Texas Farm Credit District

Second 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 June 30, 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 systemwide 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 and six months ended June 30, 2022.

COMBINED FINANCIAL HIGHLIGHTS

(in thousands)	June 30, 2022	December 31, 2021
Total loans	**$ 35,096,413**	$ 33,175,189
Allowance for loan losses	**84,587**	85,470
Net loans	**35,011,826**	33,089,719
Total assets	**43,273,872**	40,963,826
Total members' equity	**5,490,747**	5,480,962

Six Months Ended June 30	2022	2021
Net interest income	**$ 548,340**	$ 497,025
Provision for loan losses (loan loss reversal)	**319**	(7,736)
Net fee income	**20,380**	24,949
Net income	**337,441**	322,836
Net interest margin	**2.67 %**	2.81 %
Net loan charge-offs (recoveries) as a percentage of average loans	**— %**	— %
Return on average assets (ROA)	**1.60 %**	1.76 %
Return on average shareholders' equity (ROE)	**12.30 %**	12.04 %
Operating expenses as a percentage of net interest income and noninterest income	**42.68 %**	41.88 %
Average loans	**$ 34,916,308**	$ 29,813,935
Average interest earning assets	**41,847,344**	35,612,996
Average total assets	**42,833,814**	36,585,394

MANAGEMENT'S DISCUSSION AND ANALYSIS

(dollars in thousands, except as noted)

CONDITIONS IN THE TEXAS DISTRICT

Throughout the pandemic, the Texas District 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. Despite these turbulent times, credit quality in the Texas District has remained strong. However, after a prolonged pandemic period that has been characterized by both supply chain disruptions and geopolitical conflicts which have impacted the availability and prices of relevant agricultural inputs, volatility in risk ratings is likely in future periods.

Inflationary pressures continued during the second quarter of 2022. The Consumer Price Index for All Urban Consumers increased by 8.6% for the 12-month period ending May 2022 reflecting the largest 12-month increase since December 1981. The largest contributors to the overall increase continue to be rising prices for gasoline, shelter and food. Similarly, the Consumer Price Index for All Urban Consumers Less Food and Energy rose 6.0% for the 12-month period ending May 2022. Consequently, the Federal Open Market Committee (FOMC) increased the target Federal funds rate by a total of 150 basis points during the first half of 2022, including a 75 basis point increase in June. As of June 30, 2022, the Federal funds target rate range is 1.50-1.75%. The FOMC anticipates that ongoing increases in the target rate range will be appropriate during the remainder of 2022.

On June 29, 2022, the U.S. Bureau of Economic Analysis (BEA) estimated that national real GDP decreased at an annual rate of 1.6% in the first quarter of 2022, down from an increase of 6.9% in the fourth quarter of 2021. BEA also stated that corporate profits decreased by about 2.2% in the first quarter of 2022 after increasing by about 0.7% in the fourth quarter of 2021. Private goods-producing industries decreased 6.9% while private services-producing industries decreased 0.8%. On July 1, 2022, the Federal Reserve Bank of Atlanta's GDPNow model estimated that national real GDP decreased during the second quarter of 2022 by approximately 2.1%. On June 30, 2022, the BEA released its estimates of state GDP growth rates. In the Texas District, estimated real GDP growth during the first quarter of 2022 ranged from a low of -4.7% in New Mexico to -1.3% in Mississippi. Real GDP decreased in 46 states and the District of Columbia during the first quarter of 2022.

The quarterly average West Texas Intermediate (WTI) oil price was nearly $109 per barrel (/bbl) during the second quarter of 2022, representing an increase of about 15.0% compared to the prior quarter, and an increase of over 64.0% compared to the same period last year. Additionally, during the second quarter of 2022, the WTI price averaged more than double the breakeven price to profitably drill a new well in the Permian Basin (about $52/bbl per the Q1 2022 Federal Reserve Bank of Dallas Energy Survey). Similarly, in its June 2022 Short-Term Energy Outlook, the U.S. Energy Information Administration forecasted that the monthly WTI spot price would average about $102/bbl during 2022, before declining to about $93/bbl in 2023.

