First Quarter Report
2023

TEXAS
FARM CREDIT
DISTRICT

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 March 31, 2023, 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 months ended March 31, 2023.

COMBINED FINANCIAL HIGHLIGHTS

(in thousands)	March 31, 2023	December 31, 2022
Total loans	**$ 37,338,155**	$ 36,421,444
Allowance for credit losses	**109,012**	85,517
Net loans	**37,229,143**	36,335,927
Total assets	**46,033,283**	44,580,370
Total members' equity	**5,427,052**	5,306,032

Three Months Ended March 31	**2023**	**2022**
Net interest income	**$ 279,265**	$ 272,924
Provision for credit losses (loan loss reversal)	**25,992**	(2,509)
Net fee income	**9,517**	10,112
Net income	**143,805**	171,690
Net interest margin	**2.55 %**	2.70 %
Net loan charge-offs (recoveries) as a percentage of average loans	**0.14**	—
Return on average assets (ROA)	**1.26**	1.65
Return on average shareholders' equity (ROE)	**10.67**	12.53
Operating expenses as a percentage of net interest income and noninterest income	**44.35**	42.48
Average loans	**$ 37,151,724**	$ 33,971,959
Average interest earning assets	**44,382,151**	40,973,695
Average total assets	**45,438,034**	41,945,836

MANAGEMENT'S DISCUSSION AND ANALYSIS

(dollars in thousands, except as noted)

CONDITIONS IN THE TEXAS DISTRICT

The Texas District has continued to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit in the midst of above normal macroeconomic volatility driven by factors such as persistently high inflation, a rapidly increasing interest rate environment, and financial market stress that led to the failure of two U.S. regional banks in March 2023. Regulators, governmental agencies and other banks have since taken action to prevent further contagion from occurring. The Texas District is closely monitoring the situation but does not anticipate any direct impacts resulting from these bank failures.

The Consumer Price Index for All Urban Consumers increased by 5.0% for the 12-month period ending March 2023, down from 6.5% in December, and 8.5% for the same period in 2022. A four-decade high of 9.1% was reached in June 2022, but the rate of inflation has been receding month-over-month since that time. As of May 3, 2023, the range of the Federal funds target rate was 5.00 – 5.25%, including the latest 25 basis point increase that became effective on May 3, 2023. At the meeting on May 3, 2023, the Federal Open Market Committee (FOMC) signaled it could now pause rate hikes if inflation continues to ease as expected.

On March 30, the U.S. Bureau of Economic Analysis (BEA) released its third estimate of real gross domestic product (GDP) for the fourth quarter of 2022. After two consecutive quarters of negative growth during the first half of 2022, the U.S. economy expanded at annualized rates of 3.2% and 2.6%, respectively, in the third and fourth quarters of 2022. The International Monetary Fund's World Economic Outlook Update released in April 2023 stated that U.S. real GDP growth is estimated to be 1.6% in 2023 and 1.1% in 2024. Additionally, the BEA released fourth quarter 2022 annualized real GDP growth rates for the Texas District on March 31. Growth rates ranged from a low of 1.5% in Mississippi to a high of 7.0% in Texas. Texas led the nation in real GDP growth during the fourth quarter.

The U.S. Bureau of Labor Statistics indicated that the U.S. unemployment rate increased month-over-month from 3.4% in January to 3.6% in February 2023. Despite the slight increase, the unemployment rate remained below the prior year level and historical averages. The February 2023 state unemployment rates in the Texas District ranged from a low of 2.5% in Alabama to a high of 4.0% in Texas. Although unemployment rates increased in three of the five Texas District states month-over-month during February and from December 2022, employment conditions remained strong.

