



**CENTRAL
TEXAS** 
FARM CREDIT



**ANNUAL
REPORT** **2019**

A MESSAGE FROM OUR CEO

2019 has come and gone and I'd like to have it back. Not because I would do something differently, but because I want to experience it again, it was such a good year. Details of our 2019 performance are found throughout this report, but here are a few highlights:

- Loan volume increased by \$28 million, or 5.48%, over 2018. 2019 was the eighth consecutive year we have grown our loan portfolio.
- Credit quality remained at a very high level. At the end of the year, 99.52% of our loans were classified as "Acceptable" or "OAEM" (Other Assets Especially Mentioned).
- Nonaccrual (non-performing) loan volume decreased from \$2.9 million to \$768,000.
- We earned \$9.6 million in net income, \$300,000 more than 2018. This increase is more impressive when you consider that our operating expenses increased by \$800,000 in 2019.
- The board of directors declared yet another record all-cash patronage refund of \$6.8 million. This patronage refund will reduce our average borrower's interest rate by 1.5 percentage points.

The high credit quality of our portfolio is no accident. We are blessed to be in an area where most farmers are not dependent on just one or two crops. Our borrowers typically have several crop options and run some type of livestock. It is also commonplace for our borrowers to have income from some off-farm source. On the rare occasion when one of our members is struggling, we pride ourselves on being proactive in helping them work through their problems.

Over the past several years we have made a significant investment in added personnel. There were several reasons for this staff expansion, but the end goal was to have a staff of knowledgeable, experienced, and enthusiastic employees who can efficiently handle anything that is thrown at them. It is rewarding to watch the people we have brought on to the team grow into their roles. Since we began this expansion, we have increased our income more than enough to cover our additional personnel expense. In fact, in 2019 our net income exceeded our budget by over a million dollars!

Today, more than ever, technology is a factor in everything we do. Having good technology can make a huge difference in an organization's efficiency and customer service. We are excited to be close to the end of a multi-year project to create a state-of-the-art, integrated lending platform. The new system that our funding bank and service provider, the Farm Credit Bank of Texas, has been developing is expected to be implemented either late this year or early in 2021. Our goal is to utilize this new platform to create the best possible customer experience.

In 2018 we created a vision of where we wanted to be in five years, and I'm proud to say that we are well on our way to achieving that vision. It is exciting to be a part of an organization where the board of directors, management, and staff are all working together toward a common goal.

Everything we do is intended to provide the most value possible to you, our stockholders. From our patronage program to competitive interest rates to outstanding customer service, it's all about you. Our entire staff and board of directors take great pride in the trust you have placed in us and we are committed to building an organization that will serve your financing needs well into the future.

Thank you for your continued loyalty, support and sometimes even patience as we have gone through the process of reinventing ourselves.

Sincerely,



Jimmy Chambers
Chief Executive Officer



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Robby Halfmann
Chairman



Kenneth Harvick
Vice Chairman



Mike Finlay
Board Member



Philip Hinds
Board Member



Steven Lehrmann
Board Member



Burl Lowery
Outside Director



Jimmy Chambers
Chief Executive Officer



Zach May
Chief Operating Officer



Travis McKinney
Chief Credit Officer



Keith Prater
Chief Financial Officer



BY THE NUMBERS: OUR YEAR IN REVIEW

TOTAL LOAN VOLUME: \$539,088,713

This was an increase of \$28 million from last year.

TOTAL NET INCOME: \$9,635,345

We made over \$1 million more than we projected in our 2019 business plan.

TOTAL SHAREHOLDERS: 3,031

We are proud to serve the agricultural industry with a reliable source of credit and financial support.

