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## ***Second Quarter 2024 Financial Report***

### **Table of Contents**

Management’s Discussion and Analysis of Financial Condition and Results of Operations .....	2
Controls and Procedures .....	13
Financial Statements:	
Balance Sheets .....	16
Statements of Comprehensive Income .....	17
Statements of Changes in Shareholders’ Equity .....	18
Statements of Cash Flows .....	19
Notes to Financial Statements .....	20
Additional Regulatory Information .....	51

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

*(dollars in thousands, except as noted)*

The following discussion reviews the financial condition and results of operations of the Farm Credit Bank of Texas (the Bank) for the three and six months ended June 30, 2024. These comments should be read in conjunction with the accompanying financial statements and footnotes, along with the 2023 Annual Report to shareholders. The accompanying financial statements were prepared under the oversight of the Bank's Audit Committee.

The Bank is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The United States (U.S.) is currently served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB). Each of the FCBs has specific authority to fund affiliated associations and other financing institutions (OFIs) which make loans to agricultural producers, farm-related businesses and rural homeowners within a regional chartered territory (or district). The ACB has the same lending authority as the FCBs within its chartered territory and has additional authority to finance agricultural cooperatives and rural utilities nationwide. The FCBs and the ACB are collectively referred to as "System banks." The primary purpose of the System banks is to serve as a source of funding for System associations within their respective districts. The System associations make loans to or for the benefit of borrowers for qualified purposes. At June 30, 2024, the Bank provided financing to 13 associations within its chartered territory (District Associations) and certain OFIs.

The accompanying financial statements relate solely to the Bank and exclude financial information of the District Associations. The Bank and the District Associations are collectively referred to as the Texas District. The Bank separately publishes certain unaudited combined financial information of the Texas District, including a condensed statement of condition and statement of income, which can be found on the Bank's website at [www.farmcreditbank.com](http://www.farmcreditbank.com).

### **CONDITIONS IN THE TEXAS DISTRICT**

The Bank 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 inflationary pressures. Despite the challenging operating environment, credit quality at the Bank 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.

According to the U.S. Bureau of Labor Statistics (BLS), the Consumer Price Index for All Urban Consumers (CPI) increased by 3.0 percent for the 12-month period ending June 2024, remaining above the Federal Reserve's long-term target of approximately 2.0 percent. However, the rate of increase in the CPI decreased month-over-month (MOM) from 3.3 percent, remaining unchanged from the same period a year ago. 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 June 2024 meeting, the FOMC 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 were resolute in their commitment to bring inflation down to the 2.0 percent long-run objective while achieving maximum employment.

On June 27, 2024, the U.S. Bureau of Economic Analysis (BEA) released its third estimate of real gross domestic product (GDP) for the first quarter of 2024. U.S. real GDP increased at an annual rate of 1.4 percent, down from 3.4 percent during the previous quarter and down from 2.2 percent during the same period a year ago. The increase in real GDP during the first quarter of 2024 primarily reflected increases in consumer spending, housing investment, business investment and state and local government spending that were partly offset by a decrease in inventory investment. Within the Texas District, first quarter 2024 annualized real GDP growth rates ranged from a low of -0.2 percent in Louisiana to a high of 2.9 percent in Alabama. Texas real GDP grew at an annual rate of 2.5 percent during the first quarter, above the national average. 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.

Data from the BLS indicates that the U.S. unemployment rate increased MOM to 4.1 percent in June 2024, up from 4.0 percent in May and up from 3.6 percent during the same period a year ago. The May state unemployment rates in the Texas District ranged from a low of 2.8 percent in Mississippi to a high of 4.1 percent in Louisiana. The West Texas Intermediate (WTI) crude oil futures price (front-month) increased from an average of nearly \$77 per barrel in the first quarter to an average of about \$81 per barrel during the second quarter of 2024. Additionally, the average WTI price increased by approximately 9.7 percent (about \$7 per barrel) compared to the same period a year ago. In the July 2024 edition of the Short-Term Energy Outlook (STEO), the U.S. Energy Information Administration (EIA) estimated that the monthly average WTI spot price would be nearly \$82 per barrel in 2024 and \$84 per barrel in 2025, lower than the estimates provided a quarter ago. The WTI spot price closed above \$81 per barrel in June 2024.

On June 28, 2024, the U.S. Department of Agriculture (USDA) released its 2024 Acreage report. This annual report states that farmers are estimated to plant 91.5 million acres of corn in 2024, down approximately 3.3 percent from last year but up about 1.4 million acres (1.6 percent) from the estimate provided in the March 2024 Prospective Plantings report. Soybean planted area for 2024 is estimated at 86.1 million acres, up 3.0 percent from last year but down from the estimate provided in the March Prospective Plantings report. All wheat planted area for 2024 is estimated at 47.2 million acres, down about 4.7 percent from 2023. All cotton planted area was estimated at 11.7 million acres, about 14.1 percent above last year and up about 1.0 million acres (9.3 percent) from the March Prospective Plantings report. Overall, estimates from the June 2024 Acreage report indicate that farmers are planting more corn and cotton and fewer soybean and wheat acres than USDA projected in the March 2024 Prospective Plantings report. These estimates are derived via a survey conducted from May 30 to June 16 and are subject to change throughout the season.

According to USDA's July 2024 World Agricultural Supply and Demand Estimates (WASDE) report, average farm prices for corn, soybeans, wheat and cotton are estimated to have decreased during the 2023/24 season from a range of nearly 10.4 percent (cotton) to 28.9 percent (corn). Additionally, the prices of corn, soybeans, wheat and cotton are projected to continue to decrease but at a generally slower pace during the 2024/25 season. Projected declines range from about 7.5 percent for corn to 18.1 percent for wheat. Steer, barrow/gilt and broiler prices are projected to increase year-over-year (YOY) by 6.4 percent, 0.9 percent and 2.3 percent, respectively, in 2024, while turkey prices are projected to decline by an average of 31.7 percent. Subsequently, steer and turkey prices are projected to increase YOY in 2025 by about 2.2 percent and 11.8 percent, respectively. However, barrow/gilt and broiler prices are projected to decrease YOY by about 0.2 percent and 1.0 percent, respectively, in 2025. USDA estimates that after decreasing by nearly 20.0 percent in 2023, all-milk prices are projected to increase by 9.4 percent in 2024 from an average of \$20.3 per hundredweight (/cwt.) in 2023 to \$22.3/cwt. in 2024. All-milk prices are projected to continue increasing by about 1.1 percent in 2025. Front-month random length lumber futures prices decreased during the second quarter of 2024 by about 17.8 percent, leading to a YOY decline of about 11.7 percent in June 2024.



According to a report issued in June 2024 by the Climate Prediction Center from the National Weather Service (NWS), La Niña is favored to develop with a 65 percent chance during July through September and to continue into winter 2024-25 (85 percent chance). Similarly, the seasonal temperature outlook indicates that above-normal temperatures are expected for most of the Texas District from July through September 2024. In terms of the precipitation outlook, Louisiana, Mississippi, Alabama and part of eastern Texas are expected to receive above normal precipitation, while West Texas and most of New Mexico are expected to experience below normal precipitation. Hurricane Beryl hit the Texas Gulf Coast, a major hub for the U.S. energy industry, on July 8. EIA's STEO report released on July 9 stated that they will continue to monitor the effects of Hurricane Beryl on critical energy infrastructure and will communicate important information in subsequent reports. Hurricane Beryl traveled up through East Texas, impacting crops, homes and agricultural infrastructure in its path. However, it is too early to know the magnitude of the impact. 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 three months ended June 30, 2024, was \$49.8 million, an increase of \$5.8 million, or 13.12 percent, over the same period of 2023. The increase in net income was driven by a decrease of \$6.6 million in the provision for credit losses and an increase of \$2.2 million in net interest income, partially offset by a decrease in noninterest income of \$2.9 million.

Net income for the six months ended June 30, 2024 was \$98.7 million, an increase of \$20.3 million, or 25.94 percent, over the same period of 2023. The increase in net income was driven by a decrease of \$25.0 million in the provision for credit losses and an increase of \$1.4 million in net interest income, partially offset by a decrease in noninterest income of \$6.3 million.

### *Net Interest Income*

Net interest income for the three months ended June 30, 2024, was \$87.6 million, an increase of \$2.2 million, or 2.60 percent, from the three months ended June 30, 2023. The increase in net interest income reflects the impact of an \$851.4 million increase in the Bank's average interest earning assets for the three months ended June 30, 2024 compared to the same period ended June 30, 2023, partially offset by a 5 basis point decrease in the net interest rate spread from 0.83 percent to 0.78 percent. The decrease in the net interest rate spread reflects the impact of a 58 basis point increase in the average rate paid on interest-bearing liabilities, partially offset by a 53 basis point increase in yields on average interest earning assets. Net interest margin was 0.94 percent for the three months ended June 30, 2024 and 2023. Net interest margin for the three months ended June 30, 2024 benefited from a 6 basis point increase in income earned on earning assets funded by noninterest-bearing sources.

Net interest income for the six months ended June 30, 2024 was \$173.2 million, an increase of \$1.4 million, or 0.80 percent, from the six months ended June 30, 2023. The increase in net interest income reflects the impact of a \$696.2 million increase in the Bank's average interest earning assets for the six months ended June 30, 2024 compared to the same period ended June 30, 2023, partially offset by a 7 basis point decrease in the net interest rate spread from 0.85 percent to 0.78 percent. The decrease in the net interest rate spread reflects the impact of a 65 basis point increase in the annualized interest rate on interest bearing liabilities, partially offset by a 58 basis point increase in the annualized interest rate on interest earning assets. Net interest margin for the six months ended June 30, 2024 was 0.94 percent compared to 0.96 percent for the six months ended June 30, 2023. Net interest margin for the six months

ended June 30, 2024 benefited from a 5 basis point increase in income earned on earning assets funded by noninterest-bearing sources.

#### *Provision for Credit Losses on Loans*

During the three months ended June 30, 2024, the Bank recorded provision for credit losses on loans of \$3.1 million compared to \$9.7 million in the same period of 2023. The provision for credit losses on loans for the three months ended June 30, 2024 was due primarily to specific reserves and related charge-offs for certain agribusiness loans, partially offset by the reversal of specific reserves from higher underlying collateral valuations for an agribusiness loan that moved to other property owned.

During the six months ended June 30, 2024, the Bank recorded provision for credit losses on loans of \$7.1 million compared to \$32.1 million in the same period of 2023. The decrease compared to the prior year was attributable to the absence of specific reserves and related charge-offs associated with select borrowers in the agribusiness, energy and production and intermediate-term sectors that were recognized during the six months ended June 30, 2023. The provision for credit losses on loans for the six months ended June 30, 2024 reflects specific reserves and related charge-offs for certain agribusiness loans and an increase in general reserves due to higher qualitative reserves and elevated economic scenario risk relative to December 31, 2023. Overall loan credit quality remained stable at 99.53 percent acceptable and special mention at June 30, 2024 as compared to 99.54 percent at December 31, 2023.

#### *Noninterest Income*

Noninterest income for the three months ended June 30, 2024, was \$5.7 million, a decrease of \$2.9 million, or 33.65 percent, for the same period of 2023. The decrease was driven by the recognition of valuation losses on certain Rural Business Investment Companies (RBICs) in which the Bank has an equity investment of \$24.8 million and losses recognized on loans held for sale within the Bank's loan participation portfolio of \$2.4 million, partially offset by a return of excess insurance funds from the Farm Credit System Insurance Corporation (FCSIC) in April 2024 of \$4.6 million.

Noninterest income for the six months ended June 30, 2024, was \$14.2 million, a decrease of \$6.3 million, or 30.86 percent, for the same period of 2023. The decrease was driven by losses recognized on loans held for sale within the Bank's loan participation portfolio of \$3.0 million and the recognition of valuation losses on certain RBICs in which the Bank has an equity investment of \$24.8 million, partially offset by a return of excess insurance funds from the Farm Credit System Insurance Corporation (FCSIC) in April 2024 of \$4.6 million. The decrease also reflects the impact during the six months ended June 30, 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 six months ended June 30, 2024.

#### *Noninterest Expense*

Noninterest expense for the three months ended June 30, 2024, was \$40.4 million, an increase of \$208 thousand, or 0.52 percent, over the same period of 2023. The increase was primarily due to an increase in salaries and employee benefits of \$2.3 million and higher professional fees of \$493 thousand, partially offset by a decrease of \$2.6 million in Farm Credit System Insurance Corporation (FCSIC) premiums due to a decrease in the premium rate assessed during 2024.

Noninterest expense for the six months ended June 30, 2024, was \$81.5 million, a decrease of \$264 thousand, or 0.32 percent, over the same period of 2023. The decrease for the six months ended June 30, 2024, is primarily due to a decrease of \$4.8 million in FCSIC premiums due to a decrease in the premium rate assessed during 2024, partially offset by an increase in salaries and employee benefits of \$3.3 million, an increase in occupancy and equipment of \$609 thousand and higher professional fees of \$563 thousand.

The expense for FCSIC insurance premiums is directly impacted by the premium rate assessed by FCSIC. The FCSIC board meets periodically throughout the year to review premium rates. On July 11, 2024, the FCSIC board announced that the FCSIC premium rate would remain unchanged at 10 basis points for the remainder of 2024.

### *Key Results of Operations*

	<b>Annualized for the Six Months Ended June 30,</b>	
	<b>2024</b>	<b>2023</b>
Return on average assets	<b>0.52%</b>	0.42%
Return on average shareholders' equity	<b>10.87%</b>	9.32%
Net interest margin	<b>0.94%</b>	0.96%
Charge-offs, net of recoveries, to average loans	<b>0.07%</b>	0.08%
Operating expenses as a percentage of net interest income and noninterest income	<b>43.51%</b>	42.53%
Operating expenses as a percentage of average earning assets	<b>0.44%</b>	0.45%

### *Other Comprehensive Income (Loss)*

Other comprehensive loss consists of certain gains, losses or costs for which values are included in assets or liabilities on the Balance Sheet but have not yet been recognized in earnings. On the Balance Sheet, they are included in accumulated other comprehensive loss in the statement of shareholders' equity. These elements include unrealized gains or losses on the Bank's available-for-sale (AFS) investment portfolio, changes in elements of the postretirement benefit plans and changes in the value of cash flow derivative instruments.

The table below summarizes the changes in elements included in other comprehensive income (loss):

	<b>Six Months Ended June 30,</b>	
	<b>2024</b>	<b>2023</b>
Change in unrealized losses on AFS securities		
Net increase in unrealized losses on AFS securities	<b>\$ (7,465)</b>	\$ (36,511)
Net change in unrealized (losses) gains on AFS securities	<b>(7,465)</b>	(36,511)
Change in postretirement benefit plans		
Amounts amortized into net periodic expense:		
Amortization of prior service credits and actuarial gains	<b>(108)</b>	(115)
Net change in postretirement benefit plans	<b>(108)</b>	(115)
Change in cash flow derivative instruments		
Net increase in unrealized gains on cash flow derivative instruments	<b>31,359</b>	6,923
Reclassification of losses (gains) recognized in interest income	<b>(120)</b>	(1,147)
Net change in cash flow derivative instruments	<b>31,239</b>	5,776
Other comprehensive income (loss)	<b>\$ 23,666</b>	\$ (30,850)

During the six months ended June 30, 2024, the Bank recognized other comprehensive income of \$23.7 million compared to other comprehensive loss of \$30.9 million in the prior year period. The increase was driven by higher unrealized gains on cash flow derivative instruments since the prior year period resulting from changes in the valuation of interest rate swaps held by the Bank, partially offset by an increase in unrealized losses on the Bank's AFS securities from the prior year period as a result of changes in interest rates.

## FINANCIAL CONDITION

### *Loan Portfolio*

Gross loan volume at June 30, 2024, was \$30.33 billion, an increase of \$605.8 million, or 2.04 percent, compared to \$29.73 billion at December 31, 2023, reflecting an increase in the direct note receivables from District Associations and OFIs, partially offset by a decrease in the capital markets loan portfolio.

In June 2024, an Association with a direct note payable to the Bank of \$485.2 million, defaulted on one of the covenants in the general financing agreement with the Bank. The Bank waived the covenant violation through December 31, 2024. The credit quality designation for the direct note payable was classified as other assets especially mentioned (OAEM) from acceptable. The event of default is not expected to have an adverse impact on the Bank's or the Texas District's financial condition or result of operations. No allowance for credit losses has been recorded for the direct note receivable.

The capital markets loan portfolio reflected a decrease of \$145.0 million from year-end 2023. The decrease in the capital markets loan portfolio primarily resulted from decreases in the agribusiness, real estate mortgage and communication loan sectors due to loan paydowns exceeding new loan volume and a lower level of utilization on operating lines of credit.

