# Third 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 September 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 risks 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, 2023.

## COMBINED FINANCIAL HIGHLIGHTS

| (in thousands) | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Total loans | **$ 37,336,284** | $ 36,421,444 |
| Allowance for credit losses | **126,150** | 85,517 |
| Net loans | **37,210,134** | 36,335,927 |
| Total assets | **45,457,623** | 44,580,370 |
| Total members' equity | **5,611,025** | 5,306,032 |

| Nine Months Ended September 30, | 2023 | 2022 |
|---|---|---|
| Net interest income | **$ 845,603** | $ 831,163 |
| Provision for credit losses | **44,460** | 6,715 |
| Net fee income | **30,525** | 31,589 |
| Net income | **$ 464,993** | $ 505,854 |
| Net interest margin | **2.54 %** | 2.66 % |
| Net loan charge-offs (recoveries) as a percentage of average loans | **0.06** | — |
| Return on average assets (ROA) | **1.36** | 1.58 |
| Return on average shareholders' equity (ROE) | **11.31** | 12.24 |
| Operating expenses as a percentage of net interest income and noninterest income | **43.89** | 42.50 |
| Average loans | **$ 37,197,132** | $ 34,817,417 |
| Average interest earning assets | **44,494,772** | 41,775,799 |
| Average total assets | **45,504,023** | 42,786,284 |

# 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 factors such as an inverted yield curve and persistent high inflation. Federal Reserve officials continue to battle inflation by tightening monetary policy. Despite these turbulent times, credit quality at the Texas District has remained strong. Volatility in risk ratings is likely to remain a concern in the near future due to the cost of inflation, the relatively high cost of debt and an underlying recession risk.

The Consumer Price Index for All Urban Consumers increased by 3.7% for the 12-month period ending September 2023, well 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) decided to keep the target Federal funds rate constant within the 5.25%–5.50% range in September 2023, after raising the rate by 25 basis points in July 2023 for a total increase of about 525 basis points since mid-March 2022. The FOMC stated that it remains strongly committed to returning inflation to its 2% objective while achieving maximum employment.

On September 28, 2023, the U.S. Bureau of Economic Analysis (BEA) released its third estimate of real gross domestic product (GDP) for the second quarter of 2023. U.S. real GDP growth reached 2.1% during the second quarter of 2023, down from 2.2% during the first quarter of 2023. According to BEA data released on September 29, 2023, personal income growth rates among states within the Texas District decelerated during the second quarter of 2023 and ranged from a low of 2.3% in Mississippi and Alabama to a high of 4.0% in Texas. Comparatively, national personal income increased at an annualized rate of 4.3% during the second quarter of 2023.

The U.S. Bureau of Labor Statistics indicated that the U.S. unemployment rate remained steady month-over-month at 3.8% in September 2023. The August 2023 state unemployment rates in the Texas District ranged from a low of 2.1% in Alabama to a high of 4.1% in Texas. Three of the five states in the Texas District (i.e., Alabama, Louisiana and Mississippi) attained year-over-year (YOY) declines in the statewide unemployment rate in August 2023. Additionally, four of the five states in the Texas District reported unemployment rates lower than the national average.

West Texas Intermediate (WTI) crude oil futures prices (front month) increased to an average of about $82 per barrel during the third quarter of 2023, up from nearly $74 per barrel in the prior quarter but down from about $91 per barrel during the same period a year ago. In the October 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 $80 per barrel in 2023 and $91 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 August 31, 2023, the U.S. Department of Agriculture (USDA) presented its latest farm income forecast. Net farm income (nominal), a broad measure of profits, is forecasted at $141.3 billion in 2023, a decrease of $41.7 billion, or 22.8%, relative to 2022. This follows a record high of $183.0 billion in 2022. Total production expenses (nominal) are forecasted to increase by about 6.9% in 2023 to $458.0 billion. Farm sector assets and equity are both forecasted to increase by about 6.6% and 6.8%, respectively, while farm debt is forecasted to increase by about 4.9% in nominal terms. The debt-to-asset ratio is forecasted to continue to improve in 2023.

