Together we're better.

2019 ANNUAL REPORT

CAPITAL FARM CREDIT

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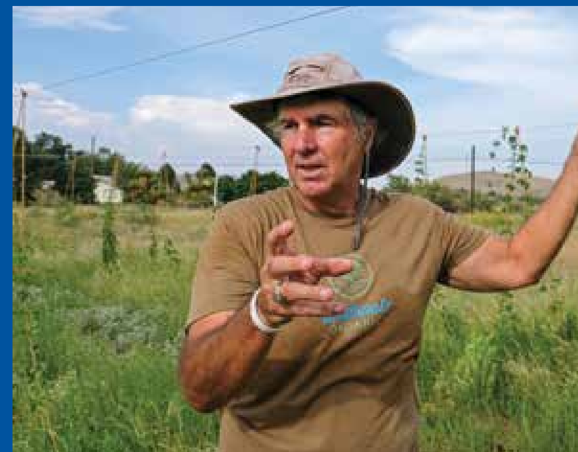
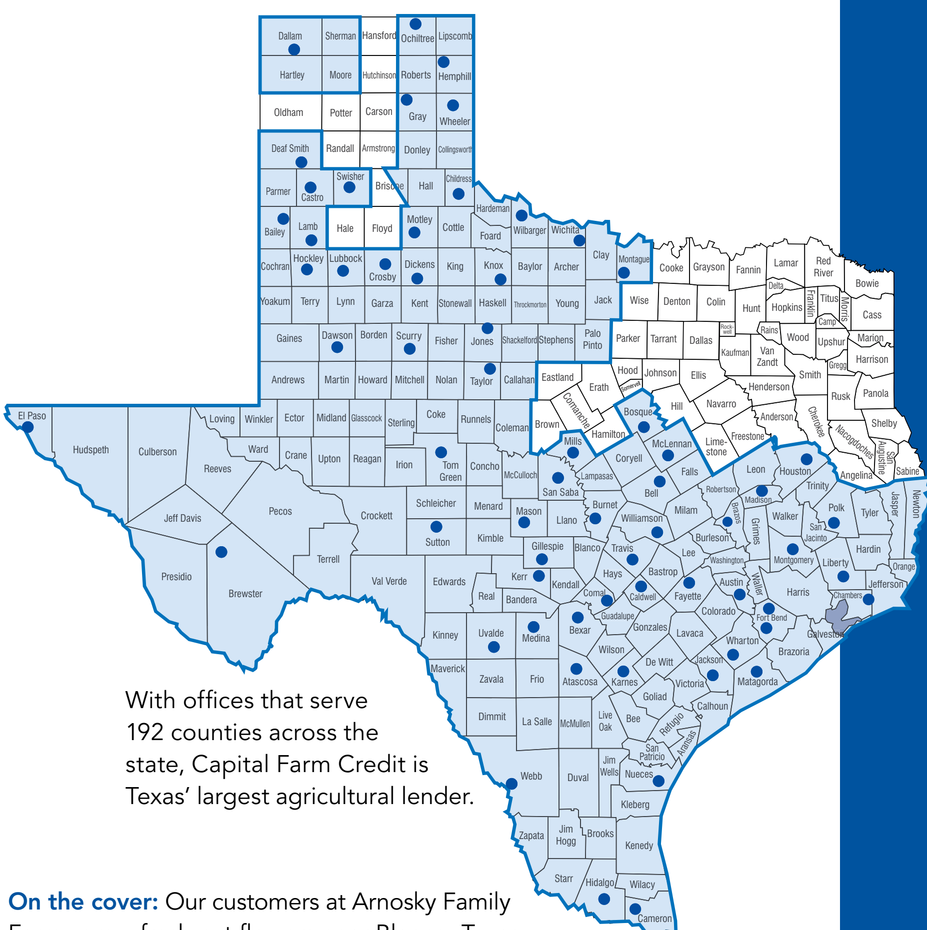




With offices that serve 192 counties across the state, Capital Farm Credit is Texas' largest agricultural lender.

On the cover: Our customers at Arnosky Family Farms grow fresh-cut flowers near Blanco, Texas.

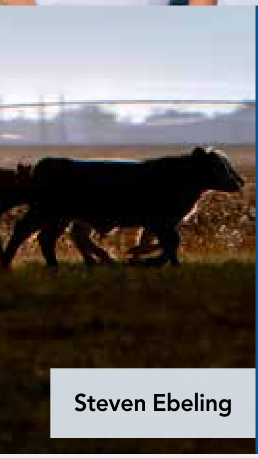
capitalfarmcredit.com | 877.944.5500
NMLS493828

David Steinbrunner

The Yoder family: Steven, Pamela, Elijah, Rinnell, Zachary and Oliver

The Cadena family: Rosy, Fermin, Jackie and Christian

Coy Franks



Steven Ebeling

CAPITAL FARM CREDIT

Commitment as Big as Texas

It's been over a century since farmers formed our cooperative to have a source of reliable, consistent credit.

Agriculture and rural communities have come a long way, and so have the products and services at Capital Farm Credit. But some things never change at our borrower-owned co-op, like our commitment to our members.

We're all in this together, and together we're better.

The Klepac family: Kotton, Wade, Kamille, Kourtni, Jeff, Traci, Rachelle, Cheyanne, Brandon and Shiloh

Michael Paz

Creating New Opportunities for Agriculture and Rural Communities

At Capital Farm Credit, we provide dependable credit and financial services that help our customers achieve success.

Our commitment to our customers led to strong financial results in 2019.

We reported $181.0 million in net income, second only to our record earnings in 2018. Outstanding loan volume grew 5.8 percent year over year to a record $7.8 billion. Our assets crossed a new threshold, finishing the year at $8.1 billion. We also maintained sound credit quality, benefiting from our diversified portfolio and the healthy Texas economy.

Sharing Our Success

Capital Farm Credit borrowers are more than customers. They're also members and part owners, so they share in the cooperative's earnings. We return some of the interest they paid on their loans in a cash patronage refund each year. We also retain some as capital to keep the cooperative strong.

When we retain earnings, we allocate it to current borrowers. Then as we grow and generate new capital, we retire the older capital and return it to the people who provided it. We do this so we won't burden members with capitalizing the association after they've paid off their loans.

In 2019 we returned $125.7 million to our members, starting last spring with $87.5 million of our 2018 earnings. In November we also distributed $38.2 million, retiring all remaining allocated equities from 2011.

Based on our solid financial results, our board of directors voted to return 97.5 percent of our 2019 earnings to members. This spring, we will distribute nearly 30,000 patronage checks totaling a record $88.5 million. Another $88.0 million in allocated equities will be eligible for disbursement in the future.

Providing Superior Service

We provide loan products for landowners, rural homeowners, agribusinesses, and farmers and ranchers of all types and experience levels. We partner with AgDirect to make Farm Credit financing accessible at equipment dealerships. We also offer added security through a variety of insurance products.

Because we serve such a large, diverse territory, our customers' needs vary from place to place. We have the flexibility and agricultural expertise to tailor financing for each unique situation. We also try to make it convenient to do business with us. We expanded our locations by opening a new credit office in Round Rock last year to meet the local demand.

Our workforce continued to expand in 2019, both in number and capabilities. As part of our succession plan, we cultivate employees' skills, recognize their talents and provide opportunities to advance. The result is a very engaged, adaptable team.

To help employees provide fast, efficient service, we continued to streamline our processes. We rolled out new credit analysis software last year that automates workflows for faster results.

We also prepared for innovative tools and technology coming in 2020. You can learn more in our CEO message.

Helping Members Succeed

We serve some of the best agricultural producers around. But no large, sophisticated operation begins that way. That's why we have special programs to help young, beginning and small ag producers get their start and grow.

We support agriculture by sponsoring youth stock shows, awarding scholarships, and offering educational programs for ag producers.

We also recognize rising young leaders in the industry through the Farm Credit Young Leaders Program. These members learn how Farm Credit

Last year we shared a customer's products at the Farm Credit Marketplace in Washington, D.C. Jeff Moder, marketing and communications director, handed out samples of Texana Brands infused olive oil.

raises funding to support agriculture and rural communities.

Last year's young leaders joined us in Washington, D.C., for a gathering of Farm Credit employees, borrowers and directors from across the U.S.

The signature event was the Farm Credit Marketplace at the Library of Congress, where guests sampled products made by Farm Credit customers. We were proud to showcase our members at Texana Olive Ranch.

As we embark on a new year, we're exploring new ways to help our customers succeed. Thanks to our strong results in 2019, we're ready to create new opportunities. ★

Supporting the Next Generation

We offer loan programs and educational events to help young, beginning and small farmers and ranchers get off to a strong start. Our Next Generation conferences provide valuable information about risk management, government programs, farm finances and more.

Each year, we send promising young members to Washington, D.C., and Wall Street for the Farm Credit Young Leaders Program. Comal County ranchers Wade and Raegan Lowry, center, celebrated completing the program with Farm Credit Bank of Texas directors Jack Dailey and Linda Floerke.

We awarded more than $126,000 in scholarships in 2019 — including at least one scholarship from each of our credit offices. David Barnett, a senior loan officer in our Muleshoe office, presented a $1,000 scholarship to Farwell High School senior Sidney Urbantke.

We devote time and resources to agriculture-based youth development programs such as 4-H and FFA. At the Texas 4-H Roundup, contestants visited our exhibit to better understand financing — and have some fun in our photo booth, too.

Young people are the future of agriculture, so we help them learn the ropes. We sponsor livestock show programs and exhibitors, offer special financing for youth ag projects and much more.

CEO Message

Dear Stockholder:

A few things set Capital Farm Credit apart from other lenders. One is our mission to support agriculture and rural communities. Another is our large, diverse territory. We cover a lot of ground in Texas, where customers' needs vary as much as the terrain. That diversification carries over to our portfolio and keeps our cooperative strong.

Last year, impressive economic growth in Texas fueled demand for our products and services.

As a result of healthy loan growth, we exceeded $8 billion in assets in 2019 for the first time. Earnings were strong at $181.0 million, surpassed only by our record net income the previous year.

Our borrowers share in the co-op's success through our patronage dividend program. Our board recently declared $176.6 million in patronage on 2019 earnings. We will distribute the first $88.6 million — just over half of the total — to members in cash this spring, lowering their borrowing costs.

In addition to conducting day-to-day business, we spent 2019 preparing for a strong future.

Because Texas varies so much by region, we launched new market research so we can improve our customer outreach and offer the right products in the right places. We also started planning for a new advisory council we'll launch in 2020. This group of borrowers, university representatives and others will be our sounding board as we explore new ways to serve and expand our customer base.

We also help lawmakers understand agriculture so they can shape effective ag policies. Last summer, we joined hundreds of Farm Credit representatives on Capitol Hill. We met with elected officials, shared our customers' stories, and showcased a borrower's products in a reception at the Library of Congress. We're optimistic that recent progress in trade agreements will stabilize demand and commodity prices for the ag producers we serve.

Most importantly, we laid the groundwork for new technology coming in 2020 for our customers and credit staff. The first is a user-friendly tool that will help borrowers and loan officers share documents and track the status of loan applications. The second is a new suite of software products that will enhance the lending process. We already use many of these products, and anticipate new capabilities that will streamline the loan process for our staff and customers. We are working with Farm Credit Bank of Texas, our funding bank, on both of these initiatives.

While 2019 was a good year, we're projecting 2020 to be even better. Thank you for the opportunity to serve you, and we look forward to our continued partnership.

Ben R. Novosad

Ben R. Novosad
Chief Executive Officer

Texana Olive Ranch

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who also conduct a review of internal controls to the extent necessary to comply with auditing standards solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The association is also examined by the Farm Credit Administration.

The board of directors has overall responsibility for the association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

The undersigned certify that this annual 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 our knowledge and belief.

Ben R. Novosad

Ben R. Novosad, Chief Executive Officer
March 9, 2020

John Malazzo

John Malazzo, Chairman, Board of Directors
March 9, 2020

Don VandeVanter

Don VandeVanter, Chief Financial Officer
March 9, 2020

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The association's chief executive officer and chief financial officer are responsible for establishing and maintaining adequate internal control over financial reporting for the association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process (1) designed by, or under the supervision of the association's principal executives and principal financial officers, or persons performing similar functions (2) effected by its board of directors, management and other personnel and (3) monitored for adherence to by the board's Audit Committee through the association's internal audit staff and internal credit reviewers to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the association and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the association's assets that could have a material effect on its consolidated financial statements.

The association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2019. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the association concluded that as of December 31, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the association determined that there were no material weaknesses in internal control over financial reporting as of December 31, 2019. A review of the assessment performed was reported to the association's Audit Committee.

Ben R. Novosad

Ben R. Novosad, Chief Executive Officer
March 9, 2020

Don VandeVanter

Don VandeVanter, Chief Financial Officer
March 9, 2020

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of six directors of Capital Farm Credit, ACA (the association). In 2019, the committee met seven times and conducted business by conference call on two occasions. The committee oversees the scope of the association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the association's website. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2019.

Management is responsible for the association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the committee. PwC is responsible for performing an independent audit of the association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The committee's responsibilities include monitoring and overseeing these processes.

In this context, the committee reviewed and discussed the association's audited consolidated financial statements for the year ended December 31, 2019 (audited consolidated financial statements), with management and PwC. The committee also reviews with PwC the matters required to be discussed by authoritative guidance, "The Auditor's Communication With Those Charged With Governance," and both PwC and the association's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PwC its independence from Capital Farm Credit, ACA. The committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and PwC other matters and received assurances from them as the committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in the association's Annual Report to Stockholders for the year ended December 31, 2019.

Kenton Kimball

Kenton Kimball, Chairman

Additional Members: Terry McAlister
Carl Sample
Steve Stevens
Sharleen Walkoviak
Joe David Yates

March 9, 2020

CAPITAL FARM CREDIT, ACA
FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	December 31,				
	2019	2018	2017	2016	2015
Balance Sheet Data					
Assets					
Loans	**$ 7,822,838**	$ 7,393,006	$ 7,245,367	$ 6,927,965	$ 6,483,896
Less: Allowance for losses	**(30,798)**	(25,495)	(29,450)	(30,287)	(23,328)
Net Loans	**7,792,040**	7,367,511	7,215,917	6,897,678	6,460,568
Investment -- held-to-maturity	**3,418**	4,388	5,566	6,670	8,098
Investment in and receivable from the Bank:	**154,485**	147,288	133,710	127,298	114,730
Other property owned, net	**859**	972	3,989	2,634	1,109
Other assets	**135,177**	119,297	111,475	101,884	92,355
Total assets	**$ 8,085,978**	$ 7,639,456	$ 7,470,657	$ 7,136,164	$ 6,676,860
Liabilities					
Obligations with maturities of one year or less	**$ 172,634**	$ 168,172	$ 154,392	$ 129,800	$ 126,868
Obligations with maturities greater than one year	**6,629,186**	6,239,046	6,140,228	5,882,830	5,483,613
Total liabilities	**6,801,820**	6,407,218	6,294,620	6,012,630	5,610,481
Members' Equity					
Capital stock and participation certificates	**25,980**	25,804	25,519	25,049	24,419
Non-qualified allocated retained earnings	**674,877**	624,839	578,054	528,533	487,489
Unallocated retained earnings	**586,224**	581,674	576,158	571,198	555,052
Accumulated other comprehensive (loss) income	**(2,923)**	(79)	(3,694)	(1,246)	(581)
Total members' equity	**1,284,158**	1,232,238	1,176,037	1,123,534	1,066,379
Total liabilities and members' equity	**$ 8,085,978**	$ 7,639,456	$ 7,470,657	$ 7,136,164	$ 6,676,860
	Year Ended December 31,				
Statement of Income Data					
Net interest income	**$ 235,013**	$ 234,723	$ 227,346	$ 215,137	$ 202,715
(Provision for) reversal of credit losses	**(8,101)**	3,469	(2,315)	(7,361)	(3,465)
Income from the Bank	**40,403**	35,041	29,029	27,392	23,765
Other noninterest income	**14,794**	15,293	10,943	9,221	8,478
Noninterest expense	**(101,099)**	(98,676)	(96,260)	(93,235)	(92,180)
(Provision for) benefit from income taxes	**(5)**	1	(7)	(8)	(11)
Net income	**$ 181,005**	$ 189,851	$ 168,736	$ 151,146	$ 139,302
Key Financial Ratios for the Year					
Return on average assets	2.3%	2.5%	2.3%	2.2%	2.2%
Return on average members' equity	14.4%	15.8%	14.7%	13.1%	13.5%
Net interest margin as a percentage of average earning assets	3.1%	3.2%	3.2%	3.2%	3.3%
Net charge-offs (recoveries) as a percentage of average loans	0.0%	0.0%	0.0%	0.0%	-0.1%

CAPITAL FARM CREDIT, ACA
FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	December 31, 2019	2018	2017	2016	2015
Key Financial Ratios at Year End *					
Members' equity as a percentage of total assets	15.9%	16.1%	15.7%	15.7%	16.0%
Debt as a percentage of members' equity	529.7%	520.0%	535.2%	535.2%	526.1%
Allowance for loan losses as a percentage of loans	0.4%	0.3%	0.4%	0.4%	0.4%
Common Equity tier 1 ratio	14.6%	14.3%	13.4%	n/a	n/a
Tier 1 capital ratio	14.6%	14.3%	13.4%	n/a	n/a
Total capital ratio	15.0%	15.1%	15.0%	n/a	n/a
Permanent capital ratio	14.7%	14.8%	14.7%	14.6%	14.8%
Tier 1 leverage ratio	15.2%	14.8%	13.9%	n/a	n/a
UREE leverage ratio	8.9%	9.5%	9.5%	n/a	n/a
Total surplus ratio	n/a	n/a	n/a	14.4%	14.5%
Core surplus ratio	n/a	n/a	n/a	14.4%	14.5%
Net Income Distribution/Allocation					
Cash patronage paid	$ 87,543	$ 77,506	$ 57,170	$ 56,746	$ 71,980
Cash retirement of nonqualified written notice of allocation	38,206	50,000	36,785	36,783	39,867
Nonqualified notices of allocation	87,989	97,044	86,341	77,830	80,885

*Effective January 1, 2017 the Farm Credit Administration implemented new capital ratios. The total surplus ratio and core surplus ratios were no longer included in the regulatory capital measurements, while the permanent capital ratio was maintained as a regulatory capital ratio. In addition, the common equity tier 1 ratio, the tier 1 capital ratio, the total capital ratio, the tier 1 leverage ratio, and the unallocated retained earnings leverage ratios were implemented as new regulatory ratios. The association's ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2019. For more information, see Note 11 in the accompanying consolidated financial statements, "Members Equity" included in this annual report.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (ALL DOLLAR AMOUNTS IN THOUSANDS)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA, including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA (collectively referred to as the association) for the years ended December 31, 2019, 2018 and 2017, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the association's Audit Committee.

Forward-Looking Information:

This annual report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will" or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond the association's control. The association is impacted by factors that would impact any agricultural real estate lender. These risks and uncertainties include but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease-related, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government and government-sponsored enterprises; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Commodity Review and Outlook:

Capital Farm Credit's territory covers most of Texas except for the northeast quadrant and seven counties in the Panhandle. The association's territory includes a variety of agriculture commodities, diversified land types, many production seasons, and different farming and ranching practices. This diversity benefits the association's loan portfolio with a wide range of commodities that present different risks and opportunities for its members. Most of the production and farm revenue is generated by farmers and ranchers who manage full-time operations, as well as large agribusinesses. There are also many part-time farming and ranching operations. Most part-time operators' revenue is from nonagricultural sources and many of these operators invest heavily in their agriculture operations with their time and money. This further diversifies the association's credit risks across the portfolio.

