TEXAS FARM CREDIT DISTRICT

Third Quarter Report 2022

INTRODUCTION AND TEXAS FARM CREDIT DISTRICT OVERVIEW

(Unaudited)

The Farm Credit Bank of Texas (the Bank) and its related associations, collectively referred to as the Texas Farm Credit District (the District), are part of the Farm Credit System (the System). The System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. The District's chartered territory includes the states of Texas, Alabama, Mississippi, Louisiana and most of New Mexico. As of September 30, 2022, the Bank served one Federal Land Credit Association (FLCA) and 13 Agricultural Credit Associations (ACAs) (collectively referred to as Associations). The Bank also serves certain Other Financing Institutions (OFIs), which are not part of the System.

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

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

The following commentary reviews the combined financial statements of condition and results of operations of the District for the three and nine months ended September 30, 2022.

COMBINED FINANCIAL HIGHLIGHTS

(in thousands)	September 30, 2022	December 31, 2021
Total loans	**$ 35,998,950**	$ 33,175,189
Allowance for loan losses	**90,881**	85,470
Net loans	**35,908,069**	33,089,719
Total assets	**43,777,302**	40,963,826
Total members' equity	**5,440,840**	5,480,962

Nine Months Ended September 30	2022	2021
Net interest income	**$ 831,163**	$ 752,148
Provision for credit losses (loan loss reversal)	**6,715**	(7,543)
Net fee income	**31,589**	35,408
Net income	**505,854**	479,036
Net interest margin	**2.66 %**	2.77 %
Net loan charge-offs (recoveries) as a percentage of average loans	— %	— %
Return on average assets (ROA)	**1.58 %**	1.71 %
Return on average shareholders' equity (ROE)	**12.24 %**	11.75 %
Operating expenses as a percentage of net interest income and noninterest income	**42.50 %**	42.14 %
Average loans	**$ 34,817,417**	$ 30,212,679
Average interest earning assets	**41,775,799**	36,268,718
Average total assets	**42,786,284**	37,229,367

MANAGEMENT’S DISCUSSION AND ANALYSIS

(dollars in thousands, except as noted)

CONDITIONS IN THE TEXAS DISTRICT

Throughout the pandemic, the District continued to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit. Demand for District Associations’ retail loans has been historically high, leading to elevated growth across the Texas District. 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 $4 per 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 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 or credit quality in the District; however, it will take several weeks to fully assess the damage. The District 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 District's loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of the District's borrowers primarily rely on non-farm sources of income to repay their loans.

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 District was $168.4 million for the three months ended September 30, 2022, an increase of $12.2 million, or 7.82%, over the same period of 2021. The increase in net income was driven by a $27.7 million increase in net interest income and a $1.6 million increase in noninterest income, partially offset by a $11.0 million increase in noninterest expense, a $6.2 million increase in the provision for credit losses.

Net income for the District was $505.9 million for the nine months ended September 30, 2022, an increase of $26.8 million, or 5.60%, over the same period of 2021. The increase in net income was driven by a $79.0 million increase in net interest income, partially offset by a $35.3 million increase in noninterest expense, a $14.3 million increase in the provision for credit losses and a $3.0 million decrease in noninterest income.

Net Interest Income

Net interest income for the three months ended September 30, 2022 was $282.8 million, an increase of $27.7 million, or 10.86%, over the same period of 2021, driven by a $4.93 billion increase in District average earning assets, partially offset by a decrease in the net interest rate spread.

The decrease in the net interest spread of 14 basis points during the three months ended September 30, 2022 from 2.55% to 2.41% was attributable to a 83 basis point increase in the average rate on debt, partially offset by a 69 basis point increase in the average rate on interest earning assets. Net interest rate margin decreased by 5 basis points to 2.64% for the three months ended September 30, 2022 compared to 2.69% for the same period of 2021.

Net interest income for the nine months ended September 30, 2022 was $831.2 million, an increase of $79.0 million, or 10.51%, over the same period of 2021, driven by a $5.51 billion increase in District average earning assets, offset by a decrease in the net interest rate spread. The increase in earning assets for both periods, the three and nine months ended September 30, 2022, was driven by growth in the

Associations' loan portfolios due to favorable economic conditions in the Texas District and growth in the Bank's capital markets loan portfolio.

