Second 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 affiliated 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 June 30, 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 and six months ended June 30, 2023.

COMBINED FINANCIAL HIGHLIGHTS

(in thousands)	June 30, 2023	December 31, 2022
Total loans	**$ 37,061,445**	$ 36,421,444
Allowance for credit losses	**124,469**	85,517
Net loans	**36,936,976**	36,335,927
Total assets	**45,448,409**	44,580,370
Total members' equity	**5,507,862**	5,306,032

Six Months Ended June 30,	2023	2022
Net interest income	**$ 558,222**	$ 548,340
Provision for credit losses (loan loss reversal)	**42,396**	319
Net fee income	**19,755**	20,380
Net income	**$ 291,858**	$ 337,441
Net interest margin	**2.53 %**	2.67 %
Net loan charge-offs (recoveries) as a percentage of average loans	**0.08**	—
Return on average assets (ROA)	**1.29**	1.60
Return on average shareholders' equity (ROE)	**10.80**	12.30
Operating expenses as a percentage of net interest income and noninterest income	**44.36**	42.68
Average loans	**$ 37,154,223**	$ 34,916,308
Average interest earning assets	**44,497,232**	41,487,344
Average total assets	**45,600,662**	42,833,814

MANAGEMENT'S DISCUSSION AND ANALYSIS

(dollars in thousands, except as noted)

CONDITIONS IN THE TEXAS DISTRICT

The Texas District continues to fulfill its mission to support agriculture and rural communities by providing access to reliable and consistent credit in the midst of above normal financial and macroeconomic volatility driven by atypical factors such as a continuously inverted yield curve and persistently high inflation. Federal Reserve officials continue to battle inflation by continuing to tighten monetary policy. Despite these turbulent times, credit quality in the Texas District has remained strong. Volatility in credit risk ratings is likely to remain a concern in the near future due to cost inflation, the relatively high cost of debt and an underlying recession risk.

The Consumer Price Index for All Urban Consumers increased by 3.0% for the 12-month period ending June 2023, above the long-term target of approximately 2.0%. However, recent inflation rates represent significant declines from the four-decade high of 9.1% reached in June 2022. The Federal Open Market Committee (FOMC) raised the Federal funds rate to a target range of 5.25 – 5.50% in July 2023. The 25 basis point increase in July lead to a cumulative increase of about 525 basis points since mid-March 2022. The FOMC reiterated its commitment to returning inflation to its 2.0% objective, which may require further tightening in future periods.

On June 29, the U.S. Bureau of Economic Analysis (BEA) released its third estimate of real gross domestic product (GDP) for the first quarter of 2023. U.S. real GDP growth decelerated but continued to expand during the first quarter of 2023 by about 2.0%, down from 2.6% during the fourth quarter of 2022, but up from -1.6% during the same period a year ago. The International Monetary Fund's World Economic Outlook projects that U.S. real GDP growth will be 1.6% in 2023 and 1.1% in 2024. Additionally, BEA released first quarter 2023 annualized real GDP growth rates for the states within the Texas District on June 30. Growth rates among Texas District states similarly decelerated during the first quarter of 2023 and ranged from a low of 0.1% in Alabama to a high of 3.0% in Texas. Economic activity in the agriculture, forestry, fishing, and hunting sector increased in 33 states and was the leading contributor to growth in 13 states, including North Dakota, Nebraska, South Dakota, Kansas and Montana, the five states with the largest increases in real GDP.

The U.S. Bureau of Labor Statistics indicated that the U.S. unemployment rate increased month-over-month from 3.4% in April to 3.7% in May 2023. The May 2023 state unemployment rates in the Texas District ranged from a low of 2.2% in Alabama to a high of 4.1% in Texas. Three of the five Texas District states (i.e., Alabama, New Mexico and Mississippi) attained year-over-year declines in the unemployment rate in May 2023.