Texas and New Mexico, along with much of the Southwest, are being negatively impacted by severe drought conditions. As of early July, about three-quarters of the land area in Texas was experiencing a drought categorized as severe, extreme or exceptional. More than 85 percent of the land area in New Mexico was experiencing similar conditions. According to the National Weather Service Climate Prediction Center, above-normal temperatures and below-normal precipitation are likely to continue to impact these areas for at least the next 90 days.

On June 30, 2022, the U.S. Department of Agriculture (USDA) released an update to the 2022 Prospective Plantings report. Corn-planted area was estimated at 89.9 million acres for 2022, down about 4.0% from the prior year, but slightly revised upward from the prior quarter estimate. Soybeans-planted acreage was estimated at 88.3 million acres for 2022, up about 1.0% from the 2021 season, and revised down 2.7 million acres from the prior quarter estimate. Cotton-planted area was estimated at 12.5 million acres for 2022, 11.0% above last year's planted area and slightly revised upward from the prior quarter estimate. These estimates were derived from a survey of farmers' intentions and are subject to change throughout the season.

In its June 2022 World Agricultural Supply and Demand Estimates, the USDA projects that average farm prices for corn, soybeans and wheat will experience double-digit year-over-year (YOY) growth during the 2022/23 season, with the latter increasing as much as 40.0%. After rising by nearly 39.0% during the 2021/22 season, cotton farm prices are projected to increase by about 3.0% YOY during the 2022/23 season. The average milk price is projected to decrease by approximately 9.0% in 2023 after rising by about 41.0% in 2022. For barrows and gilts, steers, and broilers, the USDA projects that average prices will increase by approximately 4.9%, 14.5% and 52.7%, respectively, during 2022. Random-length lumber future prices declined quarter-over-quarter by about 34.0% during the second quarter of 2022, as interest rates began to rapidly rise and builders' confidence, measured by the National Home Builders Association/Wells Fargo's Housing Market Index, continued to deteriorate.

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, economic slowdown, 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.

During 2022, the Bank in its role as an information technology provider to its affiliated Associations continued to modernize and roll out its service offering branded FarmView. FarmView is an integrated suite of products for managing the full lending relationship. The suite of products includes sales management, origination, credit analysis, loan accounting, integrated cash management, and document management solutions. The FarmView platform provides benefits directly to the converted Associations as well as their underlying retail borrowers. During the second quarter of 2022 the Bank converted one of its larger associations onto FarmView from its legacy platforms, and is focused on training and conversion related activities for the next conversion during the remainder of 2022.

Results of Operations

Net Income

Net income for the District was $165.8 million for the three months ended June 30, 2022, an increase of $6.8 million, or 4.28%, over the same period of 2021. The increase in net income was driven by a $25.7 million increase in net interest income, partially offset by a $11.3 million increase in noninterest expense, a $7.3 million increase in the provision for credit losses, and a $551 thousand decrease in noninterest income.

Net income for the District was $337.4 million for the six months ended June 30, 2022, an increase of $14.6 million, or 4.52%, over the same period of 2021. The increase in net income was driven by a $51.3 million increase in net interest income, partially offset by a $24.3 million increase in noninterest expense, an $8.1 million increase in the provision for credit losses, and a $4.6 million decrease in noninterest income.

Net Interest Income

Net interest income for the three months ended June 30, 2022 was $275.4 million, an increase of $25.7 million, or 10.30%, over the same period of 2021, driven by a $6.23 billion increase in District average earning assets, partially offset by a decrease in the net interest rate spread. The increase in earning assets was driven by growth in the Associations' loan portfolios and the strong economic conditions in the Texas District and growth in the Bank's capital markets loan portfolio and liquidity investment portfolio.

