Farm Credit Bank of Texas

# First Quarter Report 2022

# *First Quarter 2022 Financial Report*

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

*(dollars in thousands, except as noted)*

The following discussion reviews the financial condition and results of operations of the Farm Credit Bank of Texas (the Bank) for the three months ended March 31, 2022. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2021 Annual Report to shareholders. The accompanying financial statements were prepared under the oversight of the Bank's Audit Committee.

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

The United States (U.S.) is currently served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB). Each of the FCBs has specific authority to fund affiliated associations and other financing institutions (OFIs) which make loans to agricultural producers, farm-related businesses and rural homeowners within a regional chartered territory (or district). The ACB has the same lending authority as the FCB within its chartered territory and has additional authority to finance agricultural cooperatives and rural utilities nationwide. The FCBs and the ACB are collectively referred to as "System Banks." The primary purpose of the System Banks is to serve as a source of funding for System associations within their respective districts. The System associations make loans to or for the benefit of borrowers for qualified purposes. At March 31, 2022, the Bank provided financing to 14 associations within its charter territory (District Associations) and certain OFIs.

The accompanying financial statements relate solely to the Bank and exclude financial information of the District Associations. The Bank and the District 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*.

## CONDITIONS IN THE TEXAS DISTRICT

The U.S. has been operating under a presidentially declared emergency since March 13, 2020, due to the coronavirus disease 2019 (COVID-19). COVID-19 cases reported in the U.S. and within the Texas District have fluctuated widely in recent months due to several factors, including the emergence of new variants and associated governmental responses. The number of cases and hospitalizations increased to a new high in January 2022 but returned to historically low levels as of the end of the first quarter of 2022. Throughout this unprecedented time, the Bank has continued to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Demand for District Associations' retail loans has been historically high, leading to elevated growth across the Texas District. While credit quality at the Bank has remained strong through this stage of the pandemic, the continuation of the pandemic could result in above normal volatility in risk ratings in future periods.

Russia's military action in Ukraine (the Russia/Ukraine Conflict) has exacerbated the current supply chain disruptions and contributed to surging prices for certain materials and commodities. Russia and Ukraine collectively account for approximately 26% of global wheat exports and are also significant exporters of corn, nitrogen fertilizers, sunflower oil, metals and minerals, and several other products important to the agricultural industry and the global economy. Elevated commodity prices and reduced availability of some materials are leading to both challenges and opportunities for U.S. agricultural producers.

In its March 30, 2022 release, the U.S. Bureau of Economic Analysis estimated that national real GDP increased at an annual rate of 6.9% in the fourth quarter of 2021, up from 2.3% in the third quarter. The increase in GDP growth during the fourth quarter of 2021 reflected an acceleration in inventory investment, higher than anticipated consumer spending and higher exports and residential fixed investment. On April 5, 2022, the Federal Reserve Bank of Atlanta's GDPNow model estimated that real GDP growth during the first quarter of 2022 was approximately 0.9%. On March 31, 2022, the fourth quarter of 2021 GDP growth rates were released for the Texas District with results ranging from 10.1% in Texas to 4.1% in Mississippi. Texas's GDP growth rate for the fourth quarter of 2021 was the fastest growing in the U.S.

Quarterly average West Texas Intermediate (WTI) oil prices for the first quarter of 2022 closed at approximately $95 per barrel (/bbl), representing an increase of over 20.0% compared to the prior quarter and an increase of over 60.0% compared to the prior year quarter. According to a recent Federal Reserve Bank of Dallas survey, the WTI price averaged more than $40/bbl higher than the breakeven price to profitably drill a new well in the Permian Basin (about $52/bbl) during the first quarter of 2022. In its March 2022 Short-Term Energy Outlook, the U.S. Energy Information Administration stated that the monthly WTI spot price averaged about $68/bbl in 2021 and forecasted that it would average about $101/bbl during 2022, before declining to about $85/bbl in 2023.

Inflationary pressures continued during the first quarter of 2022. The Consumer Price Index for all urban consumers increased by 7.9% for the 12-month period ending February 2022, reflecting the largest 12-month increase since 1982. The largest contributors to the overall increase were rising prices for gasoline, shelter and food. In an anticipated move, the Federal Reserve began raising the target federal funds rate by 25 basis points on March 16, 2022 in an attempt to mitigate inflation. According to a March 16, 2022 Reuters' article, most policymakers now see the federal funds rate rising to a range of 1.75% to 2.0% by the end of 2022. The Federal Reserve is also expected to begin shrinking its balance sheet during the second quarter of 2022.

On March 31, 2022, the U.S. Department of Agriculture (USDA) released its 2022 Prospective Plantings report. Corn planted area was estimated at 89.5 million acres for 2022, down about 4% from the prior year. Soybean planted acreage was estimated for 2022 at a record high 91.0 million acres, up about 4% from the 2021 season. Cotton planted area was estimated for 2022 at 12.2 million acres, 9% above last year. These estimates were derived from a survey of farmers' intentions and are subject to change throughout the season.

In its March 2022 World Agricultural Supply and Demand Estimates (WASDE), the USDA, in its initial assessment of the Russia/Ukraine Conflict, reported that this conflict has significantly increased the uncertainty of agricultural supply and demand conditions both regionally and globally. Additionally in March 2022, the USDA upwardly revised its average price forecasts for 2022 for corn, soybeans, wheat and cotton for farmers. After rising less than 3.0% in 2021, the USDA also projected an increase in the average price received by farmers for milk by approximately 34.0% during 2022. For steer, barrow and gilt and broilers, the USDA projects that average prices will increase by approximately 14.0%, 5.5% and 15.1%, respectively, during 2022. Lumber prices remain at elevated levels, as strong demand for construction materials persists.

Agricultural producers may be negatively affected during the remainder of 2022 by several factors, including volatile commodity prices, high input costs, export market disruptions, geopolitical challenges, and adverse weather conditions. The Texas District's loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of the Texas District's borrowers primarily rely on non-farm sources of income to repay their loans.

## RESULTS OF OPERATIONS

*Net Income*

Net income for the three months ended March 31, 2022 was $67.6 million, an increase of $1.6 million, or 2.44%, over the same period of 2021. The increase in net income was driven by a $3.0 million increase in net interest income and a $2.1 million decrease in provision for credit losses, partially offset by a $1.8 million decrease in noninterest income and a $1.7 million increase in noninterest expense.

*Net Interest Income*

Net interest income for the three months ended March 31, 2022 was $97.0 million, an increase of $3.0 million, or 3.16%, from the three months ended March 31, 2021. The increase in net interest income reflects a $5.54 billion increase in the Bank's average interest earning assets for the quarter ended March 31, 2022 as compared to the quarter ended March 31, 2021, partially offset by the impact of an 18 basis point decrease in the net interest rate spread from 1.31% to 1.13%. The decrease in the net interest rate spread reflects the impact of a 15 basis point decrease in yields on average interest earning assets and a 3 basis point increase in the average rate of debt. Net interest margin for the three months ended March 31, 2022 was 1.18% compared to 1.37% for the three months ended March 31, 2021. The $5.54 billion increase in the Bank's average interest earning assets for the quarter ended March 31, 2022 as compared to the quarter ended March 31, 2021 was primarily driven by an increase in direct note receivables from the District Associations' retail customers taking advantage of the low interest rate environment and strong economic conditions within the Texas District's chartered territory coupled with growth in the capital markets loan portfolio and the liquidity investment portfolio.

During the three months ended March 31, 2022, the Bank called $125 million in debt and recognized $173 thousand in accelerated interest expense compared to $1.43 billion in debt called and $1.9 million in accelerated interest expense for the same period in 2021. The decrease in levels of debt called during the three months ended March 31, 2022 as compared to the prior year quarter was primarily due to an increase in the overall level of interest rates.

*Provision for Credit Losses*

During the three months ended March 31, 2022, the Bank recorded a loan loss reversal of $865 thousand compared to a provision for credit losses of $1.2 million in the same period of 2021. The loan loss reversal recorded for the three months ended March 31, 2022 was largely driven by improvement in credit quality for a borrower within the electric utility sector, partially offset by an increase in quantitative general reserves due to loan growth. The provision for credit losses for the three months ended March 31, 2021, primarily reflected an increase in specific reserves of $1.1 million on a nonaccrual loan.

*Noninterest Income*

Noninterest income for the three months ended March 31, 2022 was $9.1 million, a decrease of $1.8 million, or 16.56%, over the same period of 2021.

*Noninterest Expense*

Noninterest expense for the three months ended March 31, 2022 was $39.4 million, an increase of $1.7 million, or 4.40%, over the same period of 2021 primarily due to higher salaries and employee benefits.

*Key Results of Operations*

| | Annualized for the Three Months Ended March | |
|---|---|---|
| | **2022** | **2021** |
| Return on average assets | **0.80%** | 0.89% |
| Return on average shareholders' equity | **13.65%** | 12.55% |
| Net interest income as a percentage of average interest earning assets | **1.18%** | 1.37% |
| Charge-offs, net of recoveries, to average loans | **—%** | —% |
| Operating expenses as a percentage of net interest income and noninterest income | **37.15%** | 35.98% |
| Operating expenses as a percentage of average earning assets | **0.48%** | 0.55% |

*Other Comprehensive Income (Loss)*

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2022** | **2021** |
| Change in unrealized losses on AFS securities | | |
| Net increase in unrealized losses on AFS securities | **$ (225,439)** | $ (21,431) |
| Net change in unrealized losses on AFS securities | **$ (225,439)** | $ (21,431) |
| Change in postretirement benefit plans | | |
| Amounts amortized into net periodic expense: | | |
| Amortization of prior service credits | **$ (19)** | $ (20) |
| Net change in postretirement benefit plans | **$ (19)** | $ (20) |
| Change in cash flow derivative instruments | | |
| Net decrease in unrealized losses on cash flow derivative instruments | **$ 43,597** | $ 37,900 |
| Reclassification of losses recognized in interest expense | **74** | 57 |
| Net change in cash flow derivative instruments | **43,671** | 37,957 |
| Other comprehensive (loss) income | **$ (181,787)** | $ 16,506 |

The increase in other comprehensive loss was driven by a $204.0 million increase in unrealized losses on the Bank's AFS securities since the prior year quarter as a result of increases in interest rates. The increase in other comprehensive loss also reflects an increase of $5.7 million in unrealized losses on cash flow derivative instruments since the prior year quarter resulting from changes in the valuation of interest rate swaps held by the Bank.

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## FINANCIAL CONDITION

*Loan Portfolio*

Gross loan volume at March 31, 2022 was $27.14 billion, an increase of $1.46 billion, or 5.70%, compared to $25.67 billion at December 31, 2021, reflecting increases in both the capital markets loan portfolio and direct note receivables from District Associations and OFIs. The capital markets loan portfolio increased by $783.4 million during the first quarter of March 31, 2022. The increase in direct note receivables totaled $679.9 million reflecting District Association retail customers taking advantage of the low-interest rate environment, and strong economic conditions within the District's chartered territory.

The Bank's capital markets loan portfolio, also referred to as the participations purchased loan portfolio, predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. In addition to purchasing loans from the District Associations, which may exceed their hold limits, the Bank seeks the purchase of participations and syndications originated outside of the Texas District's territory by other System institutions, commercial banks and other lenders. The Bank's capital markets loan portfolio depends to a significant degree on other relationships with other Farm Credit institutions. These loans may be held as interest earning assets of the Bank or sub-participated to the District Associations or to other System entities.

The Bank has purchased loan participations and Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) from associations in Capitalized Participation Pool (CPP) transactions. CPP loans held at March 31, 2022, totaled $115.3 million and were included in loans on the balance sheet. There were no CPP purchases during the three months ended March 31, 2022. The balance of the AMBS CPP was $12.5 million at March 31, 2022, and was included in investment securities on the balance sheet.

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

The Bank may also purchase loans from District Associations in Non-Capitalized Participation Pool (NCPP) transactions. There were no NCPP purchases during the three months ended March 31, 2022. The NCPP loans' balance was $140.2 million at March 31, 2022 and was included in loans on the balance sheet.

At March 31, 2022, 99.9% of the Bank's loans were classified as either acceptable or other assets especially mentioned under the Farm Credit Administration's Uniform Loan Classification System compared to 99.8% at December 31, 2021.

The table below summarizes the balances of the Bank's nonperforming assets at March 31, 2022 and December 31, 2021:

| | | | Change | |
|---|---|---|---|---|
| | **March 31, 2022** | **December 31, 2021** | $ | % |
| Nonaccrual loans | **$ 5,555** | $ 5,753 | $ (198) | (3.44)% |
| Accruing loans past due 90 days or more | **—** | — | — | — |
| Accruing formally restructured loans | **2,316** | 2,280 | 36 | 1.58 |
| Total nonperforming assets | **$ 7,871** | $ 8,033 | $ (162) | (2.02)% |

At March 31, 2022, and December 31, 2021, the Bank did not have any other property owned (OPO). The Bank considers total nonperforming assets as impaired loans. At both March 31, 2022 and December 31, 2021, impaired loans represented 3 basis points of loans.