The 14 basis point decrease in the net interest spread during the nine months ended September 30, 2022 from 2.63% to 2.49% was attributable to a 40 basis point increase in the average rate on debt, partially offset by a 26 basis point increase in the average rate on interest earning assets. The net interest rate margin decreased by 11 basis points to 2.66% for the nine months ended September 30, 2022 compared to 2.77% for the same period of 2021.

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 $125.0 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 three and 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

The provision for credit losses for the three months ended September 30, 2022, totaled $6.4 million, an increase of $6.2 million compared to $193 thousand for the same period of 2021. The combined Associations recorded a provision for credit losses of $5.1 million for the three months ended September 30, 2022, compared to a loan loss reversal of $226 thousand for the same period of 2021. For the combined Associations, the provision for credit losses for the three months ended September 30, 2022 reflects credit deterioration in a few select borrowers. The Bank recorded a provision for credit losses of $1.3 million for the three months ended September 30, 2022 compared to $419 thousand for the same period of 2021. The provision for credit losses for the Bank 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 at a few select borrowers.

The provision for credit losses for the nine months ended September 30, 2022, totaled $6.7 million, an increase of $14.3 million from the loan loss reversal of $7.5 million recorded for the same period of 2021. The combined Associations recorded a provision for credit losses of $5.4 million for the nine months ended September 30, 2022 compared to a loan loss reversal of $10.6 million for the same period of 2021 reflecting credit deterioration in a few select borrowers, and stress in the dairy, cotton and corn industries. The Bank recorded a provision for credit losses of $1.3 million for the nine months ended September 30, 2022 compared to $3.1 million for the same period of 2021. The provision for credit losses recorded for the nine months ended September 30, 2022 for the Bank reflects 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 and loan growth.

Noninterest Income

Noninterest income for the three months ended September 30, 2022 was $19.5 million, an increase of $1.6 million, or 8.94%, compared to 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 (RBICs), partially offset by lower patronage income.

Noninterest income for the nine months ended September 30, 2022 was $60.5 million, a decrease of $3.0 million, or 4.73%, compared to the same period of 2021. The decrease was mainly due to a $3.8 million decrease in fees for loan-related services due to lower prepayment fees as the loan prepayment rate has decreased from the rising interest rate environment as well as a $3.3 million decrease in other income reflecting net losses during the nine months ended September 30, 2022 on valuation changes on the RBICs, partially offset by a $4.2 million increase in patronage income.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2022, totaled $127.4 million, an increase of $11.0 million, or 9.42%, from the same period of 2021. The increase in noninterest expense for the three months ended September 30, 2022 was primarily driven by an $5.2 million increase in FCSIC insurance expense due to a retroactive rate increase of 4 basis points to January of 2022, a $3.4 million increase in other operating expenses, primarily for training, travel due to fewer pandemic restrictions, and supervisory and examination expenses, and a $2.5 million increase in salaries and employee benefits.

Noninterest expense for the nine months ended September 30, 2022 totaled $379.0 million, an increase of $35.3 million, or 10.28%, from the same period of 2021. The increase in noninterest expense for the nine months ended September 30, 2022 was driven by a $15.2 million increase in FCSIC insurance expense due to a retroactive rate increase of 4 basis points to January of 2022, an $11.5 million increase in other operating expenses primarily for training, travel due to fewer pandemic restrictions and advertising, a $9.4 million increase in salaries and employee benefits, and a $2.4 million increase in occupancy and equipment, partially offset by a $3.1 million decrease in purchased services.

Loan Portfolio

The following table summarizes District loans by loan type:

	September 30, 2022	December 31, 2021
Real estate mortgage	**$ 22,176,683**	$ 20,906,907
Production and intermediate-term	**4,233,276**	4,021,114
Agribusiness:		
Loans to cooperatives	**766,986**	610,130
Processing and marketing	**4,807,996**	4,134,282
Farm-related business	**662,698**	557,816
Communications	**1,087,783**	926,645
Energy (rural utilities)	**1,421,759**	1,349,722
Water and waste disposal	**228,384**	164,665
Rural residential real estate	**286,104**	287,703
International	**212,056**	94,384
Mission-related	**34,844**	41,758
Loans to other financing institutions (OFIs)	**42,170**	39,067
Lease receivables	**38,211**	40,996
Total loans	**$ 35,998,950**	$ 33,175,189

