Texas Farm Credit District

First Quarter Report 2024

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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 Texas 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 Texas District's chartered territory includes the states of Texas, Alabama, Mississippi, Louisiana and most of New Mexico. As of March 31, 2024, the Bank served one Federal Land Credit Association (FLCA) and 12 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 jointly 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 Texas District for the three months ended March 31, 2024.

COMBINED FINANCIAL HIGHLIGHTS

(in thousands)	March 31, 2024	December 31, 2023
Total loans	$ **38,066,727**	$ 37,720,675
Allowance for credit losses on loans	**126,080**	121,261
Net loans	**37,940,647**	37,599,414
Total assets	**46,163,271**	45,906,962
Total members' equity	**5,642,441**	5,497,476

Three Months Ended March 31,	**2024**	**2023**
Net interest income	$ **290,923**	$ 279,265
Provision for credit losses on loans	**13,610**	25,992
Net fee income	**8,793**	9,517
Net income	$ **164,927**	$ 143,805
Net interest margin	**2.61 %**	2.55 %
Net loan charge-offs (recoveries) as a percentage of average loans	**0.10**	0.14
Return on average assets (ROA)	**1.45**	1.26
Return on average shareholders' equity (ROE)	**11.85**	10.67
Operating expenses as a percentage of net interest income and noninterest income	**43.16**	44.35
Average loans	$ **37,833,450**	$ 37,151,724
Average interest earning assets	**44,851,485**	44,382,151
Average total assets	**45,885,833**	45,438,034

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 financial and macroeconomic volatility driven by factors such as elevated interest rates and persistently high inflation. Despite the challenging operating environment, 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 persistence of inflationary pressure, the relatively high cost of debt and an underlying recession risk.

The Consumer Price Index for All Urban Consumers increased by 3.5 percent for the 12-month period ending March 2024, above the long-term target of approximately 2.0 percent. However, recent inflation rates represent significant declines from the four-decade high of 9.1 percent reached in June 2022. The indexes for shelter and gasoline rose in March, contributing to over half of the monthly increase in the index for all items. Since July 2023, the Federal Open Market Committee (FOMC) has maintained the target federal funds rate within the 5.25 – 5.50 percent range. At the March 2024 FOMC meeting, the Committee stated that it does not expect it will be appropriate to reduce the target federal funds rate until it has gained greater confidence that inflation is moving sustainably toward 2.0 percent. Participants indicated that the policy rate was likely at its peak for this tightening cycle and that, if the economy evolves broadly as expected, cuts in the federal funds rate were probable during 2024. Participants were resolute in their commitment to bring inflation down to the 2.0 percent long-run objective while achieving maximum employment.

On March 28, 2024, the U.S. Bureau of Economic Analysis (BEA) released its third estimate of real gross domestic product (GDP) for the fourth quarter of 2023. U.S. real GDP increased at an annual rate of 3.4 percent during the fourth quarter of 2023, down from 4.9 percent during the previous quarter but up from 2.6 percent during the same period a year ago. The increase in real GDP during the fourth quarter primarily reflected higher levels of consumer spending, exports, and state and local government spending, among other categories. Within the Texas District, fourth quarter 2023 annualized real GDP growth rates ranged from a low of 3.0 percent in Louisiana to a high of 5.0 percent in Texas. According to the International Monetary Fund's latest World Economic Outlook report released in April 2024, U.S. real GDP growth is projected to be 2.7 percent in 2024, up from an estimated annual increase of 2.5 percent in 2023, but decelerating afterwards to 1.9 percent in 2025. Mining increased in 43 states during 2023 and was the leading contributor to growth in seven states including North Dakota and Texas, the two states with the largest annual increases in real GDP.

Data from the U.S. Bureau of Labor Statistics (BLS) indicates that the U.S. unemployment rate decreased month-over-month (MOM) to 3.8 percent in March 2024, down from 3.9 percent in February, but up from 3.5 percent during the same period a year ago. The March state unemployment rates in the Texas District ranged from a low of 3.0 percent in Alabama and Mississippi, to a high of 4.4 percent in Louisiana.