At March 31, 2022, the Bank had reserves for credit losses totaling $12.4 million, with an allowance for loan losses of $11.0 million and a reserve for credit losses on unfunded commitments of $1.5 million.

The allowance for loan losses of $11.0 million at March 31, 2022 equated to 4 basis points of total loans outstanding and 13 basis points of capital market loans outstanding. The $1.5 million reserve at March 31, 2022 for losses on unfunded commitments relates to the Bank's capital markets loan portfolio. At December 31, 2021, the Bank had reserves for credit losses totaling $13.3 million, with an allowance for loan losses of $11.9 million and a reserve for credit losses on unfunded commitments of $1.4 million. At March 31, 2022, there was no reserve for credit losses associated with the direct note receivable portfolio.

The allowance for credit losses as a percentage of impaired loans was 157.96% at March 31, 2022, compared to 165.55% at December 31, 2021.

*Liquidity and Funding Sources*

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

Cash, federal funds sold, overnight investments and investment securities totaled $7.05 billion, or 20.33%, of total assets at March 31, 2022, compared to $6.91 billion, or 20.88%, at December 31, 2021. At March 31, 2022, the Bank's cash balance was $202.2 million, of which $9.6 million was held at the Federal Reserve Bank.

Each System Bank is required to maintain a minimum of 90 days of liquidity coverage on a continuous basis. The days of liquidity measurement refers to the number of days that maturing debt could be funded with eligible cash and investment securities. At March 31, 2022, the Bank exceeded all applicable regulatory liquidity requirements and had 195 days of liquidity.

*Investments*

The Bank's investments are all classified as available-for-sale, and include a liquidity portfolio and a portfolio of other investments. The Bank's liquidity portfolio holdings are summarized in the following table:

| | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Agency-guaranteed debt | **$ 78,673** | **$ 78,164** | $ 84,269 | $ 85,293 |
| Corporate debt | **242,878** | **240,295** | 232,885 | 234,580 |
| Federal agency collateralized mortgage-backed securities: | | | | |
| GNMA | **3,077,923** | **2,918,569** | 2,822,556 | 2,793,482 |
| FNMA and FHLMC | **2,679,260** | **2,600,490** | 2,601,773 | 2,600,855 |
| U.S. Treasury securities | **649,839** | **637,691** | 650,216 | 647,564 |
| Asset-backed securities | **173,192** | **171,978** | 183,788 | 184,256 |
| Total liquidity investments | **$ 6,901,765** | **$ 6,647,187** | $ 6,575,487 | $ 6,546,030 |

The Bank's other investments portfolio consists of Farmer Mac AMBS securities as follows:

| | March 31, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Agricultural mortgage-backed securities | **$ 13,201** | **$ 12,476** | $ 14,616 | $ 14,209 |

FCA regulations also define eligible investments by specifying credit criteria and percentage of investment portfolio limit for each investment type. If an investment no longer meets the eligibility criteria, the investment becomes ineligible for inclusion in the liquidity portfolio. At March 31, 2022, the Bank had no investments which were ineligible for liquidity purposes.

*Capital Resources*

At March 31, 2022, the Bank's total shareholders' equity totaled $1.87 billion and consisted of $750.0 million of Class B noncumulative subordinated perpetual preferred stock, $409.7 million of capital stock, $988.1 million of retained earnings and $278.6 million of accumulated other comprehensive loss. Total shareholders' equity decreased by $129.3 million due to an increase in the accumulated other comprehensive loss of $181.8 million, preferred stock dividends of $11.6 million, patronage distributions of $2.8 million, and a $706 thousand retirement of capital stock, partially offset by net income of $67.6 million. The increase in the accumulated other comprehensive loss primarily reflects a $225.4 million increase in unrealized losses on investments, partially offset by a $43.7 million decrease in unrealized losses on cash flow derivative instruments.

FCA regulations require the Bank to maintain minimum ratios, including capital conservation buffers, for various regulatory capital ratios. At March 31, 2022, the Bank exceeded all regulatory capital requirements including the capital conservation buffers.

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

| | **March 31, 2022** | **December 31, 2021** | **Total Regulatory Requirements Including Capital Conservation Buffers** |
|---|---|---|---|
| Common equity tier 1 ratio | **8.44 %** | 9.55 % | 7.00 % |
| Tier 1 capital ratio | **13.65** | 15.09 | 8.50 |
| Total capital ratio | **13.74** | 15.17 | 10.50 |
| Permanent capital ratio | **13.66** | 15.10 | 7.00 |
| Tier 1 leverage ratio | **5.81** | 6.37 | 5.00 |
| UREE leverage ratio | **2.18** | 2.73 | 1.50 |

## RATING AGENCY ACTIONS

*Fitch Ratings Actions*

On September 10, 2021, Fitch Ratings affirmed the Bank's long-term and short-term issuer default ratings (IDRs) at "AA-" and "F1+," respectively, with a stable outlook. Based on their sovereign support assessment, Fitch has assigned a support rating of "1" and a support rating floor of "BBB+" for the Bank's noncumulative perpetual preferred stock.

*Moody's Investors Service Rating Actions*

On July 9, 2021, Moody's Investors Service affirmed the Bank's issuer rating at "Aa3," its noncumulative preferred stock rating at "Baa1 (hyb)," and its "a1" baseline credit assessment (BCA), with a stable outlook.

## DERIVATIVE PRODUCTS

Derivative products are a part of the Bank's interest rate risk management process and are used to manage interest rate and liquidity risks and to lower the overall cost of funds. The Bank does not hold or enter into derivative transactions for trading purposes. The aggregate notional amount of the Bank's derivative products was $970.0 million at both March 31, 2022 and December 31, 2021, which consisted of cash flow hedges. At March 31, 2022, the notional amount of cleared cash flow hedges was $825.0 million, with outstanding exposure of $23.5 million, and $23.9 million and $29.6 million in initial and variation margins, respectively. Cleared derivatives require the payment of initial and variation margin as a protection against default. At March 31, 2022, bilateral and cleared counterparties' credit exposure to the Bank was $29.7 million, compared to $23.5 million at December 31, 2021. The Bank in total posted $53.4 million and $90.9 million of cash as collateral at March 31, 2022, and December 31, 2021, respectively, and no counterparty had been required to post collateral for either period.

## 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 would stop persuading or compelling banks to submit rates for the calculation of the LIBOR after 2021. Post 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 included 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. 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 are required to 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 to assist in the development and implementation of a LIBOR transition plan.

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 supplemented the informational memorandum issued on September 11, 2018, on planning for the LIBOR phaseout. The informational memorandum summarized 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 would allow most legacy LIBOR contracts to mature before LIBOR disruptions occur and stressed the importance of having robust fallback language.

On December 8, 2021, the FCA posted an informational memorandum on managing the LIBOR transition. The guidance supplements the FCA's December 18, 2020 memorandum in which the FCA encouraged System institutions to cease entering into new contracts referencing LIBOR no later than December 31, 2021. The new informational memorandum clarified the meaning of "new LIBOR contracts" to mean any new contract or change to an existing contract that creates additional LIBOR exposure or extends the term of an existing LIBOR exposure and provides examples. The informational memorandum further indicated that institutions may enter new LIBOR contracts after year end 2021 that reduce or hedge risks in legacy LIBOR exposures. The informational memorandum also indicated factors that should be considered before using alternative reference rates.

The Bank and Texas District continue to make progress in the transition away from LIBOR-based exposures to an alternative benchmark rate.

The following is a summary of principal balances on variable-rate financial instruments with LIBOR exposure at March 31, 2022. Exposure to these instruments is limited to the Bank in this illustration:

| *(in thousands)* | Due in 2022 | Due by June 30, 2023 | Due after June 30, 2023 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans | $ 542,024 | $ 71,369 | $ 3,536,754 | $ 4,150,147 |
| Investment securities | 25,000 | 1,031 | 717,723 | 743,754 |
| **Total assets** | $ 567,024 | $ 72,400 | $ 4,254,477 | $ 4,893,901 |
| | | | | |
| **Liabilities and shareholders' equity** | | | | |
| Bonds and notes, net | $ — | $ — | $ — | $ — |
| Preferred stock | — | — | 400,000 | 400,000 |
| **Total liabilities and shareholders' equity** | $ — | $ — | $ 400,000 | $ 400,000 |

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 2021 Annual Report.

| *(in thousands)* | Due in 2022 | Due by June 30, 2023 | Due after June 30, 2023 | Total |
|---|---|---|---|---|
| Derivatives (notional amount) | $ 30,000 | $ 75,000 | $ 290,000 | $ 395,000 |

The following is a summary of variable-rate financial instruments indexed to SOFR as of March 31, 2022:

| *(in thousands)* | March 31, 2022 |
|---|---|
| **Assets** | |
| Loans | **$ 1,098,150** |
| Investment securities | **700,546** |
| **Total assets** | **$ 1,798,696** |
| **Liabilities and shareholders' equity** | |
| Bonds and notes, net | **$ 5,445,000** |
| **Total liabilities and shareholders' equity** | **$ 5,445,000** |
| | |
| Derivatives (notional amount) | **$ 575,000** |

## REGULATORY MATTERS

At March 31, 2022, there were no District Associations operating under written agreements with the Farm Credit Administration (FCA).

On January 11, 2022, the FCA published a final rule in the Federal Register on adjusting civil money penalties for inflation. The rule became effective on January 15, 2022.

On March 14, 2022, the FCA posted an informational memorandum on the LIBOR transition, annual threshold adjustments, and compliance resources. The informational memorandum discusses regulation updates and resources from the Consumer Financial Protection Bureau and other federal agencies.

On April 14, 2022, the Farm Credit Administration approved a final rule that amends certain regulations to address changes in accounting principles generally accepted in the United States. Such changes reflect the current expected credit losses (CECL) methodology that will replace the incurred loss methodology upon adoption. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities have been defined as adjusted allowances for credit losses and will be included in the Bank's Tier 2 capital up to 1.25% of the Bank's total risk-weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in the Bank's Tier 2 capital. In addition, the final rule does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on the Bank's regulatory capital ratios. The rule will be effective on January 1, 2023.

# Report of Management

The undersigned certify that we have reviewed the March 31, 2022, quarterly report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included herein is true, accurate and complete to the best of our knowledge and belief.

James F. Dodson
Chair of the Board

Amie Pala
Chief Executive Officer

Brandon Blaut
Senior Vice President, Chief Financial Officer

May 10, 2022

# Controls and Procedures

As of March 31, 2022, management of the Farm Credit Bank of Texas (the Bank) carried out an evaluation with the participation of the Bank's management, including the chief executive officer (CEO) and senior vice president, chief financial officer (CFO), of the effectiveness of the design and operation of the respective disclosure controls and procedures[(1)] with respect to this quarterly report. This evaluation is based on testing of the design and effectiveness of key internal controls, certifications and other information furnished by the CEO and CFO of the Bank, as well as incremental procedures performed by the Bank. Based upon and as of the date of the Bank's evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective in alerting them on a timely basis of any material information relating to the Bank that is required to be disclosed by the Bank in the quarterly information statement it files or submits to the Farm Credit Administration.

