair value asset of \$162, and pay-fixed interest rate swaps with a notional amount of \$825.0 million and a net fair value liability of \$73.3 million, net of posted variation margin. The primary types of derivative instruments used and the amount of activity (notional amount of derivatives) during the year ended December 31, 2020, is 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)
<b>Balance at December 31, 2020</b>	<b>\$ 50,000</b>	<b>\$ 825,000</b>	<b>\$ 145,000</b>	<b>\$ 1,020,000</b>

By using derivative instruments, the bank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the bank's credit risk will equal the fair value gain of the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the bank, thus creating a repayment risk for the bank. When

the fair value of the derivative contract is negative, the bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses from derivatives substantially all derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of exposure of one party to the other are reached which thresholds may vary depending on the counterparty's credit rating from a major rating agency. The bank also monitors the credit standing of, 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 December 31, 2020 and 2019, counterparties' credit exposure to the bank was \$17.0 million and \$35.5 million, respectively. At December 31, 2018, the bank had credit exposure to counterparties totaling \$5.4 million. At December 31, 2020, the bank had cash collateral posted of \$91.3 million, and no counterparty had been required to post collateral.

The credit exposure represents the exposure to credit loss on derivative instruments, which is estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts in a gain position.

#### *Derivative – Counterparty Exposure*

The table below presents the credit ratings of counterparties to whom the bank had credit exposure at December 31, 2020:

Moody's Credit Rating	Remaining Years to Maturity			Exposure	Collateral Posted	Exposure Net of Collateral
	Less than One to Five Years	More than Five Years	Total Gains (Losses)*			
Aa2	\$ (2,748)	\$ (74,033)	\$ (76,781)	\$ (76,781)	\$ (50,380)	\$ (26,401)
Aa3	(2,367)	(29,131)	(31,498)	(31,498)	(40,891)	9,393
<b>Total</b>	<b>\$ (5,115)</b>	<b>\$ (103,164)</b>	<b>\$ (108,279)</b>	<b>\$ (108,279)</b>	<b>\$ (91,271)</b>	<b>\$ (17,008)</b>

\*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.

The bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the ALCO's bank asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed through its analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the bank's overall interest rate risk management strategies.

#### *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 receive-fixed interest rate swaps. Recorded in the bank's balance sheet are cumulative basis adjustments for fair value hedges for systemwide debt securities (bonds and notes). At December 31, 2020

the bank had a carrying amount of \$50.2 million for the hedged items, which included \$162 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. The bank did not have fair value hedges at December 31, 2018.

#### *Cash Flow Hedges*

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.



### Fair Values of Cash Flow Derivative Instruments:

During 2020, the bank began clearing cash flow hedges through a futures commission merchant (FCM), with a clearinghouse or central counterparty (CCP). At December 31, 2020, the notional amount of cleared cash flow hedges was \$250.0 million, with outstanding exposure of \$31.5 million and collateral posted of \$7.3 million and \$33.6 million in initial and variation margins, respectively. The bank's derivative instruments at December 31, 2020, 2019 and

2018, 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 \$247 recorded in accumulated other comprehensive loss (AOCL) as of December 31, 2020. These amounts will offset the cash flows associated with the hedged forecasted transactions.

The following table represents the fair values of cash flow derivative instruments, inclusive of posted variation margin for cleared activity as of December 31, 2020, 2019 and 2018:

	Balance Sheet Location	Fair Value 2020	Fair Value 2019	Fair Value 2018	Balance Sheet Location	Fair Value 2020	Fair Value 2019	Fair Value 2018
Interest rate caps	Other assets	\$ 236	\$ 98	\$ 448	Other liabilities	\$ -	\$ -	\$ -
Pay-fixed swaps	Other assets	-	1,660	10,253	Other liabilities	(73,347)	(54,919)	(16,143)

The following table sets forth the effect of derivative (loss) gain recognized in accumulated other comprehensive loss for the years ended December 31, 2020, 2019 and 2018:

	(Loss) Gain Recognized in AOCI on Derivatives at December 31,				Amount of (Loss) Gain Reclassified From AOCI Into Income at December 31,		
	2020	2019	2018		2020	2019	2018
Interest rate caps	\$ 139	\$ (350)	\$ (52)	Interest (expense) income	\$ (318)	\$ (290)	\$ (167)
Pay-fixed swaps	(55,998)	(48,094)	13,866	Interest (expense) income	(1,640)	(1,237)	204

The table below provides information about derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information below presents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information below represents the notional amounts and weighted average interest rates by expected maturity dates.

December 31, 2020 (dollars in thousands)	Maturities of 2020 Derivative Products and Other Financial Instruments						Fair Value
	2021	2022	2023	2024	2025	Subsequent Years	
Total Systemwide debt obligations:							
Fixed rate	\$ 5,887,105	\$ 3,866,022	\$ 2,931,650	\$ 2,324,968	\$ 1,590,428	\$ 2,593,737	\$ 19,193,910
Weighted average interest rate	0.85%	1.31%	1.48%	1.35%	1.08%	1.29%	1.18%
Variable rate	\$ 4,779,730	\$ 1,874,796	\$ 24,993	\$ -	\$ -	\$ -	\$ 6,679,519
Weighted average interest rate	0.19%	0.18%	0.23%	-	-	-	0.19%
Total Systemwide debt obligations:	\$ 10,666,835	\$ 5,740,818	\$ 2,956,643	\$ 2,324,968	\$ 1,590,428	\$ 2,593,737	\$ 25,873,429
Weighted average interest rate	0.55%	0.94%	1.47%	1.35%	1.08%	1.29%	0.92%
Derivative instruments:							
Interest rate caps							
Notional value	\$ -	\$ 30,000	\$ -	\$ 20,000	\$ 20,000	\$ 75,000	\$ 145,000
Weighted average receive rate	-	-	-	-	-	-	-
Weighted average pay rate	-	-	-	-	-	-	-
Pay-fixed swaps							
Notional value	\$ -	\$ -	\$ 200,000	\$ -	\$ -	\$ 625,000	\$ 825,000
Weighted average receive rate	-	-	0.15%	-	-	0.22%	0.20%
Weighted average pay rate	-	-	1.33%	-	-	2.97%	2.57%
Receive fixed swaps							
Notional value	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000
Weighted average receive rate	1.67%	-	-	-	-	-	1.67%
Weighted average pay rate	0.15%	-	-	-	-	-	0.15%

## Note 18 — Selected Quarterly Financial Information (unaudited)

Quarterly results of operations are shown below for the years ended December 31:

	2020				
	First	Second	Third	Fourth	Total
Net interest income	\$ 71,453	\$ 82,650	\$ 90,143	\$ 93,732	\$ 337,978
Provision for credit losses (loan loss reversal)	(295)	881	335	160	1,081
Noninterest expense (income), net	21,285	23,594	21,992	18,889	85,760
Net income	\$ 50,463	\$ 58,175	\$ 67,816	\$ 74,683	\$ 251,137

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 63,858	\$ 66,439	\$ 68,958	\$ 72,356	\$ 271,611
(Loan loss reversal) provision for credit losses	260	157	(1,786)	781	(588)
Noninterest expense (income), net	18,977	15,728	24,127	10,413	69,245
Net income	\$ 44,621	\$ 50,554	\$ 46,617	\$ 61,162	\$ 202,954

	2018				
	First	Second	Third	Fourth	Total
Net interest income	\$ 61,214	\$ 61,889	\$ 65,213	\$ 68,520	\$ 256,836
Provision (loan loss reversal) for credit losses	4,857	(11)	108	(283)	4,671
Noninterest expense (income), net	11,745	23,023	12,368	14,499	61,635
Net income	\$ 44,612	\$ 38,877	\$ 52,737	\$ 54,304	\$ 190,530

## Note 19 — 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](http://www.farmcreditbank.com).

## Note 20 — Subsequent Events

The bank has evaluated subsequent events through March 1, 2021, which is the date the financial statements were issued. There are no other significant subsequent events requiring disclosure as of March 1, 2021.



# Disclosure Information and Index (unaudited)

DISCLOSURES REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

## DESCRIPTION OF BUSINESS

A description of territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations required to be disclosed in this section are incorporated herein by reference to Note 1, "Organization and Operations," to the accompanying financial statements.

The description of significant developments that had or could have a material impact on results of operations or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting business, seasonal characteristics and concentrations of assets, if any, required to be disclosed in this section are incorporated herein by reference to "Management's Discussion and Analysis" of the bank included in this annual report to shareholders.

### *Board of Directors and Bank Senior Officers*

FCBT is governed by a seven-member board of directors. Five directors are farmers or ranchers, who are elected by the customers of the 14 associations that own the bank. Two directors, who are not stockholders of any of the associations, are appointed by the elected board members. The board of directors is responsible for directing the operations of the bank. The bank's senior officers, through the bank's chief executive officer, are accountable to the board of directors and work with the board of directors to set the bank's direction, goals and strategies.