The Bank's capital markets loan portfolio, also referred to as the 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 the District Associations, which may exceed their hold limits, the Bank seeks the purchase of participations and syndications originated outside of 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 relationships with other Farm Credit institutions. These loans may be held as interest earning assets of the Bank or sub-participated to the District Associations or to other System entities.

Loans held for sale totaled \$17.4 million at June 30, 2024, which are included in other assets and carried at fair value. A loss of \$2.4 million was recognized for the six months ended June 30, 2024, with the designation change to held for sale. There were no loans held for sale at December 31, 2023.

The Bank has purchased loan participations and Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) from District Associations in Capitalized Participation Pool (CPP) transactions. CPP loans held at June 30, 2024, totaled \$61.2 million and were included in loans on the Balance Sheet. During the six months ended June 30, 2024, a District Association repurchased \$26.0 million of CPP loan participations that had been previously sold to the Bank and the Bank purchased a loan in the amount of \$1.9 million from another District Association in a CPP transaction. These transactions resulted in net stock retirements of \$2.1 million. The balance of the AMBS CPP was \$7.6 million at June 30, 2024, and was included in investment securities on the Balance Sheet.

Farmer Mac is a government-sponsored enterprise and is examined and regulated by the FCA. It provides a secondary market for agricultural and rural home mortgage loans that meet certain underwriting standards. Farmer Mac is authorized to provide loan guarantees and to be a direct pooler of agricultural mortgage loans. Farmer Mac is owned by both System and non-System investors, and its board of directors has both System and non-System representation. Farmer Mac is not liable for any debt or obligation of any System institution and no System institution other than Farmer Mac is liable for any debt or obligation of Farmer Mac.



The Bank may also purchase loans from District Associations in Non-Capitalized Participation Pool (NCP) transactions. There were no NCP purchases during the six months ended June 30, 2024. The NCP loans' balance was \$187.3 million at June 30, 2024, and was included in loans on the Balance Sheet.

At June 30, 2024, and December 31, 2023, 99.53 percent and 99.54 percent, respectively, of the Bank's loans were classified as either acceptable or other assets especially mentioned under the Farm Credit Administration's Uniform Loan Classification System based on the amortized cost basis of the loans (principal balance adjusted for discounts, premiums, charge-offs, recoveries and deferred loan fees or costs).

The table below summarizes the amortized cost of the Bank's nonperforming assets, which consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned, at June 30, 2024, and December 31, 2023:

	June 30, 2024	December 31, 2023	Change	
			\$	%
Nonaccrual loans	\$ 32,319	\$ 43,025	\$ (10,706)	(24.88)%
Accruing loans 90 days or more past due	15,750	—	15,750	—
Other property owned	7,637	—	7,637	—
Total nonperforming assets	<u>\$ 55,706</u>	<u>\$ 43,025</u>	<u>\$ 12,681</u>	<u>29.47 %</u>

Nonaccrual loans at June 30, 2024, decreased from year-end 2023 due to an agribusiness loan that transferred to other property owned (OPO) as well as repayment activity. OPO is held for sale and consists of real and personal property acquired through collection activities. At June 30, 2024, the Bank had \$15.7 million in accruing loans 90 days or more past due compared to none at December 31, 2023. Loans that are accruing 90 days or more past due at June 30, 2024 are adequately secured and in the process of collection. At June 30, 2024, the Bank had \$7.6 million in OPO as compared to none at December 31, 2023. At June 30, 2024, and December 31, 2023, total nonperforming assets represented 0.18 percent and 0.14 percent of loans and OPO, respectively.

At June 30, 2024, the Bank had an allowance for credit losses totaling \$39.6 million, with an allowance for credit losses on loans of \$35.2 million and an allowance for credit losses on unfunded commitments of \$4.4 million. The allowance for credit losses relates to the Bank's capital markets loan portfolio. The allowance for loan losses of \$35.2 million at June 30, 2024, equated to 12 basis points of total loans outstanding and 41 basis points of capital market loans outstanding. At December 31, 2023, the Bank had an allowance for credit losses totaling \$42.9 million, with an allowance for credit losses on loans of \$37.9 million and an allowance for credit losses on unfunded commitments of \$5.0 million. At June 30, 2024 and December 31, 2023, there was no allowance for credit losses associated with the direct note receivable portfolio.

The allowance for credit losses as a percentage of nonperforming assets was 71.05 percent at June 30, 2024, compared to 99.75 percent at December 31, 2023.

### *Liquidity and Funding Sources*

The Bank's primary source of liquidity is the ability to issue Systemwide debt securities, which are the general unsecured joint and several obligations of the System banks. During the six months ended June 30, 2024, the System continued to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. At the June 2024 meeting, the FOMC 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 were resolute in their commitment to bring inflation down to the 2.0 percent long-run objective while achieving maximum employment.

As a secondary source of liquidity, the Bank maintains an investment portfolio composed primarily of high-quality liquid securities. These securities provide a stable source of income for the Bank, and their high quality ensures the portfolio can quickly be converted to cash should the need arise.

Cash, federal funds sold, overnight investments and investment securities totaled \$7.25 billion, or 19.00 percent, of total assets at June 30, 2024, compared to \$7.00 billion, or 18.78 percent, of total assets at December 31, 2023. At June 30, 2024, the Bank's cash balance was \$60.8 million, of which \$43.9 million was held at the Federal Reserve Bank.

Each System bank is required to maintain a minimum of 90 days of liquidity coverage on a continuous basis. The days of liquidity measurement refers to the number of days that maturing debt could be funded with eligible cash and investment securities. At June 30, 2024, the Bank exceeded all applicable regulatory liquidity requirements and had 213 days of liquidity.

### Investments

The Bank's investments are classified as AFS, and include a liquidity portfolio and a portfolio of other investments which consists of Farmer Mac agricultural mortgage-backed securities (AMBS).

The Bank's liquidity portfolio and other investment holdings are summarized in the following table:

	June 30, 2024		December 31, 2023	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<i>Liquidity Portfolio:</i>				
Agency-guaranteed debt	\$ 18,615	\$ 18,232	\$ 28,728	\$ 28,171
Certificates of deposit	300,000	300,321	250,000	250,245
Corporate debt	117,986	116,440	197,968	195,032
Federal agency collateralized mortgage-backed securities:				
GNMA	3,218,008	2,784,613	3,135,926	2,725,312
FNMA and FHLMC	2,708,700	2,571,326	2,465,791	2,321,141
U.S. Treasury securities	896,202	893,895	895,725	887,919
Asset-backed securities	160,593	160,346	195,178	194,110
Total liquidity investments	<u>\$ 7,420,104</u>	<u>\$ 6,845,173</u>	<u>\$ 7,169,316</u>	<u>\$ 6,601,930</u>
<i>Other Investments:</i>				
Agricultural mortgage-backed securities	<u>\$ 8,438</u>	<u>\$ 7,575</u>	<u>\$ 9,441</u>	<u>\$ 8,499</u>

FCA regulations also define eligible investments by specifying credit criteria and the percentage of investment portfolio limit for each investment type. If an investment no longer meets the eligibility criteria, the investment becomes ineligible for inclusion in the liquidity portfolio. At June 30, 2024, the Bank had no investments which were ineligible for liquidity purposes.

### Capital Resources

On May 20, 2024, the Bank issued \$300.0 million of Class B perpetual non-cumulative subordinated preferred stock, Series 5 (Class B-5), representing 300,000 shares at \$1,000 per share par value, for net proceeds of \$296.8 million, with issuance costs of \$3.2 million. Dividends on the Class B-5, if declared by the board of directors at its sole discretion, are noncumulative and are payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, commencing September 15, 2024, at an annual fixed rate of 7.75 percent of par value of \$1,000 per share up to, but excluding June 15, 2029, from and after which date will be paid at an annual rate of the five-year Treasury rate as of the most recent five-year reset dividend determination date plus 3.291 percent. The Class B-5 is not mandatorily redeemable at any time, but may be redeemed in whole or part at the option of the Bank, with prior approval from the FCA, on any dividend payment date on or after June 15, 2029. The Class B-5 ranks pari passu with respect to the existing Class B-2, Class B-3 and Class B-4 preferred stock, and senior to

all of the Bank's other outstanding capital stock. For regulatory purposes, the Class B-5 preferred stock is included in permanent capital, total capital and tier 1 capital within certain limitations.

At June 30, 2024, the Bank's total shareholders' equity totaled \$2.07 billion and consisted of \$1.05 billion of Class B noncumulative subordinated perpetual preferred stock, \$493.6 million of capital stock, \$1.02 billion of retained earnings and \$497.8 million of accumulated other comprehensive losses. Shareholders' equity at June 30, 2024 increased by \$381.7 million due to the \$300.0 million issuance of preferred stock, net income of \$98.7 million and a decrease in other accumulated loss of \$23.7 million, partially offset by preferred stock dividends of \$35.3 million, \$3.2 million in preferred stock issuance costs and a \$2.3 million net retirement of capital stock.

FCA regulations require the Bank to maintain minimum ratios, including capital conservation buffers, for various regulatory capital ratios. At June 30, 2024, the Bank exceeded all regulatory capital requirements including the capital conservation buffers.

The following table reflects the Bank's regulatory capital ratios as of:

	June 30, 2024	December 31, 2023	Total Regulatory Requirements Including Capital Conservation Buffers
Common equity tier 1 ratio	8.57 %	8.50 %	7.00 %
Tier 1 capital ratio	14.00	13.12	8.50
Total capital ratio	14.22	13.41	10.50
Permanent capital ratio	14.02	13.16	7.00
Tier 1 leverage ratio	6.01	5.79	5.00
UREE leverage ratio	2.11	2.26	1.50

## RATING AGENCY ACTIONS

On January 25, 2024, Fitch Ratings affirmed the Bank's long-term and short-term issuer default ratings (IDR) at A+ and F1+, respectively, with a stable outlook.

On May 16, 2024, Moody's Investors Service affirmed the Bank's issuer rating at Aa3, with a stable outlook.

## DERIVATIVE PRODUCTS

Derivative products are a part of the Bank's interest rate risk management process and are used to manage interest rate and liquidity risks and to lower the overall cost of funds. The Bank does not hold or enter into derivative transactions for trading purposes. The aggregate notional amount of the Bank's derivative products was \$1.52 billion at both June 30, 2024, and December 31, 2023. At June 30, 2024, cleared counterparties' net credit asset exposure to the Bank was \$39.8 million, compared to \$47.6 million at December 31, 2023. At June 30, 2024, the notional amount of cleared cash flow hedges was \$1.40 billion with associated posted initial margin of \$33.9 million. At June 30, 2024, the Bank had received cash collateral from the counterparty of \$75.2 million and had a derivative asset value of \$76.6 million, compared to a derivative asset value of \$45.5 million at December 31, 2023. Cleared derivatives require the payment of initial and variation margin as protection against default. As of June 30, 2024, the Bank had a net cash collateral liability position of \$41.4 million compared to a \$2.1 million net cash collateral liability position at December 31, 2023.

## **REGULATORY MATTERS**

At June 30, 2024, there were no District Associations operating under written agreements with the Farm Credit Administration (FCA).

On February 8, 2024, the FCA approved a final rule to amend its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) exposures by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent to reflect their increased risk characteristics. The rule further ensures comparability between the FCA's risk-weighting and the federal banking regulators. The final rule excludes certain acquisition, development and construction loans that do not present as much risk and, therefore, do not warrant the risk weight for HVCRE. In addition, the final rule adds an exclusion for loans originated for less than \$500 thousand. The final rule will become effective on January 1, 2025.

On October 5, 2023, the FCA approved a final rule on cyber risk management that requires each System institution to develop and implement a comprehensive, written cyber risk management program. Each institution's cyber risk plan must require the institution to take the necessary actions to assess internal and external risk factors, identify potential system and software vulnerabilities, establish a risk management program for the risks identified, develop a cyber risk training program, set policies for managing third-party relationships, maintain robust internal controls and establish institution board reporting requirements. The final rule will become effective on January 1, 2025.



## **Report of Management**

The undersigned certify that we have reviewed the June 30, 2024, quarterly report of the Farm Credit Bank of Texas, that the report has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information included herein is true, accurate and complete to the best of our knowledge and belief.



James F. Dodson  
Chair of the Board



Amie Pala  
Chief Executive Officer



Brian O'Keane  
Executive Vice President, Chief Financial Officer

August 9, 2024

## Controls and Procedures

As of June 30, 2024, management of the Farm Credit Bank of Texas (the Bank) carried out an evaluation with the participation of the Bank's management, including the chief executive officer (CEO) and executive vice president, chief financial officer (CFO), of the effectiveness of the design and operation of the respective disclosure controls and procedures<sup>(1)</sup> with respect to this quarterly report. This evaluation is based on testing of the design and effectiveness of key internal controls, certifications and other information furnished by the CEO and CFO of the Bank, as well as incremental procedures performed by the Bank. Based upon and as of the date of the Bank's evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective in alerting them on a timely basis of any material information relating to the Bank that is required to be disclosed by the Bank in the quarterly information statement it files or submits to the Farm Credit Administration.

There have been no significant changes in the Bank's internal control over financial reporting<sup>(2)</sup> that occurred during the quarter ended June 30, 2024, that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.



Amie Pala  
Chief Executive Officer



Brian O'Keane  
Executive Vice President, Chief Financial Officer

August 9, 2024

<sup>(1)</sup> For purposes of this discussion, "disclosure controls and procedures" are defined as controls and procedures of the Bank that are designed to ensure that the financial information required to be disclosed by the Bank in this quarterly report is recorded, processed, summarized and reported within the time periods specified under the rules and regulations of the Farm Credit Administration.

<sup>(2)</sup> For purposes of this discussion, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the Bank's principal executive officer and principal financial officer, or persons performing similar functions, and effected by the Bank's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Bank's financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Bank's financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorizations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on the Bank's financial statements.

## **CERTIFICATION**

I, Amie Pala, chief executive officer of Farm Credit Bank of Texas (the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

1. I have reviewed this quarterly report of the Bank.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Bank as of, and for, the periods presented in this report.
4. The Bank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Bank and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank is made known to us, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.
5. The Bank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the Bank's Audit Committee:
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.



Amie Pala  
Chief Executive Officer

August 9, 2024

## **CERTIFICATION**

I, Brian O’Keane, executive vice president, chief financial officer of Farm Credit Bank of Texas (the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

1. I have reviewed this quarterly report of the Bank.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Bank as of, and for, the periods presented in this report.
4. The Bank’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Bank and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank is made known to us, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Bank’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Bank’s internal control over financial reporting that occurred during the Bank’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Bank’s internal control over financial reporting.
5. The Bank’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank’s auditors and the Bank’s Audit Committee:
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank’s ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank’s internal control over financial reporting.