There have been no significant changes in the Bank's internal control over financial reporting[(2)] that occurred during the quarter ended March 31, 2022, that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

Amie Pala
Chief Executive Officer

Brandon Blaut
Senior Vice President, Chief Financial Officer

May 10, 2022

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

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

# CERTIFICATION

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

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

Amie Pala

Amie Pala
Chief Executive Officer

May 10, 2022

# CERTIFICATION

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

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

Brandon Blaut
Senior Vice President, Chief Financial Officer

May 10, 2022

## Balance Sheets

| (dollars in thousands) | | March 31, 2022 (Unaudited) | | December 31, 2021 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | **$** | **202,155** | $ | 156,986 |
| Federal funds sold and overnight investments | | **188,441** | | 194,223 |
| Investment securities | | **6,659,663** | | 6,560,239 |
| Loans | | **27,137,927** | | 25,674,558 |
| Less allowance for loan losses | | **10,973** | | 11,869 |
| Net loans | | **27,126,954** | | 25,662,689 |
| Accrued interest receivable | | **72,546** | | 67,762 |
| Premises and equipment, net | | **145,319** | | 148,218 |
| Other assets | | **278,269** | | 303,271 |
| **Total assets** | **$** | **34,673,347** | $ | 33,093,388 |
| **Liabilities and shareholders' equity** | | | | |
| **Liabilities** | | | | |
| Bonds and notes, net | **$** | **32,598,642** | $ | 30,790,428 |
| Accrued interest payable | | **75,529** | | 63,051 |
| Reserve for credit losses | | **1,460** | | 1,430 |
| Preferred stock dividends payable | | **11,600** | | 11,600 |
| Patronage payable | | **—** | | 39,017 |
| Other liabilities | | **117,014** | | 189,470 |
| **Total liabilities** | **$** | **32,804,245** | $ | 31,094,996 |
| **Commitments and contingencies (Note 5)** | | | | |
| **Shareholders' equity** | | | | |
| Preferred stock | **$** | **750,000** | $ | 750,000 |
| Capital stock | | **409,667** | | 410,373 |
| Allocated retained earnings | | **66,804** | | 66,490 |
| Unallocated retained earnings | | **921,254** | | 868,365 |
| Accumulated other comprehensive loss | | **(278,623)** | | (96,836) |
| **Total shareholders' equity** | | **1,869,102** | | 1,998,392 |
| **Total liabilities and shareholders' equity** | **$** | **34,673,347** | $ | 33,093,388 |

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

## Statements of Comprehensive Income
(unaudited)

| (dollars in thousands) | Quarter Ended March 31, 2022 | 2021 |
|---|---|---|
| **Interest Income** | | |
| Loans | **$ 156,882** | $ 139,472 |
| Investment securities | **21,163** | 19,756 |
| **Total interest income** | **178,045** | 159,228 |
| **Interest Expense** | | |
| Bonds and notes | **81,009** | 65,163 |
| **Net interest income** | **97,036** | 94,065 |
| (Loan loss reversal) provision for credit losses | **(865)** | 1,247 |
| **Net interest income after (loan loss reversal) provision for credit losses** | **97,901** | 92,818 |
| **Noninterest Income** | | |
| Patronage income | **4,271** | 2,906 |
| Fees for services to associations | **2,183** | 1,636 |
| Fees for loan-related services | **2,497** | 3,486 |
| Other income, net | **175** | 2,909 |
| **Total noninterest income** | **9,126** | 10,937 |
| **Noninterest Expense** | | |
| Salaries and employee benefits | **14,150** | 12,603 |
| Occupancy and equipment | **9,432** | 9,168 |
| FCSIC premiums | **4,067** | 3,798 |
| Other components of net periodic postretirement benefit cost | **78** | 67 |
| Other operating expenses | **11,716** | 12,143 |
| **Total noninterest expense** | **39,443** | 37,779 |
| **Net Income** | **67,584** | 65,976 |
| **Other comprehensive (loss) income** | | |
| Change in unrealized losses on investments | **(225,439)** | (21,431) |
| Change in postretirement benefit plans | **(19)** | (20) |
| Change in cash flow derivative instruments | **43,671** | 37,957 |
| **Total other comprehensive (loss) income** | **(181,787)** | 16,506 |
| **Comprehensive Income** | **$ (114,203)** | $ 82,482 |

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

## Statements of Changes in Shareholders' Equity

(unaudited)

| (dollars in thousands) | Preferred Stock | Capital Stock | Retained Earnings Allocated | Retained Earnings Unallocated | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2020 | $ 750,000 | $ 359,988 | $ 59,765 | $ 850,607 | $ (28,827) | $ 1,991,533 |
| Net income | — | — | — | 65,976 | — | 65,976 |
| Other comprehensive income | — | — | — | — | 16,506 | 16,506 |
| Capital stock and allocated retained earnings retired | — | (572) | — | — | — | (572) |
| Issuance costs on preferred stock | — | — | — | (17) | — | (17) |
| Preferred stock dividends | — | — | — | (11,600) | — | (11,600) |
| Patronage distributions | | | | | | |
| Cash | — | — | — | (1,953) | — | (1,953) |
| Shareholders' equity | — | — | 94 | (94) | — | — |
| Balance at March 31, 2021 | $ 750,000 | $ 359,416 | $ 59,859 | $ 902,919 | $ (12,321) | $ 2,059,873 |
| | | | | | | |
| Balance at December 31, 2021 | **$ 750,000** | **$ 410,373** | **$ 66,490** | **$ 868,365** | **$ (96,836)** | **$ 1,998,392** |
| Net income | **—** | **—** | **—** | **67,584** | **—** | **67,584** |
| Other comprehensive loss | **—** | **—** | **—** | **—** | **(181,787)** | **(181,787)** |
| Capital stock and allocated retained earnings retired | **—** | **(706)** | **—** | **—** | **—** | **(706)** |
| Preferred stock dividends | **—** | **—** | **—** | **(11,600)** | **—** | **(11,600)** |
| Patronage distributions | | | | | | |
| Cash | **—** | **—** | **—** | **(2,781)** | **—** | **(2,781)** |
| Shareholders' equity | **—** | **—** | **314** | **(314)** | **—** | **—** |
| **Balance at March 31, 2022** | **$ 750,000** | **$ 409,667** | **$ 66,804** | **$ 921,254** | **$ (278,623)** | **$ 1,869,102** |

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

## Statements of Cash Flows

(unaudited)

| (dollars in thousands) | Three Months Ended March 31, 2022 | 2021 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Net income | **$ 67,584** | $ 65,976 |
| Reconciliation of net income to net cash provided by operating activities | | |
| (Loan loss reversal) provision for credit losses | **(865)** | 1,247 |
| Depreciation and amortization on premises and equipment | **3,042** | 3,281 |
| Discount accretion on loans | **1,282** | 770 |
| Amortization and accretion on debt instruments | **4,675** | 4,815 |
| Premium amortization on investments | **1,062** | 679 |
| Loss (gain) on sale of loans | **6** | (38) |
| Allocated equity patronage from System Bank | **(2,561)** | (2,757) |
| Loss on sales of premises and equipment | **9** | 56 |
| Increase in accrued interest receivable | **(4,784)** | (2,805) |
| (Increase) decrease in other assets, net | **(8,369)** | 3,546 |
| Increase (decrease) in accrued interest payable | **12,478** | (966) |
| Decrease in other liabilities, net | **(5,380)** | (14,604) |
| **Net cash provided by operating activities** | **68,179** | 59,200 |
| **Cash Flows From Investing Activities** | | |
| Net decrease in federal funds sold and repurchase agreements | **5,782** | 11,795 |
| Investment securities | | |
| Purchases | **(765,443)** | (692,502) |
| Proceeds from maturities, calls and prepayments | **439,518** | 758,742 |
| Increase in loans, net | **(1,497,886)** | (843,587) |
| Proceeds from sales of loans | **8,333** | 4,868 |
| Proceeds from sales of premises and equipment | **29** | 27 |
| Expenditures for premises and equipment | **(181)** | (7,226) |
| Investments/distributions in other earning assets | **(23)** | (3,009) |
| **Net cash used in investing activities** | **(1,809,871)** | (770,892) |
| **Cash Flows From Financing Activities** | | |
| Bonds and notes issued | **9,485,194** | 8,181,793 |
| Bonds and notes retired | **(7,681,655)** | (7,478,000) |
| Decrease in cash collateral posted with a counterparty | **37,426** | 21,002 |
| Issuance costs on preferred stock | **—** | (17) |
| Capital stock retired and allocated retained earnings distributed | **(706)** | (572) |
| Cash dividends on preferred stock | **(11,600)** | (11,600) |
| Cash patronage distributions paid | **(41,798)** | (39,440) |
| **Net cash provided by financing activities** | **1,786,861** | 673,166 |
| Net increase (decrease) in cash | **45,169** | (38,526) |
| Cash at beginning of year | **156,986** | 128,302 |
| **Cash at End of Quarter** | **$ 202,155** | $ 89,776 |
| **Supplemental Schedule of Noncash Investing and Financing Activities** | | |
| Net increase in unrealized losses on investment securities | **$ (225,439)** | $ (21,431) |
| Preferred stock dividends payable | **11,600** | 11,600 |
| Patronage distribution stock adjustment | **314** | 94 |
| **Supplemental Information** | | |
| Interest paid | **$ 68,531** | $ 66,130 |

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

# Notes to Financial Statements

*Unaudited (dollar amounts in thousands, except as otherwise noted)*

## NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Farm Credit Bank of Texas (the Bank) is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions. At March 31, 2022, the Bank provided financing to 14 associations within its charter territory (District Associations) and certain OFIs. These financial statements relate solely to the Bank and exclude financial information of the District Associations.

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. (U.S. GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by U.S. GAAP for annual financial statements and should be read in conjunction with the audited financial statements for the year ended December 31, 2021, as contained in the 2021 Annual Report to shareholders (Annual Report).

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of the financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the year ending December 31, 2022. Descriptions of the significant accounting policies are included in the Annual Report. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with U.S. GAAP and prevailing practices within the banking industry.

In June 2016, the Financial Accounting Standards Board (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 will also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Bank qualifies for the delay in the adoption date and continues to evaluate the impact of adoption on the Bank’s financial condition and its results of operations.

In March 2022, the FASB issued guidance entitled, “Financial Instruments - Credit Loses.” This guidance eliminates the accounting by creditors for troubled debt restructurings (TDR) while enhancing disclosure requirements for certain loan refinancing and restructurings when a borrower is experiencing financial difficulty. Under the new guidance, loan modifications will be reviewed and evaluated as either a new loan or a continuation of an existing loan instead of recognizing a TDR based on the financial difficulties of the borrower and granting of concessions to the borrower. This new guidance becomes effective for interim and annual reporting periods beginning after December 15, 2022. The Bank is evaluating the impact of adoption on its financial condition and its results of operations.

In March 2022, the FASB issued an update entitled "Derivatives and Hedging: Fair Value Hedging – Portfolio Layer Method." Under current guidance, the last-of-layer method enables an entity to apply fair value hedging to a stated amount of a closed portfolio of prepayable financial assets (or one or more beneficial interests secured by a portfolio of prepayable financial instruments) without having to consider prepayment risk or credit risk when measuring those assets. This guidance will allow entities to apply the portfolio layer method to portfolios of all financial assets, including both prepayable and nonprepayable financial assets. This scope expansion is consistent with the FASB's efforts to simplify hedge accounting and allows entities to apply the same method to similar hedging strategies. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted on any date on or after the issuance of this update for any entity that has adopted amendments previously issued. Although the Bank does not have a current derivative hedging strategy in which the last-of-layer method is used, the Bank is currently evaluating the impact of this update on future derivative hedging strategies.

## NOTE 2 — INVESTMENT SECURITIES

### Available-for-Sale Investments

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

A summary of the amortized cost and fair value of the available-for-sale investment securities at March 31, 2022, and December 31, 2021, is included in the following tables.

Investments in the available-for-sale liquidity portfolio at March 31, 2022:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Weighted Average Yield |
|---|---|---|---|---|---|
| Agency-guaranteed debt | **$ 78,673** | **$ 15** | **$ (524)** | **$ 78,164** | **1.70 %** |
| Corporate debt | **242,878** | **279** | **(2,862)** | **240,295** | **1.30** |
| Federal agency collateralized mortgage-backed securities: | | | | | |
| GNMA | **3,077,923** | **544** | **(159,898)** | **2,918,569** | **1.55** |
| FNMA and FHLMC | **2,679,260** | **1,709** | **(80,479)** | **2,600,490** | **1.16** |
| U.S. Treasury securities | **649,839** | **—** | **(12,148)** | **637,691** | **0.26** |
| Asset-backed securities | **173,192** | **618** | **(1,832)** | **171,978** | **1.01** |
| Total liquidity investments | **$ 6,901,765** | **$ 3,165** | **$ (257,743)** | **$ 6,647,187** | **1.26 %** |

Investments in the available-for-sale other investments portfolio at March 31, 2022:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Weighted Average Yield |
|---|---|---|---|---|---|
| Agricultural mortgage-backed securities | **$ 13,201** | **$ —** | **$ (725)** | **$ 12,476** | **4.27 %** |

Investments in the available-for-sale liquidity portfolio at December 31, 2021:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Weighted Average Yield |
|---|---|---|---|---|---|
| Agency-guaranteed debt | $ 84,269 | $ 1,032 | $ (8) | $ 85,293 | 1.60 % |
| Commercial paper | — | — | — | — | — |
| Corporate debt | 232,885 | 2,238 | (543) | 234,580 | 1.51 |
| Federal agency collateralized mortgage-backed securities: | | | | | |
| GNMA | 2,822,556 | 11,106 | (40,180) | 2,793,482 | 1.42 |
| FNMA and FHLMC | 2,601,773 | 15,018 | (15,936) | 2,600,855 | 1.03 |
| U.S. Treasury securities | 650,216 | 14 | (2,666) | 647,564 | 0.26 |
| Asset-backed securities | 183,788 | 786 | (318) | 184,256 | 0.81 |
| Total liquidity investments | $ 6,575,487 | $ 30,194 | $ (59,651) | $ 6,546,030 | 1.14 % |

Investments in the available-for-sale other investments portfolio at December 31, 2021:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Weighted Average Yield |
|---|---|---|---|---|---|
| Agricultural mortgage-backed securities | $ 14,616 | $ 8 | $ (415) | $ 14,209 | 4.23 % |

The following tables summarize the contractual maturity, fair value, amortized cost and weighted average yield of available-for-sale liquidity investments at March 31, 2022.

