2018 Financial Information
Texas Farm Credit District
(unaudited)

INTRODUCTION AND DISTRICT OVERVIEW

The Farm Credit Bank of Texas (bank) is one of the banks of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations established by acts of Congress. The System is subject to the provisions of the Farm Credit Act. The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

As of December 31, 2018, the nation was served by three Farm Credit Banks (FCBs), each of which has specific lending authority within its chartered territory, and one Agricultural Credit Bank (ACB) — collectively, the “System banks” — which has nationwide lending authority for lending to cooperatives. The ACB also has lending authorities of an FCB within its chartered territories. The bank is chartered to service the states of Alabama, Louisiana, Mississippi, New Mexico and Texas.

Each FCB and the ACB serve one or more Agricultural Credit Associations (ACAs) and/or Federal Land Credit Associations (FLCAs). The bank and its related associations collectively are referred to as the Farm Credit Bank of Texas and affiliated associations (Texas Farm Credit District). The district’s one FLCA, 13 ACA parent associations, each containing two wholly-owned subsidiaries (an FLCA and a Production Credit Association [PCA]), certain Other Financing Institutions (OFIs) and preferred stockholders jointly owned the bank at December 31, 2018. The FLCA and ACAs collectively are referred to as associations.

Each FCB and the ACB provides funding for its district associations and is responsible for supervising certain activities of the associations within their districts. The FCBs and/or associations make loans to or for the benefit of eligible borrower-stockholders for qualified agricultural purposes. District associations borrow the majority of funds from their related bank. The System banks obtain a substantial majority of their funds for lending operations through the sale of consolidated Systemwide bonds and notes to the public, but also obtain a portion of their funds from internally generated earnings and from the issuance of common and preferred stock.

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 (the Insurance Corporation). 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 contents of the unaudited annual Texas Farm Credit District report has been modified to include only disclosures that highlight the risks of the combined Texas Farm Credit District. Beginning in 2018, the combined Texas Farm Credit District report will no longer include information such as the debt, shareholders’ equity, fair value measurement and derivatives footnotes as the information is duplicated in the bank’s audited annual financial statements.

The following commentary provides a high-level discussion and analysis of the combined financial position and results of operations of the Farm Credit Bank of Texas (bank), the Federal Land Credit Association (FLCA) and the Agricultural Credit Associations (ACAs) for the years ended December 31, 2018, 2017 and 2016. The bank and its affiliated associations are collectively referred to as “Texas Farm Credit District.”

TEXAS FARM CREDIT DISTRICT FINANCIAL INFORMATION

Financial Highlights

(in thousands)

As of December 31,	2018	2017	2016
Total loans	**$ 24,852,133**	$ 23,745,668	$ 22,426,117
Allowance for loan losses	**82,069**	83,268	81,737
Net loans	**24,770,064**	23,662,400	22,344,380
Total assets	**31,569,158**	29,717,122	27,952,791
Total members' equity	**4,531,099**	4,277,896	4,098,921

Year Ended December 31,	2018	2017	2016
Net interest income	**$ 793,303**	$ 770,953	$ 726,806
Provision for loan losses	**4,634**	5,065	11,492
Net fee income	**31,725**	28,033	30,022
Net income	**485,472**	439,395	433,440
Net interest margin	**2.65%**	2.73%	2.72%
Net loan charge-offs (recoveries) as a percentage of average loans	**0.03**	0.02	<(0.01)
Return on average assets (ROA)	**1.59**	1.52	1.58
Return on average shareholders' equity	**10.65**	10.06	10.42
Operating expenses as a percentage of net interest income and noninterest income	**43.91**	46.67	43.69
Average loans	**$ 24,339,959**	$ 23,081,431	$ 21,902,314
Average earning assets	**29,959,963**	28,200,772	26,712,553
Average total assets	**30,598,879**	28,876,555	27,503,519

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

Net Income

The district's net income of $485.5 million for the year ended December 31, 2018, reflected an increase of 10.5 percent from net income of $439.4 million for the year ended December 31, 2017. The return on average assets increased to 1.59 percent for the year ended December 31, 2018, from 1.52 percent reported 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.