Political uncertainty, specifically U.S. trade policy, has led to significant declines in most agricultural commodity prices over the last few years. However, with the recently executed United States-Mexico-Canada Trade Agreement (USMCA) and the long-awaited trade agreement between the United States and China, there are better prospects for exports in fiber, grains, and livestock products, which may improve those commodity prices. Prices, however, are only part of the challenge. High production costs are also pressuring producers. Input costs like labor, fuel, equipment, and technology are also high. All the while Texas producers are coming off multiple years of extreme weather events, from hurricanes and floods to short, but severe, droughts. Government support through the Market Facilitation Program and federally subsidized crop insurance has helped producers, but years of on-farm production challenges are weighing on the agricultural economy.

The general economy in Texas continues to grow and outpace the U.S. economy. Low unemployment and record energy production buoyed economic expansion in the state and helped the association manage portfolio risk through challenging years in production agriculture. In addition, many corporate relocations to Texas from other states have led to increases in job growth and wages. Influenced by this significant population growth, Texas rural land values have risen steadily over the last several years and the association expects the trend to continue. The association benefits in multiple ways including strong and stable collateral values, as well as opportunities for new loan business and loan growth.

The following is a review and outlook of some of the key commodities served by the association and a summary of industries and economic factors that impact our part-time producers. The percentages shown were determined based on the outstanding loan volume tied to the specific type of operation or commodity as of December 31, 2019.

Livestock (49.9 percent of the loan portfolio) – Texas livestock producers began rebuilding their herds after the very severe drought in 2011. The increase in herd size was met with favorable prices in the cattle market through 2014, but the market sold off significantly in 2015 and 2016, resulting in highly leveraged positions for many producers. The loss of value in its herds, coupled with challenging weather conditions throughout much of the state in 2017 and 2018, led to multiple years of losses for many producers. However, there is optimism for the sector looking forward. With over 26 percent of the U.S. beef export to Canada and Mexico, the recently signed USMCA should positively influence the livestock markets. There is also hope that the trade agreement with China may result in more beef exports, especially with the outbreak of African Swine Fever throughout China causing pork consumption to fall and beef consumption to rise. With these greater expectations for growth, livestock producers are expectant that the increase in prices that began in the fourth quarter of 2019 will continue.

Crops (19.6 percent of the loan portfolio) – Crop producers have also been challenged with unfavorable weather, higher input costs and lower commodity prices. The Market Facilitation Program provided some much-needed relief in 2019 to many producers, but the overall effectiveness has been varied. Weather extremes have been generally more pronounced in the last couple of years, so more timely rains will be even more critical for the coming year. An increase in the 2019/20 cotton inventory will likely suppress cotton prices for the coming year. The China trade agreement should help corn prices and other feed grains, but significant increases are not expected.

Hunting and recreation (10.2 percent of the loan portfolio) – Texas' general economy continues to support a favorable trend in the hunting and recreation sector. With the continued low unemployment rates, stable wages, and increase in the population, hunting and recreational operations continue to be profitable. Land prices continue to rise across most of the state, but especially in the Hill Country, where most of the recreation businesses operate. The oil and gas economy continue to support this sector as well, with continued production in South Texas and West Texas. The general economy in Texas is expected to continue to grow which should be positive for the hunting and recreation industry.

Dairy (4.5 percent of the loan portfolio) – Dairy producers experienced a much needed improvement in milk prices during 2019. The dairy industry is expected to continue to concentrate among larger entities with the emphasis being improved milking efficiencies to offset price volatility. While milk and dairy production are expected to increase going forward, the industry is looking to product innovation and export markets to increase demand. A continued increase in demand will be required to create long term stability and potentially improved prices for the producers.

Timber (3.4 percent of the loan portfolio) – Helped by lower interest rates in 2019 and a resumption of building activity, lumber prices improved throughout 2019. With housing starts increasing steadily in the second half of the year, the trend is expected to continue into the near future, which will continue to support the timber industry.

Other (12.4 percent of the loan portfolio) – The outlook for the overall economy for 2020 remains positive, but growth may slow down from the more favorable levels experienced in the last few years. Stable interest rates in the U.S. should continue to draw investments to support the overall economy. However, with the election at the end of 2020, and the increased uncertainty around the world, there will be periods of volatility. If agricultural producers can experience better weather conditions, the agricultural economy should show improvement with the recently signed trade agreements. Favorable unemployment rates and strong labor demand should continue to influence land prices positively. The state's economy should continue to be stronger than the national economy as the population of the state continues to grow rapidly. The association expects this to continue to have a positive influence on loan demand and the repayment capacity for part-time farmers and ranchers.

Significant Events:

Patronage Refunds by Association

The board of directors approved a $176,537 patronage distribution for 2019. Of that amount $88,550 of this distribution will be paid in cash in March 2020 and $87,987 will be distributed in the form of nonqualified allocated equity, which means the owners of these 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 2018, the board of directors approved a $184,330 patronage distribution with cash patronage payable of $87,543 and $96,787 in nonqualified allocations. 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 $87,481 and increased nonqualified allocated equities by $257 for total distributions of $97,044. In 2017, the board of directors approved a $163,847 patronage distribution, with cash patronage payable of $77,506 and $86,341 in nonqualified allocations. In March 2018 the association finalized the computation of these distributions which resulted in no change to nonqualified allocations and a reduction in cash patronage payable of $102 for an actual cash distribution of $77,404.

In September 2019 the board of directors approved a resolution to retire $38,206 in nonqualified allocated equities which were paid to the recipients in November 2019. The retirement was a distribution of all remaining allocated equities from 2011. 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 September 2017 the board of directors approved a resolution to retire $36,785 in nonqualified allocated equities. The retirement was a distribution of all the earnings allocated in 2010.

Patronage Refund Received from Farm Credit Bank of Texas

The association received income in the form of a direct loan patronage of $30,031, $26,508 and $23,236 from the Farm Credit Bank of Texas (Bank), representing 0.47, 0.43 and 0.39 percent of the average daily balance of the association's direct loan with the Bank at December 31, 2019, 2018 and 2017, respectively. The association also received $3,797, $3,172 and $2,520 in patronage payments from the Bank, based on the association's stock investment in the Bank at December 31, 2019, 2018 and 2017, respectively. In addition, as a result of the CPP transaction discussed under the "Loan Portfolio" section below, the association received patronage of $2,767 and $855 in 2019 and 2018, respectively. Also, the association received a capital markets patronage of $3,808, $4,506 and $3,273 from the Bank in 2019, 2018 and 2017 representing 0.75, 0.75 and 0.75 percent, respectively, on the year's average daily balance for loan participations sold to the Bank.

Point of Purchase Equipment Financing

The association partners with other Farm Credit associations to facilitate a point of purchase equipment financing program under the name of AgDirect LLP (AgDirect). The AgDirect program operates through independent equipment dealers to originate and refinance agricultural equipment loans. The association's investment in AgDirect was $9,684, $9,237 and $8,556 at December 31, 2019, 2018 and 2017, respectively. Income from this program was $1,350, $1,164 and $779 for the years ended December 31, 2019, 2018 and 2017, respectively, and is included in other income in the accompanying Consolidated Statements of Comprehensive Income.

Relationships with Unincorporated Business Entities

The association and the Bank made investments in a limited partnership, the Advantage Capital Ag Partners L.P., that will provide junior capital to rural and agriculture businesses in the United States. This partnership is a Rural Business Investment Company (RBIC), and the investment by the association and the Bank is allowed under the Mission-Related Investment authorities granted in the Farm Credit Act. The association's investment in RBIC was $12,631, $11,624 and $11,573 at December 31, 2019, 2018 and 2017, respectively. The association recorded gains and (losses) in 2019, 2018 and 2017 of ($1,435), ($2,551) and $388, respectively.

Loan Portfolio:

The association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The association's loan volume consists primarily of long-term real estate mortgage loans, production and intermediate-term loans and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, LIBOR-based and prime-based interest rates. For all loan products, the association is able to lock an interest rate spread for the pricing term of the loan. When the pricing term expires on a loan, the association is subject to a new cost of funds from the Bank. However, the association is then also able to establish a new interest spread on the loan to the customer. Pricing terms range from one month on LIBOR and prime based products, and from 90 days to 30 years on fixed rate products. Loan maturities range from one to five years, with annual operating loans comprising the majority of the production loans and five- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

At December 31, 2019, the association's loan volume was $7,822,838, an increase of $429,832 or 5.8 percent from December 31, 2018. Volume increased in 2019 across the portfolio, with the most significant growth in the real estate mortgage loans of $328,173 and farm-related business loans of $64,573. At December 31, 2018, loan volume was $7,393,006, which was 2.0 percent higher than the December 31, 2017 loan volume of $7,245,367. In September 2018, the association completed a sale of $99,586 in loans to the Farm Credit Bank of Texas as part of their capitalized participation pool (CPP). In accordance with this program, the association capitalizes this loan pool with a 6 percent investment in the Bank in exchange for the net earnings this pool generates. The CPP program allows the association to manage its capital by controlling the amount of loan volume on the balance sheet. The association recognized earnings from this program of $2,402 and $742 in 2019 and 2018, respectively. The earnings from the program are under the control and discretion of FCBT. The credit quality of the association's portfolio has remained relatively consistent from the prior year and continues to remain strong. Loans classified as acceptable were 96.5 percent of the total portfolio at December 31, 2019, in comparison to 96.6 percent of the total portfolio at December 31, 2018, and 96.0 percent at December 31, 2017. Overall, there has been no significant change in the geographical distribution of the portfolio or the types of loans that comprise the portfolio. The composition of the association's loan portfolio is described more fully in detailed tables in Note 4 to the consolidated financial statements, "Loans and Allowance for Credit Losses."

At December 31, 2019, 2018 and 2017, the association held 4, 4 and 5 transactions respectively, which are reported as loans on the consolidated balance sheet totaling $5,937, $6,100 and $6,253 with remaining commitments of $0, $0 and $44 extended under the Rural America Bond Program approved by the Farm Credit Administration (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.

Purchase and Sales of Loans:

The association has obtained loan guarantees from the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the Bank in the form of standby commitments to purchase qualifying loans. At December 31, 2019, 2018 and 2017, loans totaling $12,620, $15,241 and $30,986, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $55, $110 and $143 in 2019, 2018 and 2017, respectively, and are reflected in "other noninterest expense" in the consolidated statement of income.

The association participates in loans with other lenders. As of December 31, 2019, 2018 and 2017, loan participations purchased by the association totaled $1,016,053, $882,179 and $861,901, or 13.0 percent, 11.9 percent and 11.9 percent of loans, respectively. Included in these amounts are participations purchased from entities other than the Bank and its related associations (collectively referred to as the "District") of $412,282, $354,930 and $351,631, or 5.3 percent, 4.8 percent and 4.9 percent of loans, respectively. The association has also sold participations to other lenders of $1,646,610, $1,387,089 and $1,148,866 as of December 31, 2019, 2018 and 2017, respectively.

Investments:

During 2010, the association exchanged loans totaling $27,975 for Farmer Mac guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long-Term Standby Commitments to Purchase (LTSCP) Agreement with Farmer Mac. These loans were sold to Farmer Mac and then repurchased in the form of a guaranteed AMBS investment. The primary objective in pursuing the AMBS conversion alternative is to reduce the association's credit exposure to Farmer Mac by putting the association in a position to benefit from the United States Treasury line of credit (under Section 8.13 of the Farm Credit Act), which is only available for the payment of Farmer Mac's guarantee obligations on securities, not for its obligations under the LTSCP program. No gain or loss was recognized in the financial statements as a result of the exchange transaction. These AMBS are included in the association's consolidated balance sheet as held-to-maturity investments at an amortized cost balance of $3,418, $4,388 and $5,566 at December 31, 2019, 2018 and 2017, respectively. The association continues to service the loans included in that transaction.

Risk Exposure:

High-risk assets include nonaccrual loans, loans which are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net. The following table reflects the association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2019		2018		2017	
	Amount	**%**	Amount	%	Amount	%
Loans:						
Nonaccrual loans	**$ 61,535**	**79.8%**	$ 48,007	79.3%	$ 68,953	83.6%
90 days past due and still accruing interest	**3,840**	**5.0%**	37	0.1%	23	0.0%
Formally restructured loans	**10,861**	**14.1%**	11,487	19.0%	9,594	11.6%
Other property owned, net	**859**	**1.1%**	972	1.6%	3,989	4.8%
Total	**$ 77,095**	**100.0%**	$ 60,503	100.0%	$ 82,559	100.0%

At December 31, 2019, 2018 and 2017, loans that were considered impaired were $76,236, $59,531 and $78,570, representing 1.0 percent, 0.8 percent and 1.1 percent of loan volume, respectively. Nonaccrual loans increased $13,528 during 2019. This increase was recognized primarily in the production and intermediate-term and farm-related business sectors. Formally restructured loans decreased $626 during 2019. The decrease was primarily in the real estate mortgage and production and intermediate-term sectors. In addition, the association saw an increase in loans 90 days past due and still accruing interest of $3,803 during 2019 primarily in the real estate mortgage sector.

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 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. To help mitigate and diversify credit risk, the association has employed practices including securitization of loans, obtaining credit guarantees and engaging in loan participations.

Except for the relationship between installment due date and seasonal cash-flow capacities of certain borrowers, the association is not affected by any seasonal characteristics. The factors affecting the operations of the association are the same factors that would affect any agricultural real estate lender.

Allowance for Credit Losses:

The following table provides relevant information regarding the allowance for loan losses as of or for the year ended, December 31:

		2019		2018		2017
Allowance for loan losses	**$**	**30,798**	$	25,495	$	29,450
Allowance for loan losses to total loans		**0.4%**		0.3%		0.4%
Allowance for loan losses to nonaccrual loans		**50.0%**		53.1%		42.7%
Allowance for loan losses to impaired loans		**40.4%**		42.8%		37.5%
Net charge-offs (recoveries) to average loans		**0.0%**		0.0%		0.0%

The year-end allowance for credit losses is based upon estimates that consider the general financial strength of the overall economy and the agricultural economy, as well as the association's loan portfolio composition, credit administration and prior loan loss experience. The association calculates its allowance in two parts, specific allowances and a general allowance. The association evaluates all loans classified as impaired for a specific allowance. This specific allowance is generally based upon the value of the collateral securing the loan relative to the loan amount outstanding. Allowance for credit losses of $1,506, $2,627 and $1,249 were specifically related to impaired loans totaling $76,236, $59,531 and $78,570 at December 31, 2019, 2018 and 2017, respectively. These specific allowances represent 2.0 percent, 4.4 percent and 1.6 percent of the impaired loans at December 31, 2019, 2018 and 2017, respectively. The association experienced loan charge-offs of $4,709, $2,295 and $4,496 in 2019, 2018 and 2017, respectively, representing 7.9 percent, 2.9 percent and 4.4 percent of the previous year-end balance of impaired loans. Charge-offs in 2019 were primarily in the production and intermediate-term portfolio as a result of weak commodity prices. Most of the loan charge-offs in 2018 were primarily in the production and intermediate portfolio in the crop and livestock commodities. The charge offs in 2017 were primarily a result of one customer's misappropriation of proceeds on the sale of collateral. This violation was reported to federal authorities. In addition, the association recovered loans previously charged off in the amounts of $2,145, $1,434 and $1,163 in 2019, 2018 and 2017, respectively.

The association monitors its general allowance to recognize the trend in the quality of the portfolio. The association uses industry-based loan pools to calculate its general allowance on the loans that are not analyzed specifically. Risk factors are applied to the loan volume in each industry pool based upon current economic conditions and the credit quality of the loans in that pool. As commodity prices weakened during 2019, the association increased the general allowance. Total allowances on loans not considered impaired were $29,292, $22,868 and $28,201 at December 31, 2019, 2018 and 2017, respectively. The allowance for credit losses at December 31, 2019, is considered adequate by management to recognize any inherent losses in the loan portfolio at such dates.

The association also provides line of credit financing to customers to cover short-term and variable needs. As a result, the association has unfunded commitments for which a separate reserve is maintained. This reserve is reported as a liability on the association's consolidated balance sheet.

Results of Operations:

The association's net income for the year ended December 31, 2019, was $181,005 as compared to $189,851 for the year ended December 31, 2018, reflecting a decrease of $8,846 or 4.7 percent. The association's net income for the year ended December 31, 2017, was $168,736. Net income increased $21,115, or 12.5 percent, in 2018 as compared to 2017.

Net interest income for 2019, 2018 and 2017 was $235,013, $234,723 and $227,346, respectively. This reflects increases of $290 or 0.1 percent, for 2019 versus 2018 and $7,377, or 3.2 percent, for 2018 versus 2017. Net interest income is the principal source of earnings for the association and is impacted by loan volume, yields on loans and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2019		2018		2017	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Interest-earning assets	**$ 7,526,800**	**$ 427,788**	$ 7,294,496	$ 402,332	$ 6,963,070	$ 361,817
Interest-bearing liabilities	**6,416,822**	**192,775**	6,223,384	167,609	5,959,780	134,471
Impact of capital	**$ 1,109,978**		$ 1,071,112		$ 1,003,290	
Net interest income		**$ 235,013**		$ 234,723		$ 227,346

	2019	2018	2017
	Average Yield	Average Yield	Average Yield
Yield on interest-earning assets	**5.68%**	5.52%	5.20%
Cost of interest-bearing liabilities	**3.00%**	2.69%	2.26%
Net interest spread	**2.68%**	2.83%	2.94%

	2019 vs. 2018			2018 vs. 2017		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interst income	**$ 12,811**	**$ 12,645**	**$ 25,456**	$ 17,222	$ 23,293	$ 40,515
Interest expense	**5,210**	**19,956**	**25,166**	5,948	27,190	33,138
Net interest income	**$ 7,601**	**$ (7,311)**	**$ 290**	$ 11,274	$ (3,897)	$ 7,377

While most of the improvement in net interest income for the last three years is due to the increase in loan volume, the association has also benefited from higher levels of capital. This reduced the amount of debt borrowed in relation to loan volume.

Interest income for 2019 increased by $25,456, or 6.3 percent, compared to 2018, equally due to increased loan volume and increases in rates. Interest expense for 2019 increased by $25,166, or 15.0 percent, compared to 2018 primarily due to higher rates. The interest rate spread decreased by 15 basis points to 2.68 percent in 2019 from 2.83 percent in 2018, primarily because of the increase in the association's cost of funds. For several years prior to 2018, the Bank charged an interest spread of 0.52 above their cost of funds on all loans. Effective January 1, 2018, the Bank increased their spread above cost of funds to 0.75 percent on any new loan, or any existing loan that was repriced. The interest rate spread decreased 11 basis points from 2.94 in 2017 to 2.83 in 2018.

Noninterest income for 2019 increased by $4,864, or 9.7 percent, compared to 2018, due to an increase in patronage refund received from the Bank and an increase in loan fees, offset by decreases in financially related services income and other noninterest income. The Bank paid a 47-basis-point cash patronage on the association's average direct note borrowings in 2019 compared to a 43-basis-point patronage in 2018. With the aforementioned increase in cost of funds from the Bank on all new loans and existing loans that repriced in 2019 and 2018, the FCBT paid an additional patronage refund to the association to effectively make up for the increased cost of funds. Loan fees increased by $1,448, or 42.5 percent in 2019, driven by conversion fees in the second half of 2019 as interest rates declined. Noninterest income for 2018 increased by $10,361 or 25.9 percent, compared to 2017, due primarily to an increase in patronage refund received from the Bank. The Bank paid a 43-basis-point cash patronage on the association's average direct note borrowings in 2018 compared to 39-basis-point patronage in 2017. Financially related services income also increased by $1,767 during 2018 primarily due to the association's implementation of the accounting standard "Revenue from Contracts with Customers." Other noninterest income also increased by $2,178 in 2018 primarily due to $4,512 received from the Farm Credit System Insurance Corporation (FCSIC) for excess insurance fund balances in the allocated insurance reserve accounts.

Provision for credit losses increased by $11,570 to $8,101 in 2019, compared to a reversal of provision of $3,469 in 2018. The increase was a result of continued weak commodity prices experienced in 2019. The decrease of $5,784 from 2017 to 2018 was a result of improvement in credit quality and continued improvement in the general economy.