West Texas Intermediate (WTI) crude oil futures prices (front-month) decreased to an average of about $74 per barrel during the second quarter of 2023, down from $76 per barrel in the prior quarter and about $109 per barrel during the same period a year ago. In the June 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 $75 per barrel in 2023 and nearly $79 per barrel in 2024. U.S. crude oil production is expected to reach record levels in 2023 and 2024, driven primarily by growth in the Permian Basin.

On June 30, 2023, the U.S. Department of Agriculture (USDA) released its 2023 Acreage report. Corn planted area was estimated at 94.1 million acres in 2023, up nearly 6.2% from last year, and revised up by about 2.0% from the prior report. Corn planted acreage is expected to be up or unchanged from the previous year in 43 of the 48 estimating states. Soybean planted area for 2023 was estimated at 83.5 million acres, down about 4.5% from last year. All wheat planted area is estimated at 49.6 million acres, up about 8.5% from 2022. All cotton planted area was estimated at 11.1 million acres, down about 19.4% from last year. Estimated planted acres of soybeans, wheat, and cotton were revised down in this update. These estimates are derived via a survey of farmers' intentions and are subject to change throughout the season.

The June 2023 edition of the USDA World Agricultural Supply and Demand Estimates (WASDE) report states that farmers are expected to receive lower average farm prices for corn (-27.3%), soybeans (-14.8%), wheat (-13.0%), and cotton (-6.1%) in the 2023/24 marketing year compared to the previous season. Similarly, the average price received by farmers for all milk is projected to decrease by about 21.0% year-over-year in 2023 and by 1.5% in 2024 after rising nearly 37.0% in 2022. USDA projects that average steer prices (5-Area, Direct) will increase year-over-year by about 18.9% in 2023, while broilers and barrows and gilts prices are projected to decline by about 7.4% and 20.4%, respectively. Random length lumber futures prices (front-month) declined by about 14.6% year-over-year as of June 2023; however, on a month-over-month basis, prices rose by nearly 12.8% in June.

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 Texas 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 $148.1 million for the three months ended June 30, 2023 a decrease of $17.7 million, or 10.68%, over the same period of 2022. The decrease in net income was driven by a $13.6 million increase in the provision for credit losses and a $4.5 million increase in noninterest expense, partially offset by an increase of $4.5 million in noninterest income and a $3.5 million increase in net interest income.

Net income for the District was $291.9 million for the six months ended June 30, 2023 a decrease of $45.6 million, or 13.51%, over the same period of 2022. The decrease in net income was driven by a $42.1 million increase in the provision for credit losses and a $14.9 million increase in noninterest expense, partially offset by a $9.9 million increase in net interest income and a $1.5 million increase in noninterest income.

Net Interest Income

Net interest income for the three months ended June 30, 2023 was $279.0 million, an increase of $3.5 million, or 1.29%, over the same period of 2022, driven by a $2.76 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 June 30, 2023 decreased 37 basis points from 2.48% to 2.11% attributable to a 210 basis point increase in the average cost of debt, partially offset by a 173 basis point increase in the average yields on interest earning assets. Net interest rate margin decreased by 13 basis points to 2.51% compared to 2.64% for the same period of 2022.

Net interest income for the six months ended June 30, 2023 was $558.2 million, an increase of $9.9 million, or 1.80%, over the same period of 2022, driven by a $3.1 billion increase in District average earning assets, partially offset by a decrease in the net interest rate spread. The net interest spread for the six months ended June 30, 2023 decreased 37 basis points from 2.52% to 2.15% attributable to a 209 basis point increase in the average cost of debt, partially offset by a 172 basis point increase in the average yields on interest earning assets. Net interest rate margin decreased by 14 basis points to 2.53% compared to 2.67% for the same period of 2022.

Provision for Credit Losses

As previously noted, 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 June 30, 2023, the provision for credit losses totaled $16.4 million, an increase of $13.6 million compared to a provision for credit losses of $2.8 million for the same period of 2022. The combined Associations recorded a provision for credit losses of $6.7 million compared to a provision for credit losses of $1.9 million for the same period of 2022. The Bank recorded a provision for credit losses of $9.7 million compared to a provision for credit losses of $905 thousand for the same period of 2022.