The West Texas Intermediate (WTI) crude oil futures price (front-month) decreased to an average of about $76 per barrel during the first quarter of 2023 from $83 per barrel in the prior quarter and about $95 per barrel during the same period a year ago. In the March 2023 edition of the Short-Term Energy Outlook, the U.S. Energy Information Administration estimated that the monthly average WTI spot price would be about $77 per barrel in 2023 and nearly $72 per barrel in 2024. However, production cuts announced by major oil-exporting countries in early April are likely to contribute to higher global oil prices relative to earlier estimates.

On March 31, 2023, the U.S. Department of Agriculture (USDA) released its 2023 Prospective Plantings report. Corn planted area was estimated at 92.0 million acres in 2023, up nearly 4.0% from last year. Corn planted acreage is expected to be up or unchanged in 40 of the 48 estimating states. Soybean planted area for 2023 was estimated at 87.5 million acres, up slightly from last year. All wheat planted area is estimated at 49.9 million acres, up about 9.1% from 2022. All cotton planted area was estimated at 11.3 million acres, down about 18.2% from last year. These estimates are derived via a survey of farmers' intentions and are subject to change throughout the season.

USDA indicated in its March 2023 World Agricultural Supply and Demand Estimates (WASDE) report that farmers are likely to receive higher prices for corn (+10.0%), soybeans (+7.5%), and wheat (+18.0%) in the 2022/23 marketing year compared to the previous season. However, cotton producers are projected to receive lower prices (-9.2%) as exports and domestic use are expected to decline. Additionally, the average price received by farmers for all milk is projected to decrease by about 20.0% year-over-year in 2023, after rising nearly 38.0% in 2022. USDA projects that average steer prices (5-Area, Direct) will continue rising year-over-year by about 12.2% in 2023, while broilers and barrows and gilts prices are projected to decline by about 7.3% and 9.6%, respectively. Random length lumber futures prices declined by more than 60.0% year-over-year as of March 2023, as interest rates have continued to rise and the possibility of a recession remains elevated.

At least two significant climate-related events impacted the Texas District during the first quarter of 2023. A winter storm brought freezing rain and sleet to Texas during late January and early February. The storm resulted in power outages for more than 300,000 customers, damage to vegetation and dangerous travel conditions. Additionally, powerful thunderstorms swept through Mississippi and Alabama on the evening of March 24, 2023, producing multiple tornadoes. The National Weather Service indicated that there were 20 reports of tornadoes across the two states on March 24. Although these storms caused significant damage in some local areas, none are anticipated to have a material impact on the Texas District's loan portfolios.

During 2023, agricultural producers and processors may be negatively impacted by several factors, including volatile commodity prices, high input costs, export market disruptions, geopolitical challenges, and adverse weather conditions. The Texas District's loan portfolio is well-supported by industry diversification and conservative advance rates. Additionally, a high percentage of the District's borrowers primarily rely on non-farm sources of income to repay their loans.

Adoption of New Accounting Standard

Effective January 1, 2023, the District adopted the current expected credit losses (CECL) accounting guidance that replaced the incurred loss guidance. CECL established a single allowance framework for financial assets carried at amortized cost and certain off-balance sheet credit exposures, changing the impairment recognition model for available-for-sale securities. CECL requires management to consider in its estimate of allowance for credit losses (ACL) relevant historical events, current conditions and reasonable and supportable forecasts that affect the collectability of the assets. The adoption of this guidance resulted in a cumulative effect transition adjustment at January 1, 2023 reflecting an increase in the District's ACL of $12.3 million on outstanding loans and unfunded commitments and a corresponding decrease in retained earnings . The adoption did not warrant a cumulative effect transition adjustment for the District's available-for-sale securities.

Results of Operations

Net Income

Net income for the District was $143.8 million for the three months ended March 31, 2023, a decrease of $27.9 million, or 16.24%, over the same period of 2022. The decrease in net income was driven by a $28.5 million increase in the provision for credit losses and a $10.4 million increase in noninterest expense, partially offset by a $6.3 million increase in net interest income and a $4.7 million increase in noninterest income.