Investments in the available-for-sale liquidity portfolio:

| | Due in One Year Or Less | Due After One Year Through Five Years | Due After Five Years Through 10 Years | Due After 10 Years | Total |
|---|---|---|---|---|---|
| Agency-guaranteed debt | **$ 3,750** | **$ 74,414** | **$ —** | **$ —** | **$ 78,164** |
| Corporate debt | **93,116** | **147,179** | **—** | **—** | **240,295** |
| Federal agency collateralized mortgage-backed securities: | | | | | |
| GNMA | **—** | **—** | **40,717** | **2,877,852** | **2,918,569** |
| FNMA and FHLMC | **3,031** | **162,825** | **847,338** | **1,587,296** | **2,600,490** |
| U.S. Treasury securities | **298,521** | **339,170** | **—** | **—** | **637,691** |
| Asset-backed securities | **—** | **38,009** | **69,518** | **64,451** | **171,978** |
| Total fair value | **$ 398,418** | **$ 761,597** | **$ 957,573** | **$ 4,529,599** | **$ 6,647,187** |
| Total amortized cost | **$ 400,036** | **$ 777,022** | **$ 963,705** | **$ 4,761,002** | **$ 6,901,765** |
| Weighted average yield | **0.50%** | **0.76%** | **0.92%** | **1.47%** | **1.26%** |

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

| | Due After One Year Through Five Years | Due After Five Years Through 10 Years | Total |
|---|---|---|---|
| Fair value of agricultural mortgage-backed securities | **$ 8,883** | **$ 3,593** | **$ 12,476** |
| Total amortized cost | **$ 9,358** | **$ 3,843** | **$ 13,201** |
| Weighted average yield | **4.27%** | **4.28%** | **4.27%** |

### Other-Than-Temporarily Impaired Investments Evaluation

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

| | Less Than 12 Months | | Greater Than 12 Months | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Agency-guaranteed debt | **$ 57,766** | **$ (518)** | **$ 7,234** | **$ (5)** | **$ 65,000** | **$ (523)** |
| Corporate debt | **143,172** | **(1,786)** | **13,900** | **(1,076)** | **157,072** | **(2,862)** |
| Federal agency collateralized mortgage-backed securities: | | | | | | |
| GNMA | **2,509,408** | **(140,911)** | **243,861** | **(18,987)** | **2,753,269** | **(159,898)** |
| FNMA and FHLMC | **1,721,324** | **(63,293)** | **215,799** | **(17,187)** | **1,937,123** | **(80,480)** |
| U.S. Treasury securities | **637,691** | **(12,148)** | **—** | **—** | **637,691** | **(12,148)** |
| Asset-backed securities | **72,173** | **(1,820)** | **7,727** | **(12)** | **79,900** | **(1,832)** |
| Total | **$ 5,141,534** | **$ (220,476)** | **$ 488,521** | **$ (37,267)** | **$ 5,630,055** | **$ (257,743)** |

The Bank evaluates investment securities for other-than-temporary impairment (OTTI) on a quarterly basis. Impairment is considered to be other than temporary if the Bank (i) intends to sell the security, (ii) is more likely than not to be required to sell the security before recovering its costs or (iii) does not expect to recover the security's entire amortized cost basis (even if it does not intend to sell). For the three months ended March 31, 2022 and 2021, the Bank did not recognize any OTTI credit losses and no securities were identified as OTTI at March 31, 2022 or 2021.

## NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

Loans comprised the following categories at:

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Direct notes receivable from District Associations and OFIs | **$ 18,996,372** | $ 18,316,444 |
| Participations purchased | **8,141,555** | 7,358,114 |
| Total loans | **$ 27,137,927** | $ 25,674,558 |

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

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| Direct notes receivable from | | |
| District Associations | **$ 18,958,111** | $ 18,277,377 |
| Real estate mortgage | **1,016,238** | 1,037,029 |
| Production and intermediate term | **873,426** | 881,991 |
| Agribusiness | | |
| Loans to cooperatives | **763,802** | 480,124 |
| Processing and marketing | **2,992,249** | 2,696,278 |
| Farm-related business | **241,075** | 223,272 |
| Communications | **692,395** | 648,619 |
| Energy (rural utilities) | **1,241,065** | 1,182,406 |
| Water and waste disposal | **155,681** | 137,415 |
| Rural home | **2,139** | 2,168 |
| International | **152,291** | 57,250 |
| Mission-related | **2,257** | 2,257 |
| Lease receivables | **8,937** | 9,305 |
| Loans to OFIs | **38,261** | 39,067 |
| Total loans | **$ 27,137,927** | $ 25,674,558 |

The Bank's capital markets loan portfolio, also referred to as the participations purchased loan portfolio, predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. In addition to purchasing loans from our District Associations, which may exceed their hold limits, the Bank seeks the purchase of participations and syndications originated outside of the Texas District's territory by other System institutions, commercial banks and other lenders. Our capital markets loan portfolio depends to a significant degree on our relationships with other Farm Credit institutions. These loans may be held as interest earning assets of the Bank or sub-participated to the District Associations or other System entities.

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

The following table presents information regarding the balances of loans purchased and sold, excluding syndications, at March 31, 2022:

| | Other Farm Credit Institutions | | Non-Farm Credit Institutions | | Total | |
|---|---|---|---|---|---|---|
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | $ 1,052,223 | $ 167,772 | $ 60,509 | $ — | $ 1,112,732 | $ 167,772 |
| Production and intermediate term | 1,817,718 | 1,032,575 | 46,602 | 4,063 | 1,864,320 | 1,036,638 |
| Agribusiness | 2,768,623 | 848,910 | 24,962 | — | 2,793,585 | 848,910 |
| Communications | 853,669 | 160,865 | — | — | 853,669 | 160,865 |
| Energy (rural utilities) | 1,321,018 | 79,979 | — | — | 1,321,018 | 79,979 |
| Water and waste disposal | 182,597 | 26,748 | — | — | 182,597 | 26,748 |
| Rural home | 4,544 | — | — | — | 4,544 | — |
| International | 230,077 | 77,722 | — | — | 230,077 | 77,722 |
| Mission-related | 2,257 | — | — | — | 2,257 | — |
| Lease receivables | 10,356 | 1,426 | — | — | 10,356 | 1,426 |
| Direct notes receivable from District Associations | — | 3,850,000 | — | — | — | 3,850,000 |
| | $ 8,243,082 | $ 6,245,997 | $ 132,073 | $ 4,063 | $ 8,375,155 | $ 6,250,060 |

The Bank has purchased loan participations and Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) from District Associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the Bank redeemed common stock in the amount of 2.00% of the par value of the loans purchased, and the District Associations bought Bank stock equal to 8.00% of the purchased loans' par value and 1.60% of the AMBS's par value. There were no CPP purchases during the three months ended March 31, 2022. CPP loans held at March 31, 2022, totaled $115.3 million and were included in loans on the balance sheet. The balance of the AMBS CPP was $12.5 million at March 31, 2022, and was included in investment securities on the balance sheet.

The Bank may also purchase loans from District Associations in Non-Capitalized Participation Pool (NCPP) transactions. As a condition of the transactions, the Bank redeems common stock in the amount of 2.00% of the par value of the loans purchased. There were no CPP purchases during the three months ended March 31, 2022. The NCPP loans balance was $140.2 million at March 31, 2022, and was included in loans on the balance sheet.

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

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **Nonaccrual loans:** | | |
| Energy & water/waste disposal | **$ 5,555** | $ 5,753 |
| Total nonaccrual loans | **$ 5,555** | $ 5,753 |
| **Accruing restructured loans:** | | |
| Mission-related | **$ 2,316** | $ 2,280 |
| Total nonperforming assets | **$ 7,871** | $ 8,033 |

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

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

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

| | March 31, 2022 | December 31, 2021 |
|---|---|---|
| **Real estate mortgage:** | | |
| Acceptable | **98.7 %** | 98.6 % |
| OAEM | **1.3** | 1.4 |
| Substandard/Doubtful | **—** | — |
| | **100.0 %** | 100.0 % |
| **Production and intermediate term:** | | |
| Acceptable | **92.0 %** | 91.8 % |
| OAEM | **8.0** | 8.2 |
| Substandard/Doubtful | **—** | — |
| | **100.0 %** | 100.0 % |
| **Agribusiness:** | | |
| Acceptable | **97.3 %** | 96.9 % |
| OAEM | **1.9** | 2.2 |
| Substandard/Doubtful | **0.8** | 0.9 |
| | **100.0 %** | 100.0 % |
| **Energy & water/waste disposal:** | | |
| Acceptable | **99.6 %** | 98.4 % |
| OAEM | **—** | — |
| Substandard/Doubtful | **0.4** | 1.6 |
| | **100.0 %** | 100.0 % |
| **Communications:** | | |
| Acceptable | **100.0 %** | 100.0 % |
| OAEM | **—** | — |
| Substandard/Doubtful | **—** | — |
| | **100.0 %** | 100.0 % |
| **Rural home:** | | |
| Acceptable | **100.0 %** | 100.0 % |
| OAEM | **—** | — |
| Substandard/Doubtful | **—** | — |
| | **100.0 %** | 100.0 % |
| **International:** | | |
| Acceptable | **100.0 %** | 100.0 % |
| OAEM | **—** | — |
| Substandard/Doubtful | **—** | — |
| | **100.0 %** | 100.0 % |
| **Mission-related:** | | |
| Acceptable | **100.0 %** | 100.0 % |
| OAEM | **—** | — |
| Substandard/Doubtful | **—** | — |
| | **100.0 %** | 100.0 % |
| **Lease receivables:** | | |
| Acceptable | **100.0 %** | 100.0 % |
| OAEM | **—** | — |
| Substandard/Doubtful | **—** | — |
| | **100.0 %** | 100.0 % |
| **Direct notes to associations:** | | |
| Acceptable | **100.0 %** | 100.0 % |
| OAEM | **—** | — |
| Substandard/Doubtful | **—** | — |
| | **100.0 %** | 100.0 % |
| **Loans to OFIs:** | | |
| Acceptable | **100.0 %** | 67.1 % |
| OAEM | **—** | 32.9 |
| Substandard/Doubtful | **—** | — |
| | **100.0 %** | 100.0 % |
| **Total Loans:** | | |
| Acceptable | **99.3 %** | 99.1 % |
| OAEM | **0.6** | 0.7 |
| Substandard/Doubtful | **0.1** | 0.2 |
| | **100.0 %** | 100.0 % |

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

| **March 31, 2022** | **30-89 Days Past Due** | **90 Days or More Past Due** | **Total Past Due** | **Not Past Due or Less Than 30 Days Past Due** | **Total Loans** | **Recorded Investment > 90 Days and Accruing** |
|---|---|---|---|---|---|---|
| **Real estate mortgage** | **$ —** | **$ —** | **$ —** | **$ 1,022,617** | **$ 1,022,617** | **$ —** |
| **Production and intermediate term** | **—** | **—** | **—** | **876,834** | **876,834** | **—** |
| **Agribusiness** | **—** | **—** | **—** | **4,009,471** | **4,009,471** | **—** |
| **Energy & water/waste disposal** | **—** | **1,998** | **1,998** | **1,400,157** | **1,402,155** | **—** |
| **Communications** | **—** | **—** | **—** | **692,780** | **692,780** | **—** |
| **Rural home** | **—** | **—** | **—** | **2,147** | **2,147** | **—** |
| **International** | **—** | **—** | **—** | **152,413** | **152,413** | **—** |
| **Mission-related** | **—** | **—** | **—** | **2,316** | **2,316** | **—** |
| **Lease receivables** | **—** | **—** | **—** | **8,973** | **8,973** | **—** |
| **Direct notes to associations** | **—** | **—** | **—** | **18,992,659** | **18,992,659** | **—** |
| **Loans to OFIs** | **—** | **—** | **—** | **38,326** | **38,326** | **—** |
| **Total** | **$ —** | **$ 1,998** | **$ 1,998** | **$ 27,198,693** | **$ 27,200,691** | **$ —** |

| **December 31, 2021** | **30-89 Days Past Due** | **90 Days or More Past Due** | **Total Past Due** | **Not Past Due or Less Than 30 Days Past Due** | **Total Loans** | **Recorded Investment > 90 Days and Accruing** |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 1,248 | $ — | $ 1,248 | $ 1,042,232 | $ 1,043,480 | $ — |
| Production and intermediate term | — | — | — | 885,104 | 885,104 | — |
| Agribusiness | — | — | — | 3,411,397 | 3,411,397 | — |
| Energy & water/waste disposal | — | 1,998 | 1,998 | 1,322,817 | 1,324,815 | — |
| Communications | — | — | — | 648,865 | 648,865 | — |
| Rural home | — | — | — | 2,176 | 2,176 | — |
| International | — | — | — | 57,341 | 57,341 | — |
| Mission-related | — | — | — | 2,280 | 2,280 | — |
| Lease receivables | — | — | — | 9,342 | 9,342 | — |
| Direct notes to associations | — | — | — | 18,309,914 | 18,309,914 | — |
| Loans to OFIs | — | — | — | 39,125 | 39,125 | — |
| Total | $ 1,248 | $ 1,998 | $ 3,246 | $ 25,730,593 | $ 25,733,839 | $ — |