The October 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 (-24.3%), wheat (-17.3%), soybeans (-9.2%) and cotton (-5.7%) in the 2023/24 marketing year compared with the previous season. Similarly, after rising nearly 37.0% in 2022, the average price received by farmers for all milk is projected to decrease by about 18.3% YOY in 2023 and by 0.7% in 2024. USDA projected average steer prices (5-Area, Direct) will increase YOY by about 22.8% in 2023, with broiler and barrow and gilt prices projected to decline by about 11.7% and 16.2%, respectively. USDA also projected higher average prices for steers and barrows and gilts in 2024 but lower prices for broilers. Random length lumber futures prices (front month) declined by about 1.3% month-over-month and 1.8% YOY in September 2023, closing at about $500 per thousand board feet.

The Federal Reserve Bank of Dallas released its third-quarter Eleventh District (i.e., Texas, southern New Mexico and northern Louisiana) Agricultural Survey on October 2, 2023. Survey respondents noted overall weaker conditions across most regions, as extremely dry conditions are straining agricultural production. According to survey respondents, demand for agricultural loans decreased during the third quarter of 2023 for the seventh straight quarter. Respondents also reported a net tightening of credit standards for agricultural loans relative to the same period in the previous year.

According to the U.S. Drought Monitor released on October 12, 2023, much of the Texas District is currently experiencing drought conditions. In Texas, about 56 percent of land area is experiencing drought classified as severe, extreme or exceptional. Extreme and exceptional drought conditions are also impacting much of Louisiana and southern Mississippi. The U.S. Seasonal Drought Outlook released by the National Weather Service Climate Prediction Center on September 30, 2023, indicates that drought conditions are expected to remain but improve across much of the Texas District in the fourth quarter.

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 or held-to-maturity securities.

**Results of Operations**

*Net Income*

Net income for the District was $173.1 million for the three months ended September 30, 2023 an increase of $4.7 million, or 2.80%, over the same period of 2022. The increase in net income was driven by a $4.6 million increase in net interest income, as well as a $4.3 million decrease in the provision for credit losses, partially offset by a $4.8 million increase in noninterest expense.

Net income for the District was $465.0 million for the nine months ended September 30, 2023 a decrease of $40.9 million, or 8.08%, over the same period of 2022. The decrease in net income was driven by a $37.7 million increase in the provision for credit losses and a $19.7 million increase in noninterest expense, partially offset by a $14.4 million increase in net interest income and a $2.2 million increase in noninterest income.

*Net Interest Income*

Net interest income for the three months ended September 30, 2023 was $287.4 million, an increase of $4.6 million, or 1.61%, over the same period of 2022, driven by a $2.00 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 September 30, 2023 decreased 27 basis points from 2.41% to 2.14% attributable to a 172 basis point increase in the average cost of debt, partially offset by a 145 basis point increase in the average yields on interest earning assets. Net interest rate margin decreased by 8 basis points to 2.56% compared to 2.64% for the same period of 2022.

Net interest income for the nine months ended September 30, 2023 was $845.6 million, an increase of $14.4 million, or 1.74%, over the same period of 2022, driven by a $2.7 billion increase in District average earning assets, partially offset by a decrease in the net interest rate spread. The net interest spread for the nine months ended September 30, 2023 decreased 35 basis points from 2.49% to 2.14% attributable to a 197 basis point increase in the average cost of debt, partially offset by a 162 basis point increase in the average yields on interest earning assets. Net interest rate margin decreased by 12 basis points to 2.54% compared to 2.66% 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 September 30, 2023, the provision for credit losses totaled $2.1 million, a decrease of $4.3 million compared to a provision for credit losses of $6.4 million for the same period of 2022. The combined Associations recorded a provision for credit losses of $1.4 million compared to a provision for credit losses of $5.1 million for the same period of 2022. The Bank recorded a provision for credit losses of $629 thousand compared to a provision for credit losses of $1.3 million for the same period of 2022.

The provision for credit losses for the combined Associations during the three months ended September 30, 2023 reflects credit deterioration in a few select borrowers in the real estate mortgage and production and intermediate-term sectors. These increases were partially offset by a decrease in specific reserves and recoveries associated with the full collection of proceeds on a nonaccrual loan in the agribusiness sector.

The provision for credit losses for the Bank for the three months ended September 30, 2023 primarily reflects an increase in general reserves due in part to rating downgrades that occurred during the quarter, partially offset by a decrease in specific reserves due to the full collection of proceeds on a nonaccrual loan in the agribusiness sector.

The provision for credit losses for the nine months ended September 30, 2023 totaled $44.5 million, an increase of $37.7 million from the provision for credit losses of $6.7 million recorded for the same period of 2022. The combined Associations recorded a provision for credit losses of $11.7 million for the nine months ended September 30, 2023, as compared to a provision for credit losses of $5.4 million for the same period of 2022.