Non-interest expenses increased $2,424 for 2019, or 2.5 percent, compared to 2018. Salaries and employee benefits decreased $1,015 as a result of a lower incentive accrual in 2019. The decrease in salaries and benefits was more than offset by increases in occupancy and equipment, advertising, public and member relations, travel, purchased services and other non-interest expenses. Operating expenses increased by $2,415 for 2018, or 2.5 percent, compared to 2017. Salaries and employee benefits increased $5,731 due to new hires, salary adjustments made to existing employees and higher benefit costs. This increase was offset by a decrease in insurance fund premiums of $3,217 which was a result of a decrease in premium rates in 2018.

Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of $9,318, $8,314 and $8,543 for 2019, 2018 and 2017, respectively, in origination fees. The capitalized costs consisted of salaries and benefits totaling $7,428, $8,301 and $8,298 for 2019, 2018 and 2017, respectively, related to the origination of loans.

The capitalized fees, net of the capitalized costs, are amortized over the life of the loans as an adjustment to yield in net interest income. The adjustment to net interest income as a result of this amortization was $1,223, $859 and $854 for 2019, 2018 and 2017, respectively.

For the year ended December 31, 2019, the association's return on average assets was 2.3 percent, as compared to 2.5 percent and 2.3 percent for the years ended December 31, 2018 and 2017 respectively. For the year ended December 31, 2019, the association's return on average members' equity was 14.4 percent, as compared to 15.8 percent and 14.7 percent for the years ended December 31, 2018 and 2017, respectively.

Because the association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank could have a similar effect on the operations of the association.

Liquidity and Funding Sources:

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. All of the association's loans are match-funded with debt with similar terms by the Bank.

The primary source of liquidity and funding for the association is a direct loan from the Bank. The outstanding balance of $6,604,398, $6,223,546 and $6,127,915 as of December 31, 2019, 2018 and 2017, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 2.73 percent, 2.81 percent and 2.26 percent at December 31, 2019, 2018 and 2017, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the Bank and is governed by a financing agreement. This increase in note payable to the Bank and related accrued interest payable since December 31, 2018, is due to an increase in the association's loan portfolio. The association's average own funds, which represent the amount of the association's loan portfolio funded by the association's equity were $1,071,774, $1,008,396 and $920,419 for the years 2019, 2018 and 2017, respectively. The maximum amount the association may borrow from the Bank as of December 31, 2019, was $7,695,182 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice. The association anticipates the general financing agreement to be renewed by the Bank, without any significant adjustments, prior to its expiration.

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 2020. As borrower payments are received, they are applied to the association's note payable to the Bank.

The association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and member stock. It is management's opinion that funds available to the association are sufficient to fund its operations for the coming year.

Capital Resources:

The association's capital position remains strong with total members' equity of $1,284,158, $1,232,238 and $1,176,037 at December 31, 2019, 2018 and 2017, respectively.

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 ratio requirements. These regulations also added a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage (UREE) ratios. The Permanent Capital Ratio continued to remain in effect, with some modifications to align with the new regulations. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The association's permanent capital ratio at December 31, 2019, 2018 and 2017 was 14.7 percent, 14.8 percent and 14.7 percent, respectively.

Under the regulations, the association is required to maintain minimum Common Equity Tier 1 (CET1), Tier 1 Capital, and Total Capital ratios of 4.5 percent, 6.0 percent and 8.0 percent, along with a capital conservation buffer of 2.5 percent applicable to each ratio, respectively. The association's Common Equity Tier 1 ratio in 2019, 2018 and 2017 was 14.6 percent, 14.3 percent and 13.4 percent respectively, and Tier 1 Capital ratio was 14.6 percent, 14.3 percent and 13.4 percent, respectively. The Total Capital ratio was 15.0 percent, 15.1 percent and 15.0 percent at December 31, 2019, 2018 and 2017, respectively. Under the regulations, the association is required to maintain a minimum Tier 1 Leverage ratio of 4.0 percent, along with a leverage buffer of 1.0 percent, and a minimum UREE leverage ratio of 1.5 percent. The association's Tier 1 Leverage ratio at December 31, 2019, 2018 and 2017 was 15.2 percent, 14.8 percent and 13.9 percent, respectively, and UREE Leverage ratio was 8.9 percent, 9.5 percent and 9.5 percent, respectively.

The CET1 Capital ratio is an indicator of the institution's highest quality of capital and consists of unallocated retained earnings, qualifying common cooperative equities (CCEs) that meet the required holding periods, and paid-in capital. The Tier 1 Capital ratio is a measure of the institution's quality of capital and financial strength. The Total Capital ratio is supplementary to the Tier 1 Capital ratio, the components of which include qualifying CCEs subject to certain holding periods, and allowance for credit losses subject to certain limitations. The Tier 1 Leverage ratio is used to measure the amount of leverage an institution has incurred against its capital base, of which at least 1.5 percent must be URE and URE equivalents. This is the UREE Leverage ratio.

The association has been able to maintain solid levels of capital and strong capital ratios, while declaring patronage refunds in cash to its stockholders in the amounts of $88,550, $87,543 and $77,506 in 2019, 2018 and 2017, respectively. The board of directors also issued $87,987, $96,787 and $86,341 in nonqualified written notices of allocation in 2019, 2018 and 2017, respectively. In addition, the association retired $38,206, $50,000 and $36,785 of previously allocated nonqualified written notices of allocation in November 2019, 2018 and 2017, respectively. See Note 11 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

The association utilizes income pools to determine and allocate the patronage refunds for its customers. Each patronage-eligible customer's loan(s) is assigned to a respective pool based upon common characteristics to service and account for such loans. For 2019, 2018 and 2017, the association utilized a participations purchased pool, a participations sold pool and a general loan pool. The participations purchased pool includes all patronage-eligible loans that are purchased from other farm credit entities. The sold loan pool includes any portion of a loan that the association originates but sells to another entity. The general pool includes all other patronage eligible loans not included in the other pools. Net income is calculated for each pool by including all the net interest income and other income from the loans in the pool and a reasonable allocation of association expenses for each pool. The allocation of expenses is based upon the costs to service and account for the loans in the pool. Net income for each pool is determined by subtracting the allocation of expenses from the income of the loans in the pool. Any net income from the pool is eligible for distribution only to the customers with loans in that pool. If a pool does not generate net income, there are no earnings available for distribution to those customers with loans in that pool. All pools generated earnings available for distribution in 2019, 2018 and 2017, respectively.

Regulatory Matters:

At December 31, 2019, the association was not under any written agreement with the Farm Credit Administration.

On June 12, 2018, the Farm Credit Administration (FCA) published a final rule revising the requirements governing the eligibility of investments for System banks and associations. The stated objectives of the final rule are as follows:

- To strengthen investment practices at System banks and associations to enhance their safety and soundness;
- To ensure that System banks hold sufficient high-quality liquid investments for liquidity purposes;
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers and their cooperatives in times of financial distress;
- To comply with the requirements of section 939A of the Dodd-Frank Act;
- To modernize the investment eligibility criteria for System banks; and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

The regulation became effective January 1, 2019.

On June 15, 2018, the FCA published a proposed rule to amend its regulations governing standards of conduct of directors and employees of System institutions and require every System bank and association to have a Standards of Conduct Program based on core principles to put into effect ethical values as part of corporate culture. The stated objectives of the proposed rule are to:

- Establish principles for ethical conduct and recognize each System institution's responsibility for promoting an ethical culture;
- Provide each System institution flexibility to develop specific guidelines on acceptable practices suitable for its business;
- Encourage each System institution to foster core ethical values and conduct as part of its corporate culture;
- Require each System institution to develop strategies and a system of internal controls to promote institution and individual accountability in ethical conduct, including by establishing a Standards of Conduct Program and adopting a Code of Ethics; and
- Remove prescriptive requirements of the regulations that do not promote these objectives.

The deadline for the submission of public comments was September 13, 2018.

On August 24, 2018, the FCA published for public comment a proposed rule that would modify the existing outside director eligibility criteria to accomplish the following objectives:

- Amend the eligibility criteria for outside directors in § 611.220(a);
- Remove the definition of outside director in § 619.9225;
- Strengthen the safety and soundness of System institutions; and
- Incorporate best practices for corporate governance for System institutions.

The proposed regulation would expand the list of persons who would be excluded from nomination for an outside director's seat to ensure the independence of outside directors. The list would include borrowers of the institution, immediate family members of any director, officer, employee, agent, stockholder or borrower of any System institution, and anyone who has a controlling interest in an entity that borrows from any System institution or any affiliated organization of a System institution. The deadline for the submission of public comments was October 23, 2018.

On January 22, 2019, the Farm Credit Administration issued an information memorandum citing the fact that effective December 20, 2018, the Agriculture Improvement Act of 2018 repealed the limitations on bank director compensation contained in section 4.21 of the Farm Credit Act of 1971, as amended. As a result, beginning in 2019, the Farm Credit Administration will no longer calculate the maximum annual compensation adjustments in FCA regulation § 611.400(b)(c), but will continue to review System bank director compensation to ensure that pay levels do not adversely affect the safety and soundness of System institutions.

On February 21, 2019, an advance notice of proposed rulemaking on ways to collect, evaluate and report data on the System's service to young, beginning and small farmers (YBS) was published in the Federal Register. The purpose of the advance notice of proposed rulemaking is to gather public input on how FCA might:

- Improve the accuracy, transparency and process by which FCA ensures that YBS farmer data is properly collected and reported by the System;
- Clarify the definitions of terms related to the collection, reporting and identification of YBS farmer data;
- Ensure the definitions of YBS farmers and related terms remain relevant and reflective of the evolving agricultural economy; and
- Evaluate the effectiveness of each System institution's YBS program to achieve its mission of serving YBS farmers.

The comment period ended on May 22, 2019.

On April 3, 2019, a proposed rule was published in the Federal Register on the criteria for reinstating nonaccrual loans. The objectives of the proposed rule are to:

- Enhance the usefulness of high-risk loan categories;
- Replace the subjective measure of "reasonable doubt" used for reinstating loans to accrual status with a measurable standard;
- Improve the timely recognition of a change in a loan's status; and
- Update existing terminology and make other grammatical changes.

The comment period ended on June 3, 2019.

On September 18, 2019, a proposed rule was published in the Federal Register to address changes to allow Farm Credit System (FCS or System) associations to purchase and hold the portion of certain loans that non-FCS lenders originate and sell in the secondary market, and that the United States Department of Agriculture (USDA) unconditionally guarantees or insures as to the timely payment of principal and interest. The objectives of the proposed rule are to authorize FCS associations to buy as investments for risk management purposes, portions of certain loans that non-System lenders originate, and the USDA fully guarantees as to principal and interest to:

- Augment the liquidity of rural credit markets;
- Reduce the capital burden on community banks and other non-System lenders who choose to sell their USDA guaranteed portions of loans, so they may extend additional credit in rural areas; and
- Enhance the ability of associations to manage risk.

The comment period ends on November 18, 2019.

On September 23, 2019, a proposed rule was published in the Federal Register to address changes to capital and other regulations, including certain regulatory disclosure requirements, in response to recent changes in the U.S. generally accepted accounting principles (U.S. GAAP). The objectives of the proposed rule are to:

- Ensure that the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. GAAP; and
- Ensure that conforming amendments to other regulations accurately reference credit losses.

The comment period ended on November 22, 2019.

Significant Recent Accounting Pronouncements and Critical Accounting Policies:

Refer to Note 2,"Summary of Significant Accounting Policies," in this annual report for disclosures of recent accounting pronouncements which may impact the association's consolidated financial position and results of operations and for critical accounting policies.

Relationship with the Bank:

The association's statutory obligation to borrow only from the Bank is discussed in Note 10 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access additional capital from the association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The Bank's role in mitigating the association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of this Management's Discussion and Analysis and in Note 10 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 14 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the association can utilize. Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the Bank passed through to the associations.

Report of Independent Auditors

To the Board of Directors of Capital Farm Credit, ACA

We have audited the accompanying consolidated financial statements of Capital Farm Credit, ACA and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019, December 31, 2018, and December 31, 2017, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capital Farm Credit, ACA and its subsidiaries as of December 31, 2019, December 31, 2018, and December 31, 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 9, 2020

PricewaterhouseCoopers LLP, 835 West 6th Street, Suite 1600 Austin, TX 78703
T: (512) 477 1300, F: (512) 477 8681, www.pwc.com/us

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

	December 31, 2019	2018	2017
ASSETS			
Cash	**$ 2**	$ 10	$ 15
Loans	**7,822,838**	7,393,006	7,245,367
Less: Allowance for losses	**(30,798)**	(25,495)	(29,450)
Net Loans	**7,792,040**	7,367,511	7,215,917
Accrued interest receivable - loans	**71,378**	68,824	64,383
Accrued interest receivable - investments	**51**	63	67
Investment -- held-to-maturity	**3,418**	4,388	5,566
Investment in and receivable from the Bank:			
Capital stock	**135,011**	125,803	118,752
Receivable	**19,474**	21,485	14,958
Investment in Rural Business Investment Company	**12,631**	11,624	11,573
Investments in other Farm Credit Institutions	**9,858**	9,398	8,713
Other property owned, net	**859**	972	3,989
Premises and equipment, net	**15,403**	15,365	14,205
Right of use asset - leases	**10,671**	-	-
Other assets	**15,182**	14,013	12,519
Total assets	**$ 8,085,978**	$ 7,639,456	$ 7,470,657
LIABILITIES			
Note payable to the Bank	**$ 6,604,398**	$ 6,223,546	$ 6,127,915
Advanced conditional payments	**6,502**	10,067	6,638
Accrued interest payable	**16,157**	15,500	12,313
Lease liabilities	**10,814**	-	-
Drafts outstanding	**2,110**	1,256	528
Patronage distributions payable	**88,555**	87,548	77,511
Unfunded post retirement medical obligation	**26,300**	22,991	25,897
Reserve for unfunded commitments	**665**	431	806
Other liabilities	**46,319**	45,879	43,012
Total liabilities	**6,801,820**	6,407,218	6,294,620
MEMBERS' EQUITY			
Capital stock and participation certificates	**25,980**	25,804	25,519
Non-qualified allocated retained earnings	**674,877**	624,839	578,054
Unallocated retained earnings	**586,224**	581,674	576,158
Accumulated other comprehensive loss	**(2,923)**	(79)	(3,694)
Total members' equity	**1,284,158**	1,232,238	1,176,037
Total liabilities and members' equity	**$ 8,085,978**	$ 7,639,456	$ 7,470,657

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

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

	Year Ended December 31,		
	2019	**2018**	**2017**
Interest Income			
Loans	**$ 427,560**	$ 402,046	$ 361,495
Investments	**228**	286	322
Total interest income	**427,788**	402,332	361,817
Interest Expense			
Note Payable to the Bank	**192,689**	167,528	134,439
Advance conditional payments	**86**	81	32
Total interest expense	**192,775**	167,609	134,471
Net interest income	**235,013**	234,723	227,346
Provision for Loan Losses			
Provision (reversal) for credit losses	**8,101**	(3,469)	2,315
Net interest income after provision for losses	**226,912**	238,192	225,031
Noninterest Income			
Patronage income from the Bank	**40,403**	35,041	29,029
Loan fees	**4,859**	3,411	3,603
Financially related services income	**3,258**	5,045	3,278
Gain on sale of premises and equipment, net	**1,408**	537	270
Gain on other property owned, net	**504**	834	505
Other noninterest income	**4,765**	5,465	3,287
Total noninterest income	**55,197**	50,333	39,972
Noninterest Expense			
Salaries and employee benefits	**66,183**	67,198	61,467
Insurance Fund premium	**5,425**	5,253	8,380
Occupancy and equipment	**5,121**	4,803	4,615
Travel	**4,330**	3,775	3,721
Advertising	**4,236**	3,940	4,021
Public and member relations	**3,309**	3,187	2,905
Purchased services	**3,126**	2,546	2,585
Supervisory and exam expense	**1,997**	1,873	1,786
Data processing	**1,588**	1,305	1,632
Business insurance expense	**1,044**	912	853
Communications	**1,023**	1,004	1,181
Director's expense	**988**	901	926
Training	**947**	1,058	1,099
Other noninterest expenses	**1,782**	920	1,089
Total noninterest expenses	**101,099**	98,675	96,260
Income before income tax	**181,010**	189,850	168,743
Provision for (benefit from) income tax	**5**	(1)	7
Net income	**$ 181,005**	$ 189,851	$ 168,736
Other comprehensive (loss) gain:			
Change in postretirement benefit plans	**(2,844)**	3,615	(2,448)
Income tax expense related items of other comprehensive income	**-**	-	-
Other comprehensive (loss) gain, net of tax	**(2,844)**	3,615	(2,448)
COMPREHENSIVE INCOME	**$ 178,161**	$ 193,466	$ 166,288

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
(dollars in thousands)

	Capital Stock/ Participation Certificates	Retained Earnings: Non qualified Allocated	Retained Earnings: Unallocated	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2016	$ 25,049	$ 528,533	$ 571,198	$ (1,246)	$ 1,123,534
Comprehensive income:					
Net income	-	-	168,736	-	168,736
Other comprehensive (loss)	-	-	-	(2,448)	(2,448)
Capital stock/participation certificates issued	3,863	-	-	-	3,863
Capital stock/participation certificates/ allocated equities retired	(3,393)	(36,785)	-	-	(40,178)
Patronage distributions declared:					
Cash	-	-	(77,506)	-	(77,506)
Other adjustments	-	(35)	71	-	36
Nonqualified allocations	-	86,341	(86,341)	-	-
Balance at December 31, 2017	25,519	578,054	576,158	(3,694)	1,176,037
Net income	-	-	189,851	-	189,851
Other comprehensive gain	-	-	-	3,615	3,615
Capital stock/participation certificates issued	3,685	-	-	-	3,685
Capital stock/participation certificates/ allocated equities retired	(3,400)	(50,000)	-	-	(53,400)
Patronage distributions declared:					
Cash	-	-	(87,543)	-	(87,543)
Other adjustments	-	(2)	(5)	-	(7)
Nonqualified allocations	-	96,787	(96,787)	-	-
Balance at December 31, 2018	25,804	624,839	581,674	(79)	1,232,238
Net income	-	-	181,005	-	181,005
Other comprehensive (loss)	-	-	-	(2,844)	(2,844)
Capital stock/participation certificates issued	3,756	-	-	-	3,756
Capital stock/participation certificates/ retired	(3,580)	(38,206)	-	-	(41,786)
Patronage distributions declared:					
Cash		-	(88,550)	-	(88,550)
Other adjustments		257	82		339
Nonqualifed allocations		87,987	(87,987)	-	-
Balance at December 31, 2019	**$ 25,980**	**$ 674,877**	**$ 586,224**	**$ (2,923)**	**$ 1,284,158**

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	**$ 181,005**	$ 189,851	$ 168,736
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for (reversal of) loan losses	**8,101**	(3,469)	2,315
Provision on other property owned	**16**	2	172
(Gain) on other property owned	**(95)**	(1,029)	(677)
Revenue recogonized on prior year other property owned sales	**-**	77	-
Depreciation and amortization	**4,201**	3,054	3,593
Amortization of Right of Use Asset	**1,312**	-	-
(Gain) on sale of premises and equipment, net	**(1,408)**	(537)	(270)
Loss (gain) on investment in RBIC	**1,435**	2,551	(388)
(Increase) in accrued interest receivable	**(2,542)**	(4,437)	(5,855)
Decrease (increase) in other assets	**842**	(8,021)	(1,956)
Accretion of the discounted lease liabilty	**(1,169)**	-	-
Increase in accrued interest payable	**657**	3,187	2,107
Increase in other liabilities	**905**	3,576	3,152
Net cash provided by operating activities	**$ 193,260**	$ 184,805	$ 170,929
Cash flows from investing activities:			
(Increase) in loans, net	**$ (435,845)**	$ (150,255)	$ (324,851)
Cash recoveries of loans previously charged off	**2,145**	1,434	1,163
Purchases of investment in AgDirect, LLP	**(460)**	(685)	(911)
Purchases of investment in RBIC	**(2,442)**	(2,602)	(4,410)
Purchase of investment in the Bank	**(9,208)**	(7,051)	(4,943)
Decrease in investments held to maturity	**970**	1,178	1,104
Purchases of premises and equipment	**(4,631)**	(5,467)	(2,700)
Proceeds from sales of premises and equipment	**2,468**	994	1,225
Proceeds from sales of other property owned	**828**	5,084	2,713
Net cash used in investing activities	**$ (446,175)**	$ (157,370)	$ (331,610)

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2019	2018	2017
Cash flows from financing activities:			
Net increase in note payable to the Bank	**$ 380,852**	$ 95,631	$ 255,291
Increase (decrease) in drafts outstanding	**854**	728	(3,610)
(Decrease) increase in advance conditional payments	**(3,565)**	3,429	2,446
Issuance of capital stock and participation certificates	**3,756**	3,685	3,863
Retirement of capital stock, participation certificates and allocated equities	**(41,786)**	(53,407)	(40,178)
Patronage distributions paid	**(87,204)**	(77,506)	(57,135)
Net cash provided by (used in) financing activities	**$ 252,907**	$ (27,440)	$ 160,677
Net increase (decrease) in cash	**(8)**	(5)	(4)
Cash at the beginning of the year	**10**	15	19
Cash at the end of the year	**$ 2**	$ 10	$ 15
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned upon loan foreclosure	**$ 636**	$ 1,117	$ 3,671
Net loans charged off	**4,709**	2,295	4,496
Patronage distributions declared	**88,550**	87,543	77,506
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 192,118**	$ 164,422	$ 132,364
Income taxes	**-**	-	-

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

CAPITAL FARM CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLAR AMOUNTS IN THOUSANDS)

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: 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), a nationwide system of cooperatively owned banks and associations, that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2019, the System was composed of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2019, the District consisted of the Bank, one FLCA and 13 ACA parent companies (including Capital Farm Credit, ACA), which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the associations, into the Insurance Fund, based on its annual average adjusted outstanding insured debt, until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services that can be offered by the association. The association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank. The association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

The association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investments in the association. Upon request, stockholders of the association will be provided with the Farm Credit Bank of Texas's Annual Report to Stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Consolidation
The consolidated financial statements (the “financial statements”), and the accounting and reporting policies of the association have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and prevailing practices within the banking industry. In consolidation, all significant intercompany accounts and transactions are eliminated and all material wholly-owned and majority-owned subsidiaries are consolidated unless GAAP requires otherwise. The consolidated financial statements include the accounts of Capital Farm Credit, PCA and Capital Farm Credit, FLCA.

Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, the determination of fair value of financial instruments and subsequent impairment analysis. Significant estimates are discussed in these footnotes, as applicable.

Reclassifications
Certain amounts in prior years’ consolidated financial statements have been reclassified to conform to current financial statement presentation.

A. Recently Issued or Adopted Accounting Pronouncements:

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The association is evaluating the impact of adoption on the association’s financial condition and its results of operations.

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. The association early adopted the removal and modified disclosures during the fourth quarter of 2018.

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. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The institution qualifies for the delay in the adoption date. The association continues to evaluate the impact of adoption on the association's financial condition and its 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. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the association's financial condition or its results of operations but did impact lease disclosures. The association adopted this guidance January 1, 2019, and upon adoption, recorded an $11,910 million right of use asset, an $11,983 million lease liability and did not have an adjustment to retained earnings. The association elected the package of practical expedients, which among other things, allowed for the carry forward of the historical lease classification and the determination of the lease term for existing leases. Refer to Note 5, "Leases," for additional information.

In December 2019, the Financial Accounting Standards Board (FASB) issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgement in application or presentation. The guidance becomes effective for fiscal years after December 15, 2021. Early adoption of the guidance is permitted and the association adopted the new standard on January 1, 2020. No cumulative-effect adjustments will be recorded to retained earnings or current year results of operations. The adoption of this guidance will not impact the association's financial condition or its results of operations; nor will the guidance impact the presentation of taxes for prior periods in the year 2020 interim or year-end financial statements.

In July 2017, the United Kingdom's Financial Conduct Authority, the authority regulating the London Inter-Bank Offered Rate (LIBOR) announced that it will stop persuading or compelling banks to submit rates for the calculation of the LIBOR after 2021. Since this announcement, central banks around the world, including the Federal Reserve, have commissioned working groups with the goal of finding suitable replacements for LIBOR. In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR. SOFR is based on a broad segment of the overnight Treasury repurchase market and is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. The bank and its affiliated associations are currently evaluating the impacts of a potential phase-out of the LIBOR benchmark interest rate, including the possibility of using SOFR as an alternative to LIBOR. The transition from LIBOR to SOFR is expected to be complex and to include the development of term and credit adjustments to minimize, to the extent possible, discrepancies between LIBOR and SOFR. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR-based instruments, including certain of the Farm Credit Systemwide debt securities, the association's borrowings, loans, investments, and other association assets and liabilities that are indexed to LIBOR.

The association established a LIBOR workgroup, with cross-functional representation from the finance, operations, credit and legal departments. The LIBOR workgroup is progressing in implementing its transition plan to an alternative benchmark rate.

B. Cash: Cash, as included in the balance sheet and statement of cash flows, represents cash on hand and on deposit at banks.

C. Investments: The association's investments include mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac) for which the association has the intent and ability to hold to maturity and which are consequently classified as held-to-maturity. Held-to-maturity investments are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Changes in the fair value of these investments are not recorded unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If the association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

The association holds additional investments in accordance with mission-related investment and other investment programs approved by the FCA. These programs allow the association to make investments that further the System's mission to serve rural America.

Mission-related investments for which the association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

In accordance with the Farm Credit Administration regulations, the association, with the approval of its bank, may purchase and hold investments to manage risks. The association must identify and evaluate how the investments that it purchases contributes to management of its risks. Only securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the United States Government or its agencies are investments that the association may acquire. The total amount of investments allowed must not exceed 10 percent of the association's total outstanding loans.

The investments may not necessarily be held to maturity and accordingly have been classified as available for sale. These investments are reported at fair value and unrealized holding gains and losses on investments that are reported as a separate component of members' equity (accumulated other comprehensive income (loss)) [if applicable, net of tax]. Changes in the fair value of these investments are reflected as direct charges or credits to other comprehensive income, unless the investment is deemed to be other than temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If the association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the association would record an additional other-than-temporary impairment and adjust the yield of the security prospectively. The amount of total other-than-temporary impairment for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporary impairment and its fair value.

Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. The association does not hold investments for trading purposes.

The association may also hold additional investments in accordance with other investment programs approved by the Farm Credit Administration. These programs allow the association to make investments that further the System's mission to serve rural America. These other investments are not included in the investment limitation specified by the Farm Credit Administration regulations. Mortgage-backed securities issued by Farmer Mac are considered other investments. Other investments for which the association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

D. Loans and Allowance for Credit Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Authoritative accounting guidance requires loan origination fees and direct loan origination costs to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for credit losses (if accrued in prior years). Loans are charged off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The Bank and related associations use a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan, assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk-rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain, or that default has occurred.

The credit risk-rating methodology is a key component of the association's allowance for credit losses evaluation and is incorporated into its loan underwriting standards and internal lending limit. The allowance for credit losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The year-end allowance for credit losses is based upon estimates that consider the general financial strength of the overall economy and the agricultural economy specifically, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. The association calculates its allowance in two parts, specific allowances and general allowance. The association evaluates all loans classified as impaired for a specific allowance. Generally, for loans individually evaluated the allowance for credit losses represents the difference between the loan balance and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for credit losses is determined using factors related to its risk rating, and its commodity type.

The association also provides line of credit financing to customers to cover short-term and variable needs. As a result, the association has unfunded commitments for which a separate reserve is maintained. This reserve is reported as a liability on the association's consolidated balance sheet. The combined amounts of the allowance for loan losses and the reserve for unfunded commitments are referred to as the "allowance for credit losses."

Transfers of an entire financial asset, group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the association, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the association does not maintain effective control over the transferred assets.

The association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Additionally, the association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits.

Loans are sold and the sale terms comply with requirements under Accounting Standards Codification (ASC) 860 "Transfers and Servicing."

E. Capital Stock Investment in the Bank: The association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted annually. The Bank requires a minimum stock investment of 2 percent of the association's average borrowing from the Bank. This investment is carried at cost plus allocated equities from the Bank in the accompanying consolidated balance sheet.

If needed to meet regulatory capital adequacy requirements, the board of directors of the Bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5 percent of the average outstanding balance of borrowings from the Bank.

F. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, and is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for credit losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the statements of comprehensive income.

G. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost and not depreciated. Depreciation is provided on the straight-line method using estimated useful lives of each asset. Estimate useful lives are as follows: Buildings are 40 years, leasehold improvements are 15 years, furniture and equipment are 10 years, computer equipment and software are 3 years and automobiles are 3 years. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

H. Advance Conditional Payments: The association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheets. Advance conditional payments are not insured. Interest is generally paid by the association on such accounts at rates established by the board of directors.

I. Employee Benefit Plans: Employees of the association participate in either the District defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the association sponsors a nonqualified defined contribution 401(k) plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. For the DB plan, the association recognized costs of $2,346, $2,920 and $4,419 for the years ended December 31, 2019, 2018 and 2017, respectively.

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 DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2019, made on their behalf into various investment alternatives. The association recognized costs for the DC plan of $2,457, $2,267 and $2,057 for the years ended December 31, 2019, 2018 and 2017, respectively.

The association also participates in the Farm Credit Benefits Alliance 401(k) plan which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The association's contributions to the 401(k) plan were $2,006, $1,904 and $1,771 for the years ended December 31, 2019, 2018 and 2017, respectively.

In addition to the DB plan, the DC plan and the Farm Credit Benefits Alliance 401(k) plan discussed above, the association also sponsors a defined contribution nonqualified supplemental 401(k) plan. The purpose of the plan is (a) to provide eligible employees (those with compensation in excess of $100 in the immediately preceding tax year) of the association who participate in the 401(k) plan with benefits in excess of the limitations on benefits imposed, (b) to allow a means for those employees to make pre-tax deferrals of additional amounts payable to them to a future payment date and (c) to allow a means for participating employers to provide discretionary deferred income to those employees. The associated liabilities are included in the association's consolidated balance sheet in other liabilities. The total expenses of the nonqualified plan included in the association's employee benefit costs were $694, $625 and $91 for the years ended December 31, 2019, 2018 and 2017, respectively.

In addition to pension benefits, the association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities on the consolidated balance sheets. Association employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums.

J. Income Taxes: The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The association is eligible to operate 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 refunds in the form of cash, stock or qualified allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The association distributes patronage on the basis of book income. Deferred taxes are recorded on 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 (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the association's expected patronage program, which reduces taxable earnings.

Deferred income taxes have not been provided by the association on patronage stock distributions from the Bank prior to January 1, 1993, the adoption date of FASB guidance on "Accounting for Income Taxes." Management's intent is (1) to permanently invest these and other undistributed earnings in the Bank, thereby indefinitely postponing their conversion to cash, or (2) to pass through any distribution related to pre-1993 earnings to association borrowers through qualified patronage allocations.

The association has not provided deferred income taxes on amounts allocated to the association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings. The Bank currently has no plans to distribute unallocated Bank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the association level.

K. Patronage Refunds From the Farm Credit Bank of Texas: The association records patronage refunds from the Bank on an accrual basis.

L. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds which relate to deferred compensation and the association's supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are traded, are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2. The association does not have any assets that fall within this level.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, and certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

The fair value disclosures are disclosed in Note 15, "Fair Value Measurements."

M. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and a third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 — INVESTMENTS:

Investments Held-to-Maturity

The association's held-to-maturity investments 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:

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 3,418	$ 45	$ -	$ 3,463	5.57%	$ 2.82

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

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 5,566	$ 10	$ -	$ 5,576	5.31%	$ 3.47

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.

NOTE 4 — LOANS AND ALLOWANCE FOR CREDIT LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2019 Amount	2019 %	2018 Amount	2018 %	2017 Amount	2017 %
Production agriculture:						
Real estate mortgage	**$ 5,970,318**	**76.4%**	$ 5,642,145	76.4%	$ 5,507,371	76.0%
Production intermediate term	**938,685**	**12.0%**	919,784	12.4%	910,316	12.6%
Farm-related business	**659,056**	**8.4%**	594,483	8.0%	595,329	8.2%
Rural residential real estate	**101,540**	**1.3%**	102,225	1.4%	105,579	1.5%
Energy	**64,481**	**0.8%**	60,626	0.8%	61,398	0.8%
Communication	**56,378**	**0.7%**	41,122	0.6%	45,695	0.6%
Lease receivables	**16,558**	**0.2%**	17,951	0.2%	7,782	0.1%
Water and waste disposal	**9,800**	**0.1%**	8,140	0.1%	4,872	0.1%
Mission-related investments	**6,022**	**0.1%**	6,530	0.1%	7,025	0.1%
Total	**$ 7,822,838**	**100.0%**	$ 7,393,006	100.0%	$ 7,245,367	100.0%

At December 31, 2019, the association held four transactions, which are reported as loans on the consolidated balance sheet totaling $5,937 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 qualified loans in rural areas.

The association has purchased and sold participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. In September 2018, the association completed a sale of $99,586 in loans to the Farm Credit Bank of Texas as part of their capitalized participation pool (CPP). In accordance with this program, the association capitalizes this loan pool with a 6 percent investment in the Bank in exchange for the net earnings this pool generates. The CPP program allows the association to manage its capital by controlling the amount of loan volume on the balance sheet. The following table presents information regarding participations purchased and sold as of December 31, 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	$ 142,534	$ 699,469	$ 8,341	$ -	$ 150,875	$ 699,469
Production and intermediate term	225,288	778,203	-	-	225,288	778,203
Farm-related business	481,289	168,938	5,448	-	486,737	168,938
Communication	56,378	-	-	-	56,378	-
Energy	64,481	-	-	-	64,481	-
Mission-related investments	2,020	-	3,916	-	5,936	-
Lease receivables	16,558	-	-	-	16,558	-
Water and waste disposal	9,800	-	-	-	9,800	-
Total	$ 998,348	$ 1,646,610	$ 17,705	$ -	$ 1,016,053	$ 1,646,610

Loan Volume by Office

Offices	**2019**	2018	2017
Capital Markets*	**13.7%**	14.3%	14.4%
Bryan	**3.8%**	4.1%	4.0%
Lubbock	**3.4%**	2.8%	2.7%
Muleshoe	**3.2%**	3.2%	3.2%
Kerrville	**3.1%**	3.4%	3.5%
Conroe	**3.1%**	2.7%	2.7%
San Antonio	**3.0%**	3.0%	3.2%
Austin	**2.9%**	2.9%	2.8%
Fredericksburg	**2.5%**	2.5%	2.7%
Hondo	**2.4%**	2.3%	2.5%
La Grange	**2.4%**	2.4%	2.4%
Mason	**2.3%**	2.3%	2.3%
Burnet	**2.3%**	2.0%	1.7%
Rosenberg	**2.1%**	1.6%	1.5%
Uvalde	**2.1%**	2.3%	2.2%
Dalhart	**2.1%**	1.9%	1.9%
Katy	**2.1%**	1.7%	1.6%
Hereford	**2.0%**	1.8%	1.6%
Edna	**1.9%**	2.1%	2.3%
Dayton	**1.9%**	2.0%	1.9%
Bellville	**1.8%**	1.8%	1.9%
Robstown	**1.8%**	1.8%	1.9%
El Campo	**1.7%**	1.8%	1.7%
Waco	**1.7%**	1.6%	1.6%
Temple	**1.7%**	1.7%	1.8%
New Braunfels	**1.5%**	1.5%	1.4%
Jourdanton	**1.5%**	1.6%	1.7%
San Angelo	**1.5%**	1.5%	1.8%
Taylor	**1.4%**	1.4%	1.2%
Kenedy	**1.4%**	1.4%	1.5%
Lockhart	**1.4%**	1.4%	1.3%
San Saba	**1.3%**	1.4%	1.3%
Stamford	**1.3%**	1.5%	1.7%
Wichita Falls	**1.3%**	1.3%	1.4%
Bowie	**1.3%**	1.2%	1.1%
Edinburg	**1.2%**	1.2%	1.3%
Madisonville	**1.2%**	1.2%	1.2%
Laredo	**1.2%**	1.2%	1.3%
Lamesa	**1.1%**	0.9%	0.9%
Bay City	**1.0%**	1.0%	0.9%
Munday	**1.0%**	1.1%	1.1%
Perryton	**1.0%**	1.0%	0.5%
Pampa	**0.9%**	1.1%	0.9%
Abilene	**0.9%**	0.9%	0.8%
Snyder	**0.7%**	0.6%	0.7%
El Paso	**0.6%**	0.7%	0.8%
Spur	**0.6%**	0.8%	0.8%
Clifton	**0.6%**	0.5%	0.5%
Crockett	**0.6%**	0.6%	0.6%
All Other Offices	**2.5%**	3.0%	3.3%
Totals	**100.0%**	100.0%	100.0%

*Capital Markets loans include loans purchased from other entities and/or outside of the association's territory.

The association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the association's lending activities is collateralized, and the association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the association's credit risk exposure is considered in the determination of the allowance for credit losses.

	2019		2018		2017	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$ 3,907,804**	**49.9%**	$ 3,822,558	51.7%	$ 3,765,050	52.0%
Crops	**1,535,384**	**19.6%**	1,498,424	20.3%	1,472,859	20.3%
Hunting	**795,725**	**10.2%**	712,703	9.6%	659,895	9.1%
Dairy	**351,552**	**4.5%**	261,514	3.5%	228,102	3.1%
Timber	**263,096**	**3.4%**	212,063	2.9%	189,179	2.6%
Rural home loans	**183,207**	**2.3%**	159,207	2.2%	139,436	1.9%
Utilities	**123,967**	**1.6%**	103,348	1.4%	117,349	1.6%
Poultry	**85,410**	**1.1%**	75,540	1.0%	91,338	1.3%
Industrial/organic chemical	**5,298**	**0.1%**	3,456	0.0%	11,697	0.2%
Other	**571,395**	**7.3%**	544,193	7.4%	570,462	7.9%
Total	**$ 7,822,838**	**100.0%**	$ 7,393,006	100.0%	$ 7,245,367	100.0%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the association in the collateral, may result in loan-to-value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2019, 2018 and 2017, loans totaling $12,620, $15,241 and $30,986, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $55, $110 and $143 in 2019, 2018 and 2017, respectively, and are reflected in "other noninterest expense" in the consolidated statements of comprehensive income.