The following represents certain information regarding the board of directors and senior officers of the bank as of December 31, 2020, including business experience during the past five years:

## DIRECTORS

James F. "Jimmy" Dodson, 67, chair of the board of directors, is from Robstown, Texas. He grows cotton, corn, wheat and milo on four family farm operations. Mr. Dodson serves on the bank's audit and compensation committees and is chair of the Tenth District Farm Credit Council. He is one of the board's designated financial experts on the bank's audit committee. He is president of Dodson Farms, Inc. and Dodson Ag, Inc., and is a partner in Legacy Farms and 3-D Farms. He is manager of Weber Station LLC, which is the managing partner of Weber Greene, Ltd., both of which are family farm real estate management firms. Mr. Dodson is a founding member of Cotton Leads, a responsible cotton production initiative of U.S. and Australian Cotton Producer organizations. He also serves on the boards of Gulf Coast Cooperative, an agricultural retail cooperative, and the Texas Agricultural Cooperative Council, an industry trade association. He was chair of the national Farm Credit Council for 2019 and 2020 and is a former director of FCC Services. He is past chair of the National Cotton Council of America, the American Cotton Producers and the Cotton Foundation, and formerly served as a director of Cotton Incorporated. He is past chair of the Texas AgFinance, FCS board of directors and a former member of the Texas District's Stockholders Advisory Committee. Mr.

Dodson became a director of the bank in 2003 and his term expires at the end of 2023.

Lester Little, 70, vice chair of the board of directors, is from Hallettsville, Texas. He owns and operates a farm and offers custom-farming services, primarily reclaiming farms and handling land preparation. His principal crops are corn, milo, hay and wheat. Mr. Little was a member of the bank's audit and compensation committees. He was also a member of the Tenth District Farm Credit Council. In addition, he is a member of the Farm Bureau, an agricultural trade organization, and served on the Lavaca Regional Water Planning Group, a regional water planning authority in Texas, during 2016. He previously was a board member of the Lavaca Central Appraisal District, a county organization in Texas that hires the chief appraiser for the county for purposes of assigning real estate values for tax assessments, and was board chair of the Hallettsville Independent School District Board of Trustees. He is former chair of the Capital Farm Credit board of directors and previously served as vice chair of the Texas District's Stockholders Advisory Committee. Mr. Little became a director in 2009 and his term expired at the end of 2020.

Ralph W. "Buddy" Cortese, 74, is from Fort Sumner, New Mexico. He is president of Cortese Farm and Ranch, Inc., a farming and ranching operation. He serves on the bank's audit and compensation committees. Mr. Cortese also is a member of the Tenth District Farm Credit Council. He currently serves on the board of the Federal Farm Credit Banks Funding Corporation and is chair of the governance committee. Mr. Cortese served as chair of the board of directors of the bank from 2000 through 2011. He is a member of the Texas Agricultural Cooperative Council board of directors, an industry trade association. From 2003 to 2008, he served on the board of Federal Agricultural Mortgage Corporation (Farmer Mac), a government agency chartered to create a secondary market for agricultural loans, and is a former board member of the American Land Foundation, a property rights organization. Prior to joining the bank board, he was chair of the PCA of Eastern New Mexico board of directors. Mr. Cortese became a director in 1995 and his term expires at the end of 2022.

John L. "Jack" Dailey, 65, is from Extension, Louisiana. He is an owner and operator of Boeuf Prairie Farm, which produces cotton, corn, soybeans and beef cattle and is a manager and serves as treasurer of Franklin Farmers Alliance LLC, a farmer-owned agricultural retail store. He was vice chair of the bank's audit committee and a member of the compensation committee. In January 2021, Mr. Dailey was appointed chair of the bank's compensation committee. He also is a member of the Tenth District Farm Credit Council. He chairs the Louisiana Boll Weevil Eradication Commission and Franklin Parish Fire Protection District 2 and is treasurer of the Franklin Parish Farm Bureau, an agricultural trade organization. He also serves on the executive committee of the Louisiana Cotton and Grain Association, a trade organization, and the water management task force of the Louisiana Department of Natural Resources. Prior to joining the bank board, he was vice chair of the Louisiana Land

Bank board of directors. Mr. Dailey became a director in 2019 and his term expires at the end of 2021.

Linda C. Floerke, 59, is from near Lampasas, Texas. During 2020, she was chair of the bank's compensation committee and served on the bank's audit committee. In January 2021, Ms. Floerke was appointed vice chair of the bank's board of directors. She is also vice chair of the Tenth District Farm Credit Council. Ms. Floerke is the managing partner of Buena Vista Ranch, FLP, which is a hay and cattle operation. She is also co-owner of Agro-Tech Services Inc., an agricultural consultation business, where she is secretary/treasurer. She also owns and manages rental property in Uvalde, Real and Williamson counties. She is a co-owner of Casa Floerke LLC, a rental property business, and is the secretary/treasurer and co-owner of Jarrell Farm Supply, Inc. Ms. Floerke serves on the Lampasas First United Methodist Church Finance Committee and serves on the Texas A&M AgriLife Extension Leadership Advisory Board, which provides oversight of agricultural extension services. She is a member of the Texas Agricultural Cooperative Council board of directors, an industry trade association. She previously served as a trustee of the Lampasas Independent School District. Ms. Floerke was a director of Lone Star Ag Credit, formerly Texas Land Bank, from 2012 through the end of 2016. She became a director in 2017 and her term expires at the end of 2022.

M. Philip Guthrie, 75, is one of two appointed members on the board. He is chair of the bank's audit committee and serves on the bank's compensation committee. He is also a member of the Tenth District Farm Credit Council. He is one of the board's designated financial experts on the bank's audit committee. Mr. Guthrie is the chief executive officer of Denham Partners LLC, a Dallas-based private investment firm. He was formerly the chief executive officer of Neuro Holdings International LLC, a medical devices firm, and InTech Aerospace. Early in his career, he was chief financial officer of Southwest Airlines, and later served as chief financial officer of Braniff International during that airline's reorganization. Mr. Guthrie also was the managing director of Mason Best Co., a Dallas-based investment firm that managed operations in over \$2 billion in equity investments in a broad spectrum of industries, for 10 years, and has served as chair, director or chief executive officer of numerous private and public financial service companies, both in banking and insurance. He is also currently a board member of Africa Specialty Risks, a reinsurance firm based in London and Mauritius and an advisor to several large private equity firms, focusing on the financial services industry worldwide. He serves as general partner of Ke'e Associates, a private investment company. A Certified Public Accountant and a Chartered Global Management Accountant, Mr. Guthrie is audit committee-qualified under the guidelines of the Securities and Exchange Commission, the New York Stock Exchange and Nasdaq. He is a stockholder of his family-managed 125-year-old livestock and crop operation in northern Louisiana. Mr. Guthrie became a director in 2015 and his term expires at the end of 2023.

Dorothy Nichols, 69, is one of two appointed members on the board. She is vice chair of the bank's compensation committee and

serves on the bank's audit committee. She is one of the board's designated financial experts on the bank's audit committee. She is also a member of the Tenth District Farm Credit Council. Ms. Nichols had a 23-year career with the Farm Credit System Insurance Corporation (FCSIC), the government insurer for Farm Credit System debt obligations. She joined the FCSIC in 1995 as its first in-house general counsel, and from 2006 to 2018 served as its chief operating officer. Previously, she was the first chief operating officer of the Farm Credit Administration (FCA), the independent federal agency that regulates and examines Farm Credit institutions and related entities. Prior to that position, Ms. Nichols was associate general counsel at the Federal Deposit Insurance Corporation. She began her government career in 1982 as a trial attorney with the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation. She holds a bachelor's degree in history from the University of Maryland and a doctorate in law from George Washington University. Ms. Nichols' term expires at the end of 2021.

## Committees

The board of directors has established an audit committee and a compensation committee. All members of the board serve on both the audit committee and the compensation committee. As the need arises, a member of the board of directors will also participate in the functions of the bank's credit review committee. The responsibilities of each board committee are set forth in its respective approved charter.

The disclosure of director and senior officer information included in this disclosure information and index was reviewed by the compensation committee prior to the annual report's issuance (including the disclosure information and index).

## Compensation of Directors

Directors of the bank are compensated in cash for service on the bank's board. Effective December 20, 2018, the Agriculture Improvement Act of 2018 repealed the limitations on bank director compensation contained in section 4.21 of the Farm Credit Act. The board of directors has adopted a compensation philosophy under which it will evaluate bank director compensation based on competitive market factors, aligning with the methodology utilized for the bank's employee compensation program. An annual compensation amount is considered as a retainer for all services performed by the director in an official capacity during the year and is approved by the board annually. In addition, directors may receive additional compensation in the amount approved by the board for any leadership position to which the director has been elected or assigned. The annual retainer fee is to be paid in equal monthly installments, including any additional compensation. Compensation for 2020 was paid at the rate of \$115,000 per year, payable at \$9,583 per month. Additional compensation was paid for leadership positions on the board and committees as follows: the chair of the board of directors in the amount of \$60,000 and vice chair of the board of directors in the amount of \$15,000, audit committee chair in the amount of \$15,000 and compensation committee chair in the amount of \$15,000. No director received non-cash compensation exceeding \$5,000 in 2020. Total cash compensation paid to all directors as a group during 2020 was \$910,000.

Information for each director for the year ended December 31, 2020, is provided below:

Board Member	Days Served at Board Meetings*	Days Served on Other Official Assignments**	Total Compensation Paid***
James F. Dodson	38.60	11.95	\$ 175,000
Lester Little	38.35	11.95	130,000
Ralph W. Cortese	27.75	3.75	115,000
John L. Dailey	38.35	11.95	115,000
Linda C. Floerke	38.35	11.95	130,000
M. Philip Guthrie	36.60	11.95	130,000
Dorothy Nichols	32.35	11.95	115,000
			<u>\$ 910,000</u>

\*Includes travel time, but does not include time required to prepare for board meetings. Also includes attendance via teleconference.

\*\*Includes audit committee meetings, compensation committee meetings, credit review committee meetings, special assignments, training and travel time.