The provision for credit losses for the combined Associations during the nine months ended September 30, 2023 reflects credit deterioration in a few select borrowers in the production and intermediate-term, real estate mortgage, lease receivables and agribusiness sectors.

The Bank recorded a provision for credit losses of $32.8 million for the nine months ended September 30, 2023 compared to $1.3 million 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.

*Noninterest Income*

Noninterest income for the three months ended September 30, 2023 was $20.2 million, an increase of $722 thousand, or 3.71%, compared to the same period of 2022.

Noninterest income for the nine months ended September 30, 2023 was $62.8 million, an increase of $2.2 million, or 3.67%, compared to the same period of 2022. The increase was driven by an increase in patronage income of $2.2 million.

*Noninterest Expense*

Noninterest expense for the three months ended September 30, 2023, totaled $132.2 million, an increase of $4.8 million, or 3.76%, from the same period of 2022. The increase in noninterest expense for the three months ended September 30, 2023 was primarily driven by a $3.1 million increase in occupancy and equipment expense due to software licensing and depreciation expense and a $2.8 million increase in other operating expenses due to increased public and member relations expenses as well as travel and training expenses, partially offset by a $1.7 million decrease in purchased services.

Noninterest expense for the nine months ended September 30, 2023, totaled $398.8 million, an increase of $19.7 million, or 5.21%, from the same period of 2022. The increase in noninterest expense for the nine months ended September 30, 2023 was primarily driven by a $10.4 million increase in salaries and employee benefits and an $8.4 million increase in occupancy and equipment for software licensing and depreciation expense and an increase of $5.4 million in other operating expenses due to increased public and member relations expenses as well as travel and training expenses, partially offset by a $3.7 million decrease in purchased services.

## Loan Portfolio

The following table summarizes District loans by loan type:

| | **September 30, 2023** | December 31, 2022 |
|---|---|---|
| Real estate mortgage | **$ 22,226,380** | $ 22,114,936 |
| Production and intermediate-term | **5,121,959** | 4,555,061 |
| Agribusiness: | | |
| Loans to cooperatives | **628,720** | 695,077 |
| Processing and marketing | **4,919,720** | 5,003,502 |
| Farm-related business | **577,668** | 623,805 |
| Communications | **1,203,111** | 1,134,299 |
| Energy (rural utilities) | **1,687,739** | 1,512,093 |
| Water and waste disposal | **412,094** | 248,392 |
| Rural residential real estate | **265,368** | 281,281 |
| International | **173,179** | 128,201 |
| Mission-related | **32,163** | 34,635 |
| Loans to other financing institutions (OFIs) | **52,756** | 51,878 |
| Lease receivables | **35,427** | 38,284 |
| **Total loans** | **$ 37,336,284** | $ 36,421,444 |

The District loan portfolio consists of only retail loans. The Bank's loans to the District Associations, also referred to as direct notes, have been eliminated in the combined financial statements. The terms of the direct notes to the District Associations and OFIs are specified in a separate general financing agreement (GFA) between each Association and OFI and the Bank, and all assets of each Association secure the direct notes to the Bank. A new GFA between each Association and OFI was executed and became effective October 1, 2023. The terms of the new GFA were substantially the same terms as the previous GFA, which was executed in 2020.

Total District loan volume at September 30, 2023 was $37.34 billion, an increase of $914.8 million, or 2.51%, from the $36.42 billion loan portfolio balance at December 31, 2022. The loan volume increase of $914.8 million during the nine months ended September 30, 2023 was driven by a $833.4 million increase in the District Associations' loan portfolios and a $81.4 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 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 September 30, 2023:

| | Acceptable | OAEM (Special Mention) | Substandard/ Doubtful | Total | Current Period Gross Charge-offs |
|---|---|---|---|---|---|
| 2023 | $ **3,600,405** | $ **33,618** | $ **42,798** | $ **3,676,821** | $ **1,021** |
| 2022 | **6,792,229** | **99,877** | **29,194** | **6,921,300** | **5,962** |
| 2021 | **7,464,591** | **86,723** | **102,078** | **7,653,392** | **40** |
| 2020 | **4,697,860** | **76,488** | **78,972** | **4,853,320** | **8** |
| 2019 | **2,123,586** | **31,213** | **63,013** | **2,217,812** | **779** |
| Prior | **6,527,196** | **66,710** | **57,551** | **6,651,457** | **3,321** |
| Revolving loans | **4,849,653** | **123,331** | **66,039** | **5,039,023** | **4,383** |
| Revolving loans converted to term | **303,306** | **2,776** | **17,077** | **323,159** | **—** |
| Total | $ **36,358,826** | $ **520,736** | $ **456,722** | $ **37,336,284** | $ **15,514** |
| **Percentage** | **97.4 %** | **1.4 %** | **1.2 %** | **100.0 %** | |