Net income for the District was $171.7 million for the three months ended March 31, 2022, an increase of $7.8 million, or 4.76%, over the same time period of 2021. The increase in net income was driven by a $25.6 million increase in net interest income, partially offset by a $1.1 million decrease in noninterest income, and a $13.0 million increase in noninterest expense.

Net Interest Income

Net interest income for the three months ended March 31, 2023 was $279.3 million, an increase of $6.3 million, or 2.32%, over the same period of 2022, driven by a $3.41 billion increase in District average earning assets, partially offset by a decrease in the net interest rate spread. The net interest spread for the three months ended March 31, 2023 decreased 39 basis points from 2.57% to 2.18% attributable to a 210 basis point increase in the average rate on debt, partially offset by 171 basis point increase in the average rate on interest earning assets. Net interest rate margin decreased by 15 basis points to 2.55% compared to 2.70% for the same period of 2022.

Net interest income for the three months ended March 31, 2022 was $272.9 million, an increase of $25.6 million, or 10.35%, over the same period of 2021, driven by a $5.85 billion increase in District average earning assets, partially offset by a decrease in the net interest rate spread. The increase in earning assets was driven by growth in the associations' loan portfolios, as their borrowers took advantage of the low interest rate environment and the strong economic conditions in the Texas District and growth in the Bank's capital markets loan portfolio and liquidity investment portfolio. The net interest rate margin decreased by 16 basis points to 2.70% for the three months ended March 31, 2022, compared to 2.86% for the same period of the prior year.

Provision for Credit Losses

As previously discussed, effective January 1, 2023, the District adopted the CECL accounting guidance for determining the allowance for credit losses. Prior to January 1, 2023, the allowance for credit losses was based on probable and estimable losses inherent in the loan portfolio.

During the three months ended March 31, 2023, the provision for credit losses totaled $26.0 million, an increase of $28.5 million compared to a loan loss reversal of $2.5 million for the same period of 2022. The combined Associations recorded a provision for credit losses of $3.6 million compared to a loan loss reversal of $1.6 million for the same period of 2022. The Bank recorded a provision for credit losses of $22.4 million compared to a loan loss reversal of $865 thousand for the same period of 2022.

The provision for credit losses for the combined Associations during the three months ended March 31, 2023 reflects credit deterioration in a few select borrowers in the production and intermediate-term, agribusiness and lease receivables sectors as well as charge-offs in the production and intermediate-term sector.

The provision for credit losses for the Bank for the three months ended March 31, 2023 is primarily due to specific reserves and related charge-offs resulting from credit deterioration among select borrowers in the agribusiness and energy sectors. Macroeconomic conditions, including inflationary pressure and high input costs, contributed to reduced liquidity and profitability for these borrowers. In spite of these conditions, overall loan credit quality at the Bank remained stable at 99.7% acceptable and special mention at March 31, 2023 as compared to 99.7% at December 31, 2022.

Noninterest Income

Noninterest income for the three months ended March 31, 2023 was $25.9 million, an increase of $4.7 million, or 22%, compared to the same period of 2022. The increase was driven by an increase in patronage income of $2.3 million and a gain of $2.0 million in other income related to an extinguishment of debt and a $1.2 million gain on a swap unwind.

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

Noninterest Expense

Noninterest expense for the three months ended March 31, 2023, totaled $135.4 million, an increase of $10.4 million, or 8.34%, from the same period of 2022. The increase in noninterest expense for the three months ended March 31, 2023 was primarily driven by a $3.8 million increase in salaries and employee benefits, a $3.4 million increase year over year in FCSIC insurance expense due to an increase in outstanding debt resulting from asset growth, a $2.8 million increase in occupancy and equipment for software licensing and depreciation expense, and a $1.4 million increase in other operating expenses, primarily for training, travel, and supervisory and examination expenses, partially offset by a $1.0 million decrease in purchased services.

