Farm Credit Bank of Texas

Third Quarter Report 2022

Third Quarter 2022 Financial Report

Table of Contents

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 and nine months ended September 30, 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 September 30, 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

Throughout the pandemic, the Bank 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. However, loan growth has recently begun to moderate in the current rising interest rate environment. 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 third quarter of 2022. The Federal Open Market Committee ("FOMC") has increased the target federal funds rate by a total of 300 basis points through the end of the third quarter, including three consecutive 75-basis-point increases in June, July and September. As of September 30, 2022, the federal funds target range rate is 3.00–3.25%. The FOMC is strongly committed to returning inflation to its 2% long-run objective. The Consumer Price Index for All Urban Consumers increased by 8.3% for the 12-month period ending August 2022, up from 5.2% for the same period last year, but down from a peak of 9.0% reached in June 2022.

On September 29, 2022, the U.S. Bureau of Economic Analysis ("BEA") released its third estimate of real gross domestic product ("GDP"). BEA confirmed that the U.S. economy experienced two consecutive quarters of negative growth during the first and second quarters of 2022, contracting at annualized rates of -1.6% and -0.6%, respectively.

Respondents to the Federal Reserve Bank of Philadelphia's Third Quarter 2022 Survey of Professional Forecasters released in August estimated that real GDP growth would reach an annual rate of 1.4% during the third quarter. According to the International Monetary Fund's latest World Economic Outlook released in July 2022, U.S. real GDP growth is estimated to be 2.3% in 2022 and 1.0% in 2023. The most recent data available from the U.S. Bureau of Labor Statistics indicates that the U.S. unemployment rate was 3.7% in August, slightly up from 3.6% in June, but down from 5.2% in August 2021.

In terms of the Texas District, second quarter real GDP growth rates released by BEA on September 30 ranged from 1.8% in Texas to -3.0% in Louisiana. Likewise, the August unemployment rates ranged from 2.6% in Alabama to 4.4% in New Mexico, relatively close to the national average of 3.7%.

The West Texas Intermediate ("WTI") crude oil futures price declined from an average of about $109 per barrel in the second quarter to an average of about $91 per barrel during the third quarter of 2022. However, quarterly average WTI crude oil prices increased by nearly 30% year-over-year (YOY). In its September Short Term Energy Outlook ("STEO"), the U.S. Energy Information Administration estimated that WTI prices would average about $98 per barrel in 2022, down about $4per barrel from its June estimate. The September STEO also states that natural gas prices increased in August, reflecting continued strong demand from the electric power sector, keeping natural gas inventories below their five-year average.

In September 2022, the U.S. Department of Agriculture ("USDA") presented its latest farm income forecast. Net farm income (nominal) is forecast at $147.70 billion in 2022, up about 5.2% YOY. Total production expenses (nominal) are forecast to increase by about 17.8% in 2022. Farm sector assets and equity are both forecast to increase by about 9.7% and 10.4%, respectively, while farm debt is forecast to decrease by about 4.6% in nominal terms. The debt-to-assets ratio is forecast to continue improving in 2022.

According to USDA's September 2022 World Agricultural Supply and Demand Estimates report, average farm prices for corn, soybeans and cotton will increase during the 2022/23 marketing year. Similarly, steer prices are estimated to have averaged higher during the third quarter of 2022 compared to the prior quarter and are expected to continue rising during the fourth quarter. Overall, steers, broilers and turkeys are projected to experience double-digit increases in 2022 while barrows and gilts prices are projected to rise by about 6%. The USDA is similarly projecting high inflation in all-milk, with prices reaching an average of about $25 per hundredweight (cwt) during 2022, before declining to around $22/cwt in 2023. Lumber prices continued to trend lower during the third quarter of 2022 and decreased about 33% YOY.

The Federal Reserve Bank of Dallas released its third quarter Eleventh District Agricultural Survey on October 3, 2022. The Eleventh District includes Texas, southern New Mexico and northern Louisiana. Survey respondents noted that extreme dry conditions continued to negatively impact agricultural production, particularly for cotton and pasture. At the end of September, more than 30% of Texas land area was experiencing drought conditions classified as severe, extreme or exceptional. At this time, the impact of the drought is not materially impacting borrowers for which the Bank has participation interests or credit quality in the Texas District. However, the uncertainty concerning the length and ultimate severity of the drought may have future impacts. The Bank will continue to monitor the drought and associated impacts.

Hurricane Ian made landfall on September 28, 2022 as a Category 4 hurricane in southwest Florida. The storm was one of only nine Category 4 or worse hurricanes to make landfall in the continental U.S. during the past 50 years. The storm moved eastward through Florida into the Atlantic Ocean before making a second landfall in South Carolina as a Category 1 hurricane. In addition to wind damage, heavy rains and storm surge associated with Hurricane Ian contributed to widespread flooding. At this time, there is no indication that damage resulting from the storm will materially impact borrowers for which the Bank has participation interests or credit quality in the Texas District; however, it will take several weeks to fully assess the damage. The Bank will continue to monitor for any associated impacts.

Agricultural producers may be negatively affected by several factors during the remainder of 2022, including volatile commodity prices, high input costs, export market disruptions, geopolitical challenges, economic slowdown, transportation issues, including low water levels on major rivers such as the Mississippi and weather-related challenges. The Bank's loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of the Bank'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 third quarter of 2022 the Bank converted one of its larger Associations onto FarmView from its legacy platforms, and is focused on training and preparing for additional conversion activities in 2023.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended September 30, 2022 was $66.3 million, an increase of $7.9 million, or 13.59%, over the same period of 2021. The increase in net income was driven by a $10.2 million increase in net interest income and a $1.4 million increase in noninterest income, partially offset by a $2.8 million increase in noninterest expense and a $851 thousand increase in provision for credit losses.

Net income for the nine months ended September 30, 2022 was $197.1 million, an increase of $10.4 million, or 5.54%, over the same period of 2021. The increase in net income was driven by a $19.3 million increase in net interest income and a $1.8 million decrease in provision for credit losses, partially offset by a $8.0 million increase in noninterest expense and a $2.8 million decrease in noninterest income.

Net Interest Income

Net interest income for the three months ended September 30, 2022 was $97.7 million, an increase of $10.2 million, or 11.72%, from the three months ended September 30, 2021. The increase in net interest income reflects a $4.64 billion increase in the Bank's average interest earning assets for the quarter ended September 30, 2022 compared to the quarter ended September 30, 2021, partially offset by the impact of a 5 basis point decrease in the net interest rate spread from 1.09% to 1.04%. The decrease in the net interest rate spread reflects the impact of a 69 basis point increase in the average rate of debt, partially offset by a 64 basis point increase in yields on average interest earning assets. Net interest margin for the three months ended September 30, 2022 was 1.11% compared to 1.15% for the three months ended September 30, 2021.

Net interest income for the nine months ended September 30, 2022 was $291.0 million, an increase of $19.3 million, or 7.12%, from the nine months ended September 30, 2021. The increase in net interest income reflects a $5.22 billion increase in the Bank's average interest earning assets for the nine months ended September 30, 2022 compared to the same period ended September 30, 2021, partially offset by the impact of a 12 basis point decrease in the net interest rate spread from 1.19% to 1.07%. The decrease in the net interest rate spread reflects the impact of a 34 basis point increase in the average rate of debt, partially offset by a 22 basis point increase in yields on average interest earning assets. Net interest margin for the nine months ended September 30, 2022 was 1.14% compared to 1.25% for the nine months ended September 30, 2021.

The increase in loan volume which contributed to the year-over-year increase in net interest income was primarily driven by an increase in direct note receivables, from the favorable economic conditions within the Texas District's chartered territory, coupled with growth in the capital markets loan portfolio.

The Bank did not call any debt during the three months ended September 30, 2022, compared to $1.66 billion in debt called and $4.2 million in accelerated interest expense for the same period in 2021. During the nine months ended September 30, 2022, the Bank called $125 million in debt and recognized $173 thousand in accelerated interest expense compared to $3.93 billion in debt called and $7.2 million in accelerated interest expense for the same period in 2021. The decrease in levels of debt called during the nine months ended September 30, 2022 compared to the prior year periods was primarily due to an increase in the overall level of interest rates.

Provision for Credit Losses

During the three months ended September 30, 2022, the Bank recorded a provision for credit losses of $1.3 million compared to $419 thousand in the same period of 2021. The provision for credit losses for the three months ended September 30, 2022 primarily reflects an increase in specific reserves for a borrower in the agribusiness sector as well as increases in general reserves due to credit deterioration in a few select borrowers within the participation loan portfolio. The provision for credit losses for the same period of 2021 reflected an increase in quantitative general reserves due to credit deterioration in a limited number of borrowers in the agribusiness sector.

During the nine months ended September 30, 2022, the Bank recorded a provision for credit losses of $1.3 million compared to $3.1 million in the same period of 2021. The provision for credit losses recorded for the nine months ended September 30, 2022 reflects an increase in specific reserves for a borrower in the agribusiness sector as well as increases in general reserves due to credit deterioration in a few select borrowers and loan growth within the participation loan portfolio. The provision for credit losses for the same period of 2021 was mainly driven by an increase in specific reserves and credit deterioration on a limited number of borrowers within the electric utility sector due to the unprecedented winter storm in early 2021 as well as an increase in quantitative general reserves due to credit deterioration an a limited number of borrowers in the agribusiness sector.