The provision for credit losses for the combined Associations during the three months ended June 30, 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 agribusiness sector. These increases were partially offset by credit quality improvements in the real estate mortgage and energy sectors.

The provision for credit losses for the Bank for the three months ended June 30, 2023 is primarily due to an increase in specific reserves resulting from credit deterioration among select borrowers in the agribusiness and production and intermediate-term sectors. The provision for credit losses for the three months ended June 30, 2023 also reflects an increase in general reserves partially due to rating downgrades that occurred during the quarter as well as a change in one of the underlying assumptions used in the general reserve calculation for prepayment speed.

The provision for credit losses for the six months ended June 30, 2023 totaled $42.4 million, an increase of $42.1 million from the provision for credit losses of $319 thousand recorded for the same period of 2022. The combined Associations recorded a provision for credit losses of $10.3 million for the six months ended June 30, 2023, as compared to a provision for credit losses of $279 thousand for the same period of 2022.

The provision for credit losses for the combined Associations during the six months ended June 30, 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 agribusiness and production and intermediate-term sector. These increases were partially offset by credit improvements in the real estate mortgage and energy sectors.

The Bank recorded a provision for credit losses of $32.1 million for the six months ended June 30, 2023 compared to $40 thousand for the same period of 2022, primarily due to specific reserves and related charge-offs resulting from credit deterioration among select borrowers in the agribusiness, energy and production and intermediate-term sectors. Macroeconomic conditions, including inflationary pressure and high input costs, contributed to reduced liquidity and profitability for some of these borrowers. In spite of these conditions, overall loan credit quality remained stable at 99.5% acceptable and special mention at June 30, 2023 as compared to 99.7% at December 31, 2022.

Noninterest Income

Noninterest income for the three months ended June 30, 2023 was $16.7 million, a decrease of $3.2 million, or 15.94%, compared to the same period of 2022. The decrease was driven by a $2.6 million decline in other income and a decrease in patronage income of $572 thousand.

Noninterest income for the six months ended June 30, 2023 was $42.6 million, an increase of $1.5 million, or 3.66%, compared to the same period of 2022. The increase was driven by an increase in patronage income of $1.8 million.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2023, totaled $131.2 million, an increase of $4.5 million, or 3.57%, from the same period of 2022. The increase in noninterest expense for the three months ended June 30, 2023 was primarily driven by a $5.7 million increase in salaries and employee benefits and a $2.5 million increase in occupancy and equipment expense due to software licensing and depreciation expense, partially offset by a $3.9 million decrease in Farm Credit System Insurance Corporation (FCSIC) premiums due to a lower premium rate assessed in 2023.

Noninterest expense for the six months ended June 30, 2023, totaled $266.6 million, an increase of $14.9 million, or 5.94%, from the same period of 2022. The increase in noninterest expense for the six months ended June 30, 2023 was primarily driven by a $9.5 million increase in salaries and employee benefits and a $5.3 million increase in occupancy and equipment for software licensing and depreciation expense, partially offset by a $2.0 million decrease in purchased services.

Loan Portfolio

The following table summarizes District loans by loan type:

	June 30, 2023	December 31, 2022
Real estate mortgage	**$ 22,079,564**	$ 22,114,936
Production and intermediate-term	**4,940,807**	4,555,061
Agribusiness:		
Loans to cooperatives	**756,541**	695,077
Processing and marketing	**4,950,766**	5,003,502
Farm-related business	**602,960**	623,805
Communications	**1,190,207**	1,134,299
Energy (rural utilities)	**1,661,843**	1,512,093
Water and waste disposal	**323,015**	248,392
Rural residential real estate	**272,233**	281,281
International	**163,610**	128,201
Mission-related	**33,186**	34,635
Loans to other financing institutions (OFIs)	**52,185**	51,878
Lease receivables	**34,528**	38,284
Total loans	**$ 37,061,445**	$ 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 June 30, 2023 was $37.06 billion, an increase of $640.0 million, or 1.76%, from the $36.42 billion loan portfolio balance at December 31, 2022. The loan volume increase of $640.0 million during the six months ended June 30, 2023 was driven by a $415.0 million increase in the District Associations' loan portfolios and a $225.0 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 June 30, 2023:

	Acceptable	OAEM (Special Mention)	Substandard/ Doubtful	Total	Current Period Gross Charge-offs
2023	$ 2,427,930	$ 4,044	$ 31,806	$ 2,463,780	$ 1,020
2022	7,185,181	44,894	44,119	7,274,194	5,939
2021	7,737,320	87,825	79,489	7,904,635	—
2020	4,869,065	30,886	63,383	4,963,334	1
2019	2,214,915	18,613	60,748	2,294,276	48
Prior	6,776,091	57,075	60,732	6,893,897	3,323
Revolving loans	4,854,137	74,750	76,892	5,005,780	4,379
Revolving loans converted to term	237,303	3,277	20,970	261,550	—
Total	$ 36,301,942	$ 321,364	$ 438,139	$ 37,061,445	$ 14,710

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 June 30, 2023. Loans classified as acceptable or OAEM as a percentage of total loans were 98.8% and 99.1% at June 30, 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 June 30, 2023 and December 31, 2022.

	June 30, 2023	December 31, 2022
Nonaccrual loans:		
Real estate mortgage	**$ 55,447**	$ 56,389
Production and intermediate-term	**64,818**	16,407
Agribusiness	**74,959**	55,879
Energy and water/waste disposal	**7,431**	9,880
Rural residential real estate	**217**	279
Leases	**600**	1,297
Total nonaccrual loans	**203,472**	140,131
Accruing loans 90 days or more past due		
Real estate mortgage	**12,492**	7,891
Production and intermediate-term	**486**	1,431
Agribusiness	**45**	—
International	**1,601**	5,032
Total accruing loans 90 days or more past due	**14,624**	14,354
Other property owned	**2,364**	4,712
Total nonperforming assets	**$ 220,460**	$ 159,197

Note: The balances for accruing loans 90 days or more past due at June 30, 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 $63.3 million, or 45.2%, from $140.1 million at December 31, 2022 to $203.5 million at June 30, 2023. The increase in nonaccrual loans since December 31, 2022 largely reflects the movement of loans to nonaccrual during the first half of 2023 resulting from credit deterioration among select borrowers in the production and intermediate-term and agribusiness sectors.

At June 30, 2023, $103.0 million, or 50.03%, of loans classified as nonaccrual were current as to principal and interest, compared to $80.4 million, or 57.40%, 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 follows:

June 30, 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	**$ 100,851**	**$ 39,472**	**$ 140,323**	**$ 21,939,241**	**$ 22,079,564**	**$ 12,492**
Production and intermediate-term	**30,418**	**9,964**	**40,381**	**4,900,425**	**4,940,807**	**486**
Agribusiness	**50,757**	**24,885**	**75,642**	**6,234,625**	**6,310,267**	**45**
Communications	**—**	**—**	**—**	**1,190,207**	**1,190,207**	**—**
Energy and water/waste disposal	**—**	**—**	**—**	**1,984,858**	**1,984,858**	**—**
Rural residential real estate	**1,071**	**57**	**1,128**	**271,105**	**272,233**	**—**
International	**—**	**—**	**—**	**163,610**	**163,610**	**—**
Mission-related	**2,287**	**1,601**	**3,888**	**29,298**	**33,186**	**1,601**
Loans to OFIs	**—**	**—**	**—**	**52,185**	**52,185**	**—**
Lease receivables	**3,678**	**600**	**4,278**	**30,250**	**34,528**	**—**
Total loans	**$ 189,062**	**$ 76,579**	**$ 265,641**	**$ 36,795,804**	**$ 37,061,445**	**$ 14,624**