The West Texas Intermediate (WTI) crude oil futures price (front-month) decreased during the first quarter of 2024 to an average of nearly $77 per barrel from an average of approximately $79 per barrel in the fourth quarter of 2023. However, the average WTI price increased by approximately 1.2 percent (about $1 per barrel) during the first quarter of 2024 compared to the same period a year ago. Even though the average WTI price was lower during the first quarter of 2024 than the prior quarter, the WTI front-month price experienced an upward trend by the second half of March 2024, that continued over the first half of April, and its price exceeded $85 per barrel. In the April 2024 edition of the Short-Term Energy Outlook, the U.S. Energy Information Administration estimated that the monthly average WTI spot price would be nearly $84 per barrel in 2024 and $83 per barrel in 2025. The WTI spot price closed above $83 per barrel in March 2024.

On March 28, 2024, the U.S. Department of Agriculture (USDA) released its 2024 Prospective Plantings report, the first official, survey-based estimates of U.S. farmers' planting intentions in 2024. Producers intend to plant 90.0 million acres of corn in 2024, down approximately 5.0 percent from last year. Corn planting intentions are down or unchanged in 38 of the 48 estimating states. A year-over-year (YOY) decrease of 300,000 acres or more is estimated in Texas and seven other states. Soybean planted area for 2024 is intended to be 86.5 million acres, up about 3.5 percent from last year. Acreage increases of 100,000 or more are expected in Louisiana and about 11 other states. All wheat planted area for 2024 is estimated at 47.5 million acres, down about 4.2 percent from 2023. All cotton planted area was estimated at 10.7 million acres, about 4.3 percent above last year. These estimates are derived via a survey of farmers' intentions and are subject to change throughout the season.

According to USDA's April 2024 World Agricultural Supply and Demand Estimates (WASDE) report, average farm prices for corn, wheat, and soybeans are estimated to have increased by approximately 9.0 percent, 15.7 percent, and 6.8 percent, respectively, YOY during the 2022/23 marketing year, while the average farm price for upland cotton is estimated to have declined by 7.2 percent. The prices of these crops are projected to decrease during the 2023/24 season from a range of nearly 10.4 percent (cotton) to 28.1 percent (corn). Barrow/gilt, broiler, and turkey prices are estimated to have decreased by 17.7 percent, 11.5 percent, and 9.3 percent, respectively, YOY in 2023, while steer prices are estimated to have risen by an average of 21.6 percent. Steer, barrow/gilt, and broiler prices are projected to increase YOY by about 5.4 percent, 7.5 percent, and 3.7 percent, respectively in 2024, while turkey prices are projected to decline YOY by nearly 26.0 percent. USDA estimates that all-milk prices declined by 19.2 percent from an average of approximately $25.3 per hundredweight (/cwt.) in 2022 to an estimated average of $20.5/cwt. in 2023. All-milk prices are projected to increase by about 2.1 percent in 2024.

Front-month random length lumber futures prices increased during the first quarter of 2024 by approximately 2.2 percent, leading to a YOY increase of 21.1 percent as of March 2024. Lumber prices were volatile in 2023, and this volatility will likely persist in 2024 as elevated interest rates continue to affect construction-related demand. Front-month lumber prices increased by nearly 17.0 percent YOY in 2023.

The National Weather Service (NWS) indicates that El Niño is rapidly weakening, and La Niña is favored to develop by summer and to continue through autumn 2024. The NWS seasonal outlook from April through June 2024 indicates that above normal temperatures are expected for most of the Texas District with a 33-50 percent probability. The precipitation outlook suggests that Louisiana, Mississippi and Alabama will receive above normal precipitation with 33-50 percent probability, while west Texas and most of New Mexico will likely receive below normal precipitation. The recent devastating wildfires that began on February 26, and expanded from the Texas Panhandle and into Oklahoma, caused significant damage in some local areas but are not anticipated to have a material impact on the Texas District's loan portfolio.