The decrease in the net interest spread of 18 basis points during the three months ended June 30, 2022 from 2.66% to 2.48% was attributable to a 30 basis point increase in the average rate on debt, partially offset by a 12 basis point increase in the average rate on interest earning assets. Net interest rate margin decreased by 17 basis points to 2.64% for the three months ended June 30, 2022 compared to 2.81% for the same period of 2021. The Bank did not call any debt during the three months ended June 30, 2022 compared to $845.0 million in debt called and $1.1 million in accelerated concession expense recognition for the same period of 2021. The decrease in callable debt redemptions as compared to the prior year quarter reflects an increase in the overall level of interest rates.

Net interest income for the six months ended June 30, 2022 was $548.3 million, an increase of $51.3 million, or 10.32%, over the same period of 2021, driven by a $5.80 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 due to the strong economic conditions in the Texas District and growth in the Bank's capital markets loan portfolio and liquidity investment portfolio.

The 15 basis point decrease in the net interest spread during the six months ended June 30, 2022 from 2.67% to 2.52% was attributable to a 18 basis point increase in the average rate on debt, partially offset by a 3 basis point increase in the average rate on interest earning assets. The net interest rate margin decreased by 14 basis points to 2.67% for the six months ended June 30, 2022 compared to 2.81% for the same period of 2021. During the six months ended June 30, 2022, the Bank called $125.0 million in debt and recognized $173 thousand in accelerated concession expense recognition compared to $2.27 billion in debt called and $3.0 million in accelerated concession expense recognition for the same period of 2021. The decrease in callable debt redemptions as compared to the prior year quarter reflects an increase in the overall level of interest rates.

Provision for Loan Losses

The provision for credit losses for the three months ended June 30, 2022, totaled $2.8 million, an increase of $7.3 million from the loan loss reversal of $4.4 million recorded for the same period of 2021. The combined Associations recorded a provision for credit losses of $1.9 million for the three months ended June 30, 2022, as compared to a loan loss reversal of $5.8 million for the same period of 2021. For the combined Associations, the provision for credit losses for the three months ended June 30, 2022 reflects stress in the dairy, corn and cotton industries and drought conditions in parts of Texas as well as an increase in quantitative general reserves due to loan growth. The Bank recorded a provision for credit losses of $905 thousand for the three months ended June 30, 2022 as compared to $1.4 million for the same period of 2021. The provision for credit losses for the Bank for the three months ended June 30, 2022 primarily reflects credit deterioration on selected borrowers as well as an increase in quantitative general reserves due to loan growth.

The provision for credit losses for the six months ended June 30, 2022, totaled $319 thousand, an increase of $8.1 million from the loan loss reversal of $7.7 million recorded for the same period of 2021. The combined Associations recorded a provision for credit losses of $279 thousand for the six months ended June 30, 2022, as compared to a loan loss reversal of $10.4 million for the same period of 2021. The Bank recorded a provision for credit losses of $40 thousand for the six months ended June 30, 2022 compared to $2.6 million for the same period of 2021. The provision for credit losses recorded for the six months ended June 30, 2022 for the Bank reflects an increase in quantitative general reserves due to loan growth, which was largely offset by the impact of overall improvements in credit quality during the year-to-date period.

Noninterest Income

Noninterest income for the three months ended June 30, 2022 was $19.9 million, a decrease of $551 thousand, or 2.70%, compared to the same period of 2021.

Noninterest income for the six months ended June 30, 2022 was $41.1 million, a decrease of $4.6 million, or 10.08%, compared to the same period of 2021. The decrease was mainly due to a $4.6 million decrease in fees for loan-related services due to lower prepayment fees as the loan prepayment rate has decreased from the rising interest rate environment as well as a $4.8 million decrease in other income during the six months ended June 30, 2022, partially offset by a $4.8 million increase in patronage income.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2022, totaled $126.7 million, an increase of $11.3 million, or 9.78%, from the same period of 2021. The increase in noninterest expense for the three months ended June 30, 2022 was primarily driven by an $8.4 million increase in FCSIC insurance expense due to a retroactive rate increase of 4 basis points to January of 2022 with notification received in June, a $3.4 million increase in other operating expenses , partially offset by a $1.1 million decrease in purchased services.

