CAPITAL FARM CREDIT

PROUD MEMBER OF THE FARM CREDIT SYSTEM

Quarterly Report
To Stockholders

For the Quarter Ended September 30, 2019

REPORT OF MANAGEMENT

The undersigned certify that this quarterly report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his knowledge and belief.

Ben R. Novosad,
Chief Executive Officer

John Malazzo,
Chairman, Board of Directors

Don VandeVanter,
Chief Financial Officer

November 5, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars in thousands)

The following commentary reviews the financial performance of Capital Farm Credit, ACA, referred to as the association, for the quarter ended September 30, 2019. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2018 Annual Report to Stockholders. The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder. The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA. The consolidated financial statements were prepared under the oversight of the association's audit committee.

The Texas economy continues to experience growth outpacing the U.S growth, although it seems to be slowing down. Job growth in Texas is at about 2.4 percent compared to the national average of 1.3 percent during the first nine months of 2019. The job rate of growth slowed during the third quarter from 2.6 percent in the second quarter to 2.4 percent. Nevertheless, unemployment rates in the state have reached a historic low of 3.4 percent compared to national averages of 3.7 percent. The state has experienced drought during the third quarter with approximately 68% of the state in drought compared to 5% in the second quarter of 2019. Poor rainfall has negatively impacted crop yields, particularly corn, cotton and wheat. Irrigated cropland values increased during the quarter while dryland values were stable and ranchland values declined.

Patronage Refunds by Association

In September 2019, the board of directors approved a resolution to retire $38,202 in nonqualified allocated equities which will be paid to the recipients in November 2019. The retirement was a distribution of all remaining earnings allocated in 2011.

The board of directors approved a $184,330 patronage distribution for 2018. Of that amount, $87,543 was to be paid in March 2019 and $96,787 was to be distributed in the form of nonqualified allocated equities. In March 2019, the association finalized the computation of these distributions which resulted in a reduction in cash patronage payable of $62 for an actual cash distribution of $87,480 and an increase of $252 to nonqualified allocated equities for an actual distribution of $97,039. The owners of these nonqualified distributions will not pay federal income taxes until the equities are retired. It is the board's intention with these allocations to assign ownership of the earnings of the association, allowing the stockholders to benefit more fully from the earnings of the association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the association's capital position and determine if some cash retirements of these equities can be made.

In September 2018, the board of directors approved a resolution to retire $50,000 in nonqualified allocated equities which were paid to the recipients in November 2018. The retirement was a distribution of 56 percent of the earnings allocated in 2011. In November 2017, the association retired $36,785 in nonqualified allocated equities. The retirement was a distribution of all the remaining earnings allocated in 2010.

In 2017, the board of directors approved a $163,847 patronage distribution with cash patronage payable of $77,506 and $86,341 in nonqualified allocated equities. In March 2018 the association finalized the computation of these distributions which results in a reduction in cash patronage payable of $102 for an actual cash distribution of $77,404 and no change to the nonqualified allocated equity distribution. In 2016, the board of directors approved a $135,000 patronage distribution, with cash patronage payable of $57,170 and $77,830 in nonqualified allocated equities. In March 2017 the association finalized computation to these distributions which resulted in a decrease in nonqualified allocated equities of $35 resulting in an actual allocation of $77,795, and a reduction in cash patronage payable of $38 for an actual cash distribution of $57,132.

Loan Portfolio

Total loans outstanding at September 30, 2019, including nonperforming loans, were $7,713,349 compared to $7,393,006 at December 31, 2018, reflecting an increase of $320,343, or approximately 4.3 percent, with notable increases in the real estate mortgage, production and intermediate term and farm-related business sectors.

The association recorded $934 in recoveries and $3,991 in charge-offs for the nine months ended September 30, 2019, and $677 in recoveries and $1,063 in charge-offs for the same period in 2018. The association's allowance for loan losses was 0.4 percent and 0.3 percent of total loans outstanding as of September 30, 2019, and December 31, 2018, respectively.

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The association's high-risk assets have increased by 37.6 percent in the first nine months of 2019. Most of the increase has been in nonaccrual loans and loans 90 days past due and still accruing interest offset by a decrease in formally restructured loans. The following table summarizes the association's components and trends of high-risk assets:

	September 30, 2019		%	December 31, 2018		%
Nonaccrual loans	$	68,271	82.0	$	48,007	79.3
Loans 90 days past due and still accruing interest		5,500	6.6		37	0.1
Formally restructured loans		8,744	10.5		11,487	19.0
Other property owned, net		751	0.9		972	1.6
Total	$	83,266	100.0	$	60,503	100.0

Nonaccrual loans increased $20,264 during the nine months of 2019, with increases primarily in the production and intermediate term, real estate mortgage and farm-related business sectors. These increases are the result of poor growing conditions in some parts of the state, combined with declining agricultural commodity prices. Nonaccrual loans were 0.9 percent of total loans outstanding at September 30, 2019, compared to 0.6 percent at December 31, 2018.

Loans that are 90 or more days past due and still accruing interest increased $5,463 in the first nine months of 2019 primarily in the production and intermediate-term sector. These loans have a documented plan that details how and when the amount owed will be paid.

Formally restructured accrual loans decreased $2,743 during the first nine months of 2019 primarily in the production and intermediate term and real estate mortgage sectors. Most of these restructurings have been to extend the repayment terms for customers who were significantly affected by lower commodity prices. The association is cooperating with distressed borrowers to help them work through temporary repayment problems.