The World Health Organization reported that avian influenza was detected in dairy herds in Texas and Kansas in late March 2024. Similarly, the April 2024 edition of the Federal Reserve System's Beige Book reported that avian influenza has been afflicting chickens and dairy cows in the Texas Panhandle, leading to lower milk production. The extent of the impact to dairy product supply, if any, is unknown at this point, but Beige Book contacts noted that there is not a food safety issue.

Agricultural producers and processors are expected to face several risk factors during 2024, 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.

Results of Operations

Net Income

Net income for the Texas District was $164.9 million for the three months ended March 31, 2024, an increase of $21.1 million, or 14.69 percent, over the same period of 2023. The increase in net income was driven by a $12.4 million decrease in the provision for credit losses on loans and a $11.7 million increase in net interest income, partially offset by a $2.9 million decrease in noninterest income.

Net Interest Income

Net interest income for the three months ended March 31, 2024, was $290.9 million, an increase of $11.7 million, or 4.17 percent, over the same period of 2023, driven by a $469.3 million increase in the Texas District's 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, 2024, decreased 4 basis points, from 2.18 percent to 2.14 percent, attributable to a 75 basis point increase in the average rate paid on interest-bearing liabilities, partially offset by a 71 basis point increase in the average yield on interest earning assets. Net interest rate margin increased by 6 basis points to 2.61 percent compared to 2.55 percent for the same period of 2023.

Provision for Credit Losses on Loans

During the three months ended March 31, 2024, the provision for credit losses on loans totaled $13.6 million, a decrease of $12.4 million compared to a provision for credit losses on loans of $26.0 million for the same period of 2023. The combined Associations recorded a provision for credit losses of $9.6 million compared to a provision for credit losses of $3.6 million for the same period of 2023. The Bank recorded a provision for credit losses of $4.0 million compared to a provision for credit losses of $22.4 million for the same period of 2023.

The provision for credit losses for the combined Associations during the three months ended March 31, 2024, is primarily due to specific reserves on select borrowers in certain sectors resulting from credit deterioration as well as increases in general reserves for new lending activities.

The provision for credit losses for the Bank for the three months ended March 31, 2024, primarily reflects an increase in general reserves due to higher qualitative reserves and elevated economic scenario risk relative to the previous quarter, primarily in the production and intermediate-term loan sector. Overall, loan credit quality at the Bank remained stable at 99.48 percent acceptable and special mention at March 31, 2024, as compared to 99.54 percent at December 31, 2023.

Noninterest Income

Noninterest income for the three months ended March 31, 2024, was $23.0 million, a decrease of $2.9 million, or 11.14 percent, compared to the same period of 2023. The decrease primarily reflects the impact during the three months ended March 31, 2023, of 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, with no similar activity during the three months ended March 31, 2024.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2024, totaled $135.5 million, an increase of $152 thousand, or 0.11 percent, from the same period of 2023. The increase was driven by an increase in other operating expenses of $3.4 million reflecting the impact of decreased valuations on the underlying collateral for loans that were transferred to other property owned (OPO) in the prior year. The increase also reflects an increase in salaries and employee benefits of $2.4 million driven by normal merit increases and higher retirement expenses and an increase in occupancy and equipment expense of $1.9 million due to higher computer equipment and software costs. Offsetting those increases was a decrease in Farm Credit System Insurance Corporation (FCSIC) premiums of $6.7 million due to a decrease in the FCSIC premium rate assessed during 2024.

On April 12, 2024, the FCSIC Board announced a return of excess insurance funds to the Farm Credit System. This return will be recorded when it is received during the second quarter of 2024.