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

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| **Nonaccrual loans:** | | |
| Real estate mortgage | **$ 60,792** | $ 56,389 |
| Production and intermediate-term | **63,341** | 16,407 |
| Agribusiness | **54,383** | 55,879 |
| Energy and water/waste disposal | **6,347** | 9,880 |
| Rural residential real estate | **204** | 279 |
| Leases | **600** | 1,297 |
| **Total nonaccrual loans** | **185,667** | 140,131 |
| **Accruing loans 90 days or more past due** | | |
| Real estate mortgage | **5,518** | 7,891 |
| Production and intermediate-term | **217** | 1,431 |
| Mission-related | **1,317** | 5,032 |
| **Total accruing loans 90 days or more past due** | **7,052** | 14,354 |
| **Other property owned** | **2,997** | 4,712 |
| **Total nonperforming assets** | **$ 195,716** | $ 159,197 |

Note: The balances for accruing loans 90 days or more past due at September 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 $45.5 million, or 32.5%, from $140.1 million at December 31, 2022 to $185.7 million at September 30, 2023. The increase in nonaccrual loans since December 31, 2022 largely reflects the movement of loans to nonaccrual during 2023 resulting from credit deterioration among select borrowers in the production and intermediate-term and agribusiness sectors.

At September 30, 2023, $95.1 million, or 51.23%, 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:

| September 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 | **$ 141,538** | **$ 37,950** | **$ 179,488** | **$ 22,046,892** | **$ 22,226,380** | **$ 5,518** |
| Production and intermediate-term | **11,952** | **21,886** | **33,838** | **5,088,121** | **5,121,959** | **217** |
| Agribusiness | **13,670** | **30,681** | **44,351** | **6,081,757** | **6,126,108** | **—** |
| Communications | **—** | **—** | **—** | **1,203,111** | **1,203,111** | **—** |
| Energy and water/waste disposal | **—** | **—** | **—** | **2,099,833** | **2,099,833** | **—** |
| Rural residential real estate | **1,794** | **27** | **1,821** | **263,547** | **265,368** | **—** |
| International | **—** | **—** | **—** | **173,179** | **173,179** | **—** |
| Mission-related | **2,480** | **1,317** | **3,797** | **28,366** | **32,163** | **1,317** |
| Loans to OFIs | **—** | **—** | **—** | **52,756** | **52,756** | **—** |
| Lease receivables | **1,517** | **600** | **2,117** | **33,310** | **35,427** | **—** |
| Total loans | **$ 172,951** | **$ 92,461** | **$ 265,412** | **$ 37,070,872** | **$ 37,336,284** | **$ 7,052** |