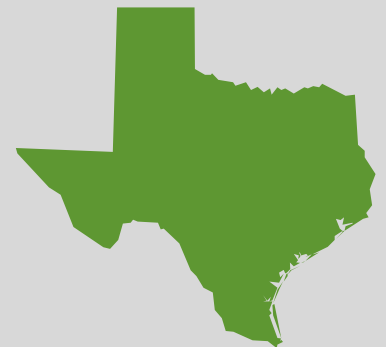
OVER



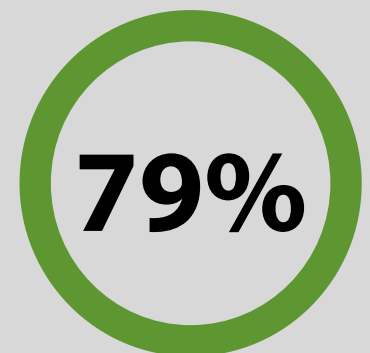
ACCEPTABLE
CREDIT QUALITY



OUR TERRITORY
COVERS OVER 19,000



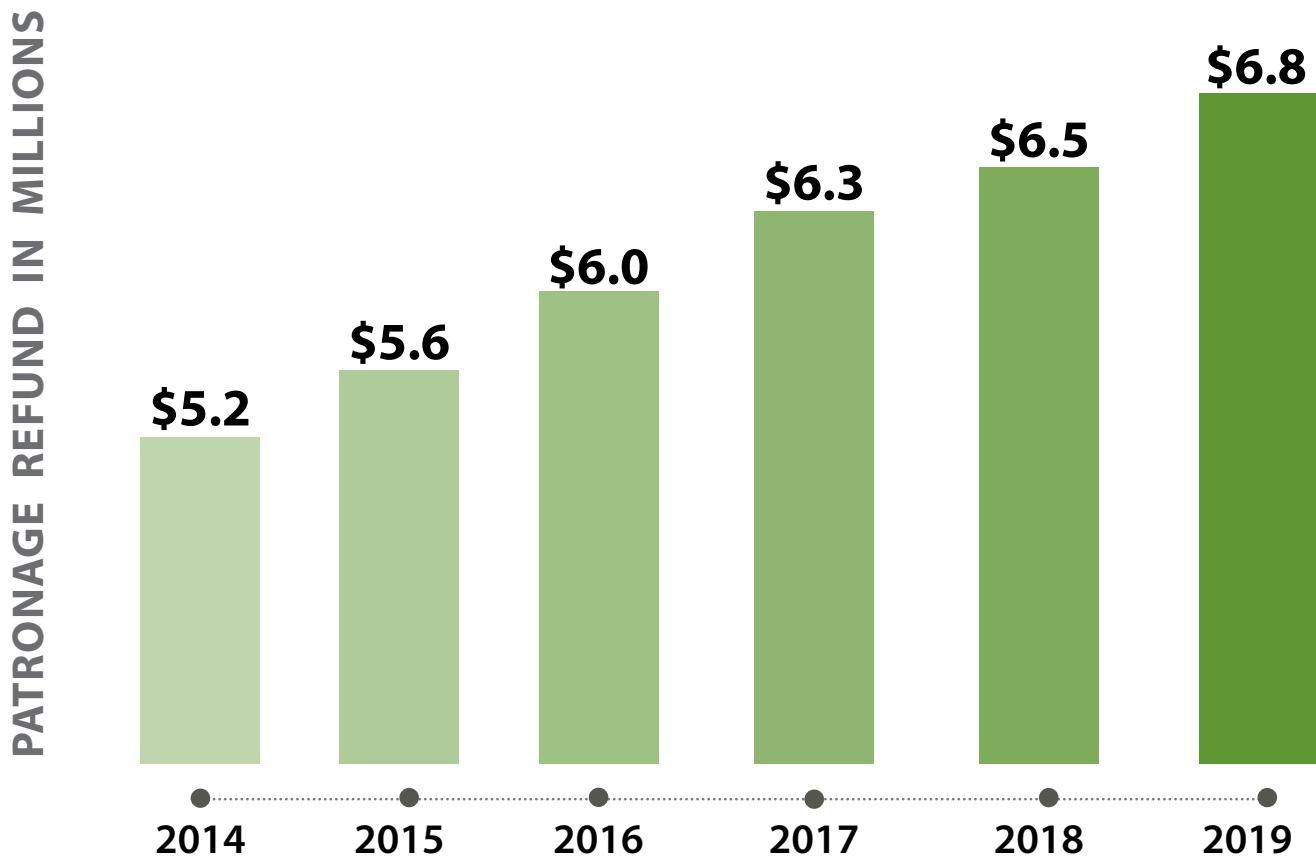
SQUARE MILES ACROSS
CENTRAL AND WEST TEXAS



OF NEW LOANS MADE IN
2019 WERE TO YOUNG,
BEGINNING AND SMALL
FARMERS AND RANCHERS

THE LENDER THAT PAYS YOU BACK

We're proud to return a record **\$6.8** million cash patronage refund in 2020, thanks to our strong financial performance in 2019.



Did you know...our all cash patronage refund effectively reduced our average borrower's interest rate by 1.5 percentage points.



LEADING IN OUR COMMUNITIES

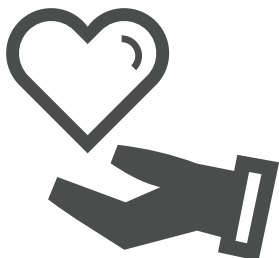
We believe in supporting local organizations and helping to meet the needs of our rural communities.

We strive to be a good corporate citizen and community contributor.



OVER
\$150,000

Given for donations and sponsorships to support agriculture, youth in agriculture, and rural communities in 2019.



OUR TEAM

Our goal: to support agriculture and rural communities by providing a reliable source of credit and financial support.



47 EMPLOYEES



**EXPERIENCED
LENDING STAFF**

Our lending staff has an average of 15 years of ag lending experience. As a mission-based organization, we are committed to agriculture in good times and bad.



I truly enjoy our working relationship and appreciate the partnership we have with CTFC. It is extremely important in my business to work with a lender that understands agribusiness as well as how critical timeliness is with loan applications. **- Kevin B.**

My experience with CTFC couldn't be better — always there for me in good times and bad. **- Hollis S.**

I appreciate all the help we got in a short amount of time. The level of service I received was one of someone that has done 100 transactions with you, not the first one. **- Michael R.**

Great people, very friendly. When my wife and I visit, we are warmly welcomed and feel like we are meeting old friends. **- Gary T.**

You guys are awesome. Other institutions should take lessons. I have used CTFC for 25 years. Everyone has always been professional, courteous and knowledgeable. It really is a pleasure being associated with this organization. **- Robert O.**



REPORT OF MANAGEMENT

The consolidated financial statements of Central Texas 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 we have reviewed this annual report, that it has been prepared in accordance with all applicable statutory and regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge or belief.



Boyd J. Chambers, Chief Executive Officer

March 9, 2020



Robby A. Halfmann, Chairman, Board of Directors

March 9, 2020



Keith Prater, Chief Financial Officer

March 9, 2020

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of Burl D. Lowery, Robby A. Halfmann, Kenneth D. Harvick, Mike Finlay, Philip W. Hinds, and Steven Lehrmann. In 2019, 12 committee meetings were held. The committee oversees the scope of Central Texas Farm Credit, ACA'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 Central Texas Farm Credit, ACA's website. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2019.