Loan Portfolio

The following table summarizes Texas District loans by loan type:

	March 31, 2024	December 31, 2023
Real estate mortgage	**$ 22,705,560**	$ 22,507,216
Production and intermediate-term	**5,317,415**	5,293,706
Agribusiness:		
Loans to cooperatives	**688,206**	629,393
Processing and marketing	**5,042,716**	4,965,804
Farm-related business	**666,282**	579,206
Communications	**1,074,735**	1,180,113
Energy (rural utilities)	**1,653,890**	1,599,892
Water and waste disposal	**380,007**	423,731
Rural residential real estate	**257,728**	263,188
International	**167,079**	157,693
Mission-related	**27,561**	29,869
Loans to other financing institutions (OFIs)	**51,780**	55,304
Lease receivables	**33,768**	35,560
Total loans	**$ 38,066,727**	$ 37,720,675

The Texas District loan portfolio consists of only retail loans. The Bank's loans to the Texas District Associations, also referred to as direct notes, have been eliminated in the combined financial statements. Total Texas District loan volume at March 31, 2024, was $38.07 billion, an increase of $346.1 million, or 0.92 percent, from the $37.72 billion loan portfolio balance at December 31, 2023. The loan volume increase of $346.1 million during the three months ended March 31, 2024, was driven by a $320.9 million increase in the Texas District Associations' loan portfolios and a $25.1 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 Texas District Associations, which may exceed their hold limits, the Bank seeks the purchase of participations and syndications originated outside the Texas District's territory by other System institutions, commercial banks and other lenders. The Bank's capital markets loan portfolio depends to a significant degree on other relationships with other Farm Credit institutions. These loans may be held as earning assets of the Bank or sub-participated to the Texas District Associations or other System entities.

Loan Quality

One credit quality indicator utilized by the Texas 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, 2024 and December 31, 2023:

March 31, 2024	**Acceptable**	**OAEM (Special Mention)**	**Substandard/ Doubtful**	**Total**	**Current Period Gross Charge-offs**
2024	**$ 1,092,784**	**$ 7,957**	**$ 9,059**	**$ 1,109,800**	**$ 12**
2023	**4,869,148**	**43,731**	**65,060**	**4,977,940**	**65**
2022	**6,242,798**	**87,905**	**40,409**	**6,371,112**	**5**
2021	**7,095,415**	**91,659**	**59,466**	**7,246,540**	**5,713**
2020	**4,370,333**	**88,154**	**72,684**	**4,531,171**	**9**
Prior to 2020	**7,686,109**	**101,783**	**103,058**	**7,890,950**	**37**
Revolving loans	**5,271,478**	**198,014**	**75,512**	**5,545,004**	**3,741**
Revolving loans converted to term	**390,204**	**2,875**	**1,132**	**394,211**	**—**
Total	**$37,018,269**	**$ 622,078**	**$ 426,380**	**$38,066,727**	**$ 9,582**
Percentage	**97.25 %**	**1.63 %**	**1.12 %**	**100.00 %**	

December 31, 2023	Acceptable	OAEM (Special Mention)	Substandard/ Doubtful	Total	Total gross charge-offs for the year ended December 31, 2023
2023	$ 4,905,277	$ 42,717	$ 54,014	$ 5,002,008	$ 1,601
2022	6,422,981	84,052	52,414	6,559,447	5,972
2021	7,277,276	95,811	57,127	7,430,214	25
2020	4,508,421	107,165	63,610	4,679,196	1
2019	2,049,172	31,487	51,445	2,132,104	9,008
Prior to 2019	6,000,062	66,687	52,095	6,118,844	3,921
Revolving loans	5,233,151	108,312	79,653	5,421,116	8,345
Revolving loans converted to term	374,035	3,311	400	377,746	—
Total	$36,770,375	$ 539,542	$ 410,758	$37,720,675	$ 28,873
Percentage	97.48 %	1.43 %	1.09 %	100.00 %	

Overall credit quality in the Texas District and at the Texas District Associations remained strong at March 31, 2024. Loans classified as acceptable or OAEM as a percentage of total loans were 98.88 percent and 98.91 percent at March 31, 2024 and December 31, 2023, respectively.

The table below summarizes the amortized cost of the Texas District's nonperforming assets, which consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned, at March 31, 2024 and December 31, 2023.