Nonperforming loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

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

	December 31, 2019	December 31, 2018	December 31, 2017
Nonaccrual loans:			
Real estate mortgage	**$ 32,198**	$ 30,222	$ 44,967
Production and intermediate-term	**20,827**	11,173	20,557
Farm-related business	**5,316**	2,793	2,867
Residential real estate	**108**	391	503
Energy	**3,086**	3,428	-
Lease receivable	**-**	-	59
Total nonaccrual loans	**$ 61,535**	$ 48,007	$ 68,953
Accruing restructured loans:			
Real estate mortgage	**$ 4,798**	$ 5,532	$ 3,906
Production and intermediate-term	**2,224**	4,158	3,723
Energy	**1,944**	-	-
Mission related invesments	**2,041**	2,105	2,170
Total accruing restructured loans	**$ 11,007**	$ 11,795	$ 9,799
Accruing loans 90 days or more past due:			
Real estate mortgage	**$ 3,224**	$ 37	$ 24
Production and intermediate-term	**670**	-	-
Total accruing loans 90 days or more past due	**$ 3,894**	$ 37	$ 24
Total nonperforming loans	**$ 76,436**	$ 59,839	$ 78,776
Other property owned, net	**859**	972	3,989
Total nonperforming assets	**$ 77,295**	$ 60,811	$ 82,765

One credit quality indicator utilized by the Bank and the association 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 considered to be 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 Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2019	2018	2017
Real estate mortgage			
Acceptable	**97.5%**	97.4%	96.7%
OAEM	**0.9%**	1.3%	1.5%
Substandard/doubtful	**1.6%**	1.3%	1.8%
	100.0%	100.0%	100.0%
Production and intermediate-term			
Acceptable	**91.8%**	91.0%	90.5%
OAEM	**3.2%**	4.6%	4.5%
Substandard/doubtful	**5.0%**	4.4%	5.0%
	100.0%	100.0%	100.0%
Farm-related business			
Acceptable	**93.6%**	96.8%	97.6%
OAEM	**5.1%**	0.4%	-
Substandard/doubtful	**1.3%**	2.8%	2.4%
	100.0%	100.0%	100.0%
Rural residential real estate			
Acceptable	**98.3%**	98.4%	98.1%
OAEM	**1.3%**	0.9%	1.0%
Substandard/doubtful	**0.4%**	0.7%	0.9%
	100.0%	100.0%	100.0%
Communication			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0%	100.0%	100.0%
Energy			
Acceptable	**92.2%**	92.2%	91.4%
OAEM	**-**	2.2%	2.5%
Substandard/doubtful	**7.8%**	5.6%	6.1%
	100.0%	100.0%	100.0%
Mission-related investments			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0%	100.0%	100.0%
Lease receivables			
Acceptable	**100.0%**	100.0%	99.2%
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	0.8%
	100.0%	100.0%	100.0%
Water and waste disposal			
Acceptable	**100.0%**	100.0%	100.0%
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0%	100.0%	100.0%
Total loans			
Acceptable	**96.5%**	96.6%	96.0%
OAEM	**1.5%**	1.6%	1.7%
Substandard/doubtful	**2.0%**	1.8%	2.3%
	100.0%	100.0%	100.0%

There were no loans and related interest in the loss category.

The following table provides an aging analysis of past due loans (including accrued interest) as of December 31:

December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Loans >90 Days and Accruing
Real estate mortgage	$ 52,469	$ 16,315	$ 68,784	$ 5,956,359	$ 6,025,143	3,224
Production and intermediate term	10,402	10,972	21,374	930,226	951,600	670
Farm-related business	2,090	-	2,090	659,947	662,037	-
Rural residential real estate	1,196	30	1,226	100,697	101,923	-
Communication	-	-	-	56,381	56,381	-
Energy	-	-	-	64,623	64,623	-
Mission-related investments	-	-	-	6,076	6,076	-
Lease receivables	-	-	-	16,607	16,607	-
Water and waste disposal	-	-	-	9,826	9,826	-
Total	$ 66,157	$ 27,317	$ 93,474	$ 7,800,742	$ 7,894,216	$ 3,894

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	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	-
Communication	-	-	-	41,125	41,125	-
Energy	199	-	199	60,554	60,753	-
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

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	Loans >90 Days and Accruing
Real estate mortgage	$ 23,845	$ 11,932	$ 35,777	$ 5,519,169	$ 5,554,946	$ 24
Production and intermediate term	5,929	6,971	12,900	911,463	924,363	-
Farm-related business	5,850	-	5,850	591,529	597,379	-
Rural residential real estate	478	152	630	105,327	105,957	-
Communication	-	-	-	45,756	45,756	-
Energy	-	-	-	61,529	61,529	-
Mission-related investments	-	-	-	7,083	7,083	-
Lease receivables	-	59	59	7,801	7,860	-
Water and waste disposal	-	-	-	4,877	4,877	-
Total	$ 36,102	$ 19,114	$ 55,216	$ 7,254,534	$ 7,309,750	$ 24

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 if the creditor 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 December 31, 2019, total troubled debt restructured loans was $17,585, including $6,578 classified as nonaccrual and $11,007 classified as accrual, with specific allowance for credit losses of $307. As of December 31, 2019, 2018 and 2017, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $80, $1 and $68, respectively.

The following table presents additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation that occurred during the year ended December 31, 2019, 2018 and 2017. The pre-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post-modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

2019	Balance Pre-TDR designation	Balance Post-TDR designation
Troubled debt restructurings:		
Real estate mortgage	$ 1,002	$ 1,674
Production and intermediate term	863	857
Energy	2,395	1,944
Total	$ 4,260	$ 4,475

2018	Balance Pre-TDR designation	Balance Post-TDR designation
Troubled debt restructurings:		
Production and intermediate term	$ 7,786	$ 5,102
Real estate mortgage	2,399	2,674
Total	$ 10,185	$ 7,776

2017	Balance Pre-TDR designation	Balance Post-TDR designation
Troubled debt restructurings:		
Production and intermediate term	$ 5,296	$ 5,069
Total	$ 5,296	$ 5,069

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 year ending December 31, 2019.

The predominant form of concession granted for troubled debt restructuring is an extension of term. 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 the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The following table presents information regarding loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months of that year and for which there was a 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.

Troubled debt restructurings that subsequently defaulted:	Recorded Investment at December 31, 2019	Recorded Investment at December 31, 2018	Recorded Investment at December 31, 2017
Real estate mortgage	$ -	$ 153	$ -
Production and intermediate term	-	783	523
Total	$ -	$ 936	$ 523

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:

	Loans Modified as TDRs		
	December 31, 2019	December 31, 2018	December 31, 2017
Troubled debt restructurings:			
Real estate mortgage	$ 7,379	$ 6,671	$ 3,981
Production and intermediate term	6,220	8,638	4,707
Farm-related business	-	131	131
Rural residential real estate	-	-	132
Mission-related investments	2,042	2,105	2,170
Energy	1,944	-	-
Total	$ 17,585	$ 17,545	$ 11,121

	TDRs in Nonaccrual Status*		
	December 31, 2019	December 31, 2018	December 31, 2017
Troubled debt restructurings:			
Real estate mortgage	$ 2,581	$ 1,139	$ 75
Production and intermediate term	3,997	4,480	984
Farm-related business	-	131	131
Rural residential real estate	-	-	132
Mission-related investments	-	-	-
Total	$ 6,578	$ 5,750	$ 1,322

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

Additional impaired loan information is as follows:

	Loan Balance at 12/31/2019	Unpaid Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 771	$ 934	$ 37	$ 1,147	$ 4
Production and intermediate term	6,870	9,301	892	8,107	212
Farm-related business	1,602	2,583	368	2,367	177
Rural residential real estate	-	-	-	7	-
Energy	3,086	3,086	167	3,234	-
Mission-related investments	134	134	42	135	11
Total	$ 12,463	$ 16,038	$ 1,506	$ 14,997	$ 404
Impaired loans with no related specific allowance for loan losses:					
Real estate mortgage	$ 39,340	$ 40,691	$ -	$ 36,944	$ 1,025
Production and intermediate term	16,790	24,123	-	16,773	297
Farm-related business	3,714	5,977	-	3,827	3
Rural residential real estate	108	279	-	254	-
Energy	1,934	-	-	214	2
Mission-related investments	1,887	1,887	-	1,907	116
Lease receivables	-	-	-	7	
Total	$ 63,773	$ 72,957	$ -	$ 59,926	$ 1,443
Total impaired loans:					
Real estate mortgage	$ 40,111	$ 41,625	$ 37	$ 38,091	$ 1,029
Production and intermediate term	23,660	33,424	892	24,880	509
Farm-related business	5,316	8,560	368	6,194	180
Rural residential real estate	108	279	-	261	-
Energy	5,020	3,086	167	3,448	2
Mission-related investments	2,021	2,021	42	2,042	127
Lease receivables	-	-	-	7	-
Total	$ 76,236	$ 88,995	$ 1,506	$ 74,923	$ 1,847

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

	Loan Balance at 12/31/2018	Unpaid Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 1,768	$ 1,972	$ 235	$ 1,263	$ 19
Production and intermediate term	5,786	7,873	927	6,239	50
Farm-related business	2,653	2,653	368	2,691	201
Rural residential real estate	29	48	4	5	3
Energy	3,428	3,428	1,053	2,982	-
Mission-related investments	137	137	40	156	11
Total	$ 13,801	$ 16,111	$ 2,627	$ 13,336	$ 284
Impaired loans with no related specific allowance for loan losses:					
Real estate mortgage	$ 33,937	$ 36,000	$ -	$ 42,520	$ 711
Production and intermediate term	9,344	13,175	-	14,983	417
Farm-related business	140	3,097	-	134	45
Rural residential real estate	362	567	-	408	5
Energy	-	-	-	3	-
Mission-related investments	1,947	1,947	-	1,950	119
Lease receivables	-	-	-	40	-
Total	$ 45,730	$ 54,786	$ -	$ 60,038	$ 1,297
Total impaired loans:					
Real estate mortgage	$ 35,705	$ 37,972	$ 235	$ 43,783	$ 730
Production and intermediate term	15,130	21,048	927	21,222	467
Farm-related business	2,793	5,750	368	2,825	246
Rural residential real estate	391	615	4	413	8
Energy	3,428	3,428	1,053	2,985	-
Mission-related investments	2,084	2,084	40	2,106	130
Lease receivables	-	-	-	40	-
Total	$ 59,531	$ 70,897	$ 2,627	$ 73,374	$ 1,581

	Loan Balance at 12/31/2017	Unpaid Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 240	$ 248	$ 30	$ 1,535	$ 3
Production and intermediate term	3,499	4,035	771	7,448	33
Farm-related business	2,736	2,736	368	2,819	174
Rural residential real estate	-	-	-	8	-
Mission-related investments	163	163	80	1,507	12
Total	$ 6,638	$ 7,182	$ 1,249	$ 13,317	$ 222
Impaired loans with no related specific allowance for loan losses:					
Real estate mortgage	$ 48,635	$ 51,160	$ -	$ 54,031	$ 2,836
Production and intermediate term	20,619	24,572	-	19,685	952
Farm-related business	131	3,107	-	461	9
Rural residential real estate	503	737	-	538	-
Mission-related investments	1,985	1,985	-	662	122
Lease receivables	59	81	-	82	-
Total	$ 71,932	$ 81,642	$ -	$ 75,459	$ 3,919
Total impaired loans:					
Real estate mortgage	$ 48,875	$ 51,408	$ 30	$ 55,566	$ 2,839
Production and intermediate term	24,118	28,607	771	27,133	985
Farm-related business	2,867	5,843	368	3,280	183
Rural residential real estate	503	737	-	546	-
Mission-related investments	2,148	2,148	80	2,169	134
Lease receivables	59	81	-	82	-
Total	$ 78,570	$ 88,824	$ 1,249	$ 88,776	$ 4,141

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

The association has remaining commitments to lend additional funds to borrowers whose loans were classified as impaired at December 31, 2019, 2018 and 2017, respectively. These commitments totaled $3,150, $2,682 and $3,535 at December 31, 2019, 2018 and 2017, respectively. The remaining commitments have been considered when establishing the allowance for loan losses, which is recorded in other liabilities.

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	2019	2018	2017
Total interest income which would have been recognized under the orignal terms	**$ 5,404**	$ 3,910	$ 4,531
Less: interest income recognized	**1,847**	1,581	4,141
Interest income not recognized	**$ 3,557**	$ 2,329	$ 390

A summary of the changes in the allowance for credit losses and the ending balance including accrued interest of loans outstanding is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Farm-related business	Rural Residential Real Estate	Communication	Energy and Water and Waste Disposal	Mission-Related Investments	Lease Receivable	Total
Allowance for credit losses:									
Balance at December 31, 2018	$ 8,517	$ 11,915	$ 3,439	$ 98	$ 86	$ 1,331	$ 41	$ 68	$ 25,495
Charge-offs	(230)	(4,468)	-	(11)	-	-	-	-	(4,709)
Recoveries	820	547	738	40	-	-	-	-	2,145
Provision for credit losses	4,560	5,159	(799)	(18)	(9)	(809)	1	16	8,101
Transfer from reserve on unfunded commitments	(3)	(164)	(64)	-	-	(3)	-	-	(234)
Balance at December 31, 2019	$ 13,664	$ 12,989	$ 3,314	$ 109	$ 77	$ 519	$ 42	$ 84	$ 30,798
Allowance for credit losses: individually evaluated for impairment	$ 37	$ 892	$ 368	$ -	$ -	$ 167	$ 42	$ -	$ 1,506
Allowance for credit losses: collectively evaluated for impairment	$ 13,627	$ 12,097	$ 2,946	$ 109	$ 77	$ 352	$ -	$ 84	$ 29,292
Loans, including accrued interest:									
Ending Balance at December 31, 2019	$ 6,025,143	$ 951,600	$ 662,037	$ 101,923	$ 56,381	$ 74,449	$ 6,076	$ 16,607	$ 7,894,216
Ending balance for loans individually evaluated for impairment	$ 40,111	$ 23,660	$ 5,316	$ 108	$ -	$ 5,020	$ 2,021	$ -	$ 76,236
Ending balance for loans collectively evaluated for impairment	$ 5,985,032	$ 927,940	$ 656,721	$ 101,815	$ 56,381	$ 69,429	$ 4,055	$ 16,607	$ 7,817,980

	Real Estate Mortgage	Production and Intermediate Term	Farm-related business	Rural Residential Real Estate	Communication	Energy	Mission-Related Investments	Lease Receivable	Total
Allowance for credit losses:									
Balance at December 31, 2017	$ 10,470	$ 12,955	$ 4,002	$ 150	$ 145	$ 1,615	$ 82	$ 31	$ 29,450
Charge-offs	(83)	(2,168)	-	(28)	-	-	-	(16)	(2,295)
Recoveries	530	762	76	36	30	-	-	-	1,434
Provision for credit losses	(2,415)	114	(708)	(60)	(89)	(313)	(51)	53	(3,469)
Transfer to reserve on unfunded commitments	15	252	69	-	-	29	10	-	375
Balance at December 31, 2018	$ 8,517	$ 11,915	$ 3,439	$ 98	$ 86	$ 1,331	$ 41	$ 68	$ 25,495
Allowance for credit losses: individually evaluated for impairment	$ 235	$ 927	$ 368	$ 4	$ -	$ 1,053	$ 40	$ -	$ 2,627
Allowance for credit losses: collectively evaluated for impairment	$ 8,282	$ 10,988	$ 3,071	$ 94	$ 86	$ 278	$ 1	$ 68	$ 22,868
Loans, including accrued interest:									
Ending Balance at December 31, 2018	$ 5,692,453	$ 935,526	$ 596,637	$ 102,585	$ 41,125	$ 68,901	$ 6,586	$ 18,017	$ 7,461,830
Ending balance for loans individually evaluated for impairment	$ 35,705	$ 15,130	$ 2,793	$ 391	$ -	$ 3,428	$ 2,084	$ -	$ 59,531
Ending balance for loans collectively evaluated for impairment	$ 5,656,748	$ 920,396	$ 593,844	$ 102,194	$ 41,125	$ 65,473	$ 4,502	$ 18,017	$ 7,402,299

	Real Estate Mortgage	Production and Intermediate Term	Farm-related business	Rural Residential Real Estate	Communication	Energy	Mission-Related Investments	Lease Receivable	Total
Allowance for credit losses:									
Balance at December 31, 2016	$ 8,194	$ 15,840	$ 4,954	$ 135	$ 183	$ 873	$ 88	$ 20	$ 30,287
Charge-offs	(8)	(4,448)	-	(17)	-	-	-	(23)	(4,496)
Recoveries	423	583	116	28	-	-	13	-	1,163
Provision for credit losses	1,858	791	(1,054)	4	(39)	731	(10)	34	2,315
Transfer to reserve on unfunded commitments	3	189	(14)	-	1	11	(9)	-	181
Balance at December 31, 2017	$ 10,470	$ 12,955	$ 4,002	$ 150	$ 145	$ 1,615	$ 82	$ 31	$ 29,450
Allowance for credit losses: individually evaluated for impairment	$ 30	$ 771	$ 368	$ -	$ -	$ -	$ 80	$ -	$ 1,249
Allowance for credit losses: collectively evaluated for impairment	$ 10,440	$ 12,184	$ 3,634	$ 150	$ 145	$ 1,615	$ 2	$ 31	$ 28,201
Loans, including accrued interest:									
Ending Balance at December 31, 2017	$ 5,554,946	$ 924,363	$ 597,379	$ 105,957	$ 45,756	$ 66,406	$ 7,083	$ 7,860	$ 7,309,750
Ending balance for loans individually evaluated for impairment	$ 48,875	$ 24,118	$ 2,867	$ 503	$ -	$ -	$ 2,148	$ 59	$ 78,570
Ending balance for loans collectively evaluated for impairment	$ 5,506,071	$ 900,245	$ 594,512	$ 105,454	$ 45,756	$ 66,406	$ 4,935	$ 7,801	$ 7,231,180

NOTE 5 — LEASES

The association evaluates arrangements at inception to determine if it meets the criteria for a lease. Leases with an initial term of 12 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 with terms greater than 12 months 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. As the rate implicit in the lease is generally not readily determinable for our operating leases, the discount rates used to determine the present value of our lease liability are based on our incremental borrowing rate at the lease commencement date and commensurate with the remaining lease term. Our incremental borrowing rate for a lease is our cost of funds from the Bank over a similar term at an amount equal to the lease payments in a similar economic environment. 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 year ended December 31, 2019
Operating lease cost	Operating	$ 2,126
Short-term lease cost	Operating	202
Net lease cost		$ 2,328

Other information related to leases was as follows:

	For the year ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	$ 2,301
Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	$ 1,243

Lease term and discount rate are as follows:

	December 31, 2019
Weighted average remaining lease term in years:	
Operating leases	4.96
Weighted average discount rate:	
Operating leases	3.3%

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

	Total Operating Leases
2020	$ 2,158
2021	$ 1,901
2022	$ 1,804
2023	$ 1,727
2024	$ 1,526
Thereafter	$ 2,815
Total lease payments	11,931
Less: interest	-
Total	$ 11,931

The association leases office space in Abilene, Austin, Bay City, Boerne, Bryan, Burnet, Conroe, Crockett, Devine, Edinburg, El Paso, Fredericksburg, Georgetown, Harlingen, Hondo, Katy, Laredo, Livingston, New Braunfels, Robstown, Round Rock, San Antonio, Seminole and Winnie, Texas. The association had temporary leases in Edna and Kenedy during 2019. The association also has leases for billboards and postage meters as of December 31, 2019. Lease expense was $2,328, $2,075 and $2,036 for 2019, 2018 and 2017, respectively.

NOTE 6 – INVESTMENT IN THE FARM CREDIT BANK OF TEXAS:

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities, not fair value, in the accompanying consolidated balance sheet. Estimating the fair value of the association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The association owns 40.3 percent, 39.8 percent and 39.4 percent of the issued stock of the Bank as of December 31, 2019, 2018 and 2017. As of those dates, the Bank's assets totaled $25,663,816, $24,529,150 and $22,836,605, respectively, and members' equity totaled $1,844,183, $1,776,933 and $1,667,884, respectively. The Bank's earnings were $202,954, $190,530 and $195,986 during 2019, 2018 and 2017, respectively.

NOTE 7 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2019	2018	2017
Land and Improvements	**$ 3,577**	$ 3,325	$ 3,337
Building and improvements	**15,809**	15,071	14,896
Furniture and equipment	**2,316**	2,386	2,592
Computer equipment and software	**2,981**	5,494	7,311
Automobiles	**6,932**	8,097	6,044
Construction in progess	**986**	459	81
	32,601	34,832	34,261
Accumulated depreciation	**(17,198)**	(19,467)	(20,056)
Total	**$ 15,403**	$ 15,365	$ 14,205

NOTE 8 – OTHER PROPERTY OWNED, NET:

Net gain (loss) on other property owned, net consisted of the following for the years ended December 31:

	2019	2018	2017
Gain on sale of other property owned	**$ 95**	$ 1,029	$ 573
Carrying value adjustments	**(4)**	2	(172)
Operating income (expense), net	**413**	(197)	104
Net gain on other property owned	**$ 504**	$ 834	$ 505

The association's other property owned (OPO) at December 31, 2019, includes five properties totaling 896.0 acres. All these properties have been individually appraised and the carrying amounts are not in excess of appraised values at December 31, 2019.

