
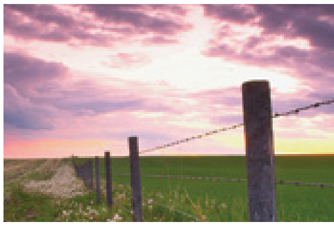

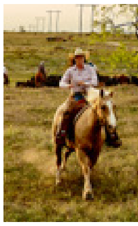

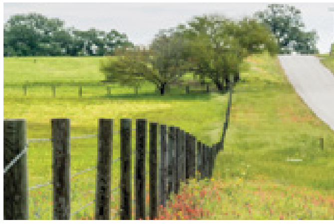
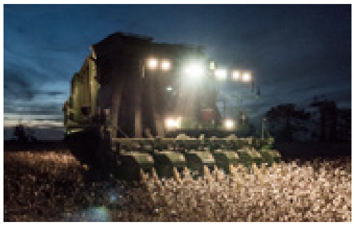
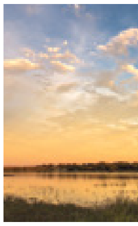


2019 Annual Report

Texas Farm Credit District

Texas Farm Credit District
2019 Annual Financial Information

December 31, 2019
(unaudited)

INTRODUCTION AND TEXAS FARM CREDIT DISTRICT OVERVIEW

The Farm Credit Bank of Texas (bank) and its related associations collectively are referred to as the Texas Farm Credit District (district). The district is part of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. The district serves Texas, Alabama, Mississippi, Louisiana and most of New Mexico. The bank provides funding to the district associations, which, in turn, provide credit to their borrower-shareholders. As of December 31, 2019, the bank served one Federal Land Credit Association (FLCA), 13 Agricultural Credit Associations (ACAs) and certain Other Financing Institutions (OFIs) which are not part of the System. The FLCA and ACAs are collectively referred to as associations.

Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to provide sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and certain farm-related businesses. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses.

The System is a cooperative structure. Farm Credit's funds are raised by the Federal Farm Credit Banks Funding Corporation (the Funding Corporation) and insured by the Farm Credit System Insurance Corporation (FCSIC). The Funding Corporation issues a variety of Federal Farm Credit Banks Combined Systemwide Debt Securities with broad ranges of maturities and structures on behalf of the System banks. Farm Credit associations receive funding through one of the four System banks. Each System bank has exposure to Systemwide credit risk because each bank is joint and severally liable for all Systemwide debt issued. System entities have specific lending authorities within their chartered territories and are subject to examination and regulation by an independent federal agency, the Farm Credit Administration (FCA).

The following commentary reviews the combined financial statements of condition and results of operations of the district for the years ended December 31, 2019, 2018 and 2017.

COMBINED FINANCIAL HIGHLIGHTS

(in thousands)		**December 31, 2019**		December 31, 2018		December 31, 2017
Total loans	**$**	**26,336,733**	$	24,852,133	$	23,745,668
Allowance for loan losses		**89,859**		82,069		83,268
Net loans		**26,246,874**		24,770,064		23,662,400
Total assets		**32,846,596**		31,569,158		29,717,122
Total members' equity		**4,701,126**		4,531,099		4,277,896

Year Ended December 31,		**2019**		2018		2017
Net interest income	**$**	**815,217**	$	793,303	$	770,953
Provision for loan losses		**12,147**		4,634		5,065
Net fee income		**30,009**		31,725		28,033
Net income		**484,093**		485,472		439,395
Net interest margin		**2.59%**		2.65%		2.73%
Net loan charge-offs (recoveries) as a percentage of average loans		**0.02**		0.03		0.02
Return on average assets (ROA)		**1.50**		1.59		1.52
Return on average shareholders' equity		**10.09**		10.65		10.06
Operating expenses as a percentage of net interest income and noninterest income		**44.29**		43.91		46.67
Average loans	**$**	**25,600,606**	$	24,339,959	$	23,081,431
Average earning assets		**31,423,293**		29,959,963		28,200,772
Average total assets		**32,169,115**		30,598,879		28,876,555

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Net Income

The district's net income of $484.1 million for the year ended December 31, 2019, reflected a decrease of $1.4 million, or 0.3%, from $485.5 million for the year ended December 31, 2018. The decrease in net income was due primarily to a $12.9 million increase in noninterest expense, an increase in provision for loan losses of $7.5 million, and a $3.4 million decrease in noninterest income, partially offset by a $21.9 million increase in net interest income. The return on average assets decreased to 1.50% for the year ended December 31, 2019, from 1.59% reported for the year ended December 31, 2018.

The district's net income of $485.5 million for the year ended December 31, 2018, reflected an increase of $46.1 million, or 10.5%, from $439.4 million for the year ended December 31, 2017. The increase in net income was due primarily to a $22.4 million increase in net interest income, a $15.5 million increase in noninterest income and a $7.8 million decrease in noninterest expenses. The return on average assets increased to 1.59% for the year ended December 31, 2018, from 1.52% reported for the year ended December 31, 2017.