Other property owned decreased $221 during the first nine months of 2019. The association is actively working with real estate professionals to ensure properties are accurately valued on the association's books and that proactive marketing activities are in place.

Management also continues to routinely evaluate and monitor counterparty and collateral risks in an effort to avoid concentrations that could result in excess exposure to a single counterparty or type of collateral. The loan portfolio management practices that are in place have been designed to ensure loans and industries with actual or potential problems are promptly identified, monitored and addressed in a manner that allows the lending staff to work with problem customers and industries through periods of adversity.

Results of Operations

The association had net income of $133,845 and $47,994 for the nine and three months ended September 30, 2019, respectively, as compared to net income of $147,264 and $52,123 for the same periods in 2018, reflecting a decrease of 9.1 and 7.9 percent, respectively. The decrease in net income was the result of an increase in the provision for loan losses for the nine month period ended September 30, 2019 of $7,052 compared to a reversal of provision for loan losses of $4,767 for the same period in 2018. The increase in provision for loan losses was a result of the recent decline in the association's portfolio quality, which has been impacted by a prolonged negative trend in agricultural commodity prices.

Net interest income was $175,201 and $58,912 for the nine and three months ended September 30, 2019, compared to $173,721 and $58,528 for the same periods in 2018. Interest income for the nine and three months ended September 30, 2019, increased by $23,945 and $6,363 or 8.1 and 6.2 percent respectively, from the same periods of 2018, primarily due to increases in yields on loans and an increase in average loan volume. Interest expense for the nine and three months ended September 30, 2019, increased by $22,465 and $5,979 or 18.4 and 13.7 percent, from the same period of 2018 due to an increase in interest rates and an increase in average debt volume. The Farm Credit Bank of Texas (the Bank) increased the association's cost of funds, beginning in 2018, for all new loans originated and all loans that are repriced. To offset this increase in interest expense to the association, the Bank will pay the association a higher patronage refund, which is being recognized in higher quarterly accruals of the patronage income from the Bank.

The effects of changes in average volume and interest rates on net interest income in the nine months ended September 30, 2019, as compared with the corresponding period of the prior year, are presented in the following tables:

	For the nine months ended September 30, 2019		For the nine months ended September 30, 2018	
	Average Balance	Interest	Average Balance	Interest
Loans	$ 7,468,289	$ 319,605	$ 7,279,901	$ 295,618
Investments	4,047	176	5,251	218
Total interest-earning assets	$ 7,472,335	$ 319,781	$ 7,285,152	$ 295,836
Interest-bearing liabilities	6,376,611	144,580	6,230,090	122,115
Impact of capital	$ 1,095,724		$ 1,055,062	
Net interest income		$ 175,201		$ 173,721
Net interest income as a percentage of average earning assets	3.13%		3.19%	

	Average Yield	Average Yield
Yield on interest-earning assets	5.72%	5.43%
Cost of interest-bearing liabilities	3.03%	2.62%
Net interest spread	2.69%	2.81%

	2019 vs. 2018 Increase (decrease) due to		
	Volume	Rate	Total
Interest income-Loans	$ 7,650	$ 16,337	$ 23,987
Interest income-Investment	(50)	8	(42)
Total interest income	$ 7,600	$ 16,345	$ 23,945
Interest expense	2,872	19,593	22,465
Net interest income	$ 4,728	$ (3,248)	$ 1,480

The association’s noninterest income for the nine months ended September 30, 2019 increased by $540 or 1.3 percent from the period in 2018. Noninterest income for the three months ended September 30, 2019 decreased $1,421 or 10.4 percent from the same period in 2018. The increase for the nine month period is primarily due to an increased patronage from the bank offset by a decrease in a lower refund received from FCSIC for excess insurance funds in the allocated insurance reserve. The decrease in the three month period ended September 30, 2019 is due to the association updating its process for accruing patronage from the bank during 2019.

Noninterest expenses for the nine and three months ended September 30, 2019, increased by $3,610 and $981, or 5.1 and 4.3 percent, respectively, from the same period of 2018. Most notably, the association has seen increases in travel, purchased services and other noninterest expenses.

The association’s return on average assets for the nine months ended September 30, 2019, was 2.3 percent compared to 2.6 percent for the same period in 2018. The association’s return on average equity for the nine months ended September 30, 2019, was 13.5 percent, compared to 15.5 percent for the same period in 2018.

Liquidity and Funding Sources

The association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of System-wide obligations. The following schedule summarizes the association’s borrowings.

	September 30, 2019	December 31, 2018
Note payable to the bank	**$6,534,871**	$6,223,546
Accrued interest on note payable	**16,076**	15,500
Total	**$6,550,947**	$6,239,046

The association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2020. The outstanding balance of $6,534,871 as of September 30, 2019, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 3.03 percent at September 30, 2019. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2018 is due to the association's increase in loan volume. The maximum amount the association may borrow from the Bank as of September 30, 2019, was $7,564,218 as defined by the GFA.

The liquidity policy of the association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2019. As borrower payments are received they are applied to the association's note payable with the Bank.

Capital Resources and Regulatory Matters

The association's capital position increased by $95,981 at September 30, 2019, compared to December 31, 2018 primarily as a result of net earnings for the period, offset by the aforementioned retirement of 2011 allocated equities.

Farm Credit Administration regulations require the association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30 2019, the association exceeded all regulatory capital requirements. For more information, see Note 5-"Members Equity" in the accompanying financial statements.