Management is responsible for Central Texas Farm Credit, ACA'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 Central Texas Farm Credit, ACA'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 Central Texas Farm Credit, ACA'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's and Central Texas Farm Credit, ACA's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PwC its independence from Central Texas Farm Credit, ACA. The committee also reviewed the nonaudit 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 such other matters and received such 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 Central Texas Farm Credit, ACA's Annual Report to Stockholders for the year ended December 31, 2019.

Audit Committee Members

Burl D. Lowery, CPA, Chairman
Robby A. Halfmann, Vice Chairman
Kenneth D. Harvick
Mike Finlay
Philip W. Hinds
Steven Lehrmann

March 9, 2020

CENTRAL TEXAS FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(unaudited)

(dollars in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Balance Sheet Data</u>					
<u>Assets</u>					
Cash	\$ 4	\$ 11	\$ 10	\$ 1,387	\$ 920
Loans	532,822	509,538	496,045	489,350	478,376
Less: allowance for loan losses	1,199	1,013	1,289	1,067	964
Net loans	531,623	508,525	494,756	488,283	477,412
Investment in and receivable from the Farm Credit Bank of Texas	9,441	8,873	9,023	7,810	6,875
Other property owned, net	-	-	-	-	129
Other assets	10,115	9,212	8,870	8,304	6,145
Total assets	<u>\$ 551,183</u>	<u>\$ 526,621</u>	<u>\$ 512,659</u>	<u>\$ 505,784</u>	<u>\$ 491,481</u>
<u>Liabilities</u>					
Obligations with maturities of one year or less	\$ 10,993	\$ 10,189	\$ 10,374	\$ 9,955	\$ 9,993
Obligations with maturities greater than one year	427,049	405,943	395,021	391,993	380,738
Total liabilities	<u>438,042</u>	<u>416,132</u>	<u>405,395</u>	<u>401,948</u>	<u>390,731</u>
<u>Members' Equity</u>					
Capital stock and participation certificates	2,236	2,258	2,306	2,284	2,232
Unallocated retained earnings	111,004	108,168	105,345	101,741	98,716
Accumulated other comprehensive income (loss)	(99)	63	(387)	(189)	(198)
Total members' equity	<u>113,141</u>	<u>110,489</u>	<u>107,264</u>	<u>103,836</u>	<u>100,750</u>
Total liabilities and members' equity	<u>\$ 551,183</u>	<u>\$ 526,621</u>	<u>\$ 512,659</u>	<u>\$ 505,784</u>	<u>\$ 491,481</u>
<u>Statement of Income Data</u>					
Net interest income	\$ 15,554	\$ 14,894	\$ 14,691	\$ 14,232	\$ 13,585
(Provision for loan losses) or loan loss reversal	(674)	(815)	(241)	(1,185)	(461)
Income from the Farm Credit Bank of Texas	2,345	2,077	1,748	1,775	1,619
Other noninterest income	262	374	166	274	86
Noninterest expense	(7,852)	(7,206)	(6,451)	(6,070)	(5,764)
Net income	<u>\$ 9,635</u>	<u>\$ 9,324</u>	<u>\$ 9,913</u>	<u>\$ 9,026</u>	<u>\$ 9,065</u>
<u>Key Financial Ratios for the Year</u>					
Return on average assets	1.8%	1.8%	2.0%	1.8%	2.0%
Return on average members' equity	8.5%	8.6%	9.4%	8.6%	8.9%
Net interest income as a percentage of average earning assets	3.0%	3.0%	3.0%	2.9%	3.1%
Net charge-offs (recoveries) as a percentage of average loans	0.1%	0.2%	0.0%	0.2%	0.0%

CENTRAL TEXAS FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Key Financial Ratios at Year End</u>					
Members' equity as a percentage of total assets	20.5%	21.0%	20.9%	20.5%	20.5%
Debt as a percentage of members' equity	387.2%	376.6%	377.9%	387.1%	387.8%
Allowance for loan losses as a percentage of loans	0.2%	0.2%	0.3%	0.2%	0.2%
Common equity tier 1 ratio	19.2%	19.4%	19.1%	n/a	n/a
Tier 1 capital ratio	19.2%	19.4%	19.1%	n/a	n/a
Total capital ratio	19.4%	19.6%	19.4%	n/a	n/a
Permanent capital ratio	19.2%	19.4%	19.2%	18.9%	19.7%
Tier 1 leverage ratio	20.3%	20.6%	20.4%	n/a	n/a
UREE leverage ratio	21.3%	21.7%	21.5%	n/a	n/a
Total surplus ratio	n/a	n/a	n/a	18.4%	19.2%
Core surplus ratio	n/a	n/a	n/a	18.4%	19.2%
<u>Net Income Distribution</u>					
Cash dividends paid	\$ 6,500	\$ 6,300	\$ 6,000	\$ 5,600	\$ 5,200

*Effective January 1, 2017 the new regulatory capital ratios were implemented by the Association. Regulatory ratios remained well above regulatory minimums, including the conservation and leverage buffers at December 31, 2019. For more information on the changes to regulatory capital ratios, see the Capital Resources section on page 10.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Unaudited)**

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Central Texas Farm Credit, ACA, including its wholly-owned subsidiaries, Central Texas, PCA and Central Texas, FLCA (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 information statement 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 our control. 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.

Significant Events:

2019

In December 2019, the Association received a direct loan patronage of \$2,039,245 from the Farm Credit Bank of Texas (Bank), representing 49 basis points on the average daily balance of the Association's direct loan with the Bank. During 2019, the Association received \$241,777 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$64,403 from the Bank, representing 68 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2019, a patronage refund of \$6,500,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2018, and the amount was based on the Association's 2018 operating results.

