



TEXAS FARM CREDIT DISTRICT

# First Quarter Report 2022



## **INTRODUCTION AND TEXAS FARM CREDIT DISTRICT OVERVIEW**

*(Unaudited)*

The Farm Credit Bank of Texas (the Bank) and its related associations, collectively referred to as the Texas Farm Credit District (the District), are part of the Farm Credit System (the System). The System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. The District serves Texas, Alabama, Mississippi, Louisiana and most of New Mexico. As of March 31, 2022, the Bank served one Federal Land Credit Association (FLCA) and 13 Agricultural Credit Associations (ACAs) (collectively referred to as Associations). The Bank also serves certain Other Financing Institutions (OFIs), which are not part of the System.

The U.S. Congress authorized the creation of the first System institutions in 1916 to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to provide sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and certain farm-related businesses. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses. The System is a cooperative structure. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services.

Farm Credit's funds are raised by the Federal Farm Credit Banks Funding Corporation (the Funding Corporation) and insured by the Farm Credit System Insurance Corporation (FCSIC). On behalf of the four System Banks, the Funding Corporation issues a variety of Federal Farm Credit Banks Combined Systemwide Debt Securities with broad ranges of maturities and structures. Each System Bank has exposure to system wide credit risk because it is joint and severally liable for all debt issued by the Funding Corporation. The associations in each district receive funding from their System Bank and, in turn, provide credit to their borrower-shareholders. The associations have specific lending authority within their chartered territories and are subject to examination and regulation by an independent federal agency, the Farm Credit Administration.

The following commentary reviews the District's combined financial statements of condition and results of operations of the District for the three months ended March 31, 2022.

## COMBINED FINANCIAL HIGHLIGHTS

(in thousands)	March 31, 2022	December 31, 2021
Total loans	\$ 34,553,471	\$ 33,175,189
Allowance for loan losses	83,036	85,470
Net loans	34,470,435	33,089,719
Total assets	42,480,939	40,963,826
Total members' equity	5,443,879	5,480,962
<b>Three Months Ended March 31,</b>		
	2022	2021
Net interest income	\$ 272,924	\$ 247,320
(Loan loss reversal) provision for loan losses	(2,509)	(3,289)
Net fee income	10,112	11,283
Net income	171,690	163,883
Net interest margin	2.70%	2.86%
Net loan charge-offs (recoveries) as a percentage of average loans	-	-
Return on average assets (ROA)	1.65	1.81
Return on average shareholders' equity	12.53	12.46
Operating expenses as a percentage of net interest income and noninterest income	42.48	41.05
Average loans	\$ 33,971,959	\$ 29,415,484
Average earning assets	40,973,695	35,121,566
Average total assets	41,945,836	36,110,155

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## 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 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 District was \$171.7 million for the three months ended March 31, 2022, an increase of \$7.8 million, or 4.76%, over the same time period of 2021. The increase in net income was driven by a \$25.6 million increase in net interest income, partially offset by a \$1.1 million decrease in noninterest income, and a \$13.0 million increase in noninterest expense. The return on average assets decreased to 1.59% for the three months ended March 31, 2022, compared to 1.81% reported for the same period of the prior year.

### *Net Interest Income*

Net interest income for the three months ended March 31, 2022 was \$272.9 million, an increase of \$25.6 million, or 10.35%, over the same period of 2021, driven by a \$5.85 billion increase in District average earning assets, offset by a decrease in the net interest rate spread. The increase in earning assets was driven by growth in the associations' loan portfolios, as their borrowers took advantage of the low interest rate environment and the strong economic conditions in the Texas District and growth in the Bank's capital markets loan portfolio and liquidity investment portfolio.

The 14 basis point decrease in the net interest spread from 2.71% to 2.57% was attributable to a 12 basis point decrease in the average rate on earning assets and a 2 basis point increase in the average rate on debt. The net interest rate margin decreased by 16 basis points to 2.70% for the three months ended March 31, 2022, compared to 2.86% for the same period of the prior year. During the first three months of 2022, the Bank called \$125 million in debt and recognized \$173 thousand in accelerated concession expense recognition compared to \$1.43 billion in debt called and \$1.9 million in accelerated concession expense recognition for the same period of 2021. The year-over-year decrease in callable debt redemptions reflect an increase in the overall level of interest rates.