	March 31, 2024	December 31, 2023
Nonaccrual loans:		
Real estate mortgage	**$ 54,899**	$ 39,118
Production and intermediate-term	**49,053**	45,073
Agribusiness	**34,764**	40,558
Energy and water/waste disposal	**5,463**	5,801
Rural residential real estate	**541**	342
Total nonaccrual loans	**144,720**	130,892
Accruing loans 90 days or more past due		
Real estate mortgage	**1,629**	1,193
Production and intermediate-term	**—**	339
Agribusiness	**2,981**	—
Mission-related	**1,058**	1,101
Total accruing loans 90 days or more past due	**5,668**	2,633
Total nonperforming loans	**150,388**	133,525
Other property owned	**32,865**	37,032
Total nonperforming assets	**$ 183,253**	$ 170,557

The Texas District's nonaccrual loans increased by $13.8 million, or 10.56 percent, from $130.9 million at December 31, 2023, to $144.7 million at March 31, 2024. The increase in nonaccrual loans since December 31, 2023, resulted from credit deterioration among select borrowers in the real estate mortgage, production and intermediate-term and agribusiness loan sectors, partially offset by charge-offs in the agribusiness loan sector.

At March 31, 2024, $54.4 million, or 37.58 percent, of nonaccrual loans were current as to principal and interest, compared to $44.8 million, or 34.26 percent, of nonaccrual loans at December 31, 2023.

The following tables provide an aging analysis of past due loans at amortized cost by portfolio segment:

March 31, 2024	**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	**$ 140,677**	**$ 17,512**	**$ 158,189**	**$ 22,547,371**	**$ 22,705,560**	**$ 1,629**
Production and intermediate-term	**5,078**	**41,531**	**46,609**	**5,270,806**	**5,317,415**	**—**
Agribusiness	**5,579**	**25,597**	**31,176**	**6,366,028**	**6,397,204**	**2,981**
Communications	**—**	**—**	**—**	**1,074,735**	**1,074,735**	**—**
Energy and water/waste disposal	**—**	**431**	**431**	**2,033,466**	**2,033,897**	**—**
Rural residential real estate	**2,028**	**267**	**2,295**	**255,433**	**257,728**	**—**
International	**—**	**—**	**—**	**167,079**	**167,079**	**—**
Mission-related	**2,536**	**1,058**	**3,594**	**23,967**	**27,561**	**1,058**
Loans to OFIs	**—**	**—**	**—**	**51,780**	**51,780**	**—**
Lease receivables	**1,215**	**—**	**1,215**	**32,553**	**33,768**	**—**
Total loans	**$ 157,113**	**$ 86,396**	**$ 243,509**	**$ 37,823,218**	**$ 38,066,727**	**$ 5,668**

December 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	$ 128,365	$ 11,150	$ 139,515	$ 22,367,701	$ 22,507,216	$ 1,193
Production and intermediate-term	58,982	8,500	67,482	5,226,224	5,293,706	339
Agribusiness	3,237	28,410	31,647	6,142,756	6,174,403	—
Communications	—	—	—	1,180,113	1,180,113	—
Energy and water/waste disposal	—	—	—	2,023,623	2,023,623	—
Rural residential real estate	2,180	138	2,318	260,870	263,188	—
International	—	—	—	157,693	157,693	—
Mission-related	2,418	1,101	3,519	26,350	29,869	1,101
Loans to OFIs	—	—	—	55,304	55,304	—
Lease receivables	1,507	—	1,507	34,053	35,560	—
Total loans	$ 196,689	$ 49,299	$ 245,988	$ 37,474,687	$ 37,720,675	$ 2,633