Significant Recent Accounting Pronouncements

See Note 1- "Organization and Significant Accounting Policies" of the accompanying financial statements for critical accounting policies and recent accounting pronouncements which may impact the association's consolidated financial position and results of operations.

Relationship with the Farm Credit Bank of Texas

The association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2018 Annual Report of Capital Farm Credit more fully describe the association's relationship with the Bank.

The annual and quarterly stockholder reports of the Bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the Bank are also available on its website at *www.farmcreditbank.com*.

The association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Capital Farm Credit, ACA, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the association's quarterly and annual stockholder reports are also available on its Website at *www.capitalfarmcredit.com* or can be requested by e-mailing *Javier.Lemus@capitalfarmcredit.com.*

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Cash	$ 2	$ 10
Loans	7,713,349	7,393,006
Less: Allowance for losses	(29,522)	(25,495)
Net Loans	7,683,827	7,367,511
Accrued interest receivable - loans	81,414	68,824
Accrued interest receivable - investments	77	63
Investment - held-to-maturity	3,707	4,388
Investment in and receivable from the Bank:		
Capital stock	125,803	125,803
Receivable	34,070	21,485
Investment in Rural Business Investment Company	12,483	11,624
Investments in other Farm Credit Institutions	9,133	9,398
Other property owned, net	751	972
Premises and equipment, net	15,496	15,365
Right of use asset - leases	11,047	-
Other assets	15,036	14,013
Total assets	$ 7,992,846	$ 7,639,456
LIABILITIES		
Note payable to the Bank	$ 6,534,871	$ 6,223,546
Advanced conditional payments	8,748	10,067
Accrued interest payable	16,076	15,500
Lease liabilities	11,178	-
Drafts outstanding	350	1,256
Patronage distributions payable	38,208	87,548
Unfunded post retirement medical obligations	23,477	22,991
Reserve for unfunded commitments	399	431
Other liabilities	31,320	45,879
Total liabilities	6,664,627	6,407,218
MEMBERS' EQUITY		
Capital stock and participation certificates	25,949	25,804
Non-qualified allocated retained earnings	586,889	624,839
Unallocated retained earnings	715,597	581,674
Accumulated other comprehensive loss	(216)	(79)
Total members' equity	1,328,219	1,232,238
Total liabilities and members' equity	$ 7,992,846	$ 7,639,456

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)
(UNAUDITED)

	For the three months ended September 30, 2019	For the three months ended September 30, 2018	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018
Interest Income				
Loans	**$ 108,589**	$ 102,209	**$ 319,605**	$ 295,618
Investments	**55**	72	**176**	218
Total interest income	**108,644**	102,281	**319,781**	295,836
Interest Expense				
Note Payable to the Bank	**49,708**	43,732	**144,506**	122,064
Advance conditional payments	**24**	21	**74**	51
Total interest expense	**49,732**	43,753	**144,580**	122,115
Net interest income	**58,912**	58,528	**175,201**	173,721
Provision for Loan Losses				
Provision (reversal) for credit losses	**(549)**	(2,660)	**7,052**	(4,767)
Net interest income after provision for losses	**59,461**	61,188	**168,149**	178,488
Noninterest Income				
Patronage income from the Bank	**10,220**	11,426	**29,752**	27,330
Loan fees	**1,476**	881	**3,437**	2,601
Gain (loss) on sale of premises and equipment, net	**57**	(22)	**1,424**	426
Financially related services income	**450**	852	**1,181**	2,528
Gain on other property owned, net	**202**	15	**117**	844
Other noninterest income	**(195)**	481	**4,695**	6,337
Total noninterest income	**12,210**	13,631	**40,606**	40,066
Noninterest Expense				
Salaries and employee benefits	**15,877**	15,740	**49,255**	48,791
Farm Credit System insurance premium	**1,369**	1,323	**4,011**	3,927
Occupancy and equipment	**1,171**	1,136	**3,855**	3,566
Travel	**1,034**	848	**3,190**	2,524
Advertising	**988**	942	**2,900**	2,860
Public and member relations	**630**	496	**2,562**	2,360
Purchased services	**590**	499	**2,047**	1,737
Supervisory and exam expense	**496**	402	**1,488**	1,377
Data processing	**497**	301	**1,206**	975
Communications	**260**	252	**768**	741
Director's expense	**220**	218	**756**	617
Training	**253**	307	**663**	690
Other noninterest expenses	**291**	231	**2,201**	1,127
Total noninterest expenses	**23,676**	22,695	**74,902**	71,292
Income before income tax	**47,995**	52,124	**133,853**	147,262
Provision (Benefit) for income tax	**1**	1	**8**	(2)
Net income	**$ 47,994**	$ 52,123	**$ 133,845**	$ 147,264
Other comprehensive (loss):				
Change in postretirement benefit plans	**(46)**	(10)	**(137)**	(31)
Income tax expense related items of other comprehensive income	**-**	-	**-**	-
Other comprehensive (loss), net of tax	**(46)**	(10)	**(137)**	(31)
COMPREHENSIVE INCOME	**$ 47,948**	$ 52,113	**$ 133,708**	$ 147,233

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(Dollars in thousands)
(UNAUDITED)