\*\*\*Reflects regular compensation and additional compensation for year presented.

Directors are reimbursed for reasonable travel, subsistence and other related expenses while conducting bank business. The aggregate amount of expenses reimbursed to directors in 2020, 2019 and 2018 totaled \$119,677, \$195,142 and \$148,603, respectively. A copy of the bank's travel policy is available to shareholders upon request.

## BANK SENIOR OFFICERS

Name and Title	Time in Position	Experience – Past Five Years	Other Business Interests – Past Five Years
Larry R. Doyle, <i>Chief Executive Officer</i>	17.5 years		He served as a member of the bank's executive committee and served on the National Council of Farmer Cooperatives Executive Council and the Farm Credit System Presidents Planning Committee (PPC), business practices committee. He is the managing member of the following organizations: Lone Star Plantation LLC, a family-owned farming and land ownership operation, K&R Farm LLC, a family-owned farming operation and K&R Land Holdings, a family-owned land ownership operation.
John Sloan, <i>Senior Vice President, Chief Credit Officer</i>	3 years	Vice President and Unit Manager, 2014-2017; Vice President and Relationship Manager, prior to 2014, Association Direct Lending Group, FCBT	He serves as a member of the bank's executive committee.

Name and Title	Time in Position	Experience – Past Five Years	Other Business Interests – Past Five Years
Nanci Tucker, <i>Senior Vice President, Corporate Affairs, General Counsel and Corporate Secretary</i>	3 years	Chief Legal, Compliance and Ethics Officer, Texas Guaranteed Student Loan Corporation	She serves as a member of the bank’s executive committee.
Amie Pala, <i>Senior Vice President, Chief Financial Officer</i>	10 years		She serves as a member of the bank’s executive committee and as a member of the Farm Credit System Capital Workgroup and of the Farm Credit System Disclosure Committee. She also serves as a member of the board of governors and audit committee for the Farm Credit System Captive Insurance Corporation.
Stan Ray, <i>Chief Administrative Officer</i>	10 years		He served as member of the bank’s executive committee, served on the AgFirst/FCBT Plan Sponsor Committee, the Texas District Benefits Administration Committee and the Farm Credit System’s Reputation Risk Analysis and Planning Workgroup. He was president of the Tenth District Farm Credit Council, a trade organization. He is a member of the board of directors for the following organizations: Texas FFA Foundation, a nonprofit organization promoting youth in agriculture; Texas Agricultural Cooperative Council, an industry association; and Rodeo Austin, a nonprofit organization promoting youth education and Western heritage.
Nisha Rocap, <i>Chief Audit Executive</i>	3 years	Risk Assurance Director, PricewaterhouseCoopers	Her certifications include a Certified Public Accountant, a Certified Information Systems Auditor and a Certified Internal Auditor. She serves as a member of the bank’s executive committee. She also serves as a member of the Audit and Risk Advisory Group for the Farm Credit Council Services Director Leadership Conference.
Ed Benson, <i>Chief Information and Business Systems Officer</i>	1 year	Vice President and Unit Manager, 2014-2019; Director of Business Systems, 2013-2014, Business Systems Departments, FCBT	He served as a member of the bank’s executive committee.

## Compensation Discussion and Analysis – Senior Officers

### Overview

The board of directors of the Farm Credit Bank of Texas, through its compensation committee, has pursued a compensation philosophy for the bank that promotes leadership in the adoption and administration of a comprehensive compensation program.

A description of the bank's compensation plans is as follows.

### Base Pay

Market-based salaries along with the other incentive and benefits described below are critical to attracting and retaining needed talent in a highly competitive job market and at a time of high retirement risks.

### Defined Benefit Pension Plan

The Defined Benefit Pension Plan (Pension Plan) is a final average pay plan which was closed to new participants in 1996, and later fully closed to all participants, including rehires who had formerly participated in the plan. The Pension Plan benefits are based on the average monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65% of FAC60 times "Years of Benefit Service" and (b) 0.50% of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35).

The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the employee's retirement age is 65, that the employee is married on the date the annuity begins, that the spouse is exactly two years younger than the employee and that the benefit is payable in the form of a 50% joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit. The Pension Plan benefit is offset by the pension benefits any employee may have from another Farm Credit System institution.

The Pension Plan was amended in 2013 to allow those retiring after September 1, 2013, to elect a lump-sum distribution option. The plan was also amended to allow participating employers to exclude from pension compensation new long-term incentive plans which began after January 1, 2014.

In 2014 the plan was amended to allow terminated employees with a vested benefit to also elect a lump-sum distribution beginning January 1, 2015.

In 2020 the plan was amended to allow in-service distributions. The earliest age at which the distribution can be taken (age 59½) was made available to defined benefit plans with legislative changes made in late December 2019.

### 401(k) Plan – Elective

Farm Credit Benefits Alliance (FCBA) 401(k) Plan is open to all bank employees and includes up to a 4% employer match on employee deferrals up to Internal Revenue Service (IRS) directed limits. Employees become fully vested in the plan upon participation. The plan allows for self-directed investment choices by participants.

### 401(k) Plan – Non-Elective Defined Contribution Plan

FCBA 401(k) Plan's Defined Contribution component is open to employees not participating in the Defined Benefit Pension Plan. Employees become fully vested in the plan upon participation and receive a 5% employer contribution each pay period up to IRS-directed limits to the participant's account which is invested in the self-directed investment choices available.

### Nonqualified Supplemental 401(k) Plan

With the exception of the CEO, this plan is open to all employees who meet the minimum salary requirements set by the IRS. It has three features: elective deferral of employee compensation; discretionary employer contributions; and restored employer contributions that make an employee "whole" when 401(k) IRS limitations are met. Deferred money is invested with similar investment fund choices as the qualified 401(k) Plan at the participant's direction.

### Success Sharing Plan

The purpose of the Farm Credit Bank of Texas Success Sharing Plan (SSP) is to advance the mission of the bank by recognizing employees with variable pay through a discretionary bonus. The SSP (also categorized as a bonus or profit-sharing plan), rewards employees as the overall organization experiences success and performs within the realities of the current market environment and in accordance with business planning goals and objectives. Additionally, it is expected to help to attract, motivate and retain bank staff.

The SSP provides an annual award that is paid after the bank's operational results and strategic objectives are reported and assessed by the compensation committee of the board. The compensation committee has the final authority to determine if a success sharing award is to be paid and what percentage of the award target will be funded. The CEO does not participate in this plan; otherwise, all employees are eligible to participate in the SSP for that year. This program applies the concept of differential factors for all eligible bank participants, and is tiered into five groups according to employee job grades and their accountability level inside the entire organization. Each employee group has its own Success Sharing Award Factor for this plan. This factor is multiplied by the employee's December 31st annualized base compensation to arrive at the Success Sharing Plan award target for the year.

When a promotion or salary adjustment occurs during the year that elevates an employee's job grade into a higher employee group in the plan, the plan's award calculation will be prorated and paid at the separate employee group percentages for the periods the employee was in each of the employee groups. Additionally, when a salary adjustment occurs, the plan's award calculation will be prorated and paid at the separate employee salaries for the periods the employee was at each salary.

### FCBT Retention Plan

This is a nonqualified plan for bank employees that provides dollar incentives to remain employed for specific time periods to accomplish important bank initiatives or to aid in leadership succession. It is paid according to the agreement arranged for each participant. The CEO approves participants, plan provisions and participant agreements. Four employees were offered and accepted two-year retention

plans in November 2019. These employees have expertise with current software and systems from which the bank is transitioning to new software/system solutions. In order to retain these employees with critical knowledge, the bank offered retention plans that were accepted by the employees. The two-year retention plans paid 25% of the bonus amount at the end of the second quarter 2020 and 25% at the end of the fourth quarter 2020, with the remaining 50% to be paid at the end of the fourth quarter 2021. Four employees received two-year retention agreements ending on December 31, 2022. These four employees are valued employees of the bank deemed to be critical to the success of the bank and to the successful transition of management. In order to retain these employees, the bank offered them retention plans. The plans pay out a specific amount to each employee at 6 months, at 1 year and on December 31, 2022.

### ***Spot Awards Program***

This bank program allows for discretionary awards to be paid to employees throughout the year in recognition of outstanding performance events or service provided to the bank's customers. Senior officers do not participate in this program.

### ***Bank-Owned Vehicle Program***

Use of bank-owned vehicles is provided to three groups within the bank: the executive group, which is comprised of voting members of the bank's executive committee; the senior management group, which includes members defined by the CEO exclusive of the voting members of the executive committee; and the other group consisting of employees who have been identified by executive committee members as requiring a vehicle for job performance. Any current employee who was in possession of a bank-provided vehicle when vehicle eligibility guidelines were set was grandfathered for their remaining uninterrupted employment term at the bank. Employees assigned use of a bank-owned vehicle are required to maintain written records of their business and personal use. This data is used to annually impute to the employee's taxable wages the personal use value of the vehicle following the IRS lease value rule.

### ***Educational and Training Program***

This program was established in recognition that ongoing enrichment of employees' skills, knowledge and expertise is essential not only for the success of the bank and the retention of key employees, but for the realization of employees' personal growth and achievement.

This program is directed to employees at all levels and includes formal orientation of new hires, a continuing education and degree program, and a licensing and certification program. The degree program reimbursement is open to full-time employees who have been with the bank at least six months. This program covers tuition, lab fees, books and registration fees if the employee receives a grade of C or better in undergraduate courses and B or better in graduate-level courses and expenses are in excess of those reimbursable by a scholarship or other sources.