Net Interest Income

Net interest income increased by $22.4 million, or 2.9 percent, to $793.3 million from December 31, 2017 to December 31, 2018 and increased by $44.1 million, or 6.1 percent, from December 31, 2016 of $726.8 million to December 31, 2017 of $771.0 million.

The increase in net interest income at December 31, 2018 was the result of a $1.8 billion increase in combined district average earning assets, offset by an 18-basis-point decrease in net interest rate spread, to 2.33 percent. The increase in earning assets included growth in the associations' loan portfolios, the bank's investment portfolio and the bank's capital market loan portfolio. The net interest rate margin decreased by 8 basis points to 2.65 percent for the year ended December 31, 2018, as compared with 2.73 percent for the same period of the prior year. The decline in the net interest rate margin resulted from the previously mentioned decrease in net interest rate spread which was attributed to an increase in debt costs and lower lending spreads due to competitive pressures, offset by a 10-basis-point increase to 0.32 percent in income earned on earning assets funded by noninterest-bearing sources (principally capital) due to increased interest rates.

Net interest income for 2017 increased $44.1 million over 2016 due to a $1.5 billion increase in average earning assets, offset by a 4-basis-point decrease in the interest rate to 2.51 percent.

Provision for Loan Losses

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

The provision for loan losses for 2017 was $5.1 million, reflecting a decrease of $6.4 million from the $11.5 million provision recorded in 2016. The associations' provisions decreased by $4.2 million, while the provision for loan losses at the bank decreased by $2.2 million. The decrease at the district associations included $2.5 million of recoveries and a decrease in the general reserve on loans in the crop and livestock sectors. The decrease at the bank was primarily due to the recognition of negative provisions in 2017, which included recoveries of $1.4 million and a decrease in the general reserve.

Noninterest Income

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

Noninterest income of $63.4 million reflected a decrease of $4.0 million, or 5.9 percent, from 2016 to 2017. The decrease was primarily due to a $3.5 million decrease in patronage income and a $2.0 million decrease in loan-related fees.

Noninterest Expense

Noninterest expense for 2018 totaled $381.6 million, decreasing $7.8 million, or 2.0 percent, from 2017. The decrease in noninterest expense includes a $9.4 million decrease in Farm Credit System Insurance Corporation 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 2017 expenses related to a breach of policies and procedures at an 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.

Noninterest expense for 2017 totaled $389.4 million, increasing $40.2 million, or 11.5 percent, from 2016. The increase in noninterest expense includes a $16.7 million increase in professional fee and contract services, a $15.5 million expense related to the breach of policies and procedures at an association and a $7.0 million increase in salaries and employee benefits. The $16.7 million increase in professional fees and contract services included $10.0 million in increased legal and accounting expenses associated with the breach of policies and procedures at an association. The bank had increased consulting and legal costs included in professional fees. The $7.0 million increase in salaries and employee benefits was due primarily to a $6.6 million increase in compensation.

Loan Portfolio

A summary of the district's loan types follows:

District Loans by Loan Type
(in thousands)

December 31,	2018	2017	2016
Real estate mortgage	$ 14,859,093	$ 14,351,578	$ 13,462,730
Production and intermediate term	3,235,481	3,014,067	2,736,456
Agribusiness:			
Loans to cooperatives	408,350	429,535	390,798
Processing and marketing	3,747,010	3,428,261	3,146,124
Farm-related business	182,655	206,441	258,477
Communications	513,286	437,066	465,257
Energy (rural utilities)	1,355,187	1,352,129	1,433,870
Water and waste disposal	143,863	117,177	141,587
Rural residential real estate	240,587	234,379	216,398
Mission-related	96,109	109,919	126,173
Loans to other financing institutions (OFIs)	36,341	40,107	42,078
Lease receivables	34,171	25,009	6,169
Total loans	$ 24,852,133	$ 23,745,668	$ 22,426,117

The district loan portfolio consists only of retail loans. Bank loans to its affiliated associations have been eliminated in the combined financial statements. Total loan volume of $24.9 billion at December 31, 2018, reflected an increase of $1.1 billion, or 4.7 percent, from the $23.8 billion loan portfolio balance at December 31, 2017. The increase of $1.1 billion in loan volume in 2018 was primarily driven by a $728.7 million increase in the bank's capital markets loan portfolio and a $378.4 million increase in the associations' loan portfolios. The volume increase is due to a strong general economy.

