Annual Report 2020

Texas Farm Credit District

2020 Annual Financial Information
(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, 2020, 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.

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).

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 following commentary reviews the combined financial statements of condition and results of operations of the district for the years ended December 31, 2020, 2019 and 2018.

COMBINED FINANCIAL HIGHLIGHTS

(in thousands)	December 31, 2020	December 31, 2019	December 31, 2018
Total loans	**$ 28,893,098**	$ 26,336,733	$ 24,852,133
Allowance for loan losses	**94,468**	89,859	82,069
Net loans	**28,798,630**	26,246,874	24,770,064
Total assets	**35,606,914**	32,846,596	31,569,158
Total members' equity	**4,986,742**	4,701,126	4,531,099

Year Ended December 31,	2020	2019	2018
Net interest income	**$ 911,338**	$ 815,217	$ 793,303
Provision for loan losses	**8,477**	12,147	4,634
Net fee income	**52,559**	30,009	31,725
Net income	**578,241**	484,093	485,472
Net interest margin	**2.73%**	2.59%	2.65%
Net loan charge-offs (recoveries) as a percentage of average loans	**0.01**	0.02	0.03
Return on average assets (ROA)	**1.68**	1.50	1.59
Return on average shareholders' equity	**11.45**	10.09	10.65
Operating expenses as a percentage of net interest income and noninterest income	**41.35**	44.29	43.91
Average loans	**$ 27,482,973**	$ 25,600,606	$ 24,339,959
Average earning assets	**33,354,124**	31,423,293	29,959,963
Average total assets	**34,478,016**	32,169,115	30,598,879

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Net Income

The district's net income of $578.2 million for the year ended December 31, 2020, reflected an increase of $94.1 million, or 19.45%, over the same time period of 2019. The increase in net income was driven by a $96.1 million increase in net interest income, a $13.7 million increase in noninterest income and a $3.7 million decrease in provision for loan losses, partially offset by an increase of $19.1 million in noninterest expense. The return on average assets increased to 1.68% for the year ended December 31, 2020, from 1.50% reported for the same period of the prior year.

The district's net income of $484.1 million for the year ended December 31, 2019, reflected a decrease of $1.4 million, or 0.28%, 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.

Net Interest Income

Net interest income for the year ended December 31, 2020, was $911.3 million, an increase of $96.1 million, or 11.79%, over the same period of 2019, due to an increase in the net interest rate spread and a $1.93 billion increase in combined district average earning assets. The increase in earning assets was driven by growth in the associations' loan portfolio as their borrowers took advantage of the low interest rate environment and growth in the bank's capital market loan portfolio. The 30-basis-point increase in the net interest spread from 223 basis points to 253 basis points was attributable to a 96-basis-point decrease in the average rate on debt, as compared to a 66-basis-point decrease in the rate on earning assets. During the year ended December 31, 2020, the bank called $16.18 billion in debt resulting in $22.2 million in accelerated concession expense recognition, as compared to $7.18 billion in debt called and $12.7 million in accelerated concession expense recognition for the same period of 2019. The net interest rate margin increased by 14 basis points to 273 basis points for the year ended December 31, 2020, as compared to 259 basis points for the same period of the prior year.

Net interest income for the year ended December 31, 2019, was $815.2 million, an increase of $21.9 million, or 2.76%, from $793.3 million for the year ended December 31, 2018. The increase in net interest income was the result of a $1.46 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.

Provision for Loan Losses

The provision for loan losses for the year ended December 31, 2020, totaled $8.5 million, a decrease of $3.7 million from the $12.1 million provision for loan losses recorded for the same period of 2019. The decrease was due to a $5.4 million decrease at the combined associations, offset by a $1.7 million increase at the bank. The decrease at the combined associations was mainly due to commodity prices being significantly weaker in 2019, particularly cattle, which resulted in an increase in allowance for loan losses at one association. The bank's increase in provision for loan losses for 2020 was driven by a $3.2 million increase in qualitative general reserves associated with the participations purchased loan portfolio due to uncertainty from the Coronavirus Disease 2019 (COVID-19) in the following sectors: beef cattle, dairy, other livestock production and processing, oil and gas, forestry and wood processing, other food and kindred products, and groceries and related products. This increase was offset by a $1.6 million loan loss reversal related to the payoffs of two nonperforming loans during 2020.