A summary of changes in the allowance for credit losses on loans and the allowance for credit losses on 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 on loans:											
Balance at December 31, 2023	**$ 54,375**	**$ 25,677**	**$ 32,207**	**$ 2,337**	**$ 5,227**	**$ 670**	**$ 119**	**$ 12**	**$ —**	**$ 637**	**$ 121,261**
Charge-offs	**(141)**	**(476)**	**(8,954)**	**—**	**—**	**(11)**	**—**	**—**	**—**	**—**	**(9,582)**
Recoveries	**53**	**384**	**186**	**—**	**—**	**—**	**—**	**—**	**—**	**333**	**956**
(Loan loss reversal)/Provision for credit losses on loans	**(997)**	**4,635**	**9,186**	**247**	**583**	**(23)**	**43**	**1**	**—**	**(230)**	**13,445**
Balance at March 31, 2024	**$ 53,290**	**$ 30,220**	**$ 32,625**	**$ 2,584**	**$ 5,810**	**$ 636**	**$ 162**	**$ 13**	**$ —**	**$ 740**	**$ 126,080**
Balance at December 31, 2022	**$ 44,759**	**$ 13,539**	**$ 21,628**	**$ 959**	**$ 3,700**	**$ 319**	**$ 80**	**$ 63**	**$ —**	**$ 470**	**$ 85,517**
Adjustment in beginning balance due to change in accounting for credit losses	**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) on loans	**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**
Allowance for credit losses on unfunded commitments*											
Balance at December 31, 2023	**$ 486**	**$ 1,129**	**$ 4,749**	**$ 151**	**$ 714**	**$ 1**	**$ 66**	**$ —**	**$ —**	**$ —**	**$ 7,296**
(Loan loss reversal)/Provision for credit losses on loans	**(124)**	**249**	**50**	**(15)**	**7**	**—**	**(2)**	**—**	**—**	**—**	**165**
Balance at March 31, 2024	**$ 362**	**$ 1,378**	**$ 4,799**	**$ 136**	**$ 721**	**$ 1**	**$ 64**	**$ —**	**$ —**	**$ —**	**$ 7,461**
Balance at December 31, 2022	**$ 664**	**$ 1,935**	**$ 2,221**	**$ 53**	**$ 307**	**$ 1**	**$ 32**	**$ —**	**$ —**	**$ —**	**$ 5,213**
Adjustment in beginning balance due to change in accounting for credit losses	**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**
(Loan loss reversal)/Provision for credit losses on loans	**(382)**	**(23)**	**(695)**	**11**	**13**	**—**	**(6)**	**—**	**—**	**—**	**(1,082)**
Balance at March 31, 2023	**$ 459**	**$ 1,015**	**$ 4,326**	**$ 164**	**$ 809**	**$ —**	**$ 59**	**$ —**	**$ —**	**$ —**	**$ 6,832**

*Allowance for credit losses on unfunded commitments are recorded in other liabilities.

Loans, net of the allowance for credit losses on loans, represented 82.19 percent of total assets at March 31, 2024 and 81.90 percent as of December 31, 2023, respectively.

Investments

The Bank is responsible for meeting the Texas District's funding, liquidity and asset/liability management needs. While access to the unsecured debt capital markets remains the Texas 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 2023 Annual Report for additional description of the types of investments and maturities. Additionally, the Texas District Associations have regulatory authority to enter into certain guaranteed investments that are typically mortgage-backed or asset-backed securities.

The Texas District's investment portfolio is summarized in the following table:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2024				
Bank investments	**$ 7,169,881**	**$ 2,614**	**$ (586,332)**	**$ 6,586,163**
Texas District Association investments	**194,812**	**1,027**	**(650)**	**195,189**
Total Texas District investments	**$ 7,364,693**	**$ 3,641**	**$ (586,982)**	**$ 6,781,352**
December 31, 2023				
Bank investments	$ 7,178,757	$ 1,953	$ (570,281)	$ 6,610,429
Texas District Association investments	191,764	1,161	(630)	192,295
Total Texas District investments	$ 7,370,521	$ 3,114	$ (570,911)	$ 6,802,724

The Texas District Associations' investments in the preceding tables include held-to-maturity securities with an amortized cost of $2.2 million (unrealized net loss of $63 thousand and a fair value of $2.1 million) as of March 31, 2024, and an amortized cost of $2.4 million (unrealized net loss of $71 thousand and a fair value of $2.4 million) as of December 31, 2023. These securities are reported at amortized cost and are included in investment securities on the balance sheets.