Additional impaired loan information was as follows:

| | At March 31, 2022 | | | At December 31, 2021 | | |
|---|---|---|---|---|---|---|
| | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| **Impaired loans with a related allowance for credit losses:** | | | | | | |
| Real estate mortgage | **$ —** | **$ —** | **$ —** | $ — | $ 44 | $ — |
| Energy & water/waste disposal | **5,555** | **5,557** | **1,352** | 5,753 | 5,755 | 1,352 |
| Mission-related | **162** | **162** | **59** | 159 | 159 | 58 |
| Total | **$ 5,717** | **$ 5,719** | **$ 1,411** | $ 5,912 | $ 5,958 | $ 1,410 |
| **Impaired loans with no related allowance for credit losses:** | | | | | | |
| Energy & water/waste disposal | **$ —** | **$ 2,098** | **$ —** | $ — | $ 2,098 | $ — |
| Mission-related | **2,154** | **2,154** | **—** | 2,121 | 2,121 | — |
| Processing and marketing | **—** | **1,192** | **—** | — | 1,192 | — |
| Total | **$ 2,154** | **$ 5,444** | **$ —** | $ 2,121 | $ 5,411 | $ — |
| **Total impaired loans:** | | | | | | |
| Real estate mortgage | **$ —** | **$ —** | **$ —** | $ — | $ 44 | $ — |
| Energy & water/waste disposal | **5,555** | **7,655** | **1,352** | 5,753 | 7,853 | 1,352 |
| Mission-related | **2,316** | **2,316** | **59** | 2,280 | 2,280 | 58 |
| Processing and marketing | **—** | **1,192** | **—** | — | 1,192 | — |
| Total | **$ 7,871** | **$ 11,163** | **$ 1,411** | $ 8,033 | $ 11,369 | $ 1,410 |

| | For the Three Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2022 | | March 31, 2021 | |
| | **Average Impaired Loans** | **Interest Income Recognized** | Average Impaired Loans | Interest Income Recognized |
| **Impaired loans with a related allowance for credit losses:** | | | | |
| Energy & water/waste disposal | **$ 5,745** | **$ —** | $ 1,907 | $ — |
| Mission-related | **157** | **3** | 162 | 3 |
| Total | **$ 5,902** | **$ 3** | $ 2,069 | $ 3 |
| **Impaired loans with no related allowance for credit losses:** | | | | |
| Real estate mortgage | **$ —** | **$ —** | $ 1,119 | $ 19 |
| Mission-related | **2,100** | **31** | 2,181 | 32 |
| Total | **$ 2,100** | **$ 31** | $ 3,300 | $ 51 |
| **Total impaired loans:** | | | | |
| Real estate mortgage | **$ —** | **$ —** | $ 1,119 | $ 19 |
| Energy & water/waste disposal | **5,745** | **—** | 1,907 | — |
| Mission-related | **2,257** | **34** | 2,343 | 35 |
| Total | **$ 8,002** | **$ 34** | $ 5,369 | $ 54 |

At March 31, 2022, impaired loans of $5.7 million had a related specific allowance of $1.4 million, while the remaining $2.2 million of impaired loans had no related specific allowance as a result of adequate collateralization.

The average recorded investment in impaired loans for the three months ended March 31, 2022, was $8.0 million. The Bank recognized interest income of $34 thousand on impaired loans during the three months ended March 31, 2022.

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 | Agri-business | Comm-unications | Energy and Water/ Waste Disposal | Lease Receivables | Rural Home | Inter-national | Direct Notes to Associations | Loans to OFIs | Mission-Related | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Allowance for Credit Losses:** | | | | | | | | | | | | |
| Balance at December 31, 2021 | **$ 466** | **$ 1,316** | **$ 5,952** | **$ 409** | **$ 3,606** | **$ 35** | **$ —** | **$ 27** | **$ —** | **$ —** | **$ 58** | **$ 11,869** |
| Charge-offs | — | — | — | — | — | — | — | — | — | — | — | — |
| Recoveries | — | — | — | — | — | — | — | — | — | — | — | — |
| (Loan loss reversal) provision for credit losses | **36** | **8** | **524** | **85** | **(1,518)** | **(3)** | **—** | **2** | **—** | **—** | **1** | **(865)** |
| Other * | **(12)** | **(16)** | **1** | **(9)** | **3** | **—** | **—** | **2** | **—** | **—** | **—** | **(31)** |
| Balance at March 31, 2022 | **$ 490** | **$ 1,308** | **$ 6,477** | **$ 485** | **$ 2,091** | **$ 32** | **$ —** | **$ 31** | **$ —** | **$ —** | **$ 59** | **$ 10,973** |
| Individually evaluated for impairment | **$ —** | **$ —** | **$ —** | **$ —** | **$ 1,352** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ 59** | **$ 1,411** |
| Collectively evaluated for impairment | **490** | **1,308** | **6,477** | **485** | **739** | **32** | **—** | **31** | **—** | **—** | **—** | **9,562** |
| Loans acquired with deteriorated credit quality | — | — | — | — | — | — | — | — | — | — | — | — |
| Balance at March 31, 2022 | **$ 490** | **$ 1,308** | **$ 6,477** | **$ 485** | **$ 2,091** | **$ 32** | **$ —** | **$ 31** | **$ —** | **$ —** | **$ 59** | **$ 10,973** |
| Balance at December 31, 2020 | $ 314 | $ 1,875 | $ 6,196 | $ 341 | $ 748 | $ 79 | $ — | $ — | $ — | $ — | $ 55 | $ 9,608 |
| Charge-offs | — | — | — | — | — | — | — | — | — | — | — | — |
| Recoveries | — | — | — | — | — | — | — | — | — | — | — | — |
| Provision for credit losses (loan loss reversal) | 26 | (32) | (103) | 13 | 1,345 | (3) | — | — | — | — | 1 | 1,247 |
| Other * | 9 | 40 | 80 | 3 | (35) | — | — | — | — | — | — | 97 |
| Balance at March 31, 2021 | $ 349 | $ 1,883 | $ 6,173 | $ 357 | $ 2,058 | $ 76 | $ — | $ — | $ — | $ — | $ 56 | $ 10,952 |
| Individually evaluated for impairment | $ — | $ — | $ — | $ — | $ 1,136 | $ — | $ — | $ — | $ — | $ — | $ 56 | $ 1,192 |
| Collectively evaluated for impairment | 349 | 1,883 | 6,173 | 357 | 922 | 76 | — | — | — | — | — | 9,760 |
| Loans acquired with deteriorated credit quality | — | — | — | — | — | — | — | — | — | — | — | — |
| Balance at March 31, 2021 | $ 349 | $ 1,883 | $ 6,173 | $ 357 | $ 2,058 | $ 76 | $ — | $ — | $ — | $ — | $ 56 | $ 10,952 |
| **Recorded Investments in Loans Outstanding:** | | | | | | | | | | | | |
| Ending balance at March 31, 2022 | **$1,022,617** | **$ 876,834** | **$4,009,471** | **$ 692,780** | **$1,402,155** | **$ 8,973** | **$ 2,147** | **$ 152,413** | **$ 18,992,659** | **$ 38,326** | **$ 2,316** | **$27,200,691** |
| Individually evaluated for impairment | **$ —** | **$ —** | **$ —** | **$ —** | **$ 5,555** | **$ —** | **$ —** | **$ —** | **$ 18,992,659** | **$ —** | **$ 2,316** | **$19,000,530** |
| Collectively evaluated for impairment | **$1,022,617** | **$ 876,834** | **$4,009,471** | **$ 692,780** | **$1,396,600** | **$ 8,973** | **$ 2,147** | **$ 152,413** | **$ —** | **$ 38,326** | **$ —** | **$ 8,200,161** |
| Loans acquired with deteriorated credit quality | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** |
| Ending balance at March 31, 2021 | $ 819,177 | $ 884,429 | $3,438,133 | $ 599,778 | $1,434,097 | $ 10,424 | $ 1,623 | $ — | $ 15,446,599 | $ 40,025 | $ 2,403 | $22,676,688 |
| Individually evaluated for impairment | $ 664 | $ — | $ — | $ — | $ 4,342 | $ — | $ — | $ — | $ 15,446,599 | $ — | $ 2,403 | $15,454,008 |
| Collectively evaluated for impairment | $ 818,513 | $ 884,429 | $3,438,133 | $ 599,778 | $1,429,755 | $ 10,424 | $ 1,623 | $ — | $ — | $ 40,025 | $ — | $ 7,222,680 |
| Loans acquired with deteriorated credit quality | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |

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

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

At March 31, 2022, the total recorded investment in TDRs was $2.3 million which were classified as accrual, with specific allowance for loan losses of $59 thousand. There were no additional commitments to lend to TDR borrowers at March 31, 2022, or December 31, 2021.

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

| | Total Loans Modified as TDRs | | TDRs in Nonaccrual Status | |
|---|---|---|---|---|
| | **March 31, 2022** | **December 31, 2021** | **March 31, 2022** | **December 31, 2021** |
| Mission-related | **$ 2,316** | $ 2,280 | **$ —** | $ — |
| Total | **$ 2,316** | $ 2,280 | **$ —** | $ — |

There were no new loans designated as TDRs during the three months ended March 31, 2022, or March 31, 2021. During both periods there were no payment defaults on loans that were restructured during the previous 12 months. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

## NOTE 4 — LEASES

The Bank evaluates contractual agreements at inception to determine if it meets the criteria for a lease. Leases with an initial term of 12-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 agreement. Operating ROU assets and liabilities are recognized based on the present value of the lease payments over the lease term. The Bank's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Bank will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Bank maintains a lease for its headquarters facility in Austin, Texas. The original lease was effective from September 2003 through August 2013. The Bank has since entered into two lease amendments which extend the lease through December 2034. This lease is for approximately 111,500 square feet of office space ranging from $18 to $38 per square foot during the term of the lease. Lease expenses for the facility, which include certain operating expenses passed through from the landlord, were $1.3 million and $1.3 million for the three months ended March 31, 2022 and 2021, respectively, and are included as a component of occupancy and equipment expense in the Statements of Comprehensive Income.

The Bank entered into a lease for postage machines in June 2017, a lease for copiers in January 2020, and a lease for ice machines in November 2020. The postage machines lease had an original term ending August 2020 but was renewed and currently terminates in September 2023. The lease for copiers has a term of January 2020 through March 2023. The ice machines lease has a term of November 2020 through October 2022. Lease expenses for these items were $56 thousand and $75 thousand for the three months ended March 31, 2022 and 2021, respectively, and are included as a component of occupancy and equipment expense in the Statements of Comprehensive Income.

Other information related to leases was as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2022** | **2021** |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows for operating leases | **$ 718** | $ 690 |

At March 31, 2022, the weighted-average remaining lease term for the building, copier, postage and ice machine leases was 12.79 years and the weighted-average discount rate was 2.41%. At December 31, 2021, the weighted-average remaining lease term for the building, copiers, postage and ice machine leases was 13.03 years and the weighted-average discount rate was 2.41%. The discount rates were determined using the Bank's incremental borrowing rate for bonds with terms similar to the lease terms. The following are the undiscounted cash flows for operating leases at March 31, 2022:

| | Maturities of Lease Liabilities |
|---|---|
| Remainder of 2022 | $ 2,179 |
| 2023 | 2,837 |
| 2024 | 3,051 |
| 2025 | 3,481 |
| 2026 | 3,551 |
| Thereafter | 31,085 |
| Total undiscounted cash flows | 46,184 |
| Less interest expense | 3,975 |
| Lease liability | **$ 42,209** |

Lease expense for leases with terms of 12-months or less was $10 thousand and $10 thousand for the three months ended March 31, 2022 and 2021, respectively.

## NOTE 5 — COMMITMENTS AND CONTINGENCIES

The Bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the Bank is jointly and severally liable for the consolidated Systemwide bonds and notes of the other System banks. Total consolidated Bank and Systemwide obligations of the System at March 31, 2022 were approximately $371.65 billion.