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 June 30, 2023** | **$ 50,462** | **$ 23,724** | **$ 41,731** | **$ 1,678** | **$ 5,504** | **$ 677** | **$ 90** | **$ 14** | **$ —** | **$ 589** | **$ 124,469** |
| Charge-offs | **(97)** | **(4)** | **(2)** | **—** | **(701)** | **—** | **—** | **—** | **—** | **—** | **(804)** |
| Recoveries | **45** | **30** | **1,014** | **—** | **—** | **—** | **—** | **8** | **—** | **—** | **1,097** |
| Provision for credit losses/(Loan loss reversal) | **3,073** | **10,036** | **(12,646)** | **470** | **399** | **15** | **(3)** | **(7)** | **—** | **51** | **1,388** |
| **Balance at September 30, 2023** | **$ 53,483** | **$ 33,786** | **$ 30,097** | **$ 2,148** | **$ 5,202** | **$ 692** | **$ 87** | **$ 15** | **$ —** | **$ 640** | **$ 126,150** |
| **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 | **(172)** | **(1,787)** | **(12,144)** | **—** | **(701)** | **—** | **—** | **—** | **—** | **(710)** | **(15,514)** |
| Recoveries | **112** | **213** | **1,022** | **—** | **48** | **—** | **—** | **24** | **—** | **—** | **1,419** |
| Provision for credit losses/(Loan loss reversal) | **2,815** | **25,058** | **14,304** | **807** | **1,532** | **(2)** | **(8)** | **(62)** | **—** | **672** | **45,116** |
| **Balance at September 30, 2023** | **$ 53,483** | **$ 33,786** | **$ 30,097** | **$ 2,148** | **$ 5,202** | **$ 692** | **$ 87** | **$ 15** | **$ —** | **$ 640** | **$ 126,150** |
| **Balance at June 30, 2022** | **$ 44,914** | **$ 14,689** | **$ 15,615** | **$ 924** | **$ 6,236** | **$ 318** | **$ 95** | **$ 128** | **$ —** | **$ 117** | **$ 83,036** |
| Charge-offs | **(312)** | **(262)** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(574)** |
| Recoveries | **80** | **187** | **4** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **271** |
| Provision for credit losses/(Loan loss reversal) | **1,619** | **1,885** | **5,782** | **36** | **(19)** | **(9)** | **2** | **(66)** | **—** | **(5)** | **9,225** |
| Other* | **(83)** | **(620)** | **(423)** | **(8)** | **68** | **—** | **(11)** | **—** | **—** | **—** | **(1,077)** |
| **Balance at September 30, 2022** | **$ 46,218** | **$ 15,879** | **$ 20,978** | **$ 952** | **$ 6,285** | **$ 309** | **$ 86** | **$ 62** | **$ —** | **$ 112** | **$ 90,881** |
| **Balance at December 31, 2021** | **$ 44,490** | **$ 15,495** | **$ 14,701** | **$ 824** | **$ 9,296** | **$ 313** | **$ 90** | **$ 128** | **$ —** | **$ 133** | **$ 85,470** |
| Charge-offs | **(388)** | **(263)** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(651)** |
| Recoveries | **116** | **590** | **5** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **711** |
| Provision for credit losses/(Loan loss reversal) | **2,093** | **1,027** | **6,615** | **145** | **(3,077)** | **(4)** | **5** | **(66)** | **—** | **(22)** | **6,716** |
| Other* | **(93)** | **(970)** | **(343)** | **(17)** | **66** | **—** | **(9)** | **—** | **—** | **1** | **(1,365)** |
| **Balance at September 30, 2022** | **$ 46,218** | **$ 15,879** | **$ 20,978** | **$ 952** | **$ 6,285** | **$ 309** | **$ 86** | **$ 62** | **$ —** | **$ 112** | **$ 90,881** |
| **Reserve for losses on unfunded commitments*** | | | | | | | | | | | |
| **Balance at June 30, 2023** | **$ 491** | **$ 1,023** | **$ 4,073** | **$ 129** | **$ 801** | **$ —** | **$ 65** | **$ —** | **$ —** | **$ —** | **$ 6,582** |
| Provision for credit losses/(Loan loss reversal) | **(12)** | **120** | **565** | **5** | **(5)** | **1** | **2** | **—** | **—** | **—** | **676** |
| **Balance at September 30, 2023** | **$ 479** | **$ 1,143** | **$ 4,638** | **$ 134** | **$ 796** | **$ 1** | **$ 67** | **$ —** | **$ —** | **$ —** | **$ 7,258** |
| **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) | **(362)** | **105** | **(383)** | **(19)** | **—** | **1** | **2** | **—** | **—** | **—** | **(656)** |
| **Balance at September 30, 2023** | **$ 479** | **$ 1,143** | **$ 4,638** | **$ 134** | **$ 796** | **$ 1** | **$ 67** | **$ —** | **$ —** | **$ —** | **$ 7,258** |

*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 $5.6 million at September 30, 2022. Loans, net of the allowance for credit losses, represented 81.86% of total assets at September 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 |
|---|---|---|---|---|
| **September 30, 2023** | | | | |
| Bank investments | **$ 7,323,479** | **$ 959** | **$ (725,698)** | **$ 6,598,740** |
| District Association investments | **183,088** | **1,189** | **(722)** | **183,555** |
| Total District investments | **$ 7,506,567** | **$ 2,148** | **$ (726,420)** | **$ 6,782,295** |
| | | | | |
| **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 $2.7 million, an unrealized net loss of $128 thousand, and a fair value of $2.6 million as of September 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 or held-to-maturity 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 nine months ended September 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 September 30, 2023.