### *Provision for Loan Losses*

The loan loss reversal for the three months ended March 31, 2022, totaled \$2.5 million, a decrease of \$780 thousand from the \$3.3 million loan loss reversal recorded for the same period of 2021. The decrease was due to a \$2.9 million decrease in loan loss reversals at the combined associations, partially offset by a \$2.1 million increase in loan loss reversals at the Bank. The combined associations recorded a loan loss reversal of \$1.6 million for the three months ended March 31, 2022, as compared to a \$4.5 million loan loss reversal for the same period of 2021. For combined associations, the loan loss reversal for the three months ended March 31, 2022, was mainly due to an overall improvement in credit quality and improved cotton and cattle prices. The Bank recorded a loan loss reversal of \$865 thousand as compared to a \$1.2 million provision for loan losses for the same period of 2021. The loan loss reversal recorded for the three months ended March 31, 2022, was mainly driven by the improvement in credit quality on a borrower within the electric utility sector, net of an increase in general provision from capital markets loan growth.

### *Noninterest Income*

Noninterest income for the three months ended March 31, 2022, was \$21.2 million, a decrease of \$4.1 million, or 16.04%, compared to the same period of 2021. The decrease was mainly due to a \$6.8 million decrease in Rural Business Investment Companies (RBICs) valuation adjustments resulting from losses on investments, partially offset by a \$3.2 million increase in patronage income.

### *Noninterest Expense*

Noninterest expense for the three months ended March 31, 2022, totaled \$125.0 million, an increase of \$13.1 million, or 11.68%, from the same period of 2021. The increase in noninterest expense was driven by a \$6.6 million increase in salaries and employee benefits, a \$1.6 million increase in FCSIC insurance expense, a \$4.5 million increase in other operating expenses, and a \$1.1 million increase in occupancy and equipment.

## Loan Portfolio

District Loans by Loan Type		
(in thousands)	March 31, 2022	December 31, 2021
Real estate mortgage	\$ 21,306,273	\$ 20,906,907
Production and intermediate-term	3,859,529	4,021,114
Agribusiness:		
Loans to cooperatives	976,804	610,130
Processing and marketing	4,566,436	4,134,282
Farm-related business	599,946	557,816
Communications	994,696	926,645
Energy (rural utilities)	1,426,561	1,349,722
Water and waste disposal	185,222	164,665
Rural residential real estate	290,010	287,703
International	229,971	94,384
Mission-related	40,080	41,758
Loans to other financing institutions (OFIs)	38,261	39,067
Lease receivables	39,682	40,996
<b>Total loans</b>	<b>\$ 34,553,471</b>	<b>\$ 33,175,189</b>

The District loan portfolio consists of retail loans only. The Bank's loans to the District Associations, also referred to as direct notes, have been eliminated in the combined financial statements. Total loan volume at March 31, 2022, was \$34.56 billion, an increase of \$1.38 billion, or 4.15%, from the \$33.18 billion loan portfolio balance at December 31, 2021. The loan volume increase of \$1.38 billion during the first three months of 2022 was driven by a \$595.6 million increase in the District Associations' loan portfolios and a \$782.6 million increase in the Bank's capital markets loan portfolio.

The Bank's capital markets loan portfolio, also referred to as 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's Associations, which may exceed their hold limits, the Bank seeks the purchase of participations and syndications originated outside of the district's territory by other System institutions, commercial banks and other lenders. These loans may be held as earning assets of the Bank or sub-participated to the District Associations or other System entities.

## Loan Quality

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

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

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

<b>District Loan Quality</b>		
	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Acceptable	<b>98.0%</b>	97.8%
OAEM (special mention)	<b>1.2</b>	1.3
Substandard/doubtful	<b>0.8</b>	0.9
Total	<b>100.0%</b>	100.0%

Overall credit quality in the District and at the District Associations remained strong at March 31, 2022. Loans classified as acceptable or OAEM as a percentage of total loans and accrued interest receivable were 99.2% and 99.1% at March 31, 2022 and December 31, 2021, respectively.