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

## NOTE 6 — FAIR VALUE MEASUREMENTS

U.S. GAAP 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 in the 2021 Annual Report for a more complete description.

Assets and liabilities measured at fair value on a recurring basis at March 31, 2022, for each of the fair value hierarchy levels are summarized below:

| | Fair Value Measurement | | | |
|---|---|---|---|---|
| | **Total** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Assets:** | | | | |
| Federal funds sold and other overnight funds | **$ 188,441** | $ — | $ 188,441 | $ — |
| Available-for-sale investments | | | | |
| Agency-guaranteed debt | **78,164** | — | 78,164 | $ — |
| Corporate debt | **240,295** | — | 240,295 | — |
| Mortgage-backed securities | **5,519,059** | — | 5,387,149 | 131,910 |
| U.S. Treasury securities | **637,691** | — | 637,691 | — |
| Asset-backed securities | **171,978** | — | 171,978 | — |
| Other available-for-sale investments | **12,475** | — | — | 12,475 |
| Derivative assets | **1,937** | — | 1,937 | — |
| Assets held in nonqualified benefit trusts | **1,098** | 1,098 | — | — |
| Total assets | **$ 6,851,138** | $ 1,098 | $ 6,705,655 | $ 144,385 |
| | | | | |
| **Liabilities:** | | | | |
| Derivative liabilities | **$ (6,039)** | $ — | $ (6,039) | $ — |
| Letters of credit | **2,382** | — | — | 2,382 |
| Total liabilities | **$ (3,657)** | $ — | $ (6,039) | $ 2,382 |

The derivatives within the liabilities section relate to cash flow swaps which are cleared through a futures clearing merchant (FCM) or a central counterparty (CCP), with a fair value of $23.5, offset by variation margin of $29.6 million.

The table below represents a reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the period from January 1, 2022, to March 31, 2022:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | Mortgage-Backed Securities | Agricultural Mortgage-Backed Securities | Letters of Credit | Net |
| Balance at January 1, 2022 | $ 58,959 | $ 14,209 | $ 3,306 | $ 69,862 |
| Net losses included in other comprehensive income | (1,910) | (318) | — | (2,228) |
| Purchases, issuances, (sales) and (settlements) | 133,820 | (1,416) | (924) | 133,328 |
| Transfers out of Level 3 | (58,959) | — | — | (58,959) |
| Balance at March 31, 2022 | $ 131,910 | $ 12,475 | $ 2,382 | $ 142,003 |
| The amount of gains/losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at March 31, 2022 | — | — | — | — |
| The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at March 31, 2022 | $ (1,910) | $ (318) | $ — | $ (2,228) |

There were transfers of assets out of Level 3 to other levels during the three months ended March 31, 2022. Transfers of MBS from Level 3 to Level 2 were the result of market pricing becoming subsequently available. MBS were included in Level 3 since their valuation is based on Level 3 criteria (broker quotes). AMBS were included in Level 3 due to limited activity or less transparency around inputs to their valuation. The liability for letters of credit were included in Level 3 because the valuation, which is based on fees charged for similar agreements, may not closely correlate to a fair value for instruments not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2022, for each of the fair value hierarchy levels are summarized below:

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | **Total** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Assets:** | | | | |
| **Loans** | **$ 4,301** | **$ —** | **$ —** | **$ 4,301** |
| **Total assets** | **$ 4,301** | **$ —** | **$ —** | **$ 4,301** |

Assets and liabilities measured at fair value on a recurring basis at December 31, 2021, for each of the fair value hierarchy levels are summarized below:

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Federal funds sold and other overnight funds | $ 194,223 | $ — | $ 194,223 | $ — |
| Available-for-sale investments | | | | |
| Agency-guaranteed debt | 85,293 | — | 85,293 | — |
| Corporate debt | 234,580 | — | 234,580 | — |
| Mortgage-backed securities | 5,394,337 | — | 5,335,378 | 58,959 |
| U.S. Treasury securities | 647,564 | — | 647,564 | — |
| Asset-backed securities | 184,256 | — | 184,256 | — |
| Other available-for-sale investments | 14,209 | — | — | 14,209 |
| Derivative assets | 338 | — | 338 | — |
| Assets held in nonqualified benefit trusts | 1,300 | 1,300 | — | — |
| Total assets | $ 6,756,100 | $ 1,300 | $ 6,681,632 | $ 73,168 |
| Liabilities: | | | | |
| Derivative liabilities | $ (7,614) | $ — | $ (7,614) | $ — |
| Letters of credit | 3,306 | — | — | 3,306 |
| Total liabilities | $ (4,308) | $ — | $ (7,614) | $ 3,306 |

The derivatives within the liabilities section relate to cash flow swaps with a fair value of $65.5 million, offset by variation margin of $73.1 million.

The following table represents a reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the period from January 1, 2021, to March 31, 2021:

| | Assets | | | Liabilities | |
|---|---|---|---|---|---|
| | Mortgage-Backed Securities | Asset-Backed Securities | Agricultural Mortgage- Backed Securities | Letters of Credit | Net |
| Balance at January 1, 2021 | $ 75,914 | $ — | $ 23,464 | $ 2,513 | $ 96,865 |
| Net gains included in other comprehensive income | (256) | (15) | (127) | — | (398) |
| Purchases, issuances and (settlements) | 40,631 | 11,975 | (2,083) | (225) | 50,748 |
| Transfers out of level 3 | (75,914) | — | — | — | (75,914) |
| Balance at March 31, 2021 | $ 40,375 | $ 11,960 | $ 21,254 | $ 2,288 | $ 71,301 |
| The amount of gains/losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at March 31, 2021 | $ — | — | $ — | $ — | $ — |
| The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at March 31, 2021 | $ (256) | $ (15) | $ (127) | $ — | $ (398) |

There were transfers of assets out of Level 3 to other levels during the three months ended March 31, 2021. Transfers of MBS from Level 3 to Level 2 were the result of market pricing becoming subsequently available. MBS were included in Level 3 due to the fact that their valuation was based on Level 3 criteria (broker quotes). AMBS were included in Level 3 due to limited activity or less transparency around inputs to their valuation. The liability for letters of credit were included in Level 3 because their valuation, which is based on fees currently charged for similar agreements, did not closely correlate to a fair value for instruments not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2021, for each of the fair value hierarchy levels are summarized below:

| | Fair Value Measurement | | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Loans | $ 4,437 | $ — | $ — | $ 4,437 |
| Total assets | $ 4,437 | $ — | $ — | $ 4,437 |

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

| **March 31, 2022:** | | **Fair Value Measurement** | | | |
|---|---|---|---|---|---|
| | **Total Carrying Amount** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total Fair Value** |
| **Financial Assets:** | | | | | |
| **Cash** | **$ 202,155** | **$ 202,155** | **$ —** | **$ —** | **$ 202,155** |
| **Net loans** | **27,126,954** | **—** | **—** | **26,248,758** | **26,248,758** |
| **Total assets** | **$ 27,329,109** | **$ 202,155** | **$ —** | **$ 26,248,758** | **$ 26,450,913** |
| **Financial Liabilities:** | | | | | |
| **Systemwide debt securities** | **$ 32,598,642** | **$ —** | **$ —** | **$ 31,742,993** | **$ 31,742,993** |
| **Total liabilities** | **$ 32,598,642** | **$ —** | **$ —** | **$ 31,742,993** | **$ 31,742,993** |

| **December 31, 2021:** | | **Fair Value Measurement** | | | |
|---|---|---|---|---|---|
| | **Total Carrying Amount** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total Fair Value** |
| Financial Assets: | | | | | |
| Cash | $ 156,986 | $ 156,986 | $ — | $ — | $ 156,986 |
| Net loans | 25,662,689 | — | — | 25,637,608 | 25,637,608 |
| Total assets | $ 25,819,675 | $ 156,986 | $ — | $ 25,637,608 | $ 25,794,594 |
| Financial Liabilities: | | | | | |
| Systemwide debt securities | $ 30,790,428 | $ — | $ — | $ 30,780,330 | $ 30,780,330 |
| Total liabilities | $ 30,790,428 | $ — | $ — | $ 30,780,330 | $ 30,780,330 |

## Valuation Techniques

As more fully discussed in Note 2 — Summary of Significant Accounting Policies in the 2021 Annual Report, authoritative accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction.

### *Uncertainty of Fair Value Measurements*

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

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

*Information About Recurring and Nonrecurring Level 3 Fair Value Measurements*

| | Fair Value at | | Valuation Technique(s) | Unobservable Input | Range of Inputs / Weighted Average | |
|---|---|---|---|---|---|---|
| | March 31, 2022 | December 31, 2021 | | | March 31, 2022 | December 31, 2021 |
| Other investments | **$ 12,475** | $ 14,209 | Discounted cash flow | Prepayment rates | **1.4% - 44.5% / 10.81%** | 1.4% - 44.5% / 10.35% |
| Mortgage-backed securities | **131,910** | 58,959 | Vendor priced | — | **—** | — |

In regard to impaired loans and other property owned (OPO), it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and OPO and consider unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

*Information about Recurring and Nonrecurring Level 2 Fair Value Measurements*

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

## NOTE 7 — ASSET/LIABILITY OFFSETTING

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

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

| | Gross Amounts of Assets/Liabilities Presented on the Balance Sheet | Amounts Not Offset on the Balance Sheet | | |
|---|---|---|---|---|
| **March 31, 2022** | | **Cash Collateral Pledged** | **Investment Securities Received/Pledged as Collateral** | **Net Amount** |
| **Assets:** | | | | |
| **Interest rate swaps and other derivatives** | **$ 1,937** | **$ —** | **$ —** | **$ 1,937** |
| **Federal funds sold and overnight investments** | **$ 188,441** | **$ —** | **$ —** | **$ 188,441** |
| **Liabilities:** | | | | |
| **Interest rate swaps and other derivatives** | **$ 23,540** | **$ (53,440)** | **$ —** | **$ (29,900)** |
| | | | | |
| **December 31, 2021** | | | | |
| Assets: | | | | |
| Interest rate swaps and other derivatives | $ 338 | $ — | $ — | $ 338 |
| Federal funds sold and overnight investments | $ 194,223 | $ — | $ — | $ 194,223 |
| Liabilities: | | | | |
| Interest rate swaps and other derivatives | $ 65,538 | $ (90,866) | $ — | $ (25,328) |

## NOTE 8 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

At March 31, 2022, the Bank held interest rate caps with a notional amount of $145.0 million and a net fair value asset of $783 thousand, and pay-fixed interest rate swaps with a notional amount of $825.0 million and an excess variation margin of $29.6 million. The primary types of derivative instruments used and the activity (notional amount of derivatives) during the three months ended March 31, 2022, are summarized in the following table:

| | Pay-Fixed Swaps | Interest Rate Caps | Total |
|---|---|---|---|
| Balance at January 1, 2022 | $ 825,000 | $ 145,000 | $ 970,000 |
| Additions | — | — | — |
| Maturities/Amortizations | — | — | — |
| Balance at March 31, 2022 | $ 825,000 | $ 145,000 | $ 970,000 |

To minimize the risk of credit losses, the Bank maintains collateral agreements to limit exposure to agreed-upon thresholds, deals with counterparties that have an investment grade or better credit rating from a major rating agency, and monitors the credit standing and levels of exposure to individual counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. At March 31, 2022, the Bank posted $53.4 million of cash as collateral, and no counterparty had been required to post collateral. At December 31, 2021, the Bank had posted $90.9 million of cash as collateral, and no counterparty had been required to post collateral. The decrease in collateral posted from December 31, 2021, to March 31, 2022, was due to the impact of rising interest rates.

*Derivative – Counterparty Exposure*

The following table represents the credit ratings of counterparties to whom the Bank had credit exposure at March 31, 2022:

| | Remaining Years to Maturity | | | | | |
|---|---|---|---|---|---|---|
| | Less Than One Year to Five Years | More Than Five Years | Total Gains (Losses)* | Exposure | Collateral Posted | Exposure Net of Collateral |
| Moody's Credit Rating | | | | | | |
| A1 | $ 46 | $ — | $ 46 | $ 46 | $ — | $ 46 |
| Aa2 | 96 | 641 | 737 | 737 | — | 737 |
| Aa3 | (248) | (24,248) | (24,496) | (24,496) | (53,440) | 28,944 |
| **Total** | $ (106) | $ (23,607) | $ (23,713) | $ (23,713) | $ (53,440) | $ 29,727 |

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

*Fair Value Hedges*

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item (principally, debt securities) attributable to the hedge risk are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. At March 31, 2022 and December 31, 2021, the Bank had no fair value hedged items.