Noninterest Income

Noninterest income for the three months ended September 30, 2022 was $9.5 million, an increase of $1.4 million, or 16.98%, over the same period of 2021. The increase reflects net gains during the third quarter of 2022 on valuation improvements on the Rural Business Investment Companies, partially offset by lower patronage income.

Noninterest income for the nine months ended September 30, 2022 was $27.2 million, a decrease of $2.8 million, or 9.22%, over the same period of 2021. The decrease reflects lower prepayment fees as the loan prepayment rate has decreased from the rising interest rate environment.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2022 was $39.6 million, an increase of $2.8 million, or 7.73%, over the same period of 2021. Noninterest expense for the nine months ended September 30, 2022 was $119.7 million, an increase of $8.0 million, or 7.14%, over the same period of 2021. The increase for the three and nine months ended September 30, 2022 is primarily due to higher salaries and employee benefits associated with annual merit increases and a higher staffing level and increases in FCSIC premiums resulting from a retroactive rate increase back to January 2022, along with a premium rate increase to 20 basis points. The increase for the three and nine months ended September 30, 2022 also reflects higher professional fees associated with the conversion and support efforts for the implementation of FarmView.

Key Results of Operations

	Annualized for the Nine Months Ended September 30,	
	2022	**2021**
Return on average assets	**0.76%**	0.83%
Return on average shareholders' equity	**13.90%**	11.87%
Net interest margin	**1.14%**	1.25%
Charge-offs, net of recoveries, to average loans	**—%**	—%
Operating expenses as a percentage of net interest income and noninterest income	**37.63%**	37.05%
Operating expenses as a percentage of average earning assets	**0.47%**	0.52%

Other Comprehensive Loss

Other comprehensive 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 statement of 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:

	Nine Months Ended September 30,	
	2022	**2021**
Change in unrealized losses on AFS securities		
Net increase in unrealized losses on AFS securities	**$ (546,737)**	$ (51,771)
Net change in unrealized losses on AFS securities	**$ (546,737)**	$ (51,771)
Change in postretirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits	**$ (59)**	$ (58)
Net change in postretirement benefit plans	**$ (59)**	$ (58)
Change in cash flow derivative instruments		
Net increase in unrealized gains on cash flow derivative instruments	**$ 137,909**	$ 33,211
Reclassification of losses recognized in interest expense	**163**	178
Net change in cash flow derivative instruments	**138,072**	33,389
Other comprehensive loss	**$ (408,724)**	$ (18,440)

The increase in other comprehensive loss was driven by a $495.0 million increase in unrealized losses on the Bank's AFS securities from the prior year, September 30, 2021, as a result of increases in interest rates. The changes in other comprehensive loss during the same time period also reflects an increase of $104.7 million in unrealized gains on cash flow derivative instruments resulting from changes in the valuation of interest rate swaps held by the Bank.

FINANCIAL CONDITION

Loan Portfolio

Gross loan volume at September 30, 2022 was $27.99 billion, an increase of $2.31 billion, or 9.00%, compared to $25.67 billion at December 31, 2021, reflecting increases in both the direct note receivables from District Associations and OFIs and the capital markets loan portfolio. The increase in direct note receivables totaled $1.26 billion reflecting the favorable economic conditions within the

District's chartered territory, partially offset by the additional sale of $500 million in direct note receivables to another System Bank in September 2022. In total, the Bank has sold $4.35 billion in direct note receivables to another System Bank as of September 30, 2022.

The capital markets loan portfolio increased by $1.05 billion from year-end 2021. The increase in the capital markets loan portfolio primarily resulted from increases in the agribusiness and communication loan sectors from new business relationships.

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 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 September 30, 2022, totaled $107.9 million and were included in loans on the balance sheet. There were no CPP purchases during the nine months ended September 30, 2022. The balance of the AMBS CPP was $10.6 million at September 30, 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 nine months ended September 30, 2022. The NCPP loans' balance was $126.8 million at September 30, 2022 and was included in loans on the balance sheet.

At September 30, 2022, 99.7% 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 September 30, 2022 and December 31, 2021:

			Change	
	September 30, 2022	**December 31, 2021**	**$**	**%**
Nonaccrual loans	**$ 23,531**	$ 5,753	$ 17,778	309.02 %
Accruing formally restructured loans	**2,229**	2,280	(51)	(2.24)
Total nonperforming assets	**$ 25,760**	$ 8,033	$ 17,727	220.68 %

Nonaccrual loans at September 30, 2022 reflect the transfer of loans during the third quarter of 2022 to nonaccrual associated with one borrower in the agribusiness sector. The Bank recorded specific reserves totaling $2.3 million on the loans in nonaccrual status, including the addition of reserves of $923 thousand during the third quarter for the new nonaccrual loans. At September 30, 2022, and December 31, 2021, the Bank did not have any accruing loans 90 days or more past due or any other property owned (OPO). The Bank considers total nonperforming loans as impaired loans. At both September 30, 2022 and December 31, 2021, total nonperforming assets represented 9 basis points of loans.

At September 30, 2022, the Bank had reserves for credit losses totaling $14.6 million, with an allowance for loan losses of $12.8 million and a reserve for credit losses on unfunded commitments of $1.8 million.

The allowance for loan losses of $12.8 million at September 30, 2022 equated to 5 basis points of total loans outstanding and 15 basis points of capital market loans outstanding. The $1.8 million reserve at September 30, 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 September 30, 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 56.81% at September 30, 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 $6.79 billion, or 19.21%, of total assets at September 30, 2022, compared to $6.91 billion, or 20.88%, at December 31, 2021. At September 30, 2022, the Bank's cash balance was $77.6 million, of which $51.9 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 September 30, 2022, the Bank exceeded all applicable regulatory liquidity requirements and had 171 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 which consists of Farmer Mac AMBS securities. The Bank's liquidity portfolio and other investment holdings are summarized in the following table:

	September 30, 2022		December 31, 2021	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Liquidity Portfolio:				
Agency-guaranteed debt	**$ 64,806**	**$ 63,060**	$ 84,269	$ 85,293
Certificates of deposit	**150,000**	**149,356**	—	—
Corporate debt	**222,897**	**216,026**	232,885	234,580
Federal agency collateralized mortgage-backed securities:				
GNMA	**3,071,025**	**2,711,602**	2,822,556	2,793,482
FNMA and FHLMC	**2,574,939**	**2,396,345**	2,601,773	2,600,855
U.S. Treasury securities	**843,600**	**818,384**	650,216	647,564
Asset-backed securities	**157,601**	**154,785**	183,788	184,256
Total liquidity investments	**$ 7,084,868**	**$ 6,509,558**	$ 6,575,487	$ 6,546,030
Other Investments:				
Agricultural mortgage-backed securities	**$ 11,917**	**$ 10,625**	$ 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 September 30, 2022, the Bank had no investments which were ineligible for liquidity purposes.

Capital Resources

At September 30, 2022, the Bank's total shareholders' equity totaled $1.74 billion and consisted of $750.0 million of Class B noncumulative subordinated perpetual preferred stock, $409.1 million of capital stock, $1.09 billion of retained earnings and $505.6 million of accumulated other comprehensive losses. Total shareholders' equity decreased by $255.1 million due to an increase in the accumulated other comprehensive loss of $408.7 million, preferred stock dividends of $34.8 million, patronage distributions of $7.5 million, and $1.3 million retirement of capital stock, partially offset by net income of $197.1 million. The increase in the accumulated other comprehensive loss primarily reflects a $495.0 million increase in unrealized losses on investments, partially offset by a $104.7 million increase in unrealized gains on cash flow derivative instruments.

FCA regulations require the Bank to maintain minimum ratios, including capital conservation buffers, for various regulatory capital ratios. At September 30, 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:

	September 30, 2022	December 31, 2021	Total Regulatory Requirements Including Capital Conservation Buffers
Common equity tier 1 ratio	**8.70 %**	9.55 %	7.00 %
Tier 1 capital ratio	**13.63**	15.09	8.50
Total capital ratio	**13.71**	15.17	10.50
Permanent capital ratio	**13.64**	15.10	7.00
Tier 1 leverage ratio	**5.87**	6.37	5.00
UREE leverage ratio	**2.40**	2.73	1.50

RATING AGENCY ACTIONS

Fitch Ratings Actions

On July 11, 2022, Fitch Ratings affirmed the Bank's long-term and short-term issuer default ratings (IDRs) at "AA-" and "F1+," respectively, with a stable outlook. In accordance with Fitch's updated "Bank Rating Criteria," Fitch has withdrawn the support rating of "1" and the support rating floor of "BBB+" for the Bank's noncumulative perpetual preferred stock and assigned the Bank the System Bank Government Support Rating of "aa-."