Net Interest Income

Net interest income for the year ended December 31, 2019 was $815.2 million, an increase of $21.9 million, or 2.8%, from $793.3 million for the year ended December 31, 2018. The increase in net interest income was the result of a $1.5 billion increase in district average earning assets, offset by a 10-basis-point decrease in net interest rate spread to 2.23%. This decrease was driven by a 31-basis-point increase in the cost of average interest-bearing liabilities, partially offset by a 21-basis-point increase in the yield of average interest earning assets. The net interest rate margin decreased by 6 basis points to 2.59% for the year ended December 31, 2019, as compared with 2.65% for the same period of the prior year.

Earning asset yields and liability costs are generally influenced by market interest rates and the inversion of the interest rate yield curve contributed to the decline in the district's net interest spread. Competitive pressures at the district associations also contributed to the decline in the net interest spread. During the twelve months ended December 31, 2019, the bank called $7.2 billion in debt and accelerated the recognition of $12.7 million in concession expense as compared to no similar activities in the twelve months ended December 31, 2018.

Net interest income for the year ended December 31, 2018, increased by $22.4 million, or 2.9%, to $793.3 million from December 31, 2017. The increase in net interest income was the result of a $1.8 billion increase in district average earning assets, offset by an 18-basis-point decrease in net interest rate spread to 2.33%.

Provision for Loan Losses

The provision for loan losses for the year ended December 31, 2019, was $12.1 million, reflecting an increase of $7.5 million from the $4.6 million provision recorded for the year ended December 31, 2018. The increase in provision for loan losses at the combined associations of $12.4 million is driven primarily by credit deterioration resulting from weak commodity prices and low cattle prices, partially offset by a $5.3 million loan loss reversal at the bank. The bank's loan loss reversal recognized in 2019 is primarily driven by reversals of $2.1 million for specific reserves on one agribusiness loan, offset by an increase of $1.6 million in general reserves due to slight credit quality deterioration in certain sectors of the loan portfolio.

The provision for loan losses for 2018 was $4.6 million, reflecting a decrease of $431 thousand from the $5.1 million provision recorded for the year ended December 31, 2017. The provision for loan losses for 2018 primarily reflected deterioration in loans in the agribusiness and energy sectors.

Noninterest Income

Noninterest income for the year ended December 31, 2019, was $75.4 million, a decrease of $3.5 million, or 4.4%, from $78.9 million for the year ended December 31, 2018. The decrease in noninterest income was primarily due to $12.8 million in lower refund distributions from the Farm Credit System Insurance Corporation (FCSIC), a $3.6 million decrease in gain of debt extinguishment recognized in 2018, offset by a $12.1 million gain on investment securities resulting from the sale of GNMA project loan investments during 2019, and a $2.6 million increase in patronage income received from other Farm Credit entities.

Noninterest income of $78.9 million reflected an increase of $15.5 million, or 24.4%, from 2017 to 2018 and was primarily due to $19.3 million in refunds from the Farm Credit System Insurance Corporation.

Noninterest Expense

Noninterest expense for the year ended December 31, 2019, totaled $394.5 million, increasing $12.9 million, or 3.4%, from $381.6 million for the year ended December 31, 2018. The increase in noninterest expense is driven by a $4.8 million increase in occupancy and equipment that is mainly due to a $3.2 million increase in software maintenance and depreciation expenses.

Noninterest expense for 2018 totaled $381.6 million, decreasing $7.8 million, or 2.0%, from 2017. The decrease in noninterest expense includes a $9.4 million decrease in FCSIC expense due to a rate decrease on outstanding debt from 15 basis points in 2017 to 9 basis points in 2018 and a $15.5 million decrease in other operating expenses primarily due to expenses incurred in 2017 related to a breach of policies and procedures at a district association, offset by an $18.9 million increase in salaries and employee benefits. The $18.9 million increase in salaries and employee benefits was due primarily to an increase in compensation and higher staffing levels.

Loan Portfolio

District Loans by Loan Type			
(in thousands)	**December 31, 2019**	December 31, 2018	December 31, 2017
Real estate mortgage	**$ 15,696,003**	$ 14,859,093	$ 14,351,578
Production and intermediate-term	**3,313,367**	3,235,481	3,014,067
Agribusiness:			
Loans to cooperatives	**474,242**	408,350	429,535
Processing and marketing	**4,222,344**	3,747,010	3,428,261
Farm-related business	**218,196**	182,655	206,441
Communications	**636,069**	513,286	437,066
Energy (rural utilities)	**1,220,359**	1,355,187	1,352,129
Water and waste disposal	**131,196**	143,863	117,177
Rural residential real estate	**253,336**	240,587	234,379
Mission-related	**98,650**	96,109	109,919
Loans to other financing institutions (OFIs)	**41,170**	36,341	40,107
Lease receivables	**31,801**	34,171	25,009
Total loans	**$ 26,336,733**	$ 24,852,133	$ 23,745,668

The district loan portfolio consists only of retail loans. Bank loans to its affiliated associations, also referred to as direct notes, have been eliminated in the combined financial statements. Total loan volume at December 31, 2019, was $26.3 billion, an increase of $1.5 billion, or 6.0%, from the $24.9 billion loan portfolio balance at December 31, 2018. The loan volume increase of $1.5 billion during 2019 was primarily driven by a $1.2 billion increase in the associations' loan portfolio and a $293.3 million increase in the bank's capital markets loan portfolio. The growth in loan volume was primarily due to strong economic conditions within the district.