<b>Nonperforming Assets</b>		
(in thousands)	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Nonaccrual loans:		
Real estate mortgage	\$ 49,969	\$ 44,826
Production and intermediate-term	14,470	13,572
Agribusiness	1,940	2,005
Energy (rural utilities)	22,952	25,090
Rural residential real estate	807	880
Leases	321	-
Mission-related	1	1
Total nonaccrual loans	\$ 90,460	\$ 86,374
Accruing restructured loans:		
Real estate mortgage	\$ 20,061	\$ 21,579
Production and intermediate-term	3,073	3,190
Agribusiness	1,736	-
Rural residential real estate	108	118
Mission-related	5,006	4,930
Total accruing restructured loans	\$ 29,984	\$ 29,817
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 3,098	\$ 478
Production and intermediate-term	305	2,810
Leases	290	-
Mission-related	331	-
Total accruing loans 90 days or more past due	\$ 4,024	\$ 3,288
Total nonperforming loans	\$ 124,468	\$ 119,479
Other property owned	2,113	2,479
Total nonperforming assets	\$ 126,581	\$ 121,958

The District's nonperforming loans are composed of nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due, and are also referred to as impaired loans. Nonperforming assets consist of nonperforming loans and other property owned (OPO). Total nonperforming assets have increased by \$4.6 million, or 3.79%, from \$122.0 million at December 31, 2021, compared to \$126.6 million at March 31, 2022.

At March 31, 2022, \$39.4 million, or 43.59%, of loans classified as nonaccrual were current as to principal and interest, compared to \$39.4 million, or 45.58%, of nonaccrual loans at December 31, 2021.

The following table provides an age analysis of the District's loan portfolio (including accrued interest):

<b>Aging Analysis of Loans (in thousands)</b>					
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
<b>March 31, 2022</b>					
Real estate mortgage	\$ 99,261	\$ 24,285	\$ 123,546	\$ 21,338,340	\$ 21,461,886
Production and intermediate-term	14,245	7,300	21,545	3,865,595	3,887,140
Agribusiness	7,339	-	7,339	6,155,677	6,163,016
Communications	-	-	-	995,245	995,245
Energy (rural utilities)	-	16,069	16,069	1,416,222	1,432,291
Water and waste disposal	-	-	-	185,679	185,679
Rural residential real estate	1,909	380	2,289	288,674	290,963
International	-	-	-	230,176	230,176
Mission-related	4,388	332	4,720	35,749	40,469
Loans to OFIs	-	-	-	38,326	38,326
Lease receivables	321	290	611	39,245	39,856
<b>Total loans</b>	<b>\$ 127,463</b>	<b>\$ 48,656</b>	<b>\$ 176,119</b>	<b>\$ 34,588,928</b>	<b>\$ 34,765,047</b>
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
<b>December 31, 2021</b>					
Real estate mortgage	\$ 96,715	\$ 16,372	\$ 113,087	\$ 20,957,168	\$ 21,070,255
Production and intermediate-term	9,506	8,391	17,897	4,031,456	4,049,353
Agribusiness	1,160	-	1,160	5,319,239	5,320,399
Communications	-	-	-	927,018	927,018
Energy (rural utilities)	-	16,069	16,069	1,338,264	1,354,333
Water and waste disposal	-	-	-	165,506	165,506
Rural residential real estate	2,263	399	2,662	285,906	288,568
International	-	-	-	94,540	94,540
Mission-related	246	1	247	41,849	42,096
Loans to OFIs	-	-	-	39,125	39,125
Lease receivables	167	-	167	40,997	41,164
<b>Total loans</b>	<b>\$ 110,057</b>	<b>\$ 41,232</b>	<b>\$ 151,289</b>	<b>\$ 33,241,068</b>	<b>\$ 33,392,357</b>

A summary of changes in the allowance for loan losses and period-end recorded investment in loans is as follows:

(in thousands)	Real Estate Mortgage	Production and Intermediate- Term	Agri- business	Communi- cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Mission- Related	Loans to OFIs	Lease Receivables	Total
<b>Allowance for Loan Losses:</b>											
Balance at December 31, 2021	\$ 44,490	\$ 15,495	\$ 14,701	\$ 824	\$ 9,296	\$ 313	\$ 90	\$ 128	\$ -	\$ 133	\$ 85,470
(Loan loss reversal) provision for											
loan losses	474	(858)	833	109	(3,058)	5	3	-	-	(17)	(2,509)
Recoveries	36	403	1	-	-	-	-	-	-	-	440
Charge-offs	(76)	(1)	-	-	-	-	-	-	-	-	(77)
Other*	(10)	(350)	80	(9)	(2)	-	2	-	-	1	(288)
Balance at March 31, 2022	\$ 44,914	\$ 14,689	\$ 15,615	\$ 924	\$ 6,236	\$ 318	\$ 95	\$ 128	\$ -	\$ 117	\$ 83,036

Individually evaluated for impairment	\$ 2,257	\$ 1,427	\$ 368	\$ -	\$ 5,325	\$ 7	\$ -	\$ 126	\$ -	\$ -	\$ 9,510
Collectively evaluated for impairment	42,657	13,262	15,247	924	911	311	95	2	-	117	73,526
Balance at March 31, 2022	\$ 44,914	\$ 14,689	\$ 15,615	\$ 924	\$ 6,236	\$ 318	\$ 95	\$ 128	\$ -	\$ 117	\$ 83,036

**Recorded Investments in Loans Outstanding:**

Balance at March 31, 2022

Loans individually evaluated for impairment	\$ 76,264	\$ 17,844	\$ 3,675	\$ -	\$ 22,952	\$ 955	\$ -	\$ 5,338	\$ -	\$ 611	\$ 127,639
Loans collectively evaluated for impairment	21,385,622	3,869,296	6,159,341	995,245	1,595,018	290,008	230,176	35,131	38,326	39,245	34,637,408
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2022	\$ 21,461,886	\$ 3,887,140	\$ 6,163,016	\$ 995,245	\$ 1,617,970	\$ 290,963	\$ 230,176	\$ 40,469	\$ 38,326	\$ 39,856	\$ 34,765,047

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

(in thousands)	Real Estate Mortgage	Production and Intermediate- Term	Agri- business	Communi- cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	Mission- Related	Loans to OFIs	Lease Receivables	Total
<b>Allowance for Loan Losses:</b>										
Balance at December 31, 2020	\$ 49,204	\$ 24,214	\$ 16,354	\$ 864	\$ 2,867	\$ 391	\$ 124	\$ -	\$ 450	\$ 94,468
(Loan loss reversal) provision for										
loan losses	(2,192)	(4,870)	(361)	34	4,165	(7)	3	-	(61)	(3,289)
Recoveries	20	560	-	-	-	-	-	-	-	580
Charge-offs	(18)	(171)	(789)	-	-	-	-	-	-	(978)
Other*	17	(20)	258	5	(47)	-	-	-	(1)	212
Balance at March 31, 2021	\$ 47,031	\$ 19,713	\$ 15,462	\$ 903	\$ 6,985	\$ 384	\$ 127	\$ -	\$ 388	\$ 90,993

Individually evaluated for impairment	\$ 1,998	\$ 1,900	\$ 368	\$ -	\$ 3,486	\$ 32	\$ 120	\$ -	\$ -	\$ 7,904
Collectively evaluated for impairment	45,033	17,813	15,094	903	3,499	352	7	-	388	83,089
Balance at March 31, 2021	\$ 47,031	\$ 19,713	\$ 15,462	\$ 903	\$ 6,985	\$ 384	\$ 127	\$ -	\$ 388	\$ 90,993

**Recorded Investments in Loans Outstanding:**

Balance at March 31, 2021

Loans individually evaluated for impairment	\$ 86,577	\$ 26,606	\$ 3,050	\$ -	\$ 11,575	\$ 852	\$ 6,108	\$ -	\$ -	\$ 134,768
Loans collectively evaluated for impairment	18,295,981	3,542,083	5,131,641	880,374	1,599,423	273,195	63,511	40,025	33,989	29,860,222
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2021	\$ 18,382,558	\$ 3,568,689	\$ 5,134,691	\$ 880,374	\$ 1,610,998	\$ 274,047	\$ 69,619	\$ 40,025	\$ 33,989	\$ 29,994,990

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

Loans, net of the allowance for loan losses, represented 81.14% of total assets at March 31, 2022, and 80.78% as of December 31, 2021.