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 March 31, 2023	$ 51,288	$ 11,284	$ 37,478	$ 1,599	$ 5,866	$ 713	$ 108	$ 18	$ —	$ 658	$ 109,012
Charge-offs	(15)	—	(1,018)	—	—	—	—	—	—	(334)	(1,367)
Recoveries	(16)	122	6	—	48	—	—	10	—	—	170
Provision for credit losses/(Loan loss reversal)	(795)	12,318	5,265	79	(410)	(36)	(18)	(14)	—	265	16,654
Balance at June 30, 2023	$ 50,462	$ 23,724	$ 41,731	$ 1,678	$ 5,504	$ 677	$ 90	$ 14	$ —	$ 589	$ 124,469
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	(75)	(1,783)	(12,142)	—	—	—	—	—	—	(710)	(14,710)
Recoveries	67	183	8	—	48	—	—	16	—	—	322
Provision for credit losses/(Loan loss reversal)	(258)	15,022	26,950	337	1,133	(17)	(5)	(55)	—	621	43,728
Balance at June 30, 2023	$ 50,462	$ 23,724	$ 41,731	$ 1,678	$ 5,504	$ 677	$ 90	$ 14	$ —	$ 589	$ 124,469
Balance at March 31, 2022	$ 44,914	14,689	15,615	924	6,236	318	95	128	—	117	$ 83,036
Charge-offs	(124)	(213)	—	—	—	—	—	—	—	—	(337)
Recoveries	32	63	2	—	—	1	—	—	—	—	98
Provision for credit losses/(Loan loss reversal)	910	1,268	888	(16)	(138)	(14)	(4)	(66)	—	—	2,828
Other*	14	(681)	(409)	(3)	43	(1)	(1)	—	—	—	(1,038)
Balance at June 30, 2022	$ 45,746	$ 15,126	$ 16,096	$ 905	$ 6,141	$ 304	$ 90	$ 62	$ —	$ 117	$ 84,587
Balance at December 31, 2021	$ 44,490	15,495	14,701	824	9,296	313	90	128	—	133	$ 85,470
Charge-offs	(200)	(214)	—	—	—	—	—	—	—	—	(414)
Recoveries	68	466	3	—	—	1	—	—	—	—	538
Provision for credit losses/(Loan loss reversal)	1,384	410	1,721	93	(3,196)	(9)	(1)	(66)	—	(17)	319
Other*	4	(1,031)	(329)	(12)	41	(1)	1	—	—	1	(1,326)
Balance at June 30, 2022	$ 45,746	$ 15,126	$ 16,096	$ 905	$ 6,141	$ 304	$ 90	$ 62	$ —	$ 117	$ 84,587
Reserve for losses on unfunded commitments*											
Balance at March 31, 2023	$ 459	$ 1,015	$ 4,326	$ 164	$ 809	$ —	$ 59	$ —	$ —	$ —	$ 6,832
Provision for credit losses/(Loan loss reversal)	32	8	(253)	(35)	(8)	—	6	—	—	—	(250)
Balance at June 30, 2023	$ 491	$ 1,023	$ 4,073	$ 129	$ 801	$ —	$ 65	$ —	$ —	$ —	$ 6,582
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	—	—	—	2,703
Balance at January 1, 2023	841	1,038	5,021	153	796	—	65	—	—	—	7,916
Provision for credit losses/(Loan loss reversal)	(350)	(15)	(948)	(24)	5	—	—	—	—	—	(1,332)
Balance at June 30, 2023	$ 491	$ 1,023	$ 4,073	$ 129	$ 801	$ —	$ 65	$ —	$ —	$ —	$ 6,582

*Prior to the adoption of CECL on January 1, 2023, the provision for the reserve for losses on unfunded commitments was included in the allowance for credit losses on loans and transferred to the reserve for losses on unfunded commitments. After the adoption of CECL, the provision for reserve for losses on unfunded commitments are included within that rollforward. Reserve for losses on letters of credit and unfunded commitments are recorded in other liabilities in all periods presented.