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

Loan Portfolio

The following table summarizes District loans by loan type:

	March 31, 2023	December 31, 2022
Real estate mortgage	**$ 22,059,030**	$ 22,114,936
Production and intermediate-term	**4,667,725**	4,555,061
Agribusiness:		
Loans to cooperatives	**839,737**	695,077
Processing and marketing	**5,240,063**	5,003,502
Farm-related business	**697,127**	623,805
Communications	**1,170,047**	1,134,299
Energy (rural utilities)	**1,648,910**	1,512,093
Water and waste disposal	**299,333**	248,392
Rural residential real estate	**277,355**	281,281
International	**315,651**	128,201
Mission-related	**33,979**	34,635
Loans to other financing institutions (OFIs)	**53,845**	51,878
Lease receivables	**35,353**	38,284
Total loans	**$ 37,338,155**	$ 36,421,444

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 March 31, 2023 was $37.34 billion, an increase of $916.7 million, or 2.52%, from the $36.42 billion loan portfolio balance at December 31, 2022. The loan volume increase of $916.7 million during the three months ended March 31, 2023 was driven by a $337.2 million increase in the District Associations' loan portfolios and a $579.5 million increase in the Bank's capital markets loan portfolio.

The Bank's capital markets loan portfolio, also referred to as participations purchased loan portfolio, predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. In addition to purchasing loans from District 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 the amortized cost of loans (principal balance adjusted for discounts, premiums, charge-offs, recoveries and deferred loan fees and costs) classified under the Uniform Loan Classification System by origination year as of March 31, 2023:

	Acceptable	OAEM (Special Mention)	Substandard/ Doubtful	Total	Current Period Gross Charge-offs
2023	$ 1,271,155	$ 6,956	$ 12,993	$ 1,291,104	$ —
2022	7,327,907	45,609	9,077	7,382,593	5,939
2021	8,025,120	84,866	31,471	8,141,457	—
2020	5,033,222	29,857	65,851	5,128,930	1
2019	2,427,493	17,010	64,687	2,509,190	48
Prior	7,016,016	63,197	60,766	7,139,979	2,960
Revolving loans	5,341,186	50,752	59,958	5,451,896	4,395
Revolving loans converted to term	268,593	3,920	20,493	293,006	—
Total	$ 36,710,692	$ 302,167	$ 325,296	$ 37,338,155	$ 13,343

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 as of December 31, 2022:

	December 31, 2022	
	Amount	Percentage
Acceptable	$ 36,125,810	98.4%
OAEM (special mention)	262,519	0.7
Substandard/doubtful	334,826	0.9
Total	$ 36,723,155	100.0%

Overall credit quality in the District and at the District Associations remained strong at March 31, 2023. Loans classified as acceptable or OAEM as a percentage of total loans were 99.1% at both March 31, 2023 and December 31, 2022.

The table below summarizes the amortized cost of the District's nonperforming assets, which consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned, at March 31, 2023 and December 31, 2022.

	March 31, 2023	December 31, 2022
Nonaccrual loans:		
Real estate mortgage	**$ 58,439**	$ 56,389
Production and intermediate-term	**20,376**	16,407
Agribusiness	**102,219**	55,879
Energy and water/waste disposal	**12,320**	9,880
Rural residential real estate	**187**	279
Leases	**921**	1,297
Total nonaccrual loans	**194,462**	140,131
Accruing loans 90 days or more past due		
Real estate mortgage	**7,059**	7,891
Production and intermediate-term	**157**	1,431
International	**2,270**	5,032
Total accruing loans 90 days or more past due	**9,486**	14,354
Other property owned	**1,238**	4,712
Total nonperforming assets	**$ 205,186**	$ 159,197

Note: The balances for accruing loans 90 days or more past due at March 31, 2023 reflect the amortized cost of the loans while the balances for accruing loans 90 days or more past due at December 31, 2022 reflect the amortized cost plus accrued interest.