NOTE 9 – OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2019	2018	2017
Prepaid captive insurance premium	**$ 2,161**	$ 2,214	$ 2,267
Nonqualified deferred compensation trust	**8,293**	7,103	6,478
Acquisition intangibles	**2,192**	2,517	2,863
Other assets	**2,536**	2,179	911
Total assets	**$ 15,182**	$ 14,013	$ 12,519

Other liabilities comprised the following at December 31:

		2019		2018		2017
Accounts payable	**$**	**22,652**	$	23,600	$	19,895
Annual leave payable		**3,150**		3,066		2,859
FCS insurance payable		**5,425**		5,253		8,380
Nonqualified deferred compensation payable		**8,293**		7,103		6,478
Other liabilities		**6,799**		6,857		5,400
Total liabilities	**$**	**46,319**	$	45,879	$	43,012

NOTE 10 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The association's indebtedness to the Bank represents borrowings by the association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the association's assets and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2020, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the association's direct loan from the Bank at December 31, 2019, 2018 and 2017, were $6,604,398 at 2.73 percent, $6,223,546 at 2.81 percent and $6,127,915 at 2.26 percent, respectively.

Under the Act, the association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2019, 2018 and 2017, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the Bank as of December 31, 2019, was $7,695,182 as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and maintaining records, reporting financial information and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, and reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2019, 2018 and 2017, the association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 11 — MEMBERS' EQUITY:

A description of the association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

In accordance with the Act and the association's capitalization bylaws, each borrower is required to invest in the association as a condition of borrowing. The investment in Class B capital stock or participation certificates is equal to 2 percent of the loan amount, up to a maximum amount of one thousand dollars. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the association. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

Each owner of Class B capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the association capital bylaws require the conversion of any borrower's outstanding Class B and participation certificates to Class A stock. Class A stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of capital stock and participation certificates is made solely at the discretion of the association's board of directors. At December 31, 2019, 2018 and 2017, the association did not have any material Class A stock outstanding.

All borrower stock and allocated equities are at-risk. Net losses recorded by the association shall first be applied against unallocated retained earnings. To the extent such losses exceed unallocated retained earnings, such losses would be applied in accordance with association bylaws and be borne first on a pro rata basis by holders of all allocated equities and then on a pro rata basis by all holders of Class A stock, Class B capital stock and participation certificates. In the event of liquidation or dissolution of the association, any assets of the association remaining after payment or retirement of all liabilities shall first be distributed to the holders of stock and participation certificates pro rata in proportion to the number of shares or units of stock or participation certificates then outstanding until an amount equal to the aggregate par value or unit value of all shares of such stock and participation certificates issued and outstanding has been distributed to such holders; second, to the holders of qualified allocated earnings on the basis of the oldest allocations first, until an amount equal to the balance outstanding in this account has been distributed to the holders; third, to the holders of nonqualified allocated earnings on a pro rata basis until an amount equal to the total of all notices outstanding has been distributed to the holders; and fourth, any remaining assets of the association in excess of the association's obligations to external parties and to the Bank shall be distributed to the members, in proportion to which the aggregate patronage of each such member bears to the total patronage of all such parties insofar as practicable, unless provided by law.

Patronage distributions may be paid as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following patronage distributions were declared and paid in 2019, 2018 and 2017, respectively:

			Cash Patronage		
Date Declared		**Nonqualified Allocated Retained Earnings Issued**		**Amount**	**Date Paid (Payable)**
December 2019	**$**	**87,987**	**$**	**88,550**	**March 2020**
December 2018	$	97,044	$	87,543	March 2019
December 2017	$	86,341	$	77,506	March 2018

The association may create and maintain an allocated surplus account consisting of earnings held therein and allocated to borrowers on a patronage basis pursuant to its bylaws. Allocated surplus may be evidenced by either "qualified written notices of allocation" or "nonqualified written notices of allocation," or both.

All allocations in the form of qualified written notices of allocation shall be issued in annual series and shall be identified by the year of issuance. Each such series shall be retired fully or on a pro rata basis, only at the discretion of the board, in order of issuance by years as funds are available. Currently, the association has no qualified allocated equity outstanding.

All allocations in the form of nonqualified notices of allocation shall be issued in annual series and identified by the year of issuance. Each annual series may be subdivided between two or more classes. Each such series, or class thereof, shall be retired at the discretion of the board. The association currently has the following series of nonqualified allocated retained earnings outstanding which includes adjustments made to finalize the computation of these contributions.

Declaration for year	Nonqualified Allocated Retained Earnings
2012	$ 96,113
2013	78,649
2014	70,067
2015	80,881
2016	77,795
2017	86,341
2018	97,044
2019	87,987
Total	**$ 674,877**

In September 2019, the board of directors approved a resolution to retire $38,206 in nonqualified allocated equities which were paid to the stockholders in November 2019. These equities represented all the remaining equities allocated in 2011.

In September 2018, the board of directors approved a resolution to retire $50,000 in nonqualified allocated equities which were paid to stockholders in November 2018. The equities retired represented 56 percent of the earnings allocated in 2011.

In September 2017, the board of directors approved a resolution to retire $36,785 in nonqualified allocated equities which were paid to stockholders in November 2017. The equities retired represented all the earnings allocated in 2010.

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the core surplus and total surplus requirements with common equity tier 1, tier 1, and total capital (tier 1 plus tier 2) risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a tier 1 leverage ratio and Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the banks and associations. The permanent capital ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past. As of December 31, 2019, the association is not prohibited from retiring stock or distributing earnings. Furthermore, the association is unaware of any such prohibitions that may apply during 2020.

The following sets forth the regulatory capital ratio requirements and ratios at December 31, 2019:

	Regulatory Minimums	**Capital Conservation Buffers***	**Total**	**Association's ratios as of December 31, 2019**
Risk-adjusted:				
Common equity tier 1 ratio	4.50%	2.50% *	7.00%	14.6%
Tier 1 capital ratio	6.00%	2.50% *	8.50%	14.6%
Total capital ratio	8.00%	2.50% *	10.50%	15.0%
Permanent capital ratio	7.00%	0.00%	7.00%	14.7%
Non-risk-adjusted:				
Tier 1 leverage ratio**	4.00%	1.00% *	5.00%	15.2%
UREE leverage ratio	1.50%	0.00%	1.50%	8.9%

Risk-adjusted assets have been defined by FCA Regulation as the Statement of Condition assets and off balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the impact of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Risk-adjusted assets is calculated differently for the permanent capital ratio compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratios is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, as the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The components of the association's risk-adjusted capital, based on 90 average balances, were as follows at December 31, 2019:

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**708,540**	**708,540**	**708,540**	**708,540**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**25,966**	**25,966**	**25,966**	**25,966**
Allocated equities held ≥7 years	**587,844**	**587,844**	**587,844**	**587,844**
Nonqualified allocated equities not subject to retirement	**-**	**-**	**2**	**2**
Allowance for loan losses and reserve for credit losses subject to certain limitations*	**-**	**-**	**30,736**	**-**
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(126,176)**	**(126,176)**	**(126,176)**	**(126,176)**
Other regulatory required deductions	**(2,252)**	**(2,252)**	**(2,252)**	**(2,252)**
	1,193,922	1,193,922	1,224,660	1,193,924
Denominator:				
Risk-adjusted assets excluding allowance	**8,151,853**	**8,151,853**	**8,151,853**	**8,151,853**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**-**	**-**	**-**	**-**
Allowance for loan losses				**(30,334)**
	8,151,853	8,151,853	8,151,853	8,121,519

Non-risk-adjusted Capital Ratios

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	$ 708,540	$ 708,540
Statutory minimum purchased borrower stock	25,966	-
Allocated equities held ≥7 years	587,844	-
Nonqualified allocated equities not subject to retirement		
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(126,176)	(9,853)
Other regulatory required deductions	(2,252)	(2,252)
	1,193,922	696,435
Denominator:		
Total Assets	8,045,831	8,045,831
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(179,035)	(179,035)
	7,866,796	7,866,796

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

At December 31, the association had the following shares of Class A capital stock, Class B stock and participation certificates outstanding at a par value of five dollars per share:

	2019	2018	2017
Class A stock	**-**	-	-
Class B stock	**4,946**	4,909	4,845
Participation certificates	**250**	252	259
Total	**5,196**	5,161	5,104

The association's accumulated other comprehensive income (loss) relates entirely to its non-pension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income (loss) and the location on the income statement for the year ended December 31:

	2019	2018	2017
Accumulated other comprehesive (loss) at January 1	**$ (79)**	$ (3,694)	$ (1,246)
Actuarial (losses) gains	**(2,661)**	2,601	(2,119)
Prior service (cost) credit	**-**	1,054	-
Amortization of prior service (credit) costs included in salaries and employee benefits	**(183)**	(224)	(329)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**-**	184	-
Income tax expense related to items of other comprehensive income	**-**	-	-
Other comprehensive (loss) income, net of tax	**(2,844)**	3,615	(2,448)
Accumulated other comprehesive (loss) at December 31	**$ (2,923)**	$ (79)	$ (3,694)

NOTE 12 — INCOME TAXES:

The provision for (benefit from) income taxes follows for the years ended December 31:

	2019	2018	2017
Current federal tax	**$ 5**	$ (1)	$ 7
Deferred federal tax	**-**	-	-
Provision for (Benefit from) income taxes	**$ 5**	$ (1)	$ 7

The enactment of federal tax legislation in late December 2017 lowered the federal corporate tax from 35 percent to 21 percent beginning January 1, 2018. In accordance with GAAP, the change to lower corporate tax rate led to a remeasurement of the deferred tax liabilities and deferred tax assets in 2017, the period of enactment.

The association has a net operating loss carryforward of $21,696 available to offset against future taxable income of which $1,039 will expire in 2024, $1,811 will expire in 2025, $8,512 will expire in 2029 and $10,334 will expire in 2030.

The provision for (benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	2019	2018	2017
Federal tax at statutory rate	**$ 38,012**	$ 39,869	$ 57,373
Federal income tax attributable to:			
Income not subject to federal tax	**(35,627)**	(36,568)	(52,909)
Nondeductible provision for loan losses	**813**	(111)	178
Patronage distributions	**(2,493)**	(2,136)	(3,344)
Recoveries (charge-offs) on loans	**(685)**	(299)	(1,280)
Other	**(15)**	(756)	(11)
Provision for (Benefit from) income taxes	**$ 5**	$ (1)	$ 7

Deferred tax assets in accordance with accounting guidance, "Accounting for Income Taxes," are comprised of the following at December 31:

	2019	2018	2017
Allowance for losses on loans	**$ 2,764**	$ 2,636	$ 3,047
Net operating loss carryfoward	**4,556**	4,556	4,556
Deferred tax assets	**7,320**	7,192	7,603
Valuation allowance	**(7,320)**	(7,192)	(7,603)
Net deferred tax asset	**$ -**	$ -	$ -

The calculation of tax assets and liabilities involves various management estimates and assumptions as to the future taxable earnings. At December 31, 2019, non-patronage income is expected to be less than 5 percent of total taxable income (before patronage) and all patronage income is expected to be disbursed over time. The expected future tax rates are based upon enacted tax laws.

The association recorded valuation allowances of $7,320, $7,192 and $7,603 during 2019, 2018 and 2017, respectively. The association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. The association follows FASB guidance on accounting for uncertainty in income taxes. At December 31, 2019, 2018 and 2017, the association did not recognize a tax liability for any uncertain tax positions.

NOTE 13 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the association participate in either the defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the association sponsors a nonqualified defined contribution 401(k) plan. These plans are described more fully in section I of Note 2, "Summary of

Significant Accounting Policies." The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon District combination only. The association records current contributions to the DB plan as an expense in the current year.

The CEO and certain members of senior management or highly-compensated employees in the association 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 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 association elected to participate in the Supplemental 401(k) Plan and provided for elective deferrals and discretionary contributions to be made through the plan. The total expenses of the nonqualified plan included in the association's employee benefit costs were $693, $625 and $91 for the years ended December 31, 2019, 2018 and 2017, respectively.

Supplemental 401 (k) Plan

Plan Name	**Farm Credit Benefits Alliance Nonqualifed Supplemental 401 (k) Plan**
Ending Market Value	**$8,293**
Contributions made during the year	**$693**
Distributions made during the year	**–**
Off-balance sheet amounts including benefits earned but not vested	**None**

The DB plan is noncontributory, and benefits are based on salary and years of service. The legal name of the plan is the Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by the percentage approved by the plan sponsor. The plan sponsor is the board of directors of the Farm Credit Bank of Texas. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. The actuarial present value of vested and nonvested accumulated benefit obligations exceeded the net assets of the DB plan as of December 31, 2019.

The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
c. If the association chooses to stop participating in some of its multi-employer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, the association's contributions, and the percentage of association contribution to total plan contributions for the years ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
Funded status of plan	**66.2%**	68.0%	69.7%
Association's contribution	**$ 2,346**	$ 2,920	$ 4,419
Percentage of association's contribution to total contributions	**28.8%**	29.9%	38.2%

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 68.0 percent, 70.1 percent and 73.4 percent at December 31, 2019, 2018 and 2017, respectively.

Other Postretirement Benefits: In addition to pension benefits, the association provides certain health care benefits to qualifying retired employees (other postretirement benefits) for those employees hired on or before December 31, 2003. These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in the liability section of the association's consolidated balance sheet. Association employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums.

The following table reflects the benefit obligation, cost and actuarial assumptions for the association's other postretirement benefits:

	2019	2018	2017
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 22,991**	$ 25,897	$ 22,938
Service cost	**311**	456	429
Interest cost	**1,072**	1,022	1,039
Plan participants' contributions	**165**	156	151
Plan amendments	**-**	(1,054)	-
Actuarial (Gain) loss	**2,661**	(2,601)	2,119
Benefits paid	**(900)**	(885)	(779)
Accumulated postretirement benefit obligation, end of year	**$ 26,300**	$ 22,991	$ 25,897
Change in Plan Assets			
Association contributions	**$ 735**	$ 729	$ 628
Plan participants' contributions	**165**	156	151
Benefits paid	**(900)**	(885)	(779)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Amounts Recognized in Consolidated Balance Sheet			
Current liabilities	**$ (783)**	$ (870)	$ (797)
Noncurrent liabilities	**(25,517)**	(22,121)	(25,100)
Total	**$ (26,300)**	$ (22,991)	$ (25,897)
Amounts Recognized in Accumulated Other Comprehensive Income (AOCI)			
Net actuarial (gain)	**$ 3,794**	$ 1,133	$ 3,919
Prior service credit	**(871)**	(1,054)	(225)
Total	**$ 2,923**	$ 79	$ 3,694
Measurement date	**12/31/2019**	12/31/2018	12/31/2017
Discount rate	**3.45%**	4.75%	4.00%
Health care cost trend rate assumed for next year (pre-/post-65)	**6.90% /6.40%**	7.30%/6.90%	7.70%/6.90%
Ultimate health care cost trend rate	**4.50%**	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	**2028/2029**	2026/2027	2026/2026

Disclosure Information Related to Retirement Benefits		**2019**		2018		2017
Components of Net Postretirement Benefit Cost						
Service Cost	**$**	**311**	$	456	$	429
Interest cost		**1,072**		1,022		1,039
Amortization of:						
Unrecognized prior service credit		**(183)**		(224)		(329)
Unrecognized net loss		**-**		184		-
Actuarial loss		**-**		-		-
Net postretirement benefit cost	**$**	**1,200**	$	1,438	$	1,139
Other Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income						
Net actuarial loss (gain)	**$**	**2,661**	$	(2,601)	$	2,119
Prior service cost		**183**		224		329
Net actuarial loss		**-**		(1,238)		-
Total recognized in other comprehensive loss (income)	**$**	**2,844**	$	(3,615)	$	2,448
AOCI Amounts Expected to be Amortized into Expense						
Unrecognized prior service cost	**$**	**(183)**	$	(224)	$	(329)
Unrecognized net loss		**-**		184		-
Total	**$**	**(183)**	$	(40)	$	(329)
Weighted-Average Assumptions Used to Determine Net Postretirement Benefit Cost						
Measurement date		**12/31/2018**		12/31/2017		12/31/2016
Discount rate		**4.75%**		4.00%		4.60%
Health care cost trend rate assumed for next year (pre-/post-65)		**7.30%/6.90%**		7.70%/6.90%		6.75%/6.50%
Ultimate health care cost trend rate		**4.50%**		4.50%		4.50%
Year that the rate reaches the ultimate trend rate		**2026**		2026		2025

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)		
Fiscal 2020	**$**	**813**
Fiscal 2021		**907**
Fiscal 2022		**980**
Fiscal 2023		**1,004**
Fiscal 2024		**1,058**
Fiscal 2025 to 2029		**5,897**
Expected Contributions		
Fiscal 2020	**$**	**813**

NOTE 14 — RELATED PARTY TRANSACTIONS:

Directors of the association, except for any director-elected directors, are required to be borrowers/stockholders of the association. Also, in the ordinary course of business, the association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the association amounted to $24,229, $22,046 and $22,184 at December 31, 2019, 2018 and 2017, respectively. During 2019, 2018 and 2017, $22,470, $17,177 and $16,090 of new loans were made and repayments totaled $20,287, $17,642 and $16,505, respectively. In the opinion of management, no such loans outstanding at December 31, 2019, 2018 and 2017 involved more than a normal risk of collection.

Expenses included in purchased services and data processing may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the associations, such as FCSIC expenses. The Bank charges the individual associations directly for these services based on each association's proportionate usage. These expenses totaled $1,404, $744 and $778 in 2019, 2018 and 2017, respectively

The association received patronage income from the Bank totaling $40,403, $35,041 and $29,029 during 2019, 2018 and 2017, respectively.

NOTE 15 — FAIR VALUE MEASUREMENTS:

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

Assets 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, at December 31, 2019, 2018 and 2017 for each of the fair value hierarchy values are summarized below. The association did not have any liabilities measured at fair value on a recurring basis.

December 31, 2019	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 8,293**	**$ -**	**$ -**	**$ 8,293**
Total assets	**$ 8,293**	**$ -**	**$ -**	**$ 8,293**

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

December 31, 2017	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 6,478	$ -	$ -	$ 6,478
Total assets	$ 6,478	$ -	$ -	$ 6,478

Assets 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 values are summarized below. The Association did not have any liabilities measured at fair value on a nonrecurring basis.

December 31, 2019	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 10,957**	**$ 10,957**
Other property owned	**-**	**-**	**942**	**942**

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

December 31, 2017	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 5,389	$ 5,389
Other property owned	-	-	3,989	3,989

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral dependent loans for which real estate is the collateral.

With regard to 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.