The District loan portfolio consists of retail loans only. The Bank's loans to the District Associations, also referred to as direct notes, have been eliminated in the combined financial statements. Total District loan volume at September 30, 2022 was $36.00 billion, an increase of $2.82 billion, or 8.51%, from the $33.18 billion loan portfolio balance at December 31, 2021. The loan volume increase during the nine months ended September 30, 2022 was driven by a $1.77 billion increase in the District Associations' loan portfolios and a $1.1 billion increase in the Bank's capital markets loan portfolio.

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

Loan Quality

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

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

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

	September 30, 2022	**December 31, 2021**
Acceptable	**98.0%**	97.8%
OAEM (special mention)	**1.1**	1.3
Substandard/doubtful	**0.9**	0.9
Total	**100.0%**	100.0%

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

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

	September 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	**$ 64,999**	$ 44,826
Production and intermediate-term	**22,075**	13,572
Agribusiness	**31,388**	2,005
Energy (rural utilities)	**22,423**	25,090
Rural residential real estate	**206**	880
Leases	**1,297**	—
Mission-related	**—**	1
Total nonaccrual loans	**142,388**	86,374
Accruing restructured loans:		
Real estate mortgage	**20,059**	21,579
Production and intermediate-term	**2,887**	3,190
Agribusiness	**1,739**	—
Rural residential real estate	**122**	118
Mission-related	**4,078**	4,930
Total accruing restructured loans	**28,885**	29,817
Accruing loans 90 days or more past due:		
Real estate mortgage	**6,208**	478
Production and intermediate-term	**308**	2,810
Mission-related	**4,828**	—
Total accruing loans 90 days or more past due	**11,344**	3,288
Total nonperforming loans	**182,617**	119,479
Other property owned	**2,456**	2,479
Total nonperforming assets	**$ 185,073**	$ 121,958

The District's nonperforming loans are composed of nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due, and are also referred to as impaired loans. Nonperforming assets consist of nonperforming loans and other property owned (OPO). Total nonperforming assets have increased by $63.1 million, or 51.75%, from $122.0 million at December 31, 2021 compared to $185.1 million at September 30, 2022. The increase in nonaccrual loans since December 31, 2021 largely reflects the transfer of loans to nonaccrual associated borrowers in the agribusiness and dairy sectors.

At September 30, 2022, $70.5 million, or 49.54%, of loans classified as nonaccrual were current as to principal and interest, compared to $39.4 million, or 45.58%, of nonaccrual loans at December 31, 2021.

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**
Real estate mortgage	**$ 82,169**	**$ 38,658**	**$ 120,827**	**$ 22,250,119**	**$ 22,370,946**
Production and intermediate-term	**28,855**	**17,498**	**46,353**	**4,227,802**	**4,274,155**
Agribusiness	**6,066**	**—**	**6,066**	**6,260,542**	**6,266,608**
Communications	**—**	**—**	**—**	**1,088,804**	**1,088,804**
Energy (rural utilities)	**—**	**16,069**	**16,069**	**1,413,562**	**1,429,631**
Water and waste disposal	**—**	**—**	**—**	**228,999**	**228,999**
Rural residential real estate	**2,367**	**57**	**2,424**	**284,618**	**287,042**
International	**—**	**—**	**—**	**212,440**	**212,440**
Mission-related	**7,181**	**4,828**	**12,009**	**23,296**	**35,305**
Loans to OFIs	**—**	**—**	**—**	**42,289**	**42,289**
Lease receivables	**295**	**321**	**616**	**37,759**	**38,375**
Total loans	**$ 126,933**	**$ 77,431**	**$ 204,364**	**$ 36,070,230**	**$ 36,274,594**