Moody's Investors Service Rating Actions

On June 30, 2022, 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 $1.54 billion at September 30, 2022 and $970.0 million at December 31, 2021. At September 30, 2022, cleared counterparties' net credit asset exposure to the Bank was $57.7 million, compared to $23.5 million at December 31, 2021. At September 30, 2022, the notional amount of cleared cash flow hedges was $1.43 billion with associated posted initial margin of $42.7 million. At September 30, 2022, all cash flow hedges were in an asset position and the Bank received cash collateral from the counterparty of $56.8 million. Cleared derivatives require the payment of initial and variation margin as protection against default. As of September 30, 2022 the Bank had a net cash collateral asset position of $14.0 million compared to a net cash collateral liability position of $90.9 million at December 31, 2021.

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. The Alternative Reference Rates Committee (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 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 provided 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 September 30, 2022. Exposure to these instruments is limited to the Bank in this illustration:

	Due in 2022	Due by June 30, 2023	Due after June 30, 2023	Total
Assets				
Loans	$ 32,084	$ 56,294	$ 2,844,165	$ 2,932,543
Investment securities	—	354	616,328	616,682
Total assets	$ 32,084	$ 56,648	$ 3,460,493	$ 3,549,225
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.

	Due in 2022	Due by June 30, 2023	Due after June 30, 2023	Total
Derivatives (notional amount)	$ —	$ 75,000	$ 290,000	$ 365,000

The following is a summary of variable-rate financial instruments indexed to SOFR:

	September 30, 2022
Assets	
Loans	$ 2,598,078
Investment securities	937,765
Total assets	$ 3,535,843
Liabilities and shareholders' equity	
Bonds and notes, net	$ 6,915,000
Total liabilities and shareholders' equity	$ 6,915,000
Derivatives (notional amount)	$ 1,175,000

REGULATORY MATTERS

At September 30, 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 discussed regulation updates and resources from the Consumer Financial Protection Bureau and other federal agencies.

On May 9, 2022, the FCA published a final rule in the Federal Register on amending 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.

On June 16, 2022, the FCA published in the Federal Register a proposed rule to restructure and revise its regulations governing the Farm Credit System's service to young, beginning and small (YBS) farmers and ranchers. The comment period ended on August 15, 2022.

On July 14, 2022, the FCA issued a notice of intent and a request for comment to solicit input on the appropriateness of FCA's regulatory requirements on the Farm Credit System. The comment period ended on October 18, 2022.

Report of Management

The undersigned certify that we have reviewed the September 30, 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

November 9, 2022

Controls and Procedures

As of September 30, 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 September 30, 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

November 9, 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

November 9, 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

November 9, 2022

Balance Sheets

(Unaudited)

(dollars in thousands)	September 30, 2022	December 31, 2021
Assets		
Cash	**$ 77,644**	$ 156,986
Federal funds sold and overnight investments	**189,220**	194,223
Investment securities	**6,520,183**	6,560,239
Loans	**27,986,235**	25,674,558
Less allowance for loan losses	**12,841**	11,869
Net loans	**27,973,394**	25,662,689
Accrued interest receivable	**96,011**	67,762
Premises and equipment, net	**139,563**	148,218
Other assets	**342,547**	303,271
Total assets	**$ 35,338,562**	$ 33,093,388
Liabilities and shareholders' equity		
Liabilities		
Bonds and notes, net	**$ 33,285,380**	$ 30,790,428
Accrued interest payable	**126,844**	63,051
Reserve for credit losses	**1,793**	1,430
Preferred stock dividends payable	**11,600**	11,600
Patronage payable	—	39,017
Other liabilities	**169,680**	189,470
Total liabilities	**$ 33,595,297**	$ 31,094,996
Commitments and contingencies (Note 5)		
Shareholders' equity		
Preferred stock	**$ 750,000**	$ 750,000
Capital stock	**409,083**	410,373
Allocated retained earnings	**66,804**	66,490
Unallocated retained earnings	**1,022,938**	868,365
Accumulated other comprehensive loss	**(505,560)**	(96,836)
Total shareholders' equity	**1,743,265**	1,998,392
Total liabilities and shareholders' equity	**$ 35,338,562**	$ 33,093,388

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

Statements of Comprehensive Income

(Unaudited)

(dollars in thousands)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Interest Income				
Loans	**$ 212,041**	$ 145,595	**$ 547,012**	$ 427,326
Investment securities	**31,717**	16,984	**77,769**	53,619
Total interest income	**243,758**	162,579	**624,781**	480,945
Interest Expense				
Bonds and notes	**146,086**	75,153	**333,774**	209,278
Net interest income	**97,672**	87,426	**291,007**	271,667
Provision for credit losses	**1,270**	419	**1,310**	3,060
Net interest income after provision for credit losses	**96,402**	87,007	**289,697**	268,607
Noninterest Income				
Patronage income	**2,996**	3,751	**10,560**	9,319
Fees for services to associations	**719**	503	**4,028**	3,062
Fees for loan-related services	**3,531**	2,970	**9,561**	13,246
Other income, net	**2,268**	909	**3,027**	4,308
Total noninterest income	**9,514**	8,133	**27,176**	29,935
Noninterest Expense				
Salaries and employee benefits	**15,319**	13,069	**44,732**	38,903
Occupancy and equipment	**7,803**	7,292	**24,789**	24,088
FCSIC premiums	**5,542**	3,843	**16,168**	11,530
Other components of net periodic postretirement benefit cost	**78**	67	**233**	201
Other operating expenses	**10,846**	12,477	**33,804**	37,029
Total noninterest expense	**39,588**	36,748	**119,726**	111,751
Net Income	**66,328**	58,392	**197,147**	186,791
Other comprehensive loss				
Change in unrealized losses on investments	**(187,229)**	(21,244)	**(546,737)**	(51,771)
Change in postretirement benefit plans	**(19)**	(19)	**(59)**	(58)
Change in cash flow derivative instruments	**66,223**	2,893	**138,072**	33,389
Total other comprehensive loss	**(121,025)**	(18,370)	**(408,724)**	(18,440)
Comprehensive Income	**$ (54,697)**	$ 40,022	**$ (211,577)**	$ 168,351

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

Statements of Changes in Shareholders' Equity

(Unaudited)

			Retained Earnings			
(dollars in thousands)	Preferred Stock	Capital Stock	Allocated	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	—	—	—	186,791	—	186,791
Other comprehensive loss	—	—	—	—	(18,440)	(18,440)
Capital stock and allocated retained earnings retired	—	(3,231)	—		—	(3,231)
Issuance costs on preferred stock	—	—	—	(17)	—	(17)
Preferred stock dividends	—	—	—	(34,800)	—	(34,800)
Patronage distributions						
Cash	—	—	—	(5,240)	—	(5,240)
Shareholders' equity	—	—	94	(94)	—	—
Balance at September 30, 2021	$ 750,000	$ 356,757	$ 59,859	$ 997,247	$ (47,267)	$ 2,116,596
Balance at December 31, 2021	**$ 750,000**	**$ 410,373**	**$ 66,490**	**$ 868,365**	**$ (96,836)**	**$ 1,998,392**
Net income	**—**	**—**	**—**	**197,147**	**—**	**197,147**
Other comprehensive loss	**—**	**—**	**—**	**—**	**(408,724)**	**(408,724)**
Capital stock and allocated retained earnings retired	**—**	**(1,290)**	**—**	**—**	**—**	**(1,290)**
Preferred stock dividends	**—**	**—**	**—**	**(34,800)**	**—**	**(34,800)**
Patronage distributions						
Cash	**—**	**—**	**—**	**(7,460)**	**—**	**(7,460)**
Shareholders' equity	**—**	**—**	**314**	**(314)**	**—**	**—**
Balance at September 30, 2022	**$ 750,000**	**$ 409,083**	**$ 66,804**	**$ 1,022,938**	**$ (505,560)**	**$ 1,743,265**

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

Statements of Cash Flows

(Unaudited)

(dollars in thousands)	Nine Months Ended September 30, 2022	2021
Cash Flows From Operating Activities		
Net income	**$ 197,147**	$ 186,791
Reconciliation of net income to net cash provided by operating activities		
Provision for credit losses	**1,310**	3,060
Depreciation and amortization on premises and equipment	**9,099**	9,740
Discount accretion on loans	**4,077**	2,325
Amortization and accretion on debt instruments	**23,260**	15,020
Premium amortization on investments	**1,426**	7,720
Gain on sale of loans	**(21)**	(299)
Allocated equity patronage from System Bank	**(2,561)**	(2,757)
Loss on disposals of premises and equipment	**54**	56
Increase in accrued interest receivable	**(28,249)**	(2,776)
(Increase) decrease in other assets, net	**(16,274)**	5,104
Increase in accrued interest payable	**63,793**	4,534
Increase (decrease) in other liabilities, net	**16,353**	(8,789)
Net cash provided by operating activities	**269,414**	219,729
Cash Flows From Investing Activities		
Net decrease in federal funds sold and repurchase agreements	**5,003**	23,589
Investment securities		
Purchases	**(1,796,978)**	(2,903,994)
Proceeds from maturities, calls and prepayments	**1,288,871**	2,002,745
Increase in loans, net	**(2,868,447)**	(2,498,387)
Proceeds from sales of loans	**533,742**	4,868
Proceeds from sales of premises and equipment	**105**	62
Expenditures for premises and equipment	**(605)**	(18,631)
Investments/distributions in other earning assets	**(4,449)**	(3,578)
Net cash used in investing activities	**(2,842,758)**	(3,393,326)
Cash Flows From Financing Activities		
Bonds and notes issued	**28,448,782**	29,342,512
Bonds and notes retired	**(25,977,090)**	(26,232,949)
Decrease in cash collateral posted with a counterparty	**48,117**	43,742
Increase in cash collateral posted by a counterparty	**56,761**	—
Issuance costs on preferred stock	—	(17)
Capital stock retired and allocated retained earnings distributed	**(976)**	(3,231)
Cash dividends on preferred stock	**(34,800)**	(34,800)
Cash patronage distributions paid	**(46,792)**	(42,727)
Net cash provided by financing activities	**2,494,002**	3,072,530
Net decrease in cash	**(79,342)**	(101,067)
Cash at beginning of year	**156,986**	128,302
Cash at End of Quarter	**$ 77,644**	$ 27,235
Supplemental Schedule of Noncash Investing and Financing Activities		
Net increase in unrealized losses on investment securities	**$ (546,737)**	$ (51,711)
Preferred stock dividends payable	**11,600**	11,600
Patronage distribution stock adjustment	**314**	94
Supplemental Information		
Interest paid	**$ 269,981**	$ 204,743