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Consolidated Balance Sheets for each of the fair value hierarchy values are summarized as follows:

	December 31, 2019				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 2**	**$ 2**	**$ -**	**$ -**	**$ 2**
Mission-related and other investments held-to-maturity	**3,418**	**-**	**-**	**3,463**	**3,463**
Net loans	**7,781,083**	**-**	**-**	**$ 7,861,821**	**7,861,821**
Total Assets	**$ 7,784,503**	**$ 2**	**$ -**	**$ 7,865,284**	**$ 7,865,286**
Liabilities:					
Note payable to the Bank	**$ 6,604,398**	**$ -**	**-**	**$ 6,672,669**	**$ 6,672,669**
Total Liabilities	**$ 6,604,398**	**$ -**	**$ -**	**$ 6,672,669**	**$ 6,672,669**

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 10	$ 10	$ -	$ -	$ 10
Mission-related and other investments held-to-maturity	4,388	-	-	4,394	4,394
Net loans	7,356,337	-	-	$ 7,255,620	7,255,620
Total Assets	$ 7,360,735	$ 10	$ -	$ 7,260,014	$ 7,260,024
Liabilities:					
Note payable to the Bank	$ 6,223,546	$ -	-	$ 6,138,603	$ 6,138,603
Total Liabilities	$ 6,223,546	$ -	$ -	$ 6,138,603	$ 6,138,603

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 15	$ 15	$ -	$ -	$ 15
Mission-related and other investments held-to-maturity	5,566	-	-	5,576	5,576
Net loans	7,209,279	-	-	$ 7,126,904	7,126,904
Total Assets	$ 7,214,860	$ 15	$ -	$ 7,132,480	$ 7,132,495
Liabilities:					
Note payable to the Bank	$ 6,127,915	$ -	-	$ 6,057,896	$ 6,057,896
Total Liabilities	$ 6,127,915	$ -	$ -	$ 6,057,896	$ 6,057,896

Valuation Techniques

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

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Investments held-to-maturity	Discounted cash flow	Prepayment rates Probability of default Loss severity
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield
Other property owned	Carrying value	Each collateral property is unique

Information About Level 3 Fair Value Measurements

	Valuation Technique(s)	Unobersable Input	Range of Inputs
Investments held-to-maturity	Discounted cash flow	Prepayment rates	2.4% - 38.0%

A. Cash:

For cash, the carrying amount is a reasonable estimate of fair value. The fair value of term federal funds sold and securities purchased under resale agreements is based on currently quoted market prices, which are reflective of current interest rates.

B. Investment Securities:

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.

C. Loans Evaluated for Impairment:

For certain loans evaluated for impairment under 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. The carrying value of accrued interest approximates its fair value.

D. Assets Held in Nonqualified Benefits Trusts:

Assets held in nonqualified benefits trusts related to deferred compensation and supplemental retirement plans are classified as Level 1. Level 1 valuation utilizes quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The trust funds include investments that are actually traded and have quoted net asset values that are quoted in the marketplace.

E. Standby Letters of Credit:

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

F. 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 other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

G. Note Payable to the Bank:

The note payable to the Bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the association's and Bank's loan rates as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

NOTE 16 — COMMITMENTS AND CONTINGENCIES:

In addition to those commitments and contingencies discussed in Note 2, "Summary of Significant Accounting Policies," the association is involved in various legal proceedings in the ordinary 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.

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2019, $992,138 of commitments to extend credit and no commercial letters of credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts equal the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. Standby letters of credit are recorded, at fair value, on the balance sheet by the association. At December 31, 2019, there were no standby letters of credit included in other liabilities. Outstanding standby letters of credit have expiration dates ranging from January 1, 2020, to May 1, 2024. The maximum potential amount of future payments the association is required to make under the guarantees is $11,518.

NOTE 17 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 are as follows:

	2019				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 58,246**	**$ 58,043**	**$ 58,912**	**$ 59,812**	**$ 235,013**
(Provision for) reversal of loan losses	**(4,538)**	**$ (3,063)**	**$ 549**	**$ (1,049)**	**(8,101)**
Noninterest expense, net	**(10,292)**	**$ (12,545)**	**$ (11,467)**	**$ (11,603)**	**(45,907)**
Net income	**$ 43,416**	**$ 42,435**	**$ 47,994**	**$ 47,160**	**$ 181,005**

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 58,191	$ 57,003	$ 58,528	$ 61,001	$ 234,723
(Provision for) reversal of loan losses	2,647	$ (540)	$ 2,660	$ (1,298)	3,469
Noninterest expense, net	(8,497)	$ (13,664)	$ (9,063)	$ (17,117)	(48,341)
Net income	$ 52,341	$ 42,799	$ 52,125	$ 42,586	$ 189,851

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 54,591	$ 56,748	$ 57,976	$ 58,031	$ 227,346
(Provision for) reversal of loan losses	(718)	$ 156	$ (1,868)	$ 115	(2,315)
Noninterest expense, net	(13,329)	$ (13,643)	$ (13,438)	$ (15,885)	(56,295)
Net income	$ 40,544	$ 43,261	$ 42,670	$ 42,261	$ 168,736

NOTE 18 – SUBSEQUENT EVENTS:

The association has evaluated subsequent events through March 9, 2020, which is the date the financial statements were issued or available to be issued and has determined that there were no other events requiring disclosure.

DISCLOSURE INFORMATION AND INDEX

(Unaudited)

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference to Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings or interest rates to borrowers, patronage or dividends, and acquisitions or dispositions of material assets, if any, required to be disclosed in this section are incorporated herein by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

Capital Farm Credit, ACA (the association) serves its 192-county territory through its main administrative office at 3000 Briarcrest Drive, Suite 601, Bryan, Texas, and through its accounting/administration, agri-insurance, loan processing/review, special assets and marketing/operations offices, which are in Bryan, Lubbock, Hondo, Round Rock and Devine, Texas. Additionally, there are 75 lending offices located throughout the territory. The association owns the office buildings in Alpine, Bellville, Bowie, Canadian, Childress, Clifton, Crosbyton, Dalhart, Dayton, Dimmitt, Edna, El Campo, Goldthwaite, Hereford, Jourdanton, Kenedy, Kerrville, La Grange, Lamesa, Levelland, Littlefield, Lockhart, Lubbock, Madisonville, Mason, Matador, Muleshoe, Munday, Pampa, Perryton, Rosenberg, San Angelo, San Saba, Snyder, Sonora, Spur, Stamford, Taylor, Temple, Tulia, Uvalde, Vernon, Waco, Wheeler and Wichita Falls, free of debt. The association leases office buildings in Abilene, Austin, Bay City, Boerne, Bryan, Burnet, Conroe, Crockett, Devine, Edinburg, Edna, El Paso, Fredericksburg, Georgetown, Harlingen, Hondo, Katy, Kenedy, Laredo, Livingston, New Braunfels, Robstown, Round Rock, San Antonio, Seminole and Winnie, Texas.

In 2019, the association moved into a new leased building in Round Rock and expanded its lease in Bryan. In addition, renewals were executed for Georgetown, Robstown, Laredo, Burnet, Hondo and Seminole. The association also had temporary leases in Kenedy and Edna while new buildings were completed. The leases expired prior to the end of 2019.

In 2018, the association entered into a new lease in Boerne, to accommodate staffing needs in the San Antonio region. In addition, the association entered into a 10-year lease agreement for its Round Rock location, which was expected to be completed in 2019.

Effective March 2017, the association entered into a new lease agreement for the Winnie credit office, a new location for the association. In addition, during 2017, the association began remodeling its Kenedy office location. As a result, the association entered into a new one-year lease agreement for a separate facility as contractors complete the project. The association continued to rent on a month-to-month basis through 2018 as the remodeling was not completed until 2019.

LEGAL PROCEEDINGS

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

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference to Note 11 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 10 to the consolidated financial statements, "Note Payable to the Bank," Note 13, "Employee Benefit Plans" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 16 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (Bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the association.

The Farm Credit Bank of Texas's (Bank) annual and quarterly stockholder reports 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 78720-2590 or calling (512) 483-9204. Copies of the Bank's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*.

The association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Capital Farm Credit, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the association's quarterly stockholder reports can also be requested by e-mailing *Javier.Lemus@capitalfarmcredit.com*. The association's annual stockholder report is available on its website at *www.capitalfarmcredit.com* 75 days after the year end. Copies of the association's annual stockholder report can also be requested 90 days after the year end.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2019, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis," which precedes the consolidated financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The association's stockholder-elected and director-elected board of directors and senior officers are as follows:

NAME	POSITION	ELECTED/ EMPLOYED	TERM EXPIRES
John Malazzo	Chairman & Stockholder-Elected Director	2015	2023
Carl Sample	Vice Chairman & Stockholder-Elected Director	2016	2020
Paul Aelvoet	Stockholder-Elected Director	2018	2022
Larry Boleman	Stockholder-Elected Director	2016	2020
Dale Crenwelge	Stockholder-Elected Director	2017	2021
Kelly Gaskins	Stockholder-Elected Director	2018	2022
Dale Hoelscher	Stockholder-Elected Director	2015	2023
Jerred Hurst*	Director-Elected Director	2018	2022
Kenton B. Kimball	Stockholder-Elected Director	2015	2023
Terry McAlister	Stockholder-Elected Director	2018	2022
Phillip Munden	Stockholder-Elected Director	2017	2021
Lance D. Morris	Stockholder-Elected Director	2015	2023
Gary L. Palousek	Stockholder-Elected Director	2015	2023
Danny Parker	Stockholder-Elected Director	2017	2021
Ronnie Riddle	Stockholder-Elected Director	2016	2020
Roy Allan Schmidt	Stockholder-Elected Director	2017	2021
Steve Stevens*	Director-Elected Director	2017	2021
Sharleen Walkoviak*	Director-Elected Director	2018	2022
James L. Wedel **	Stockholder-Elected Director	2017	2021
Lowell Woodward	Stockholder-Elected Director	2018	2022
Joe David Yates	Stockholder-Elected Director	2018	2022
Ben R. Novosad	Chief Executive Officer	1976	----
Don VandeVanter	Senior Vice President, CFO	1999	----
Patricia A. Gonzales	Senior Vice President, Accounting & Administration	1999	----
Roy A. West	Chief Home Lending/Loan Processing Officer	1998	----
Jay Stewart	Senior Vice President, Chief Lending Officer	2001	----
Jeff Norte	Chief Credit Officer	2010	----
Wes Sutton	Senior Vice President, General Counsel	2018	----

*Director-Elected Director: a director-appointed director who is not a stockholder, director, officer, employee or agent of a Farm Credit System institution (other than as an outside director of the association or its subsidiaries).
**James Wedel resigned effective December 31, 2019

A brief statement of the business and employment background of each director and senior officer as of December 31, 2019 is provided for informational purposes.

John Malazzo raises cotton and corn and has a cattle production operation in Brazos, Burleson and Milam counties, Texas. Mr. Malazzo resides in Caldwell, Texas. Mr. Malazzo also serves on the board of Producers Co-op of Bryan, Texas, which provides agricultural goods and services to farmers and ranchers.

Carl Sample resides in Smiley, Texas, and is a contract poultry grower and has a cattle operation in Gonzales County, Texas.

Paul Aelvoet is a self-employed farmer/rancher in Medina County, Texas, and resides in Hondo, Texas. He is managing partner of Aelvoet Partners and of D/A Cattle Co, which are farming and ranching operations. Mr. Aelvoet serves as co-chairman of the Hondo 4H Booster Club.

Larry Boleman served as the associate vice chancellor and professor emeritus for agriculture for Texas A&M AgriLife until August of 2018. He resides in College Station, Texas. Dr. Boleman owns Boleman Cattle Company, a cow/calf operation headquartered in College Station, Brazos County, Texas, which raises commercial grade beef cattle for show and regular market channels.

Dale Crenwelge resides in Comfort, Kerr County, Texas, and his principal occupation is ranching and real estate investment and development. Mr. Crenwelge's business interests include serving as president or general partner of Grobe-Lich Properties LTD, DKBC I LTD, DKBC II LTD, Pine Ridge Developers LLC, Oak Creek/Mopac Self Storage LP, Crenwelge LLC, The Reserve at Falling Water

LTD, Pantego American U Store LTD, DeSoto Preferred Storage GP, Inc., DeSoto Preferred Storage LTD, PAV 7 LLC, Austin Mini Storage, Vega Altamesa Self Storage LP, D and D Terrell County Ranch Partnership, and Dancing Hill, LLC. Mr. Crenwelge serves on the board of Hill Country Memorial Hospital and Centurions of Kendall County.

Kelly Gaskins resides in Shamrock, Wheeler County, Texas, and is a self-employed owner of agricultural and pipeline construction businesses which operate under the names of Gaskins Double G Corp, Hoptoad Enterprises Inc, Salt Cedar Farms Inc., KG Farm Services Inc, Circle TK Land & Cattle, and Kelly Gaskins Farms Inc.

Dale Hoelscher farms and ranches in Bell, Falls, Milam, and Robertson counties, and resides in Bell County, Texas. He primarily grows corn, cotton, and wheat and also has a cow/calf operation. Mr. Hoelscher's business interests include Hoelscher Brothers Farm and R&D Hoelscher Farm LLC, a farming and ranching operation. His other business interests include D&M Grain, Granger Co-op, Westbrook Gin, and Biron Gin. Mr. Hoelscher currently serves as a director of Producers Co-op in Bryan, Texas, which provides feed, chemical, supplies, and fuel to farmers and ranchers in the regional area.

Jerred Hurst resides in Lubbock, Lubbock County, Texas and is the chief technology officer for Primitive Social, a digital agency specializing in web design and development, branding, inbound marketing, and social media. In addition, he is a founder for nSpirelabs, a stockholder and CTO for Hurst Farm Supply, a leading equipment dealership in West Texas, as well as CTO and co-owner of Fastpay Payroll, which provides companies with payroll solutions.

Kenton B. Kimball farms and ranches in Stratford, Texas. Mr. Kimball is the owner and president of Kimball Cattle Inc., a farming and cattle business, with current operations in northeast Oklahoma. Mr. Kimball has also owned and managed agricultural operations in Sherman County, Texas in the past.

Terry McAlister resides in Electra, Texas, and farms and ranches in Wichita and Wilbarger counties. Mr. McAlister is president and CEO of McAlister Properties Inc. and has ownership in McAlister Farm and McAlister Properties, farming and ranching operations. He serves as a board member of North Texas Boll Weevil Eradication Program.

Lance D. Morris farms cotton, wheat and milo in Crosby, Dickens and Floyd counties and resides in Crosbyton, Texas. He owns Morris Farms, which is a farming and ranching operation. Mr. Morris is on the board of directors of the Associated Cotton Growers and White River Municipal Water District.

Phillip Munden is a full-time rancher and farmer, and owns 4M Cattle Company, a small farm and ranch construction business in Bosque County, Texas, near Walnut Springs. Mr. Munden is a board member of the Bosque Soil and Water Conservation District.

Gary L. Palousek is a self-employed farmer raising cotton, milo and corn in Willacy County, Texas and operates his businesses individually and as a partner of Las Dos Palmas Farms. Mr. Palousek resides and maintains an office in Raymondville, Texas. He is director and secretary-treasurer of the Willacy County Drainage District No. 2 and is committeeman of Willacy County Farm Service Agency.

Danny Parker is engaged in row crop farming and a cow/calf operation in Uvalde and Reeves counties and conducts his business as Danny Parker Farms. Mr. Parker resides in Uvalde, Texas, and serves as vice chairman of the board of directors of the Gulf Compress in Corpus Christi, Texas, a cotton compress and warehouse business. Mr. Parker is also a member of the Uvalde County Livestock Show Steer Committee and the Commercial Replacement Heifer Show Committee.

Ronnie Riddle is owner and operator of Riddle Farms, a farming and ranching operation headquartered in Jones County, Texas near Hamlin. He resides in Abilene, Texas, and farms in Fisher, Stonewall, Jones and Haskell counties. Mr. Riddle is a board member of the Texas Trail Council of the Boy Scouts of America.

Roy Allan Schmidt resides near Burton, Texas and has a cow/calf operation in Menard and Washington counties. Mr. Schmidt owns and operates La Bahia Antiques LLC, is president of Labahia Turn Verein, and is the chairman of the FSA board in Washington and Austin counties.

R. H. "Steve" Stevens is a certified public accountant, primarily as a consultant to Ham, Langston & Brezina of Houston, Harris County, Texas. Mr. Stevens resides in Houston, Texas and is a member of the board of partners for ANCO Insurance in Bryan, Texas, member of the board of directors of the Houston Livestock Show & Rodeo and member of the board of directors of the American Quarter Horse Association. Mr. Stevens also has a cattle/horse operation in Burleson County, Texas.

Sharleen Walkoviak resides in Houston, Texas and is a co-owner of Covenant Technology Services LLC, which provides outsourced IT and consulting services and is based in Houston, Harris County, Texas. She is a member of the board of directors of the Houston

Livestock Show and Rodeo. She is also a director for Books Between Kids and serves on the development council for the George Bush School of Government and Public Service, KSBJ President's Council, and Amigas Para Ninos.

James L. Wedel is a farmer in Bailey and Parmer counties, growing organic corn, cotton, wheat, soybeans and sorghum. He resides in Lubbock, Texas and currently serves on the board of Plains Cotton Growers and Texas Corn Producers. Mr. Wedel is an appointed director of the Organic Trade Association - Farmers Advisory Council, Texas Department of Agriculture - Organic Industry Advisory Board and the Llano Estacado Regional Water Planning Group. He is president of the Texas Organic Cotton Marketing Cooperative, Double W Farms Inc. and Paradise Plantation Inc. Mr. Wedel performs business as James Wedel Farms and Paradise Plantation, Inc., both of which are family farming partnerships.

Lowell Woodward ranches in Pecos, Crockett, Brewster and Upton counties, and resides in Pecos County, Texas. Mr. Woodward raises sheep, goats, cattle and horses, and has a hunting operation. He is a director of the Texas Sheep and Goat Raisers Association and owns Woodward Inc., an apartment complex.

Joe David Yates resides in Mason, Texas, and ranches in Texas and New Mexico. Mr. Yates sells ranch real estate in Texas, New Mexico and Oklahoma, with an office in Mason, Texas. He is the owner and president of Joe David Yates Inc., is part owner of Bay City Feeds, a feed operation in Bay City, Texas, is a director on the Farm Credit Council, and is the vice president/secretary of Stewart Ranch with operations in Texas and New Mexico.

Ben R. Novosad is president and chief executive officer of the association. Mr. Novosad began his career with the Federal Land Bank Association of Bryan in 1976, and in 1986 was named president and chief executive officer. As a 1975 graduate of Texas A&M University, Mr. Novosad received his B.S. in agricultural economics. He currently serves on the Farm Credit System's President's Advisory Committee and the Farm Credit System's Risk Management Committee. He also serves on the Texas Agricultural Lifetime Leadership Program (TALL) Advisory Board of Directors. In 2004, Mr. Novosad was inducted into the Tyrus R. Timm Honor Registry of Former Students of Agricultural Economics at Texas A&M University.

Don VandeVanter serves as executive vice president and chief financial officer for the association. He is responsible for the financial administration and capital management of the association. Mr. VandeVanter, a certified public accountant, has worked for the association since 1999 and in Farm Credit since 1987. He is a 1984 graduate of the University of Texas with a degree in accounting. Prior to his time with Farm Credit, he worked in public accounting.

Patricia A. Gonzales serves as the association's executive vice president and chief human resources officer. She is responsible for managing the association's human resources. She is a certified public accountant and was employed as chief financial officer in May 1999 for Southwest Texas ACA until its merger with Capital Farm Credit in 2006. She was previously employed as vice president/controller of the Farm Credit Bank of Texas for 12 years. Prior to her time with Farm Credit, she worked in public accounting.

Roy A. West was employed as chief credit officer in April 1998 and currently serves as the association's chief administrative officer. He was previously employed as director of credit of the Farm Credit Bank of Texas and vice president of the Capital of Texas Federal Land Bank Association.

Jay Stewart serves the association as executive vice president, chief lending officer. Mr. Stewart has 23 years of Farm Credit experience, including 15 years with Capital Farm Credit as branch manager, regional president, and has served in his current role since 2010. He also served six years with the Farm Credit Administration as a commissioned examiner. He received his B.S. and M.Agr. in agricultural economics from Texas A&M University.

Jeff Norte serves the association as chief credit officer. Mr. Norte has been with the association since September 2010. Prior to joining the association, he served in various credit and risk positions, including overseeing credit for CoBank's corporate and international portfolio, as well as several years as a regulator in Kansas City with the FDIC. He is a veteran of the military serving with the U.S. Army. Mr. Norte is a certified public accountant and received his MBA from Concordia University Texas.