Brian O’Keane  
Executive Vice President, Chief Financial Officer

August 9, 2024



**Balance Sheets**  
(Unaudited)

(dollars in thousands)	June 30, 2024	December 31, 2023
<b>Assets</b>		
Cash	\$ 60,762	\$ 78,170
Federal funds sold and overnight investments	339,032	312,399
Investment securities	6,852,748	6,610,429
Loans	30,331,301	29,725,476
Less allowance for credit losses on loans	35,226	37,873
Net loans	30,296,075	29,687,603
Accrued interest receivable	158,367	146,887
Premises and equipment, net	113,014	118,123
Other assets	344,693	329,708
<b>Total assets</b>	<b>\$ 38,164,691</b>	<b>\$ 37,283,319</b>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Bonds and notes, net	\$ 35,715,755	\$ 35,133,324
Accrued interest payable	239,526	205,045
Allowance for credit losses on unfunded commitments	4,351	5,045
Preferred stock dividends payable	21,540	13,798
Patronage payable	—	50,839
Other liabilities	115,128	188,574
<b>Total liabilities</b>	<b>\$ 36,096,300</b>	<b>\$ 35,596,625</b>
<b>Commitments and contingencies (Note 5)</b>		
<b>Shareholders' equity</b>		
Preferred stock	\$ 1,050,000	\$ 750,000
Capital stock	493,580	495,844
Allocated retained earnings	101,825	101,789
Unallocated retained earnings	920,831	860,572
Accumulated other comprehensive loss	(497,845)	(521,511)
<b>Total shareholders' equity</b>	<b>2,068,391</b>	<b>1,686,694</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 38,164,691</b>	<b>\$ 37,283,319</b>

*The accompanying notes are an integral part of these financial statements.*

## Statements of Comprehensive Income

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(dollars in thousands)	2024	2023	2024	2023
<b>Interest Income</b>				
Loans	\$ 345,997	\$ 297,725	\$ 678,508	\$ 574,557
Investment securities	67,534	59,976	129,846	112,150
<b>Total interest income</b>	<b>413,531</b>	<b>357,701</b>	<b>808,354</b>	<b>686,707</b>
<b>Interest Expense</b>				
Bonds and notes	325,960	272,350	635,179	514,908
<b>Net interest income</b>	<b>87,571</b>	<b>85,351</b>	<b>173,175</b>	<b>171,799</b>
<b>Provision for credit losses on loans</b>	<b>3,116</b>	<b>9,749</b>	<b>7,113</b>	<b>32,126</b>
<b>Net interest income after provision for credit losses on loans</b>	<b>84,455</b>	<b>75,602</b>	<b>166,062</b>	<b>139,673</b>
<b>Noninterest Income</b>				
Patronage income	3,262	3,956	7,455	7,230
Fees for services to District Associations	1,740	1,864	4,574	4,559
Fees for loan-related services	2,546	3,397	4,961	6,219
Refunds from FCSIC	4,578	—	4,578	—
(Loss) gain on sale of loans	(2,403)	12	(3,024)	32
Other (loss) income, net	(4,056)	(688)	(4,388)	2,434
<b>Total noninterest income</b>	<b>5,667</b>	<b>8,541</b>	<b>14,156</b>	<b>20,474</b>
<b>Noninterest Expense</b>				
Salaries and employee benefits	16,617	14,279	32,241	28,941
Occupancy and equipment	9,139	9,262	21,314	20,705
FCSIC premiums	3,010	5,654	6,003	10,831
Other components of net periodic postretirement benefit	80	66	159	133
Other operating expenses	11,505	10,882	21,787	21,158
<b>Total noninterest expense</b>	<b>40,351</b>	<b>40,143</b>	<b>81,504</b>	<b>81,768</b>
<b>Net Income</b>	<b>49,771</b>	<b>44,000</b>	<b>98,714</b>	<b>78,379</b>
<b>Other comprehensive income (loss)</b>				
Change in unrealized losses on investments	7,923	(88,218)	(7,465)	(36,511)
Change in postretirement benefit plans	(54)	(58)	(108)	(115)
Change in cash flow derivative instruments	4,897	37,593	31,239	5,776
<b>Total other comprehensive income (loss)</b>	<b>12,766</b>	<b>(50,683)</b>	<b>23,666</b>	<b>(30,850)</b>
<b>Comprehensive Income</b>	<b>\$ 62,537</b>	<b>\$ (6,683)</b>	<b>\$ 122,380</b>	<b>\$ 47,529</b>

*The accompanying notes are an integral part of these financial statements.*

**Statements of Changes in Shareholders' Equity**  
(Unaudited)

(dollars in thousands)	Preferred Stock	Capital Stock	Retained Earnings		Accumulated Other Comprehensive Loss	Total Shareholders' Equity
			Allocated	Unallocated		
Balance at December 31, 2022	\$ 750,000	\$ 471,029	\$ 74,043	\$ 868,650	\$ (540,359)	\$ 1,623,363
Adjustment in beginning balance due to a change in accounting for credit losses	—	—	—	(8,368)	—	(8,368)
Balance at January 1, 2023	750,000	471,029	74,043	860,282	(540,359)	1,614,995
Net income	—	—	—	78,379	—	78,379
Other comprehensive loss	—	—	—	—	(30,850)	(30,850)
Capital stock and allocated retained earnings retired	—	(1,789)	—	—	—	(1,789)
Preferred stock dividends	—	—	—	(23,200)	—	(23,200)
Patronage distributions						
Cash	—	—	—	(8,347)	—	(8,347)
Shareholders' equity	—	—	4	(4)	—	—
Balance at June 30, 2023	<u>\$ 750,000</u>	<u>\$ 469,240</u>	<u>\$ 74,047</u>	<u>\$ 907,110</u>	<u>\$ (571,209)</u>	<u>\$ 1,629,188</u>
Balance at January 1, 2024	<b>\$ 750,000</b>	<b>\$ 495,844</b>	<b>\$ 101,789</b>	<b>\$ 860,572</b>	<b>\$ (521,511)</b>	<b>\$ 1,686,694</b>
Net income	—	—	—	<b>98,714</b>	—	<b>98,714</b>
Other comprehensive income	—	—	—	—	<b>23,666</b>	<b>23,666</b>
Capital stock and allocated retained earnings issued		<b>278</b>				<b>278</b>
Capital stock and allocated retained earnings retired	—	<b>(2,542)</b>	—	—	—	<b>(2,542)</b>
Preferred stock issued	<b>300,000</b>	—	—	—	—	<b>300,000</b>
Issuance costs on preferred stock	—	—	—	<b>(3,221)</b>	—	<b>(3,221)</b>
Preferred stock dividends	—	—	—	<b>(35,260)</b>	—	<b>(35,260)</b>
Patronage distributions						
Cash adjustment	—	—	—	<b>62</b>	—	<b>62</b>
Shareholders' equity	—	—	<b>36</b>	<b>(36)</b>	—	—
Balance at June 30, 2024	<u><b>\$ 1,050,000</b></u>	<u><b>\$ 493,580</b></u>	<u><b>\$ 101,825</b></u>	<u><b>\$ 920,831</b></u>	<u><b>\$ (497,845)</b></u>	<u><b>\$ 2,068,391</b></u>

*The accompanying notes are an integral part of these financial statements.*

# **Statements of Cash Flows** *(Unaudited)*

(dollars in thousands)	Six Months Ended June 30,	
	2024	2023
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 98,714	\$ 78,379
Reconciliation of net income to net cash provided by operating activities		
Provision for credit losses on loans	7,113	32,126
Depreciation and amortization on premises and equipment	9,572	9,342
Premium amortization on loans	(3,225)	(3,412)
Amortization and accretion on debt instruments	(13,569)	(3,717)
Discount accretion on investments	(2,751)	(5,084)
Gain on extinguishment of debt	—	(1,986)
Loss (gain) on sale of loans	3,024	(32)
Allocated equity patronage from System bank (distributed) retired	(3,591)	25,438
Loss (gain) on disposals of premises and equipment	(2)	(63)
Increase in accrued interest receivable	(11,480)	(16,172)
(Increase) decrease in other assets, net	(23,453)	68,288
Increase in accrued interest payable	34,481	29,584
Decrease in other liabilities, net	(54,993)	(47,572)
<b>Net cash provided by operating activities</b>	<b>39,840</b>	<b>165,119</b>
<b>Cash Flows From Investing Activities</b>		
Net increase in federal funds sold and repurchase agreements	(26,633)	(15,077)
Investment securities		
Purchases	(1,031,694)	(949,479)
Proceeds from maturities, calls and prepayments	784,661	706,664
Increase in loans, net	(666,332)	(919,488)
Proceeds from sales of loans	24,146	117,110
Proceeds from sale of other property owned	10,435	—
Proceeds from sales of premises and equipment	14	106
Expenditures for premises and equipment	(4,475)	(189)
Investments/distributions in other earning assets	1,194	(122)
<b>Net cash used in investing activities</b>	<b>(908,684)</b>	<b>(1,060,475)</b>
<b>Cash Flows From Financing Activities</b>		
Bonds and notes issued	10,191,000	16,415,500
Bonds and notes retired	(9,595,000)	(15,391,849)
Decrease (increase) in cash collateral posted with a counterparty	7,151	(4,511)
Increase in cash collateral posted by a counterparty	32,065	8,725
Preferred stock issued	300,000	—
Issuance costs on preferred stock	(3,221)	—
Capital stock issued	278	—
Capital stock retired and allocated retained earnings distributed	(2,542)	(1,789)
Cash dividends on preferred stock	(27,518)	(23,200)
Cash patronage distributions paid	(50,777)	(54,418)
<b>Net cash provided by financing activities</b>	<b>851,436</b>	<b>948,458</b>
Net (decrease) increase in cash	(17,408)	53,102
Cash at beginning of year	78,170	141,487
<b>Cash at End of Quarter</b>	<b>\$ 60,762</b>	<b>\$ 194,589</b>
<b>Supplemental Schedule of Noncash Investing and Financing Activities</b>		
Loans transferred to other property owned	\$ 18,071	\$ —
Net increase in unrealized losses on investment securities	(7,465)	(36,511)
Preferred stock dividends payable	21,540	11,600
Patronage distribution stock adjustment	36	4
<b>Supplemental Information</b>		
Interest paid	\$ 600,698	\$ 485,325

*The accompanying notes are an integral part of these financial statements.*



## Notes to Financial Statements

*(Unaudited, dollar amounts in thousands, except as otherwise noted)*

### NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Farm Credit Bank of Texas (the Bank) is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions. At June 30, 2024, the Bank provided financing to 13 associations within its chartered territory (District Associations) and certain OFIs. These financial statements relate solely to the Bank and exclude financial information of the District Associations.

Effective December 1, 2023, two of the Bank's affiliated Associations, Ag New Mexico Farm Credit Services, ACA and Lone Star, ACA, merged and are doing business as AgTrust Farm Credit, ACA.

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. (U.S. GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by U.S. GAAP for annual financial statements and should be read in conjunction with the audited financial statements for the year ended December 31, 2023, as contained in the 2023 annual report to shareholders (2023 Annual Report).

Certain amounts in the prior period's financial statements have been reclassified to conform to the current period's financial statement presentation.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods have been made. The preparation of the financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the year ending December 31, 2024. Descriptions of the significant accounting policies are included in the 2023 Annual Report. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with U.S. GAAP and prevailing practices within the banking industry.

#### Recently Issued Accounting Pronouncements

In November 2023, the FASB issued an update entitled "Segment Reporting: Improvements to Reportable Segment Disclosures." The ASU requires a public entity to disclose, on an annual and interim basis, the following:

- significant segment expenses that are readily provided to the chief operating decision maker (CODM) and included in segment profit or loss;
- composition and aggregate amount of other segment items, which represent the difference between profit or loss and segment revenues less significant segment expenses;
- the title and position of the CODM; and
- an explanation of how the CODM uses the reported segment measures in assessing segment performance and deciding how to allocate resources.

Even if a public entity has a single reportable segment, it is required to provide all disclosures set forth in the ASU and all existing segment disclosures. The amendments in the ASU are to be applied retrospectively to all prior periods presented and are effective for fiscal years beginning after December 31, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Bank is currently assessing the potential impact of this standard on its disclosures.

**NOTE 2 — INVESTMENT SECURITIES****Available-for-Sale Investments**

The Bank's available-for-sale (AFS) investments include a liquidity portfolio and a portfolio of other investments. The liquidity portfolio consists primarily of agency-guaranteed debt instruments, mortgage-backed securities (MBS), U.S. Treasury securities, asset-backed securities (ABS), corporate debt and certificates of deposit. The majority of the liquidity portfolio's MBS were federal agency-guaranteed collateralized MBS, including Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) securities. The Bank's other investments portfolio consists of Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed securities (AMBS) purchased from District Associations.

A summary of the amortized cost and fair value of the AFS investment securities in the liquidity portfolio and other investment portfolio at June 30, 2024, and December 31, 2023, is included in the following tables.

<b>June 30, 2024</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Weighted Average Yield</b>
<i>Liquidity Portfolio:</i>					
Agency-guaranteed debt	\$ 18,615	\$ 2	\$ (385)	\$ 18,232	3.13%
Certificates of deposit	300,000	321	—	300,321	5.85
Corporate debt	117,986	6	(1,552)	116,440	3.53
Federal agency collateralized mortgage-backed securities:					
GNMA	3,218,008	358	(433,753)	2,784,613	2.55
FNMA and FHLMC	2,708,700	3,263	(140,637)	2,571,326	4.22
U.S. Treasury securities	896,202	119	(2,426)	893,895	4.31
Asset-backed securities	160,593	242	(489)	160,346	5.00
Total liquidity investments	<u>\$ 7,420,104</u>	<u>\$ 4,311</u>	<u>\$ (579,242)</u>	<u>\$ 6,845,173</u>	<u>3.58%</u>
<i>Other Investments:</i>					
Agricultural mortgage-backed securities	<u>\$ 8,438</u>	<u>\$ —</u>	<u>\$ (863)</u>	<u>\$ 7,575</u>	<u>5.69%</u>
<b>December 31, 2023</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Weighted Average Yield</b>
<i>Liquidity Portfolio:</i>					
Agency-guaranteed debt	\$ 28,728	\$ 7	\$ (564)	\$ 28,171	3.22%
Certificates of deposit	250,000	245	—	250,245	5.94
Corporate debt	197,968	21	(2,957)	195,032	3.81
Federal agency collateralized mortgage-backed securities:					
GNMA	3,135,926	305	(410,919)	2,725,312	2.33
FNMA and FHLMC	2,465,791	1,113	(145,763)	2,321,141	3.86
U.S. Treasury securities	895,725	47	(7,853)	887,919	3.66
Asset-backed securities	195,178	215	(1,283)	194,110	4.79
Total liquidity investments	<u>\$ 7,169,316</u>	<u>\$ 1,953</u>	<u>\$ (569,339)</u>	<u>\$ 6,601,930</u>	<u>3.26%</u>
<i>Other Investments:</i>					
Agricultural mortgage-backed securities	<u>\$ 9,441</u>	<u>\$ —</u>	<u>\$ (942)</u>	<u>\$ 8,499</u>	<u>5.58%</u>

Accrued interest receivable of \$21.0 million and \$18.1 million as of June 30, 2024, and December 31, 2023, respectively, has been excluded from the amortized cost basis of AFS investments.

The following table summarizes the contractual maturity, fair value, amortized cost and weighted average yield of AFS investments at June 30, 2024.

	Due in One Year Or Less	Due After One Year Through Five Years	Due After Five Years Through 10 Years	Due After 10 Years	Total
<i>Liquidity Portfolio:</i>					
Agency-guaranteed debt	\$ 9,819	\$ 8,413	\$ —	\$ —	\$ 18,232
Certificates of deposit	300,321	—	—	—	300,321
Corporate debt	94,460	21,980	—	—	116,440
Federal agency collateralized mortgage-backed securities:					
GNMA	—	9,770	5,654	2,769,189	2,784,613
FNMA and FHLMC	5,314	470,499	750,874	1,344,639	2,571,326
U.S. Treasury securities	643,799	250,096	—	—	893,895
Asset-backed securities	—	120,301	6,020	34,025	160,346
Total fair value	<u>\$ 1,053,713</u>	<u>\$ 881,059</u>	<u>\$ 762,548</u>	<u>\$ 4,147,853</u>	<u>\$ 6,845,173</u>
Total amortized cost	<u>\$ 1,056,442</u>	<u>\$ 886,620</u>	<u>\$ 766,682</u>	<u>\$ 4,710,360</u>	<u>\$ 7,420,104</u>
Weighted average yield	4.45%	5.01%	5.57%	2.55%	3.58%
<i>Other Investments:</i>					
Fair value of agricultural mortgage-backed securities	\$ 315	\$ 7,260	\$ —	\$ —	\$ 7,575
Total amortized cost	<u>\$ 324</u>	<u>\$ 8,114</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,438</u>
Weighted average yield	4.07%	5.75%	—%	—%	5.69%

The following table shows investment securities by gross unrealized losses and fair value, aggregated by investment category and length of time that the securities have been in a continuous unrealized loss position at June 30, 2024. The continuous loss position is based on the date the impairment was first identified.

	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>Liquidity Portfolio:</i>						
Agency-guaranteed debt	\$ 2,476	\$ (24)	\$ 13,620	\$ (361)	\$ 16,096	\$ (385)
Certificates of deposit	—	—	—	—	—	—
Corporate debt	32,929	(71)	53,505	(1,481)	86,434	(1,552)
Federal agency collateralized mortgage-backed securities:						
GNMA	58,258	(710)	2,518,156	(433,043)	2,576,414	(433,753)
FNMA and FHLMC	208,093	(758)	1,619,344	(139,879)	1,827,437	(140,637)
U.S. Treasury securities	246,355	(384)	297,312	(2,042)	543,667	(2,426)
Asset-backed securities	30,347	(32)	55,989	(457)	86,336	(489)
Total	<u>\$ 578,458</u>	<u>\$ (1,979)</u>	<u>\$ 4,557,926</u>	<u>\$ (577,263)</u>	<u>\$ 5,136,384</u>	<u>\$ (579,242)</u>
<i>Other Investments:</i>						
Agricultural mortgage-backed securities	\$ —	\$ —	\$ 7,575	\$ (863)	\$ 7,575	\$ (863)

At June 30, 2024, U.S. Treasury and agency-guaranteed debt and all (or substantially all) mortgage-backed securities had a zero loss assumption. The Bank evaluates non-guaranteed investment securities with unrealized losses for impairment on a quarterly basis. As a result of the assessment as of June 30, 2024, the Bank concluded that it does not intend to sell any securities and it is not more likely than not that it would be required to sell any securities, prior to recovery of the amortized cost basis. If it is determined that a security is impaired, the Bank will evaluate whether credit impairment exists by comparing the present value of the expected cash flows to the security's amortized cost basis. Credit impairment is recorded as an ACL for debt securities. The Bank concluded that a credit impairment did not exist at June 30, 2024.