The District's nonaccrual loans increased by $54.3 million, or 38.8%, from $140.1 million at December 31, 2022 to $194.5 million at March 31, 2023. The increase in nonaccrual loans since December 31, 2022 largely reflects the movement of loans to nonaccrual during the first quarter of 2023 resulting from credit deterioration among select borrowers in the agribusiness, energy and water/waste disposal and production and intermediate-term sectors.

At March 31, 2023, $136.6 million, or 69.78%, of loans classified as nonaccrual were current as to principal and interest, compared to $80.4 million, or 57.4%, of nonaccrual loans at December 31, 2022.

The following tables provide an aging analysis of past due loans at amortized cost by portfolio segment as of March 31, 2023:

March 31, 2023	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	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 95,895**	**$ 36,524**	**$ 132,419**	**$ 21,926,611**	**$ 22,059,030**	**$ 7,059**
Production and intermediate-term	**47,215**	**10,209**	**57,424**	**4,610,301**	**4,667,725**	**157**
Agribusiness	**16,361**	**—**	**16,361**	**6,760,566**	**6,776,927**	**—**
Communications	**—**	**—**	**—**	**1,170,047**	**1,170,047**	**—**
Energy and water/waste disposal	**—**	**6**	**6**	**1,948,237**	**1,948,243**	**—**
Rural residential real estate	**2,199**	**—**	**2,199**	**275,156**	**277,355**	**—**
International	**—**	**—**	**—**	**315,651**	**315,651**	**—**
Mission-related	**1,510**	**2,269**	**3,779**	**30,200**	**33,979**	**2,270**
Loans to OFIs	**—**	**—**	**—**	**53,845**	**53,845**	**—**
Lease receivables	**193**	**921**	**1,114**	**34,239**	**35,353**	**—**
Total loans	**$ 163,373**	**$ 49,929**	**$ 213,302**	**$ 37,124,853**	**$ 37,338,155**	**$ 9,486**

Prior to the adoption of CECL, the aging analysis of past due loans reported included accrued interest as follows:

December 31, 2022	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 92,420	$ 36,756	$ 129,176	$ 22,183,978	$ 22,313,154	$ 7,891
Production and intermediate-term	37,334	12,375	49,709	4,553,960	4,603,669	1,431
Agribusiness	18,382	2,387	20,769	6,341,264	6,362,033	—
Communications	—	—	—	1,137,459	1,137,459	—
Energy and water/waste disposal	—	6	6	1,769,517	1,769,523	—
Rural residential real estate	2,419	79	2,498	279,725	282,223	—
International	—	—	—	129,559	129,559	—
Mission-related	3,176	5,032	8,208	26,837	35,045	5,032
Loans to OFIs	—	—	—	52,054	52,054	—
Lease receivables	245	1,297	1,542	36,894	38,436	—
Total loans	$ 153,976	$ 57,932	$ 211,908	$ 36,511,247	$ 36,723,155	$ 14,354