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 as it relates to recorded loan principal, 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,		2018		2017		2016
Livestock	$	**7,947**	$	7,822	$	7,384
Crops		**3,522**		3,326		3,013
Timber		**1,862**		1,794		1,758
Dairy		**1,047**		873		771
Poultry		**1,019**		948		874
Cotton		**994**		884		850
Rural residential real estate		**240**		234		301
Other		**8,221**		7,865		7,475
Total loans	$	**24,852**	$	23,746	$	22,426

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

Geographic Concentrations

December 31,	2018	2017	2016
Texas	**53%**	54%	55%
Mississippi	**7**	7	7
Alabama	**7**	7	6
Louisiana	**3**	4	5
California	**2**	2	2
All other states	**28**	26	25
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 by loan type:

District Loan Quality

December 31,	2018	2017	2016
Acceptable	**97.2%**	96.9%	96.7%
OAEM (special mention)	**1.5**	1.6	1.8
Substandard/doubtful	**1.3**	1.5	1.5
Total	**100.0%**	100.0%	100.0%

During 2018, overall credit quality at the bank and at the district associations remained strong. Loans classified (under the FCA's Uniform Loan Classification System) as "acceptable" or "other assets especially mentioned" as a percentage of total loans and accrued interest receivable were 98.7 percent at December 31, 2018 compared to 98.5 percent at both December 31, 2017 and December 31, 2016.

Nonperforming Assets

(in thousands)

December 31,		2018		2017		2016
Nonaccrual loans:						
Real estate mortgage	$	71,512	$	85,488	$	91,651
Production and intermediate term		21,113		34,700		42,225
Agribusiness		11,211		3,175		4,283
Energy (rural utilities)		13,704		-		-
Rural residential real estate		817		1,178		2,103
Mission-related		1,286		1,636		5,355
Lease receivables		-		58		91
Total nonaccrual loans	$	119,643	$	126,235	$	145,708
Accruing restructured loans:						
Real estate mortgage	$	16,423	$	18,496	$	24,569
Production and intermediate term		6,130		6,236		1,816
Rural residential real estate		33		160		169
Mission-related		5,476		5,641		5,794
Total accruing restructured loans	$	28,062	$	30,533	$	32,348
Accruing loans 90 days or more past due:						
Real estate mortgage	$	273	$	108	$	3,014
Production and intermediate term		634		2,897		3,416
Agribusiness		-		20		-
Total accruing loans 90 days or more past due	$	907	$	3,025	$	6,430
Total nonperforming loans	$	148,612	$	159,793	$	184,486
Other property owned		9,229		15,569		19,354
Total nonperforming assets	$	157,841	$	175,362	$	203,840

Nonperforming loan volume is composed of nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due, and is referred to as impaired loans. Nonperforming assets consist of nonperforming loans and other property owned (OPO). Total nonperforming assets have decreased by $17.6 million, or 10.0 percent, from $175.4 million at December 31, 2017, to $157.8 million at December 31, 2018. The decrease in nonperforming assets during 2018 includes a $6.6 million decrease in nonaccrual loans resulting from repayments of $102.4 million, transfers to accrual status of $14.2 million, the movement of loans to OPO totaling $8.5 million, and charge-offs, net of recoveries, totaling $6.4 million, offset by $105.5 million in additions to nonaccrual from accrual status and $16.7 million in advances on nonaccrual loans.