Tuition reimbursement will not normally exceed the cost per semester hour charged at state-supported universities. Expenses incurred above the state-supported university baseline are the responsibility of the employee. Certain positions in the bank must be staffed by employees who hold professional licenses and/or certifications. In these

instances, the membership and license fees, training and educational expenses for obtaining and maintaining professional status, licenses and certifications are reimbursable.

### ***Compensation, Risk and Performance***

One of the critical strategic goals of the bank is to provide market-driven financial products and support services to add value to our association customers. The bank succeeds at this through robust customer communications and relationships to stay aware of their business needs. Our staff provides technical, credit, operational and marketing support, and offers leadership in talent acquisition, retention and development. Our ability to succeed in these areas is dependent upon having a knowledgeable and experienced customer-service-focused workforce that is responsive but also proactive in meeting our district's business challenges and recognizing and taking advantage of opportunities, including promoting the bank's mission as a government-sponsored enterprise.

Market and higher compensation programs are required to keep Farm Credit competitive in the talent war currently being waged in Austin, Texas. The bank is located in one of the nation's top economic markets. It has become known as the "Silicon Hills" for the large number of technology firms located here that pay top salaries to information technology professionals as well as many other employee classifications. The unemployment rate has for years been lower than the national average (currently about 6% compared to about 8% nationally), which makes attracting talent a struggle with not only the aggressive tech sector, but also with competition from major medical, real estate and government employers. Austin is one of the country's fastest growing regions bringing new talent into the market, but also attracts new employers seeking those same resources. All these factors exert an upward pressure on all aspects of the employee value proposition and stress in acquiring and retaining the skilled workforce needed to achieve the bank's goals.

While external factors impact compensation programs, internal measures are in place to make certain there is alignment with the bank's performance. Market-driven base salaries are combined with a bonus program that is at risk each year. The compensation committee of the district board annually determines the structure and the award for the Success Sharing Plan, a short-term bonus plan. This gives them the agility to modify or discontinue the plan in response to changing circumstances. The bank is not locked into an incentive program for any extended period of time.

The SSP in regard to the total compensation mix is not overly significant or significantly larger than the market practice. Multiple performance measures are considered, which include financial and operational metrics. Although awards are based on a single year's performance, because the bank's customers are its cooperative associations, performance in the time period measured is less uncertain than in businesses with larger and lesser-known customer bases. The board and compensation committee review the bank's financial and operational performance at each meeting, so SSP decisions are reviewed by the same centralized group who hear those reports all year. Additionally, the compensation committee has external resources to support its oversight and uses that independent compensation consultant to review SSP awards with its annual executive compensation update.



In making its decision on the SSP award at year end, the compensation committee analyzes the bank's performance against the business plan for the year. The business plan is approved by the full composition of the board at the beginning of the year and is monitored all year as the CEO and senior team members deliver management and other reporting on bank performance and respond to director questions. Financial metrics include net income, the associations' direct note volume, allowance for loan losses, nonaccrual loans, capital market and investment income, total asset growth, credit quality, permanent capital ratio, and at year end, the association patronage. Operational accomplishments considered vary but typically include staff outreach to associations, participation and leadership in System workgroups and initiatives, debt issuances, credit and technology products and services delivered, marketing support, talent acquisition and talent management support, and continued progress in diversity and inclusion efforts.

### *Chief Executive Officer (CEO) Compensation Table and Policy for Bank*

In December 2019, a memorandum of understanding between the bank and the CEO was executed with an effective date of January 1,

2020, which superseded the previous memorandum of understanding effective January 1, 2017. The memorandum of understanding was effective for a term of approximately one year. The base salary for the CEO was \$1,375,000. Bonus payments, if any, were at the sole discretion of the compensation committee. The employment relationship between the bank and CEO remained at-will, meaning the bank could have terminated the CEO's employment at any time, and the CEO could have chosen to leave at any time.

As previously mentioned, the CEO bonus is discretionary and subject to the approval of the bank's compensation committee. The compensation committee reviews the same bank financial performance and operational metrics that the committee evaluates for purposes of the SSP. Additionally, for both the CEO and senior officer group, the compensation committee has annual peer market data it reviews with its third-party consultant before making CEO base and bonus pay decisions. The compensation committee also reviews seven dimensions of CEO performance and has discussions about goals set for the current year and successes in meeting those goals. The seven dimensions of CEO performance are: strategy and vision; leadership; innovation/technology; operating metrics; risk management; people management; and external relationships.

The following table summarizes the compensation paid to the CEO of the bank during 2020, 2019 and 2018.

**Summary Compensation Table for the Bank's CEO**

Name of Chief Executive Officer	Year	Annual					Total
		Salary (a)	Bonus (b)	Change in Pension Value (c)	Deferred/Perquisites (d)	Other (e)	
Larry R. Doyle	2020	\$ 1,375,053	\$ 1,700,000	\$ 257,136	\$ 17,585	\$ -	\$ 3,349,774
Larry R. Doyle	2019	1,375,053	1,700,000	332,731	16,627	-	3,424,411
Larry R. Doyle	2018	1,375,053	1,500,000	(75,943)	16,666	-	2,815,776

(a) Gross salary for year presented.

(b) Bonus compensation is presented in the year earned. For 2020, bonus compensation was paid in December based on the performance of the bank for 2020. For 2019 and 2018, bonus compensation was paid in January of the following year based on the performance of the bank during the previous year.

(c) For 2020, 2019 and 2018, disclosure of the change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the prior completed fiscal year to the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the covered fiscal year. For 2020 and 2019, the increase in pension value is primarily due to declines in the discount rate. For 2018, the negative (or decrease) change in pension value is due to the increase in discount rate as compared to the prior year.

(d) Deferred/Perquisites for 2020, 2019 and 2018 includes contributions to a 401(k) plan and premiums paid for life insurance.

(e) No values to disclose.

## Compensation of Senior Officers of the Bank

The following table summarizes the compensation paid to the aggregate number of senior officers, plus three highly compensated individuals that were not senior officers of the bank, during 2020. Amounts reflected in the table are presented in the year the compensation is earned.

**Summary Compensation Table for Other Officers**

Aggregate Number in Group (excludes CEO)	Year	Annual					Total
		Salary (a)	Bonus (b)	Change in Pension Value (c)	Deferred/Perquisites (d)	Other (e)	
9 Officers	2020	\$ 2,736,426	\$ 1,292,539	\$ 469,355	\$ 399,907	\$ 263,625	\$ 5,161,852
9 Officers	2019	2,740,360	966,718	-	398,975	659,503	4,765,556
7 Officers	2018	2,045,745	1,022,873	583,589	294,269	775	3,363,662

- (a) Gross salary for year presented, including retention plan compensation for one highly compensated individual.
- (b) Bonuses paid within the first 31 days of the subsequent calendar year.
- (c) For 2020, disclosure of the change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the prior completed fiscal year to the pension measurement date used for financial statement reporting purposes with respect to the audited financial statements for the covered fiscal year. For 2020, the increase in pension value is primarily due to a decline in the discount rate.
- (d) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions and employer match, automobile benefits and premiums paid for life insurance.
- (e) For 2020, Other includes retention and discretionary bonuses paid to one highly compensated individual and one senior officer and physical fitness compensation. For 2019, Other includes physical fitness compensation, severance payment and annual leave payout to a senior officer who left employment and severance payment to one highly compensated individual. For 2018, Other includes physical fitness compensation and service awards.

For 2018, the aggregate number of officers includes one senior officer who retired from the bank effective December 31, 2018.

Disclosure of the compensation paid during 2020 to any senior officer or officer included in the table is available and will be disclosed to shareholders of the bank upon written request.

Neither the CEO nor any other senior officer received non-cash compensation exceeding \$5,000 in 2020.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting bank business. A copy of the bank's travel policy is available to shareholders upon request.

## Pension Benefits Table for the CEO and Other Highly Compensated Individual of the Bank

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO and other highly compensated individual for the year ended December 31, 2020. There were no other senior officers eligible for the defined benefit pension plan.

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2020
Larry R. Doyle	Farm Credit Bank of Texas Pension Plan	47.376	\$ 2,438,208	\$ -
Other Highly Compensated Individual	Farm Credit Bank of Texas Pension Plan	35.011	3,626,055	-

## Description of Property

On September 30, 2003, the bank entered into a lease for approximately 102,500 square feet of office space to house its headquarters facility located at 4801 Plaza on the Lake Drive, Austin, Texas. The lease was effective September 30, 2003, and its term was from September 1, 2003, to August 31, 2013. On November 16, 2010, the bank entered into a lease amendment which extended the term of the lease to August 31, 2024. In addition, the lease amendment included expansion of the leased space to approximately 111,500 square feet of office space and an “early out” option to terminate the lease in 2020. On August 6, 2019, the bank entered into a lease amendment which extended the term of the lease to December 31, 2034.

## Legal Proceedings

There were no matters that came to the attention of the board of directors or management regarding the involvement of current directors or senior officers in specified legal proceedings which are required to be disclosed.

## Description of Capital Structure

The bank is authorized to issue and retire certain classes of capital stock and retained earnings in the management of its capital structure. Details of the capital structure is described in Note 11, “Shareholders’ Equity,” to the accompanying financial statements.

## Description of Liabilities

The bank’s debt outstanding is described in Note 10, “Bonds and Notes,” to the accompanying financial statements. The bank’s contingent liabilities are described in Note 14, “Commitments and Contingencies,” to the accompanying financial statements. See also Note 12, “Employee Benefit Plans,” with regard to obligations related to employee retirement plans.