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 was 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 was 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.

Noninterest Income

Noninterest income for the year ended December 31, 2020, was $89.1 million, an increase of $13.7 million, or 18.11%, compared to the same period of 2019. The increase was due to a $22.6 million increase in fees for loan-related services, offset by a $12.1 million decrease in gains on investment securities resulting from the sale of investments during 2019.

Noninterest income for the year ended December 31, 2019, was $75.4 million, a decrease of $3.5 million, or 4.36%, 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) and 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 investments during 2019.

Noninterest Expense

Noninterest expense for the year ended December 31, 2020, totaled $413.7 million, increasing $19.1 million, or 4.85%, from the same period of 2019. The increase in noninterest expense was driven by a $14.3 million increase in salaries and employee benefits, a $7.2 million increase in occupancy and equipment, a $3.8 million increase in purchased services, and a $2.9 million increase in FCSIC expense, partially offset by a $9.1 million decrease in other operating expenses. The decrease in other operating expenses was primarily due to a $5.4 million decrease in travel expenses and a $3.0 million decrease in advertising and member relations expenses resulting from the implications of COVID-19.

Noninterest expense for the year ended December 31, 2019, totaled $394.5 million, increasing $12.9 million, or 3.39%, from $381.6 million for the year ended December 31, 2018. The increase in noninterest expense was driven by a $4.8 million increase in occupancy and equipment that was mainly due to a $3.2 million increase in software maintenance and depreciation expenses.

Loan Portfolio

District Loans by Loan Type

(in thousands)	**December 31, 2020**	December 31, 2019	December 31, 2018
Real estate mortgage	**$ 17,674,977**	$ 15,696,003	$ 14,859,093
Production and intermediate-term	**3,518,445**	3,313,367	3,235,481
Agribusiness:			
Loans to cooperatives	**628,781**	474,242	408,350
Processing and marketing	**3,855,875**	4,222,344	3,747,010
Farm-related business	**446,451**	218,196	182,655
Communications	**856,600**	636,069	513,286
Energy (rural utilities)	**1,342,603**	1,220,359	1,355,187
Water and waste disposal	**163,366**	131,196	143,863
Rural residential real estate	**267,506**	253,336	240,587
Mission-related	**73,405**	98,650	96,109
Loans to other financing institutions (OFIs)	**31,597**	41,170	36,341
Lease receivables	**33,492**	31,801	34,171
Total loans	**$ 28,893,098**	$ 26,336,733	$ 24,852,133

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, 2020, was $28.89 billion, an increase of $2.56 billion, or 9.71%, from the $26.34 billion loan portfolio balance at December 31, 2019. The total loan volume includes both retail loans and the bank's capital markets loan portfolio. The loan volume increase during the year was driven by a $2.30 billion increase in the associations' loan portfolios.

The bank's capital markets loan portfolio, also referred to as participations purchased loan portfolio, predominantly includes participations, syndications and purchased whole loans, along with other financing structures within our lending authorities. In addition to purchasing loans from 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 sub-participated to the associations or 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, 2020**	December 31, 2019	December 31, 2018
Livestock	**$ 9,060**	$ 8,226	$ 7,947
Crops	**4,091**	3,704	3,522
Timber	**2,218**	1,931	1,862
Dairy	**1,574**	1,294	1,047
Poultry	**1,097**	1,106	1,019
Cotton	**1,072**	1,062	994
Rural residential real estate	**253**	253	240
All other commodities	**9,528**	8,761	8,221
Total loans	**$ 28,893**	$ 26,337	$ 24,852

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

Geographic Concentrations

	December 31, 2020	December 31, 2019	December 31, 2018
Texas	**53%**	53%	53%
Alabama	**7**	7	7
Mississippi	**6**	7	7
Louisiana	**4**	4	3
California	**3**	2	2
All other states	**27**	27	28
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 receivable classified under the Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable:

District Loan Quality

	December 31, 2020	December 31, 2019	December 31, 2018
Acceptable	**97.0%**	96.6%	97.2%
OAEM (special mention)	**2.0**	1.8	1.5
Substandard/doubtful	**1.0**	1.6	1.3
Total	**100.0%**	100.0%	100.0%

Overall credit quality at the bank and at the district associations remained strong at December 31, 2020. Loans classified as acceptable or OAEM as a percentage of total loans and accrued interest receivable were 99.0% at December 31, 2020, compared to 98.4% at December 31, 2019, and 98.7% at December 31, 2018.