Noninterest expense for the six months ended June 30, 2022 totaled $251.6 million, an increase of $24.3 million, or 10.71%, from the same period of 2021. The increase in noninterest expense for the six months ended June 30, 2022 was driven by a $10.0 million increase in FCSIC insurance expense due to a retroactive rate increase of 4 basis points to January of 2022 with notification received in June, an $8.0 million increase in other operating expenses, a $6.9 million increase in salaries and employee benefits, and a $1.4 million increase in occupancy and equipment, partially offset by a $2.0 million decrease in purchased services.

Loan Portfolio

The following table summarizes District loans by loan type:

	June 30, 2022	December 31, 2021
Real estate mortgage	**$ 21,803,052**	$ 20,906,907
Production and intermediate-term	**3,991,057**	4,021,114
Agribusiness:		
Loans to cooperatives	**851,798**	610,130
Processing and marketing	**4,655,322**	4,134,282
Farm-related business	**663,583**	557,816
Communications	**1,019,456**	926,645
Energy (rural utilities)	**1,370,269**	1,349,722
Water and waste disposal	**233,462**	164,665
Rural residential real estate	**290,844**	287,703
International	**94,394**	94,384
Mission-related	**38,033**	41,758
Loans to other financing institutions (OFIs)	**46,117**	39,067
Lease receivables	**39,026**	40,996
Total loans	**$ 35,096,413**	$ 33,175,189

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 District loan volume at June 30, 2022 was $35.10 billion, an increase of $1.92 billion, or 5.79%, from the $33.18 billion loan portfolio balance at December 31, 2021. The loan volume increase during the six months ended June 30, 2022 was driven by a $1.28 billion increase in the District Associations’ loan portfolios and a $638.6 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. 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 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 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:

	June 30, 2022	**December 31, 2021**
Acceptable	**97.9%**	97.8%
OAEM (special mention)	**1.2**	1.3
Substandard/doubtful	**0.9**	0.9
Total	**100.0%**	100.0%

Overall credit quality in the District and at the District Associations remained strong at June 30, 2022. Loans classified as acceptable or OAEM as a percentage of total loans and accrued interest receivable were 99.1% at both June 30, 2022 and December 31, 2021.

The table below summarizes the balances of the District's nonperforming assets at June 30, 2022 and December 31, 2021.

	June 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	**$ 73,845**	$ 44,826
Production and intermediate-term	**24,584**	13,572
Agribusiness	**—**	2,005
Energy (rural utilities)	**22,513**	25,090
Rural residential real estate	**439**	880
Leases	**1,337**	—
Mission-related	**6**	1
Total nonaccrual loans	**122,724**	86,374
Accruing restructured loans:		
Real estate mortgage	**21,672**	21,579
Production and intermediate-term	**3,079**	3,190
Agribusiness	**1,736**	—
Rural residential real estate	**122**	118
Mission-related	**4,016**	4,930
Total accruing restructured loans	**30,625**	29,817
Accruing loans 90 days or more past due:		
Real estate mortgage	**2,719**	478
Production and intermediate-term	**287**	2,810
Mission-related	**4,769**	—
Total accruing loans 90 days or more past due	**7,775**	3,288
Total nonperforming loans	**161,124**	119,479
Other property owned	**1,126**	2,479
Total nonperforming assets	**$ 162,250**	$ 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 $40.3 million, or 33.04%, from $122.0 million at December 31, 2021 compared to $162.3 million at June 30, 2022.

At June 30, 2022, $60.0 million, or 48.91%, 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.