The bank's capital market loan portfolio predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. The bank also refers to the capital market portfolio as participations purchased. 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 district's territory by other System institutions, commercial banks and other lenders. These loans may be held as earning assets of the bank or subparticipated to the associations or to other System entities.

Portfolio Diversification

Loan concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, or within close proximity, which could cause them to be similarly impacted by economic or other conditions. While the amounts represent the maximum potential credit risk, a substantial portion of the district's lending activities is collateralized and, accordingly, the credit risk associated with lending activities is considerably less than the recorded loan principal and is considered in the allowance for loan losses.

Portfolio credit risk is also evaluated with the goal of managing the concentration of credit risk. Concentration risk is reviewed and measured by industry, commodity, geography and customer limits.

The district's concentration of credit risk in various agricultural commodities is shown in the following table:

Commodity Concentrations

(in millions)	**December 31, 2019**	December 31, 2018	December 31, 2017
Livestock	**$ 8,226**	$ 7,947	$ 7,822
Crops	**3,704**	3,522	3,326
Timber	**1,931**	1,862	1,794
Dairy	**1,294**	1,047	873
Poultry	**1,106**	1,019	948
Cotton	**1,062**	994	884
Rural residential real estate	**253**	240	234
All other commodities	**8,761**	8,221	7,865
Total loans	**$ 26,337**	$ 24,852	$ 23,746

The diversity of states underlying the district's loan portfolio is reflected in the following table:

Geographic Concentrations

	December 31, 2019	December 31, 2018	December 31, 2017
Texas	**53%**	53%	54%
Mississippi	**7**	7	7
Alabama	**7**	7	7
Louisiana	**4**	3	4
California	**2**	2	2
All other states	**27**	28	26
Total	**100%**	100%	100%

Loan Quality

One credit quality indicator utilized by the bank and associations is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. 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 and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable:

District Loan Quality

	December 31, 2019	December 31, 2018	December 31, 2017
Acceptable	**96.6%**	97.2%	96.9%
OAEM (special mention)	**1.8**	1.5	1.6
Substandard/doubtful	**1.6**	1.3	1.5
Total	**100.0%**	100.0%	100.0%

During 2019, overall credit quality at the bank and the district associations remained strong. Loans classified as acceptable or OAEM as a percentage of total loans and accrued interest receivable were 98.4% at December 31, 2019, compared to 98.7% at December 31, 2018.

Nonperforming Assets

(in thousands)	**December 31, 2019**	December 31, 2018	December 31, 2017
Nonaccrual loans:			
Real estate mortgage	**$ 71,745**	$ 71,512	$ 85,488
Production and intermediate-term	**30,307**	21,113	34,700
Agribusiness	**12,234**	11,211	3,175
Energy (rural utilities)	**12,293**	13,704	-
Rural residential real estate	**465**	817	1,178
Mission-related	**1,144**	1,286	1,636
Lease receivables	**-**	-	58
Total nonaccrual loans	**$ 128,188**	$ 119,643	$ 126,235
Accruing restructured loans:			
Real estate mortgage	**$ 29,983**	$ 16,423	$ 18,496
Production and intermediate-term	**4,596**	6,130	6,236
Energy (rural utilities)	**1,944**	-	-
Rural residential real estate	**148**	33	160
Mission-related	**5,302**	5,476	5,641
Total accruing restructured loans	**$ 41,973**	$ 28,062	$ 30,533
Accruing loans 90 days or more past due:			
Real estate mortgage	**$ 3,491**	$ 273	$ 108
Production and intermediate-term	**816**	634	$ 2,897
Agribusiness	**-**	-	20
Rural residential real estate	**24**	-	-
Total accruing loans 90 days or more past due	**$ 4,331**	$ 907	$ 3,025
Total nonperforming loans	**$ 174,492**	$ 148,612	$ 159,793
Other property owned	**10,695**	9,229	15,569
Total nonperforming assets	**$ 185,187**	$ 157,841	$ 175,362

Nonperforming loans are composed of nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due, and are also referred to as impaired loans. Nonperforming assets consist of nonperforming loans and other property owned (OPO). Total nonperforming assets have increased by $27.4 million, or 17.3%, from $157.8 million at December 31, 2018, to $185.2 million at December 31, 2019.

At December 31, 2019, $78.0 million, or 60.8%, of loans classified as nonaccrual were current as to principal and interest, compared to $82.0 million, or 68.5%, of nonaccrual loans at December 31, 2018, and $78.9 million, or 62.5%, at December 31, 2017.