Nonperforming Assets

(in thousands)	**December 31, 2020**	December 31, 2019	December 31, 2018
Nonaccrual loans:			
Real estate mortgage	**$ 65,493**	$ 71,745	$ 71,512
Production and intermediate-term	**25,454**	30,307	21,113
Agribusiness	**3,971**	12,234	11,211
Energy (rural utilities)	**1,936**	12,293	13,704
Rural residential real estate	**840**	465	817
Mission-related	**900**	1,144	1,286
Total nonaccrual loans	**$ 98,594**	$ 128,188	$ 119,643
Accruing restructured loans:			
Real estate mortgage	**$ 23,039**	$ 29,983	$ 16,423
Production and intermediate-term	**2,909**	4,596	6,130
Energy (rural utilities)	**-**	1,944	-
Rural residential real estate	**141**	148	33
Mission-related	**5,123**	5,302	5,476
Total accruing restructured loans	**$ 31,212**	$ 41,973	$ 28,062
Accruing loans 90 days or more past due:			
Real estate mortgage	**$ 1,153**	$ 3,491	$ 273
Production and intermediate-term	**212**	816	634
Agribusiness	**5**	-	-
Rural residential real estate	**99**	24	-
Total accruing loans 90 days or more past due	**$ 1,469**	$ 4,331	$ 907
Total nonperforming loans	**$ 131,275**	$ 174,492	$ 148,612
Other property owned	**2,544**	10,695	9,229
Total nonperforming assets	**$ 133,819**	$ 185,187	$ 157,841

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 decreased by $51.4 million, or 27.74%, from $185.2 million at December 31, 2019, to $133.8 million at December 31, 2020. Nonaccrual loans decreased by $29.6 million due to a $15.4 million decrease at the bank related to payoffs and repayments on two nonaccrual loans and a $14.2 million decrease at the combined associations due to repayments across various sectors and payoffs in the electric services and beef cattle sectors. Accruing restructured loans decreased by $10.8 million due to repayments. Other property owned decreased by $8.2 million as the result of sales of the underlying collateral at three associations.

At December 31, 2020, $58.1 million, or 58.93%, of loans classified as nonaccrual were current as to principal and interest, compared to $78.0 million, or 60.81%, of nonaccrual loans at December 31, 2019, and $82.0 million, or 68.50%, of nonaccrual loans at December 31, 2018.

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

Aging Analysis of Loans (in thousands)

December 31, 2020	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	$ 90,611	$ 25,962	$ 116,573	$ 17,710,722	$ 17,827,295
Production and intermediate-term	27,608	3,683	31,291	3,513,820	3,545,111
Agribusiness	367	312	679	4,948,503	4,949,182
Communications	-	-	-	856,769	856,769
Energy (rural utilities)	1,924	-	1,924	1,345,098	1,347,022
Water and waste disposal	-	-	-	164,253	164,253
Rural residential real estate	2,384	328	2,712	265,622	268,334
Mission-related	1,889	900	2,789	71,357	74,146
Loans to OFIs	-	-	-	31,653	31,653
Lease receivables	-	-	-	33,655	33,655
Total loans	$ 124,783	$ 31,185	$ 155,968	$ 28,941,452	$ 29,097,420

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

Aging Analysis of Loans (in thousands)