June 30, 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**
Real estate mortgage	**$ 87,851**	**$ 27,091**	**$ 114,942**	**$ 21,853,227**	**$ 21,968,169**
Production and intermediate-term	**21,059**	**4,639**	**25,698**	**3,996,174**	**4,021,872**
Agribusiness	**122**	**—**	**122**	**6,196,193**	**6,196,315**
Communications	**—**	**—**	**—**	**1,019,858**	**1,019,858**
Energy (rural utilities)	**—**	**16,069**	**16,069**	**1,360,339**	**1,376,408**
Water and waste disposal	**—**	**—**	**—**	**234,471**	**234,471**
Rural residential real estate	**1,939**	**46**	**1,985**	**289,832**	**291,817**
International	**—**	**—**	**—**	**94,658**	**94,658**
Mission-related	**—**	**4,774**	**4,774**	**33,662**	**38,436**
Loans to OFIs	**—**	**—**	**—**	**46,202**	**46,202**
Lease receivables	**—**	**321**	**321**	**38,855**	**39,176**
Total loans	**$ 110,971**	**$ 52,940**	**$ 163,911**	**$ 35,163,471**	**$ 35,327,382**

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**
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
Mission-related	246	1	247	41,849	42,096
Loans to OFIs	—	—	—	39,125	39,125
Lease receivables	167	—	167	40,997	41,164
Total loans	$ 110,057	$ 41,232	$ 151,289	$ 33,241,068	$ 33,392,357

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

	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communi-cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	Inter-national	Mission-Related	Loans to OFIs	Lease Receivables	Total
Allowance for Loan Losses:											
March 31, 2022	**$ 44,914**	**$ 14,689**	**$ 15,615**	**$ 924**	**$ 6,236**	**$ 318**	**$ 95**	**$ 128**	**$ —**	**$ 117**	**$ 83,036**
Provision for loan losses/(Loan loss reversal)	**910**	**1,268**	**888**	**(16)**	**(138)**	**(14)**	**(4)**	**(66)**	**—**	**—**	**2,828**
Recoveries	**32**	**63**	**2**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**98**
Charge-offs	**(124)**	**(213)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(337)**
Other*	**14**	**(681)**	**(409)**	**(3)**	**43**	**(1)**	**(1)**	**—**	**—**	**—**	**(1,038)**
June 30, 2022	**$ 45,746**	**$ 15,126**	**$ 16,096**	**$ 905**	**$ 6,141**	**$ 304**	**$ 90**	**$ 62**	**$ —**	**$ 117**	**$ 84,587**
December 31, 2021	**$ 44,490**	**$ 15,495**	**$ 14,701**	**$ 824**	**$ 9,296**	**$ 313**	**$ 90**	**$ 128**	**$ —**	**$ 133**	**$ 85,470**
Provision for loan losses/(Loan loss reversal)	**1,384**	**410**	**1,721**	**93**	**(3,196)**	**(9)**	**(1)**	**(66)**	**—**	**(17)**	**319**
Recoveries	**68**	**466**	**3**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**538**
Charge-offs	**(200)**	**(214)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(414)**
Other*	**4**	**(1,031)**	**(329)**	**(12)**	**41**	**(1)**	**1**	**—**	**—**	**1**	**(1,326)**
June 30, 2022	**$ 45,746**	**$ 15,126**	**$ 16,096**	**$ 905**	**$ 6,141**	**$ 304**	**$ 90**	**$ 62**	**$ —**	**$ 117**	**$ 84,587**
Individually evaluated for impairment	**$ 2,398**	**$ 1,160**	**$ —**	**$ —**	**$ 5,294**	**$ 6**	**$ —**	**$ 78**	**$ —**	**$ —**	**$ 8,936**
Collectively evaluated for impairment	**43,348**	**13,966**	**16,096**	**905**	**847**	**298**	**90**	**(16)**	**—**	**117**	**75,651**
Loans acquired with deteriorated credit quality	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
June 30, 2022	**$ 45,746**	**$ 15,126**	**$ 16,096**	**$ 905**	**$ 6,141**	**$ 304**	**$ 90**	**$ 62**	**$ —**	**$ 117**	**$ 84,587**
Recorded Investments in Loans Outstanding:											
Loans individually evaluated for impairment	**$ 99,911**	**$ 27,946**	**$ 1,736**	**$ —**	**$ 22,513**	**$ 598**	**$ —**	**$ 8,791**	**$ 46,202**	**$ 1,337**	**$ 209,034**
Loans collectively evaluated for impairment	**21,868,258**	**3,993,926**	**6,194,578**	**1,019,858**	**1,588,366**	**291,219**	**94,658**	**29,645**	**—**	**37,839**	**35,118,347**
Loans acquired with deteriorated credit quality	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Balance at June 30, 2022	**$21,968,169**	**$4,021,872**	**$6,196,314**	**$1,019,858**	**$1,610,879**	**$291,817**	**$94,658**	**$38,436**	**$46,202**	**$39,176**	**$35,327,382**