The following table provides an age analysis of the loan portfolio (including accrued interest):

Aging Analysis of Loans (in thousands)

December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	**$ 95,208**	**$ 27,852**	**$ 123,060**	**$ 15,730,848**	**$ 15,853,908**
Production and intermediate-term	**16,395**	**14,245**	**30,640**	**3,321,244**	**3,351,884**
Agribusiness	**2,090**	**36**	**2,126**	**4,937,104**	**4,939,230**
Communications	**-**	**-**	**-**	**636,383**	**636,383**
Energy (rural utilities)	**-**	**-**	**-**	**1,225,149**	**1,225,149**
Water and waste disposal	**-**	**-**	**-**	**132,155**	**132,155**
Rural residential real estate	**2,008**	**91**	**2,099**	**252,124**	**254,223**
Mission-related	**1,114**	**1,055**	**2,169**	**97,318**	**99,487**
Loans to OFIs	**-**	**-**	**-**	**41,270**	**41,270**
Lease receivables	**-**	**-**	**-**	**31,915**	**31,915**
Total loans	**$ 116,815**	**$ 43,279**	**$ 160,094**	**$ 26,405,510**	**$ 26,565,604**

December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 72,053	$ 21,755	$ 93,808	$ 14,909,688	$ 15,003,496
Production and intermediate-term	28,019	5,365	33,384	3,242,487	3,275,871
Agribusiness	5,996	131	6,127	4,353,967	4,360,094
Communications	-	-	-	513,428	513,428
Energy (rural utilities)	-	-	-	1,362,078	1,362,078
Water and waste disposal	-	-	-	144,794	144,794
Rural residential real estate	2,432	193	2,625	238,762	241,387
Mission-related	-	1,286	1,286	95,596	96,882
Loans to OFIs	-	-	-	36,435	36,435
Lease receivables	-	-	-	34,305	34,305
Total loans	$ 108,500	$ 28,730	$ 137,230	$ 24,931,540	$ 25,068,770

December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 68,437	$ 27,282	$ 95,719	$ 14,389,960	$ 14,485,679
Production and intermediate-term	17,208	13,255	30,463	3,017,492	3,047,955
Agribusiness	9,837	20	9,857	4,070,021	4,079,878
Communications	-	-	-	437,666	437,666
Energy (rural utilities)	-	-	-	1,358,930	1,358,930
Water and waste disposal	-	-	-	118,068	118,068
Rural residential real estate	1,273	253	1,526	233,627	235,153
Mission-related	98	1,636	1,734	108,988	110,722
Loans to OFIs	-	-	-	40,187	40,187
Lease receivables	-	59	59	25,087	25,146
Total loans	$ 96,853	$ 42,505	$ 139,358	$ 23,800,026	$ 23,939,384

A summary of changes in the allowance for loan losses and period-end recorded investment in loans is as follows:

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communi-cation	Energy and Water/Waste Disposal	Rural Residential Real Estate	Mission-Related	Loans to OFIs	Lease Receivables	Total
Allowance for Loan Losses:										
Balance at December 31, 2018	$ 40,137	$ 20,483	$ 13,413	$ 851	$ 6,494	$ 458	$ 132	$ -	$ 101	$ 82,069
Provision for loan losses										
(loan loss reversal)	5,521	7,505	784	(232)	(1,355)	(97)	(8)	-	29	12,147
Recoveries	962	1,943	881	-	-	129	-	-	-	3,915
Charge-offs	(2,318)	(5,464)	-	-	-	(67)	-	-	-	(7,849)
Other*	(39)	(267)	(49)	(10)	(57)	(1)	-	-	-	(423)
Balance at December 31, 2019	$ 44,263	$ 24,200	$ 15,029	$ 609	$ 5,082	$ 422	$ 124	$ -	$ 130	$ 89,859
Individually evaluated										
for impairment	$ 1,853	$ 2,534	$ 2,374	$ -	$ 2,813	$ 50	$ 110	$ -	$ -	$ 9,734
Collectively evaluated										
for impairment	42,410	21,666	12,655	609	2,269	372	15	-	130	80,126
Balance at December 31, 2019	$ 44,263	$ 24,200	$ 15,029	$ 609	$ 5,082	$ 422	$ 124	$ -	$ 130	$ 89,859
Recorded Investments in Loans Outstanding:										
Balance at December 31, 2019										
Loans individually evaluated										
for impairment	$ 111,938	$ 36,836	$ 13,287	$ -	$ 12,293	$ 786	$ 6,417	$ -	$ -	$ 181,557
Loans collectively evaluated										
for impairment	15,741,784	3,315,048	4,925,943	636,383	1,345,011	253,437	93,070	41,270	31,915	26,383,861
Loans acquired with										
deteriorated credit quality	186	-	-	-	-	-	-	-	-	186
Balance at December 31, 2019	$ 15,853,908	$ 3,351,884	$ 4,939,230	$ 636,383	$ 1,357,304	$ 254,223	$ 99,487	$ 41,270	$ 31,915	$ 26,565,604