**NOTE 3 — LOANS AND ALLOWANCE FOR CREDIT LOSSES ON LOANS****Loans**

Loans comprised the following categories at:

	June 30, 2024	December 31, 2023
Direct notes receivable from District Associations and OFIs	\$ 21,773,869	\$ 21,023,006
Participations purchased	8,557,432	8,702,470
Total loans	<u>\$ 30,331,301</u>	<u>\$ 29,725,476</u>

A summary of the Bank's loans by type follows:

	June 30, 2024	December 31, 2023
Direct notes receivable from District Associations	\$ 21,722,867	\$ 20,967,702
Real estate mortgage	1,104,288	1,172,829
Production and intermediate-term Agribusiness	1,145,151	1,150,891
Loans to cooperatives	424,232	442,926
Processing and marketing	3,073,813	3,183,583
Farm-related business	283,175	226,685
Communications	744,572	800,600
Energy (rural utilities)	1,442,854	1,349,317
Water and waste disposal	240,449	279,343
Rural home	1,113	2,848
International	91,419	86,669
Mission-related	1,986	2,082
Lease receivables	4,380	4,697
Loans to OFIs	51,002	55,304
Total loans	<u>\$ 30,331,301</u>	<u>\$ 29,725,476</u>

The Bank's capital markets loan portfolio, also referred to as the 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 our District Associations, which may exceed their hold limits, the Bank seeks the purchase of participations and syndications originated outside of the Texas District's territory by other System institutions, commercial banks and other lenders. Our capital markets loan portfolio depends to a significant degree on our relationships with other Farm Credit institutions. These loans may be held as interest earning assets of the Bank or sub-participated to the District Associations or other System entities. The Bank purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations.



The following table presents information regarding the balances of loans purchased and sold, excluding syndications, at June 30, 2024:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 1,273,401	\$ 298,158	\$ 52,451	\$ —	\$ 1,325,852	\$ 298,158
Production and intermediate-term	2,905,451	1,874,110	41,448	—	2,946,899	1,874,110
Agribusiness	2,513,293	825,124	59,309	—	2,572,602	825,124
Communications	895,408	150,438	—	—	895,408	150,438
Energy (rural utilities)	1,566,270	123,357	—	—	1,566,270	123,357
Water and waste disposal	317,513	76,911	—	—	317,513	76,911
Rural home	1,604	—	—	—	1,604	—
International	165,692	74,128	—	—	165,692	74,128
Mission-related	1,986	—	—	—	1,986	—
Lease receivables	5,471	1,094	—	—	5,471	1,094
Direct notes receivable from District Associations	—	4,350,000	—	—	—	4,350,000
Total	\$ 9,646,089	\$ 7,773,320	\$ 153,208	\$ —	\$ 9,799,297	\$ 7,773,320

The Bank has purchased loan participations and Farmer Mac guaranteed AMBS from District Associations in Capitalized Participation Pool (CPP) transactions. As a condition of the transactions, the Bank redeemed common stock in the amount of 2.00 percent of the par value of the loans purchased, and the District Associations bought Bank stock equal to 8.00 percent of the purchased loans' par value and 1.60 percent of the AMBS's par value. During the six months ended June 30, 2024, a District Association repurchased \$26.0 million of CPP loan participations that had been previously sold to the Bank and the Bank purchased a loan in the amount of \$1.9 million from another District Association in a CPP transaction. These transactions resulted in net stock retirements of \$2.1 million. CPP loans held at June 30, 2024, totaled \$61.2 million and were included in loans on the Balance Sheet. The balance of the AMBS CPP was \$7.6 million at June 30, 2024, and was included in investment securities on the Balance Sheet.

The Bank may also purchase loans from District Associations in Non-Capitalized Participation Pool (NCPP) transactions. As a condition of the transactions, the Bank redeems common stock in the amount of 2.00 percent of the par value of the loans purchased. There were no NCPP purchases during the six months ended June 30, 2024. The NCPP loans balance was \$187.3 million at June 30, 2024, and was included in loans on the Balance Sheet.

During the six months ended June 30, 2024, the Bank sold four loans with an amortized cost of \$24.8 million. Loans held for sale totaled \$17.4 million at June 30, 2024, which are included in other assets and carried at fair value. A loss of \$2.4 million was recognized for the six months ended June 30, 2024 when the loans were transferred to held for sale. The total loss for loans sold and held for sale was \$3.0 million for the six months ended June 30, 2024. There were no loans held for sale at December 31, 2023.

### Credit Quality

Credit risk arises from the potential inability of an obligor to meet its payment obligation and exists in our outstanding loans, letters of credit and unfunded loan commitments. The Bank manages credit risk associated with the retail lending activities through an analysis of the credit risk profile of an individual borrower using its own set of underwriting standards and lending policies, approved by its board of directors, which provides direction to its loan officers. The retail credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, financial position and collateral, which includes an analysis of credit scores for smaller loans. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income, including off-farm income. Real estate mortgage loans must be secured by first liens on the real estate

(collateral). As required by FCA regulations, institutions that make loans on a secured basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Loans other than real estate mortgages may be made on a secured or unsecured basis.

The Bank uses a two-dimensional risk rating model based on an internally generated combined System risk-rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is management's assumption of the probability that a borrower will experience a default during the life of the loan. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated principal loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months. This risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship. Generally, the Bank reviews the probability of default and loss given default ratings assigned to loans on at least an annual basis.

Each of the probability of default categories carries a distinct percentage of default probability. The probability of default rate between one and nine of the acceptable categories is very narrow and would reflect almost no default to a minimal default percentage. The probability of default rate grows more rapidly as a loan moves from acceptable to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain. The categories are defined as follows:

- Acceptable – assets are 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 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 presents the amortized cost of loans classified under the Uniform Loan Classification System as a percentage of the amortized cost of total loans:

	June 30, 2024	December 31, 2023
Acceptable	97.50 %	99.04 %
OAEM	2.03	0.50
Substandard/Doubtful	0.47	0.46
	<u>100.00 %</u>	<u>100.00 %</u>

The increase in OAEM was driven by the classification change of a direct note receivable with one Association to OAEM as a result of a covenant default that occurred during the three months ended June 30, 2024. The Bank waived the covenant violation through December 31, 2024. No allowance for credit losses has been recorded for this direct note receivable.

The following table presents credit quality indicators by loan type and the related amortized cost loan balance as of June 30, 2024:

	Term Loans by Origination Year								Revolving Loans Converted to Term Loans	
	2024	2023	2022	2021	2020	Prior	Revolving Loans			Total
Real estate mortgage										
Acceptable	\$ 28,195	\$ 68,908	\$ 193,489	\$ 192,114	\$ 99,319	\$ 407,150	\$ 97,557	\$ 2,108	\$ 1,088,840	
OAEM	—	—	—	165	—	—	—	—	165	
Substandard/Doubtful	—	—	—	—	—	4,791	10,492	—	15,283	
Total	\$ 28,195	\$ 68,908	\$ 193,489	\$ 192,279	\$ 99,319	\$ 411,941	\$ 108,049	\$ 2,108	\$ 1,104,288	
Gross charge-offs for the six months ended June 30, 2024										
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Production and intermediate-term										
Acceptable	\$ 14,430	\$ 62,083	\$ 154,106	\$ 36,274	\$ 15,338	\$ 90,394	\$ 737,289	\$ —	\$ 1,109,914	
OAEM	—	—	—	—	—	—	—	—	—	
Substandard/Doubtful	—	—	419	—	—	89	34,729	—	35,237	
Total	\$ 14,430	\$ 62,083	\$ 154,525	\$ 36,274	\$ 15,338	\$ 90,483	\$ 772,018	\$ —	\$ 1,145,151	
Gross charge-offs for the six months ended June 30, 2024										
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,521	\$ —	\$ —	\$ —	\$ 4,521
Agribusiness										
Acceptable	\$ 270,897	\$ 480,186	\$ 704,920	\$ 519,986	\$ 210,639	\$ 410,750	\$ 1,029,806	\$ 17,786	\$ 3,644,970	
OAEM	242	—	16,364	22,204	—	4,823	10,899	—	54,532	
Substandard/Doubtful	—	12,317	28,874	938	15,750	4,464	18,728	647	81,718	
Total	\$ 271,139	\$ 492,503	\$ 750,158	\$ 543,128	\$ 226,389	\$ 420,037	\$ 1,059,433	\$ 18,433	\$ 3,781,220	
Gross charge-offs for the six months ended June 30, 2024										
	\$ —	\$ —	\$ —	\$ 6,040	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,040
Communications										
Acceptable	\$ 103,071	\$ 123,563	\$ 154,755	\$ 205,816	\$ 58,514	\$ 14,402	\$ 36,408	\$ —	\$ 696,529	
OAEM	3,442	—	17,277	—	24,214	—	3,110	—	48,043	
Substandard/Doubtful	—	—	—	—	—	—	—	—	—	
Total	\$ 106,513	\$ 123,563	\$ 172,032	\$ 205,816	\$ 82,728	\$ 14,402	\$ 39,518	\$ —	\$ 744,572	
Gross charge-offs for the six months ended June 30, 2024										
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Energy and water/waste disposal										
Acceptable	\$ 157,069	\$ 255,626	\$ 306,687	\$ 136,591	\$ 49,057	\$ 549,513	\$ 154,669	\$ 36,854	\$ 1,646,066	
OAEM	—	—	13,574	12,525	—	—	1,110	—	27,209	
Substandard/Doubtful	—	—	—	—	6,301	3,564	163	—	10,028	
Total	\$ 157,069	\$ 255,626	\$ 320,261	\$ 149,116	\$ 55,358	\$ 553,077	\$ 155,942	\$ 36,854	\$ 1,683,303	
Gross charge-offs for the six months ended June 30, 2024										
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Rural home										
Acceptable	\$ —	\$ —	\$ 247	\$ —	\$ 276	\$ 590	\$ —	\$ —	\$ 1,113	
OAEM	—	—	—	—	—	—	—	—	—	
Substandard/Doubtful	—	—	—	—	—	—	—	—	—	
Total	\$ —	\$ —	\$ 247	\$ —	\$ 276	\$ 590	\$ —	\$ —	\$ 1,113	
Gross charge-offs for the six months ended June 30, 2024										
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

*Farm Credit Bank of Texas*

	Term Loans by Origination Year						Revolving Loans Converted to Term Loans	Total
	2024	2023	2022	2021	2020	Prior		
<b>International</b>								
Acceptable	\$ —	\$ 86,675	\$ —	\$ —	\$ —	\$ —	\$ 4,744	\$ —
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful	—	—	—	—	—	—	—	—
Total	\$ —	\$ 86,675	\$ —	\$ —	\$ —	\$ —	\$ 4,744	\$ —
Gross charge-offs for the six months ended June 30, 2024								
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Mission-related</b>								
Acceptable	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,986	\$ —	\$ —
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful	—	—	—	—	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,986	\$ —	\$ —
Gross charge-offs for the six months ended June 30, 2024								
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Lease receivables</b>								
Acceptable	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,380	\$ —	\$ —
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful	—	—	—	—	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,380	\$ —	\$ —
Gross charge-offs for the six months ended June 30, 2024								
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Direct notes to District Associations:</b>								
Acceptable	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 21,237,627	\$ —
OAEM	—	—	—	—	—	—	485,240	—
Substandard/Doubtful	—	—	—	—	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 21,722,867	\$ —
Gross charge-offs for the six months ended June 30, 2024								
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Loans to other financing institutions</b>								
Acceptable	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 51,002	\$ —
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful	—	—	—	—	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 51,002	\$ —
Gross charge-offs for the six months ended June 30, 2024								
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Total loans</b>								
Acceptable	\$ 573,662	\$ 1,077,041	\$ 1,514,204	\$ 1,090,781	\$ 433,143	\$ 1,479,165	\$ 23,349,102	\$ 56,748
OAEM	3,684	—	47,215	34,894	24,214	4,823	500,359	—
Substandard/Doubtful	—	12,317	29,293	938	22,051	12,908	64,112	647
Total	\$ 577,346	\$ 1,089,358	\$ 1,590,712	\$ 1,126,613	\$ 479,408	\$ 1,496,896	\$ 23,913,573	\$ 57,395
Gross charge-offs for the six months ended June 30, 2024								
	\$ —	\$ —	\$ —	\$ 6,040	\$ —	\$ 4,521	\$ —	\$ —

The following table presents credit quality indicators by loan type and the related amortized cost loan balance as of December 31, 2023:

	Term Loans by Origination Year							Revolving Loans Converted to Term Loans	Total	
	2023	2022	2021	2020	2019	Prior	Revolving Loans			
Real estate mortgage										
Acceptable	\$ 85,199	\$ 194,450	\$ 205,627	\$ 104,437	\$ 120,002	\$ 326,010	\$ 121,963	\$ 3,379	\$ 1,161,067	
OAEM	—	—	—	—	—	—	—	—	—	
Substandard/Doubtful	—	—	—	—	752	521	10,489	—	11,762	
Total	\$ 85,199	\$ 194,450	\$ 205,627	\$ 104,437	\$ 120,754	\$ 326,531	\$ 132,452	\$ 3,379	\$ 1,172,829	
Gross charge-offs for the year ended December 31, 2023	\$ —	\$ —	\$ —	\$ —	\$ 28	\$ —	\$ —	\$ —	\$ 28	
Production and intermediate-term										
Acceptable	\$ 64,603	\$ 85,470	\$ 37,404	\$ 15,857	\$ 9,462	\$ 82,343	\$ 817,765	\$ —	\$ 1,112,904	
OAEM	—	—	—	—	—	—	—	—	—	
Substandard/Doubtful	5,494	7,443	—	—	20,250	—	4,800	—	37,987	
Total	\$ 70,097	\$ 92,913	\$ 37,404	\$ 15,857	\$ 29,712	\$ 82,343	\$ 822,565	\$ —	\$ 1,150,891	
Gross charge-offs for the year ended December 31, 2023	\$ —	\$ —	\$ —	\$ —	\$ 6,244	\$ —	\$ 3,003	\$ —	\$ 9,247	
Agribusiness										
Acceptable	\$ 501,149	\$ 878,700	\$ 564,452	\$ 230,274	\$ 201,163	\$ 305,816	\$ 1,008,328	\$ 8,571	\$ 3,698,453	
OAEM	—	3,732	30,813	—	5,179	—	3,957	—	43,681	
Substandard/Doubtful	12,166	21,517	18,683	15,747	—	7,653	35,294	—	111,060	
Total	\$ 513,315	\$ 903,949	\$ 613,948	\$ 246,021	\$ 206,342	\$ 313,469	\$ 1,047,579	\$ 8,571	\$ 3,853,194	
Gross charge-offs for the year ended December 31, 2023	\$ —	\$ 5,938	\$ —	\$ —	\$ —	\$ 2,572	\$ 2,612	\$ —	\$ 11,122	
Communications										
Acceptable	\$ 104,704	\$ 167,822	\$ 206,666	\$ 140,576	\$ 14,470	\$ 76,363	\$ 35,497	\$ —	\$ 746,098	
OAEM	—	17,487	—	34,808	—	—	2,207	—	54,502	
Substandard/Doubtful	—	—	—	—	—	—	—	—	—	
Total	\$ 104,704	\$ 185,309	\$ 206,666	\$ 175,384	\$ 14,470	\$ 76,363	\$ 37,704	\$ —	\$ 800,600	
Gross charge-offs for the year ended December 31, 2023	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Energy and water/waste disposal										
Acceptable	\$ 227,805	\$ 355,707	\$ 143,284	\$ 50,370	\$ 27,056	\$ 541,464	\$ 196,825	\$ 37,629	\$ 1,580,140	
OAEM	—	13,745	12,647	6,301	—	10,851	1,000	—	44,544	
Substandard/Doubtful	—	—	—	—	2,054	1,922	—	—	3,976	
Total	\$ 227,805	\$ 369,452	\$ 155,931	\$ 56,671	\$ 29,110	\$ 554,237	\$ 197,825	\$ 37,629	\$ 1,628,660	
Gross charge-offs for the year ended December 31, 2023	\$ —	\$ —	\$ —	\$ —	\$ 701	\$ —	\$ —	\$ —	\$ 701	
Rural home										
Acceptable	\$ —	\$ 432	\$ 641	\$ 1,173	\$ 226	\$ 376	\$ —	\$ —	\$ 2,848	
OAEM	—	—	—	—	—	—	—	—	—	
Substandard/Doubtful	—	—	—	—	—	—	—	—	—	
Total	\$ —	\$ 432	\$ 641	\$ 1,173	\$ 226	\$ 376	\$ —	\$ —	\$ 2,848	
Gross charge-offs for the year ended December 31, 2023	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	