The reserve for losses on unfunded commitments totaled $5.5 million at June 30, 2022. Loans, net of the allowance for credit losses, represented 81.27% of total assets at June 30, 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
June 30, 2023				
Bank investments	**$ 7,509,257**	**$ 1,164**	**$ (644,081)**	**$ 6,866,340**
District Association investments	**169,174**	**948**	**(517)**	**169,605**
Total District investments	**$ 7,678,431**	**$ 2,112**	**$ (644,598)**	**$ 7,035,945**
December 31, 2022				
Bank investments	$ 7,261,356	$ 1,267	$ (607,672)	$ 6,654,952
District Association investments	132,434	935	(346)	133,023
Total District investments	$ 7,393,790	$ 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 $2.9 million, an unrealized net loss of $115 thousand, and a fair value of $2.8 million as of June 30, 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 six months ended June 30, 2023. As a result of the assessment, the District concluded that it does not intend to sell any securities and it is more likely than not that it would be required to sell any securities, prior to recovery of the amortized cost basis. The District concluded that a credit impairment did not exist at June 30, 2023.

Capital Resources

The District's equity totaled $5.51 billion at June 30, 2023, including $1.03 billion in preferred stock, $72.4 million in capital stock and participation certificates, $4.78 billion in retained earnings and $222.0 million in additional paid-in-capital, partially offset by accumulated other comprehensive loss of $596.5 million.

Borrower equity purchases required by District Association capitalization bylaws, combined with a history of growth in retained earnings at District institutions, have resulted in District institutions being able to maintain strong capital positions. The $5.51 billion equity position of the District at June 30, 2023 increased by $201.8 million compared to $5.31 billion at December 31, 2022. The increase since December 31, 2022 was driven by year-to-date income of $291.9 million, partially offset by a $30.3 million increase in accumulated other comprehensive loss, the $12.4 million cumulative effect adjustment for CECL adoption, preferred stock dividend payments of $30.5 million and patronage declarations of $16.6 million.

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

		June 30, 2023	December 31, 2022
Unrealized losses on investment securities	$	(642,486) $	(605,817)
Derivatives and hedging position		69,676	63,900
Employee benefit plan position		(23,672)	(24,310)
Total Accumulated Other Comprehensive Loss	$	(596,482) $	(566,227)

Accumulated other comprehensive loss totaled $596.5 million at June 30, 2023, an increase of $30.3 million from December 31, 2022. The increase in accumulated other comprehensive loss reflects a $36.7 million increase in unrealized losses on the Bank's available-for-sale investments, partially offset by a $5.8 million increase 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.

June 30, 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%	8.12%	9.89% - 18.12%
Tier 1 capital ratio	CET1 capital, noncumulative perpetual preferred stock	8.50%	12.73%	11.78% - 18.12%
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%	12.96%	12.03% - 18.50%
Permanent capital ratio	Retained earnings, common stock, noncumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.00%	12.75%	11.81% - 18.19%
Non-risk adjusted:				
Tier 1 leverage ratio*	Tier 1 capital	5.00%	5.61%	10.04% - 17.54%
UREE leverage ratio	URE and URE equivalents	1.50%	2.11%	4.27% - 17.24%

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

[1]Equities outstanding 7 or more years

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

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

[4]Outstanding 5 or more years

Combined Balance Sheets

(Unaudited)

(in thousands)	June 30, 2023	December 31, 2022
ASSETS		
Cash	**$ 194,935**	$ 141,371
Federal funds sold and overnight investments	**316,755**	301,678
Investment securities	**7,035,945**	6,787,975
Loans	**37,061,445**	36,421,444
Less allowance for credit losses	**124,469**	85,517
Net loans	**36,936,976**	36,335,927
Accrued interest receivable	**349,148**	323,883
Premises and equipment, net	**265,237**	265,531
Other assets	**349,413**	424,005
Total assets	**$ 45,448,409**	$ 44,580,370
LIABILITIES		
Bonds and notes	**$ 39,339,690**	$ 38,321,742
Accrued interest payable	**186,558**	153,471
Patronage distributions payable	**4,475**	280,859
Preferred stock dividends payable	**11,600**	11,600
Other liabilities	**398,224**	506,666
Total liabilities	**39,940,547**	39,274,338
MEMBERS' EQUITY		
Preferred stock	**1,030,000**	1,030,000
Capital stock and participation certificates	**72,414**	72,715
Allocated retained earnings	**1,030,348**	1,030,345
Unallocated retained earnings	**3,749,556**	3,517,173
Additional paid-in-capital	**222,026**	222,026
Accumulated other comprehensive loss	**(596,482)**	(566,227)
Total members' equity	**5,507,862**	5,306,032
Total liabilities and members' equity	**$ 45,448,409**	$ 44,580,370