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

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communi-cation	Energy and Water/Waste Disposal	Rural Residential Real Estate	Mission-Related	Loans to OFIs	Lease Receivables	Total
Allowance for Loan Losses:										
Balance at December 31, 2017	$ 41,630	$ 23,212	$ 10,994	$ 826	$ 5,839	$ 532	$ 200	$ -	$ 35	$ 83,268
Provision for loan losses										
(loan loss reversal)	(1,305)	3,033	2,487	(142)	606	(23)	(104)	-	82	4,634
Recoveries	753	2,292	379	161	-	36	-	-	-	3,621
Charge-offs	(983)	(8,717)	-	-	-	(89)	-	-	(16)	(9,805)
Other*	42	663	(447)	6	49	2	36	-	-	351
Balance at December 31, 2018	$ 40,137	$ 20,483	$ 13,413	$ 851	$ 6,494	$ 458	$ 132	$ -	$ 101	$ 82,069
Individually evaluated										
for impairment	$ 2,476	$ 1,197	$ 3,951	$ -	$ 3,799	$ 75	$ 105	$ -	$ -	$ 11,603
Collectively evaluated										
for impairment	37,661	19,286	9,462	851	2,695	383	27	-	101	70,466
Balance at December 31, 2018	$ 40,137	$ 20,483	$ 13,413	$ 851	$ 6,494	$ 458	$ 132	$ -	$ 101	$ 82,069
Recorded Investments in Loans Outstanding:										
Balance at December 31, 2018										
Loans individually evaluated										
for impairment	$ 94,094	$ 28,047	$ 11,887	$ -	$ 13,705	$ 1,042	$ 6,732	$ -	$ -	$ 155,507
Loans collectively evaluated										
for impairment	14,909,207	3,247,824	4,348,207	513,428	1,493,167	240,345	90,150	36,435	34,305	24,913,068
Loans acquired with										
deteriorated credit quality	195	-	-	-	-	-	-	-	-	195
Balance at December 31, 2018	$ 15,003,496	$ 3,275,871	$ 4,360,094	$ 513,428	$ 1,506,872	$ 241,387	$ 96,882	$ 36,435	$ 34,305	$ 25,068,770

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

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agri-business	Communi-cation	Energy and Water/Waste Disposal	Rural Residential Real Estate	Mission-Related	Loans to OFIs	Lease Receivables	Total
Allowance for Loan Losses:										
Balance at December 31, 2016	$ 35,559	$ 25,341	$ 13,036	$ 1,393	$ 5,686	$ 479	$ 201	$ -	$ 42	$ 81,737
Provision for loan losses										
(loan loss reversal)	4,237	3,906	(1,578)	(232)	(1,279)	(17)	(8)	-	36	5,065
Recoveries	895	903	670	-	1,420	28	16	-	-	3,932
Charge-offs	(266)	(7,812)	-	-	-	(32)	-	-	(22)	(8,132)
Other*	1,205	874	(1,134)	(335)	12	74	(9)	-	(21)	666
Balance at December 31, 2017	$ 41,630	$ 23,212	$ 10,994	$ 826	$ 5,839	$ 532	$ 200	$ -	$ 35	$ 83,268
Individually evaluated										
for impairment	$ 1,334	$ 1,740	$ 478	$ -	$ -	$ 27	$ 189	$ -	$ -	$ 3,768
Collectively evaluated										
for impairment	40,296	21,472	10,516	826	5,839	505	11	-	35	79,500
Balance at December 31, 2017	$ 41,630	$ 23,212	$ 10,994	$ 826	$ 5,839	$ 532	$ 200	$ -	$ 35	$ 83,268
Recorded Investments in Loans Outstanding:										
Balance at December 31, 2017										
Loans individually evaluated										
for impairment	$ 109,057	$ 43,447	$ 3,194	$ -	$ -	$ 1,827	$ 7,246	$ -	$ 59	$ 164,830
Loans collectively evaluated										
for impairment	14,376,379	3,004,500	4,076,684	437,666	1,476,998	233,326	103,476	40,187	25,087	23,774,303
Loans acquired with										
deteriorated credit quality	243	8	-	-	-	-	-	-	-	251
Balance at December 31, 2017	$ 14,485,679	$ 3,047,955	$ 4,079,878	$ 437,666	$ 1,476,998	$ 235,153	$ 110,722	$ 40,187	$ 25,146	$ 23,939,384

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

Loans, net of the allowance for loan losses, represented 79.9%, 78.5% and 79.6% of total assets at December 31, 2019, 2018 and 2017, respectively.

Investments

The bank is responsible for meeting the district's funding, liquidity and asset/liability management needs. While access to the unsecured debt capital markets remains the district's primary source of liquidity, the bank also maintains a secondary source of liquidity through a high-quality investment portfolio and other short-term liquid assets. Due to the liquidity needs, the bank typically holds investments on an available-for-sale basis. Refer to the bank's 2019 annual report for additional description of the types of investments and maturities. District associations have regulatory authority to enter into certain guaranteed investments that are typically mortgage-backed or asset-backed securities.