*Farm Credit Bank of Texas*

	Term Loans by Origination Year						Revolving Loans Converted to Term Loans	Total
	2023	2022	2021	2020	2019	Prior		
International								
Acceptable	\$ 86,669	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 86,669
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful	—	—	—	—	—	—	—	—
Total	\$ 86,669	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 86,669
Gross charge-offs for the year ended December 31, 2023								
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Mission-related								
Acceptable	\$ —	\$ —	\$ —	\$ —	\$ —	2,082	\$ —	2,082
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful	—	—	—	—	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ —	\$ —	2,082	\$ —	2,082
Gross charge-offs for the year ended December 31, 2023								
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Lease receivables								
Acceptable	\$ —	\$ —	\$ —	\$ —	\$ —	4,697	\$ —	4,697
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful	—	—	—	—	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ —	\$ —	4,697	\$ —	4,697
Gross charge-offs for the year ended December 31, 2023								
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Direct notes to District Associations:								
Acceptable	\$ —	\$ —	\$ —	\$ —	\$ —	—	\$ 20,967,702	\$ 20,967,702
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful	—	—	—	—	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ —	\$ —	—	\$ 20,967,702	\$ 20,967,702
Gross charge-offs for the year ended December 31, 2023								
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Loans to other financing institutions								
Acceptable	\$ —	\$ —	\$ —	\$ —	\$ —	—	\$ 55,304	\$ 55,304
OAEM	—	—	—	—	—	—	—	—
Substandard/Doubtful	—	—	—	—	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ —	\$ —	—	\$ 55,304	\$ 55,304
Gross charge-offs for the year ended December 31, 2023								
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total loans								
Acceptable	\$ 1,070,129	\$ 1,682,581	\$ 1,158,074	\$ 542,687	\$ 372,379	\$ 1,339,151	\$ 23,203,384	\$ 29,417,964
OAEM	—	34,964	43,460	41,109	5,179	10,851	7,164	142,727
Substandard/Doubtful	17,660	28,960	18,683	15,747	23,056	10,096	50,583	164,785
Total	\$ 1,087,789	\$ 1,746,505	\$ 1,220,217	\$ 599,543	\$ 400,614	\$ 1,360,098	\$ 23,261,131	\$ 29,725,476
Total gross charge-offs for the year ended December 31, 2023								
	\$ —	\$ 5,938	\$ —	\$ —	\$ 6,973	\$ 2,572	\$ 5,615	\$ 21,098



Accrued interest receivable on loans of \$127.8 million and \$120.1 million at June 30, 2024, and December 31, 2023, has been excluded from the amortized cost of loans and is reported separately in the Balance Sheet. During both the three and six months ended June 30, 2024, the Bank reversed \$122 thousand in accrued interest receivable against interest income. During the three months ended June 30, 2023, the Bank did not reverse any accrued interest receivable against interest income. During the six months ended June 30, 2023, the Bank reversed \$699 thousand in accrued interest receivable against interest income.

The following table reflects nonperforming assets, which consist of nonaccrual loans, accruing loans 90 days or more past due and other property owned:

	June 30, 2024	December 31, 2023
<b>Nonaccrual loans</b>		
Real estate mortgage	\$ 1,008	\$ 1,067
Production and intermediate-term	—	25,744
Agribusiness	27,747	12,237
Energy and water/waste disposal	3,564	3,977
Total nonaccrual loans	32,319	43,025
<b>Total accruing loans 90 days or more past due</b>	15,750	—
<b>Other property owned</b>	7,637	—
<b>Total nonperforming assets</b>	<b>\$ 55,706</b>	<b>\$ 43,025</b>
Nonaccrual loans as a percentage of total loans	0.11 %	0.14 %
Nonperforming assets as a percentage of total loans and other property owned	0.18	0.14
Nonperforming assets as a percentage of capital	2.69	2.55

The following table provides the amortized cost for nonaccrual loans with and without a related allowance for credit losses, as well as interest income recognized on nonaccrual loans during the period:

	June 30, 2024			Interest Income Recognized for the Three Months Ended June 30, 2024	Interest Income Recognized for the Six Months Ended June 30, 2024
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total		
Nonaccrual loans					
Real estate mortgage	\$ —	\$ 1,008	\$ 1,008	\$ —	\$ —
Agribusiness	27,747	—	27,747	—	13
Energy and water/waste disposal	3,564	—	3,564	—	—
Total nonaccrual loans	\$ 31,311	\$ 1,008	\$ 32,319	\$ —	\$ 13
	December 31, 2023			Interest Income Recognized for the Three Months Ended June 30, 2023	Interest Income Recognized for the Six Months Ended June 30, 2023
	Amortized Cost with Allowance	Amortized Cost without Allowance	Total		
Nonaccrual loans					
Real estate mortgage	\$ —	\$ 1,067	\$ 1,067	\$ —	\$ —
Production and intermediate-term	25,744	—	25,744	—	—
Agribusiness	12,237	—	12,237	—	—
Energy and water/waste disposal	3,977	—	3,977	—	—
Total nonaccrual loans	\$ 41,958	\$ 1,067	\$ 43,025	\$ —	\$ —

At June 30, 2024, the Bank had specific reserves of \$13.9 million, which is included in the allowance for credit losses, associated with \$31.3 million of the amortized cost with allowance. At December 31, 2023, the Bank had specific reserves included in the allowance for credit losses of \$16.7 million, associated with \$42.0 million of the amortized cost with allowance.

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

<b>June 30, 2024</b>	<b>30-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>	<b>Accruing Loans 90 Days or More Past Due</b>
Real estate mortgage	\$ 4,676	\$ —	\$ 4,676	\$ 1,099,612	\$ 1,104,288	\$ —
Production and intermediate-term	—	—	—	1,145,151	1,145,151	—
Agribusiness	—	23,712	23,712	3,757,508	3,781,220	15,750
Energy & water/waste disposal	—	431	431	1,682,872	1,683,303	—
Rural home	—	—	—	1,113	1,113	—
Lease receivables	—	—	—	4,380	4,380	—
Communications	—	—	—	744,572	744,572	—
Direct notes to District Associations	—	—	—	21,722,867	21,722,867	—
Loans to OFIs	—	—	—	51,002	51,002	—
International	—	—	—	91,419	91,419	—
Mission-related	—	—	—	1,986	1,986	—
<b>Total</b>	<b>\$ 4,676</b>	<b>\$ 24,143</b>	<b>\$ 28,819</b>	<b>\$30,302,482</b>	<b>\$30,331,301</b>	<b>\$ 15,750</b>

<b>December 31, 2023</b>	<b>30-89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>	<b>Accruing Loans 90 Days or More Past Due</b>
Real estate mortgage	\$ 468	\$ —	\$ 468	\$ 1,172,361	\$ 1,172,829	\$ —
Production and intermediate-term	20,250	5,494	25,744	1,125,147	1,150,891	—
Agribusiness	—	12,237	12,237	3,840,957	3,853,194	—
Energy & water/waste disposal	—	—	—	1,628,660	1,628,660	—
Rural home	—	—	—	2,848	2,848	—
Lease receivables	—	—	—	4,697	4,697	—
Communications	—	—	—	800,600	800,600	—
Direct notes to District Associations	—	—	—	20,967,702	20,967,702	—
Loans to OFIs	—	—	—	55,304	55,304	—
International	—	—	—	86,669	86,669	—
Mission-related	—	—	—	2,082	2,082	—
<b>Total</b>	<b>\$ 20,718</b>	<b>\$ 17,731</b>	<b>\$ 38,449</b>	<b>\$29,687,027</b>	<b>\$29,725,476</b>	<b>\$ —</b>

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. Collateral dependent loans are primarily production and intermediate-term, agribusiness, energy and water/waste disposal and real estate mortgage loans.

## Loan Modifications to Borrowers Experiencing Financial Difficulties

The following table shows the amortized cost basis at the end of the reporting period for loan modifications during the three months ended June 30, 2024, granted to borrowers experiencing financial difficulty, disaggregated by loan type and type of modification granted:

Three Months Ended June 30, 2024					
	Term Extension	Payment Deferral	Combination - Term Extension and Payment Deferral	Total	Percentage of Total by Loan Type
Agribusiness	\$ —	\$ 19,944	\$ —	\$ 19,944	0.53 %
Total	\$ —	\$ 19,944	\$ —	\$ 19,944	0.07 %

The Bank did not make any loan modifications for borrowers experiencing financial difficulty during the three months ended June 30, 2023.

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty during the three months ended June 30, 2024 totaled \$95 thousand.

The following table shows the amortized cost basis at the end of the reporting period for loan modifications during the six months ended June 30, 2024 and June 30, 2023 granted to borrowers experiencing financial difficulty, disaggregated by loan type and type of modification granted:

Six Months Ended June 30, 2024					
	Term Extension	Payment Deferral	Combination - Term Extension and Payment Deferral	Total	Percentage of Total by Loan Type
Production and intermediate-term	\$ 2,014	\$ —	\$ —	\$ 2,014	0.18 %
Agribusiness	—	40,256	11,629	51,885	1.37
Energy & water/waste disposal	—	2,220	—	2,220	0.13
Total	\$ 2,014	\$ 42,476	\$ 11,629	\$ 56,119	0.19 %

Six Months Ended June 30, 2023					
	Term Extension	Payment Deferral	Combination - Term Extension and Payment Deferral	Total	Percentage of Total by Loan Type
Agribusiness	\$ 9,640	\$ —	\$ —	\$ 9,640	0.25 %
Total	\$ 9,640	\$ —	\$ —	\$ 9,640	0.03 %

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty during the six months ended June 30, 2024, and June 30, 2023, totaled \$659 thousand and \$283 thousand, respectively.

The following tables describe the financial effects of the modifications made to borrowers experiencing financial difficulty during the three months ended June 30, 2024:

	Payment Deferral
	Financial Effect
Agribusiness	Added a weighted average 116 days to the life of the loans

The following tables describe the financial effects of the modifications made to borrowers experiencing financial difficulty during the six months ended June 30, 2024:

	Term Extension
	Financial Effect
Production and intermediate-term	Added a weighted average 15 days to the life of the loans

	Payment Deferral
	Financial Effect
Agribusiness	Added a weighted average 376 days to the life of the loans
Energy & water/waste disposal	Added a weighted average 30 days to the life of the loans

	Combination - Term Extension and Payment Deferral
	Financial Effect
Agribusiness	Added a weighted average 91 days in payment extensions and added a weighted average 91 days to the life of the loans

The following table describes the financial effects of the modifications made to borrowers experiencing financial difficulty during the three and six months ended June 30, 2023:

	Term Extension
	Financial Effect
Agribusiness	Added a weighted average 1,020 days to the life of the loan

During the three and six months ended June 30, 2024, and June 30, 2023, there were no defaults on loans to borrowers experiencing financial difficulty that had received a modification in the twelve months before default.

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified during the six months ended June 30, 2024, totaled \$24.5 million, and \$24.8 million at December 31, 2023.

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified during the twelve months prior to June 30, 2024:

	Payment Status of Loans Modified in the Past 12 Months			
	Current	30-89 Days Past Due	90 Days or More Past Due	Total
Agribusiness	\$ 29,611	\$ —	\$ 15,750	45,361
Energy & water/waste disposal	5,387	—	—	5,387
Total	\$ 34,998	\$ —	\$ 15,750	\$ 50,748

All loans modified as of June 30, 2023, were current in all required payments.

## Allowance for Credit Losses on Loans and Allowance for Credit Losses on Unfunded Commitments

The risk rating methodology is a key component of the Bank's allowance for credit losses evaluation and is generally incorporated into the Bank's loan underwriting standards and internal lending limits. In addition, borrower and commodity concentration lending and leasing limits have been established by the Bank to manage credit exposure. The regulatory limit to a single borrower or lessee is 15 percent of the Bank's lending and leasing limit base, but the Bank's board of directors have generally established more restrictive lending limits.

A summary of changes in the allowance for credit losses by portfolio segment for the three and six months ended June 30, 2024, are as follows:

	Real Estate Mortgage	Production and Intermediate -term	Agri- business	Comm- unications	Energy and Water/ Waste Disposal	Rural Home	Inter- national	Mission- Related	Lease Receivables	Direct Notes to District Associations	Loans to OFIs	Total
<b>Allowance for credit losses on loans:</b>												
Balance at March 31, 2024	\$ 2,330	\$ 11,897	\$ 20,972	\$ 1,659	\$ 4,743	\$ 3	\$ 108	\$ 7	\$ 2	\$ —	\$ —	\$ 41,721
Charge-offs	—	(4,521)	(6,040)	—	—	—	—	—	—	—	—	(10,561)
Recoveries	—	—	—	—	—	—	—	107	—	—	—	107
Provision for credit losses (credit loss reversal)	510	(3,960)	7,771	(7)	(237)	(1)	(9)	(108)	—	—	—	3,959
Balance at June 30, 2024	\$ 2,840	\$ 3,416	\$ 22,703	\$ 1,652	\$ 4,506	\$ 2	\$ 99	\$ 6	\$ 2	\$ —	\$ —	\$ 35,226
<b>Allowance for credit losses on unfunded commitments:</b>												
Balance at March 31, 2024	\$ 167	\$ 343	\$ 3,836	\$ 118	\$ 699	\$ —	\$ 31	\$ —	\$ —	\$ —	\$ —	\$ 5,194
(Credit loss reversal) provision for credit losses	211	89	(1,081)	(22)	(36)	—	(4)	—	—	—	—	(843)
Balance at June 30, 2024	\$ 378	\$ 432	\$ 2,755	\$ 96	\$ 663	\$ —	\$ 27	\$ —	\$ —	\$ —	\$ —	\$ 4,351

  

	Real Estate Mortgage	Production and Intermediate -term	Agri- business	Comm- unications	Energy and Water/ Waste Disposal	Rural Home	Inter- national	Mission- Related	Lease Receivables	Direct Notes to District Associations	Loans to OFIs	Total
<b>Allowance for credit losses on loans:</b>												
Balance at December 31, 2023	\$ 2,000	\$ 10,896	\$ 19,403	\$ 1,363	\$ 4,140	\$ 3	\$ 62	\$ 6	\$ —	\$ —	\$ —	\$ 37,873
Charge-offs	—	(4,521)	(6,040)	—	—	—	—	—	—	—	—	(10,561)
Recoveries	—	—	—	—	—	—	—	107	—	—	—	107
Provision for credit losses (credit loss reversal)	840	(2,959)	9,340	289	366	(1)	37	(107)	2	—	—	7,807
Balance at June 30, 2024	\$ 2,840	\$ 3,416	\$ 22,703	\$ 1,652	\$ 4,506	\$ 2	\$ 99	\$ 6	\$ 2	\$ —	\$ —	\$ 35,226
<b>Allowance for credit losses on unfunded commitments:</b>												
Balance at December 31, 2023	\$ 193	\$ 257	\$ 3,743	\$ 128	\$ 690	\$ —	\$ —	\$ 34	\$ —	\$ —	\$ —	\$ 5,045
(Credit loss reversal) provision for credit losses	185	175	(988)	(32)	(27)	—	27	(34)	—	—	—	(694)
Balance at June 30, 2024	\$ 378	\$ 432	\$ 2,755	\$ 96	\$ 663	\$ —	\$ 27	\$ —	\$ —	\$ —	\$ —	\$ 4,351

A summary of changes in the allowance for credit losses by portfolio segment for the three and six months ended June 30, 2023 are as follows:

	Real Estate Mortgage	Production and Intermediate-term	Agri-business	Communications	Energy and Water/Waste Disposal	Rural Home	International	Mission-Related	Lease Receivables	Inter-national	Direct Notes to District Associations	Loans to OFIs	Total
<b>Allowance for credit losses on loans:</b>													
Balance at March 31, 2023	\$ 1,321	\$ 1,170	\$ 24,878	\$ 960	\$ 4,030	\$ 1	\$ 51	\$ 7	\$ —	\$ —	\$ —	\$ —	\$ 32,418
Charge-offs	—	—	—	—	—	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	8	—	—	10	—	—	—	—	18
Provision for credit losses (credit loss reversal)	576	8,451	732	5	300	2	(7)	(11)	—	—	—	—	10,048
Balance at June 30, 2023	\$ 1,897	\$ 9,621	\$ 25,610	\$ 965	\$ 4,338	\$ 3	\$ 44	\$ 6	\$ —	\$ —	\$ —	\$ —	\$ 42,484
<b>Allowance for credit losses on unfunded commitments:</b>													
Balance at March 31, 2023	\$ 279	\$ 301	\$ 3,459	\$ 135	\$ 764	\$ —	\$ 32	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,970
Provision for credit losses (credit loss reversal)	(28)	(83)	(157)	(32)	(6)	—	7	—	—	—	—	—	(299)
Balance at June 30, 2023	\$ 251	\$ 218	\$ 3,302	\$ 103	\$ 758	\$ —	\$ 39	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,671