## Investments

The Bank is responsible for meeting the District's funding, liquidity and asset/liability management needs. While access to the unsecured debt capital markets remains the District's primary source of liquidity, the Bank also maintains a secondary source of liquidity through a high-quality investment portfolio and other short-term liquid assets. The Bank typically holds these investments on an available-for-sale basis. Refer to the Bank's 2021 annual report for additional description of the types of investments and maturities. Additionally, the District Associations have regulatory authority to enter into certain guaranteed investments that are typically mortgage-backed or asset-backed securities.

Investment Information							
(in thousands)		Amortized		Unrealized		Fair	
March 31, 2022		Cost		Gains		Losses	Value
Bank investments	\$	6,914,966	\$	3,165	\$	(258,468)	\$ 6,659,663
District Association investments		127,358		768		(229)	127,897
Total District investments	\$	7,042,324	\$	3,933	\$	(258,697)	\$ 6,787,560

		Amortized		Unrealized		Unrealized	Fair
December 31, 2021		Cost		Gains		Losses	Value
Bank investments	\$	6,590,103	\$	30,202	\$	(60,066)	\$ 6,560,239
District Association investments		120,735		888		(110)	121,513
Total District investments	\$	6,710,838	\$	31,090	\$	(60,176)	\$ 6,681,752

The District Associations' investments in the preceding tables include held-to-maturity securities with an amortized cost of \$4.9 million, an unrealized loss of \$39 thousand, and a fair value of \$4.9 million as of March 31, 2022, and an amortized cost of \$6.1 million, an unrealized gain of \$108 thousand, and a fair value of \$6.3 million as of December 31, 2021. These securities are reported at amortized cost and included in investment securities on the balance sheets.

## Capital Resources

The District's equity totaled \$5.44 billion at March 31, 2022, including \$1.05 billion in preferred stock, \$72.5 million in capital stock and participation certificates, \$4.44 billion in retained earnings and \$222.0 million in additional paid-in-capital, offset by accumulated other comprehensive loss of \$339.3 million.

Borrower equity purchases required by District Association capitalization bylaws, combined with a history of growth in retained earnings at District institutions, have resulted in district institutions being able to maintain strong capital positions. The \$5.44 billion capital position of the District at March 31, 2022, reflected a decrease of 0.68% over the December 31, 2021, capital position of \$5.48 billion. This decrease was attributable to year-to-date net income of \$171.7 million and \$545 thousand in capital stock and allocated equities issued, offset by estimated patronage payments of \$13.0 million, a \$180.5 million increase in accumulated other comprehensive loss, and dividends accrued and paid on preferred stock of \$4.7 million.

Following is a summary of the components of accumulated other comprehensive loss:

### Accumulated Other Comprehensive Loss

(in thousands)	March 31, 2022	December 31, 2021
Unrealized losses on investment securities	\$ (254,724)	\$ (29,194)
Derivatives and hedging position	(22,528)	(66,199)
Employee benefit plan position	(62,076)	(63,405)
Total Accumulated Other Comprehensive Loss	\$ (339,328)	\$ (158,798)

Accumulated other comprehensive loss totaled \$339.3 million at March 31, 2022, an increase of \$180.5 million from December 31, 2021. The increase in accumulated other comprehensive losses was driven by a \$225.5 million increase in unrealized losses on the Bank's available-for-sale investments, offset by a \$43.7 million decrease in unrealized losses on cash flow derivative hedges resulting from changes in the valuation of interest rate swaps the Bank and a \$1.3 million decrease in unrealized losses on pension and other postretirement benefit plans. All changes are primarily attributable to increases in interest rates.

The Farm Credit Administration sets minimum regulatory capital requirements for System Banks and associations.