	Capital Stock/ Participation Certificates	Retained Earnings Non-qualified Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2017	$ 25,519	$ 578,054	$ 576,158	$ (3,694)	$ 1,176,037
Net income	-	-	147,264	-	147,264
Other comprehensive loss	-	-	-	(31)	(31)
Capital stock/participation certificates issued	2,811	-	-	-	2,811
Capital stock/participation certificates/ allocated equities retired	(2,596)	(50,000)	-	-	(52,596)
Other adjustments	-	1	(4)	-	(3)
Balance at September 30, 2018	25,734	528,055	723,418	(3,725)	1,273,482
Net income	-	-	42,587	-	42,587
Other comprehensive gain	-	-	-	3,646	3,646
Capital stock/participation certificates issued	874	-	-	-	874
Capital stock/participation certificates/ allocated equities retired	(804)	-	-	-	(804)
Patronage distributions declared:	-	-	-	-	-
Cash	-	-	(87,543)	-	(87,543)
Nonqualifed allocations	-	96,787	(96,787)	-	-
Other adjustments	-	(3)	(1)	-	(4)
Balance at December 31, 2018	25,804	624,839	581,674	(79)	1,232,238
Net income	-	-	133,845	-	133,845
Other comprehensive loss	-	-	-	(137)	(137)
Capital stock/participation certificates issued	2,803	-	-	-	2,803
Capital stock/participation certificates/ allocated equities retired	(2,658)	(38,202)	-	-	(40,860)
Change in patronage declared and paid	-	252	78	-	330
Balance at September 30, 2019	**$ 25,949**	**$ 586,889**	**$ 715,597**	**$ (216)**	**$ 1,328,219**

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

CAPITAL FARM CREDIT, ACA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Capital Farm Credit, ACA including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively called the "association"), is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in 192 counties in the state of Texas. The association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act).

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2018 as contained in the 2018 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2019. Descriptions of the significant accounting policies are included in the 2018 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the association's financial condition or its results of operations, but will impact the fair value measurements disclosures.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The association is evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not materially impact the Association's financial condition and results of operations but did impact lease disclosures. The association adopted this guidance on January 1, 2019 and upon adoption, recorded a $11,910 right of use asset, a $11,983 lease liability and did not have an adjustment to retained earnings.

NOTE 2 — INVESTMENTS:

Investments Held-to-Maturity

The association's held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

September 30, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 3,707	$ 43	$ -	$ 3,750	5.67%	2.77

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 4,388	$ 6	$ -	$ 4,394	5.74%	2.82

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitments to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The association has not experienced any impairments of these securities. Farmer Mac guarantees the underlying mortgages, and the association has the ability and intent to hold these securities to maturity or pay-off and it is unlikely the association would be required to sell these securities. These AMBS have contractual weighted average maturities of 2.77 years as of September 30, 2019; however, expected maturities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Industry	**September 30 2019**	**%**	December 31 2018	%
Real estate mortgage	**$ 5,848,105**	**75.9**	$ 5,642,145	76.4
Production and intermediate term	**964,719**	**12.5**	919,784	12.4
Farm-related business	**646,546**	**8.4**	594,483	8.0
Rural residential real estate	**101,532**	**1.3**	102,225	1.4
Energy	**62,290**	**0.8**	60,626	0.8
Communication	**57,249**	**0.7**	41,122	0.6
Lease receivables	**17,157**	**0.2**	17,951	0.2
Mission-related investments	**6,151**	**0.1**	6,530	0.1
Water and waste disposal	**9,600**	**0.1**	8,140	0.1
Total	**$ 7,713,349**	**100.0**	$ 7,393,006	100.0

At September 30, 2019, the association held four transactions, which are reported as loans on the consolidated balance sheet totaling $6,038 and with $0 in remaining commitments extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

The association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against loans as presented on the balance sheet. The association held $63,426 and $59,096 in funds which were netted against the loan balance at September 30, 2019 and December 31, 2018, respectively. Unrestricted advance conditional payments are included in liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were $8,748 and $10,067 on the balance sheet at September 30, 2019, and December 31, 2018, respectively.

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding the balances of participations purchased and sold as of September 30, 2019:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 132,608	$ 578,134	$ 8,341	$ -	$ 140,949	$ 578,134
Production and Intermediate-term	221,851	671,213	-	-	221,851	671,213
Farm-related business	481,568	155,388	5,766	-	487,334	155,388
Energy	62,290	-	-	-	62,290	-
Communication	57,249	-	-	-	57,249	-
Mission-related investments	2,022	-	4,016	-	6,038	-
Lease receivables	17,157	-	-	-	17,157	-
Water and waste disposal	9,600	-	-	-	9,600	-
Total	$ 984,345	$ 1,404,735	$ 18,123	$ -	$ 1,002,468	$ 1,404,735

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	September 30, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	**$ 34,526**	$ 30,222
Production and intermediate-term	**23,839**	11,173
Farm-related business	**6,470**	2,793
Rural residential real estate	**213**	391
Energy	**3,223**	3,428
Total nonaccrual loans	**$ 68,271**	$ 48,007
Accruing restructured loans:		
Real estate mortgage	**$ 4,218**	$ 5,532
Production and intermediate-term	**2,658**	4,158
Mission-related investments	**2,074**	2,105
Lease receivable	**-**	-
Total accruing restructured loans	**$ 8,950**	$ 11,795
Accruing loans 90 days or more past due:		
Real estate mortgage	**$ 960**	$ 37
Production and intermediate-term	**4,651**	-
Total accruing loans 90 days or more past due	**$ 5,611**	$ 37
Total nonperforming loans	**$ 82,832**	$ 59,839
Other property owned	**751**	972
Total nonperforming assets	**$ 83,583**	$ 60,811