*Cash Flow Hedges*

The Bank clears certain cash flow hedges through a futures commission merchant (FCM), with a clearinghouse or central counterparty (CCP). At March 31, 2022, the notional amount of cleared cash flow hedges was $825.0 million, with outstanding exposure of $23.5 million and collateral posted of $23.9 million and $29.6 million in initial and variation margins, respectively. At December 31, 2021, the notional amount of cleared cash flow hedges was $825.0 million, with an outstanding exposure of $65.5 million and collateral posted of $17.7 million and $73.1 million in initial and variation margins, respectively.

The Bank's derivative instruments at March 31, 2022, and December 31, 2021, 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. In the next 12-months, we expect to reclassify to earnings losses of $177 thousand recorded in accumulated other comprehensive loss (AOCL) as of March 31, 2022.

The following table represents the fair value of cash flow derivative instruments, inclusive of posted variation margin for cleared activity as of March 31, 2022, and December 31, 2021.

| | | Fair Value at | | | Fair Value at | |
|---|---|---|---|---|---|---|
| | Balance Sheet Location | March 31, 2022 | December 31, 2021 | Balance Sheet Location | March 31, 2022 | December 31, 2021 |
| Interest rate caps | Other assets | **$ 783** | $ 338 | Other liabilities | **$ —** | $ — |
| Pay-fixed swaps | Other assets | **1,154** | — | Other liabilities | **(6,039)** | (7,614) |

| | Loss Recognized in AOCL on Derivatives at March 31, | | | Amount of Loss Reclassified from AOCL at March 31, | |
|---|---|---|---|---|---|
| | 2022 | 2021 | | 2022 | 2021 |
| Interest rate caps | **$ (445)** | $ (238) | Interest expense | **$ (74)** | $ (57) |
| Pay-fixed swaps | **(43,152)** | (37,662) | Interest expense | **—** | — |

## NOTE 9 — CAPITAL

The FCA sets minimum regulatory capital requirements, including capital conservation buffers, for banks and associations. These requirements are split into minimum requirements for risk-adjusted ratios and non-risk-adjusted ratios. The risk-adjusted ratios include common equity tier 1, tier 1 capital, total capital, and permanent capital ratios. The non-risk-adjusted ratios include tier 1 leverage and unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratios. As of March 31, 2022, the Bank exceeded all regulatory capital requirements, including the capital conservation buffers.

The following table reflects the bank's capital ratios:

| Risk-adjusted | Regulatory Requirements Including Capital Conservation Buffers | As of March 31, 2022 | As of December 31, 2021 |
|---|---|---|---|
| Common equity tier 1 ratio | 7.00 % | **8.44 %** | 9.55 % |
| Tier 1 capital ratio | 8.50 | **13.65** | 15.09 |
| Total capital ratio | 10.50 | **13.74** | 15.17 |
| Permanent capital ratio | 7.00 | **13.66** | 15.10 |
| | | | |
| Non-risk-adjusted | | | |
| Tier 1 leverage ratio | 5.00 % | **5.81 %** | 6.37 % |
| UREE leverage ratio | 1.50 | **2.18** | 2.73 |

Risk-adjusted assets have been defined by FCA regulations as the statement of condition assets and off-balance sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

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

The components of the Bank's risk-adjusted capital, based on 90-day average balances, were as follows at March 31, 2022:

| (dollars in thousands) | Common Equity Tier 1 Ratio | Tier 1 Capital Ratio | Total Capital Ratio | Permanent Capital Ratio |
|---|---|---|---|---|
| Numerator: | | | | |
| Unallocated retained earnings | **$ 901,649** | **$ 901,649** | **$ 901,649** | **$ 901,649** |
| Less adjustments for patronage or dividend accrued receivables and payables | **(9,889)** | **(9,889)** | **(9,889)** | **(9,889)** |
| Common Cooperative Equities: | | | | |
| Purchased other required stock ≥7 years | **374,323** | **374,323** | **374,323** | **374,323** |
| Allocated stock ≥7 years | **36,042** | **36,042** | **36,042** | **36,042** |
| Allocated equities: | | | | |
| Allocated equities held ≥7 years | **66,699** | **66,699** | **66,699** | **66,699** |
| Noncumulative perpetual preferred stock | **—** | **750,000** | **750,000** | **750,000** |
| Allowance for loan losses and reserve for credit losses subject to certain limitations | **—** | **—** | **11,834** | **—** |
| Regulatory Adjustments and Deductions: | | | | |
| Amount of allocated investments in other System institutions | **(155,538)** | **(155,538)** | **(155,538)** | **(155,538)** |
| Other regulatory required deductions | **(249)** | **(249)** | **(249)** | **(249)** |
| Total | **$ 1,213,037** | **$ 1,963,037** | **$ 1,974,871** | **$ 1,963,037** |
| Denominator: | | | | |
| Risk-adjusted assets excluding allowance | **$ 14,376,567** | **$ 14,376,567** | **$ 14,376,567** | **$ 14,376,567** |
| Regulatory Adjustments and Deductions: | | | | |
| Allowance for loan losses | **—** | **—** | **—** | **(10,404)** |
| Total | **$ 14,376,567** | **$ 14,376,567** | **$ 14,376,567** | **$ 14,366,163** |

The components of the Bank's risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2021:

| (dollars in thousands) | Common Equity Tier 1 Ratio | Tier 1 Capital Ratio | Total Capital Ratio | Permanent Capital Ratio |
|---|---|---|---|---|
| Numerator: | | | | |
| Unallocated retained earnings | $ 1,029,975 | $ 1,029,975 | $ 1,029,975 | $ 1,029,975 |
| Common Cooperative Equities: | | | | |
| Purchased other required stock ≥7 years | 322,779 | 322,779 | 322,779 | 322,779 |
| Allocated stock ≥7 years | 36,042 | 36,042 | 36,042 | 36,042 |
| Allocated equities: | | | | |
| Allocated equities held ≥7 years | 59,931 | 59,931 | 59,931 | 59,931 |
| Noncumulative perpetual preferred stock | — | 750,000 | 750,000 | 750,000 |
| Allowance for loan losses and reserve for credit losses subject to certain limitations | — | — | 11,780 | — |
| Regulatory Adjustments and Deductions: | | | | |
| Amount of allocated investments in other System institutions | (155,054) | (155,054) | (155,054) | (155,054) |
| Other regulatory required deductions | (249) | (249) | (249) | (249) |
| Total | $ 1,293,424 | $ 2,043,424 | $ 2,055,204 | $ 2,043,424 |
| Denominator: | | | | |
| Risk-adjusted assets excluding allowance | $ 13,546,024 | $ 13,546,024 | $ 13,546,024 | $ 13,546,024 |
| Regulatory Adjustments and Deductions: | | | | |
| Allowance for loan losses | — | — | — | (10,080) |
| Total | $ 13,546,024 | $ 13,546,024 | $ 13,546,024 | $ 13,535,944 |

The components of the Bank's non-risk-adjusted capital, based on 90-day average balances, were as follows at March 31, 2022:

| **(dollars in thousands)** | **Tier 1 Leverage Ratio** | **UREE Leverage Ratio** |
|---|---|---|
| Numerator: | | |
| Unallocated retained earnings | **$ 901,649** | **$ 901,649** |
| Less adjustments for patronage or dividend accrued receivables and payables | **(9,889)** | **(9,889)** |
| Common Cooperative Equities: | | |
| Purchased other required stock ≥7 years | **374,323** | **—** |
| Allocated stock ≥7 years | **36,042** | **—** |
| Allocated equities: | | |
| Allocated equities held ≥7 years | **66,699** | **—** |
| Noncumulative perpetual preferred stock | **750,000** | **—** |
| Regulatory Adjustments and Deductions: | | |
| Amount of allocated investments in other System institutions | **(155,538)** | **(155,538)** |
| Other regulatory required deductions | **(249)** | **(249)** |
| Total | **$ 1,963,037** | **$ 735,973** |
| Denominator: | | |
| Total assets | **33,987,289** | **33,987,289** |
| Regulatory Adjustments and Deductions: | | |
| Regulatory deductions included in tier 1 capital | **(175,214)** | **(175,214)** |
| Total | **$ 33,812,075** | **$ 33,812,075** |

The components of the Bank's non-risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2021:

| **(dollars in thousands)** | **Tier 1 Leverage Ratio** | **UREE Leverage Ratio** |
|---|---|---|
| Numerator: | | |
| Unallocated retained earnings | $ 1,029,975 | $ 1,029,975 |
| Common Cooperative Equities: | | |
| Purchased other required stock ≥7 years | 322,779 | — |
| Allocated stock ≥7 years | 36,042 | — |
| Allocated equities: | | |
| Allocated equities held ≥7 years | 59,931 | — |
| Noncumulative perpetual preferred stock | 750,000 | — |
| Regulatory Adjustments and Deductions: | | |
| Amount of allocated investments in other System institutions | (155,054) | (155,054) |
| Other regulatory required deductions | (249) | — |
| Total | $ 2,043,424 | $ 874,921 |
| Denominator: | | |
| Total assets | $ 32,238,312 | $ 32,238,312 |
| Regulatory Adjustments and Deductions: | | |
| Regulatory deductions included in tier 1 capital | (165,260) | (165,260) |
| Total | $ 32,073,052 | $ 32,073,052 |

## NOTE 10 — EMPLOYEE BENEFIT PLANS

In addition to pension benefits, the Bank provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities. Bank employees hired after January 1, 2004, may be eligible for retiree medical benefits for themselves and their spouses at their expense and will be responsible for 100% of the related premiums. The following table summarizes the components of net periodic benefit costs for the Bank's other postretirement benefit costs for the three months ended March 31:

| | Other Postretirement Benefits | |
|---|---|---|
| | **2022** | 2021 |
| Service cost | **$ 49** | $ 49 |
| Interest cost | **97** | 87 |
| Amortization of prior service credits | **(19)** | (20) |
| | **$ 127** | $ 116 |

The components of net periodic benefit cost other than the service cost component are included in other components of net periodic postretirement benefit cost on the Statements of Comprehensive Income.

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

## NOTE 11 — ACCUMULATED OTHER COMPREHENSIVE LOSS

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

The following is a summary of the components of AOCL and the changes that occurred during the three months ended March 31, 2022:

| | **Total** | **Unrealized Gains (Losses) on Investments** | **Postretirement Benefit Plans** | **Cash Flow Derivative Instruments** |
|---|---|---|---|---|
| **Balance at January 1, 2022** | **$ (96,836)** | **$ (29,865)** | **$ (773)** | **$ (66,198)** |
| Change in unrealized losses on AFS securities: | | | | |
| Net increase in unrealized losses on AFS securities | **(225,439)** | **(225,439)** | | |
| Net change in unrealized losses on AFS securities | **(225,439)** | **(225,439)** | | |
| Change in postretirement benefit plans: | | | | |
| Amounts amortized into net periodic expense: | | | | |
| Amortization of prior service credits | **(19)** | | **(19)** | |
| Net change in postretirement benefit plans | **(19)** | | **(19)** | |
| Change in cash flow derivative instruments: | | | | |
| Net decrease in unrealized losses on cash flow derivative instruments | **43,597** | | | **43,597** |
| Reclassification of losses recognized in interest expense | **74** | | | **74** |
| Net change in cash flow derivative instruments | **43,671** | | | **43,671** |
| **Total other comprehensive (loss) income** | **(181,787)** | **(225,439)** | **(19)** | **43,671** |
| **Balance at March 31, 2022** | **$ (278,623)** | **$ (255,304)** | **$ (792)** | **$ (22,527)** |

The following is a summary of the components of AOCL and the changes that occurred during the three months ended March 31, 2021:

| | Total | Unrealized (Losses) Gains on Investments | Postretirement Benefit Plans | Cash Flow Derivative Instruments |
|---|---|---|---|---|
| Balance at January 1, 2021 | $ (28,827) | $ 80,007 | $ (891) | $ (107,943) |
| Change in unrealized gains on AFS securities: | | | | |
| Net increase in unrealized losses on AFS securities | (21,431) | (21,431) | | |
| Net change in unrealized gains on AFS securities | (21,431) | (21,431) | | |
| Change in postretirement benefit plans: | | | | |
| Amounts amortized into net periodic expense: | | | | |
| Amortization of prior service credits | (20) | | (20) | |
| Net change in postretirement benefit plans | (20) | | (20) | |
| Change in cash flow derivative instruments: | | | | |
| Unrealized gains on cash flow derivative instruments | 37,900 | | | 37,900 |
| Reclassification of losses recognized in interest expense | 57 | | | 57 |
| Net change in cash flow derivative instruments | 37,957 | | | 37,957 |
| Total other comprehensive income (loss) | 16,506 | (21,431) | (20) | 37,957 |
| Balance at March 31, 2021 | $ (12,321) | $ 58,576 | $ (911) | $ (69,986) |

The following table summarizes reclassifications from AOCL to the Statements of Comprehensive Income for the three months ended March 31, 2022, and the same period for 2021:

| Component of AOCL | Amount Reclassified from AOCL 2022 | Amount Reclassified from AOCL 2021 | Location of Losses (Gains) Recognized on the Statements of Comprehensive Income |
|---|---|---|---|
| Amortization of net credits on postretirement benefit plan | **$ (19)** | $ (20) | Salaries and employee benefits |
| Reclassification of losses on cash flow hedges | **74** | 57 | Interest expense |
| Total reclassifications | **$ 55** | $ 37 | |

## NOTE 12 — SUBSEQUENT EVENTS

The Bank has evaluated subsequent events through May 10, 2022, which is the date the financial statements were issued. There are no subsequent events requiring disclosure as of May 10, 2022.