2018

In December 2018, the Association received a direct loan patronage of \$1,762,208 from the Bank, representing 44 basis points on the average daily balance of the Association's direct loan with the Bank. During 2018, the Association received \$209,974 in patronage payments from the Bank, based on the Association's stock investment in the Bank. The Association received a capital markets patronage of \$65,095 from the Bank, representing 66 basis points on the Association's average balance of participations in the Bank's patronage pool program. In August of 2018, CoBank announced that its board of directors approved a special, one-time patronage distribution as part of a broader plan to share the benefits of federal tax reform legislation with eligible customer-owners. This resulted in the Bank's receipt of a special patronage distribution from CoBank in September 2018, and the Association's pro-rata share of the distribution was \$39,424.

In March 2018, a patronage refund of \$6,300,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2017, and the amount was based on the Association's 2017 operating results.

2017

In December 2017, the Association received a direct loan patronage of \$1,531,794 from the Bank, representing 39 basis points on the average daily balance of the Association's direct loan with the Bank. During 2017, the Association received \$166,872 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Also, the Association received a capital markets patronage of \$49,651 from the Bank, representing 75 basis points on the Association's average balance of participations in the Bank's patronage pool program.

In March 2017, a patronage payment of \$6,000,000 was distributed to the Association's borrowers. The patronage refund was declared by the board of directors in December 2016, and the amount was based on the Association's 2016 operating results.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners, and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, LIBOR-based, and prime-based interest rates. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and 20- 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.

The composition of the Association's loan portfolio, (principal less funds held) of \$532,821,744, \$509,538,598, and \$496,045,375 as of December 31, 2019, 2018, and 2017, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses" included in this annual report.

Territory Conditions:

Many areas of our territory received average rainfall in 2019, but much of this rainfall occurred within the first six months of the year. The second half of 2019 turned out to be very dry, which is supported by the Texas A & M AgriLife Extension weather index for 2019. The National Integrated Drought Information System rates most of the Association's territory in the abnormally dry to moderate drought conditions with one small pocket in the McCulloch and Menard county area rated as severe drought. 2019 proved to be a difficult year for crop producers as it was abnormally wet in the spring, which delayed planting, and abnormally dry during most of the growing season. There were a few areas that received heavy precipitation in the Fall, which mainly hindered the cotton harvest. Pasture conditions are considered fair to poor in most areas due to the lack of late season rainfall. Winter grain used for grazing livestock is well behind schedule in most areas due to the lack of rainfall.

Cotton prices in 2019 were lower at harvest compared to 2018 with lower yields on what has been harvested. There were areas that did not make a crop due to the lack of adequate rainfall, primarily in the northern portion of the territory. Crop insurance proceeds limited the financial impact of the drought on these borrowers. As for small grains, wheat yields in 2019 were slightly better than 2018 but heavy moisture mid-year hindered harvest. Due to lack of moisture during the growing season in 2019, wheat prices were up slightly.

Cattle markets continued to be turbulent, although not extreme. The market started off 2019 with average prices through the first quarter. The second and third quarters saw prices tumble due to uncertainty in exports/trade and internal market pressures due to fires at a couple of meat packing plants. By the end of the fourth quarter markets had recovered to levels near Q1 2019. Milk prices for 2019 were better than 2018 in the Association territory. The USDA 2019 all-milk price was forecast to end the year at \$18.60/cwt as of mid-December 2019.

Despite that volatility, agricultural operators in our area have diversified income sources and are able to shift their operations based on changes in commodity markets. Even though a borrower may show one commodity as primary, agricultural producers typically have several other enterprises which diversify their operations including outside income from off farm employment. We will work with any viable customer to maintain their operations. We will also work closely with any customers who need to change their operations. The Association has experienced personnel in place to work with troubled accounts.

Problem Loans:

2019

During the first quarter of 2019, the Association recorded charge-offs in the amount of \$16,434, and no recoveries were recorded. The Association recorded charge-offs in the amount of \$43,826 and no recoveries were recorded for the second quarter. In the third quarter of 2019, the Association recorded charge-offs in the amount of \$106,772 and no recoveries were recorded. The Association recorded charge-offs in the amount of \$296,833 with no recoveries recorded for the fourth quarter.

2018

During the first quarter of 2018, the Association recorded a charge-off in the amount of \$17,992 related to three loans to the same borrower. A recovery of \$52,508 was recorded during the first quarter due to the payoff of one loan that had been charged off in 2017. During the second quarter, the Association recorded a recovery in the amount of \$17,992 that had been charged off in the first quarter of 2018. During the third quarter of 2018, the Association recorded a charge-off in the amount of \$962,756 related to a multi-loan relationship. During the fourth quarter, the Association recorded a charge-off in the amount of \$132,088 related to a multi-loan relationship.

2017

During the second quarter of 2017, the Association recorded a charge-off in the amount of \$52,508.

Purchase and Sales of Loans:

During 2019, 2018, and 2017, the Association participated in loans with other lenders. As of December 31, 2019, 2018, and 2017, these participations totaled \$88,043,675, \$85,494,069 and \$87,779,558, or 16.5 percent, 16.8 percent and 17.7 percent of loans, respectively. The Association does not purchase participation interests in loans from entities outside of the Texas Farm Credit District. The Association also had a sold participation portfolio of \$20,651,498, \$22,294,916, and \$15,368,788 as of December 31, 2019, 2018, and 2017, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans, and other property owned, net.