One credit quality indicator utilized by the association is the FCA 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 as a percentage of total loans and related accrued interest receivable by loan type as of :

	September 30, 2019	December 31, 2018
Real estate mortgage		
Acceptable	**97.3%**	97.4%
OAEM	**1.1%**	1.3%
Substandard/doubtful	**1.6%**	1.3%
	100.0%	100.0%
Production and intermediate-term		
Acceptable	**90.2%**	91.0%
OAEM	**4.3%**	4.6%
Substandard/doubtful	**5.5%**	4.4%
	100.0%	100.0%
Farm-related business		
Acceptable	**93.2%**	96.8%
OAEM	**5.3%**	0.4%
Substandard/doubtful	**1.5%**	2.8%
	100.0%	100.0%
Rural residential real estate		
Acceptable	**98.3%**	98.4%
OAEM	**1.3%**	0.9%
Substandard/doubtful	**0.4%**	0.7%
	100.0%	100.0%
Energy		
Acceptable	**89.0%**	92.2%
OAEM	**2.0%**	2.2%
Substandard/doubtful	**9.0%**	5.6%
	100.0%	100.0%
Communication		
Acceptable	**100.0%**	100.0%
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0%	100.0%
Mission-related investments		
Acceptable	**100.0%**	100.0%
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0%	100.0%
Lease receivables		
Acceptable	**100.0%**	100.0%
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0%	100.0%
Water and waste disposal		
Acceptable	**100.0%**	100.0%
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0%	100.0%
Total Loans		
Acceptable	**96.1%**	96.6%
OAEM	**1.8%**	1.6%
Substandard/doubtful	**2.1%**	1.8%
	100.0%	100.0%

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

September 30, 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	Loans > 90 Days and Accruing
Real estate mortgage	$ 58,578	$ 14,787	$ 73,365	$ 5,834,530	$ 5,907,895	$ 960
Production and intermediate-term	18,470	20,726	39,196	943,353	982,549	4,651
Farm-related business	4,252	-	4,252	645,216	649,468	-
Rural residential real estate	1,283	31	1,314	100,623	101,937	-
Energy	-	-	-	62,451	62,451	-
Communication	-	-	-	57,307	57,307	-
Mission-related investments	-	-	-	6,287	6,287	-
Lease receivables	-	-	-	17,247	17,247	-
Water and waste disposal	-	-	-	9,622	9,622	-
Total	$ 82,583	$ 35,544	$ 118,127	$ 7,676,636	$ 7,794,763	$ 5,611

December 31, 2018	30-89 Days	90 Days or More	Total Past Due	Not Past Due or less than 30	Total Loans	Loans > 90 Days and Accruing
Real estate mortgage	$ 29,535	$ 10,016	$ 39,551	$ 5,652,902	$ 5,692,453	$ 37
Production and intermediate-term	16,571	2,373	18,944	916,582	935,526	-
Farm-related business	5,996	131	6,127	590,510	596,637	-
Rural residential real estate	743	41	784	101,801	102,585	-
Energy	199	-	199	60,554	60,753	-
Communication	-	-	-	41,125	41,125	-
Mission-related investments	-	-	-	6,586	6,586	-
Lease receivables	-	-	-	18,017	18,017	-
Water and waste disposal	-	-	-	8,148	8,148	-
Total	$ 53,044	$ 12,561	$ 65,605	$ 7,396,225	$ 7,461,830	$ 37

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the association for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of September 30, 2019, the total recorded investment of troubled debt restructured loans was $15,692, including $6,742 classified as nonaccrual and $8,950 classified as accrual, with specific allowance for loan losses of $414. Commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $45 and $1 as of September 30, 2019 and at December 31, 2018, respectively.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the nine month and three months ended September 30, 2019. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

	2019		2018	
Nine months ended September 30:	Pre-TDR Designation Balance	Post-TDR Designation Balance	Pre-TDR Designation Balance	Post-TDR Designation Balance
Real estate mortgage	506	1,417	2,065	1,950
Production and intermediate-term	885	888	9,236	6,553
Total	$ 1,391	$ 2,305	$ 11,301	$ 8,503

Three months ended September 30:	2019 Pre-TDR Designation Balance	2019 Post-TDR Designation Balance	2018 Pre-TDR Designation Balance	2018 Post-TDR Designation Balance
Real estate mortgage	132	145	-	-
Production and intermediate-term	112	114	6,199	4,064
Total	$ 244	$ 259	$ 6,199	$ 4,064

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs recorded at the modification date for the quarter ending September 30, 2019.