Investment Information

(in thousands)	Amortized	Unrealized	Unrealized	Fair
December 31, 2019	**Cost**	**Gains**	**Losses**	**Value**
Bank investments	**$ 5,291,930**	**$ 23,147**	**$ (19,934)**	**$ 5,295,143**
District association investments	**93,795**	**219**	**(6)**	**94,008**
Total district investments	**$ 5,385,725**	**$ 23,366**	**$ (19,940)**	**$ 5,389,151**
	Amortized	Unrealized	Unrealized	Fair
December 31, 2018	Cost	Gains	Losses	Value
Bank investments	$ 5,789,180	$ 7,513	$ (82,055)	$ 5,714,638
District association investments	15,657	7	(143)	15,521
Total district investments	$ 5,804,837	$ 7,520	$ (82,198)	$ 5,730,159
	Amortized	Unrealized	Unrealized	Fair
December 31, 2017	Cost	Gains	Losses	Value
Bank investments	$ 5,201,798	$ 3,371	$ (60,184)	$ 5,144,985
District association investments	18,828	19	(241)	18,606
Total district investments	$ 5,220,626	$ 3,390	$ (60,425)	$ 5,163,591

Capital Resources

District members' equity totaled $4.7 billion at December 31, 2019, including $720.0 million in preferred stock, $66.7 million in capital stock and participation certificates, $3.8 billion in retained earnings and $224.6 million in additional paid-in-capital, offset by accumulated other comprehensive losses of $153.5 million.

Borrower equity purchases required by association capitalization bylaws, combined with a history of growth in retained earnings at district institutions, have resulted in district institutions being able to maintain strong capital positions. The $4.7 billion capital position of the district at December 31, 2019, reflects an increase of 3.8% over the December 31, 2018, capital position of $4.5 billion. This increase is attributable to 2019 net income of $484.1 million and a decrease of $9.4 million in accumulated other comprehensive loss, offset by $226.6 million in cash patronage, $57.5 million in dividends accrued and paid on preferred stock, and $49.1 million in capital stock and allocated equities retired.

Accumulated other comprehensive loss totaled $153.5 million at December 31, 2019, a decrease of $9.4 million from December 31, 2018. The decrease in accumulated other comprehensive losses included a $77.8 million decrease in net unrealized losses on the bank's available-for-sale investments, offset by a $46.9 million loss on cash flow derivatives and a $21.5 million decrease in unrealized gains on pension and other post-employment benefits (OPEB). The decrease in unrealized losses on investment securities and the increase in loss on cash flow derivatives were due primarily to declines in interest rates.

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

Accumulated Other Comprehensive Loss

(in thousands)	**December 31, 2019**	December 31, 2018	December 31, 2017
Unrealized gains (losses) on investment securities	$ 3,334	$ (74,541)	$ (56,812)
Derivatives and hedging activity	(54,042)	(7,125)	6,726
Employee benefit plan activity	(102,764)	(81,231)	(112,774)
Total Accumulated Other Comprehensive Loss	$ (153,472)	$ (162,897)	$ (162,860)

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

Regulatory Capital Requirements and Ratios

As of December 31, 2019	Primary Components of Numerator	Regulatory Minimums	Minimum With Buffers*	Bank	District Associations
Risk adjusted:					
Common equity tier 1 capital ratio	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	4.5%	7.0%	9.9%	12.2% - 21.4%
Tier 1 capital ratio	CET1 capital, noncumulative perpetual preferred stock	6.0%	8.5%	16.0%	12.2% - 21.4%
Total capital ratio	Tier 1 capital, allowance for loan losses[2], common cooperative equities[3] and term preferred stock and subordinated debt[4]	8.0%	10.5%	16.1%	13.6% - 21.9%
Permanent capital ratio	Retained earnings, common stock, noncumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.0%	7.0%	16.0%	13.3% - 21.5%
Non-risk adjusted:					
Tier 1 leverage ratio **	Tier 1 capital	4.0%	5.0%	7.3%	10.4% - 20.6%
UREE leverage ratio	URE and URE equivalents	1.5%	1.5%	3.0%	8.9% - 21.9%

* The capital conservation buffers have a 3 year phase-in period and became fully effective January 1, 2020. There is no phase-in period for the tier 1 leverage ratio. Amounts shown reflect the full capital conservation buffers.

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

1 Equities outstanding 7 or more years

2 Capped at 1.25% of risk-adjusted assets

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

4 Outstanding 5 or more years

Employee Benefit Plans

The employees of the bank and substantially all associations participate in various defined benefit retirement plans. The defined benefit retirement plan is noncontributory and the benefits are based on salary and years of service. As of January 1, 1996, the bank and associations froze participation in their defined benefit pension plan and offered defined contribution retirement plans to all employees hired subsequent to the freeze. In addition, the bank and associations provide certain health-care and other postretirement benefits to eligible retired employees. Employees may become eligible for health-care and other postretirement benefits if they reach normal retirement age while working for the bank or an association.

Employees of the Texas Farm Credit District participate in either the district's defined benefit retirement plan (DB plan) or in a non-elective defined contribution feature (DC plan) within the Farm Credit Benefits Alliance 401(k) plan. In addition, all employees may participate in the Farm Credit Benefits Alliance 401(k) plan. As previously mentioned, the DB plan is noncontributory, and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the non-elective pension feature of the DC plan direct the placement of their employers' contributions made on their behalf into various investment alternatives.