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

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, 2019	$ 44,263	$ 24,200	$ 15,029	$ 609	$ 5,082	$ 422	$ 124	$ -	$ 130	$ 89,859
Provision for loan losses (loan loss reversal)	5,027	528	1,824	261	546	(29)	-	-	320	8,477
Recoveries	725	2,948	191	-	1	23	-	-	-	3,888
Charge-offs	(784)	(3,036)	(121)	-	(3,325)	(25)	-	-	-	(7,291)
Other*	(27)	(426)	(569)	(6)	563	-	-	-	-	(465)
Balance at December 31, 2020	$ 49,204	$ 24,214	$ 16,354	$ 864	$ 2,867	$ 391	$ 124	$ -	$ 450	$ 94,468
Individually evaluated for impairment	$ 1,469	$ 2,324	$ 443	$ -	$ 1,316	$ 19	$ 117	$ -	$ -	$ 5,688
Collectively evaluated for impairment	47,735	21,890	15,911	864	1,551	372	7	-	450	88,780
Balance at December 31, 2020	$ 49,204	$ 24,214	$ 16,354	$ 864	$ 2,867	$ 391	$ 124	$ -	$ 450	$ 94,468
Recorded Investments in Loans Outstanding:										
Balance at December 31, 2020										
Loans individually evaluated for impairment	$ 90,856	$ 28,643	$ 9,534	$ -	$ 1,936	$ 1,158	$ 6,023	$ -	$ -	$ 138,150
Loans collectively evaluated for impairment	17,736,439	3,516,468	4,939,648	856,769	1,509,339	267,176	68,123	31,653	33,655	28,959,270
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2020	$ 17,827,295	$ 3,545,111	$ 4,949,182	$ 856,769	$ 1,511,275	$ 268,334	$ 74,146	$ 31,653	$ 33,655	$ 29,097,420

*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, 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	14	-	130	80,125
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.

Loans, net of the allowance for loan losses, represented 80.88%, 79.91% and 78.46% of total assets at December 31, 2020, 2019 and 2018, 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 2020 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) **December 31, 2020**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
Bank investments	**$ 5,468,160**	**$ 82,825**	**$ (2,818)**	**$ 5,548,167**
District association investments	**87,681**	**598**	**(87)**	**88,192**
Total district investments	**$ 5,555,841**	**$ 83,423**	**$ (2,905)**	**$ 5,636,359**

December 31, 2019	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair 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

December 31, 2018	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair 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

The district association investments in the preceding table include held-to-maturity securities with an amortized cost of $8.3 million, an unrealized gain of $184 thousand, and a fair value of $8.5 million as of December 31, 2020; an amortized cost of $13.1 million, an unrealized gain of $92 thousand, and a fair value of $13.2 million as of December 31, 2019; and an amortized cost of $15.7 million, an unrealized loss of $136 thousand, and a fair value of $15.5 million as of December 31, 2018. These securities are reported at amortized cost and included in investment securities on the balance sheets.

Capital Resources

District members' equity totaled $4.99 billion at December 31, 2020, including $770.0 million in preferred stock, $69.2 million in capital stock and participation certificates, $4.06 billion in retained earnings and $224.6 million in additional paid-in-capital, offset by accumulated other comprehensive loss of $141.4 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 $4.99 billion capital position of the district at December 31, 2020, reflected an increase of 6.08% over the December 31, 2019, capital position of $4.70 billion. This increase was attributable to year-to-date net income of $578.2 million, preferred stock net issuance of $50.0 million, and a $12.1 million decrease in accumulated other comprehensive loss, offset by $53.8 million in capital stock and allocated equities retired, dividends accrued and paid on preferred stock totaling $45.8 million, patronage of $251.2 million, and preferred stock issuance costs of $3.9 million.

Accumulated other comprehensive loss totaled $141.4 million at December 31, 2020, a decrease of $12.1 million from December 31, 2019. The decrease in accumulated other comprehensive losses was driven by a $77.0 million increase in unrealized gains on the bank's available-for-sale investments primarily attributable to declines in interest rates, a $53.9 million increase in unrealized losses on cash flow derivatives hedges resulting from changes in the valuation of interest rate swaps the bank held during 2020 as a result of declines in interest rates, and an $11.0 million increase in unrealized losses on pension and other postretirement benefit plans driven primarily by a lower discount rate than at the previous measurement date.