## Selected Financial Data

The selected financial data for the five years ended December 31, 2020, required to be disclosed, is incorporated herein by reference to the “Five-Year Summary of Selected Financial Data” included in this annual report to stockholders.

## Management’s Discussion and Analysis of Financial Condition and Results of Operations

“Management’s Discussion and Analysis,” which precedes the financial statements in this annual report, is incorporated herein by reference.

## Transactions With Senior Officers and Directors

The policies on loans to and transactions with the bank’s officers and directors, required to be disclosed in this section, are incorporated herein by reference to Note 13, “Related Party Transactions,” to the accompanying financial statements.

## Related Party Transactions

As discussed in Note 1, “Organization and Operations,” the bank lends funds to the district associations to fund their loan portfolios. Interest income recognized on direct notes receivable from district associations was \$375.6 million, \$379.1 million and \$319.2 million for 2020, 2019 and 2018, respectively. Further disclosure regarding these related party transactions is found in Note 4, “Loans and Reserves for Credit Losses,” and Note 11, “Shareholders’ Equity.”

In addition to providing loan funds to district associations, the bank also provides banking and support services to them, such as accounting, information systems, marketing and other services. Income derived by the bank from these activities was \$3.2 million, \$3.9 million and \$3.7 million for 2020, 2019 and 2018, respectively, and was included in the bank’s noninterest income.

The bank had no transactions with nor loans to directors or senior officers, their immediate family members, or any organizations with which such senior officers or directors are affiliated, during 2020, 2019 and 2018.

## Relationship With Public Accountants

There were no changes in independent qualified public accountants since the prior annual report to shareholders, and there were no material disagreements with our independent qualified public accountants on any matter of accounting principles or financial statement disclosure during the period.

Fees for professional services paid by the bank during 2020 to PricewaterhouseCoopers LLP, the bank’s independent qualified public accountants, were as follows.

- Audit services of \$705,000 and of \$133,334 related to the integrated audit for the bank for 2020 and 2019, respectively, and \$53,202 related to out-of-pocket expenses for 2019. Engagement letter for audit services for 2020 for the integrated audit for the bank reflects an estimated fee of \$960,000, plus reasonable out-of-pocket expenses.
- Audit-related services of \$90,000 for procedures performed on the preferred stock issuance.
- Non-audit services of \$2,700 associated with accounting research and disclosure tools.
- No tax services were provided during 2020.

Fees paid for the audit of the Farm Credit Benefits Alliance (FCBA) 401(k) plan for 2019 as engaged by the AgFirst/FCBT Plan Fiduciary Committee totaled \$16,948 and represented the bank’s proportionate share of fees paid.

With the exception of the audit of the FCBA 401(k) plan, the non-audit services and tax services for the bank listed above required pre-approval of the bank’s audit committee, which was obtained.

Information regarding the fees for services rendered by the qualified public accountants for the district associations is disclosed in the individual associations’ annual reports.

## Relationships With Unincorporated Business Entities (UBEs)

The bank and a district association are among the forming limited partners for a \$154.5 million Rural Business Investment Company (RBIC), Advantage Capital Agribusiness Partners, LP (ACAP), established on October 3, 2014. Additionally, the bank is among the forming limited partners for a \$31.3 million RBIC, Innova Ag Innovation Fund IV, LP (Innova), established on December 12, 2016. The bank and Farm Credit System partners are among the forming limited partners for a \$113.5 million third RBIC investment, Midwest Growth Partners II Fund (Midwest), established on November 14, 2018. The RBICs will facilitate private equity investments in agriculture-related businesses that will create growth and job opportunities in rural America. Each limited partner has a commitment to contribute up to \$20.0 million, \$5.0 million and \$5.0 million to ACAP, Innova and Midwest, respectively, over a 10-year period and, as of December 31, 2020, FCBT has invested \$15.2 million in the three RBICs, included in other assets on the balance sheet. FCBT entered into an RBIC fourth investment on September 30, 2019. The bank committed to invest \$10.0 million alongside Farm Credit System partners in the new Pharos Capital Partners IV Fund. The fund had no activity through year end 2020.

Information regarding UBEs for district associations is disclosed in the individual association annual reports.

## Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 1, 2021, and the report of management in this annual report to shareholders, are incorporated herein by reference.

The Farm Credit Bank of Texas' and its affiliated associations' (district) annual and quarterly reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720 or by calling (512) 483-9260. Copies of the bank's quarterly and annual stockholder reports can be requested by sending an e-mail to [fcb@farmcreditbank.com](mailto:fcb@farmcreditbank.com). The bank's quarterly report is available approximately 40 days after the end of each fiscal quarter. The bank's annual report will be posted on the bank's website ([www.farmcreditbank.com](http://www.farmcreditbank.com)) within 75 calendar days of the end of the bank's fiscal year. This posting coincides with an electronic version of the report being provided to its regulator, the Farm Credit Administration. Within 90 calendar days of the end of the bank's fiscal year, a copy of the bank's annual report will be provided to its stockholders.

## Borrower Information Regulations

Farm Credit Administration (FCA) regulations require that borrower information be held in strict confidence by Farm Credit institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA board adopted a policy that requires Farm Credit institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the annual report to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

## Credit and Services to Young, Beginning and Small (YBS) Farmers and Ranchers, and Producers or Harvesters of Aquatic Products

In line with its mission, the district associations have policies and programs for making credit available to young, beginning and small farmers and ranchers.

The definitions for YBS, as prescribed by FCA regulations, are provided below.

*Young Farmer or Rancher* – A farmer, rancher or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

*Beginning Farmer or Rancher* – A farmer, rancher or producer or harvester of aquatic products who had 10 years or less of experience at farming, ranching or producing or harvesting aquatic products as of the date the loan was originally made.

*Small Farmer or Rancher* – A farmer, rancher or producer or harvester of aquatic products who normally generated less than \$250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

For the purposes of YBS, the term "loan" means an extension of, or a commitment to extend, credit authorized under the Farm Credit Act, whether it results from direct negotiations between a lender and a borrower or is purchased from, or discounted for, another lender, including participation interests. A farmer/rancher may be included in multiple categories as they are included in each category in which the definition is met.

The bank and associations' efforts to respond to the credit and related needs of YBS borrowers are evidenced by the following table:

	At December 31, 2020	
	Number of Loans	Volume
(dollars in thousands)		
Total loans and commitments	82,083	\$ 35,185,886
Loans and commitments to young farmers and ranchers	15,105	\$ 3,091,673
Percent of loans and commitments to young farmers and ranchers	18.40%	8.79%
Loans and commitments to beginning farmers and ranchers	44,119	\$ 10,737,539
Percent of loans and commitments to beginning farmers and ranchers	53.75%	30.52%

The following table summarizes information regarding new loans to young and beginning farmers and ranchers:

	For the year ended December 31, 2020	
	Number of Loans	Volume
(dollars in thousands)		
Total new loans and commitments	22,139	\$ 11,142,294
New loans and commitments to young farmers and ranchers	4,024	\$ 1,220,725
Percent of new loans and commitments to young farmers and ranchers	18.18%	10.96%
New loans and commitments to beginning farmers and ranchers	11,360	\$ 4,159,216
Percent of new loans and commitments to beginning farmers and ranchers	51.31%	37.33%

The following table summarizes information regarding loans to small farmers and ranchers:

	At December 31, 2020				
	Loan Size				Total
	\$50 Thousand or Less	\$50 to \$100 Thousand	\$100 to \$250 Thousand	More Than \$250 Thousand	
(dollars in thousands)					
Total number of loans and commitments	11,672	16,506	26,431	27,474	82,083
Number of loans and commitments to small farmers and ranchers	9,115	13,528	21,411	15,680	59,734
Percent of loans and commitments to small farmers and ranchers	78.09%	81.96%	81.01%	57.07%	72.77%
Total loans and commitments volume	\$ 245,799	\$ 898,027	\$ 3,346,959	\$ 30,695,101	\$ 35,185,886
Total loans and commitments to small farmers and ranchers volume	\$ 195,658	\$ 739,619	\$ 2,718,991	\$ 9,000,346	\$ 12,654,614
Percent of loans and commitments volume to small farmers and ranchers	79.60%	82.36%	81.24%	29.32%	35.97%

The following table summarizes information regarding new loans made to small farmers and ranchers:

	For the year ended December 31, 2020				
	Loan Size				Total
	\$50 Thousand or Less	\$50 to \$100 Thousand	\$100 to \$250 Thousand	More Than \$250 Thousand	
(dollars in thousands)					
Total new number of loans and commitments	3,398	3,751	6,373	8,617	22,139
Number of new loans and commitments to small farmers and ranchers	2,573	2,915	5,032	4,755	15,275
Percent of new loans and commitments to small farmers and ranchers	75.72%	77.71%	78.96%	55.18%	69.00%
Total new loans and commitments volume	\$ 99,907	\$ 283,927	\$ 1,060,643	\$ 9,697,817	\$ 11,142,294
Total new loans and commitments to small farmers and ranchers volume	\$ 75,211	\$ 221,010	\$ 830,722	\$ 3,608,353	\$ 4,735,296
Percent of new loans and commitments volume to small farmers and ranchers	75.28%	77.84%	78.32%	37.21%	42.50%



## Additional Regulatory Information – Farm Credit Bank of Texas

(unaudited)

### Overview

As described in “Structural Risk Management” beginning on page 18 of this annual report, the Farm Credit Administration (FCA) adopted final rules relating to capital requirements for the Farm Credit System (System) in 2016, which became effective January 1, 2017. These include public disclosure requirements set forth in Title 12 of the Code of Federal Regulations parts 628.61 through 628.63.