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

	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communi-cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	Inter-national	Mission-Related	Loans to OFIs	Lease Receivables	Total
Allowance for Loan Losses:											
March 31, 2021	$ 47,031	$ 19,713	$ 15,462	$ 903	$ 6,985	$ 384	$ —	$ 127	$ —	$ 388	$ 90,993
(Loan loss reversal)/Provision for loan losses	(3,394)	(2,518)	(1,078)	(115)	2,644	(18)	132	(4)	—	(96)	(4,447)
Recoveries	19	654	1	—	35	—	—	—	—	—	709
Charge-offs	(81)	(150)	(2)	—	—	—	—	—	—	—	(233)
Other*	(3)	201	338	—	(129)	—	(10)	—	—	1	398
June 30, 2021	$ 43,572	$ 17,900	$ 14,721	$ 788	$ 9,535	$ 366	$ 122	$ 123	$ —	$ 293	$ 87,420
December 31, 2020	$ 49,204	$ 24,214	$ 16,354	$ 864	$ 2,867	$ 391	$ —	$ 124	$ —	$ 450	$ 94,468
(Loan loss reversal)/Provision for loan losses	(5,586)	(7,388)	(1,439)	(81)	6,809	(25)	132	(1)	—	(157)	(7,736)
Recoveries	39	1,214	1	—	35	—	—	—	—	—	1,289
Charge-offs	(99)	(321)	(791)	—	—	—	—	—	—	—	(1,211)
Other*	14	181	596	5	(176)	—	(10)	—	—	—	610
June 30, 2021	$ 43,572	$ 17,900	$ 14,721	$ 788	$ 9,535	$ 366	$ 122	$ 123	$ —	$ 293	$ 87,420
Individually evaluated for impairment	$ 2,512	$ 1,968	$ 368	$ —	$ 7,089	$ 11	$ —	$ 119	$ —	$ —	$ 12,067
Collectively evaluated for impairment	41,060	15,932	14,353	788	2,446	355	122	4	—	293	75,353
June 30, 2021	$ 43,572	$ 17,900	$ 14,721	$ 788	$ 9,535	$ 366	$ 122	$ 123	$ —	$ 293	$ 87,420
Recorded Investments in Loans Outstanding:											
Individually evaluated for impairment	$ 90,591	$ 29,095	$ 2,177	$ —	$ 25,956	$ 954	$ —	$ 4,937	$ —	$ —	$ 153,710
Collectively evaluated for impairment	$ 19,297,482	$ 3,560,650	$ 4,845,509	$ 889,367	$ 1,488,321	$ 281,140	$ 170,478	$ 58,481	$ 39,957	$ 34,946	$ 30,666,331
Loans acquired with deteriorated credit quality	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
June 30, 2021	$ 19,388,073	$ 3,589,745	$ 4,847,686	$ 889,367	$ 1,514,277	$ 282,094	$ 170,478	$ 63,418	$ 39,957	$ 34,946	$ 30,820,041