  

	Real Estate Mortgage	Production and Intermediate-term	Agri-business	Communications	Energy and Water/Waste Disposal	Rural Home	Mission-Related	Lease Receivables	Inter-national	Direct Notes to District Associations	Loans to OFIs	Total
<b>Allowance for credit losses on loans:</b>												
Balance at December 31, 2022	\$ 447	\$ 1,411	\$ 11,283	\$ 521	\$ 1,951	\$ —	\$ 59	\$ 3	\$ 31	\$ —	\$ —	\$ 15,706
Adjustment in beginning balance due to change in accounting for credit losses	724	(285)	3,700	202	518	1	(17)	(1)	21	—	—	4,863
Balance at January 1, 2023	1,171	1,126	14,983	723	2,469	1	42	2	52	—	—	20,569
Charge-offs	—	—	(11,121)	—	—	—	—	—	—	—	—	(11,121)
Recoveries	—	—	—	—	8	—	16	—	—	—	—	24
Provision for credit losses (credit loss reversal)	726	8,495	21,748	242	1,861	2	(52)	(2)	(8)	—	—	33,012
Balance at June 30, 2023	\$ 1,897	\$ 9,621	\$ 25,610	\$ 965	\$ 4,338	\$ 3	\$ 6	\$ —	\$ 44	\$ —	\$ —	\$ 42,484
<b>Allowance for credit losses on unfunded commitments:</b>												
Balance at December 31, 2022	\$ 83	\$ 196	\$ 1,430	\$ 45	\$ 287	\$ —	\$ —	\$ —	\$ 11	\$ —	\$ —	\$ 2,052
Adjustment in beginning balance due to change in accounting for credit losses	232	107	2,580	77	484	—	—	—	25	—	—	3,505
Balance at January 1, 2023	315	303	4,010	122	771	—	—	—	36	—	—	5,557
Provision for credit losses (credit loss reversal)	(64)	(85)	(708)	(19)	(13)	—	—	—	3	—	—	(886)
Balance at June 30, 2023	\$ 251	\$ 218	\$ 3,302	\$ 103	\$ 758	\$ —	\$ —	\$ —	\$ 39	\$ —	\$ —	\$ 4,671

## Discussion of Changes in Allowance for Credit Losses

The allowance for credit losses decreased \$3.3 million to \$39.6 million at June 30, 2024, compared to \$42.9 million at December 31, 2023. The decrease was driven by a reversal of specific reserves and related charge-offs due to the transfer of a loan to other property owned in the agribusiness loan sector, partially offset by an increase in general reserves due to higher qualitative reserves and elevated economic scenario risk relative to December 31, 2023.

The economic scenarios utilized in the June 30, 2024, estimate for the allowance for credit losses were based on the following: a baseline scenario, which represents a relatively stable economic environment; a downside scenario reflecting an economic recession during 2024; and an upside scenario that considers the potential for economic improvement relative to the baseline scenario. The economic forecasts incorporate macroeconomic variables, including the U.S. unemployment rate, Dow Jones Total Stock Market Index and U.S. corporate bond spreads.

## NOTE 4 — LEASES

The Bank evaluates contractual agreements at inception to determine if they meet the criteria for a lease. Leases with an initial term of twelve months or less are not recorded on the Balance sheet with lease expense recognized on a straight-line basis over the lease term. Operating leases are included in other assets for right-of-use (ROU) assets and other liabilities for lease liabilities on the Balance sheet.



ROU assets represent the Bank's right to use an underlying asset for the lease term and lease liabilities represent the Bank's obligation to make lease payments arising from the lease agreement. Operating ROU assets and liabilities are recognized based on the present value of the lease payments over the lease term. The Bank's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Bank will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Bank maintains a lease for its headquarters facility in Austin, Texas, which currently expires in December 2034. This lease is for approximately 111,500 square feet of office space ranging from \$18 to \$38 per square foot during the term of the lease. Lease expense for the headquarters facility includes certain operating expenses passed through from the landlord.

The Bank entered into a desk sharing agreement in Washington, D.C., as of January 1, 2024, with the National Council of Farmer Cooperatives for legislative affairs purposes. The lease will expire on December 31, 2024.

The Bank currently holds leases for postage machines, copiers and ice machines. The postage machines lease will expire in April 2027. The lease for copiers expires in August 2026. The lease for the ice machines is currently a month-to-month lease.

Lease expenses, which are included as a component of occupancy and equipment expense in the Statements of Comprehensive Income, totaled \$1.0 million and \$2.3 million for the three and six months ended June 30, 2024. For the three and six months ended June 30, 2023, expense totaled \$1.3 million and \$2.7 million, respectively. Other information related to leases was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Cash paid for amounts included in the measurement of lease liabilities - Operating cash flows for operating leases	\$ 739	\$ 730	\$ 1,477	\$ 1,467

At June 30, 2024, the weighted-average remaining lease term for the building, copiers and postage machine leases was 10.55 years, and the weighted-average discount rate was 2.42 percent. At December 31, 2023, the weighted-average remaining lease term for the building, copiers and postage machine leases was 11.05 years, and the weighted-average discount rate was 2.42 percent. The discount rates were determined using the Bank's incremental borrowing rate for bonds with terms similar to the lease terms. The following are the undiscounted cash flows for operating leases at June 30, 2024:

	Maturities of Lease Liabilities
Remainder of 2024	\$ 1,664
2025	3,554
2026	3,603
2027	3,625
2028	3,694
Thereafter	23,769
Total undiscounted cash flows	39,909
Less interest expense	616
Lease liability	<u>\$ 39,293</u>

Lease expense for leases with terms of 12 months or less was \$10 thousand and \$22 thousand for the three and six months ended June 30, 2024, respectively, compared with \$8 thousand and \$15 thousand for the three and six months ended June 30, 2023, respectively.

## NOTE 5 — COMMITMENTS AND CONTINGENCIES

The Bank is primarily liable for its portion of Systemwide debt obligations. Additionally, the Bank is jointly and severally liable for the consolidated Systemwide bonds and notes of the other System banks. The total Bank and consolidated Systemwide debt obligations of the System at June 30, 2024, were approximately \$420.67 billion.

In the normal course of business, the Bank has various outstanding commitments and contingent liabilities, including the possibility of actions against the Bank in which claims for monetary damages may be asserted. Management and legal counsel are not aware of any other pending lawsuits or actions. Upon the basis of current information, management and legal counsel are of the opinion that the ultimate liability, if any, resulting from lawsuits or other pending actions will not be material in relation to the financial position, results of operations or cash flows of the Bank.

## NOTE 6 — FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2, "Summary of Significant Accounting Policies" in the 2023 Annual Report for a more complete description.

Assets and liabilities measured at fair value on a recurring basis at June 30, 2024, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurement			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Federal funds sold and other overnight funds	\$ 339,032	\$ —	\$ 339,032	\$ —
Available-for-sale investments				
Certificates of deposit	300,321	—	300,321	—
Corporate debt	116,440	—	116,440	—
U.S. Treasury securities	893,895	—	893,895	—
Agency-guaranteed debt	18,232	—	18,232	—
Mortgage-backed securities	5,355,939	—	5,265,408	90,531
Asset-backed securities	160,346	—	160,346	—
Agricultural mortgage-backed securities	7,575	—	—	7,575
Loans held for sale	17,397	—	—	17,397
Derivative assets	1,379	—	1,379	—
Assets held in nonqualified benefit trusts	2,076	2,076	—	—
Total assets	<u>\$ 7,212,632</u>	<u>\$ 2,076</u>	<u>\$ 7,095,053</u>	<u>\$ 115,503</u>
<b>Liabilities:</b>				
Derivative liabilities	\$ (33,859)	\$ —	\$ (33,859)	\$ —
Letters of credit	2,166	—	—	2,166
Total liabilities	<u>\$ (31,693)</u>	<u>\$ —</u>	<u>\$ (33,859)</u>	<u>\$ 2,166</u>

At June 30, 2024, the Bank had a derivative asset position of \$76.6 million and received \$75.2 million in cash collateral against that position during the quarter which resulted in a net contra-asset of \$1.4 million. At June 30, 2024, the Bank had no derivative liability position and posted \$33.9 million of initial margin in cash collateral which resulted in a net contra-liability of \$33.9 million.

The table below represents a reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the period from April 1, 2024, to June 30, 2024:

	Assets			Liabilities	Net
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Loans Held for Sale	Letters of Credit	
Balance at April 1, 2024	\$ —	\$ 7,931	\$ —	\$ 2,166	\$ 5,765
Net gains included in other comprehensive income	47	68	—	—	115
Purchases, issuances, (sales) and (settlements)	90,484	(424)	—	—	90,060
Transfers into Level 3	—	—	17,397	—	17,397
Balance at June 30, 2024	<u>\$ 90,531</u>	<u>\$ 7,575</u>	<u>\$ 17,397</u>	<u>\$ 2,166</u>	<u>\$ 113,337</u>
The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at June 30, 2024	<u>\$ 47</u>	<u>\$ 68</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 115</u>

The table below represents a reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the period from January 1, 2024, to June 30, 2024:

	Assets				Liabilities	Net
	Certificate of Deposit	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Loans Held for Sale	Letters of Credit	
Balance at January 1, 2024	\$ 100,007	\$ —	\$ 8,499	\$ —	\$ 1,830	\$ 106,676
Net gains included in other comprehensive income	—	47	80	—	—	127
Purchases, issuances, (sales) and (settlements)	—	90,484	(1,004)	—	336	89,144
Transfers into Level 3	—	—	—	17,397	—	17,397
Transfers out of Level 3	(100,007)	—	—	—	—	(100,007)
Balance at June 30, 2024	<u>\$ —</u>	<u>\$ 90,531</u>	<u>\$ 7,575</u>	<u>\$ 17,397</u>	<u>\$ 2,166</u>	<u>\$ 113,337</u>
The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at June 30, 2024	<u>\$ —</u>	<u>\$ 47</u>	<u>\$ 80</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 127</u>

There were transfers into and out of Level 3 during the six months ended June 30, 2024. Certificates of deposits which were classified at Level 3 at December 31, 2023, were transferred to Level 2 during the three months ended March 31, 2024, due to updates in pricing. MBS and loans held for sale were included in Level 3 since their valuation was based on Level 3 criteria (broker quotes). AMBS were included in Level 3 due to limited activity or less transparency around inputs to their valuation.

The liability for letters of credit were included in Level 3 because the valuation, which is based on fees charged for similar agreements, may not closely correlate to a fair value for instruments not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at June 30, 2024, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans	\$ 17,388	\$ —	\$ —	\$ 17,388
Other property owned	7,637	—	—	7,637
Total assets	<u>\$ 25,025</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 25,025</u>

Assets and liabilities measured at fair value on a recurring basis at December 31, 2023, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Federal funds sold and other overnight funds	\$ 312,399	\$ —	\$ 312,399	\$ —
Available-for-sale investments				
Certificates of deposit	250,245	—	150,238	100,007
Corporate debt	195,032	—	195,032	—
U.S. Treasury securities	887,919	—	887,919	—
Agency-guaranteed debt	28,171	—	28,171	—
Mortgage-backed securities	5,046,453	—	5,046,453	—
Asset-backed securities	194,110	—	194,110	—
Agricultural mortgage-backed securities	8,499	—	—	8,499
Derivative assets	2,329	—	2,329	—
Assets held in nonqualified benefit trusts	1,652	1,652	—	—
Total assets	<u>\$ 6,926,809</u>	<u>\$ 1,652</u>	<u>\$ 6,816,651</u>	<u>\$ 108,506</u>
Liabilities:				
Derivative liabilities	\$ (41,010)	\$ —	\$ (41,010)	\$ —
Letters of credit	1,830	—	—	1,830
Total liabilities	<u>\$ (39,180)</u>	<u>\$ —</u>	<u>\$ (41,010)</u>	<u>\$ 1,830</u>

At December 31, 2023, the Bank had a derivative asset position of \$45.5 million and received \$43.2 million in cash collateral against this position which resulted in a net derivative asset of \$2.3 million. At December 31, 2023, the Bank had no derivative liability position and posted \$41.0 million of initial margin in cash collateral which resulted in a net contra-liability of \$41.0 million.

The table below represents a reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the period from April 1, 2023, to June 30, 2023:

	Assets		Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Letters of Credit	Net
Balance at April 1, 2023	\$ 125,677	\$ 9,414	\$ 2,293	\$ 132,798
Net gains included in other comprehensive income	(453)	4	—	(449)
Purchases, issuances, (sales) and (settlements)	53,795	(607)	(1,037)	54,225
Transfers out of Level 3	(125,677)	—	—	(125,677)
Balance at June 30, 2023	<u>\$ 53,342</u>	<u>\$ 8,811</u>	<u>\$ 1,256</u>	<u>\$ 60,897</u>

The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at June 30, 2023

	<u>\$ (453)</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ (449)</u>
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The following table represents a reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis for the period from January 1, 2023, to June 30, 2023:

	Assets		Liabilities	
	Mortgage-Backed Securities	Agricultural Mortgage-Backed Securities	Letters of Credit	Total
Balance at January 1, 2023	\$ —	\$ 10,270	\$ 2,223	\$ 8,047
Net gains included in other comprehensive losses	424	192	—	616
Purchases, issuances (sales) and (settlements)	178,595	(1,651)	(967)	177,911
Transfers out of Level 3	(125,677)	—	—	(125,677)
Balance at June 30, 2023	<u>\$ 53,342</u>	<u>\$ 8,811</u>	<u>\$ 1,256</u>	<u>\$ 60,897</u>

The amount of gains/losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses relating to assets or liabilities still held at June 30, 2023

	<u>\$ 424</u>	<u>\$ 192</u>	<u>\$ —</u>	<u>\$ 616</u>
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MBS were included in Level 3 since their valuation was based on Level 3 criteria (broker quotes). AMBS were included in Level 3 due to limited activity or less transparency around inputs to their valuation. The liability for letters of credit were included in Level 3 because the valuation, which is based on fees charged for similar agreements, may not closely correlate to a fair value for instruments not regularly traded in the secondary market.

Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2023, for each of the fair value hierarchy levels are summarized below:

	Fair Value Measurement			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans	\$ 25,269	\$ —	\$ —	\$ 25,269
Total assets	<u>\$ 25,269</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 25,269</u>

The fair value of financial instruments measured at carrying amounts on the Balance Sheet for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement				
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>June 30, 2024:</b>					
Financial Assets:					
Cash	\$ 60,762	\$ 60,762	\$ —	\$ —	\$ 60,762
Net loans	30,296,075	—	—	28,679,286	28,679,286
Total assets	<u>\$ 30,356,837</u>	<u>\$ 60,762</u>	<u>\$ —</u>	<u>\$ 28,679,286</u>	<u>\$ 28,740,048</u>
Financial Liabilities:					
Systemwide debt securities	\$ 35,715,755	\$ —	\$ —	\$ 34,371,355	\$ 34,371,355
Total liabilities	<u>\$ 35,715,755</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 34,371,355</u>	<u>\$ 34,371,355</u>

	Fair Value Measurement				
	Total Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>December 31, 2023:</b>					
Financial Assets:					
Cash	\$ 78,170	\$ 78,170	\$ —	\$ —	\$ 78,170
Net loans	29,687,603	—	—	28,077,479	28,077,479
Total assets	<u>\$ 29,765,773</u>	<u>\$ 78,170</u>	<u>\$ —</u>	<u>\$ 28,077,479</u>	<u>\$ 28,155,649</u>
Financial Liabilities:					
Systemwide debt securities	\$ 35,133,324	\$ —	\$ —	\$ 33,848,708	\$ 33,848,708
Total liabilities	<u>\$ 35,133,324</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 33,848,708</u>	<u>\$ 33,848,708</u>

### Valuation Techniques

As more fully discussed in Note 2, “Summary of Significant Accounting Policies” in the 2023 Annual Report, authoritative accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction.



### Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the AMBS are prepayment rates, probability of default and loss severity in the event of default inclusive of some uncertainty at the reporting date. For certificates of deposit, the significant unobservable inputs used in the fair value measurement are broker quotes.