The following table illustrates 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	%
Nonaccrual	\$ 815,311	100.0%	\$ 2,946,650	100.0%	\$ 4,294,741	100.0%
90 days past due and still accruing interest	-	0.0%	-	0.0%	-	0.0%
Formally restructured	-	0.0%	-	0.0%	-	0.0%
Other property owned, net	-	0.0%	-	0.0%	-	0.0%
Total	<u>\$ 815,311</u>	<u>100.0%</u>	<u>\$ 2,946,650</u>	<u>100.0%</u>	<u>\$ 4,294,741</u>	<u>100.0%</u>

At December 31, 2019, 2018 and 2017, loans that were considered impaired were \$815,311, \$2,946,650 and \$4,294,741, representing 0.2 percent, 0.6 percent and 0.9 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The Association is not affected to any material extent by seasonal characteristics. This is due in part to the fact that true production loans comprise a small part of the Association's total loan portfolio and in part to the diversification in the portfolio, both in geographic distribution and in sources of repayment. Because the Association's portfolio is diverse and contains few very large loans, it is not dependent upon any single customer, commodity, or industry. No loans in the portfolio have any inherent special features that would have a material impact on the expected collectability of said loans.

Allowance for Loan 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	\$ 1,199,074	\$ 1,012,884	\$ 1,288,981
Allowance for loan losses to total loans	0.2%	0.2%	0.3%
Allowance for loan losses to nonaccrual loans	147.1%	34.4%	30.0%
Allowance for loan losses to impaired loans	147.1%	34.4%	30.0%
Net charge-offs to average loans	0.1%	0.2%	0.0%

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowance for loan losses including but not limited to: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, past trends, and weather-related influences.

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of \$1,199,074, \$1,012,884 and \$1,288,981 at December 31, 2019, 2018, and 2017, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. Management continues to evaluate and refine its methodology for determining the levels of allowance for loan losses needed.

Results of Operations:

The Association's net income for the year ended December 31, 2019, was \$9,635,345 as compared to \$9,323,744 for the year ended December 31, 2018, reflecting an increase of \$311,601, or 3.3 percent. The Association's net income for the year ended December 31, 2017 was \$9,903,931. Net income decreased \$580,187, or 5.9 percent, in 2018 versus 2017.

Net interest income for 2019, 2018, and 2017 was \$15,553,796, \$14,894,318 and \$14,690,963, respectively, reflecting increases of \$659,478, or 4.4 percent, for 2019 versus 2018 and \$203,355, or 1.4 percent, for 2018 versus 2017. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets, 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
Loans	\$ 518,691,164	\$ 28,244,254	\$ 499,334,795	\$ 25,657,472	\$ 490,511,843	\$ 23,229,605
Interest-bearing liabilities	415,913,124	12,690,458	398,862,022	10,763,154	392,877,986	8,538,642
Impact of capital	<u>\$ 102,778,040</u>		<u>\$ 100,472,773</u>		<u>\$ 97,633,857</u>	
Net interest income		<u>\$ 15,553,796</u>		<u>\$ 14,894,318</u>		<u>\$ 14,690,963</u>

	2019	2018	2017
	Average Yield	Average Yield	Average Yield
Yield on loans	5.45%	5.14%	4.74%
Cost of interest-bearing liabilities	3.05%	2.70%	2.17%
Interest rate spread	2.40%	2.44%	2.57%

	2019 vs. 2018			2018 vs. 2017		
	Increase due to			Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income - loans	\$ 994,112	\$ 1,592,670	\$ 2,586,782	\$ 417,837	\$ 2,010,030	\$ 2,427,867
Interest expense	460,124	1,467,180	1,927,304	130,057	2,094,455	2,224,512
Net interest income	<u>\$ 533,988</u>	<u>\$ 125,490</u>	<u>\$ 659,478</u>	<u>\$ 287,780</u>	<u>\$ (84,425)</u>	<u>\$ 203,355</u>

Interest income for 2019 increased by \$2,586,782, or 10.1 percent, compared to 2018, primarily due to growth in earning assets and increased interest rates. Interest expense for 2019 increased by \$1,927,304, or 17.9 percent, compared to 2018 due to an increase in borrowing under our direct note with the Bank to fund growth in the loan portfolio and an increase in our cost of funds. The interest rate spread decreased 4 basis points to 2.40 percent in 2019 from 2.44 percent in 2018. This was largely due to an increase in cost of funds from the Bank coupled with spread compression resulting from increased competition in the loan market. The interest rate spread decreased by 13 basis points to 2.44 percent in 2018 from 2.57 percent in 2017. Net interest margin was fairly flat with 2019 ending at 2.98 percent versus 2.99 percent in 2018.

Noninterest income for 2019 increased by \$79,841, or 3.2 percent, compared to 2018, due primarily to an increase in patronage from the Bank of \$268,788. Noninterest income for 2018 increased by \$618,050, or 32.4 percent, compared to 2017, due primarily to excess insurance fund balances received from the Farm Credit System Insurance Corporation (FCSIC) in the amount of \$282,289 and an increase in patronage from the Bank of \$285,282.

Provisions for loan losses decreased by \$140,132, or 17.2 percent, compared to 2018, due primarily to a large charge-off that was recorded during 2018.

Operating expenses consist primarily of salaries, employee benefits, and purchased services. Expenses for purchased services may include administrative services, information systems, accounting, and loan processing, among others. In 2019, operating expenses increased by \$567,850, or 7.8 percent. The increase in operating expenses was primarily due to an increase in salaries and employee benefits of \$566,956.

For the year ended December 31, 2019, the Association's return on average assets was 1.8 percent, as compared to 1.8 percent and 2.0 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 8.2 percent, as compared to 8.6 percent and 9.4 percent for the years ended December 31, 2018 and 2017, respectively.

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 bank's borrowings, loans, investments, derivatives, and other bank assets and liabilities that are indexed to LIBOR.

The bank 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. The LIBOR Workgroup coordinates outreach to our associations and with other Farm Credit System institutions, especially the Funding Corporation.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank may have an 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.