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

Loans, net of the allowance for loan losses, represented 80.91% of total assets at June 30, 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 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. The District's investment portfolio is summarized in the following table:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2022				
Bank investments	**$ 6,943,937**	**$ 1,117**	**$ (390,491)**	**$ 6,554,563**
District association investments	**130,662**	**1,069**	**(372)**	**131,359**
Total District investments	**$ 7,074,599**	**$ 2,186**	**$ (390,863)**	**$ 6,685,922**
December 31, 2021				
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 $4.3 million, an unrealized net loss of $242 thousand, and a fair value of $4.1 million as of June 30, 2022 and an amortized cost of $6.1 million, an unrealized net 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 $5.49 billion at June 30, 2022, including $1.05 billion in preferred stock, $73.0 million in capital stock and participation certificates, $4.59 billion in retained earnings and $222.0 million in additional paid-in-capital, offset by accumulated other comprehensive loss of $443.5 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 $5.49 billion capital position of the District at June 30, 2022 increased by $9.8 million as compared to the capital position of $5.48 billion at December 31, 2021. The increase reflects the year-to-date income of $337.4 million and $1.1 million in capital stock and allocated equities issued, partially offset by a $284.7 million increase in accumulated other comprehensive loss, dividend payments of $31.0 million and estimated patronage payments of $13.0 million. The increase in accumulated other comprehensive loss reflects an increase in unrealized losses on the AFS securities due to increases in interest rates as well as a decrease in unrealized losses on cash flow derivative instruments resulting from changes in the valuation of interest rate swaps held by the Bank.

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

	June 30, 2022	December 31, 2021
Unrealized losses on investment securities	$ (388,434)	$ (29,194)
Derivatives and hedging position	5,651	(66,199)
Employee benefit plan position	(60,748)	(63,405)
Total Accumulated Other Comprehensive Loss	$ (443,531)	$ (158,798)

Accumulated other comprehensive loss totaled $443.5 million at June 30, 2022, an increase of $284.7 million from December 31, 2021. The increase in accumulated other comprehensive loss reflects a $359.2 million increase in unrealized losses on the Bank's available-for-sale investments, a $71.9 million decrease related to changes in the valuation of interest rate swaps at the Bank and a $2.7 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.

June 30, 2022	Primary Components of Numerator	Regulatory Minimums with Buffers	Bank	District Associations
Risk adjusted:				
Common equity tier 1 capital ratio	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	7.00%	8.63%	9.75% - 17.81%
Tier 1 capital ratio	CET1 capital, noncumulative perpetual preferred stock	8.50%	13.68%	11.08% - 17.81%
Total capital ratio	Tier 1 capital, allowance for loan losses[2], common cooperative equities[3] and term preferred stock and subordinated debt[4]	10.50%	13.75%	11.25% - 18.25%
Permanent capital ratio	Retained earnings, common stock, noncumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.00%	13.68%	11.10% - 17.89%
Non-risk adjusted:				
Tier 1 leverage ratio*	Tier 1 capital	5.00%	5.83%	9.85% - 17.10%
UREE leverage ratio	URE and URE equivalents	1.50%	2.31%	4.73% - 18.28%

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

1 Equities outstanding 7 or more years

2 Capped at 1.25% of risk-adjusted assets

3 Outstanding 5 or more years, but less than 7 years

4 Outstanding 5 or more years

Combined Balance Sheets

(Unaudited)

(in thousands)	June 30, 2022	December 31, 2021
ASSETS		
Cash	**$ 361,186**	$ 160,593
Federal funds sold and overnight investments	**348,437**	194,223
Investment securities	**6,686,163**	6,681,644
Loans	**35,096,413**	33,175,189
Less allowance for loan losses	**84,587**	85,470
Net loans	**35,011,826**	33,089,719
Accrued interest receivable	**242,340**	226,266
Premises and equipment, net	**265,121**	264,404
Other assets	**358,799**	346,977
Total assets	**$ 43,273,872**	$ 40,963,826
LIABILITIES		
Bonds and notes	**$ 37,233,683**	$ 34,640,428
Accrued interest payable	**93,808**	65,388
Patronage distributions payable	**3,567**	248,718
Preferred stock dividends payable	**11,600**	11,600
Other liabilities	**440,467**	516,730
Total liabilities	**37,783,125**	35,482,864
MEMBERS' EQUITY		
Preferred stock	**1,050,000**	1,050,000
Capital stock and participation certificates	**73,042**	72,262
Allocated retained earnings	**944,211**	944,007
Unallocated retained earnings	**3,644,999**	3,351,465
Additional paid-in-capital	**222,026**	222,026
Accumulated other comprehensive loss	**(443,531)**	(158,798)
Total members' equity	**5,490,747**	5,480,962
Total liabilities and members' equity	**$ 43,273,872**	$ 40,963,826