### Disclosure Map

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

Disclosure Requirement	Description	2020 Annual Report Reference
Scope of Application	Corporate entity and structure Restrictions on transfers of funds or capital	Page 13, Page 43, Pages 94 to 95 Page 95
Capital Structure	Terms and conditions of capital instruments Regulatory capital components	Note 11 – Pages 64 to 70; Pages 95 to 96 Pages 67, 98
Capital Adequacy	Capital adequacy assessment Risk-weighted assets Regulatory capital ratios	Pages 26 to 27, Page 98 Page 98 Page 12, 27; Note 11 – Page 67
Capital Buffers	Quantitative disclosures	Page 98
Credit Risk	Credit risk management and policies Summary of exposures Geographic distribution Industry distribution Contractual maturity Impaired loans and allowance for credit losses	Page 19, Pages 100 to 101 Page 101 Page 101 Page 101 Page 101 Note 4 – Pages 52 to 60; Pages 99 to 100
Counterparty Credit Risk-Related Exposures	General description Counterparty exposures	Page 19, Pages 101 to 102 Note 15 – Page 73; Note 17 – Page 79 to 81
Credit Risk Mitigation	General description Exposures with reduced capital requirements	Pages 100 to 102 Page 102
Securitization	General description Securitization exposures	Note 3 – Pages 49 to 51; Page 102 Note 3 – Pages 49 to 51, Note 16 – Pages 74 to 79; Page 103
Equities	General description	Page 103
Interest Rate Risk for Non-Trading Activities	General description Interest rate sensitivity	Pages 22 to 24; Page 103 Page 23

The following disclosures contain regulatory disclosures as required under Farm Credit Administration Regulation (FCA) 628.63 for risk-adjusted ratios: common equity tier 1, tier 1 capital and total capital. Refer to Note 11 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](http://www.farmcreditbank.com).

### Scope of Application

The Farm Credit Bank of Texas (FCBT or bank) is one of the banks of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations established by acts of Congress. The System is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The accounting and reporting policies of the bank conform to generally accepted accounting principles in the United States of America (GAAP) and prevailing practices within the banking industry.

The bank and its related associations collectively are referred to as the Farm Credit Bank of Texas and affiliated associations (district). The district’s one FLCA (Federal Land Credit Association), 13 ACA (Agricultural Credit Associations) parent associations, each containing two wholly-owned subsidiaries (an FLCA and a Production Credit Association [PCA]), certain Other Financing Institutions (OFIs) and preferred stockholders jointly owned the bank at December 31, 2020. The FLCA and ACAs collectively are referred to as associations. The bank is the primary funding source for the district associations. FCBT has no subsidiaries; therefore, the financial statements are only those of the bank and are not consolidated with any other entity. In conjunction with other System entities, the bank jointly owns certain service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the Farm Credit System Building Association (FCSBA), and the Farm Credit System Association Captive Insurance Company. Certain of the bank’s investments in other System institutions, including the investment in the Funding Corporation and FCSBA, are deducted from capital as only the institution who issued the equities may

count the amount as capital. The bank's unincorporated business entities (UBEs), including its investment in the Rural Business Investment Companies (RBICs), and its investment in the Farm Credit System Association Captive Insurance Company are included in risk-weighted assets and are not deducted from any capital component in accordance with FCA regulations. The bank has no consolidated subsidiaries; therefore, there are no consolidated entities for which the total capital requirement is deducted; there are no restrictions on transfer of funds or total capital with other consolidated entities; and no subsidiary exists that is below the minimum total capital requirement.

## Capital Structure

The par value of the bank's common stock is \$5 and the par value of the Class B Series 1, 2, 3 and 4 Noncumulative Perpetual Preferred Stock is \$1,000, \$100, \$1,000 and \$1,000 per share, respectively. The minimum initial borrower investment is equal to the greater of one thousand dollars or 2% of the associations' and OFIs' average borrowing from the bank. Our bylaws permit the bank's board of directors to set the required level of association and OFI investment in the bank within a range of 2 to 5% of the average association and OFI borrowings. In 2020, the required investment level was 2%. There are no capital sharing agreements between the bank and its affiliated associations.

## Description of Bank Equities

Descriptions of the bank's equities, capitalization requirements and restrictions are provided as follows:

**Class B Series 1 Noncumulative Subordinated Perpetual Preferred Stock (Class B-1 preferred stock)** – On August 26, 2010, the bank issued \$300.0 million of Class B noncumulative subordinated perpetual preferred stock, representing 300,000 shares at \$1,000 per share par value for net proceeds of \$296.6 million. Dividends on the preferred stock, declared by the board of directors at its sole discretion, were noncumulative and were payable semi-annually in arrears on the fifteenth day of June and December in each year, commencing December 15, 2010, at an annual fixed rate of 10% of par value of \$1,000 per share. The Class B-1 preferred stock was not mandatorily redeemable at any time, but could be redeemed in whole or in part at the option of the bank after the dividend payment date in June 2020. The Class B-1 preferred stock ranked, both as to dividends and upon liquidation, senior to all outstanding capital stock. 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.

**Class B Series 2 Noncumulative Subordinated Perpetual Preferred Stock (Class B-2 preferred stock)** – On July 23, 2013, the bank issued \$300 million of Class B noncumulative subordinated perpetual preferred stock, Series 2, representing three million shares at \$100 per share par value, for net proceeds of \$296.0 million. Dividends on the Class B-2 preferred stock, 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, 2013, at an annual fixed rate of 6.75% of par value of \$100 per share up to, but excluding September 15, 2023, from and after which date will be paid at an annual rate of the 3-Month USD LIBOR plus 4.01%. The Class B-2 preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank on any dividend payment date on or after September 15, 2023. The Class B-2 preferred stock ranks, both as to dividends and upon liquidation, *pari passu* with respect to the existing Class B-3 and Class B-4 preferred stock, and senior to all other classes of the bank's outstanding capital stock. Class B-2 preferred stock dividends are required by "dividend/patronage stopper" clauses to be declared and accrued before payment of bank investment and direct note patronage to associations and OFIs can be paid.

**Class B Series 3 Noncumulative Subordinated Perpetual Preferred Stock (Class B-3 preferred stock)** – On June 25, 2018, the bank issued \$100.0 million of Class B noncumulative subordinated perpetual preferred stock, Series 3, representing one hundred thousand shares at \$1,000 per share par value, with issuance costs on preferred stock of \$1.3 million for net proceeds of \$98.7 million. Dividends on the Class B-3 preferred stock, 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, 2018, at an annual fixed rate of 6.20% of par value of \$1,000 per share up to, but excluding June 15, 2028, from and after which date will be paid at an annual rate of the 3-Month USD LIBOR plus 3.223%. The Class B-3 preferred stock is not mandatorily redeemable at any time, but may be redeemed in whole or in part at the option of the bank on any dividend payment date on or after June 15, 2028. The Class B-3 preferred stock ranks *pari passu* with respect to the existing Class B-1 and Class B-2 and Class B-4 preferred stock, and senior to all of the bank's outstanding capital stock. Class B-3 preferred stock dividends are required by "dividend/patronage stopper" clauses to be declared and accrued before payment of bank investment and direct note patronage to associations and OFIs can be paid.

**Class B Series 4 Noncumulative Subordinated Perpetual Preferred Stock (Class B-4 preferred stock)** – 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.

**Class A Voting Common Stock** – According to the bank's bylaws, the minimum and maximum stock investments that the bank may require of the ACAs and FLCA are 2% (or one thousand dollars, whichever is greater) and 5%. The investments in the bank are required to be in the form of Class A voting common stock (with a par value of \$5 per share) and allocated retained earnings. The current investment required of the associations is 2% of their average borrowings from the bank. Under the Capitalized Participation Pool (CPP) program, the stock investment that the bank requires is 1.6% of each Farmer Mac AMBS pool and 8% of each loan pool. Under

the Capitalized and Non-Capitalized Participation Pool (NCPP) program, the bank redeems stock in the amount of 2.0% of the par value of the loans purchased. No Class A voting common stock may be retired except at the sole discretion of the bank's board of directors, and provided that after such retirement, the bank shall meet minimum capital adequacy standards as may from time to time be promulgated by the FCA or such higher level as the board may from time to time establish in the bank's Capital Plan. There were 71.8 million shares, 66.9 million shares and 63.1 million shares of Class A voting common stock issued and outstanding at December 31, 2020, 2019 and 2018, respectively.

**Class A Nonvoting Common Stock** – The bank requires OFIs to make cash purchases of Class A nonvoting common stock (with a par value of \$5 per share) in the bank based on a minimum stock investment of 2% (or one thousand dollars, whichever is greater) and on a maximum of 5%. The current investment required of the OFIs is 2% of their average borrowings from the bank. No Class A nonvoting common stock may be retired except at the sole discretion of the bank's board of directors, and provided that after such retirement, the bank shall meet minimum capital adequacy standards as may from time to time be promulgated by the FCA or such higher level as the board may from time to time establish in the bank's Capital Plan. The bank has a first lien on these equities for the repayment of any indebtedness to the bank. There were 154 thousand shares, 163 thousand shares and 163 thousand shares of Class A nonvoting common stock issued and outstanding at December 31, 2020, 2019 and 2018, respectively.