At December 31, 2018, $82.0 million, or 68.5 percent, of loans classified as nonaccrual were current as to principal and interest, compared to $78.9 million, or 62.5 percent, of nonaccrual loans at December 31, 2017, and $89.7 million, or 61.6 percent, at December 31, 2016.

The following table provides an age analysis of past due loans (including accrued interest):

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

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

December 31, 2016	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	$ 47,594	$ 30,084	$ 77,678	$ 13,506,745	$ 13,584,423
Production and intermediate term	36,716	13,119	49,835	2,716,403	2,766,238
Agribusiness	5,078	-	5,078	3,803,833	3,808,911
Communications	-	-	-	465,502	465,502
Energy (rural utilities)	14,590	-	14,590	1,426,346	1,440,936
Water and waste disposal	-	-	-	142,508	142,508
Rural residential real estate	1,495	1,028	2,523	214,521	217,044
Loans to OFIs	-	-	-	42,143	42,143
Mission-related	491	-	491	126,539	127,030
Lease receivables	-	-	-	6,248	6,248
Total loans	$ 105,964	$ 44,231	$ 150,195	$ 22,450,788	$ 22,600,983

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	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Loans to OFIs	Mission-Related	Total
Allowance for Loan Losses:										
Balance at December 31, 2017	$ 41,630	$ 23,212	$ 10,994	$ 826	$ 5,839	$ 532	$ 35	$ -	$ 200	$ 83,268
Provision for (negative provision) loan losses	(1,305)	3,033	2,487	(142)	606	(23)	82	-	(104)	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	$ 101	$ -	$ 132	$ 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	101	-	27	70,466
Balance at December 31, 2018	$ 40,137	$ 20,483	$ 13,413	$ 851	$ 6,494	$ 458	$ 101	$ -	$ 132	$ 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	34,305	36,435	90,150	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	$ 34,305	$ 36,435	$ 96,882	$ 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	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Loans to OFIs	Mission-Related	Total
Allowance for Loan Losses:										
Balance at December 31, 2016	$ 35,559	$ 25,341	$ 13,036	$ 1,393	$ 5,686	$ 479	$ 42	$ -	$ 201	$ 81,737
Provision for (negative provision) loan losses	4,237	3,906	(1,578)	(232)	(1,279)	(17)	36	-	(8)	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	(21)	-	(9)	666
Balance at December 31, 2017	$ 41,630	$ 23,212	$ 10,994	$ 826	$ 5,839	$ 532	$ 35	$ -	$ 200	$ 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	35	-	11	79,500
Balance at December 31, 2017	$ 41,630	$ 23,212	$ 10,994	$ 826	$ 5,839	$ 532	$ 35	$ -	$ 200	$ 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	$ 59	$ -	$ 7,246	$ 164,830
Loans collectively evaluated for impairment	14,376,379	3,004,500	4,076,684	437,666	1,476,998	233,326	25,087	40,187	103,476	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	$ 25,146	$ 40,187	$ 110,722	$ 23,939,384