Quoted market prices may not be available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates. These estimates involve uncertainties and matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

### Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value at		Valuation Technique(s)	Unobservable Input	Range of Inputs / Weighted Average	
	June 30, 2024	December 31, 2023			June 30, 2024	December 31, 2023
Certificates of deposit	\$ —	\$ 100,007	Broker quotes	—	—	—
Agricultural mortgage-backed securities	7,575	8,499	Discounted cash flow	Prepayment rates	3.00% - 32.62% / 7.20%	3.00% - 32.13% / 8.10%
Mortgage-backed securities	90,531	—	Vendor priced	—	—	—
Loans held for sale	17,397	—	Broker quotes	—	—	—

In regard to nonperforming loans and other property owned (OPO), it is not practicable to provide specific information on inputs as each collateral property is unique. The Bank utilizes appraisals to value these loans and OPO and considers unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

### Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Federal funds sold	Carrying value	Par/principal
Available-for-sale investment securities	Quoted prices Discounted cash flow	Price for similar security Constant prepayment rate Appropriate interest rate yield curve
Interest rate caps	Discounted cash flow	Appropriate interest rate yield curve Annualized volatility
Interest rate swaps	Discounted cash flow	Benchmark yield curve Counterparty credit risk Volatility

**NOTE 7 — ASSET/LIABILITY OFFSETTING**

Most derivative transactions with swap dealers are cleared through a Futures Commission Merchant (FCM). Cleared derivative contracts are required to be 100 percent collateralized and the Derivatives Clearing Organization (DCO) takes on the obligation of both sides of the transaction. The Bank's interest rate cap derivatives are under bilateral collateral and netting agreements that require the net settlement of covered contracts.

Notwithstanding collateral and netting provisions, our derivative assets and liabilities are not offset on the accompanying Balance Sheet. The amount of collateral received or pledged is calculated on a net basis by counterparty.

The following table summarizes overnight investments, derivative assets and liabilities, and amounts of collateral exchanged pursuant to our agreements.

	Gross Amounts of Assets/Liabilities Presented on the Balance Sheet	Amounts Not Offset on the Balance Sheet		Net Amount
		Cash Collateral Received/ (Pledged)	Investment Securities Received/Pledged as Collateral	
June 30, 2024				
Assets:				
Interest rate swaps and other derivatives	\$ 76,601	\$ 75,222	\$ —	\$ 1,379
Federal funds sold and overnight investments	339,032	—	—	339,032
Liabilities:				
Interest rate swaps and other derivatives	—	(33,859)	—	(33,859)
December 31, 2023				
Assets:				
Interest rate swaps and other derivatives	\$ 45,486	\$ 43,157	\$ —	\$ 2,329
Federal funds sold and overnight investments	312,399	—	—	312,399
Liabilities:				
Interest rate swaps and other derivatives	—	(41,010)	—	(41,010)

**NOTE 8 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The Bank maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet liabilities so that movements in interest rates do not adversely affect the net interest margin. The Bank considers the strategic use of derivatives to be a prudent method of managing interest rate sensitivity as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The Bank may enter into derivative transactions to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities, or better manage liquidity. Interest rate swaps allow the Bank to raise borrowings in the government-sponsored enterprises market and modify the repricing characteristics of that debt to better match those of the earning assets. Under interest rate swap arrangements, the Bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional amount, with at least one stream based on a specified floating-rate index. The Bank may purchase interest rate options, such as caps and floors, in order to manage the impact of changes in interest rates.

At both June 30, 2024, and December 31, 2023, the Bank held interest rate caps with a notional amount of \$115.0 million and pay-fixed interest rate swaps with a notional amount of \$1.40 billion. At June 30, 2024, the interest rate caps had a net fair value asset of \$193 thousand and the pay-fixed interest rate swaps had a net fair value asset of \$76.4 million. At December 31, 2023, the interest rate caps had a net fair value asset of \$217 thousand and the pay-fixed interest rate swaps had a net fair value asset of \$45.3 million. At June 30, 2024, and December 31, 2023, there was \$1.4 million and \$2.3 million, respectively, of excess variation margin on the pay-fixed interest rate swaps.

To minimize the risk of credit losses from derivatives, the Bank maintains collateral agreements to limit exposure to agreed-upon thresholds, deals with counterparties that have an investment grade or better credit rating from a major rating agency, and monitors the credit standing and levels of exposure to individual counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. At June 30, 2024, the Bank had posted \$33.9 million of cash as collateral as initial margin as compared to \$41.0 million at December 31, 2023. At June 30, 2024, the Bank had a derivative asset value of \$76.6 million and received \$75.2 million in cash collateral against that position during the quarter from a counterparty. At December 31, 2023, the Bank had a derivative asset value of \$45.5 million and received \$43.2 million of cash as collateral.

#### *Derivative – Counterparty Exposure*

The following table represents the credit ratings of counterparties to whom the Bank had credit exposure at June 30, 2024:

	Remaining Years to Maturity			Exposure	Collateral (Posted) Received**	Exposure Net of Collateral
	Less Than One Year to Five Years	More Than Five Years	Total Gains (Losses)*			
Moody's Credit Rating						
Aa1	\$ 183		\$ 183	\$ 183	\$ —	\$ 183
Aa2	10		10	10	—	10
Aa3	48,932	32,002	80,934	80,934	41,363	39,571
<b>Total</b>	<b>\$ 49,125</b>	<b>\$ 32,002</b>	<b>\$ 81,127</b>	<b>\$ 81,127</b>	<b>\$ 41,363</b>	<b>\$ 39,764</b>

\*Represents gain or loss positions on derivative instruments with individual counterparties. Net gains or losses represent the exposure to credit losses estimated by calculating the cost, on a present value basis, to replace all outstanding derivative contracts within a maturity category. Within each maturity category, contracts in a loss position are netted against contracts in a gain position with the same counterparty.

\*\*Represents the netting of cash collateral posted of and received by counterparties under enforceable netting agreements. At June 30, 2024, the Bank had posted \$33.9 million of cash as collateral and received cash collateral of \$75.2 million, from a counterparty.

#### *Fair Value Hedges*

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item (principally, debt securities) attributable to the hedge risk are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. At June 30, 2024, and December 31, 2023, the Bank had no fair value hedged items.

#### *Cash Flow Hedges*

The Bank clears certain cash flow hedges through a futures commission merchant (FCM), with a clearinghouse or central counterparty (CCP). At June 30, 2024, the Bank had a notional amount of cleared cash flow hedges of \$1.40 billion with associated posted initial margin of \$33.9 million. At June 30, 2024, the Bank received cash collateral from the counterparty of \$75.2 million. At December 31, 2023, the notional amount of cleared cash flow hedges was \$1.40 billion, with associated posted initial margin of \$41.0 million.

The Bank's derivative instruments at June 30, 2024, and December 31, 2023, which are designated and qualify as a cash flow hedge, met the standards for hedge accounting treatment. Thus, the effective portion of the gain or loss on the derivative was reported as a component of other comprehensive income. In the next 12 months, we expect to reclassify to earnings losses of \$202 thousand recorded in accumulated other comprehensive loss (AOCL) as of June 30, 2024. For cash flow hedges with any ineffectiveness, it is recognized as interest expense into current period earnings. During the three months ended June 30, 2024 and 2023, there was no ineffectiveness recognized for cash flow hedges. For the six months ended June 30, 2024 and 2023, ineffectiveness totaled \$3 thousand and \$2 thousand, respectively.

The following table represents the fair value of cash flow derivative instruments, inclusive of posted or received variation margin for cleared activity as of June 30, 2024, and December 31, 2023.

	Balance Sheet Location	Fair Value at		Balance Sheet Location	Fair Value at	
		June 30, 2024	December 31, 2023		June 30, 2024	December 31, 2023
Interest rate caps	Other assets	\$ 193	\$ 217	Other liabilities	\$ —	\$ —
Pay-fixed swaps	Other assets	1,186	2,112	Other liabilities	—	—
		<u>\$ 1,379</u>	<u>\$ 2,329</u>		<u>\$ —</u>	<u>\$ —</u>

  

		Gain (Loss) Recognized in AOCL on Derivatives at June 30,				Amount of Gain (Loss) Reclassified from AOCL at June 30,	
		2024	2023			2024	2023
Interest rate caps	\$ (23)	\$ (206)	Interest expense	\$ 120	\$ (95)		
Pay-fixed swaps	31,142	7,129	Other income, net	—	1,242		
	<u>\$ 31,119</u>	<u>\$ 6,923</u>		<u>\$ 120</u>	<u>\$ 1,147</u>		

## NOTE 9 — CAPITAL

On May 20, 2024, the Bank issued \$300.0 million of Class B perpetual non-cumulative subordinated preferred stock, Series 5 (Class B-5), representing three hundred thousand shares at \$1,000 per share par value, for net proceeds of \$296.8 million, with issuance costs of \$3.2 million. Dividends on the Class B-5, if declared by the board of directors at its sole discretion, are noncumulative and are payable quarterly in arrears on the fifteenth day of March, June, September and December in each year, commencing September 15, 2024, at an annual fixed rate of 7.75 percent of par value of \$1,000 per share up to, but excluding, June 15, 2029 (the "First Reset Date"), from and after which date will be paid at an annual rate of the five-year Treasury rate as of the most recent five-year reset dividend determination date plus 3.291 percent. The Class B-5 is not mandatorily redeemable at any time, but may be redeemed in whole or part at the option of the Bank, with prior approval from the FCA, on any dividend payment date on or after June 15, 2029. The Class B-5 ranks pari passu with respect to the existing Class B-2, Class B-3 and Class B-4 preferred stock and senior to all of the Bank's other outstanding capital stock. For regulatory purposes, the Class B-5 preferred stock is included in permanent capital, total capital and tier 1 capital within certain limitations.

The FCA sets minimum regulatory capital requirements, including capital conservation buffers, for banks and associations. These requirements are split into minimum requirements for risk-adjusted ratios and non-risk-adjusted ratios. The risk-adjusted ratios include common equity tier 1, tier 1 capital, total capital and permanent capital ratios. The non-risk-adjusted ratios include tier 1 leverage and unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratios. As of June 30, 2024, the Bank exceeded all regulatory capital requirements, including the capital conservation buffers.

The following table reflects the Bank's capital ratios:

Risk-adjusted	Regulatory Requirements Including Capital Conservation Buffers	As of June 30, 2024	As of December 31, 2023
Common equity tier 1 ratio	7.00 %	8.57 %	8.50 %
Tier 1 capital ratio	8.50	14.00	13.12
Total capital ratio	10.50	14.22	13.41
Permanent capital ratio	7.00	14.02	13.16
Non-risk-adjusted			
Tier 1 leverage ratio	5.00 %	6.01 %	5.79 %
UREE leverage ratio	1.50	2.11	2.26

Risk-adjusted assets have been defined by FCA regulations as the balance sheet assets and off-balance sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

If the capital ratios fall below the minimum regulatory requirements, capital distributions (equity redemptions, dividends and patronage) and discretionary bonus payments to senior officers are restricted or prohibited without prior FCA approval.

The components of the Bank's risk-adjusted capital, based on 90-day average balances, were as follows at June 30, 2024:

(dollars in thousands)	Common Equity Tier 1 Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Permanent Capital Ratio
Numerator:				
Unallocated retained earnings	\$ 927,529	\$ 927,529	\$ 927,529	\$ 927,529
Adjustments for patronage or dividend accrued receivables and payables	2,789	2,789	2,789	2,789
Common Cooperative Equities:				
Purchased other required stock $\geq$ 7 years	457,544	457,544	457,544	457,544
Allocated stock $\geq$ 7 years	36,042	36,042	36,042	36,042
Allocated equities:				
Allocated equities held $\geq$ 7 years	101,825	101,825	101,825	101,825
Noncumulative perpetual preferred stock	—	878,571	878,571	878,571
Allowance for credit losses on loans and allowance for credit losses on unfunded commitments subject to certain limitations	—	—	35,736	—
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(135,769)	(135,769)	(135,769)	(135,769)
Other regulatory required deductions	(175)	(175)	(175)	(175)
Total	\$ 1,389,785	\$ 2,268,356	\$ 2,304,092	\$ 2,268,356
Denominator:				
Risk-adjusted assets excluding allowance	\$ 16,208,141	\$ 16,208,141	\$ 16,208,141	\$ 16,208,141
Regulatory Adjustments and Deductions:				
Allowance for credit losses on loans	—	—	—	(30,570)
Total	\$ 16,208,141	\$ 16,208,141	\$ 16,208,141	\$ 16,177,571

The components of the Bank's risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2023:

(dollars in thousands)	Common Equity Tier 1 Ratio	Tier 1 Capital Ratio	Total Capital Ratio	Permanent Capital Ratio
Numerator:				
Unallocated retained earnings	\$ 970,464	\$ 970,464	\$ 970,464	\$ 970,464
Adjustments for patronage or dividend accrued receivables and payables	(4,899)	(4,899)	(4,899)	(4,899)
Common Cooperative Equities:				
Purchased other required stock $\geq$ 7 years	434,244	434,244	434,244	434,244
Allocated stock $\geq$ 7 years	36,042	36,042	36,042	36,042
Allocated equities:				
Allocated equities held $\geq$ 7 years	74,952	74,952	74,952	74,952
Noncumulative perpetual preferred stock	—	750,000	750,000	750,000
Allowance for credit losses on loans and allowance for credit losses on unfunded commitments subject to certain limitations	—	—	46,530	—
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(132,178)	(132,178)	(132,178)	(132,178)
Other regulatory required deductions	(217)	(217)	(217)	(217)
Total	<u>\$ 1,378,408</u>	<u>\$ 2,128,408</u>	<u>\$ 2,174,938</u>	<u>\$ 2,128,408</u>
Denominator:				
Risk-adjusted assets excluding allowance	\$ 16,217,012	\$ 16,217,012	\$ 16,217,012	\$ 16,217,012
Regulatory Adjustments and Deductions:				
Allowance for credit losses on loans	—	—	—	(41,288)
Total	<u>\$ 16,217,012</u>	<u>\$ 16,217,012</u>	<u>\$ 16,217,012</u>	<u>\$ 16,175,724</u>



The components of the Bank's non-risk-adjusted capital, based on 90-day average balances, were as follows at June 30, 2024:

(dollars in thousands)	Tier 1 Leverage Ratio	UREE Leverage Ratio
Numerator:		
Unallocated retained earnings	\$ 927,529	\$ 927,529
Adjustments for patronage or dividend accrued receivables and payables	2,789	2,789
Common Cooperative Equities:		
Purchased other required stock $\geq$ 7 years	457,544	—
Allocated stock $\geq$ 7 years	36,042	—
Allocated equities:		
Allocated equities held $\geq$ 7 years	101,825	—
Noncumulative perpetual preferred stock	878,571	—
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(135,769)	(135,769)
Other regulatory required deductions	(175)	(175)
Total	<u>\$ 2,268,356</u>	<u>\$ 794,374</u>
Denominator:		
Total assets	\$ 37,858,490	\$ 37,858,490
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(141,621)	(141,621)
Total	<u>\$ 37,716,869</u>	<u>\$ 37,716,869</u>

The components of the Bank's non-risk-adjusted capital, based on 90-day average balances, were as follows at December 31, 2023:

(dollars in thousands)	Tier 1 Leverage Ratio	UREE Leverage Ratio
Numerator:		
Unallocated retained earnings	\$ 970,464	\$ 970,464
Adjustments for patronage or dividend accrued receivables and payables	(4,899)	(4,899)
Common Cooperative Equities:		
Purchased other required stock $\geq$ 7 years	434,244	—
Allocated stock $\geq$ 7 years	36,042	—
Allocated equities:		
Allocated equities held $\geq$ 7 years	74,952	—
Noncumulative perpetual preferred stock	750,000	—
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(132,178)	(132,178)
Other regulatory required deductions	(217)	(217)
Total	<u>\$ 2,128,408</u>	<u>\$ 833,170</u>
Denominator:		
Total assets	\$ 36,932,792	\$ 36,932,792
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(144,343)	(144,343)
Total	<u>\$ 36,788,449</u>	<u>\$ 36,788,449</u>

## NOTE 10 — EMPLOYEE BENEFIT PLANS

In addition to pension benefits, the Bank provides certain health care benefits to qualifying retired employees (other post-retirement benefits). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities. Bank employees hired after January 1, 2004, may be eligible for retiree medical benefits for themselves and their spouses at their expense and will be responsible for 100 percent of the related premiums. The following table summarizes the components of net periodic benefit costs for the Bank's other postretirement benefit costs for the six months ended June 30:

	2024	2023
Service cost	\$ 56	\$ 53
Interest cost	267	248
Amortization of:		
Prior service credits	(38)	(40)
Net actuarial gains	(70)	(75)
Total net period benefit costs	<u>\$ 215</u>	<u>\$ 186</u>

The components of net periodic benefit cost other than the service cost component are included in other components of net periodic postretirement benefit cost on the Statements of Comprehensive Income.