Allocated retained earnings of \$59,765, \$52,451 and \$45,685 at December 31, 2020, 2019 and 2018, respectively, consisted of allocated equity for the payment of patronage on loans participated with another System bank.



The following table provides a summary of the bank's capital structure at December 31, 2020:

<i>(dollars in thousands)</i>	Three-Month Average Daily Balance
<b>Common equity tier 1 capital (CET1)</b>	
Common cooperative equities:	
Purchased other required stock ≥7 years	\$ 298,233
Allocated stock ≥7 years	36,042
Other required member purchased stock	-
Allocated equities:	
Qualified allocated equities subject to retirement	52,532
Nonqualified allocated equities subject to retirement	-
Nonqualified allocated equities not subject to retirement	-
Unallocated retained earnings	976,278
Paid-in capital	-
Regulatory adjustments and deductions made to CET1	(152,570)
<b>Total CET1</b>	<b>\$ 1,210,515</b>
<b>Additional tier 1 capital (AT1)</b>	
Non-cumulative perpetual preferred stock	\$ 750,000
Regulatory adjustments and deductions made to AT1 capital	-
<b>Total AT1 capital</b>	<b>750,000</b>
<b>Total tier 1 capital</b>	<b>\$ 1,960,515</b>
<b>Tier 2 capital</b>	
Common cooperative equities not included in CET1	\$ -
Tier 2 capital elements (allowance for loan losses)	9,712
Regulatory adjustments and deductions made to Tier 2 capital	-
<b>Total tier 2 capital (T2)</b>	<b>9,712</b>
<b>Total capital</b>	<b>\$ 1,970,227</b>
	<b>Balances as of December 31, 2020</b>
<b>Reconciliation to statement of condition:</b>	
Total capital	\$ 1,864,622
Additions:	
Accumulated other comprehensive income	(28,827)
Regulatory adjustments and deductions	176,130
Subtractions:	
Tier 2 allowance and reserve	(8,792)
Regulatory deductions	(11,600)
<b>Total shareholders' equity</b>	<b>\$ 1,991,533</b>

## Capital Adequacy and Capital Buffers

In conjunction with the annual business and financial planning process, the board of directors reviews and approves a capital adequacy plan. As part of our business planning process, we perform stress tests to examine the bank's financial condition and performance, including capital levels, under a variety of market and economic environments, including unanticipated loan growth and prolonged periods of financial and loan quality stress. These stress tests illustrate the bank's ability to continue to maintain compliance with regulatory requirements through severe market conditions while continuing to fulfill our mission. Results of these stress tests are reviewed with the board of directors and the FCA. The bank regularly

assesses the adequacy of our capital to support current and future activities. This assessment includes maintaining a formal capital plan that addresses our capital targets in relation to our risks and establishes the required investment levels. The plan assesses the capital level and composition necessary to support financial viability and growth. The plan considers factors such as credit risk and allowance levels, quality and quantity of earnings, sufficiency of liquid funds, operational risk, interest rate risk and growth in determining optimal capital levels. The bank periodically reviews and modifies these targets to reflect current business and economic conditions. Our capital plan is updated at least annually and is subject to change at the discretion of the bank's board of directors.

### Risk-Weighted Assets at December 31, 2020:

<i>(dollars in thousands)</i>	Three-Month Average Daily Balance
<b>On-Balance Sheet Assets:</b>	
Exposures to sovereign entities	\$ -
Exposures to supranational entities and Multilateral Development Banks	-
Exposures to government-sponsored entities (direct notes to associations)	2,928,334
Exposures to depository institutions, foreign banks and credit unions	2,827
Exposures to public sector entities	-
Corporate exposures, including borrower loans and exposures to other financing institutions	6,487,703
Residential mortgage exposures	-
Past due and nonaccrual exposures	8,756
Securitization exposures	95,559
Exposures to other assets	930,238
<b>Total Risk-Weighted Assets, On-Balance Sheet</b>	<b>10,453,417</b>
<b>Off-Balance Sheet:</b>	
Letters of credit	75,885
Commitments	1,662,773
Repo-styled transactions	-
Over-the-counter derivatives	702
Unsettled transactions	-
Cleared transactions	-
All other off-balance sheet exposures	7,156
<b>Total Risk-Weighted Assets, Off-Balance Sheet</b>	<b>1,746,516</b>
<b>Total Risk-Weighted Assets Before Adjustments</b>	<b>12,199,933</b>
Additions:	
Intra-system equity investments	152,570
Deductions:	
Regulatory capital deductions	(152,570)
<b>Total Standardized Risk-Weighted Assets</b>	<b>\$ 12,199,933</b>

## Capital Conservation and Leverage Buffers

As of December 31, 2020, the bank was well-capitalized and exceeded all capital requirements. 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 limita-

tions on its distributions and discretionary bonus payments. The aggregate amount of eligible retained income was \$55,721 as of December 31, 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 December 31, 2020	Calculated Buffer
Common equity tier 1 capital ratio	7.00%	9.92%	2.92%
Tier 1 capital ratio	8.50%	16.07%	7.57%
Total capital ratio	10.50%	16.15%	5.65%
Tier 1 leverage ratio	5.0%	7.11%	2.11%

## 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) as is further discussed in the section "Allowance for Loan Losses and Reserve for Unfunded Commitments." 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 December 31, 2020.

### Impaired Loans

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, formally restructured loans (TDR), and loans 90 days past due still accruing interest.

A loan is past due when any contractually scheduled loan payments have not been received in full on or before the contractual due date and remains due.

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the bank grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the bank's economic loss and avoid foreclosure. Concessions vary by program, are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that full collection of principal and interest is in doubt. In accordance with FCA regulations, all loans 180 days or more past due are considered nonaccrual. When a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is either reversed (if current year interest) or charged against the allowance for loan losses (if prior year interest). Loans are charged off at the time they are determined to be uncollectible.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, payments are recognized as interest income. Nonaccrual loans may be returned to accrual status when contractual principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

### Allowance for Loan Losses and Reserve for Unfunded Commitments

The bank uses a two-dimensional loan rating model based on an internally generated combined System risk-rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a 9 to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the bank's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The allowance for loan losses is a valuation account used to reasonably estimate loan and lease losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss. The determination of the allowance for loan losses is based on management's current judgments about the credit quality of its loan portfolio. A specific allowance may be established for impaired loans under authoritative accounting guidance. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral-dependent. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances. The allowance is increased through provisions for loan losses and loan recoveries and is decreased through reversals of provisions for loan losses and loan charge-offs. The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. Generally, for loans individually evaluated, the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

The bank's reserves for credit losses include the allowance for loan losses and a reserve for losses on unfunded commitments. The reserve for losses on unfunded commitments includes letters of credit and unused loan commitments, and is recorded in other liabilities on the balance sheet.

## Credit Risk Management

### Credit Risk Mitigation Related to Loans

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in our outstanding loans, letters of credit, unfunded loan commitments, investment portfolio and derivative counterparty credit exposures. The bank manages credit risk associated with our lending activities through an assessment of the credit risk profile of an individual borrower. The bank sets its

own underwriting standards and lending policies, approved by the board of directors that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- **character** — borrower integrity and credit history;
- **capacity** — repayment capacity of the borrower based on cash flows from operations or other sources of income;
- **collateral** — protects the lender in the event of default and represents a potential secondary source of loan repayment;
- **capital** — ability of the operation to survive unanticipated risks; and
- **conditions** — requirements that govern intended use of loan funds.

The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including non-farm income. Real estate loans with terms greater than 10 years must be secured by first liens on the real estate (collateral). As required by Farm Credit Administration regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures. Real estate loans with terms greater than 10 years may be made only in amounts up to 85% of the original appraised value of the property taken as security or up to 97% of the appraised value if guaranteed by a state, federal or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than \$250,000. This credit risk-rating process incorporates objective and subjective criteria to identify inherent strengths and weaknesses and risks in a particular relationship.

This credit risk-rating process uses a two-dimensional loan rating structure, incorporating a 14-point risk-rating scale to identify and track the probability of borrower default and a separate 4-point scale addressing loss given default. The 14-point risk-rating scale provides for nine "acceptable" categories, one "other assets especially mentioned" category, two "substandard" categories, one "doubtful" category and one "loss" category. The loss given default scale establishes ranges of anticipated principal loss if the loan defaults.

By buying and selling loans or interests in loans to or from other institutions within the System or outside the System, we limit our exposure to either a borrower or commodity concentration. This also allows us to manage growth and capital, and to improve geographic diversification. Portfolio credit risk is also evaluated with the goal of managing the concentration of credit risk. Concentration risk is reviewed and measured by industry, commodity, geography and customer limits.

Refer to the Risk-Weighted Asset table on page 98 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 December 31, 2020.

	Total Exposure
Direct notes receivable from district associations	\$ 19,093,490
Real estate mortgage	900,248
Production and intermediate term	1,236,714
Agribusiness	
Loans to cooperatives	929,419
Processing and marketing	3,786,736
Farm-related business	345,678
Communications	647,198
Energy (rural utilities)	2,121,252
Water and waste disposal	264,020
Mission-related	2,344
Rural home	1,801
Leases	10,824
Loans to other financing institutions	72,000
Total	<u>\$ 29,411,724</u>

The following table provides an overview of the remaining contractual maturity of the bank's credit risk portfolio categorized by exposure at December 31, 2020:

(dollars in thousands)	Due in one year or less	Due after one year through five years	Due after five years	Total
Loans	\$ 5,122,820	\$ 8,307,635	\$ 8,393,746	\$ 21,824,201
Off-balance sheet commitments:				
Financial letters of credit	66,619	22,805	2,750	92,174
Performance letters of credit	6,893	6,859	-	13,752
Commercial letters of credit	2,215	2,569	-	4,784
Unfunded commitments	4,878,999	2,380,860	216,953	7,476,812
Investments	582,960	470,880	4,470,863	5,524,703
Derivatives (notional)	50,000	270,000	700,000	1,020,000
Total	<u>\$ 10,710,506</u>	<u>\$ 11,461,608</u>	<u>\$ 13,784,312</u>	<u>\$ 35,956,426</u>

The following table illustrates the bank's total exposure (including commitments) by geographic distribution as of December 31, 2020.