The Texas District evaluated its investment securities with unrealized losses for impairment during the three months ended March 31, 2024. As a result of the assessment, the Texas District concluded that it does not intend to sell any securities and it is more likely than not that it would not be required to sell any securities prior to recovery of the amortized cost basis. The Texas District concluded that a credit impairment did not exist at March 31, 2024.

Capital Resources

The Texas District's equity totaled $5.64 billion at March 31, 2024, including $1.03 billion in preferred stock, $73.1 million in capital stock and participation certificates, $4.82 billion in retained earnings and $254.9 million in additional paid-in-capital, partially offset by accumulated other comprehensive loss of $533.4 million.

Borrower equity purchases required by Texas District Association capitalization bylaws, combined with a history of growth in retained earnings at Texas District Associations, have resulted in Texas District Associations being able to maintain strong capital positions. The $5.64 billion equity position of the Texas District at March 31, 2024, increased by $145.0 million compared to $5.50 billion at December 31, 2023. The increase since December 31, 2023, was driven by a $133.7 million increase in unallocated retained earnings and a $10.9 million decrease in accumulated other comprehensive loss.

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

	March 31, 2024	December 31, 2023
Unrealized losses on investment securities	$ (583,341)	$ (567,798)
Derivatives and hedging position	71,234	44,892
Pension and postretirement plan position	(21,305)	(21,440)
Total accumulated other comprehensive loss	$ (533,412)	$ (544,346)

Accumulated other comprehensive loss totaled $533.4 million at March 31, 2024, a decrease of $10.9 million from December 31, 2023. The decrease in accumulated other comprehensive loss reflects a $26.3 million increase in unrealized gains on derivatives related to changes in the valuation of interest rate swaps at the Bank, partially offset by an increase of $15.5 million in unrealized losses on the Bank's available-for-sale investments. All changes are primarily attributable to changes in interest rates.

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

March 31, 2024	Primary Components of Numerator	Regulatory Minimums with Capital Conservation Buffers	Bank	Texas 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%	8.30%	9.83% - 18.16%
Tier 1 capital ratio	CET1 capital, noncumulative perpetual preferred stock	8.50%	12.95%	11.56% - 18.16%
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%	13.21%	11.90% - 18.49%
Permanent capital ratio	Retained earnings, common stock, noncumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.00%	12.98%	11.59% - 18.22%
Non-risk adjusted:				
Tier 1 leverage ratio*	Tier 1 capital	5.00%	5.64%	10.09% - 16.96%
UREE leverage ratio	URE and URE equivalents	1.50%	2.00%	4.16% - 16.67%

* 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, 2024		December 31, 2023
ASSETS				
Cash	**$**	**20,915**	$	78,513
Federal funds sold and overnight investments		**286,627**		312,399
Investment securities		**6,781,352**		6,802,724
Loans		**38,066,727**		37,720,675
Less allowance for credit losses on loans		**126,080**		121,261
Net loans		**37,940,647**		37,599,414
Accrued interest receivable		**391,629**		401,520
Premises and equipment, net		**312,685**		306,669
Other assets		**429,416**		405,723
Total assets	**$**	**46,163,271**	$	45,906,962
LIABILITIES				
Bonds and notes	**$**	**39,771,186**	$	39,483,325
Accrued interest payable		**256,008**		227,680
Patronage distributions payable		**29,712**		288,004
Preferred stock dividends payable		**13,738**		13,798
Other liabilities		**450,186**		396,679
Total liabilities		**40,520,830**		40,409,486
MEMBERS' EQUITY				
Preferred stock		**1,030,000**		1,030,000
Capital stock and participation certificates		**73,084**		72,834
Allocated retained earnings		**1,091,945**		1,091,910
Unallocated retained earnings		**3,725,928**		3,592,182
Additional paid-in-capital		**254,896**		254,896
Accumulated other comprehensive loss		**(533,412)**		(544,346)
Total members' equity		**5,642,441**		5,497,476
Total liabilities and members' equity	**$**	**46,163,271**	$	45,906,962