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

(in thousands)	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Disposal	Rural Residential Real Estate	Agricultural Export Finance	Lease Receivables	Loans to OFIs	Mission-Related	Total
Allowance for Loan Losses:											
Balance at December 31, 2015	$ 39,195	$ 17,461	$ 8,262	$ 1,087	$ 3,442	$ 620	$ 3	$ 43	$ -	$ 237	$ 70,350
Provision for (negative provision) loan losses	(4,237)	11,272	3,686	(1,523)	2,490	(156)	(3)	(1)	-	(36)	11,492
Recoveries	1,973	393	1,434	1,833	-	14	-	-	-	-	5,647
Charge-offs	(1,225)	(2,326)	(73)	-	-	-	-	-	-	-	(3,624)
Other*	(147)	(1,459)	(273)	(4)	(246)	1	-	-	-	-	(2,128)
Balance at December 31, 2016	$ 35,559	$ 25,341	$ 13,036	$ 1,393	$ 5,686	$ 479	$ -	$ 42	$ -	$ 201	$ 81,737
Individually evaluated for impairment	$ 1,303	$ 3,959	$ 480	$ -	$ -	$ 22	$ -	$ -	$ -	$ 190	$ 5,954
Collectively evaluated	-	-	-	-	-	-	-	-	-	-	-
for impairment	34,256	21,382	12,556	1,393	5,686	457	-	42	-	11	75,783
Balance at December 31, 2016	$ 35,559	$ 25,341	$ 13,036	$ 1,393	$ 5,686	$ 479	$ -	$ 42	$ -	$ 201	$ 81,737
Recorded Investments in Loans Outstanding:											
Balance at December 31, 2016											
Loans individually evaluated for impairment	$ 120,792	$ 47,486	$ 4,283	$ -	$ -	$ 2,751	$ -	$ 92	$ -	$ 11,117	$ 186,521
Loans collectively evaluated for impairment	13,463,091	2,718,728	3,804,628	465,502	1,583,444	214,293	-	6,156	42,143	115,913	22,413,898
Loans acquired with deteriorated credit quality	540	24	-	-	-	-	-	-	-	-	564
Balance at December 31, 2016	$ 13,584,423	$ 2,766,238	$ 3,808,911	$ 465,502	$ 1,583,444	$ 217,044	$ -	$ 6,248	$ 42,143	$ 127,030	$ 22,600,983

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

Loans, net of the allowance for loan losses, represented 78.5 percent, 79.6 percent and 79.9 percent of total assets as of December 31, 2018, 2017 and 2016, 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, bank typically holds investments on an available–for-sale basis. Refer to the bank's 2018 Annual Report for additional description of the types of investments and maturities. District associations have regulatory authority to enter into certain guaranteed investments and are typically mortgage-backed or asset-backed securities. District associations' investments are typically held to maturity.

Investment Information

(in thousands) **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**

December 31, 2017	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair 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

December 31, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Bank investments	$ 4,869,904	$ 4,118	$ (42,647)	$ 4,831,375
District association investments	25,693	95	(136)	25,652
Total district investments	$ 4,895,597	$ 4,213	$ (42,783)	$ 4,857,027

Capital Resources

District members' equity totaled $4.5 billion at December 31, 2018, including $720.0 million in preferred stock, $66.2 million in capital stock and participation certificates, $3.7 billion in retained earnings and $224.6 million in additional paid-in-capital, offset by accumulated other comprehensive losses of $162.9 million.

On June 25, 2018, the bank issued $100.0 million of Class B noncumulative subordinated perpetual preferred stock, Series 3 (Class B-3 preferred stock), representing one hundred thousand shares at $1,000 per share par value, for net proceeds of $98.7 million. Dividends on the Class B-3 preferred stock, 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, 2018, at an annual fixed rate of 6.20 percent of par value of $1,000 per share up to, but excluding June 15, 2028, from and after which date will be paid at an annual rate of the 3-Month USD LIBOR plus 3.22 percent. In 2018, Class B-3 preferred stock dividends totaling $2.9 million were declared and paid. At December 31, 2018, dividends payable on Class B-3 preferred stock totaled $1.6 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 $4.5 billion capital position of the district at December 31, 2018, reflects an increase of 5.9 percent over the December 31, 2017, capital position of $4.3 billion. This increase is attributable to year-to-date net income of $485.5 million, preferred stock issuance of $100.0 million and $8.7 million in capital stock issued, offset by cash patronage of $215.6 million, retirement of capital stock and allocated equities of $68.4 million, and dividends accrued and paid on preferred stock totaling $55.7 million.

Accumulated other comprehensive loss totaled $162.9 million at December 31, 2018, an increase of $38 thousand from December 31, 2017. The increase in accumulated other comprehensive losses included $17.7 million in unrealized losses on investments and unrealized losses of $13.9 million in cash flow interest rate swaps and interest rate caps, offset by the amortization of $31.5 million in net unrealized pension and other postretirement benefit costs.

The return on average members' equity for the year ended December 31, 2018 was 10.65 percent, compared to 10.06 percent and 10.42 percent reported for the years ended December 31, 2017 and 2016, respectively.