The predominant form of concession granted for troubled debt restructuring includes extension of terms. Other types of modifications include principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The association did not have loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Real estate mortgage	$ 6,806	$ 6,671	$ 2,588	$ 1,139
Production and intermediate-term	6,812	8,638	4,154	4,480
Farm-related business	-	131	-	131
Mission related investments	2,074	2,105	-	-
Total	$ 15,692	$ 17,545	$ 6,742	$ 5,750

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	At September 30, 2019			At December 31, 2018		
	Loan Balance	Unpaid Principal Balance	Related Specific Allowance	Loan Balance	Unpaid Principal Balance	Related Specific Allowance
Impaired loans with a related allowance for loan losses:						
Real estate mortgage	$ 1,724	$ 1,934	$ 62	$ 1,768	$ 1,972	$ 235
Production and intermediate-term	8,165	11,886	1,355	5,786	7,873	927
Farm-related business	2,598	2,598	368	2,653	2,653	368
Rural residential real estate	-	-	-	29	48	4
Energy	3,223	3,223	1,046	3,428	3,428	1,053
Mission-related investments	134	134	42	137	137	40
Total	$ 15,844	$ 19,775	$ 2,873	$ 13,801	$ 16,111	$ 2,627
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	$ 37,904	$ 39,352	$ -	$ 33,937	$ 36,000	$ -
Production and intermediate-term	22,794	28,561	-	9,344	13,175	-
Farm-related business	3,872	6,822	-	140	3,097	-
Rural residential real estate	213	393	-	362	567	-
Energy	-	-	-	-	-	-
Mission-related investments	1,888	1,888	-	1,947	1,947	-
Total	$ 66,671	$ 77,017	$ -	$ 45,730	$ 54,786	$ -
Total impaired loans:						
Real estate mortgage	$ 39,628	$ 41,286	$ 62	$ 35,705	$ 37,972	$ 235
Production and intermediate-term	30,959	40,447	1,355	15,130	21,048	927
Farm-related business	6,470	9,420	368	2,793	5,750	368
Rural residential real estate	213	393	-	391	615	4
Energy	3,223	3,223	1,046	3,428	3,428	1,053
Mission-related investments	2,022	2,022	42	2,084	2,084	40
Total	$ 82,515	$ 96,791	$ 2,873	$ 59,531	$ 70,897	$ 2,627

Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:								
Real estate mortgage	$ 1,765	$ -	$ 2,145	$ 2	$ 1,289	$ 4	$ 1,149	$ 6
Production and intermediate-term	10,988	12	8,328	54	8,338	155	6,019	168
Farm-related business	2,600	35	2,680	51	2,620	143	2,701	149
Rural residential real estate	-	-	-	-	10	-	4	-
Energy	3,223	-	3,572	-	3,284	-	2,833	-
Mission-related investments	134	3	156	3	135	8	159	9
Total	$ 18,710	$ 50	$ 16,881	$ 110	$ 15,676	$ 310	$ 12,865	$ 332
Impaired loans with no related allowance for loan losses:								
Real estate mortgage	$ 37,641	$ 145	$ 42,421	$ 170	$ 36,437	$ 613	$ 43,439	$ 734
Production and intermediate-term	20,062	102	11,907	57	15,840	458	16,441	268
Farm-related business	3,884	3	131	16	3,844	3	131	29
Rural residential real estate	216	-	408	1	291	-	416	3
Energy	92	2	-	-	71	2	4	-
Mission-related investments	1,888	29	1,930	29	1,914	88	1,954	89
Lease receivables	30	-	41	-	10	-	47	-
Total	$ 63,813	$ 281	$ 56,838	$ 273	$ 58,407	$ 1,164	$ 62,432	$ 1,123
Total impaired loans:								
Real estate mortgage	$ 39,406	$ 145	$ 44,566	$ 172	$ 37,726	$ 617	$ 44,588	$ 740
Production and intermediate-term	31,050	114	20,235	111	24,178	613	22,460	436
Farm-related business	6,484	38	2,811	67	6,464	146	2,832	178
Rural residential real estate	216	-	408	1	301	-	420	3
Energy	3,315	2	3,572	-	3,355	2	2,837	-
Mission-related investments	2,022	32	2,086	32	2,049	96	2,113	98
Lease receivables	30	-	41	-	10	-	47	-
Total	$ 82,523	$ 330	$ 73,719	$ 383	$ 74,083	$ 1,474	$ 75,297	$ 1,455

A summary of changes in the allowance for loan losses and the ending balance including accrued interest of loans