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of \$425,985,170, \$404,917,907, and \$394,242,092 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 3.0 percent, 3.0 percent and 2.3 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 general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2018, is due to loan growth. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were \$104,796,493, \$102,543,303, and \$100,188,827 at December 31, 2019, 2018, and 2017, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2019, was \$538,240,786 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 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 borrower 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 \$113,140,920, \$110,489,585 and \$107,263,500 at December 31, 2019, 2018, and 2017, respectively. FCA regulations require associations to maintain minimums for various regulatory capital ratios. New regulations, which became effective January 1, 2017, replaced the previously required core and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risked-based ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. See Note 9 "Member's Equity" in this Annual Report for additional information.

In 2019, 2018, and 2017, the Association paid patronage distributions of \$6,500,000, \$6,300,000, and \$6,000,000, respectively. In December 2019, the board of directors approved a \$6,800,000 patronage distribution to be paid in March 2020. See Note 9 to the consolidated financial statements, "Member's Equity," included in this annual report, for further information.

	2019	2018	2017	Regulatory Minimums	
Common equity tier 1 ratio	19.19%	19.40%	19.12%	4.50%	
Tier 1 capital ratio	19.19%	19.40%	19.12%	6.00%	
Total capital ratio	19.44%	19.61%	19.38%	8.00%	
Permanent capital ratio	19.23%	19.43%	19.16%	7.00%	
Tier 1 leverage ratio	20.27%	20.57%	20.41%	4.00%	
UREE leverage ratio	21.33%	21.66%	21.50%	1.50%	

	2016	2015	2014	2013	2012	Regulatory Minimums
Total surplus ratio	18.40%	19.20%	20.80%	20.30%	20.30%	7.00%
Core surplus ratio	18.40%	19.20%	20.80%	20.30%	20.30%	3.50%

Significant Recent Accounting Pronouncements:

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 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 became 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 adoption of this guidance will not impact the Association's financial condition or its results of operations.

In August 2018, the FASB issued guidance titled "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 titled "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 became effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association's financial condition or its results of operations but will impact the fair value measurements disclosures.

In June 2016, the FASB issued guidance titled "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 titled "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.

In January 2016, the FASB issued guidance titled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association's financial condition or its results of operations but did impact the Association's fair value disclosures.

In May 2014, the FASB issued guidance titled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded

from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which resulted in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association determined the effect was not material to its financial condition or results of operations and will not change its current recognition practices. The guidance sets forth the requirement for new and enhanced disclosures. The Association adopted the new standard effective January 1, 2018, using the modified retrospective approach. As the majority of the Association's revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity, or cash flows of the Association.

Regulatory Matters:

At December 31, 2019, the Association was not under written agreements 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 ended 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.

Relationship With the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access capital of 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 Management's Discussion and Analysis and in Note 8 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 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems, and accounting services. Additionally, the Bank bills District expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 100 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a reliable source of financing at a competitive price. Your continued support will be critical to the success of this association.



Report of Independent Auditors

To the Board of Directors of Central Texas Farm Credit, ACA

We have audited the accompanying consolidated financial statements of Central Texas 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 Central Texas 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

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2019	2018	2017
<u>Assets</u>			
Cash	\$ 4,036	\$ 11,112	\$ 9,872
Loans	532,821,744	509,538,598	496,045,375
Less: allowance for loan losses	1,199,074	1,012,884	1,288,981
Net loans	531,622,670	508,525,714	494,756,394
Accrued interest receivable	6,104,714	5,341,573	4,896,672
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	8,271,555	7,961,880	7,846,940
Other	1,169,231	911,339	1,175,607
Premises and equipment	3,734,538	3,663,056	3,747,632
Other assets	275,875	206,771	225,878
Total assets	\$ 551,182,619	\$ 526,621,445	\$ 512,658,995
<u>Liabilities</u>			
Note payable to the Farm Credit Bank of Texas	\$ 425,985,170	\$ 404,917,907	\$ 394,242,092
Advance conditional payments	-	10,576	-
Accrued interest payable	1,063,236	1,014,757	779,048
Drafts outstanding	-	-	6,343
Dividends payable	6,800,000	6,500,000	6,300,000
Other liabilities	4,193,293	3,688,620	4,068,012
Total liabilities	438,041,699	416,131,860	405,395,495
<u>Members' Equity</u>			
Capital stock and participation certificates	2,235,805	2,258,190	2,305,685
Unallocated retained earnings	111,003,870	108,168,525	105,344,781
Accumulated other comprehensive (loss) income	(98,755)	62,870	(386,966)
Total members' equity	113,140,920	110,489,585	107,263,500
Total liabilities and members' equity	\$ 551,182,619	\$ 526,621,445	\$ 512,658,995

*The accompanying notes are an integral part of these consolidated financial statements.
Central Texas Farm Credit, ACA — 2019 Annual Report*