December 31, 2021	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**
Real estate mortgage	$ 96,715	$ 16,372	$ 113,087	$ 20,957,168	$ 21,070,255
Production and intermediate-term	9,506	8,391	17,897	4,031,456	4,049,353
Agribusiness	1,160	—	1,160	5,319,239	5,320,399
Communications	—	—	—	927,018	927,018
Energy (rural utilities)	—	16,069	16,069	1,338,264	1,354,333
Water and waste disposal	—	—	—	165,506	165,506
Rural residential real estate	2,263	399	2,662	285,906	288,568
International	—	—	—	94,540	94,540
Mission-related	246	1	247	41,849	42,096
Loans to OFIs	—	—	—	39,125	39,125
Lease receivables	167	—	167	40,997	41,164
Total loans	$ 110,057	$ 41,232	$ 151,289	$ 33,241,068	$ 33,392,357

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

	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communi-cations	Energy and Water/Waste Disposal	Rural Residential Real Estate	Inter-national	Mission-Related	Loans to OFIs	Lease Receivables	Total
Allowance for Loan Losses:											
June 30, 2022	$ 44,914	$ 14,689	$ 15,615	$ 924	$ 6,236	$ 318	$ 95	$ 128	$ —	$ 117	$ 83,036
Provision for credit losses/(Loan loss reversal)	1,619	1,885	5,782	36	(19)	(9)	2	(66)	—	(5)	9,225
Recoveries	80	187	4	—	—	—	—	—	—	—	271
Charge-offs	(312)	(262)	—	—	—	—	—	—	—	—	(574)
Other*	(83)	(620)	(423)	(8)	68	—	(11)	—	—	—	(1,077)
September 30, 2022	$ 46,218	$ 15,879	$ 20,978	$ 952	$ 6,285	$ 309	$ 86	$ 62	$ —	$ 112	$ 90,881
December 31, 2021	$ 44,490	$ 15,495	$ 14,701	$ 824	$ 9,296	$ 313	$ 90	$ 128	$ —	$ 133	$ 85,470
Provision for credit losses/(Loan loss reversal)	2,093	1,027	6,615	145	(3,077)	(4)	5	(66)	—	(22)	6,716
Recoveries	116	590	5	—	—	—	—	—	—	—	711
Charge-offs	(388)	(263)	—	—	—	—	—	—	—	—	(651)
Other*	(93)	(970)	(343)	(17)	66	—	(9)	—	—	1	(1,365)
September 30, 2022	$ 46,218	$ 15,879	$ 20,978	$ 952	$ 6,285	$ 309	$ 86	$ 62	$ —	$ 112	$ 90,881
Individually evaluated for impairment	$ 2,692	$ 1,682	$ 1,546	$ —	$ 5,136	$ 7	$ —	$ 60	$ —	$ —	$ 11,123
Collectively evaluated for impairment	43,526	14,197	19,432	952	1,149	302	86	2	—	112	79,758
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—	—	—
September 30, 2022	$ 46,218	$ 15,879	$ 20,978	$ 952	$ 6,285	$ 309	$ 86	$ 62	$ —	$ 112	$ 90,881
Recorded Investments in Loans Outstanding:											
Loans individually evaluated for impairment	$ 93,714	$ 25,784	$ 33,127	$ —	$ 22,423	$ 482	$ —	$ 8,907	$ 42,289	$ 1,297	$ 228,023
Loans collectively evaluated for impairment	22,277,232	4,248,371	6,233,481	1,088,804	1,636,207	286,560	212,440	26,398	—	37,078	36,046,571
Loans acquired with deteriorated credit quality	—	—	—	—	—	—	—	—	—	—	—
Balance at September 30, 2022	$22,370,946	$4,274,155	$6,266,608	$1,088,804	$1,658,630	$287,042	$212,440	$35,305	$42,289	$38,375	$36,274,594

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

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

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

Loans, net of the allowance for loan losses, represented 82.02% of total assets at September 30, 2022 and 80.78% as of December 31, 2021.

Investments

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2022				
Bank investments	**$ 7,096,785**	**$ 445**	**$ (577,047)**	**$ 6,520,183**
District Association investments	**133,969**	**1,154**	**(169)**	**134,954**
Total District investments	**$ 7,230,754**	**$ 1,599**	**$ (577,216)**	**$ 6,655,137**
December 31, 2021				
Bank investments	$ 6,590,103	$ 30,202	$ (60,066)	$ 6,560,239
District Association investments	120,735	888	(110)	121,513
Total District investments	$ 6,710,838	$ 31,090	$ (60,176)	$ 6,681,752

The District Associations' investments in the preceding tables include held-to-maturity securities with an amortized cost of $4.1 million, an unrealized net loss of $188 thousand, and a fair value of $3.9 million as of September 30, 2022 and an amortized cost of $6.1 million, an unrealized net gain of $108 thousand, and a fair value of $6.3 million as of December 31, 2021. These securities are reported at amortized cost and included in investment securities on the balance sheets.