Combined Statements of Income

(Unaudited)

(in thousands)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Interest Income				
Investment securities	**$ 61,932**	$ 25,222	**$ 115,677**	$ 46,583
Loans	**553,388**	371,436	**1,079,939**	712,726
Total interest income	**615,320**	396,658	**1,195,616**	759,309
Interest Expense				
Bonds and notes	**274,085**	107,815	**518,419**	190,125
Notes payable and other	**62,278**	13,427	**118,975**	20,844
Total interest expense	**336,363**	121,242	**637,394**	210,969
Net interest income	**278,957**	275,416	**558,222**	548,340
Provision for credit losses	**16,404**	2,828	**42,396**	319
Net interest income after provision for credit losses	**262,553**	272,588	**515,826**	548,021
Noninterest income				
Patronage income	**4,888**	5,460	**16,331**	14,561
Fees for loan-related services	**10,238**	10,268	**19,755**	20,380
Other income, net	**1,581**	4,146	**6,514**	6,156
Total noninterest income	**16,707**	19,874	**42,600**	41,097
Noninterest expense				
Salaries and employee benefits	**71,163**	65,462	**141,950**	132,462
Occupancy and equipment	**15,476**	12,988	**34,454**	29,121
Purchased services	**9,107**	10,081	**19,396**	21,379
Farm Credit System Insurance Corporation expense	**15,465**	19,387	**31,035**	31,597
Other operating expenses	**19,983**	18,754	**39,738**	37,069
Total noninterest expense	**131,194**	126,672	**266,573**	251,628
Income before income taxes	**148,066**	165,790	**291,853**	337,490
Provision for (benefit from) income taxes	**13**	39	**(5)**	49
Net income	**$ 148,053**	$ 165,751	**$ 291,858**	$ 337,441

Select Information on District Associations

(Unaudited)

(in thousands) **As of June 30, 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	$ 342,027	1.40%	$ 405,014	$ 59,118	13.23%	1.44%	1.41%
AgTexas Farm Credit Services	2,599,295	10.65%	3,082,714	439,563	13.00%	0.91%	2.00%
Alabama Ag Credit, ACA	1,107,099	4.53%	1,349,296	240,629	15.96%	0.08%	1.64%
Alabama Farm Credit, ACA	921,908	3.78%	1,081,414	154,379	12.20%	0.56%	1.58%
Capital Farm Credit, ACA	10,050,876	41.16%	12,036,363	1,896,258	13.13%	0.46%	2.50%
Central Texas Farm Credit, ACA	541,836	2.22%	677,117	132,286	17.10%	0.88%	1.61%
Heritage Land Bank, ACA	589,254	2.42%	699,836	107,283	14.24%	0.03%	1.37%
Legacy Ag Credit, ACA	305,061	1.25%	375,292	68,973	18.50%	0.81%	1.79%
Lone Star, ACA	2,117,860	8.67%	2,574,665	442,860	15.24%	0.34%	1.92%
Louisiana Land Bank, ACA	850,962	3.48%	1,052,281	196,194	16.50%	0.67%	1.84%
Mississippi Land Bank, ACA	814,736	3.34%	999,559	168,374	14.92%	0.01%	1.81%
Plains Land Bank, FLCA	884,540	3.62%	1,053,876	166,365	13.88%	0.68%	2.39%
Southern AgCredit, ACA	1,221,728	5.00%	1,463,957	223,837	13.99%	0.16%	1.82%
Texas Farm Credit Services	2,071,758	8.48%	2,378,005	289,457	12.03%	0.93%	2.11%
Totals	$ 24,418,940	100.00%	$29,229,389	$4,585,576			

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*