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 September 30, 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, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods have been made. 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 single allowance framework for financial assets carried at amortized cost, which reflects management's estimate of expected credit losses and requires consideration of a broader range of reasonable and supportable information to develop credit loss estimates. Credit losses relating to held-to-maturity securities and, depending on the situation, 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, including the Bank, this guidance becomes effective for interim and annual periods beginning after December 15, 2022.

The impact of adoption of the standard is currently expected to increase the allowance for credit losses on the Bank's loan portfolio by approximately 50%. The increase in the allowance is primarily driven by the life of the loan measurement requirement under CECL. This estimate will ultimately depend on the nature of the loan portfolio at the time of adoption, final validation of models and methodologies, management's judgments, including macroeconomic conditions and related reasonable and supportable forecasts at the adoption date of January 1, 2023.

The Bank does not expect its available-for-sale securities to be materially impacted by the adoption of this standard as a majority of the investment portfolio consists of U.S. Treasury and U.S. agency securities that inherently have an immaterial risk of loss.

In March 2022, the FASB issued guidance entitled, "Financial Instruments – Credit Losses." 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), corporate debt and certificates of deposit. 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 in the liquidity portfolio and other investment portfolio at September 30, 2022, and December 31, 2021, is included in the following tables.

September 30, 2022	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Liquidity Portfolio:					
Agency-guaranteed debt	**$ 64,806**	**$ —**	**$ (1,746)**	**$ 63,060**	**2.34%**
Certificates of deposit	**150,000**	**40**	**(684)**	**149,356**	**4.30**
Corporate debt	**222,897**	**—**	**(6,871)**	**216,026**	**2.03**
Federal agency collateralized mortgage-backed securities:					
GNMA	**3,071,025**	**11**	**(359,434)**	**2,711,602**	**1.87**
FNMA and FHLMC	**2,574,939**	**50**	**(178,644)**	**2,396,345**	**2.24**
U.S. Treasury securities	**843,600**	**—**	**(25,216)**	**818,384**	**1.14**
Asset-backed securities	**157,601**	**344**	**(3,160)**	**154,785**	**2.59**
Total liquidity investments	**$ 7,084,868**	**$ 445**	**$ (575,755)**	**$ 6,509,558**	**1.99%**
Other Investments:					
Agricultural mortgage-backed securities	**$ 11,917**	**$ —**	**$ (1,292)**	**$ 10,625**	**4.68%**

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Liquidity Portfolio:					
Agency-guaranteed debt	$ 84,269	$ 1,032	$ (8)	$ 85,293	**1.60%**
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%**
Other Investments:					
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 investments at September 30, 2022.

	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
Liquidity Portfolio:					
Agency-guaranteed debt	**$ 1,865**	**$ 61,195**	**$ —**	**$ —**	**$ 63,060**
Certificates of deposit	**149,356**	**—**	**—**	**—**	**149,356**
Corporate debt	**47,618**	**168,408**	**—**	**—**	**216,026**
Federal agency collateralized mortgage-backed securities:					
GNMA	**—**	**520**	**31,812**	**2,679,270**	**2,711,602**
FNMA and FHLMC	**2,044**	**164,175**	**917,482**	**1,312,644**	**2,396,345**
U.S. Treasury securities	**344,467**	**473,917**	**—**	**—**	**818,384**
Asset-backed securities	**—**	**44,402**	**54,016**	**56,367**	**154,785**
Total fair value	**$ 545,350**	**$ 912,617**	**$ 1,003,310**	**$ 4,048,281**	**$ 6,509,558**
Total amortized cost	**$ 551,839**	**$ 945,985**	**$ 1,026,200**	**$ 4,560,844**	**$ 7,084,868**
Weighted average yield	**1.45%**	**1.99%**	**2.58%**	**1.93%**	**1.99%**
Other Investments:					
Fair value of agricultural mortgage-backed securities	**$ —**	**$ 7,643**	**$ 2,982**	**$ —**	**$ 10,625**
Total amortized cost	**$ —**	**$ 8,472**	**$ 3,445**	**$ —**	**$ 11,917**
Weighted average yield	**—%**	**4.64%**	**4.79%**	**—%**	**4.68%**

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	**$ 56,964**	**$ (1,719)**	**$ 6,096**	**$ (27)**	**$ 63,060**	**$ (1,746)**
Certificates of deposit	**99,316**	**(684)**	**—**	**—**	**99,316**	**(684)**
Corporate debt	**193,334**	**(4,589)**	**22,693**	**(2,282)**	**216,027**	**(6,871)**
Federal agency collateralized mortgage-backed securities:						
GNMA	**1,522,768**	**(138,432)**	**1,145,898**	**(219,235)**	**2,668,666**	**(357,667)**
FNMA and FHLMC	**1,919,904**	**(97,351)**	**490,602**	**(83,060)**	**2,410,506**	**(180,411)**
U.S. Treasury securities	**357,179**	**(11,749)**	**461,205**	**(13,467)**	**818,384**	**(25,216)**
Asset-backed securities	**88,873**	**(2,487)**	**9,327**	**(673)**	**98,200**	**(3,160)**
Total	**$ 4,238,338**	**$ (257,011)**	**$ 2,135,821**	**$ (318,744)**	**$ 6,374,159**	**$ (575,755)**

The Bank evaluates investment securities for other-than-temporary impairment (OTTI) on a quarterly basis. Impairment is considered to be other than temporary if the Bank (i) intends to sell the security, (ii) is more likely than not to be required to sell the security before recovering its costs or (iii) does not expect to recover the security's entire amortized cost basis (even if it does not intend to sell). For the nine months ended September 30, 2022 and 2021, the Bank did not recognize any OTTI credit losses and no securities were identified as OTTI at September 30, 2022 or 2021.

NOTE 3 — LOANS AND RESERVES FOR CREDIT LOSSES

Loans comprised the following categories at:

	September 30, 2022	December 31, 2021
Direct notes receivable from District Associations and OFIs	**$ 19,574,786**	$ 18,316,444
Participations purchased	**8,411,449**	7,358,114
Total loans	**$ 27,986,235**	$ 25,674,558

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

	September 30, 2022	December 31, 2021
Direct notes receivable from		
District Associations	**$ 19,532,616**	$ 18,277,377
Real estate mortgage	**1,090,383**	1,037,029
Production and intermediate term	**966,845**	881,991
Agribusiness		
Loans to cooperatives	**547,047**	480,124
Processing and marketing	**3,215,436**	2,696,278
Farm-related business	**265,009**	223,272
Communications	**756,626**	648,619
Energy (rural utilities)	**1,215,436**	1,182,406
Water and waste disposal	**167,549**	137,415
Rural home	**1,843**	2,168
International	**174,915**	57,250
Mission-related	**2,172**	2,257
Lease receivables	**8,188**	9,305
Loans to OFIs	**42,170**	39,067
Total loans	**$ 27,986,235**	$ 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 September 30, 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	**$ 1,498,695**	**$ 541,650**	**$ 60,083**	**$ —**	**$ 1,558,778**	**$ 541,650**
Production and intermediate term	**1,661,961**	**931,912**	**83,465**	**—**	**1,745,426**	**931,912**
Agribusiness	**2,653,726**	**908,713**	**42,071**	**—**	**2,695,797**	**908,713**
Communications	**922,802**	**165,754**	**—**	**—**	**922,802**	**165,754**
Energy (rural utilities)	**1,291,910**	**76,507**	**—**	**—**	**1,291,910**	**76,507**
Water and waste disposal	**215,320**	**47,585**	**—**	**—**	**215,320**	**47,585**
Rural home	**4,184**	**—**	**—**	**—**	**4,184**	**—**
International	**212,133**	**37,171**	**—**	**—**	**212,133**	**37,171**
Mission-related	**2,172**	**—**	**—**	**—**	**2,172**	**—**
Lease receivables	**9,538**	**1,356**	**—**	**—**	**9,538**	**1,356**
Direct notes receivable from District Associations	**—**	**4,350,000**	**—**	**—**	**—**	**4,350,000**
	$ 8,472,441	**$ 7,060,648**	**$ 185,619**	**$ —**	**$ 8,658,060**	**$ 7,060,648**

The Bank has purchased loan participations and Farmer Mac guaranteed 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 nine months ended September 30, 2022. CPP loans held at September 30, 2022, totaled $107.9 million and were included in loans on the balance sheet. The balance of the AMBS CPP was $10.6 million at September 30, 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 NCPP purchases during the nine months ended September 30, 2022. The NCPP loans balance was $126.8 million at September 30, 2022, and was included in loans on the balance sheet.