Capital Resources

The District's equity totaled $5.44 billion at September 30, 2022, including $1.03 billion in preferred stock, $72.9 million in capital stock and participation certificates, $4.68 billion in retained earnings and $222.0 million in additional paid-in-capital, offset by accumulated other comprehensive loss of $563.2 million.

Borrower equity purchases required by District Association capitalization bylaws, combined with a history of growth in retained earnings at District institutions, have resulted in District institutions being able to maintain strong capital positions. The $5.44 billion capital position of the District at September 30, 2022 decreased by $40.1 million compared to the capital position of $5.48 billion at December 31, 2021. The change since December 31, 2021 reflects a $404.4 million increase in accumulated other comprehensive loss, dividend payments of $46.8 million, estimated patronage payments of $75.8 million, and preferred stock retirements of $20.0 million, partially offset by year-to-date income of $505.9 million and $1.0 million in capital stock and allocated equities issued.

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

	September 30, 2022	December 31, 2021
Unrealized losses on investment securities	$ (575,617)	$ (29,194)
Derivatives and hedging position	71,874	(66,199)
Employee benefit plan position	(59,419)	(63,405)
Total Accumulated Other Comprehensive Loss	$ (563,162)	$ (158,798)

Accumulated other comprehensive loss totaled $563.2 million at September 30, 2022, an increase of $404.4 million from December 31, 2021. The increase in accumulated other comprehensive loss reflects a $546.4 million increase in unrealized losses on the Bank's available-for-sale investments, a $138.1 million decrease related to changes in the valuation of interest rate swaps at the Bank and a $4.0 million decrease in unrealized losses on pension and other postretirement benefit plans. All changes are primarily attributable to increases in interest rates.

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

September 30, 2022	Primary Components of Numerator	Regulatory Minimums with Capital Conservation Buffers	Bank	District Associations
Risk adjusted:				
Common equity tier 1 capital ratio	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	7.00%	8.70%	9.75% - 17.81%
Tier 1 capital ratio	CET1 capital, noncumulative perpetual preferred stock	8.50%	13.63%	11.08% - 17.81%
Total capital ratio	Tier 1 capital, allowance for loan losses[2], common cooperative equities[3] and term preferred stock and subordinated debt[4]	10.50%	13.71%	11.25% - 18.25%
Permanent capital ratio	Retained earnings, common stock, noncumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.00%	13.64%	11.10% - 17.89%
Non-risk adjusted:				
Tier 1 leverage ratio*	Tier 1 capital	5.00%	5.87%	9.85% - 17.10%
UREE leverage ratio	URE and URE equivalents	1.50%	2.40%	4.73% - 18.28%

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

[1]Equities outstanding 7 or more years

[2]Capped at 1.25% of risk-adjusted assets

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

[4]Outstanding 5 or more years

Combined Balance Sheets

(Unaudited)

(in thousands)	September 30, 2022	December 31, 2021
ASSETS		
Cash	**$ 78,103**	$ 160,593
Federal funds sold and overnight investments	**189,220**	194,223
Investment securities	**6,655,137**	6,681,644
Loans	**35,998,950**	33,175,189
Less allowance for loan losses	**90,881**	85,470
Net loans	**35,908,069**	33,089,719
Accrued interest receivable	**291,967**	226,266
Premises and equipment, net	**266,248**	264,404
Other assets	**388,558**	346,977
Total assets	**$ 43,777,302**	$ 40,963,826
LIABILITIES		
Bonds and notes	**$ 37,635,380**	$ 34,640,428
Accrued interest payable	**137,520**	65,388
Patronage distributions payable	**64,485**	248,718
Preferred stock dividends payable	**11,600**	11,600
Other liabilities	**487,477**	516,730
Total liabilities	**38,336,462**	35,482,864
MEMBERS' EQUITY		
Preferred stock	**1,030,000**	1,050,000
Capital stock and participation certificates	**72,919**	72,262
Allocated retained earnings	**884,464**	944,007
Unallocated retained earnings	**3,794,591**	3,351,465
Additional paid-in-capital	**222,026**	222,026
Accumulated other comprehensive loss	**(563,161)**	(158,798)
Total members' equity	**5,440,840**	5,480,962
Total liabilities and members' equity	**$ 43,777,302**	$ 40,963,826