	Real Estate Mortgage	Production and Intermediate Term	Farm related business	Rural Residential Real Estate	Energy and Water/Waste Disposal	Communication	Mission Related Investments	Lease Receivable	Total
Allowance for credit losses:									
Balance at June 30, 2019	$ 11,397	$ 15,296	$ 3,177	$ 105	$ 1,519	$ 87	$ 42	$ 90	$ 31,713
Charge-offs	(4)	(2,035)	-	-	-	-	-	-	(2,039)
Recoveries	167	185	1	8	-	-	-	-	361
Provision (reversal) for loan losses	239	(561)	(253)	1	31	6	-	(12)	(549)
Transfer from reserve on unfunded commitments	(2)	53	(15)	-	-	-	-	-	36
Balance at September 30, 2019	$ 11,797	$ 12,938	$ 2,910	$ 114	$ 1,550	$ 93	$ 42	$ 78	$ 29,522
Balance at December 31, 2018	8,517	11,915	3,439	98	1,331	86	41	68	$ 25,495
Charge-offs	(23)	(3,957)	-	(11)	-	-	-	-	(3,991)
Recoveries	541	361	9	23	-	-	-	-	934
Provision (reversal) for loan losses	2,765	4,559	(512)	4	218	7	1	10	7,052
*Other	(3)	60	(26)	-	1	-	-	-	32
Balance at September 30, 2019	$ 11,797	$ 12,938	$ 2,910	$ 114	$ 1,550	$ 93	$ 42	$ 78	$ 29,522
Allowance for loan losses: Ending Balance at September 30, 2019									
Individually evaluated for impairment	$ 62	$ 1,355	$ 368	$ -	$ 1,046	$ -	$ 42	$ -	$ 2,873
Collectively evaluated for impairment	$ 11,735	$ 11,583	$ 2,542	$ 114	$ 504	$ 93	$ -	$ 78	$ 26,649
Balance at June 30, 2018	$ 9,333	$ 12,323	$ 3,370	$ 116	$ 1,490	$ 140	$ 56	$ 51	$ 26,879
Charge-offs	-	(48)	-	(9)	-	-	-	-	(57)
Recoveries	254	253	1	8	-	-	-	-	516
(Reversal) provision for loan losses	(1,793)	(626)	(207)	(19)	(3)	(12)	(1)	1	(2,660)
Transfer from reserve on unfunded commitments	2	112	(10)	-	2	-	-	-	106
Balance at September 30, 2018	$ 7,796	$ 12,014	$ 3,154	$ 96	$ 1,489	$ 128	$ 55	$ 52	$ 24,784
Balance at December 31, 2017	$ 10,470	$ 12,955	$ 4,002	$ 150	$ 1,615	$ 145	$ 82	$ 31	$ 29,450
Charge-offs	(83)	(971)	-	(9)	-	-	-	-	(1,063)
Recoveries	325	285	20	16	-	31	-	-	677
(Reversal) provision for loan losses	(2,930)	(635)	(928)	(61)	(150)	(48)	(36)	21	(4,767)
Other	14	380	60	-	24	-	9	-	487
Balance at September 30, 2018	$ 7,796	$ 12,014	$ 3,154	$ 96	$ 1,489	$ 128	$ 55	$ 52	$ 24,784
Allowance for loan losses: Ending Balance at December 31, 2018									
individually evaluated for impairment	$ 235	$ 927	$ 368	$ 4	$ 1,053	$ -	$ 40	$ -	$ 2,627
collectively evaluated for impairment	$ 8,282	$ 10,988	$ 3,071	$ 94	$ 278	$ 86	$ 1	$ 68	$ 22,868

	Real Estate Mortgage	Production and Intermediate Term	Farm related business	Rural Residential Real Estate	Energy and Water/Waste Disposal	Communication	Mission Related Investments	Lease Receivable	Total
Recorded Investments in Loans Outstanding:									
Ending Balance at September 30, 2019	$ 5,907,895	$ 982,549	$ 649,468	$ 101,937	$ 72,073	$ 57,307	$ 6,287	$ 17,247	$ 7,794,763
Individually evaluated for impairment	$ 39,628	$ 30,959	$ 6,470	$ 213	$ 3,223	$ -	$ 2,022	$ -	$ 82,515
Collectively evaluated for impairment	$ 5,868,267	$ 951,590	$ 642,998	$ 101,724	$ 68,850	$ 57,307	$ 4,265	$ 17,247	$ 7,712,248
Ending Balance at December 31, 2018	$ 5,692,453	$ 935,526	$ 596,637	$ 102,585	$ 68,901	$ 41,125	$ 6,586	$ 18,017	$ 7,461,830
Individually evaluated for impairment	$ 35,705	$ 15,130	$ 2,793	$ 391	$ 3,428	$ -	$ 2,084	$ -	$ 59,531
Collectively evaluated for impairment	$ 5,656,748	$ 920,396	$ 593,844	$ 102,194	$ 65,473	$ 41,125	$ 4,502	$ 18,017	$ 7,402,299

NOTE 4 —LEASES:

The association evaluates arrangements at inception to determine if it meets the criteria for a lease. Leases with an initial term of twelve months or less are not recorded on the balance sheet with lease expense recognized on a straight-line basis over the lease term. Operating leases are included in right of use asset-leases (ROU) and lease liabilities on the balance sheet.

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

The components of lease expense were as follows:

	Classification	For the Nine Months Ended September 30, 2019
Operating lease cost	Operating	$ 1,543
Short-term lease cost	Operating	186
Net lease cost		$ 1,729

Other information related to leases was as follows:

	For the Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 1,714
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	$ 11,047

Lease term and discount rate are as follows:

	September 30, 2019
Weighted average remaining lease term in years:	
Operating leases	5.17
Weighted average discount rate:	
Operating leases	3.3%

Future minimum lease payments under non-cancellable leases as of September 30, 2019 were as follows:

	Operating Leases
2019 (excluding the nine months ended 9/30/19)	$ 591
2020	2,092
2021	1,869
2022	1,779
2023	1,727
Thereafter	4,341
Total lease payments	12,399
Less: interest	-
Total	$ 12,399

NOTE 5 — MEMBERS EQUITY:

The association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected patronage, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

Regulatory Capital Ratios

	Regulatory Minimums	Conservation Buffers*	Total	As of September 30, 2019	As of December 31, 2018
Risk-adjusted:					
Common equity tier 1 ratio	4.50%	2.50% *	7.00%	14.33%	14.30%
Tier 1 capital ratio	6.00%	2.50% *	8.50%	14.33%	14.30%
Total capital ratio	8.00%	2.50% *	10.50%	15.19%	15.10%
Permanent capital ratio	7.00%	0.00%	7.00%	14.85%	14.80%
Non-risk-adjusted:					
Tier 1 leverage ratio	4.00%	1.00%	5.00%	14.86%	14.80%
UREE leverage ratio	1.50%	0.00%	1.50%	8.48%	9.50%