Combined Statements of Income

(Unaudited)

(in thousands)	Three Months Ended March 31, 2024	2023
Interest income		
Investment securities	**$ 64,999**	$ 53,745
Loans	**605,157**	526,551
Total interest income	**670,156**	580,296
Interest expense		
Bonds and notes	**311,265**	244,334
Notes payable and other	**67,968**	56,697
Total interest expense	**379,233**	301,031
Net interest income	**290,923**	279,265
Provision for credit losses on loans	**13,610**	25,992
Net interest income after provision for credit losses on loans	**277,313**	253,273
Noninterest income		
Patronage income	**13,281**	11,443
Fees for loan-related services	**8,793**	9,517
Other income, net	**935**	4,933
Total noninterest income	**23,009**	25,893
Noninterest expense		
Salaries and employee benefits	**73,162**	70,787
Occupancy and equipment	**20,888**	18,978
Purchased services	**9,480**	10,289
Farm Credit System Insurance Corporation expense	**8,828**	15,570
Other operating expenses	**23,173**	19,755
Total noninterest expense	**135,531**	135,379
Income before income taxes	**164,791**	143,787
Benefit from income taxes	**(136)**	(18)
Net income	**$ 164,927**	$ 143,805

Select Information on Texas District Associations

(Unaudited)

(in thousands) **As of March 31, 2024**	Direct Notes	% of Total Direct Notes	Total Assets	Total Allowance and Capital	Total Capital Ratio	Nonperforming Loans as a % of Total Loans	Annualized ROA
AgTexas Farm Credit Services	$ 2,688,901	10.49%	$ 3,211,208	$ 455,912	12.85%	0.38%	1.59%
AgTrust Farm Credit, ACA	2,526,795	9.86%	2,991,623	481,244	14.29%	0.36%	1.90%
Alabama Ag Credit, ACA	1,145,391	4.47%	1,396,329	243,645	15.55%	0.06%	1.55%
Alabama Farm Credit, ACA	978,264	3.82%	1,145,712	154,643	11.90%	0.39%	1.12%
Capital Farm Credit, ACA	10,696,559	41.74%	12,750,271	1,892,519	12.56%	0.27%	2.26%
Central Texas Farm Credit, ACA	577,428	2.25%	718,180	131,940	16.22%	0.32%	1.60%
Heritage Land Bank, ACA	624,441	2.44%	739,056	109,170	13.37%	1.95%	1.25%
Legacy Ag Credit, ACA	313,281	1.22%	384,370	69,044	18.49%	0.20%	1.20%
Louisiana Land Bank, ACA	836,205	3.26%	1,048,592	199,686	16.87%	0.36%	1.64%
Mississippi Land Bank, ACA	863,524	3.37%	1,051,400	171,109	14.40%	0.04%	1.50%
Plains Land Bank, FLCA	908,740	3.55%	1,091,897	170,872	14.03%	0.29%	2.03%
Southern AgCredit, ACA	1,297,343	5.06%	1,543,618	226,007	13.34%	0.09%	1.71%
Texas Farm Credit Services	2,170,384	8.47%	2,507,842	299,086	12.23%	0.59%	1.87%
Totals	$ 25,627,256	100.00%	$30,580,098	$4,604,877			

Texas District Contact Information

Name of Entity	Headquarters Location	Contact Number	Website
AgTexas Farm Credit Services	5004 N. Loop 289, Lubbock, Texas 79416	806-687-4068	*www.agtexas.com*
AgTrust Farm Credit, ACA	1611 Summit Avenue, Suite 325, Fort Worth, Texas 76102	817-332-6565	*www.agtrustaca.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*
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, Mississippi 39157	601-499-2820	*www.southernagcredit.com*
Texas Farm Credit Services	545 S. Highway 77, Robstown, Texas 78380	361-387-8563	*www.texasfarmcredit.com*