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

Accumulated Other Comprehensive Loss

(in thousands)		**December 31, 2020**		December 31, 2019		December 31, 2018
Unrealized gains (losses) on investment securities	$	80,334	$	3,334	$	(74,541)
Derivatives and hedging position		(107,943)		(54,042)		(7,125)
Employee benefit plan position		(113,787)		(102,764)		(81,231)
Total Accumulated Other Comprehensive Loss	$	(141,396)	$	(153,472)	$	(162,897)

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

Regulatory Capital Requirements and Ratios

As of December 31, 2020	Primary Components of Numerator	* Regulatory Minimums 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]	7.00%	9.92%	11.57% - 20.63%
Tier 1 capital ratio	CET1 capital, noncumulative perpetual preferred stock	8.50%	16.07%	11.57% - 20.63%
Total capital ratio	Tier 1 capital, allowance for loan losses[2], common cooperative equities[3] and term preferred stock and subordinated debt[4]	10.50%	16.15%	12.96% - 21.09%
Permanent capital ratio	Retained earnings, common stock, noncumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.00%	16.08%	12.26% - 21.26%
Non-risk adjusted:				
Tier 1 leverage ratio **	Tier 1 capital	5.00%	7.11%	10.57% - 19.17%
UREE leverage ratio	URE and URE equivalents	1.50%	2.99%	8.43% - 20.20%

* The capital conservation buffers 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

Subsequent to December 31, 2020, one District Association issued $200 million of non-cumulative perpetual preferred stock on January 19, 2021.

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, beneficiaries and directors (other postretirement benefit plan). 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. These benefits are not characterized as multiemployer and, consequently, the liability for these benefits is included in other liabilities individually for the bank and each applicable 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 unfunded status of the pension benefit plan increased $16.6 million, or 12.25%, compared to prior year. The unfunded status of the other postretirement benefit plan increased $3.4 million, or 4.39%, compared to prior year. The unfunded status of both plans was impacted by lower discount rates given the low interest rate environment.

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, 2020		Pension Benefit Plan		Other Postretirement Benefit Plan
Projected benefit obligation	$	405,892	$	80,001
Fair value of plan assets		254,237		-
Funded (unfunded) status	$	(151,655)	$	(80,001)
Accumulated benefit obligation	$	395,159	$	-
Assumptions used to determine benefit obligations:				
Discount rate		2.40%		2.80%
Expected long-term rate of return		5.80%		N/A
Rate of compensation increase		4.50%		N/A

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

Combined Balance Sheets

(Unaudited)

(in thousands)		December 31, 2020		December 31, 2019		December 31, 2018
ASSETS						
Cash	**$**	**130,559**	$	55,312	$	139,489
Federal funds sold and overnight investments		**208,229**		374,344		281,131
Investment securities		**5,636,175**		5,389,059		5,730,295
Loans		**28,893,098**		26,336,733		24,852,133
Less allowance for loan losses		**94,468**		89,859		82,069
Net loans		**28,798,630**		26,246,874		24,770,064
Accrued interest receivable		**214,068**		241,940		229,386
Premises and equipment, net		**250,342**		210,955		168,030
Other assets		**368,911**		328,112		250,763
Total assets	**$**	**35,606,914**	$	32,846,596	$	31,569,158
LIABILITIES						
Bonds and notes	**$**	**29,723,429**	$	27,323,906	$	26,347,363
Accrued interest payable		**61,063**		91,951		96,164
Patronage distributions payable		**208,730**		192,909		185,669
Preferred stock dividends payable		**11,600**		21,613		21,613
Other liabilities		**615,350**		515,091		387,250
Total liabilities	**$**	**30,620,172**	$	28,145,470	$	27,038,059
MEMBERS' EQUITY						
Preferred stock	**$**	**770,000**	$	720,000	$	720,000
Capital stock and participation certificates		**69,229**		66,705		66,178
Allocated retained earnings		**876,706**		805,189		746,248
Unallocated retained earnings		**3,187,578**		3,038,079		2,936,945
Additional paid-in-capital		**224,625**		224,625		224,625
Accumulated other comprehensive loss		**(141,396)**		(153,472)		(162,897)
Total members' equity	**$**	**4,986,742**	$	4,701,126	$	4,531,099
Total liabilities and members' equity	**$**	**35,606,914**	$	32,846,596	$	31,569,158