The details for the amounts used in the calculation of the regulatory capital ratios as of September 30, 2019:

90 Day Average Balances (dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 672,096	$ 672,096	$ 672,096	$ 672,096
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	25,929	25,929	25,929	25,929
Allocated equities held ≥7 years	586,887	586,887	586,887	586,887
Allocated equities subject to revolvement ≥ 5 years but < 7 years	-	-	37,780	37,780
Allowance for loan losses and reserve for credit losses subject to certain limitations	-	-	32,000	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(125,974)	(125,974)	(125,974)	(125,974)
Other regulatory required deductions	(2,334)	(2,334)	(2,334)	(2,334)
	1,156,604	1,156,604	1,226,384	1,194,384
Denominator:				
Risk-adjusted assets excluding allowance	8,092,013	8,092,013	8,092,013	8,092,013
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(20,072)	(20,072)	(20,072)	(20,072)
Allowance for loan losses	-	-	-	(31,565)
	8,071,941	8,071,941	8,071,941	8,040,376

90 Day Average Balances (dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 672,096	$ 672,096
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	25,929	-
Allocated equities held ≥7 years	586,887	
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(125,974)	(9,853)
Other regulatory required deductions	(2,334)	(2,334)
	1,156,604	659,909
Denominator:		
Total Assets	7,954,005	7,954,005
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(170,822)	(170,822)
	7,783,183	7,783,183

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2019		2018	
Accumulated other comprehensive (loss) at January 1	$	(79)	$	(3,694)
Amortization of prior service (credit) costs included in salaries and employee benefits		(137)		(169)
Amortization of actuarial (gain) loss included in salaries and employee benefits		-		138
Other comprehensive (loss), net of tax		(137)		(31)
Accumulated other comprehensive (loss) at September 30	$	(216)	$	(3,725)

NOTE 6 — INCOME TAXES:

The association conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. The association operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the association can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management’s estimate, that they will not be realized.

NOTE 7 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 14 to the 2018 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis, which are measured at fair value at the end of each reporting period on the association’s consolidated balance sheet, are summarized below. The association did not have any liabilities measured at fair value on a recurring basis.

September 30, 2019	**Fair Value Measurement Using**						**Total Fair Value**	
	Level 1		**Level 2**		**Level 3**			
Assets:								
Assets held in nonqualified benefit trusts	**$**	**7,885**	**$**	**-**	**$**	**-**	**$**	**7,885**
Total assets	**$**	**7,885**	**$**	**-**	**$**	**-**	**$**	**7,885**

December 31, 2018	Fair Value Measurement Using						Total Fair Value	
	Level 1		Level 2		Level 3			
Assets:								
Assets held in nonqualified benefit trusts	$	7,103	$	-	$	-	$	7,103
Total assets	$	7,103	$	-	$	-	$	7,103

Assets and liabilities measured at fair value on a nonrecurring basis, which are fair value measurements that are triggered by particular circumstances such as impaired assets, for each of the fair value hierarchy levels are summarized below. The association did not have any liabilities measured at fair value on a nonrecurring basis.

September 30, 2019	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$ 12,971**	**$ 12,971**
Other property owned	**-**	**-**	**751**	**751**

December 31, 2018	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 11,174	$ 11,174
Other property owned	-	-	972	972

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 14 to the 2018 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents a brief summary of the valuation techniques used for the association's assets and liabilities. For a more complete description, see Notes to the 2018 Annual Report to Stockholders.

Investments

Include mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac). Fair values are estimated using discounted cash flows considering market interest rates, estimated prepayment rates, probabilities of default and loss severities. Inputs depend significantly on management judgements and experience with the securities. These fair value measurements are classified as level 3 investments.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

NOTE 8 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the nine months ended September 30:

	Other Benefits	
	2019	2018
Service Cost	$ 257	$ 341
Interest Cost	804	766
Expected return on plan assets	-	-
Amortization of prior service (credits) cost	(137)	(169)
Amortization of net actuarial (gain) loss	-	138
Net periodic benefit cost	$ 924	$ 1,076

The association's liability for the unfunded accumulated obligation for these benefits at September 30, 2019, was $23,477 and is included in "Unfunded post-retirement medical obligations" in the balance sheet.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. Contributions due and unpaid are recognized as a liability. For the DB plan, the association recognized costs of $1,760 and $2,190 for the nine months ended September 30, 2019 and 2018. The association previously disclosed in its financial statements for the year ended December 31, 2018, that it expected to contribute $869 to the district's defined benefit pension plan in 2019. As of September 30, 2019, $575 of contributions have been made. The association presently anticipates contributing an additional $294 to fund the defined benefit pension plan in 2019 for a total of $869.

The association's contributions to the DC Plan are expensed as incurred. For the nine months ended September 30, 2019 and 2018, the association recognized pension costs of $2,019 and $1,847 respectively.

Employees are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Contributions to the 401(k) plan are expensed as incurred. For the nine months ended September 30, 2019 and 2018, the association contributed $1,656 and $1,559, respectively.

The association also participates in a defined contribution nonqualified supplemental 401(k) plan. The total expenses of the nonqualified plan included in the association's employee benefit costs were $554 and $288 for the nine months ended September 30, 2019 and 2018, respectively.

NOTE 9 — COMMITMENTS AND CONTINGENT LIABILITIES:

The association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

NOTE 10 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through November 5, 2019, which is the date the financial statements were issued and there are no other significant events requiring disclosure as of this date.