The district also participates in the Farm Credit Benefits Alliance 401(k) plan, which offers a pre-tax and after-tax and Roth compensation deferral feature. Employers match 100% of employee contributions for the first 3% of eligible compensation and then match 50% of employee contributions on the next 2% of eligible compensation, for a maximum employer contribution of 4% of eligible compensation.

Certain executive or highly compensated employees in the district are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (Supplemental 401(k) Plan). This plan allows district employers to elect to participate in any or all of the following benefits:

- Restored Employer Contributions – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year
- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

The bank and associations also provide certain health-care benefits to eligible retired employees, beneficiaries and directors (retiree medical plan). These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities. Bank employees hired on or 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% of the related premiums.

The funding status and the amounts recognized in the combined balance sheet of the district for pension and other postretirement benefit plans follows:

Retirement Plans

(in thousands) December 31, 2019		Pension Benefit Plan		Other Postretirement Benefit Plan
Projected benefit obligation	$	399,897	$	76,635
Fair value of plan assets		264,796		-
Funded (unfunded) status	$	(135,101)	$	(76,635)
Accumulated benefit obligation	$	389,166	$	-
Assumptions used to determine benefit obligations:				
Discount rate		3.20%		3.45%
Expected long-term rate of return		6.00%		N/A
Rate of compensation increase		4.00%		N/A

December 31, 2018		Pension Benefit Plan		Other Postretirement Benefit Plan
Projected benefit obligation	$	360,201	$	67,648
Fair value of plan assets		244,809		-
Funded (unfunded) status	$	(115,392)	$	(67,648)
Accumulated benefit obligation	$	349,377	$	-
Assumptions used to determine benefit obligations:				
Discount rate		4.35%		4.75%
Expected long-term rate of return		6.00%		N/A
Rate of compensation increase		4.00%		N/A

December 31, 2017		Pension Benefit Plan		Other Postretirement Benefit Plan
Projected benefit obligation	$	412,563	$	76,886
Fair value of plan assets		287,411		-
Funded (unfunded) status	$	(125,152)	$	(76,886)
Accumulated benefit obligation	$	391,560	$	-
Assumptions used to determine benefit obligations:				
Discount rate		3.65%		4.00%
Expected long-term rate of return		6.00%		N/A
Rate of compensation increase		4.00%		N/A

Combined Balance Sheets

(Unaudited)

(in thousands)		**December 31, 2019**		December 31, 2018		December 31, 2017
ASSETS						
Cash	**$**	**55,312**	$	139,489	$	66,953
Federal funds sold and overnight investments		**374,344**		281,131		246,888
Investment securities		**5,389,059**		5,730,295		5,163,813
Loans		**26,336,733**		24,852,133		23,745,668
Less allowance for loan losses		**89,859**		82,069		83,268
Net loans		**26,246,874**		24,770,064		23,662,400
Accrued interest receivable		**241,940**		229,386		202,748
Premises and equipment, net		**210,955**		168,030		134,617
Other assets		**328,112**		250,763		239,703
Total assets	**$**	**32,846,596**	$	31,569,158	$	29,717,122
LIABILITIES						
Bonds and notes	**$**	**27,323,906**	$	26,347,363	$	24,801,223
Accrued interest payable		**91,951**		96,164		70,197
Patronage distributions payable		**192,909**		185,669		170,022
Preferred stock dividends payable		**21,613**		21,613		20,063
Other liabilities		**515,091**		387,250		377,721
Total liabilities	**$**	**28,145,470**	$	27,038,059	$	25,439,226
MEMBERS' EQUITY						
Preferred stock	**$**	**720,000**	$	720,000	$	620,000
Capital stock and participation certificates		**66,705**		66,178		65,982
Allocated retained earnings		**805,189**		746,248		685,506
Unallocated retained earnings		**3,038,079**		2,936,945		2,844,643
Additional paid-in-capital		**224,625**		224,625		224,625
Accumulated other comprehensive loss		**(153,472)**		(162,897)		(162,860)
Total members' equity	**$**	**4,701,126**	$	4,531,099	$	4,277,896
Total liabilities and members' equity	**$**	**32,846,596**	$	31,569,158	$	29,717,122

Combined Statements of Income

(Unaudited)

(in thousands)	**December 31, 2019**	December 31, 2018	December 31, 2017
INTEREST INCOME			
Investment securities	**$ 144,599**	$ 127,979	$ 85,791
Loans	**1,317,664**	1,203,553	1,048,370
Total interest income	**$ 1,462,263**	$ 1,331,532	$ 1,134,161
INTEREST EXPENSE			
Bonds and notes	**537,793**	438,192	296,197
Notes payable and other	**109,253**	100,037	67,011
Total interest expense	**$ 647,046**	$ 538,229	$ 363,208
Net interest income	**$ 815,217**	$ 793,303	$ 770,953
Provision for loan losses (loan loss reversal)	**12,147**	4,634	5,065
Net interest income after provision for loan losses	**$ 803,070**	$ 788,669	$ 765,888
NONINTEREST INCOME			
Patronage income	**23,854**	24,624	25,400
Fees for loan-related services	**30,009**	31,725	28,033
Refunds from Farm Credit System Insurance Corporation	**6,469**	19,269	-
Net gains on sale of investments	**12,126**	-	-
Other income, net	**2,970**	3,251	9,961
Total noninterest income	**$ 75,428**	$ 78,869	$ 63,394
NONINTEREST EXPENSE			
Salaries and employee benefits	**226,183**	225,399	206,448
Occupancy and equipment	**40,010**	35,217	33,307
Purchased services	**39,588**	39,230	40,269
Farm Credit System Insurance Corporation expense	**21,120**	22,410	31,846
Other operating expenses	**67,608**	59,336	77,535
Total noninterest expense	**$ 394,509**	$ 381,592	$ 389,405
Income before income taxes	**483,989**	485,946	439,877
(Benefit from) provision for income taxes	**(104)**	474	482
Net income	**$ 484,093**	$ 485,472	$ 439,395