A summary of changes in the allowance for credit losses for loans and unfunded commitments are 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 Credit Losses:											
Balance at December 31, 2022	**$ 44,759**	**$ 13,539**	**$ 21,628**	**$ 959**	**$ 3,700**	**$ 319**	**$ 80**	**$ 63**	**$ —**	**$ 470**	**$ 85,517**
Cumulative effect adjustment	**5,969**	**(3,237)**	**5,287**	**382**	**623**	**375**	**15**	**(10)**	**—**	**208**	**9,612**
Balance at January 1, 2023	**50,728**	**10,302**	**26,915**	**1,341**	**4,323**	**694**	**95**	**53**	**—**	**678**	**95,129**
Charge-offs	**(60)**	**(1,783)**	**(11,124)**	**—**	**—**	**—**	**—**	**—**	**—**	**(376)**	**(13,343)**
Recoveries	**83**	**61**	**2**	**—**	**—**	**—**	**—**	**6**	**—**	**—**	**152**
Provision for credit losses/(Loan loss reversal)	**537**	**2,704**	**21,685**	**258**	**1,543**	**19**	**13**	**(41)**	**—**	**356**	**27,074**
Balance at March 31, 2023	**$ 51,288**	**$ 11,284**	**$ 37,478**	**$ 1,599**	**$ 5,866**	**$ 713**	**$ 108**	**$ 18**	**$ —**	**$ 658**	**$ 109,012**
Reserve for losses on unfunded commitments*											
Balance at December 31, 2022	**$ 664**	**$ 1,935**	**$ 2,221**	**$ 53**	**$ 307**	**$ 1**	**$ 32**	**$ —**	**$ —**	**$ —**	**$ 5,213**
Cumulative effect adjustment	**177**	**(897)**	**2,800**	**100**	**489**	**(1)**	**33**	**—**	**—**	**—**	**2,701**
Balance at January 1, 2023	**841**	**1,038**	**5,021**	**153**	**796**	**—**	**65**	**—**	**—**	**—**	**7,914**
Provision for credit losses/(Loan loss reversal)	**(382)**	**(23)**	**(695)**	**11**	**13**	**—**	**(6)**	**—**	**—**	**—**	**(1,082)**
Balance at March 31, 2023	**$ 459**	**$ 1,015**	**$ 4,326**	**$ 164**	**$ 809**	**$ —**	**$ 59**	**$ —**	**$ —**	**$ —**	**$ 6,832**

*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 Credit Losses:											
Balance at December 31, 2021	$ 44,490	$ 15,495	$ 14,701	$ 824	$ 9,296	$ 313	$ 90	$ 128	$ —	$ 133	$ 85,470
Charge-offs	(76)	(1)	—	—	—	—	—	—	—	—	(77)
Recoveries	36	403	1	—	—	—	—	—	—	—	440
(Loan loss reversal)/Provision for credit losses	474	(858)	833	109	(3,058)	5	3	—	—	(17)	(2,509)
Other*	(10)	(350)	80	(9)	(2)	—	2	—	—	1	(288)
Balance at March 31, 2022	$ 44,914	$ 14,689	$ 15,615	$ 924	$ 6,236	$ 318	$ 95	$ 128	$ —	$ 117	$ 83,036

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

The reserve for losses on unfunded commitments totaled $4.5 million at March 31, 2022.

Loans, net of the allowance for credit losses, represented 80.87% of total assets at March 31, 2023 and 81.51% as of December 31, 2022.

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 2022 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
March 31, 2023				
Bank investments	**$ 7,503,539**	**$ 5,385**	**$ (560,083)**	**$ 6,948,841**
District Association investments	**144,255**	**961**	**(315)**	**144,901**
Total District investments	**$ 7,647,794**	**$ 6,346**	**$ (560,398)**	**$ 7,093,742**
December 31, 2022				
Bank investments	$ 7,261,357	$ 1,267	$ (607,672)	$ 6,654,952
District Association investments	132,434	935	(346)	133,023
Total District investments	$ 7,393,791	$ 2,202	$ (608,018)	$ 6,787,975

The District Associations' investments in the preceding tables include held-to-maturity securities with an amortized cost of $3.1 million, an unrealized net loss of $116 thousand, and a fair value of $3.0 million as of March 31, 2023 and an amortized cost of $3.4 million, an unrealized net loss of $142 thousand, and a fair value of $3.2 million as of December 31, 2022. These securities are reported at amortized cost and included in investment securities on the balance sheets.

As discussed above, effective January 1, 2023, the District adopted the CECL guidance which amends existing impairment guidance for held-to-maturity and available-for-sale investments to incorporate an allowance, which will allow for the reversal of credit impairments in the event that the credit of an issuer improves. The District did not have a cumulative effect transition upon adoption on January 1, 2023 in relation to investments and does not expect credit losses on a significant portion of its available-for-sale investments as a majority of the portfolio consists of U.S. Treasury and U.S. agency securities that inherently have an immaterial risk of loss.