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

Accumulated Other Comprehensive Income (Loss)

(in thousands)

December 31, 2018	2018	2017	2016
Unrealized losses on investment securities	$ (74,541)	$ (56,812)	$ (38,529)
Derivatives and hedging activity	(7,125)	6,726	6,421
Employee benefit plan activity	(81,231)	(112,774)	(125,874)
Total Accumulated Other Comprehensive Loss	$ (162,897)	$ (162,860)	$ (157,982)

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

Regulatory Capital Requirements and Ratios

As of December 31, 2018	Primary Components of Numerator	Regulatory Minimums	Minimum With Buffer*	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%	12.0% - 21.8%
Tier 1 capital ratio	CET1 capital, noncumulative perpetual preferred stock	6.0%	8.5%	16.3%	12.0% - 21.8%
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%	16.4%	13.4% - 22.3%
Permanent capital ratio	Retained earnings, common stock, noncumulative perpetual preferred stock and subordinated debt, subject to certain limits	7.0%	7.0%	16.3%	13.1% - 21.9%
Non-risk adjusted:					
Tier 1 leverage ratio **	Tier 1 capital	4.0%	5.0%	7.4%	10.6% - 20.7%
UREE leverage ratio	URE and URE equivalents	1.5%	1.5%	3.1%	9.5% - 22.0%

* The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.

** 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% or 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 percent of employee contributions for the first 3 percent of eligible compensation and then match 50 percent of employee contributions on the next 2 percent of eligible compensation, for a maximum employer contribution of 4 percent 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 percent 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, 2018	Pension Benefits	Other Postretirement Benefits
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

Retirement Plans

(in thousands) December 31, 2017		Pension Benefits		Other Postretirement Benefits
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

December 31, 2016		Pension Benefits		Other Postretirement Benefits
Projected benefit obligation	$	401,484	$	67,753
Fair value of plan assets		266,416		-
Funded (unfunded) status	$	(135,068)	$	(67,753)
Accumulated benefit obligation	$	377,464	$	-
Assumptions used to determine benefit obligations:				
Discount rate		4.20%		4.60%
Expected long-term rate of return		6.00%		N/A
Rate of compensation increase		4.50%		N/A

TEXAS FARM CREDIT DISTRICT
(BANK AND DISTRICT ASSOCIATIONS)

Combined Balance Sheets
(Unaudited)

(in thousands)

December 31,	2018	2017	2016
ASSETS			
Cash	$ 139,489	$ 66,953	$ 207,229
Federal funds sold and overnight investments	281,131	246,888	22,901
Investment securities	5,730,295	5,163,813	4,857,068
Loans	24,852,133	23,745,668	22,426,117
Less allowance for loan losses	82,069	83,268	81,737
Net loans	24,770,064	23,662,400	22,344,380
Accrued interest receivable	229,386	202,748	182,012
Premises and equipment, net	168,030	134,617	122,645
Other assets	250,763	239,703	216,556
Total assets	$ 31,569,158	$ 29,717,122	$ 27,952,791
LIABILITIES			
Bonds and notes	$ 26,347,363	$ 24,801,223	$ 23,240,663
Accrued interest payable	96,164	70,197	54,245
Patronage distributions payable	185,669	170,022	157,101
Preferred stock dividends payable	21,613	20,063	20,063
Other liabilities	387,250	377,721	381,798
Total liabilities	$ 27,038,059	$ 25,439,226	$ 23,853,870
MEMBERS' EQUITY			
Preferred stock	$ 720,000	$ 620,000	$ 600,000
Capital stock and participation certificates	66,178	65,982	64,434
Allocated retained earnings	746,248	685,506	631,647
Unallocated retained earnings	2,936,945	2,844,643	2,736,197
Additional paid-in-capital	224,625	224,625	224,625
Accumulated other comprehensive loss	(162,897)	(162,860)	(157,982)
Total members' equity	$ 4,531,099	$ 4,277,896	$ 4,098,921
Total liabilities and members' equity	$ 31,569,158	$ 29,717,122	$ 27,952,791