## NOTE 13 — COMBINED DISTRICTWIDE FINANCIAL STATEMENTS

The accompanying financial statements relate solely to the Bank and exclude financial information of the District Associations. The Bank separately publishes certain unaudited combined financial information of the Texas District, including a condensed statement of condition and statement of income, which can be found on the Bank's website at *www.farmcreditbank.com*.

## ADDITIONAL REGULATORY INFORMATION
(unaudited)

### Disclosure Map

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

| Disclosure Requirement | Description | March 31, 2022 Quarterly Report Reference |
|---|---|---|
| Scope of Application | Corporate entity and structure | Page 45 |
| Capital Structure | Regulatory capital components | Page 46 |
| Capital Adequacy | Risk-weighted assets | Page 47 |
| | Regulatory capital ratios | Page 47 |
| Capital Buffers | Quantitative disclosures | Page 47 |
| Credit Risk | Summary of exposures | Page 48 |
| | Industry distribution | Page 48 |
| | Contractual maturity | Page 48 |
| | Geographic distribution | Page 49 |
| | Impaired loans and allowance for credit losses | Note 3 - Page 23-30 |
| Counterparty Credit Risk-Related Exposures | Counterparty exposures | Page 49 |
| Credit Risk Mitigation | Exposures with reduced capital requirements | Page 49 |
| Securitization | Securitization exposures | Page 50 |
| Equities | General description | Page 50 |
| Interest Rate Risk for Non-Trading Activities | Interest rate sensitivity | Page 50 |

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

### Scope of Application

The disclosures herein relate solely to the Bank and exclude financial information of the District Associations. The Bank has no subsidiaries; therefore, the financial statements are only those of the Bank and are not consolidated with any other entity.

## Capital Structure

The following table provides a summary of the Bank's capital structure at March 31, 2022:

| (dollars in thousands) | | Three-Month Average Daily Balance |
|---|---|---|
| **Common equity tier 1 capital (CET1)** | | |
| Common cooperative equities: | | |
| Purchased other required stock ≥7 years | $ | **374,323** |
| Allocated stock ≥7 years | | **36,042** |
| Other required member purchased stock | | — |
| Allocated equities: | | |
| Qualified allocated equities subject to retirement | | **66,699** |
| Nonqualified allocated equities subject to retirement | | — |
| Nonqualified allocated equities not subject to retirement | | — |
| Unallocated retained earnings | | **901,649** |
| Less adjustments for patronage or dividend accrued receivables and payables | | **(9,889)** |
| Paid-in capital | | — |
| Regulatory adjustments and deductions made to CET1 | | **(155,787)** |
| **Total CET1** | **$** | **1,213,037** |
| **Additional tier 1 capital (AT1)** | | |
| Noncumulative perpetual preferred stock | $ | **750,000** |
| Regulatory adjustments and deductions made to AT1 capital | | — |
| **Total AT1 capital** | | **750,000** |
| **Total tier 1 capital** | **$** | **1,963,037** |
| **Tier 2 capital** | | |
| Common cooperative equities not included in CET1 | $ | — |
| Tier 2 capital elements (allowance for loan losses) | | **11,834** |
| Regulatory adjustments and deductions made to tier 2 capital | | — |
| **Total tier 2** | **$** | **11,834** |
| **Total capital** | **$** | **1,974,871** |

## Capital Adequacy and Capital Buffers

The Bank's risk-adjusted regulatory capital ratios are calculated by dividing the relevant total capital elements by risk-weighted assets. The following table provides the Bank's risk-weighted assets at March 31, 2022:

| (dollars in thousands) | Three-Month Average Daily Balance |
|---|---|
| **On-Balance Sheet Assets:** | |
| Exposures to sovereign entities | $ — |
| Exposures to supranational entities and Multilateral Development Banks | — |
| Exposures to government-sponsored entities (direct notes to associations) | **3,713,560** |
| Exposures to depository institutions, foreign banks and credit unions | **3,649** |
| Exposures to public sector entities | — |
| Corporate exposures, including borrower loans and exposures to other financing institutions | **7,729,444** |
| Residential mortgage exposures | — |
| Past due and nonaccrual exposures | **11,201** |
| Securitization exposures | **73,782** |
| Exposures to other assets | **894,699** |
| Total Risk-Weighted Assets, On-Balance Sheet Assets | **12,426,335** |
| **Off-Balance Sheet Assets:** | |
| Letters of Credit | **104,853** |
| Commitments | **1,836,213** |
| Repo-styled transactions | — |
| Over-the-counter derivatives | **2,945** |
| Unsettled transactions | — |
| Cleared transactions | — |
| All other off-balance sheet exposures | **6,221** |
| Total Risk-Weighted Assets, Off-Balance Sheet Assets | **1,950,232** |
| **Total Risk-Weighted Assets Before Adjustments** | **14,376,567** |
| Additions: | |
| Intra-system equity investments | **155,538** |
| Deductions: | |
| Regulatory capital deductions | **(155,538)** |
| **Total Standardized Risk-Weighted Assets** | **$ 14,376,567** |

## Capital and Leverage Ratios

As of March 31, 2022, the Bank was well-capitalized and exceeded all capital requirements. The Bank's excess leverage of 0.81% is equal to the tier 1 leverage ratio minus the minimum tier 1 leverage ratio requirement. Because the Bank's capital and leverage ratios exceeded the minimum regulatory requirements of 10.50% and 5.00%, respectively, the Bank currently has no limitations on its distributions and discretionary bonus payments. The aggregate amount of eligible retained income was $66.8 million as of March 31, 2022.

| | Regulatory Requirements Including Capital Conservation Buffers | Ratios as of March 31, 2022 | Calculated Buffers |
|---|---|---|---|
| Common equity tier 1 capital ratio | 7.00 % | **8.44 %** | 1.44 % |
| Tier 1 capital ratio | 8.50 | **13.65** | 5.15 |
| Total capital ratio | 10.50 | **13.74** | 3.24 |
| Tier 1 leverage ratio | 5.00 | **5.81** | 0.81 |

## Credit Risk

System entities have specific lending authorities within their chartered territories. The Bank is chartered to serve the District Associations which are located in Texas, Alabama, Mississippi, Louisiana and most of New Mexico. Our chartered territory is referred to as the Texas District. The Bank serves its chartered territory by lending to the Federal Land Credit Association (FLCA) and Agricultural Credit Associations (ACAs). The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired based on characteristics such as probability of default (PD) and loss given default (LGD). Allowance needs by geographic region are only considered in circumstances that may not otherwise be reflected in the PD and LGD, such as flooding or drought. There was no allowance attributed to a geographic area as of March 31, 2022.

Refer to the Risk-Adjusted Asset table below 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 at March 31, 2022.

| (dollars in thousands) | | Total Exposure |
|---|---|---|
| Direct notes receivable from District Associations | $ | 24,646,406 |
| Real estate mortgage | | 1,122,509 |
| Production and intermediate term | | 873,426 |
| Agribusiness | | |
| Loans to cooperatives | | 1,194,521 |
| Processing and marketing | | 4,190,746 |
| Farm-related business | | 357,543 |
| Communications | | 796,383 |
| Energy (rural utilities) | | 2,202,483 |
| Water and waste disposal | | 310,900 |
| Mission-related | | 2,139 |
| Rural residential real estate | | 248,765 |
| International | | 2,257 |
| Leases | | 9,022 |
| Loans to other financing institutions | | 38,261 |
| Total | $ | 35,995,361 |

The following table provides an overview of the remaining contractual maturity of the Bank's credit risk portfolio categorized by exposure at March 31, 2022. The remaining contractual maturity for the Bank's direct notes from the District Associations is included in the loans line item based on the contractual terms of the underlying association retail loans. Unfunded commitments for direct notes from District Associations reflects the aggregate remaining amount that the District Associations can borrow from the Bank and is included in the unfunded commitments line item within the due in one year or less column.

| (dollars in thousands) | | Due in one year or less | | Due after one year through five years | | Due after five years | | Total |
|---|---|---|---|---|---|---|---|---|
| Loans | $ | 7,185,462 | $ | 9,679,913 | $ | 10,272,552 | $ | 27,137,927 |
| Off-balance sheet commitments | | | | | | | | |
| Financial letters of credit | | 79,935 | | 29,641 | | 3,860 | | 113,436 |
| Performance letters of credit | | 6,048 | | 5,506 | | — | | 11,554 |
| Commercial letters of credit | | 2,104 | | 1,745 | | — | | 3,849 |
| Unfunded commitments | | 6,065,420 | | 2,502,684 | | 162,521 | | 8,730,625 |
| Investments | | 398,418 | | 770,480 | | 5,490,765 | | 6,659,663 |
| Derivatives (notional) | | 105,000 | | 215,000 | | 650,000 | | 970,000 |
| Total | $ | 13,842,387 | $ | 13,204,969 | $ | 16,579,698 | $ | 43,627,054 |

The following table illustrates the Bank's total exposure (including commitments) by geographic distribution based on the headquarters location of the underlying retail loans for the Bank and District Associations at March 31, 2022:

| State | Percentage |
|---|---|
| Texas | **58 %** |
| Alabama | **7** |
| Mississippi | **6** |
| Louisiana | **4** |
| California | **2** |
| All other states | **23** |
| | **100 %** |

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

### Counterparty Credit Risk and Credit Risk Mitigation

The table below shows derivatives by underlying exposure type, segregated among interest rate caps, pay-fixed swaps and receive-fixed swaps, which were traded in OTC markets at March 31, 2022.

| | Notional | Gross Positive Fair Values |
|---|---|---|
| Interest rate caps | **$ 145,000** | **$ 783** |
| Pay-fixed swaps | **825,000** | **31,053** |
| Total Derivatives | **$ 970,000** | **$ 31,836** |

The following table provides the total exposure covered by guarantees/credit derivatives for each separately disclosed credit risk portfolio and the risk-weighted asset amount associated with that exposure. The Bank did not hold eligible financial collateral for its loan, investment and derivative portfolios at March 31, 2022.

| Government Guaranteed Asset Type (dollars in thousands) | 90-Day Average Balance | Risk Weighting | Risk-Weighted Amount |
|---|---|---|---|
| Investments | **$ 4,668,306** | **0%** | **$ —** |
| Loans | **2,153** | **0%** | **—** |
| Total | **$ 4,670,459** | | **$ —** |

## Securitization

The Bank currently only participates in credit-related securitizations as investors through the purchase of ABS as included in its investment portfolio. The Bank also holds securitization exposures through the purchase of U.S. government and agency-guaranteed securities. The Bank did not transfer any exposures that it had originated or purchased from a third party in connection with a securitization of assets as of March 31, 2022, nor did it have any outstanding exposures that it intended to be securitized at March 31, 2022. The Bank did not retain any credit-related re-securitization exposures at March 31, 2022.

Below is an overview of our purchased securitization exposures held at March 31, 2022, by exposure type and categorized by risk-weighting band and risk-based capital approach. At March 31, 2022, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital.

| Description of Securitization | Risk-Based Capital Approach | Exposure Amount (dollars in thousands) | Risk Weighting |
|---|---|---|---|
| Agency MBS: | | | |
| GNMA | Standardized risk weighting | $ 3,077,923 | 0% |
| FNMA and FHLMC | Standardized risk weighting | 2,679,260 | 0%-20% |
| Total agency MBS | | $ 5,757,183 | |
| ABS: | | | |
| Small Business Administration | Standardized risk weighting | $ 99,929 | 0% |
| ABS | Gross-up | 73,287 | 20%-100% |
| Total ABS | | $ 173,216 | |

## Equities

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

| As of March 31, 2022 (dollars in thousands) | Disclosed in Other Assets | Life-to-Date (Losses) Recognized in Retained Earnings* |
|---|---|---|
| RBICs | $ 19,295 | $ (5,843) |

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

## Interest Rate Risk

The following tables set forth the Bank's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy, based on the Bank's interest-earning assets and interest-bearing liabilities at March 31, 2022:

| Basis points: | -2* | +100 | +200 |
|---|---|---|---|
| Change in net interest income | -0.06% | 2.16% | 4.02% |
| Change in market value of equity | 1.20% | -5.08% | -10.39% |

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