During the quarter ended September 30, 2022, the Bank sold an additional $500 million of direct notes to another System Bank. The total amount of direct notes sold to another entity was $4.35 billion as of September 30, 2022.

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

	September 30, 2022	December 31, 2021
Nonaccrual loans:		
Energy & water/waste disposal	**$ 5,326**	$ 5,753
Agribusiness	**18,205**	$ —
Total nonaccrual loans	**$ 23,531**	$ 5,753
Accruing restructured loans:		
Mission-related	**$ 2,229**	$ 2,280
Total nonperforming assets	**$ 25,760**	$ 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:

	September 30, 2022	December 31, 2021
Real estate mortgage:		
Acceptable	**98.1 %**	98.6 %
OAEM	**1.9**	1.4
Substandard/Doubtful	**—**	—
	100.0 %	100.0 %
Production and intermediate term:		
Acceptable	**94.1 %**	91.8 %
OAEM	**4.9**	8.2
Substandard/Doubtful	**1.0**	—
	100.0 %	100.0 %
Agribusiness:		
Acceptable	**96.9 %**	96.9 %
OAEM	**1.7**	2.2
Substandard/Doubtful	**1.4**	0.9
	100.0 %	100.0 %
Energy & water/waste disposal:		
Acceptable	**99.4 %**	98.4 %
OAEM	**0.2**	—
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	**99.2 %**	99.1 %
OAEM	**0.5**	0.7
Substandard/Doubtful	**0.3**	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:

September 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**	**Recorded Investment > 90 Days and Accruing**
Real estate mortgage	**$ —**	**$ —**	**$ —**	**$ 1,098,355**	**$ 1,098,355**	**$ —**
Production and intermediate term	**—**	**—**	**—**	**972,025**	**972,025**	**—**
Agribusiness	**—**	**—**	**—**	**4,046,161**	**4,046,161**	**—**
Energy & water/waste disposal	**—**	**1,998**	**1,998**	**1,388,234**	**1,390,232**	**—**
Communications	**—**	**—**	**—**	**757,437**	**757,437**	**—**
Rural home	**—**	**—**	**—**	**1,849**	**1,849**	**—**
International	**—**	**—**	**—**	**175,141**	**175,141**	**—**
Mission-related	**—**	**—**	**—**	**2,229**	**2,229**	**—**
Lease receivables	**—**	**—**	**—**	**8,223**	**8,223**	**—**
Direct notes to associations	**—**	**—**	**—**	**19,572,956**	**19,572,956**	**—**
Loans to OFIs	**—**	**—**	**—**	**42,289**	**42,289**	**—**
Total	**$ —**	**$ 1,998**	**$ 1,998**	**$ 28,064,899**	**$ 28,066,897**	**$ —**

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 September 30, 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	$ —
Processing and marketing	**18,205**	**19,477**	**922**	—	—	—
Energy & water/waste disposal	**5,326**	**5,328**	**1,352**	5,753	5,755	1,352
Mission-related	**157**	**157**	**60**	159	159	58
Total	**$ 23,688**	**$ 24,962**	**$ 2,334**	$ 5,912	$ 5,958	$ 1,410
Impaired loans with no related allowance for credit losses:						
Processing and marketing	**$ —**	**$ —**	**$ —**	$ —	$ 1,192	$ —
Energy & water/waste disposal	**—**	**2,097**	**—**	—	2,098	—
Mission-related	**2,072**	**2,072**	**—**	2,121	2,121	—
Total	**$ 2,072**	**$ 4,169**	**$ —**	$ 2,121	$ 5,411	$ —
Total impaired loans:						
Real estate mortgage	**$ —**	**$ —**	**$ —**	$ —	$ 44	$ —
Processing and marketing	**18,205**	**19,477**	**922**	—	1,192	—
Energy & water/waste disposal	**5,326**	**7,425**	**1,352**	5,753	7,853	1,352
Mission-related	**2,229**	**2,229**	**60**	2,280	2,280	58
Total	**$ 25,760**	**$ 29,131**	**$ 2,334**	$ 8,033	$ 11,369	$ 1,410

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2022		September 30, 2021		September 30, 2022		September 30, 2021	
	Average Impaired Loans	**Interest Income Recognized**	**Average Impaired Loans**	**Interest Income Recognized**	**Average Impaired Loans**	**Interest Income Recognized**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$ —**	**$ —**	$ 591	$ —	**$ —**	**$ —**	$ 199	$ —
Processing and marketing	**9,103**	**$ —**	$ —	—	**3,068**	**—**	—	—
Energy & water/waste disposal	**5,338**	**$ —**	$ 6,137	—	**5,541**	**—**	4,493	—
Mission-related	**152**	**3**	157	4	**154**	**9**	159	10
Total	**$ 14,593**	**$ 3**	$ 6,885	$ 4	**$ 8,763**	**$ 9**	$ 4,851	$ 10
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ —**	**$ —**	$ —	$ —	**$ —**	**$ —**	$ 586	$ 19
Mission-related	**2,020**	**30**	2,102	32	**2,058**	**93**	2,140	270
Total	**$ 2,020**	**$ 30**	$ 2,102	$ 32	**$ 2,058**	**$ 93**	$ 2,726	$ 289
Total impaired loans:								
Real estate mortgage	**$ —**	**$ —**	$ 591	$ —	**$ —**	**$ —**	$ 785	$ 19
Processing and marketing	**9,103**	**—**	—	—	**3,068**	**—**	—	—
Energy & water/waste disposal	**5,338**	**—**	6,137	—	**5,541**	**—**	4,493	—
Mission-related	**2,172**	**33**	2,259	36	**2,212**	**102**	2,299	280
Total	**$ 16,613**	**$ 33**	$ 8,987	$ 36	**$ 10,821**	**$ 102**	$ 7,577	$ 299

At September 30, 2022, impaired loans of $23.7 million had a related specific allowance of $2.3 million, while the remaining $2.1 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 and nine months ended September 30, 2022, was $16.6 million and $10.8 million, respectively. The Bank recognized interest income of $33 thousand and $102 thousand on impaired loans during the three and nine months ended September 30, 2022, respectively.