The District evaluated its investment securities with unrealized losses for impairment during the three months ended March 31, 2023. As a result of the assessment, the District concluded that it does not intend to sell the security or it is more likely than not that it would be required to sell the security, prior to recovery of the amortized cost basis. The District concluded that a credit impairment did not exist at March 31, 2023.

Capital Resources

The District's equity totaled $5.43 billion at March 31, 2023, including $1.03 billion in preferred stock, $72.5 million in capital stock and participation certificates, $4.65 billion in retained earnings and $222.0 million in additional paid-in-capital, offset by accumulated other comprehensive loss of $546.0 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 $5.43 billion capital position of the District at March 31, 2023 increased by $121.0 million compared to the capital position of $5.31 billion at December 31, 2022. The increase since December 31, 2022 was driven by year-to-date income of $143.8 million and a $20.3 million decrease in accumulated other comprehensive loss, partially offset by the $12.4 million cumulative effect adjustment for CECL adoption, preferred stock dividend payments of $15.3 million and patronage declarations of $15.2 million.

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

	March 31, 2023	December 31, 2022
Unrealized losses on investment securities	$ (554,053)	$ (605,817)
Derivatives and hedging position	32,083	63,900
Employee benefit plan position	(23,989)	(24,310)
Total Accumulated Other Comprehensive Loss	$ (545,959)	$ (566,227)

Accumulated other comprehensive loss totaled $546.0 million at March 31, 2023, a decrease of $20.3 million from December 31, 2022. The decrease in accumulated other comprehensive loss reflects a $51.8 million decrease in unrealized losses on the Bank's available-for-sale investments and a $321 thousand decrease in unrealized losses on pension and other postretirement benefit plans, partially offset by a $31.8 million decrease related to changes in the valuation of interest rate swaps at the Bank. All changes are primarily attributable to increases in interest rates.

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

March 31, 2023	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%	7.78%	9.54% - 17.88%
Tier 1 capital ratio	CET1 capital, noncumulative perpetual preferred stock	8.50%	12.37%	11.49% - 17.88%
Total capital ratio	Tier 1 capital, allowance for credit losses[2], common cooperative equities[3] and term preferred stock and subordinated debt[4]	10.50%	12.53%	11.83% - 18.27%
Permanent capital ratio	Retained earnings, common stock, noncumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.00%	12.39%	11.52% - 17.95%
Non-risk adjusted:				
Tier 1 leverage ratio*	Tier 1 capital	5.00%	5.51%	10.01% - 17.12%
UREE leverage ratio	URE and URE equivalents	1.50%	1.98%	4.12% - 16.82%

*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)		March 31, 2023		December 31, 2022
ASSETS				
Cash	**$**	**233,609**	$	141,371
Federal funds sold and overnight investments		**540,465**		301,678
Investment securities		**7,093,742**		6,787,975
Loans		**37,338,155**		36,421,444
Less allowance for credit losses		**109,012**		85,517
Net loans		**37,229,143**		36,335,927
Accrued interest receivable		**328,425**		323,883
Premises and equipment, net		**263,226**		265,531
Other assets		**344,673**		424,005
Total assets	**$**	**46,033,283**	$	44,580,370
LIABILITIES				
Bonds and notes	**$**	**39,878,079**	$	38,321,742
Accrued interest payable		**195,078**		153,471
Patronage distributions payable		**24,553**		280,859
Preferred stock dividends payable		**11,600**		11,600
Other liabilities		**496,921**		506,666
Total liabilities		**40,606,231**		39,274,338
MEMBERS' EQUITY				
Preferred stock		**1,030,000**		1,030,000
Capital stock and participation certificates		**72,466**		72,715
Allocated retained earnings		**1,030,348**		1,030,345
Unallocated retained earnings		**3,618,171**		3,517,173
Additional paid-in-capital		**222,026**		222,026
Accumulated other comprehensive loss		**(545,959)**		(566,227)
Total members' equity		**5,427,052**		5,306,032
Total liabilities and members' equity	**$**	**46,033,283**	$	44,580,370