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2019	2018	2017
<u>Interest Income</u>			
Loans	\$ 28,244,254	\$ 25,657,472	\$ 23,229,605
<u>Interest Expense</u>			
Note payable to the Farm Credit Bank of Texas	12,690,458	10,763,154	8,538,642
Net interest income	15,553,796	14,894,318	14,690,963
<u>Provision for Loan Losses</u>			
Net interest income after provision for losses	674,472	814,604	240,619
	14,879,324	14,079,714	14,450,344
<u>Noninterest Income</u>			
Income from the Farm Credit Bank of Texas:			
Patronage income	2,345,489	2,076,701	1,748,317
Loan fees	158,759	134,089	134,179
Financially related services income	5,777	6,253	6,013
Other noninterest income	97,779	310,920	21,404
Total noninterest income	2,607,804	2,527,963	1,909,913
<u>Noninterest Expenses</u>			
Salaries and employee benefits	4,587,356	4,020,400	3,692,724
Directors' expense	200,585	133,219	142,065
Purchased services	487,624	350,863	315,771
Travel	355,189	275,796	231,648
Occupancy and equipment	453,772	419,467	434,016
Communications	132,062	120,362	119,998
Advertising	129,180	163,950	134,237
Public and member relations	435,529	414,310	378,059
Supervisory and exam expense	220,534	208,571	204,198
Insurance Fund premiums	432,001	406,138	588,436
Other components of net periodic postretirement benefit cost	111,011	154,776	-
Other noninterest expense	306,940	614,616	210,717
Loss on sale of premises and equipment, net	-	1,465	4,457
Total noninterest expenses	7,851,783	7,283,933	6,456,326
NET INCOME	9,635,345	9,323,744	9,903,931
Other comprehensive income:			
Change in postretirement benefit plans	(161,625)	449,836	(198,395)
COMPREHENSIVE INCOME	\$ 9,473,720	\$ 9,773,580	\$ 9,705,536

*The accompanying notes are an integral part of these consolidated financial statements.
Central Texas Farm Credit, ACA — 2019 Annual Report*

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2016	\$ 2,283,345	\$ 101,740,850	\$ (188,571)	\$ 103,835,624
Comprehensive income	-	9,903,931	(198,395)	9,705,536
Capital stock/participation certificates issued	347,275	-	-	347,275
Capital stock/participation certificates and allocated retained earnings retired	(324,935)	-	-	(324,935)
Patronage dividends:				
Cash	-	(6,300,000)	-	(6,300,000)
Balance at December 31, 2017	2,305,685	105,344,781	(386,966)	107,263,500
Comprehensive income	-	9,323,744	449,836	9,773,580
Capital stock/participation certificates issued	289,835	-	-	289,835
Capital stock/participation certificates and allocated retained earnings retired	-	-	-	-
Patronage dividends:				
Cash	-	(6,500,000)	-	(6,500,000)
Balance at December 31, 2018	2,258,190	108,168,525	62,870	110,489,585
Comprehensive income	-	9,635,345	(161,625)	9,473,720
Capital stock/participation certificates issued	313,175	-	-	313,175
Capital stock/participation certificates and allocated retained earnings retired	(335,560)	-	-	(335,560)
Dividends declared	-	(6,800,000)	-	(6,800,000)
Balance at December 31, 2019	\$ 2,235,805	\$ 111,003,870	\$ (98,755)	\$ 113,140,920

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

Central Texas Farm Credit, ACA — 2019 Annual Report

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 9,635,345	\$ 9,323,744	\$ 9,903,931
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	674,472	814,604	240,619
Depreciation, amortization, and accretion	521,184	398,957	344,327
Loss on sale of premises and equipment, net	-	1,465	4,457
Increase in accrued interest receivable	(763,141)	(444,900)	(372,023)
(Increase) decrease in other receivables from the Farm Credit Bank of Texas	(257,892)	264,268	(1,121,158)
(Increase) decrease in other assets	(1,943)	19,106	(31,960)
Increase in accrued interest payable	48,479	235,708	137,864
Increase in other liabilities	251,470	22,080	499,800
Net cash provided by operating activities	10,107,974	10,635,032	9,605,857
 Cash flows from investing activities:			
Increase in loans, net	(23,981,700)	(14,767,709)	(6,863,018)
Cash recoveries of loans previously charged off	-	70,500	-
Proceeds from purchase of investment in the Farm Credit Bank of Texas	(309,675)	(114,940)	(91,265)
Purchases of premises and equipment	(440,308)	(183,188)	(396,076)
Proceeds from sales of premises and equipment	82,331	28,992	370
Net cash used in investing activities	(24,649,352)	(14,966,345)	(7,349,989)

*The accompanying notes are an integral part of these consolidated financial statements.
Central Texas Farm Credit, ACA — 2019 Annual Report*

CENTRAL TEXAS FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	21,067,263	10,675,815	2,890,004
Decrease in drafts outstanding	-	(6,343)	(545,392)
(Decrease) increase in advance conditional payments	(10,576)	10,576	-
Issuance of capital stock and participation certificates	313,175	289,835	347,275
Retirement of capital stock and participation certificates	(335,560)	(337,330)	(324,935)
Cash dividends paid	(6,500,000)	(6,300,000)	(6,000,000)
Net cash provided by (used in) financing activities	14,534,302	4,332,553	(3,633,048)
Net (decrease) increase in cash	(7,076)	1,240	(1,377,180)
Cash at the beginning of the year	11,112	9,872	1,387,052
Cash at the end of the year	\$ 4,036	\$ 11,112	\$ 9,872
 Supplemental schedule of noncash investing and financing activities:			
Loans charged off	\$ 463,865	\$ 1,112,836	\$ 52,509
Dividends declared	6,800,000	6,500,000	6,300,000
Transfer of allowance for loan losses into reserve for unfunded commitments	(24,417)	(48,365)	(33,470)
 Supplemental cash information:			
Cash paid during the year for:			
Interest	\$ 12,641,979	\$ 10,527,446	\$ 8,676,506

*The accompanying notes are an integral part of these consolidated financial statements.
Central Texas Farm Credit, ACA — 2019 Annual Report*

CENTRAL TEXAS FARM CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

- A. Organization: Central Texas Farm Credit, ACA, including its wholly-owned subsidiaries, Central Texas, PCA and Central Texas, FLCA (collectively called “the Association”), is a member-owned cooperative that provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Baylor, Brown, Callahan, Coke, Coleman, Comanche, Concho, Haskell, Irion, Jones, Knox, McCulloch, Menard, Mills, Reagan, Runnels, San Saba, Sterling, Stonewall, and Tom Green 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 consisted 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, which have two wholly-owned subsidiaries, a 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 System 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 Association, 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 2.0 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.