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 June 30, 2022	$ 444	$ 1,301	$ 7,028	$ 489	$ 2,122	$ 30	$ —	$ 27	$ —	$ —	$ 59	$ 11,500
Charge-offs	—	—	—	—	—	—	—	—	—	—	—	—
Recoveries	26	—	—	—	—	—	—	—	—	—	—	26
Provision for credit losses (loan loss reversal)	109	76	1,031	42	8	(3)	—	6	—	—	1	1,270
Other *	(71)	9	89	(7)	31	—	—	(6)	—	—	—	45
Balance at September 30, 2022	$ 508	$ 1,386	$ 8,148	$ 524	$ 2,161	$ 27	$ —	$ 27	$ —	$ —	$ 60	$ 12,841
Balance at December 31, 2021	$ 466	$ 1,316	$ 5,952	$ 409	$ 3,606	$ 35	$ —	$ 27	$ —	$ —	$ 58	$ 11,869
Charge-offs	—	—	—	—	—	—	—	—	—	—	—	—
Recoveries	26	—	—	—	—	—	—	—	—	—	—	26
Provision for credit losses (loan loss reversal)	95	73	2,508	135	(1,501)	(8)	—	6	—	—	2	1,310
Other *	(79)	(3)	(312)	(20)	56	—	—	(6)	—	—	—	(364)
Balance at September 30, 2022	$ 508	$ 1,386	$ 8,148	$ 524	$ 2,161	$ 27	$ —	$ 27	$ —	$ —	$ 60	$ 12,841
Individually evaluated for impairment	$ —	$ —	$ 922	$ —	$ 1,352	$ —	$ —	$ —	$ —	$ —	$ 60	$ 2,334
Collectively evaluated for impairment	508	1,386	7,226	524	809	27	—	27	—	—	—	10,507
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—	—	—	—
Balance at September 30, 2022	$ 508	$ 1,386	$ 8,148	$ 524	$ 2,161	$ 27	$ —	$ 27	$ —	$ —	$ 60	$ 12,841
Balance at June 30, 2021	$ 379	$ 1,907	$ 5,976	$ 352	$ 3,796	$ 70	$ —	$ 42	$ —	$ —	$ 56	$ 12,578
Charge-offs	—	—	—	—	—	—	—	—	—	—	—	—
Recoveries	40	—	—	—	—	—	—	—	—	—	—	40
Provision for credit losses (loan loss reversal)	69	3	537	(7)	(179)	(2)	—	(2)	—	—	—	419
Other *	2	10	(52)	(9)	(12)	—	—	(1)	—	—	—	(62)
Balance at September 30, 2021	$ 490	$ 1,920	$ 6,461	$ 336	$ 3,605	$ 68	$ —	$ 39	$ —	$ —	$ 56	$ 12,975
Balance at December 31, 2020	$ 314	$ 1,875	$ 6,196	$ 341	$ 748	$ 79	$ —	$ —	$ —	$ —	$ 55	$ 9,608
Charge-offs	—	—	—	—	—	—	—	—	—	—	—	—
Recoveries	40	—	—	—	35	—	—	—	—	—	—	75
Provision for credit losses (loan loss reversal)	127	(30)	(52)	1	2,978	(11)	—	46	—	—	1	3,060
Other *	9	75	317	(6)	(156)	—	—	(7)	—	—	—	232
Balance at September 30, 2021	$ 490	$ 1,920	$ 6,461	$ 336	$ 3,605	$ 68	$ —	$ 39	$ —	$ —	$ 56	$ 12,975
Individually evaluated for impairment	$ 44	$ —	$ —	$ —	$ 1,396	$ —	$ —	$ —	$ —	$ —	$ 57	$ 1,497
Collectively evaluated for impairment	446	1,920	6,461	336	2,209	68	39	—	—	—	(1)	11,478
Balance at September 30, 2021	$ 490	$ 1,920	$ 6,461	$ 336	$ 3,605	$ 68	$ 39	$ —	$ —	$ —	$ 56	$ 12,975
Recorded Investments in Loans Outstanding:												
Individually evaluated for impairment	$ —	$ —	$ —	$ 18,205	$ 5,326	$ —	$ —	$ —	$ 19,572,956	$ 42,289	$ 2,229	$19,641,005
Collectively evaluated for impairment	$1,098,355	$ 972,025	$4,046,161	$ 739,232	$1,384,906	$ 8,223	$ 1,849	$ 175,141	$ —	$ —	$ —	$ 8,425,892
Ending balance at September 30, 2022	$1,098,355	$ 972,025	$4,046,161	$ 757,437	$1,390,232	$ 8,223	$ 1,849	$ 175,141	$ 19,572,956	$ 42,289	$ 2,229	$28,066,897
Individually evaluated for impairment	$ 556	$ —	$ —	$ —	$ 5,951	$ —	$ —	$ —	$ 17,337,316	$ —	$ 2,317	$17,346,140
Collectively evaluated for impairment	889,037	838,640	3,202,856	576,908	1,338,543	9,706	1,370	90,330	—	32,450	—	6,979,840
Ending balance at September 30, 2021	$ 889,593	$ 838,640	$3,202,856	$ 576,908	$1,344,494	$ 9,706	$ 1,370	$ 90,330	$ 17,337,316	$ 32,450	$ 2,317	$24,325,980

*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 September 30, 2022, the total recorded investment in TDRs was $2.2 million which were classified as accrual, with specific allowance for loan losses of $60 thousand. There were no additional commitments to lend to TDR borrowers at September 30, 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	
	September 30, 2022	**December 31, 2021**	**September 30, 2022**	**December 31, 2021**
Mission-related	**$ 2,229**	$ 2,280	**$ —**	$ —
Total	**$ 2,229**	$ 2,280	**$ —**	$ —

There were no new loans designated as TDRs during the nine months ended September 30, 2022, or September 30, 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 they meet 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 expense for the headquarter facility includes certain operating expenses passed through from the landlord.

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 expired in October 2022 and is a month-to-month lease going forward.

Lease expenses, which are included as a component of occupancy and equipment expense in the Statements of Comprehensive Income, totaled $1.4 million and $3.9 million for the three and nine months ended September 30, 2022, respectively. For the three and nine months ended September 30, 2021, lease expense totaled $1.2 million and $3.9 million, respectively. Other information related to leases was as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
Cash paid for amounts included in the measurement of lease liabilities - Operating cash flows for operating leases	**$**	**716**	$	696	**$**	**2,152**	$	2,076
ROU assets obtained in exchange for new lease obligations - Operating leases	**$**	**—**	$	—	**$**	**—**	$	—

At September 30, 2022, the weighted-average remaining lease term for the building, copier, postage machine leases was 12.31 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 September 30, 2022:

	Maturities of Lease Liabilities	
Remainder of 2022	$	737
2023		2,837
2024		3,051
2025		3,481
2026		3,551
Thereafter		31,085
Total undiscounted cash flows		44,742
Less interest expense		3,166
Lease liability	**$**	**41,576**

Lease expense for leases with terms of 12 months or less was $9 thousand and $29 thousand for the three and nine months ended September 30, 2022, respectively, compared with $10 thousand and $29 thousand for the three and nine months ended September 30, 2021.

NOTE 5 — COMMITMENTS AND CONTINGENCIES

The Bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the Bank is jointly and severally liable for the consolidated Systemwide bonds and notes of the other System banks. Total consolidated Bank and Systemwide obligations of the System at September 30, 2022 were approximately $377.15 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 September 30, 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	**$ 189,220**	$ —	$ 189,220	$ —
Available-for-sale investments				
Agency-guaranteed debt	**63,060**	—	63,060	$ —
Certificates of deposit	**149,356**	—	149,356	—
Corporate debt	**216,026**	—	216,026	—
Mortgage-backed securities	**5,107,947**	—	5,107,947	—
U.S. Treasury securities	**818,384**	—	818,384	—
Asset-backed securities	**154,785**	—	154,785	—
Other available-for-sale investments	**10,625**	—	—	10,625
Derivative assets	**15,948**	—	15,948	—
Assets held in nonqualified benefit trusts	**1,371**	1,371	—	—
Total assets	**$ 6,726,722**	$ 1,371	$ 6,714,726	$ 10,625
Liabilities:				
Letters of credit	**$ 2,489**	$ —	$ —	$ 2,489
Total liabilities	**$ 2,489**	$ —	$ —	$ 2,489

At September 30, 2022, there was no posted variation margin on derivatives. At September 30, 2022, the Bank had a derivative asset position of $72.7 million and received $56.8 million in cash collateral against that position during the quarter which resulted in derivative assets being in an asset position at September 30, 2022 of $15.9 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 July 1, 2022, to September 30, 2022:

	Assets	Liabilities	
	Agricultural Mortgage-Backed Securities	Letters of Credit	Net
Balance at July 1, 2022	$ 11,279	$ 2,382	$ 8,897
Net gains included in other comprehensive income	(70)	—	(70)
Purchases, issuances and (settlements)	(584)	107	(691)
Transfers out of level 3	—	—	—
Balance at September 30, 2022	$ 10,625	$ 2,489	$ 8,136
The amount of gains/losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at September 30, 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 September 30, 2022	$ (70)	$ —	$ (70)

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 September 30, 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)	(885)	—	(2,795)
Purchases, issuances, (sales) and (settlements)	133,820	(2,699)	(817)	131,938
Transfers out of Level 3	(190,869)	—		(190,869)
Balance at September 30, 2022	$ —	$ 10,625	$ 2,489	$ 8,136
The amount of gains/losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at September 30, 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 September 30, 2022	$ (1,910)	$ (885)	$ —	$ (2,795)

During the three and nine months ended September 30, 2022, the Bank made transfers of assets out of Level 3 to other levels. Transfers of mortgage-backed securities (MBS) from Level 3 to Level 2 were the result of market pricing becoming subsequently available. MBS were previously included in Level 3 since 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 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 September 30, 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	**$ 21,349**	**$ —**	**$ —**	**$ 21,349**
Total assets	**$ 21,349**	**$ —**	**$ —**	**$ 21,349**

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 at December 31, 2021.

The following table represents a reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the period from July 1, 2021, to September 30, 2021:

	Assets		Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage- Backed Securities	Letters of Credit	Net
Balance at July 1, 2021	$ 251,471	$ 19,421	$ 2,500	$ 268,392
Net gains included in other comprehensive income	(836)	(30)	—	(866)
Purchases, issuances and (settlements)	144,987	(3,484)	(228)	141,731
Transfers out of level 3	(251,471)	—	—	(251,471)
Balance at September 30, 2021	$ 144,151	$ 15,907	$ 2,272	$ 157,786
The amount of gains/losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at September 30, 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 September 30, 2021	$ (836)	$ (30)	$ —	$ (866)

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 September 30, 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	(1,687)	(15)	(82)	—	(1,784)
Purchases, issuances and (settlements)	437,684	11,975	(7,475)	(241)	442,425
Transfers out of level 3	(367,760)	(11,960)	—	—	(379,720)
Balance at September 30, 2021	$ 144,151	$ —	$ 15,907	$ 2,272	$ 157,786
The amount of gains/losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at September 30, 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 September 30, 2021	$ (1,687)	$ (15)	$ (82)	$ —	$ (1,784)

During the three and nine months ended September 30, 2021, the Bank made transfers of assets out of Level 3 to other levels. Transfers of asset-backed securities (ABS) and MBS from Level 3 to Level 2 were the result of market pricing becoming subsequently available. ABS and 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