The structure of the Texas District's defined benefit pension plan is characterized as multiemployer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and District Associations).

## NOTE 11 — ACCUMULATED OTHER COMPREHENSIVE LOSS

AOCL includes the accumulated balance of certain gains, losses or costs for which values are included in assets or liabilities on the Balance Sheet, but which have not yet been recognized in earnings. For the Bank, these elements include unrealized gains or losses on the Bank's AFS investment portfolio, amortization of postretirement benefit elements and changes in the value of cash flow derivative instruments.

The following is a summary of the components of AOCL and the changes that occurred during the six months ended June 30, 2024:

	Total	Unrealized Losses on Investments	Postretirement Benefit Plans	Cash Flow Derivative Instruments
<b>Balance at January 1, 2024</b>	\$ (521,511)	\$ (568,329)	\$ 1,926	\$ 44,892
Change in unrealized losses on AFS securities:				
Net increase in unrealized losses on AFS securities	(7,465)	(7,465)		
Net change in unrealized losses on AFS securities	<u>(7,465)</u>	<u>(7,465)</u>		
Change in postretirement benefit plans:				
Amounts amortized into net periodic expense:				
Amortization of prior service credits and actuarial gains	(108)		(108)	
Net change in postretirement benefit plans	<u>(108)</u>		<u>(108)</u>	
Change in cash flow derivative instruments:				
Net increase in unrealized gains on cash flow derivative instruments	31,359			31,359
Reclassification of net gains recognized in interest expense	(120)			(120)
Net change in cash flow derivative instruments	<u>31,239</u>			<u>31,239</u>
<b>Total other comprehensive income (loss)</b>	<u>23,666</u>	<u>(7,465)</u>	<u>(108)</u>	<u>31,239</u>
<b>Balance at June 30, 2024</b>	<u>\$ (497,845)</u>	<u>\$ (575,794)</u>	<u>\$ 1,818</u>	<u>\$ 76,131</u>

The following is a summary of the components of AOCL and the changes that occurred during the six months ended June 30, 2023:

	Total	Unrealized Losses on Investments	Postretirement Benefit Plans	Cash Flow Derivative Instruments
Balance at January 1, 2023	\$ (540,359)	\$ (606,405)	\$ 2,146	\$ 63,900
Change in unrealized gains on AFS securities:				
Net increase in unrealized losses on AFS securities	(36,511)	(36,511)		
Net change in unrealized losses on AFS securities	(36,511)	(36,511)		
Change in postretirement benefit plans:				
Amounts amortized into net periodic expense:				
Amortization of prior service credits	(115)		(115)	
Net change in postretirement benefit plans	(115)		(115)	
Change in cash flow derivative instruments:				
Net increase in unrealized gains on cash flow derivative instruments	6,923			6,923
Reclassification of net gains recognized in interest expense	(1,147)			(1,147)
Net change in cash flow derivative instruments	5,776			5,776
Total other comprehensive (loss) income	(30,850)	(36,511)	(115)	5,776
Balance at June 30, 2023	\$ (571,209)	\$ (642,916)	\$ 2,031	\$ 69,676

The following table summarizes reclassifications from AOCL to the Statements of Comprehensive Income for the six months ended June 30, 2024, and the same period for 2023:

Component of AOCL	Amount Reclassified from AOCL		Location of Losses (Gains) Recognized on the Statements of Comprehensive Income
	2024	2023	
Amortization of net credits on postretirement benefit plan	\$ (108)	\$ (115)	Salaries and employee benefits
Reclassification of gain on cash flow hedges	—	(1,242)	Other income, net
Amortization of cash flow hedges	(120)	95	Interest expense
Total reclassifications	<u>\$ (228)</u>	<u>\$ (1,262)</u>	

## NOTE 12 — SUBSEQUENT EVENTS

The Bank has evaluated subsequent events through August 9, 2024, which is the date the financial statements were issued. There are no subsequent events requiring disclosure as of August 9, 2024.

## NOTE 13 — COMBINED DISTRICTWIDE FINANCIAL STATEMENTS

The accompanying financial statements relate solely to the Bank and exclude financial information of the District Associations. The Bank separately publishes certain unaudited combined financial information of the Texas District, including a condensed statement of condition and statement of income, which can be found on the Bank's website at [www.farmcreditbank.com](http://www.farmcreditbank.com).

**ADDITIONAL REGULATORY INFORMATION**  
(Unaudited)

**Disclosure Map**

The following table summarizes the interim disclosure requirements and indicates where each matter is disclosed in this quarterly report.

Disclosure Requirement	Description	June 30, 2024 Quarterly Report Reference
Scope of Application	Corporate entity and structure	Page 51
Capital Structure	Regulatory capital components	Page 52
Capital Adequacy	Risk-weighted assets	Page 53
	Regulatory capital ratios	Page 53
Capital Buffers	Quantitative disclosures	Page 53
Credit Risk	Summary of exposures	Page 54
	Industry distribution	Page 54
	Contractual maturity	Page 54
	Geographic distribution	Page 55
	Nonperforming loans	Note 3 on Pages 30-31
	Allowance for credit losses on loans	Note 3 on Pages 33-34
Counterparty Credit Risk-Related Exposures	Counterparty exposures	Page 55
Credit Risk Mitigation	Exposures with reduced capital requirements	Page 55
Securitization	Securitization exposures	Pages 55-56
Equities	General description	Page 56
Interest Rate Risk for Non-Trading Activities	Interest rate sensitivity	Page 56

The following disclosures contain regulatory disclosures as required under FCA Regulation Section 628.63 for risk-adjusted ratios: common equity tier 1, tier 1 capital and total capital. Refer to Note 9 of the accompanying financial statements for information regarding the statutorily required permanent capital ratio. As required, these disclosures are made available for at least three years and can be accessed at Farm Credit Bank of Texas' website at [www.farmcreditbank.com](http://www.farmcreditbank.com). FCA Regulation Section 628.62(a) requires each System bank to provide timely public disclosures at the end of each calendar quarter. Qualitative disclosures that typically do not change each quarter may be disclosed annually after the end of the fourth calendar quarter, provided that any significant changes are disclosed in the interim.

**Scope of Application**

The disclosures herein relate solely to the Bank and exclude financial information of the District Associations. The Bank has no subsidiaries; therefore, the financial statements are only those of the Bank and are not consolidated with any other entity.

## Capital Structure

The following table provides a summary of the Bank's capital structure at June 30, 2024:

	90-Day Average Balance
<b>Common equity tier 1 capital (CET1)</b>	
Common cooperative equities:	
Purchased other required stock $\geq$ 7 years	\$ 457,544
Allocated stock $\geq$ 7 years	36,042
Other required member purchased stock	—
Allocated equities:	
Qualified allocated equities subject to retirement	101,825
Nonqualified allocated equities subject to retirement	—
Nonqualified allocated equities not subject to retirement	—
Unallocated retained earnings	927,529
Adjustments for patronage or dividend accrued receivables and payables	2,789
Paid-in capital	—
Regulatory adjustments and deductions made to CET1	(135,944)
<b>Total CET1</b>	<b>\$ 1,389,785</b>
<b>Additional tier 1 capital (AT1)</b>	
Noncumulative perpetual preferred stock	\$ 878,571
Regulatory adjustments and deductions made to AT1 capital	—
<b>Total AT1 capital</b>	<b>\$ 878,571</b>
<b>Total tier 1 capital</b>	<b>\$ 2,268,356</b>
<b>Tier 2 capital</b>	
Common cooperative equities not included in CET1	\$ —
Tier 2 capital elements (allowance for loan losses)	35,736
Regulatory adjustments and deductions made to tier 2 capital	—
<b>Total tier 2</b>	<b>\$ 35,736</b>
<b>Total capital</b>	<b>\$ 2,304,092</b>

## Capital Adequacy and Capital Buffers

The Bank's risk-adjusted regulatory capital ratios are calculated by dividing the relevant total capital elements by risk-weighted assets. The following table provides the Bank's risk-weighted assets at June 30, 2024:

	90-Day Average Balance
<b>On-Balance Sheet Assets:</b>	
Exposures to sovereign entities	\$ —
Exposures to supranational entities and Multilateral Development Banks	—
Exposures to government-sponsored entities (direct notes to District Associations)	4,316,986
Exposures to depository institutions, foreign banks and credit unions	2,697
Exposures to public sector entities	—
Corporate exposures, including borrower loans and exposures to other financing institutions	8,565,376
Residential mortgage exposures	—
Past due and nonaccrual exposures	46,489
Securitization exposures	130,178
Exposures to other assets	788,458
Total Risk-Weighted Assets, On-Balance Sheet Assets	<u>\$ 13,850,184</u>
<b>Off-Balance Sheet Assets:</b>	
Letters of Credit	\$ 156,033
Commitments	2,179,980
Repo-styled transactions	111
Over-the-counter derivatives	19,499
Unsettled transactions	—
Cleared transactions	—
All other off-balance sheet exposures	2,334
Total Risk-Weighted Assets, Off-Balance Sheet Assets	<u>\$ 2,357,957</u>
<b>Total Risk-Weighted Assets Before Adjustments</b>	<u><b>\$ 16,208,141</b></u>
Additions:	
Intra-system equity investments	135,943
Deductions:	
Regulatory capital deductions	(135,943)
<b>Total Standardized Risk-Weighted Assets</b>	<u><b>\$ 16,208,141</b></u>

## Capital and Leverage Ratios

As of June 30, 2024, the Bank was well-capitalized and exceeded all capital requirements. Because the Bank's capital and leverage ratios exceeded the minimum regulatory requirements of 10.50 percent and 5.00 percent, respectively, the Bank currently has no limitations on its distributions and discretionary bonus payments.

	Regulatory Minimums	Capital Conservation Buffers	Ratios as of June 30, 2024	Calculated Buffers
Common equity tier 1 capital ratio	4.50 %	2.50 %	8.57 %	4.07 %
Tier 1 capital ratio	6.00	2.50	14.00	8.00
Total capital ratio	8.00	2.50	14.22	6.22
Tier 1 leverage ratio	4.00	1.00	6.01	2.01

## Credit Risk

System entities have specific lending authorities within their chartered territories. The Bank is chartered to serve the District Associations which are located in Texas, Alabama, Mississippi, Louisiana and most of New Mexico. Our chartered territory is referred to as the Texas District. The Bank serves its chartered territory by lending to the Federal Land Credit Association (FLCA) and Agricultural Credit Associations (ACAs). The allowance for credit losses is determined based on a periodic evaluation of the loan portfolio, which identifies loans that may be impaired based on characteristics such as probability of default (PD) and loss given default (LGD). Allowance needs by geographic region are only considered in circumstances that may not otherwise be reflected in the PD and LGD, such as flooding or drought. There was no allowance attributed to a geographic area as of June 30, 2024.

Refer to the Risk-Adjusted Asset table below for the Bank's total loans, investment securities, off-balance sheet commitments and over-the-counter (OTC) derivatives. The following table illustrates the Bank's total loan exposure (including commitments) by loan type at June 30, 2024.

	Total Exposure
Direct notes receivable from District Associations	\$ 27,199,492
Real estate mortgage	1,232,814
Production and intermediate-term	1,578,596
Agribusiness	
Loans to cooperatives	1,052,820
Processing and marketing	4,601,447
Farm-related business	482,668
Communications	835,238
Energy (rural utilities)	2,504,283
Water and waste disposal	376,122
Mission-related	1,986
Rural home	1,113
International	314,894
Leases	4,380
Loans to other financing institutions	157,409
Total	<u>\$ 40,343,262</u>

The following table provides an overview of the remaining contractual maturity of the Bank's credit risk portfolio categorized by exposure at June 30, 2024. The remaining contractual maturity for the Bank's direct notes from the District Associations is included in the loans line item based on the contractual terms of the underlying association retail loans. Unfunded commitments for direct notes from District Associations reflects the aggregate remaining amount that the District Associations can borrow from the Bank and is included in the unfunded commitments line item within the due in one year or less column.

(dollars in thousands)	Due in one year or less	Due after one year through five years	Due after five years	Total
Loans	\$ 5,910,990	\$ 9,143,519	\$ 15,276,792	\$ 30,331,301
Off-balance sheet commitments				
Financial letters of credit	40,208	140,849	465	181,522
Performance letters of credit	3,635	4,798	—	8,433
Commercial letters of credit	2,327	12,624	1,578	16,529
Unfunded commitments	6,568,965	3,155,024	81,488	9,805,477
Investments	1,054,028	888,319	4,910,401	6,852,748
Derivatives (notional)	40,000	1,075,000	400,000	1,515,000
Total	<u>\$ 13,620,153</u>	<u>\$ 14,420,133</u>	<u>\$ 20,670,724</u>	<u>\$ 48,711,010</u>



The following table illustrates the Bank's total exposure (including commitments) by geographic distribution based on the headquarters location of the underlying retail loans for the Bank and District Associations at June 30, 2024:

State*	Percentage
Texas	59 %
Alabama	6
Mississippi	6
Louisiana	4
California	2
All other states	23
	<u>100 %</u>

\*The geographic distribution is based on the state in which the borrower is headquartered and may not be representative of their operations or business activities.

Refer to Note 3 of the accompanying financial statements for amounts of loans in nonaccrual status, the allowance at the end of each reporting period, charge-offs during the period, and changes in components of our allowance for credit losses.

### Counterparty Credit Risk and Credit Risk Mitigation

The table below shows derivatives by underlying exposure type, segregated among interest rate caps, and pay-fixed swaps, which were traded in OTC markets at June 30, 2024.

	Notional	Fair Values
Interest rate caps	\$ 115,000	\$ 193
Pay-fixed swaps	1,400,000	1,186
Total Derivatives	<u>\$ 1,515,000</u>	<u>\$ 1,379</u>

The following table provides the total exposure covered by guarantees for each separately disclosed credit risk portfolio and the risk-weighted asset amount associated with that exposure. The Bank did not hold eligible financial collateral for its loan, investment and derivative portfolios at June 30, 2024.

Government Guaranteed Asset Type (dollars in thousands)	90-Day Average Balance	Risk Weighting	Risk-Weighted Amount
Investments	\$ 5,213,626	0%	\$ —
Loans	1,937	0%	—
Total	<u>\$ 5,215,563</u>		<u>\$ —</u>

### Securitization

The Bank currently only participates in credit-related securitizations as investors through the purchase of ABS as included in its investment portfolio. The Bank also holds securitization exposures through the purchase of U.S. government and agency-guaranteed securities. The Bank did not transfer any exposures that it had originated or purchased from a third party in connection with a securitization of assets as of June 30, 2024, nor did it have any outstanding exposures that it intended to be securitized at June 30, 2024. The Bank did not retain any credit-related re-securitization exposures at June 30, 2024.

Below is an overview of the Bank's purchased securitization exposures held at June 30, 2024, by exposure type and categorized by risk-weighting band and risk-based capital approach. At June 30, 2024, the Bank did not hold any off-balance sheet securitization exposures nor were any securitization exposures deducted from capital.

Description of Securitization	Risk-Based Capital Approach	Exposure Amount (dollars in thousands)	Risk Weighting
Agency MBS:			
GNMA	Standardized risk weighting	\$ 3,218,008	0%
FNMA and FHLMC	Standardized risk weighting	2,708,700	0%-20%
Total Agency MBS		<u>\$ 5,926,708</u>	
Asset-backed securities:			
Small Business Administration	Standardized risk weighting	\$ 49,086	0%
Asset-backed securities	Gross-up	111,511	20%-100%
Total asset-backed securities		<u>\$ 160,597</u>	

## Equities

The Bank has certain exposure to equity investments. The Bank is a limited partner in certain Rural Business Investment Companies (RBICs) for various relationship and strategic reasons. These RBICs facilitate equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America.

As of June 30, 2024	Disclosed in Other Assets	Life-to-Date (Losses) Recognized in Retained Earnings*
RBICs	\$ 24,791	\$ (7,870)

\*Retained earnings is included in common equity tier 1 and total capital ratios.

The Bank also holds an investment in an unincorporated business entity (UBE), as defined by FCA regulation. The Bank holds this investment to manage an unusual and complex collateral associated with a loan workout.

The investments in the RBICs and UBE are not publicly traded and are accounted for under the equity method. The book value approximates fair value. The Bank had no unrealized gains or losses either carried on the Balance Sheet or recognized through earnings.

## Interest Rate Risk

The following table sets forth the Bank's projected annual net interest income and market value of equity for interest rate movements as prescribed by policy, based on the Bank's interest-earning assets and interest-bearing liabilities at June 30, 2024:

Basis points:	-200	-100	+100	+200
Change in net interest income	-4.40%	-3.11%	4.18%	7.76%
Change in market value of equity	19.17%	8.45%	-6.32%	-11.23%