### Regulatory Capital Requirements and Ratios

As of March 31, 2022	Primary Components of Numerator	Regulatory Minimums with Buffers	Bank	District Associations
<b>Risk adjusted:</b>				
Common equity tier 1 capital ratio	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity) <sup>1</sup>	7.00%	8.44%	9.63% - 18.67%
Tier 1 capital ratio	CET1 capital, noncumulative perpetual preferred stock	8.50%	13.65%	10.99% - 18.67%
Total capital ratio	Tier 1 capital, allowance for loan losses <sup>2</sup> , common cooperative equities <sup>3</sup> and term preferred stock and subordinated debt <sup>4</sup>	10.50%	13.74%	11.16% - 19.12%
Permanent capital ratio	Retained earnings, common stock, noncumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.00%	13.66%	11.01% - 18.76%
<b>Non-risk adjusted:</b>				
Tier 1 leverage ratio *	Tier 1 capital	5.00%	5.81%	10.02% - 17.10%
UREE leverage ratio	URE and URE equivalents	1.50%	2.18%	5.96% - 18.28%

\* Must include the regulatory minimum requirements for the URE and UREE leverage ratio

<sup>1</sup> Equities outstanding 7 or more years

<sup>2</sup> Capped at 1.25% of risk-adjusted assets

<sup>3</sup> Outstanding 5 or more years, but less than 7 years

<sup>4</sup> Outstanding 5 or more years

**Combined Balance Sheets**  
(Unaudited)

(in thousands)	March 31, 2022	December 31, 2021
<b>ASSETS</b>		
Cash	\$ 202,702	\$ 160,593
Federal funds sold and overnight investments	188,441	194,223
Investment securities	6,787,598	6,681,644
Loans	34,553,471	33,175,189
Less allowance for loan losses	83,036	85,470
Net loans	34,470,435	33,089,719
Accrued interest receivable	222,023	226,266
Premises and equipment, net	265,933	264,404
Other assets	343,807	346,977
Total assets	\$ 42,480,939	\$ 40,963,826
<b>LIABILITIES</b>		
Bonds and notes	\$ 36,448,642	\$ 34,640,428
Accrued interest payable	78,316	65,388
Patronage distributions payable	24,372	248,718
Preferred stock dividends payable	11,600	11,600
Other liabilities	474,130	516,730
Total liabilities	\$ 37,037,060	\$ 35,482,864
<b>MEMBERS' EQUITY</b>		
Preferred stock	\$ 1,050,000	\$ 1,050,000
Capital stock and participation certificates	72,494	72,262
Allocated retained earnings	944,320	944,007
Unallocated retained earnings	3,494,367	3,351,465
Additional paid-in-capital	222,026	222,026
Accumulated other comprehensive loss	(339,328)	(158,798)
Total members' equity	\$ 5,443,879	\$ 5,480,962
Total liabilities and members' equity	\$ 42,480,939	\$ 40,963,826

**Combined Statements of Income**  
(Unaudited)

(in thousands)	March 31, 2022	March 31, 2021
<b>INTEREST INCOME</b>		
Investment securities	\$ 21,361	\$ 20,022
Loans	341,290	301,156
Total interest income	\$ 362,651	\$ 321,178
<b>INTEREST EXPENSE</b>		
Bonds and notes	82,310	66,498
Notes payable and other	7,417	7,360
Total interest expense	\$ 89,727	\$ 73,858
Net interest income	\$ 272,924	\$ 247,320
(Loan loss reversal) provision for loan losses	(2,509)	(3,289)
Net interest income after (loan loss reversal) provision for loan losses	\$ 275,433	\$ 250,609
<b>NONINTEREST INCOME</b>		
Patronage income	9,101	5,869
Fees for loan-related services	10,112	11,283
Other income, net	2,010	8,125
Total noninterest income	\$ 21,223	\$ 25,277
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	67,000	60,356
Occupancy and equipment	16,133	15,057
Purchased services	11,298	12,187
Farm Credit System Insurance Corporation expense	12,210	10,625
Other operating expenses	18,315	13,666
Total noninterest expense	\$ 124,956	\$ 111,891
Income before income taxes	171,700	163,995
Provision for income taxes	10	112
<b>Net income</b>	\$ 171,690	\$ 163,883

## Select Information On District Associations

(in thousands)