## Capital Resources

The District's equity totaled $5.61 billion at September 30, 2023, including $1.03 billion in preferred stock, $72.5 million in capital stock and participation certificates, $4.93 billion in retained earnings and $222.0 million in additional paid-in-capital, partially offset by accumulated other comprehensive loss of $646.0 million.

Borrower equity purchases required by District Association capitalization bylaws, combined with a history of growth in retained earnings at District Associations, have resulted in District Associations being able to maintain strong capital positions. The $5.61 billion equity position of the District at September 30, 2023 increased by $305.0 million compared to $5.31 billion at December 31, 2022. The increase since December 31, 2022 was driven by a $384.9 million increase in unallocated retained earnings and patronage declarations of $19.7 million, partially offset by a $79.7 million increase in accumulated other comprehensive loss and the $12.4 million cumulative effect adjustment for CECL adoption.

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

| | September 30, 2023 | December 31, 2022 |
|---|---|---|
| Unrealized losses on investment securities | $ (724,273) | $ (605,817) |
| Derivatives and hedging position | 101,671 | 63,900 |
| Pension and postretirement plan position | (23,352) | (24,310) |
| Total Accumulated Other Comprehensive Loss | $ (645,954) | $ (566,227) |

Accumulated other comprehensive loss totaled $646.0 million at September 30, 2023, an increase of $79.7 million from December 31, 2022. The increase in accumulated other comprehensive loss reflects a $118.5 million increase in unrealized losses on the Bank's available-for-sale investments, partially offset by a $37.8 million increase in unrealized gains on derivatives 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.

| September 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% | 8.34% | 9.94% - 18.52% |
| Tier 1 capital ratio | CET1 capital, noncumulative perpetual preferred stock | 8.50% | 12.97% | 12.36% - 18.52% |
| 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% | 13.23% | 12.53% - 18.85% |
| Permanent capital ratio | Retained earnings, common stock, noncumulative perpetual preferred stock and subordinated debt, subject to certain limits | 7.00% | 13.00% | 12.22% - 18.58% |
| **Non-risk adjusted:** | | | | |
| Tier 1 leverage ratio* | Tier 1 capital | 5.00% | 5.72% | 10.41% - 17.73% |
| UREE leverage ratio | URE and URE equivalents | 1.50% | 2.20% | 4.67% - 17.44% |

*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, 2023 | December 31, 2022 |
|---|---|---|
| **ASSETS** | | |
| Cash | **$ 53,001** | $ 141,371 |
| Federal funds sold and overnight investments | **367,066** | 301,678 |
| Investment securities | **6,782,295** | 6,787,975 |
| Loans | **37,336,284** | 36,421,444 |
| Less allowance for credit losses | **126,150** | 85,517 |
| Net loans | **37,210,134** | 36,335,927 |
| Accrued interest receivable | **392,089** | 323,883 |
| Premises and equipment, net | **306,447** | 265,531 |
| Other assets | **346,591** | 424,005 |
| Total assets | **$ 45,457,623** | $ 44,580,370 |
| **LIABILITIES** | | |
| Bonds and notes | **$ 39,167,702** | $ 38,321,742 |
| Accrued interest payable | **226,239** | 153,471 |
| Patronage distributions payable | **4,916** | 280,859 |
| Preferred stock dividends payable | **13,798** | 11,600 |
| Other liabilities | **433,943** | 506,666 |
| Total liabilities | **39,846,598** | 39,274,338 |
| **MEMBERS' EQUITY** | | |
| Preferred stock | **1,030,000** | 1,030,000 |
| Capital stock and participation certificates | **72,488** | 72,715 |
| Allocated retained earnings | **1,030,348** | 1,030,345 |
| Unallocated retained earnings | **3,902,117** | 3,517,173 |
| Additional paid-in-capital | **222,026** | 222,026 |
| Accumulated other comprehensive loss | **(645,954)** | (566,227) |
| Total members' equity | **5,611,025** | 5,306,032 |
| Total liabilities and members' equity | **$ 45,457,623** | $ 44,580,370 |