TEXAS FARM CREDIT DISTRICT
(BANK AND DISTRICT ASSOCIATIONS)

Combined Statements of Income
(Unaudited)

(in thousands)

For the Year Ended December 31,	2018	2017	2016
INTEREST INCOME			
Investment securities	$ 127,979	$ 85,791	$ 70,658
Loans	1,203,553	1,048,370	940,663
Total interest income	$ 1,331,532	$ 1,134,161	$ 1,011,321
INTEREST EXPENSE			
Bonds and notes	438,192	296,197	242,191
Notes payable and other	100,037	67,011	42,324
Total interest expense	$ 538,229	$ 363,208	$ 284,515
Net interest income	$ 793,303	$ 770,953	$ 726,806
Provision for loan losses	4,634	5,065	11,492
Net interest income after provision for loan losses	$ 788,669	$ 765,888	$ 715,314
NONINTEREST INCOME			
Patronage income	24,624	25,400	28,875
Fees for loan-related services	31,725	28,033	30,022
Refunds from Farm Credit System Insurance Corporation	19,269	-	-
Other income, net	3,251	9,961	8,478
Total noninterest income	$ 78,869	$ 63,394	$ 67,375
NONINTEREST EXPENSE			
Salaries and employee benefits	225,399	206,448	199,453
Occupancy and equipment	35,217	33,307	30,846
Purchased Services	39,230	40,269	23,540
Farm Credit System Insurance Corporation expense	22,410	31,846	34,206
Other operating expenses	59,336	77,535	61,113
Total noninterest expense	$ 381,592	$ 389,405	$ 349,158
Income before income taxes	485,946	439,877	433,531
Provision for income taxes	474	482	91
Net income	$ 485,472	$ 439,395	$ 433,440

TEXAS FARM CREDIT DISTRICT
(BANK AND DISTRICT ASSOCIATIONS)

Select information on district associations

(in thousands) As of December 31, 2018	Wholesale Loans	% of Total Wholesale	Total Assets	Total Allowance and Capital	Total Capital Ratio	Nonperforming Loans as a % of Total Loans	ROA
Ag New Mexico, Farm Credit Services, ACA	$ 241,214	1.30%	$ 254,586	$ 41,452	14.46%	0.37%	1.11%
AgTexas Farm Credit Services	1,957,550	10.53%	2,045,942	264,391	13.40%	0.83%	1.71%
Alabama Ag Credit, ACA	997,422	5.37%	1,024,921	189,240	17.47%	0.41%	1.93%
Alabama Farm Credit, ACA	794,416	4.28%	820,243	120,953	16.19%	0.88%	1.98%
Capital Farm Credit, ACA	7,389,173	39.77%	7,635,579	1,257,733	15.14%	0.82%	2.50%
Central Texas Farm Credit, ACA	509,539	2.74%	526,621	111,503	19.61%	0.58%	1.80%
Heritage Land Bank, ACA	511,650	2.75%	524,085	88,140	16.20%	0.34%	1.56%
Legacy Ag Credit, ACA	263,319	1.42%	268,822	60,629	22.32%	1.64%	1.47%
Lone Star, ACA	1,559,318	8.39%	1,593,809	351,772	20.44%	0.37%	1.75%
Louisiana Land Bank, ACA	766,364	4.12%	789,167	156,244	18.30%	0.97%	1.71%
Mississippi Land Bank, ACA	696,697	3.75%	724,144	125,124	15.96%	0.18%	1.56%
Plains Land Bank, FLCA	629,129	3.39%	655,684	126,544	17.12%	0.43%	2.25%
Southern AgCredit, ACA	1,039,235	5.59%	1,086,843	163,298	14.93%	0.78%	1.85%
Texas Farm Credit Services	1,227,347	6.60%	1,281,833	198,851	15.12%	1.01%	2.30%
Totals	$ 18,582,373	100.00%	$ 19,232,279	$ 3,255,874			

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