State	Percentage
Texas	50%
Mississippi	6
Alabama	6
Louisiana	4
California	3
All other states	31
	<u>100%</u>

Refer to Note 4 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

### Credit Risk Mitigation Related to Derivatives

By using derivative instruments, the bank exposes itself to credit and market risk. The bank's derivative activities are monitored by its Asset-Liability Management Committee (ALCO) as part of the

ALCO's bank asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed through its analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the bank's overall interest rate risk-management strategies.

If a counterparty fails to fulfill its performance obligations under a derivative contract, the bank's credit risk will equal the fair value gain of the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the bank, thus creating a repayment risk for the bank. When the fair value of the derivative contract is negative, the bank owes the counterparty and, therefore, assumes no repayment risk. To minimize the risk of credit losses, the bank maintains collateral agreements to limit exposure to agreed-upon thresholds. The bank deals with counterparties that have an investment grade or better credit rating from a major rating agency, and also monitors the credit standing of, and levels of exposure to, individual counterparties. When certain thresholds are met, the bank's over-the-counter derivative contracts require the bank or its counterparties to post cash or securities as collateral when the fair values of the derivatives change

based on changes in interest rates. 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. The amount of collateral the bank would have to provide if the bank's own creditworthiness deteriorated would be dependent upon the terms of the contract with the counterparty, including agreed-upon thresholds to limit exposure, and changes in interest rates. At December 31, 2020, the bank had cash collateral posted of \$91.3 million. Refer to Note 17 of the accompanying financial statements for details on the notional, fair value, collateral held and credit ratings of the bank's derivative contracts. The bank did not hold any purchased credit derivatives for its own credit portfolio as of December 31, 2020.

The table below shows derivatives by underlying exposure type, segregated among interest rate caps, pay-fixed swaps and receive-fixed swaps which are traded in over-the-counter markets as of December 31, 2020.

	Notional Amount	Gross Positive Fair Value
Interest rate caps	\$ 145,000	\$ 236
Pay-fixed swaps	825,000	73,347
Receive-fixed swaps	50,000	162
<b>Total Derivatives</b>	<b>\$ 1,020,000</b>	<b>\$ 73,745</b>

### Credit Risk Mitigation Related to Investments

Credit risk in our investment portfolio is largely mitigated by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies. At December 31, 2020, 45.73% of our \$5.55 billion investment portfolio consisted of securities that carry a full faith and credit guarantee of the U.S. government. Such securities include mortgage-backed securities issued by the Government National Mortgage Association (Ginnie Mae), Export-Import Bank of the United States and U.S. Treasury. The bank's investment portfolio consisted of 44.69% of securities issued by government agencies that carry the implicit backing of the U.S. government, including mortgage-backed securities (MBS) issued by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and Farmer Mac. Another 9.58% of our investment portfolio is made up of asset-backed investments, commercial paper and corporate debt which primarily represents the credit risk in the bank's investment portfolio.

Credit risk in our investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements, such as bond insurers or Farmer Mac, to meet their contractual obligations to us.

For each separately disclosed credit risk portfolio, see the following table for the total exposure that is covered by guarantees/credit derivatives, 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 December 31, 2020.

(dollars in thousands)			
Government-Guaranteed			
Asset Type	90-Day Average	Risk Weighting	Risk-Weighted Amount
Investments	\$ 3,072,779	0%	\$ -
Loans	2,206	0%	-
<b>Total</b>	<b>\$ 3,074,985</b>		<b>\$ -</b>

### Securitization

Securitizations are transactions in which:

- The credit risk of the underlying exposure is transferred to third parties, and has been separated into two or more tranches;
- The performance of the securitization depends upon the performance of the underlying exposures or reference assets; and
- All or substantially all of the underlying exposures or reference assets are financial exposures.

Securitizations include on- or off-balance sheet exposures (including credit enhancements) that arise from a securitization or resecuritization transaction, or an exposure that directly or indirectly references a securitization (e.g., credit derivative). A resecuritization is a securitization transaction in which one or more of the underlying exposures that have been securitized is itself a securitization. The bank does not currently hold any credit-related resecuritization investments.

The bank currently only participates in credit-related securitizations as investors through the purchase of highly rated asset-backed securities (ABS) as included in its investment portfolio. The bank also holds securitization exposures through the purchase of U.S. government and agency guaranteed securities. The bank has not transferred any exposures that it has originated or purchased from a third party in connection with a securitization of assets as of December 31, 2020, nor does it have any outstanding exposures that it intends to be securitized as of December 31, 2020. The bank did not recognize any gain or loss on securitized assets for the twelve months ended December 31, 2020.

We are subject to liquidity risk with respect to our purchased securitization exposures. In volatile market conditions, it could be difficult to sell such investments, if the need arises, and the discounts from face value could likely be significant. In addition, because of the inherent uncertainty of determining the fair value of such investments that do not have a readily available market value during volatile market conditions, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for the investments. The bank monitors its purchased ABS holdings on an ongoing basis, reviewing monthly credit performance metrics against outstanding credit enhancements, monitoring issuer and servicer performance, and tracking relevant ABS market conditions and credit spreads.

Below is an overview of our purchased securitization exposures held as of December 31, 2020, by exposure type and categorized by risk weighting band and risk-based capital approach. Refer to Note 3 of the accompanying financial statements:

Description of Securitization	Risk-Based Capital Approach	Exposure Amount (dollars in thousands)	Risk Weighted
<u>Agency MBS:</u>			
GNMA	Standardized Risk Weight	\$ 2,019,299	0%
FNMA and FHLMC	Standardized Risk Weight	2,411,220	0%-20%
Total Agency MBS		<u>\$ 4,430,519</u>	
<u>Asset-backed securities:</u>			
Small Business Administration	Standardized Risk Weight	\$ 119,962	0%
Asset-backed securities	Gross-up	59,307	20%-100%
Asset-backed securities	Gross-up	22,631	126%-150%
Total Asset-backed securities		<u>\$ 201,900</u>	

## 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. There have been no sales or liquidations of these investments during the period. 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 reflects fair value. The bank had realized gains or losses recognized either on the balance sheet or through earnings.

(dollars in thousands)	Disclosed in Other Assets	Life-to-Date (Losses) Gains Recognized in Retained Earnings*
RBICs	<u>\$15,168</u>	<u>\$(7,246)</u>

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

## Interest Rate Risk

Asset/liability management is the bank's process for directing and controlling the composition, level and flow of funds related to the bank's and district's interest-rate-sensitive assets and liabilities. The bank is able to manage the balance sheet composition by using various debt issuance strategies and hedging transactions to match its asset cash flows. Management's objective is to generate adequate and stable net interest income in a changing interest rate environment.

The bank uses a variety of techniques to manage its financial exposure to changes in market interest rates. These include monitoring the difference in the maturities or repricing cycles of interest-rate-sensitive assets and liabilities; simulating changes in net interest income under various interest rate scenarios; and monitoring the change in the market value of interest-rate-sensitive assets and liabilities under various interest rate scenarios. The bank measures interest rate risk on a quarterly basis.

The interest rate risk inherent in a district association's loan portfolio is substantially mitigated through its funding relationship with the bank. The bank manages district interest rate risk through its direct loan pricing and funding processes. Under the Farm Credit Act, a district association is obligated to borrow only from the bank unless the bank approves borrowing from other funding sources. An association's indebtedness to the bank, under a general financing agreement between the bank and the association, represents demand borrowings by the association to fund the majority of its loan advances to association members and is secured by the total assets of the association.

The bank's net interest income is determined by the difference between income earned on loans and investments and the interest expense paid

on funding sources, typically Systemwide bonds and discount notes. The bank's level of net interest income is affected by both changes in market interest rates and timing differences in the maturities or repricing cycles of interest-rate-sensitive assets and liabilities.

Depending upon the direction and magnitude of changes in market interest rates, the bank's net interest income may be affected either positively or negatively by the mismatch in the maturity or the repricing cycle of interest-rate-sensitive assets and liabilities.

The bank maintains a loan pricing philosophy that loan rates should be based on competitive market rates of interest. The district associations offer a wide variety of products, including LIBOR- and prime-indexed variable-rate loans and loans with fixed-rate terms ranging from under one year to 30 years. The interest rates on these loans are directly related to the bank's cost to issue debt in the capital markets and a credit spread added for borrower risk.

The bank offers an array of loan programs to associations that are designed to meet the needs of the associations' borrowers. These loan programs have varying repayment terms, including fixed and level principal payments, and a choice of payment frequencies, such as monthly, quarterly, semi-annual and annual payments. Additionally, the bank offers a choice of prepayment options to meet customer needs.

Refer to the net interest income and market value of equity table in the Management's Discussion and Analysis on page 23, which sets forth the bank's projected sensitivity to interest rate movements as prescribed by policy as of December 31, 2020, based on the bank's interest-earning assets and interest-bearing liabilities at December 31, 2020.



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