Combined Statements of Income

(Unaudited)

(in thousands)	Three Months Ended June 30 2022	Three Months Ended June 30 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Interest Income				
Investment securities	**$ 25,222**	$ 17,206	**$ 46,583**	$ 37,228
Loans	**371,436**	309,779	**712,726**	610,935
Total interest income	**396,658**	326,985	**759,309**	648,163
Interest Expense				
Bonds and notes	**107,815**	70,108	**190,125**	136,606
Notes payable and other	**13,427**	7,172	**20,844**	14,532
Total interest expense	**121,242**	77,280	**210,969**	151,138
Net interest income	**275,416**	249,705	**548,340**	497,025
Provision for loan losses (Loan loss reversal)	**2,828**	(4,447)	**319**	(7,736)
Net interest income after provision for loan losses (loan loss reversal)	**272,588**	254,152	**548,021**	504,761
Noninterest income				
Patronage income	**5,460**	3,896	**14,561**	9,765
Fees for loan-related services	**10,268**	13,666	**20,380**	24,949
Other income, net	**4,146**	2,863	**6,156**	10,988
Total noninterest income	**19,874**	20,425	**41,097**	45,702
Noninterest expense				
Salaries and employee benefits	**65,462**	65,161	**132,462**	125,517
Occupancy and equipment	**12,988**	12,658	**29,121**	27,715
Purchased services	**10,081**	11,228	**21,379**	23,415
Farm Credit System Insurance Corporation expense	**19,387**	10,971	**31,597**	21,596
Other operating expenses	**18,754**	15,372	**37,069**	29,038
Total noninterest expense	**126,672**	115,390	**251,628**	227,281
Income before income taxes	**165,790**	159,187	**337,490**	323,182
Provision for income taxes	**39**	234	**49**	346
Net income	**$ 165,751**	$ 158,953	**$ 337,441**	$ 322,836

Select Information on District Associations

(Unaudited)

(in thousands) **As of June 30, 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	$ 317,914	1.35%	$ 381,175	$ 53,887	13.30%	0.60%	1.45%
AgTexas Farm Credit Services	2,425,856	10.33%	2,890,070	428,952	13.61%	1.20%	1.93%
Alabama Ag Credit, ACA	1,068,505	4.55%	1,299,649	229,528	15.95%	0.67%	1.66%
Alabama Farm Credit, ACA	976,053	4.16%	1,127,266	148,884	12.50%	0.79%	1.46%
Capital Farm Credit, ACA	9,554,516	40.69%	11,431,162	1,790,191	13.55%	0.60%	2.53%
Central Texas Farm Credit, ACA	532,419	2.27%	662,883	127,180	16.63%	0.31%	1.74%
Heritage Land Bank, ACA	577,249	2.46%	684,505	104,804	14.17%	0.03%	1.42%
Legacy Ag Credit, ACA	311,644	1.33%	378,573	66,167	18.25%	0.94%	1.43%
Lone Star, ACA	2,084,559	8.88%	2,515,844	419,214	15.21%	0.11%	2.21%
Louisiana Land Bank, ACA	864,064	3.68%	1,052,172	185,603	15.64%	1.15%	1.72%
Mississippi Land Bank, ACA	808,972	3.44%	981,121	158,201	14.52%	0.27%	1.63%
Plains Land Bank, FLCA	812,215	3.46%	968,258	153,589	14.07%	0.22%	2.36%
Southern AgCredit, ACA	1,143,787	4.87%	1,373,708	209,673	14.06%	0.17%	1.83%
Texas Farm Credit Services	2,005,736	8.53%	2,284,095	262,829	11.25%	0.39%	2.19%
Totals	$23,483,489	100.00%	$28,030,481	$4,338,702			

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, Texas 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