The fair value of financial instruments measured at carrying amounts on the balance sheet for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement				
September 30, 2022:	**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	**$ 77,644**	**$ 77,644**	**$ —**	**$ —**	**$ 77,644**
Net loans	**27,973,394**	**—**	**—**	**26,006,233**	**26,006,233**
Total assets	**$ 28,051,038**	**$ 77,644**	**$ —**	**$ 26,006,233**	**$ 26,083,877**
Financial Liabilities:					
Systemwide debt securities	**$ 33,285,380**	**$ —**	**$ —**	**$ 31,370,278**	**$ 31,370,278**
Total liabilities	**$ 33,285,380**	**$ —**	**$ —**	**$ 31,370,278**	**$ 31,370,278**

	Fair Value Measurement				
December 31, 2021:	**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				Range of Inputs / Weighted Average	
	September 30, 2022	December 31, 2021	Valuation Technique(s)	Unobservable Input	September 30, 2022	December 31, 2021
Other investments	**$ 10,625**	$ 14,209	Discounted cash flow	Prepayment rates	**3.0% - 32.13% / 9.56%**	1.4% - 44.5% / 10.35%
Mortgage-backed securities	—	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 Discounted cash flow	Price for similar security Constant prepayment rate Appropriate interest rate yield curve
Interest rate caps	Discounted cash flow	Appropriate interest rate yield curve Annualized volatility
Interest rate swaps	Discounted cash flow	Benchmark yield curve Counterparty credit risk Volatility

NOTE 7 — ASSET/LIABILITY OFFSETTING

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

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

		Amounts Not Offset on the Balance Sheet		
September 30, 2022	**Gross Amounts of Assets/Liabilities Presented on the Balance Sheet**	**Cash Collateral Received/ (Pledged)**	**Investment Securities Received/Pledged as Collateral**	**Net Amount**
Assets:				
Interest rate swaps and other derivatives	**$ 72,709**	**$ 56,761**	**$ —**	**$ 15,948**
Federal funds sold and overnight investments	**$ 189,220**	**$ —**	**$ —**	**$ 189,220**
Liabilities:				
Interest rate swaps and other derivatives		**$ (42,749)**	**$ —**	**$ (42,749)**
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 and floors, in order to manage the impact of changes in interest rates.

At September 30, 2022, the Bank held interest rate caps with a notional amount of $115.0 million and a net fair value asset of $1.1 million, and pay-fixed interest rate swaps with a notional amount of $1.43 billion and a net fair value asset of $70.6 million. At September 30, 2022, there was no excess variation margin on the pay-fixed interest rate swaps. The primary types of derivative instruments used and the activity (notional amount of derivatives) during the nine months ended September 30, 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	600,000		600,000
Maturities/Amortizations		30,000	30,000
Balance at September 30, 2022	$ 1,425,000	$ 115,000	$ 1,540,000

To minimize the risk of credit losses, the Bank maintains collateral agreements to limit exposure to agreed-upon thresholds, deals with counterparties that have an investment grade or better credit rating from a major rating agency, and monitors the credit standing and levels of exposure to individual counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. At September 30, 2022, the Bank had posted $42.7 million of cash as collateral. At September 30, 2022, the Bank had a derivative asset value of $72.7 million and received $56.8 million in cash collateral against that position during the quarter from a counterparty. At December 31, 2021, the Bank had a derivative liability value of $67.4 million and posted $90.9 million of cash as collateral. No counterparty had been required to post collateral as of December 31, 2021. The decrease in collateral posted from December 31, 2021 to September 30, 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 September 30, 2022:

	Remaining Years to Maturity					
	Less Than One Year to Five Years	More Than Five Years	Total Gains (Losses)*	Exposure	Collateral (Posted) Received**	Exposure Net of Collateral
Moody's Credit Rating						
A2	$ —	$ 65	$ 65	$ 65		$ 65
Aa2	—	1,069	1,069	1,069		1,069
Aa3	8,639	61,973	70,612	70,612	14,012	56,600
Total	$ 8,639	$ 63,107	$ 71,746	$ 71,746	$ 14,012	$ 57,734

*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.

**Represents the netting of cash collateral posted of and received by counterparties under enforceable netting agreements. At September 30, 2022, the Bank had posted $42.7 million of cash as collateral and received cash collateral of $56.8 million, from a counterparty.

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item (principally, debt securities) attributable to the hedge risk are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. At September 30, 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 September 30, 2022, the Bank had a notional amount of cleared cash flow hedges of $1.43 billion with associated posted initial margin of $42.7 million. At September 30, 2022, all cleared cash flow hedges were in an asset position and the Bank received cash collateral from the counterparty of $56.8 million. 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 September 30, 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 $189 thousand recorded in accumulated other comprehensive loss (AOCL) as of September 30, 2022.

The following table represents the fair value of cash flow derivative instruments, inclusive of posted or received variation margin for cleared activity as of September 30, 2022 and December 31, 2021.

		Fair Value at			Fair Value at	
	Balance Sheet Location	September 30, 2022	December 31, 2021	Balance Sheet Location	September 30, 2022	December 31, 2021
Interest rate caps	Other assets	**$ 1,134**	$ 338	Other liabilities	**$ —**	$ —
Pay-fixed swaps	Other assets	**14,814**	—	Other liabilities	**—**	(7,614)
		$ 15,948	$ 338		**$ —**	$ (7,614)

	Gain Recognized in AOCL on Derivatives at September 30,			Amount of Loss Reclassified from AOCL at September 30,	
	2022	2021		2022	2021
Interest rate caps	**$ 797**	$ 73	Interest expense	**$ (163)**	$ (178)
Pay-fixed swaps	**137,112**	33,138	Interest expense	**—**	—
	$ 137,909	$ 33,211		**$ (163)**	$ (178)

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 September 30, 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 September 30, 2022	As of December 31, 2021
Common equity tier 1 ratio	7.00 %	**8.70 %**	9.55 %
Tier 1 capital ratio	8.50	**13.63**	15.09
Total capital ratio	10.50	**13.71**	15.17
Permanent capital ratio	7.00	**13.64**	15.10
Non-risk-adjusted			
Tier 1 leverage ratio	5.00 %	**5.87 %**	6.37 %
UREE leverage ratio	1.50	**2.40**	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 September 30, 2022:

(dollars in thousands)	Common Equity Tier 1 Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Permanent Capital Ratio
Numerator:				
Unallocated retained earnings	$ 1,006,786	$ 1,006,786	$ 1,006,786	$ 1,006,786
Adjustments for patronage or dividend accrued receivables and payables	(1,856)	(1,856)	(1,856)	(1,856)
Common Cooperative Equities:				
Purchased other required stock ≥7 years	373,398	373,398	373,398	373,398
Allocated stock ≥7 years	36,043	36,043	36,043	36,043
Allocated equities:				
Allocated equities held ≥7 years	66,804	66,804	66,804	66,804
Noncumulative perpetual preferred stock	—	750,000	750,000	750,000
Allowance for loan losses and reserve for credit losses subject to certain limitations	—	—	11,812	—
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(157,616)	(157,616)	(157,616)	(157,616)
Other regulatory required deductions	(217)	(217)	(217)	(217)
Total	$ 1,323,342	$ 2,073,342	$ 2,085,154	$ 2,073,342
Denominator:				
Risk-adjusted assets excluding allowance	$ 15,210,491	$ 15,210,491	$ 15,210,491	$ 15,210,491
Regulatory Adjustments and Deductions:				
Allowance for loan losses	—	—	—	(9,974)
Total	$ 15,210,491	$ 15,210,491	$ 15,210,491	$ 15,200,517

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 September 30, 2022:

(dollars in thousands)		Tier 1 Leverage Ratio	UREE Leverage Ratio
Numerator:			
Unallocated retained earnings		**$ 1,006,786**	**$ 1,006,786**
Adjustments for patronage or dividend accrued receivables and payables		**(1,856)**	**(1,856)**
Common Cooperative Equities:			
Purchased other required stock ≥7 years		**373,398**	**—**
Allocated stock ≥7 years		**36,043**	**—**
Allocated equities:			
Allocated equities held ≥7 years		**66,804**	**—**
Noncumulative perpetual preferred stock		**750,000**	**—**
Regulatory Adjustments and Deductions:			
Amount of allocated investments in other System institutions		**(157,616)**	**(157,616)**
Other regulatory required deductions		**(217)**	**(217)**
	Total	**$ 2,073,342**	**$ 847,096**
Denominator:			
Total assets		**35,472,418**	**35,472,418**
Regulatory Adjustments and Deductions:			
Regulatory deductions included in tier 1 capital		**(164,859)**	**(164,859)**
	Total	**$ 35,307,559**	**$ 35,307,559**

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 nine months ended September 30:

	2022	2021
Service cost	**$ 146**	$ 147
Interest cost	**291**	259
Amortization of prior service credits	**(59)**	(58)
	$ 378	$ 348

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 nine months ended September 30, 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	**(546,737)**	**(546,737)**		
Net change in unrealized losses on AFS securities	**(546,737)**	**(546,737)**		
Change in postretirement benefit plans:				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	**(59)**		**(59)**	
Net change in postretirement benefit plans	**(59)**		**(59)**	
Change in cash flow derivative instruments:				
Net increase in unrealized gains on cash flow derivative instruments	**137,909**			**137,909**
Reclassification of losses recognized in interest expense	**163**			**163**
Net change in cash flow derivative instruments	**138,072**			**138,072**
Total other comprehensive (loss) income	**(408,724)**	**(546,737)**	**(59)**	**138,072**
Balance at September 30, 2022	**$ (505,560)**	**$ (576,602)**	**$ (832)**	**$ 71,874**