## Combined Statements of Income

*(Unaudited)*

| (in thousands) | Three Months Ended September 30, 2023 | Three Months Ended September 30, 2022 | Nine Months Ended September 30, 2023 | Nine Months Ended September 30, 2022 |
|---|---|---|---|---|
| **Interest Income** | | | | |
| Investment securities | **$ 64,539** | $ 32,435 | **$ 180,216** | $ 79,018 |
| Loans | **576,385** | 425,384 | **1,656,324** | 1,138,110 |
| **Total interest income** | **640,924** | 457,819 | **1,836,540** | 1,217,128 |
| **Interest Expense** | | | | |
| Bonds and notes | **287,612** | 147,163 | **806,031** | 337,288 |
| Notes payable and other | **65,931** | 27,833 | **184,906** | 48,677 |
| **Total interest expense** | **353,543** | 174,996 | **990,937** | 385,965 |
| **Net interest income** | **287,381** | 282,823 | **845,603** | 831,163 |
| Provision for credit losses | **2,064** | 6,396 | **44,460** | 6,715 |
| **Net interest income after provision for credit losses** | **285,317** | 276,427 | **801,143** | 824,448 |
| **Noninterest income** | | | | |
| Patronage income | **3,991** | 3,609 | **20,322** | 18,170 |
| Fees for loan-related services | **10,770** | 11,209 | **30,525** | 31,589 |
| Other income, net | **5,413** | 4,634 | **11,927** | 10,790 |
| **Total noninterest income** | **20,174** | 19,452 | **62,774** | 60,549 |
| **Noninterest expense** | | | | |
| Salaries and employee benefits | **68,485** | 67,538 | **210,435** | 200,000 |
| Occupancy and equipment | **16,552** | 13,441 | **51,006** | 42,562 |
| Purchased services | **8,933** | 10,619 | **28,329** | 31,998 |
| Farm Credit System Insurance Corporation expense | **16,092** | 16,446 | **47,127** | 48,043 |
| Other operating expenses | **22,136** | 19,363 | **61,874** | 56,432 |
| **Total noninterest expense** | **132,198** | 127,407 | **398,771** | 379,035 |
| **Income before income taxes** | **173,293** | 168,472 | **465,146** | 505,962 |
| Provision for income taxes | **158** | 59 | **153** | 108 |
| **Net income** | **$ 173,135** | $ 168,413 | **$ 464,993** | $ 505,854 |

## Select Information on District Associations

*(Unaudited)*

| *(in thousands)* As of September 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 | $ 343,785 | 1.39% | $ 406,149 | $ 60,238 | 13.16% | 1.00% | 1.27% |
| AgTexas Farm Credit Services | 2,674,842 | 10.79% | 3,169,554 | 452,636 | 13.03% | 0.94% | 1.86% |
| Alabama Ag Credit, ACA | 1,124,489 | 4.54% | 1,372,747 | 245,494 | 15.99% | 0.09% | 1.57% |
| Alabama Farm Credit, ACA | 943,862 | 3.81% | 1,108,862 | 157,996 | 12.53% | 0.33% | 1.52% |
| Capital Farm Credit, ACA | 10,270,772 | 41.44% | 12,320,944 | 1,952,317 | 13.35% | 0.52% | 2.26% |
| Central Texas Farm Credit, ACA | 552,084 | 2.23% | 691,537 | 135,400 | 17.32% | 0.36% | 1.79% |
| Heritage Land Bank, ACA | 594,140 | 2.40% | 706,876 | 108,308 | 14.07% | 0.03% | 1.18% |
| Legacy Ag Credit, ACA | 305,995 | 1.23% | 377,482 | 69,974 | 18.85% | 0.32% | 1.59% |
| Lone Star, ACA | 2,100,331 | 8.47% | 2,565,847 | 449,998 | 15.65% | 0.35% | 1.63% |
| Louisiana Land Bank, ACA | 849,938 | 3.43% | 1,055,467 | 199,825 | 16.78% | 0.70% | 1.66% |
| Mississippi Land Bank, ACA | 839,338 | 3.39% | 1,026,312 | 171,368 | 14.88% | 0.02% | 1.58% |
| Plains Land Bank, FLCA | 903,788 | 3.65% | 1,077,567 | 170,480 | 14.03% | 0.44% | 2.11% |
| Southern AgCredit, ACA | 1,247,629 | 5.03% | 1,496,864 | 230,201 | 14.14% | 0.10% | 1.76% |
| Texas Farm Credit Services | 2,031,718 | 8.20% | 2,355,808 | 299,373 | 12.58% | 0.69% | 2.09% |
| Totals | $ 24,782,711 | 100.00% | $29,732,016 | $4,703,608 | | | |

## 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.centraltexasfarmcredit.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 | 1611 Summit Avenue, Suite 325, 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* |