Combined Statements of Income

(Unaudited)

	Three Months Ended March 31	
(in thousands)	**2023**	**2022**
Interest Income		
Investment securities	**$ 53,745**	$ 21,361
Loans	**526,551**	341,290
Total interest income	**580,296**	362,651
Interest Expense		
Bonds and notes	**244,334**	82,310
Notes payable and other	**56,697**	7,417
Total interest expense	**301,031**	89,727
Net interest income	**279,265**	272,924
Provision for credit losses (Loan loss reversal)	**25,992**	(2,509)
Net interest income after provision for credit losses (loan loss reversal)	**253,273**	275,433
Noninterest income		
Patronage income	**11,443**	9,101
Fees for loan-related services	**9,517**	10,112
Other income, net	**4,933**	2,010
Total noninterest income	**25,893**	21,223
Noninterest expense		
Salaries and employee benefits	**70,787**	67,000
Occupancy and equipment	**18,978**	16,133
Purchased services	**10,289**	11,298
Farm Credit System Insurance Corporation expense	**15,570**	12,210
Other operating expenses	**19,755**	18,315
Total noninterest expense	**135,379**	124,956
Income before income taxes	**143,787**	171,700
(Benefit) provision for income taxes	**(18)**	10
Net income	**$ 143,805**	$ 171,690

Select Information on District Associations

(Unaudited)

(in thousands) As of March 31, 2023	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	$ 329,430	1.36%	$ 392,912	$ 57,595	12.90%	1.37%	1.50%
AgTexas Farm Credit Services	2,531,174	10.43%	3,007,575	425,269	12.65%	0.79%	2.01%
Alabama Ag Credit, ACA	1,106,041	4.56%	1,348,743	234,809	15.72%	0.09%	1.53%
Alabama Farm Credit, ACA	968,131	3.99%	1,129,770	150,130	11.83%	0.38%	1.71%
Capital Farm Credit, ACA	10,038,646	41.37%	12,030,515	1,824,529	12.89%	0.53%	2.59%
Central Texas Farm Credit, ACA	555,721	2.29%	692,313	128,958	16.77%	0.64%	1.84%
Heritage Land Bank, ACA	570,490	2.35%	684,407	106,895	14.38%	0.01%	1.52%
Legacy Ag Credit, ACA	313,020	1.29%	382,005	67,392	18.27%	0.57%	1.79%
Lone Star, ACA	2,126,800	8.76%	2,572,737	430,455	14.99%	0.31%	1.98%
Louisiana Land Bank, ACA	842,657	3.47%	1,045,914	191,568	16.03%	0.68%	1.78%
Mississippi Land Bank, ACA	803,708	3.31%	981,810	163,579	14.67%	0.05%	1.66%
Plains Land Bank, FLCA	855,640	3.53%	1,028,510	159,941	13.96%	0.10%	2.42%
Southern AgCredit, ACA	1,208,196	4.98%	1,445,370	217,127	13.73%	0.14%	1.82%
Texas Farm Credit Services	2,016,532	8.31%	2,326,538	278,125	12.10%	0.44%	2.27%
Totals	$ 24,266,186	100.00%	$29,069,119	$4,436,372			

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.centraltexasaca.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	5625 Fulton Drive, Amarillo, Texas 79109	806-353-6688	*www.plainslandbank.com*
Southern AgCredit, ACA	306 Commerce Center Drive, Ridgeland, MS 39157	601-499-2820	*www.southernagcredit.com*
Texas Farm Credit Services	545 S. Highway 77, Robstown, Texas 78380	361-387-8563	*www.texasfarmcredit.com*