Combined Statements of Income

(Unaudited)

(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				
Investment securities	**$ 32,435**	$ 17,198	**$ 79,018**	$ 54,426
Loans	**425,384**	321,402	**1,138,110**	932,337
Total interest income	**457,819**	338,600	**1,217,128**	986,763
Interest Expense				
Bonds and notes	**147,163**	76,409	**337,288**	213,015
Notes payable and other	**27,833**	7,068	**48,677**	21,600
Total interest expense	**174,996**	83,477	**385,965**	234,615
Net interest income	**282,823**	255,123	**831,163**	752,148
Provision for credit losses (Loan loss reversal)	**6,396**	193	**6,715**	(7,543)
Net interest income after provision for credit losses (loan loss reversal)	**276,427**	254,930	**824,448**	759,691
Noninterest income				
Patronage income	**3,609**	4,252	**18,170**	14,017
Fees for loan-related services	**11,209**	10,459	**31,589**	35,408
Other income, net	**4,634**	3,145	**10,790**	14,133
Total noninterest income	**19,452**	17,856	**60,549**	63,558
Noninterest expense				
Salaries and employee benefits	**67,538**	65,081	**200,000**	190,598
Occupancy and equipment	**13,441**	12,449	**42,562**	40,164
Purchased services	**10,619**	11,668	**31,998**	35,083
Farm Credit System Insurance Corporation expense	**16,446**	11,296	**48,043**	32,892
Other operating expenses	**19,363**	15,942	**56,432**	44,980
Total noninterest expense	**127,407**	116,436	**379,035**	343,717
Income before income taxes	**168,472**	156,350	**505,962**	479,532
Provision for income taxes	**59**	150	**108**	496
Net income	**$ 168,413**	$ 156,200	**$ 505,854**	$ 479,036

Select Information on District Associations

(Unaudited)

(in thousands) **As of September 30, 2022**	Direct Notes	% of Total Direct Notes	Total Assets	Total Allowance and Capital	Total Capital Ratio	Nonperforming Loans as a % of Total Loans	Annualized ROA
Ag New Mexico, Farm Credit Services, ACA	$ 331,471	1.39%	$ 394,964	$ 55,035	12.45%	0.95%	1.31%
AgTexas Farm Credit Services	2,466,126	10.33%	2,939,745	422,980	13.53%	1.23%	1.93%
Alabama Ag Credit, ACA	1,094,365	4.58%	1,333,423	234,951	15.93%	0.63%	1.67%
Alabama Farm Credit, ACA	999,341	4.18%	1,157,654	153,526	12.00%	0.68%	1.55%
Capital Farm Credit, ACA	9,819,224	41.11%	11,778,639	1,799,649	13.51%	0.55%	2.46%
Central Texas Farm Credit, ACA	535,385	2.24%	669,701	130,360	17.16%	0.60%	1.82%
Heritage Land Bank, ACA	575,471	2.41%	686,072	105,915	14.23%	0.26%	1.39%
Legacy Ag Credit, ACA	305,943	1.28%	374,448	67,585	18.21%	1.30%	1.46%
Lone Star, ACA	2,088,342	8.74%	2,535,244	431,066	15.27%	0.13%	2.09%
Louisiana Land Bank, ACA	865,878	3.63%	1,059,345	190,495	15.80%	1.06%	1.77%
Mississippi Land Bank, ACA	819,816	3.43%	996,796	162,189	14.51%	0.15%	1.62%
Plains Land Bank, FLCA	822,405	3.44%	984,373	159,356	14.10%	0.21%	2.35%
Southern AgCredit, ACA	1,181,704	4.95%	1,418,440	216,198	14.05%	0.11%	1.83%
Texas Farm Credit Services	1,980,688	8.29%	2,275,773	274,711	11.56%	0.58%	2.16%
Totals	$ 23,886,159	100.00%	$28,604,617	$4,404,016			

District Contact Information

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