Wesley Sutton serves as the association's general counsel and manages the legal department. Mr. Sutton earned his undergraduate degree from Erskine College and his juris doctorate from the University of South Carolina School of Law and is a member of the South Carolina Bar and the State Bar of Texas. Prior to his employment with the association, he was general counsel and executive vice president with AgSouth Farm Credit. He has also held several positions in the legal department at AgFirst Credit Bank and has over 18 years of service with the Farm Credit System.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

During 2019 directors were compensated for their service to the association in the form of an honorarium of $1,500 per month, $500 for each board meeting attended, $600 per meeting for Audit Committee meetings, $500 per meeting for committee meetings attended other than Audit Committee, $500 per meeting, per day for all other meetings, $200 per meeting for conference calls and $500 for travel days when required. Committee chairmen received an additional $200 per meeting for committee meetings. The board chairman and vice chairman were compensated $800 per meeting for each board meeting attended, and directors were also reimbursed for certain expenses incurred while representing the association in an official capacity. Mileage for attending official meetings during 2019 was paid at the IRS approved rate of 58.0 cents per mile for the year. A copy of the travel policy is available to stockholders of the association upon request.

	Number of Days Served		
Director	**Board Meetings**	**Other Official Activities**	**Total Compensation in 2019**
Paul Aelvoet	9	12	$ 28,000
Larry Boleman	9	13	29,900
Richard Counts *	0	4	10,900
Dale Crenwelge	9	12	32,000
Kelly Gaskins	9	13	31,400
Dale Hoelscher	9	13	28,400
Jerred Hurst	9	8	27,600
Kenton B. Kimball	9	20	37,100
John Malazzo	9	25	39,300
Terry McAlister	7	12	27,400
Lance D. Morris	9	14	32,900
Phillip Munden	9	19	32,000
Gary L. Palousek	9	13	29,800
Danny Parker	7	9	28,700
Ronnie Riddle	9	12	33,000
Carl Sample	9	23	37,900
Roy Allen Schmidt	8	12	31,000
Lloyd Shoppa*	1	1	6,000
Steve Stevens	9	15	30,400
Sharleen Walkoviak	9	16	36,700
James L. Wedel*	9	14	32,400
Lowell Woodward	9	12	31,600
Joe David Yates	9	15	30,200
			$ 684,600

*denotes board members who were no longer on the board at the end of 2019.

During 2019 there were seven board meetings with two consisting of a two-day meeting and five consisting of a one-day meeting (directors reflecting 9 days in board meeting attendance attended all board meetings held in 2019).

The aggregate compensation paid to directors in 2019, 2018 and 2017 was $684,600, $618,700 and $629,400, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

	Committee				
Director	**Audit**	**Compensation**	**Governance**	**Other***	**Total**
Paul Aelvoet	$ -	$ -	$ 3,500	$ 2,500	$ 6,000
Larry Boleman	-	-	4,900	3,000	$ 7,900
Richard Counts*	200	-	-	1,500	$ 1,700
Dale Crenwelge	-	-	3,500	2,500	$ 6,000
Kelly Gaskins	-	2,900	-	3,000	$ 5,900
Dale Hoelscher	-	2,900	-	3,000	$ 5,900
Jerred Hurst	-	-	3,200	200	$ 3,400
Kenton B. Kimball	3,600	-	-	7,000	$ 10,600
John Malazzo	2,600	400	1,500	6,200	$ 10,700
Terry McAlister	3,400	-	-	2,500	$ 5,900
Lance D. Morris	-	3,900	-	3,500	$ 7,400
Phillip Munden	-	-	3,500	6,000	$ 9,500
Gary L. Palousek	-	2,900	-	3,000	$ 5,900
Danny Parker	-	2,000	-	2,500	$ 4,500
Ronnie Riddle	-	-	3,500	2,500	$ 6,000
Carl Sample	3,400	1,400	1,000	4,500	$ 10,300
Roy Allan Schmidt	-	-	3,500	2,500	$ 6,000
Lloyd Shoppa*	-	500	-	-	$ 500
Steve Stevens	3,400	-	-	4,000	$ 7,400
Sharleen Walkoviak	1,200		2,000	5,000	$ 8,200
James L. Wedel*	-	2,900	-	3,500	$ 6,400
Lowell Woodward	-	2,400	-	3,000	$ 5,400
Joe David Yates	3,200	-	-	4,500	$ 7,700
	$ 21,000	$ 22,200	$ 30,100	$ 75,900	$ 149,200

*denotes board members who were no longer on the board at the end of 2019

*Other includes the following meetings that were held: credit, compensation training, director development, national director conference, Texas District Conference, Director Advancement Program (DAP), Farm Credit Council and FCBT stockholder, Review, Audit and Appraisal Workgroup (RAAW) conference, compliance and audit conference.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $303,086, $282,483 and $296,988 in 2019, 2018 and 2017, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

A critical factor to the association's success is its ability to attract, develop and retain staff that are knowledgeable and efficient in their ability to support the association in the execution of its strategic objectives and delivery of association results that maximize the value received by its membership. The association operates utilizing a compensation program which focuses on the performance and contributions of its employees in achieving the association's financial and operational objectives, all for the ultimate benefit of its membership. The association's board of directors, based on recommendations of its Compensation Committee, establishes the salary and approves the incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for evaluation and establishment of salary and incentive plans used by the association.

Chief Executive Officer (CEO) Compensation Table and Policy

CEO Compensation

Name of Individual	Year	Salary (a)	Long Term Incentives (b)	Current Year Incentives (c)	Other (d)	Change in Pension Value (e)	Total*
Ben R. Novosad,	2019	$ 878,347	$ 280,201	$ 355,096	$ 36,038	$ 721,955	$ 2,271,637
CEO	2018	836,505	319,120	320,928	37,214	(3,375)	1,510,392
	2017	804,363	284,427	291,957	33,813	182,035	1,596,595

(a) Gross salary
(b) Cash payout of long-term incentives
(c) Cash payout of annual incentives
(d) Includes contributions to 401(k) and defined contribution plans, automobile benefits which may exceed $5,000 and premiums paid for life insurance
(e) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.

Refer to Note 13 – Employee Benefit Plans for detailed explanation on the increase to the retiree welfare plan's projected benefit obligation and corresponding impact to change in pension value.

* The table above does not include the estimated LTI incentive accruals of $833,509. For details regarding these accruals see disclosure more fully discussed within the Long-Term Incentives section of this discussion and analysis.

Pension Benefits Table

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2019:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2019
Ben R. Novosad	Farm Credit Bank of Texas Pension Plan	45.06	$ 3,990,268	$ -

The "Present Value of Accumulated Benefits" will be actuarially determined based on the association's CEO participation in the defined benefit pension plan.

The CEO and one other senior officer of the association participate in the Farm Credit Bank of Texas Pension Plan (the Pension Plan), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35). The present value of the senior officers' accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial statement reporting purposes with retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the senior officer is married on the date the annuity begins, that the spouse is exactly two years younger than the senior officer and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to all senior officers, excluding the CEO, of the association during 2019, 2018 and 2017. Amounts reflected in the table are presented in the year the compensation was paid.

Name of Group	Year	Salary (a)	Long Term Incentives (b)	Current Year Incentives (c)	Deferred Compensation (d)	Other (e)	Change in Pension Value (f)	Total*
Aggregate No. of Senior Officers in Year Excluding CEO								
6	2019	$ 1,889,559	$ 411,320	$ 753,746	$ -	$ 274,633	$ 617,203	$ 3,946,461
9	2018	2,483,679	715,307	762,446	250,000	522,051	(273,568)	4,459,915
10	2017	2,595,596	757,653	788,372	-	256,958	1,883,217	6,281,796

(a) Gross salary
(b) Cash payout of long-term incentives
(c) Cash payout of annual incentives
(d) Nonqualified deferred compensation earnings for one of the senior officers
(e) Includes contributions to 401(k) and defined contribution plans, automobile benefits which may exceed $5,000 and premiums paid for life insurance.
(f) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.

Refer to Note 13 – Employee Benefit Plans for detailed explanation on the increase to the retiree welfare plan's projected benefit obligation and corresponding impact to change in pension value.

*The table above does not include the estimated LTI incentive accruals of $1,167,798. For details regarding these accruals see disclosure more fully discussed within the Long-Term Incentives section of this discussion and analysis.

Pension Benefits Table

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to senior officers for the year ended December 31, 2019:

Number	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2019
Aggregate No. of Senior Officers in Year Excluding CEO (One Person)	Farm Credit Bank of Texas Pension Plan	40.32	$ 617,203	$ ---

The "Present Value of Accumulated Benefits" will be actuarially determined based on the association's senior officers' participation in the defined benefit pension plan.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate are available and will be disclosed to shareholders of the association upon request.

Additional Nonqualified Supplemental 401(k) Plan:

During 2019, the association continued to plan for succession for key members of senior management that are reaching retirement eligibility. In conjunction with this plan during 2018, the association entered into an agreement with one of its senior management team members that called for a one-time discretionary contribution into the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan ("the Plan"). The association evaluated the need to restore a portion of benefits lost as a result of the addition of a member to the association's senior management team, and as a result developed a plan to address this shortfall and funded this plan during 2018. Expenses of the plan relating to this agreement for 2019, 2018 and 2017 were $0, $250,000 and $0 respectively.

Incentive Plan for Officers and Employees:

The association utilizes two incentive plans: the annual (short-term) incentive plan (STI) based on individual and association performance which drives behavior that supports annual association goals, and the Long-Term Incentive plan (LTI), which was developed to reward key employees for achievement of the association's long-term goals and objectives. Both plans utilize parameters for measuring achievement at either threshold, target or superior performance levels. The LTI evaluates performance annually and is earned over a rolling three-year performance period.

Annual (Short-Term) Incentive Plan (STI)

The STI plan is a balanced scorecard plan which rewards employees for achieving desired business goal objectives for the year. The STI is an annual plan that is administered by the board.

At the beginning of each plan year, the board reviews and approves STI plan performance objectives for the association and the award matrix by which all incentives under the STI shall be calculated. Each STI plan participant is assigned an incentive award target calculated as a percentage of base pay which may be awarded if the association and participant achieve target performance goals. Failure to meet minimum thresholds for individual goals will result in no incentive, while achievement at superior levels for individual goals will result in the maximum incentive opportunity available at that salary grade for that goal. Potential individual award percentages vary based upon an employee's job grade level and are higher for those persons serving to direct performance of the association which includes its senior lending staff and senior officers. Award payments vary depending upon the extent to which the association goals are achieved.

For calendar year 2019, the board approved the following goal performance measures, weightings and performance goals:

Performance Measures	**Weight**	**Performance Goals Target**	**2019 Actual Performance**	**Performance Achievement**
Acceptable credit quality as percentage of total loans	10%	96.00%	96.52%	Between target and superior
Net charge-offs as percentage of average loans plus other property owned	15%	0.15%	0.03%	superior
Nonearning assets as percentage of loans plus other property owned	20%	0.65%	0.80%	between threshold and target
Return on equity results compared to System peer group	40%	3rd or 4th of System peers	1st	superior
Growth in average accrual loan volume serviced compared to overchartered peer group	15%	>105.00% of growth in average serviced volume of peer group	7.37% of growth in average serviced volume of peer group	Between threshold and target
Total	100%			

As part of this plan the association has also established parameters for goal performance which define threshold and superior levels of incentive opportunities when more or less than the targeted goals are achieved. If less than the threshold level of performance is achieved for a particular performance measure, no incentives will be awarded for that performance measure. Financial results for 2019 resulted in the association's achievement of goal performance which overall achieves superior goals in two of the five measures. As a result, the board approved, and the association accrued an estimated payment of $13,227,288 in STI incentives. As specified by the plan, these incentives are to be paid by March 15, 2020.

Long Term Incentive Plan (LTI)

The purpose of the association's LTI is to offer a financial rewards package to key employees based on the long-term performance of the association. The board is the administrator of the LTI. The board has retained the authority to review and approve plan participants, the incentives prior to payment, and the LTI metrics and goals as presented by the CEO and members of management. Any additions or deletions to the participant list must be submitted for board approval prior to the beginning of a performance period (the consecutive 36-month period beginning January 1 and ending December 31). Each participant is assigned an incentive award goal, calculated as a percentage of base salary at the beginning of the performance period at threshold, target and superior performance levels.

At the beginning of each calendar year, the board approves the LTI plan objectives for the association and the award formula or matrix by which all awards under this plan are based. Since its inception in 2011, the LTI plan established goals and metrics which management and the board felt were long term in nature and fostered the long-term health and viability of the association and its stockholders. These goals included loan volume growth, operating efficiency and capital distributions to the association's stockholders. The association's vision is to be the partner of choice for lending and related services in rural America through outstanding people, performance and member value. The board believes the goals established for the LTI support this vision.

For the LTI performance period 2019-2021, the board approved the following goal performance measures, weightings and performance goals, which are consistent with goals established for the LTI plan performance periods of 2018-2020 and 2017-2019.

	Performance Goals	
Performance Measures	**Target**	**Weight**
Capital distributions- Three-year average annual cash patronage plus allocated equity retirements in excess of certain % of average accrual loans	1.0%	33.3%
Growth- Net change in three-year average recorded investment of accrual loan volume serviced	105% of growth in average serviced volume of peer group	33.3%
Three-year average operating expenses as a percentage of net interest income plus other income	3rd of large system associations	33.4%

The actual/projected results for LTI performance and the estimated incentives based upon the performance for each of the three performance periods are as follows:

	Performance Level					
Plan Period	**Capital Distributions**	**Growth**	**Efficiency**	**CEO LTI**	**Senior Officer LTI**	**Other Officers LTI**
2019-2021 projected	superior	between threshold and target	threshold	$ 306,977	$ 450,454	$ 532,873
2017-2019 projected	superior	between threshold and target	between target and maximum	243,793	356,221	666,570
2018-2020 projected	superior	between threshold and target	threshold	282,739	361,122	519,118

Other

Employees who use their personal automobile for business purposes were reimbursed during 2019 at the IRS-approved rate of 58.0 cents per mile.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting association business. A copy of the association's travel policy is available to shareholders upon request.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 14 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

During the past five years, none of the association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as director or senior officer at any time during the year just ended.

RELATIONSHIP WITH INDEPENDENT AUDITORS

No change in auditors has taken place since the last annual report to stockholders and no disagreements with auditors has occurred that the association is required to report to the Farm Credit Administration under part 621 of the FCA regulations governing this disclosure.

Fees for professional services paid by the association during 2019 to PricewaterhouseCoopers are as follows:

Service Category	Fees
Audit services	$ 258,169
Non-audit services*	2,700
	$ 260,869

*Non-audit services include fees related to the financial statement disclosure checklist and a licensing of a research tool which were approved by the association's audit committee.

Fees paid in 2019 related to 2018 audit services were $146,169.
Fees paid in 2019 for the 2019 audit were $34,000
Accrued fees for remaining 2019 audit were $78,000

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The association and the Bank made investments in a limited partnership, the Advantage Capital Ag Partners L.P., that will provide junior capital to rural and agriculture businesses in the United States. This partnership is a Rural Business Investment Company (RBIC), and the investment by the association and the Bank is allowed under the Mission-Related Investment authorities granted in the Farm Credit Act. The association's investment in RBIC was $12,631, $11,624 and $11,573 at December 31, 2019, 2018 and 2017, respectively. This investment is included in "other assets" on the balance sheet.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers dated March 9, 2020, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. The directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the association or its members.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS (UNAUDITED)

The association has a policy to make a concerted effort to finance young, beginning or small farmers and ranchers, and producers or harvesters of aquatic products (YBS program). For purposes of the association's YBS program, young producers are defined as those age 35 or younger. Beginning producers are defined as producers with 10 years or less of experience at farming, ranching or producing or harvesting aquatic products. A small producer is defined as one who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products. Using statistics obtained from a United States Department of Agriculture census and information from the association's loan accounting records as of June 30, 2019, the following table compares the percentage of YBS farmers in the association's territory (based on USDA data) with the percentage of YBS customers in the association's loan portfolio. While the measurement (farmers) used in the USDA census information is not directly comparable to the measurement (customers) used by the association, the statistics presented herein serve as a quantitative measurement of the association's success in attracting and making loans to young, beginning and/or small farmers that live or have operations in the association's territory.

In the following table, 4.7 percent of the farmers in the association's territory are "Young" farmers while 18.1 percent of our customers that live or operate in the association's territory meet the "Young" criterion. The same explanation applies to the Beginning and Small categories.

FARMERS, RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS CLASSIFIED AS:	FARMERS IN TERRITORY	ASSOCIATION CUSTOMERS
Young	4.7%	18.1%
Beginning	28.1%	68.1%

In the following table, 95.5% of the farms in the association's territory are "Small" farms, while 89.8% of our customers that live or operate in the association's territory are producers that normally generate less than $250,000 in annual gross sales of agricultural or aquatic products.

FARMERS, RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS CLASSIFIED AS:	FARMS IN TERRITORY	ASSOCIATION CUSTOMERS
Small	95.5%	89.8%

At December 31, 2019, the association had the following number of loans and volume outstanding in its YBS Program (loans may fit in one, two or all three categories):

YOUNG		BEGINNING		SMALL	
Number of Loans	Volume	Number of Loans	Volume	Number of Loans	Volume
4,902	$940,813	16,601	$4,195,444	22,074	$4,958,751

The association maintains a policy that directs management to implement a program that strives to fully utilize its resources to: (A) attract and retain YBS customers, (B) implement lending programs and/or services that meet the needs of YBS customers and (C) develop quantitative standards that may be used to measure the number of YBS customers served as compared to the number in the CFC territory. Management has implemented programs to address each component by:

Attracting and retaining YBS customers – The employees of Capital Farm Credit are involved in working with youth livestock programs that have historically produced individuals who become farmers and ranchers in the future. Hundreds of hours are spent annually serving in various capacities that promote livestock shows and sales for youth across the state and Capital Farm Credit spends thousands of dollars sponsoring and contributing to these programs. These programs are spread across the state and include county, regional and statewide shows and involve both 4-H and FFA programs.

In addition, CFC sponsors and supports programs and organizations around the state that are targeted at young, beginning or small farmers or ranchers, some in cooperation with various county and statewide organizations but also with the Texas A&M AgriLife

Extension Service. Programs such as the "Next Generation Program" and others have been successful in helping to educate and provide knowledge and other resources to thousands of individuals who are taking steps to initiate or increase their involvement in agriculture or increase the size and productivity of their existing operations. The association is concerned about the next generation of agriculture and utilizes its programs and personnel to help develop those who will be producing food and fiber after the current generation of farmers and ranchers retire.

The involvement and support of these programs also helps YBS farmers/ranchers become aware of Capital Farm Credit and understand how its loan programs and services can be of value to them as they improve or expand their current operations but also aids them in improving or expanding their operation regardless of whether they do business with Capital Farm Credit.

Implementing lending programs and/or services that meet the needs of YBS customers – The association implemented a policy that permits the association to provide constructive credit to serve any financing need of YBS customers that are taking demonstrated steps to become more fully engaged as a full-time farmer or rancher. Also, the association has adopted underwriting standards that contain flexible criteria that permit the credit needs of customers to be met when the customer falls short of meeting an established standard but has one or more compensating strengths to offset the area of weakness. These flexible criteria, while still requiring reasonable and prudent underwriting standards, allow customers who engage in agriculture operations less than full-time to have the capital resources they need to begin or grow their operations. In addition, the association cooperates with government agencies to structure loans with third party guarantees when the applicant does not have sufficient equity or proven repayment sources to qualify for credit by themselves. These cooperative efforts allow YBS customers to begin an agriculture operation, maintain their operation through stressful periods or make expansions in herd size, facilities or acreage.

Developing quantitative standards that may be used to measure the number of YBS customers served as compared to the number in the CFC territory – In each year's business plan, the board establishes YBS goals and develops quantitative standards to measure the level of success in achieving the established goals. The business plan also defines how and when the standards will be measured and assigns responsibility to an officer for monitoring, tracking and reporting the standards. The progress in achieving the goals is reported to the board of directors each quarter. Through this process, the board is able to evaluate if the programs implemented by management are successful in achieving the goals in the business plan and are successful in achieving compliance with the board's policy direction to serve the needs of YBS customers.

Capital Farm Credit
3000 Briarcrest Drive, Suite 601
Bryan, Texas 77802

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