Select information on district associations

(in thousands) As of December 31, 2019	Direct Notes	% of Total Direct Notes	Total Assets	Total Allowance and Capital	Total Capital Ratio	Nonperforming Loans as a % of Total Loans	ROA
Ag New Mexico, Farm Credit Services, ACA	$ 232,171	1.38%	$ 280,493	$ 44,352	13.96%	0.08%	1.29%
AgTexas Farm Credit Services	1,872,169	11.16%	2,192,108	281,645	13.62%	1.27%	1.65%
Alabama Ag Credit, ACA	884,543	5.27%	1,095,404	198,674	17.17%	0.80%	1.78%
Alabama Farm Credit, ACA	773,309	4.60%	913,247	127,010	14.99%	0.90%	1.83%
Capital Farm Credit, ACA	6,604,397	39.36%	8,084,029	1,315,073	15.03%	0.98%	2.31%
Central Texas Farm Credit, ACA	425,985	2.53%	551,188	114,340	19.44%	0.14%	1.79%
Heritage Land Bank, ACA	469,152	2.80%	564,869	92,088	15.47%	0.19%	1.41%
Legacy Ag Credit, ACA	225,733	1.35%	288,987	62,207	21.86%	2.09%	1.43%
Lone Star, ACA	1,279,565	7.63%	1,666,429	358,908	20.14%	0.27%	1.75%
Louisiana Land Bank, ACA	696,922	4.15%	869,451	162,298	17.70%	0.92%	1.69%
Mississippi Land Bank, ACA	616,715	3.68%	770,671	132,248	15.93%	0.12%	1.62%
Plains Land Bank, FLCA	601,301	3.58%	736,493	133,566	16.10%	0.28%	2.17%
Southern AgCredit, ACA	958,122	5.71%	1,167,871	173,431	14.55%	0.37%	1.78%
Texas Farm Credit Services	1,140,716	6.80%	1,375,792	209,233	14.49%	0.70%	2.16%
Totals	$ 16,780,800	100.00%	$ 20,557,032	$ 3,405,073			

District Contact Information

Name of Entity	Headquarters Location	Contact Number	Website
Ag New Mexico, Farm Credit Services, ACA	4501 N. Prince Street, Clovis, New Mexico 88101	575-762-3828	www.agnewmexico.com
AgTexas Farm Credit Services	5004 N. Loop 289, Lubbock, Texas 79416	806-687-4068	www.agtexas.com
Alabama Ag Credit, ACA	2660 Eastchase Lane, Suite 401, Montgomery, Alabama 36117	334-270-8687	www.alabamaagcredit.com
Alabama Farm Credit, ACA	1740 Eva Road NE, Cullman, Alabama 35055	256-737-7128	www.alabamafarmcredit.com
Capital Farm Credit, ACA	3000 Briarcrest Drive, Suite 601, Bryan, Texas 77802	979-822-3018	www.capitalfarmcredit.com
Central Texas Farm Credit, ACA	1026 Early Boulevard, Early, Texas 76802	325-643-5563	www.ranchmoney.com
Farm Credit Bank of Texas	4801 Plaza on the Lake Drive, Austin, Texas 78746	512-465-0400	www.farmcreditbank.com
Heritage Land Bank, ACA	4608 Kinsey Drive, Suite 100, Tyler, Texas 75703	903-534-4975	www.heritagelandbank.com
Legacy Ag Credit, ACA	303 Connally Street, Sulphur Springs, Texas 75482	903-885-9566	www.legacyaca.com
Lone Star, ACA	1612 Summit Avenue, Suite 300, Fort Worth, Texas 76102	817-332-6565	www.lonestaragcredit.com
Louisiana Land Bank, ACA	2413 Tower Drive, Monroe, Louisiana 71201	318-387-7535	www.louisianalandbank.com
Mississippi Land Bank, ACA	5509 Highway 51 North, Senatobia, Mississippi 38668	662-562-9671	www.mslandbank.com
Plains Land Bank, FLCA	5625 Fulton Drive, Amarillo, Texas 79109	806-331-0926	www.plainslandbank.com
Southern AgCredit, ACA	402 West Parkway Place, Ridgeland, Mississippi 39157	601-499-2820	www.southernagcredit.com
Texas Farm Credit Services	545 S. Highway 77, Robstown, Texas 78380	361-387-8563	www.texasfarmcredit.com