As of March 31, 2022	Direct Notes	% of Total Direct Notes	Total Assets	Total Allowance and Capital	Total Capital Ratio	Nonperforming Loans as a % of Total Loans	Annualized ROA
Ag New Mexico, Farm Credit Services, ACA	\$ 292,274	1.30%	\$ 350,445	\$ 52,459	13.26%	0.66%	1.33%
AgTexas Farm Credit Services	2,411,393	11.16%	2,860,264	415,663	13.68%	0.62%	2.01%
Alabama Ag Credit, ACA	1,064,176	4.64%	1,291,447	224,302	15.83%	0.63%	1.73%
Alabama Farm Credit, ACA	947,394	4.10%	1,097,191	144,916	12.50%	0.70%	1.52%
Capital Farm Credit, ACA	9,283,574	40.11%	11,128,461	1,722,630	13.47%	0.46%	2.60%
Central Texas Farm Credit, ACA	537,351	2.35%	660,833	124,171	16.63%	0.29%	1.76%
Heritage Land Bank, ACA	567,123	2.57%	675,587	103,717	14.18%	0.02%	1.51%
Legacy Ag Credit, ACA	300,302	1.29%	366,245	64,791	19.12%	0.99%	1.41%
Lone Star, ACA	2,001,521	8.59%	2,419,795	407,036	15.31%	0.12%	2.32%
Louisiana Land Bank, ACA	859,319	3.80%	1,046,812	181,261	15.45%	0.70%	1.84%
Mississippi Land Bank, ACA	790,455	3.56%	956,889	154,150	14.36%	0.28%	1.61%
Plains Land Bank, FLCA	776,191	3.40%	934,814	147,875	14.31%	0.23%	2.31%
Southern AgCredit, ACA	1,118,465	4.98%	1,343,840	203,402	13.81%	0.22%	1.81%
Texas Farm Credit Services	1,862,793	8.16%	2,145,762	249,459	11.16%	0.50%	2.08%
<b>Totals</b>	<b>\$ 22,812,331</b>	<b>100.00%</b>	<b>\$ 27,278,385</b>	<b>\$ 4,195,832</b>			

## District Contact Information

Name of Entity	Headquarters Location	Contact Number	Website
Ag New Mexico, Farm Credit Services, ACA	4501 N. Prince Street, Clovis, New Mexico 88101	575-762-3828	www.agnewmexico.com
AgTexas Farm Credit Services	5004 N. Loop 289, Lubbock, Texas 79416	806-687-4068	www.agtexas.com
Alabama Ag Credit, ACA	7480 Halcyon Pointe Drive, Suite 201, Montgomery, Alabama 36117	334-270-8687	www.alabamaagcredit.com
Alabama Farm Credit, ACA	300 2nd Avenue SW, Cullman, Alabama 35055	256-737-7128	www.alabamafarmcredit.com
Capital Farm Credit, ACA	3000 Briarcrest Drive, Suite 601, Bryan, Texas 77802	979-822-3018	www.capitalfarmcredit.com
Central Texas Farm Credit, ACA	1026 Early Boulevard, Early, Texas 76802	325-643-5563	www.ranchmoney.com
Farm Credit Bank of Texas	4801 Plaza on the Lake Drive, Austin, Texas 78746	512-465-0400	www.farmcreditbank.com
Heritage Land Bank, ACA	4608 Kinsey Drive, Suite 100, Tyler, Texas 75703	903-534-4975	www.heritagelandbank.com
Legacy Ag Credit, ACA	303 Connally Street, Sulphur Springs, Texas 75482	903-885-9566	www.legacyaca.com
Lone Star, ACA	1612 Summit Avenue, Suite 300, Fort Worth, Texas 76102	817-332-6565	www.lonestaragcredit.com
Louisiana Land Bank, ACA	2413 Tower Drive, Monroe, Louisiana 71201	318-387-7535	www.louisianalandbank.com
Mississippi Land Bank, ACA	5509 Highway 51 North, Senatobia, Mississippi 38668	662-562-9671	www.mslandbank.com
Plains Land Bank, FLCA	1616 S. Kentucky Street, Suite C-250, Amarillo, TX 79102	806-331-0926	www.plainslandbank.com
Southern AgCredit, ACA	402 West Parkway Place, Ridgeland, Mississippi 39157	601-499-2820	www.southernagcredit.com
Texas Farm Credit Services	545 S. Highway 77, Robstown, Texas 78380	361-387-8563	www.texasfarmcredit.com