The following is a summary of the components of AOCL and the changes that occurred during the nine months ended September 30, 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	(51,771)	(51,771)		
Net change in unrealized gains on AFS securities	(51,771)	(51,771)		
Change in postretirement benefit plans:				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(58)		(58)	
Net change in postretirement benefit plans	(58)		(58)	
Change in cash flow derivative instruments:				
Net increase in unrealized gains on cash flow derivative instruments	33,211			33,211
Reclassification of losses recognized in interest expense	178			178
Net change in cash flow derivative instruments	33,389			33,389
Total other comprehensive (loss) income	(18,440)	(51,771)	(58)	33,389
Balance at September 30, 2021	$ (47,267)	$ 28,236	$ (949)	$ (74,554)

The following table summarizes reclassifications from AOCL to the Statements of Comprehensive Income for the nine months ended September 30, 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	**$ (59)**	$ (58)	Salaries and employee benefits
Reclassification of losses on cash flow hedges	**163**	178	Interest expense
Total reclassifications	**$ 104**	$ 120	

NOTE 12 — SUBSEQUENT EVENTS

The Bank has evaluated subsequent events through November 9, 2022, which is the date the financial statements were issued. There are no subsequent events requiring disclosure as of November 9, 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	September 30, 2022 Quarterly Report Reference
Scope of Application	Corporate entity and structure	Page 47
Capital Structure	Regulatory capital components	Page 48
Capital Adequacy	Risk-weighted assets	Page 49
	Regulatory capital ratios	Page 49
Capital Buffers	Quantitative disclosures	Page 49
Credit Risk	Summary of exposures	Page 50
	Industry distribution	Page 50
	Contractual maturity	Page 50
	Geographic distribution	Page 51
	Impaired loans and allowance for credit losses	Note 3 - Page 24-31
Counterparty Credit Risk-Related Exposures	Counterparty exposures	Page 51
Credit Risk Mitigation	Exposures with reduced capital requirements	Page 51
Securitization	Securitization exposures	Page 51
Equities	General description	Page 52
Interest Rate Risk for Non-Trading Activities	Interest rate sensitivity	Page 52

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 September 30, 2022:

		90-Day Average Balance
Common equity tier 1 capital (CET1)		
Common cooperative equities:		
Purchased other required stock ≥7 years	$	**373,398**
Allocated stock ≥7 years		**36,043**
Other required member purchased stock		—
Allocated equities:		
Qualified allocated equities subject to retirement		**66,804**
Nonqualified allocated equities subject to retirement		—
Nonqualified allocated equities not subject to retirement		—
Unallocated retained earnings		**1,006,786**
Adjustments for patronage or dividend accrued receivables and payables		**(1,856)**
Paid-in capital		—
Regulatory adjustments and deductions made to CET1		**(157,833)**
Total CET1	**$**	**1,323,342**
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	**$**	**2,073,342**
Tier 2 capital		
Common cooperative equities not included in CET1	$	—
Tier 2 capital elements (allowance for loan losses)		**11,812**
Regulatory adjustments and deductions made to tier 2 capital		—
Total tier 2	**$**	**11,812**
Total capital	**$**	**2,085,154**

Capital Adequacy and Capital Buffers

The Bank's risk-adjusted regulatory capital ratios are calculated by dividing the relevant total capital elements by risk-weighted assets. The following table provides the Bank's risk-weighted assets at September 30, 2022:

	90-Day Average 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)	**3,961,989**
Exposures to depository institutions, foreign banks and credit unions	**3,110**
Exposures to public sector entities	—
Corporate exposures, including borrower loans and exposures to other financing institutions	**8,066,175**
Residential mortgage exposures	—
Past due and nonaccrual exposures	**22,829**
Securitization exposures	**89,992**
Exposures to other assets	**866,915**
Total Risk-Weighted Assets, On-Balance Sheet Assets	**13,011,010**
Off-Balance Sheet Assets:	
Letters of Credit	**100,642**
Commitments	**2,083,857**
Repo-styled transactions	**54**
Over-the-counter derivatives	**9,399**
Unsettled transactions	—
Cleared transactions	—
All other off-balance sheet exposures	**5,529**
Total Risk-Weighted Assets, Off-Balance Sheet Assets	**2,199,481**
Total Risk-Weighted Assets Before Adjustments	**15,210,491**
Additions:	
Intra-system equity investments	**157,833**
Deductions:	
Regulatory capital deductions	**(157,833)**
Total Standardized Risk-Weighted Assets	**$ 15,210,491**

Capital and Leverage Ratios

As of September 30, 2022, the Bank was well-capitalized and exceeded all capital requirements. The Bank's excess leverage of 0.87% 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 $19.0 million as of September 30, 2022.

	Regulatory Minimums	Capital Conservation Buffers	Ratios as of September 30, 2022	Calculated Buffers
Common equity tier 1 capital ratio	4.50%	2.50%	**8.70%**	4.20 %
Tier 1 capital ratio	6.00	2.50	**13.63**	7.63
Total capital ratio	8.00	2.50	**13.71**	5.71
Tier 1 leverage ratio	4.00	1.00	**5.87**	1.87

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 September 30, 2022.

Refer to the Risk-Adjusted Asset table below for the Bank's total loans, investment securities, off-balance sheet commitments and over-the-counter (OTC) derivatives. The following table illustrates the Bank's total loan exposure (including commitments) by loan type at September 30, 2022.

		Total Exposure
Direct notes receivable from District Associations	$	**23,661,457**
Real estate mortgage		**1,220,477**
Production and intermediate term		**1,478,608**
Agribusiness		
Loans to cooperatives		**1,142,459**
Processing and marketing		**4,687,800**
Farm-related business		**438,468**
Communications		**864,652**
Energy (rural utilities)		**2,223,080**
Water and waste disposal		**329,258**
Mission-related		**2,172**
Rural residential real estate		**1,843**
International		**376,439**
Leases		**8,273**
Loans to other financing institutions		**58,657**
Total	**$**	**36,493,643**

The following table provides an overview of the remaining contractual maturity of the Bank's credit risk portfolio categorized by exposure at September 30, 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	$	**4,425,952**	$	**8,934,990**	$	**14,625,293**	$	**27,986,235**
Off-balance sheet commitments								
Financial letters of credit		**23,899**		**76,899**		**3,860**		**104,658**
Performance letters of credit		**2,533**		**11,017**		**—**		**13,550**
Commercial letters of credit		**1,344**		**2,781**		**—**		**4,125**
Unfunded commitments		**5,133,197**		**3,064,954**		**186,924**		**8,385,075**
Investments		**545,350**		**920,260**		**5,054,573**		**6,520,183**
Derivatives (notional)		**200,000**		**240,000**		**1,100,000**		**1,540,000**
Total	**$**	**10,332,275**	**$**	**13,250,901**	**$**	**20,970,650**	**$**	**44,553,826**

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 September 30, 2022:

State	Percentage
Texas	**61 %**
Alabama	**7**
Mississippi	**7**
Louisiana	**4**
California	**2**
All other states	**19**
	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 September 30, 2022.

	Notional	Gross Positive Fair Values
Interest rate caps	**$ 115,000**	**$ 1,134**
Pay-fixed swaps	**1,425,000**	**56,600**
Total Derivatives	**$ 1,540,000**	**$ 57,734**

The following table provides the total exposure covered by guarantees/credit derivatives for each separately disclosed credit risk portfolio and the risk-weighted asset amount associated with that exposure. The Bank did not hold eligible financial collateral for its loan, investment and derivative portfolios at September 30, 2022.

Government Guaranteed Asset Type (dollars in thousands)	90-Day Average Balance	Risk Weighting	Risk-Weighted Amount
Investments	**$ 4,923,930**	**0%**	**$ —**
Loans	**2,071**	**0%**	**—**
Total	**$ 4,926,001**		**$ —**

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 September 30, 2022, nor did it have any outstanding exposures that it intended to be securitized at September 30, 2022. The Bank did not retain any credit-related re-securitization exposures at September 30, 2022.

Below is an overview of our purchased securitization exposures held at September 30, 2022, by exposure type and categorized by risk-weighting band and risk-based capital approach. At September 30, 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	$ **3,071,025**	**0%**
FNMA and FHLMC	Standardized risk weighting	**2,574,939**	**0%-20%**
Total agency MBS		$ **5,645,964**	
ABS:			
Small Business Administration	Standardized risk weighting	$ **87,110**	**0%**
ABS	Gross-up	**70,525**	**20%-100%**
Total ABS		$ **157,635**	

Equities

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

As of September 30, 2022	Disclosed in Other Assets	Life-to-Date (Losses) Recognized in Retained Earnings*
RBICs	$ **23,721**	$ **(3,708)**

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

Interest Rate Risk

The following table set forth the Bank's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy, based on the Bank's interest-earning assets and interest-bearing liabilities at September 30, 2022:

Basis points:	-165*	-100	+100	+200
Change in net interest income	-0.98%	-0.86%	0.73%	1.62%
Change in market value of equity	9.68%	5.84%	-5.46%	-10.30%

*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.