Combined Statements of Income
(Unaudited)

(in thousands)	**December 31, 2020**	December 31, 2019	December 31, 2018
INTEREST INCOME			
Investment securities	**$ 96,169**	$ 144,599	$ 127,979
Loans	**1,234,560**	1,317,664	1,203,553
Total interest income	**$ 1,330,729**	$ 1,462,263	$ 1,331,532
INTEREST EXPENSE			
Bonds and notes	**372,551**	537,793	438,192
Notes payable and other	**46,840**	109,253	100,037
Total interest expense	**$ 419,391**	$ 647,046	$ 538,229
Net interest income	**$ 911,338**	$ 815,217	$ 793,303
Provision for loan losses	**8,477**	12,147	4,634
Net interest income after provision for loan losses	**$ 902,861**	$ 803,070	$ 788,669
NONINTEREST INCOME			
Patronage income	**24,895**	23,854	24,624
Fees for loan-related services	**52,559**	30,009	31,725
Refunds from Farm Credit System Insurance Corporation	**6,135**	6,469	19,269
Net gains on sale of investments	**-**	12,126	-
Other income, net	**5,502**	2,970	3,251
Total noninterest income	**$ 89,091**	$ 75,428	$ 78,869
NONINTEREST EXPENSE			
Salaries and employee benefits	**240,503**	226,183	225,399
Occupancy and equipment	**47,231**	40,010	35,217
Purchased services	**43,406**	39,588	39,230
Farm Credit System Insurance Corporation expense	**24,031**	21,120	22,410
Other operating expenses	**58,486**	67,608	59,336
Total noninterest expense	**$ 413,657**	$ 394,509	$ 381,592
Income before income taxes	**578,295**	483,989	485,946
Provision for (benefit from) income taxes	**54**	(104)	474
Net income	**$ 578,241**	$ 484,093	$ 485,472

Select information on district associations

(in thousands) As of December 31, 2020	Direct Notes	% of Total Direct Notes	Total Assets	Total Allowance and Capital	Total Capital Ratio	Nonperforming Loans as a % of Total Loans	Annualized ROA
Ag New Mexico, Farm Credit Services, ACA	$ 248,321	1.32%	$ 306,483	$ 47,824	13.04%	0.75%	1.41%
AgTexas Farm Credit Services	2,010,366	10.66%	2,363,484	304,539	12.96%	0.99%	1.90%
Alabama Ag Credit, ACA	968,269	5.14%	1,189,756	208,157	16.69%	0.72%	1.79%
Alabama Farm Credit, ACA	857,970	4.55%	1,006,116	134,812	14.01%	0.67%	1.95%
Capital Farm Credit, ACA	7,374,054	39.11%	8,936,593	1,383,150	14.43%	0.66%	2.62%
Central Texas Farm Credit, ACA	472,763	2.51%	602,346	117,736	18.52%	0.04%	1.86%
Heritage Land Bank, ACA	525,451	2.79%	626,278	97,081	14.61%	0.13%	1.50%
Legacy Ag Credit, ACA	242,928	1.29%	308,025	64,269	21.09%	1.61%	1.52%
Lone Star, ACA	1,608,352	8.53%	2,003,749	372,073	17.24%	0.27%	1.88%
Louisiana Land Bank, ACA	771,635	4.09%	953,529	168,016	16.73%	0.71%	1.79%
Mississippi Land Bank, ACA	696,761	3.70%	858,239	141,004	15.43%	0.09%	1.75%
Plains Land Bank, FLCA	678,482	3.60%	822,872	142,885	15.24%	0.18%	2.19%
Southern AgCredit, ACA	1,032,134	5.47%	1,251,969	184,910	14.64%	0.37%	1.79%
Texas Farm Credit Services	1,364,587	7.24%	1,614,645	224,655	13.92%	0.48%	2.32%
Totals	$ 18,852,073	100.00%	$ 22,844,084	$ 3,591,111			

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	1616 S. Kentucky Street, Suite C-250, Amarillo, TX 79102	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