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 Annual Report to Stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Consolidation

The consolidated financial statements (the "financial statements") of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). 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.

Reclassifications

Certain amounts in prior year's financial statements have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of Central Texas, PCA and Central Texas Land Bank, 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.

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. Certain amounts in prior years' consolidated financial statements may have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of Central Texas, PCA and Central Texas Land Bank, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements:

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 August 2018, the Financial Accounting Standards Board (FASB) issued guidance titled "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 became 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. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance will not impact the Association's financial condition or its results of operations.

In August 2018, the FASB issued guidance titled “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 titled “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 became effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted, and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association’s financial condition or its results of operations but will impact the fair value measurements disclosures.

In June 2016, the FASB issued guidance titled “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 titled “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.

In January 2016, the FASB issued guidance titled “Recognition and Measurement of Financial Assets and Liabilities.” The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance became effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance did not impact the Association’s financial condition or its results of operations but did impact the Association’s fair value disclosures.

In May 2014, the FASB issued guidance titled, “Revenue from Contracts with Customers.” The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which resulted in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association determined the effect was not material to its financial condition or results of operations and will not change its current recognition practices. The guidance sets forth the requirement for new and enhanced disclosures. The Association adopted the new standard effective January 1, 2018, using the modified retrospective approach. As the majority of the Association’s revenues are not subject to the new guidance, the adoption of the guidance did not have a material impact on the financial position, results of operations, equity, or cash flows of the Association.

- B. Cash: Cash, as included in the financial statements, represents cash on hand and deposits at banks.
- C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to forty 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 net 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, if material, 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 loan losses (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible amounts.

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 (non-viable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production and economic conditions, and prior loan loss experience. Management may consider other qualitative factors in determining and supporting the level of allowances for loan losses including but not limited to: the concentration of lending in agriculture, combined with

uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, borrower repayment capacity, depth of lender staff, and/or past trends, and weather-related influences. The allowance for loan losses encompasses various judgments, evaluations, and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations, and appraisals to change over time.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan 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 loan losses is determined using the risk-rating model.

- D. **Capital Stock Investment in the Farm Credit Bank of Texas:** 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 periodically based on the Association's proportional utilization of the Bank compared to other District associations. 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 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.

- E. **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 and is included in other assets in the consolidated balance sheet. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan 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.
- F. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.
- G. **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 sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.
- H. **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. 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.

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.

For the DC plan, the Association recognized pension costs of \$181,313, \$153,118, and \$134,737 for the years ended December 31, 2019, 2018, and 2017, respectively.

The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities, nor costs of the plan is 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. The Association recognized pension costs for the DB plan of \$209,381, \$429,910, and \$351,453 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 percent of eligible earnings and to match 50 percent of employee contributions for the next 2 percent of employee contributions, up to a maximum employer contribution of 4 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were \$158,211, \$141,842, and \$125,027 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 sheet.

- I. **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 allocated retained earnings. Provisions for income taxes are made only on those 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 the future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

- J. **Patronage Refunds From the Farm Credit Bank of Texas:** The Association records patronage refunds from the Bank on an accrual basis.
- K. **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 and 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 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 actively 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.

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, 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 presented in Note 13, “Fair Value Measurements.”

- L. 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 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 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

Loan Type	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
Real estate mortgage	\$ 358,153,491	67.2%	\$354,178,439	69.5%	\$346,406,190	69.8%
Production and intermediate term	78,271,008	14.7%	76,764,413	15.0%	67,896,084	13.7%
Agribusiness:						
Processing and marketing	44,440,742	8.3%	40,002,467	7.9%	41,149,234	8.3%
Farm-related business	16,275,606	3.1%	16,073,468	3.2%	13,902,709	2.8%
Loans to cooperatives	13,069,068	2.5%	2,287,400	0.4%	3,346,691	0.7%
Communication	12,826,478	2.4%	10,459,954	2.1%	10,566,486	2.1%
Energy	8,968,190	1.7%	9,073,421	1.8%	11,426,977	2.3%
Rural residential real estate	817,161	0.1%	699,036	0.1%	1,313,107	0.3%
Water and waste water	-	0.0%	-	0.0%	37,897	0.0%
Total	\$ 532,821,744	100.0%	\$509,538,598	100.0%	\$496,045,375	100.0%

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. 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	Participations	Participations	Participations	Participations	Participations
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Agribusiness	\$48,360,114	\$ -	\$ -	\$ -	\$ 48,360,114	\$ -
Production and intermediate term	17,888,893	7,218,614	-	-	17,888,893	7,218,614
Communication	12,826,478	-	-	-	12,826,478	-
Energy	8,968,190	-	-	-	8,968,190	-
Real estate mortgage	-	13,432,884	-	-	-	13,432,884
Total	<u>\$88,043,675</u>	<u>\$20,651,498</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,043,675</u>	<u>\$ 20,651,498</u>

Geographic Distribution:

County	2019	2018	2017
Comanche	10.2%	10.2%	10.3%
Tom Green	8.7%	5.1%	4.8%
Brown	8.1%	8.8%	9.4%
Coleman	6.0%	6.9%	7.1%
Runnels	5.6%	5.4%	5.5%
McCulloch	4.8%	4.6%	4.2%
Deaf Smith	4.5%	4.0%	2.3%
Jones	3.7%	4.1%	4.5%
Mills	3.6%	4.2%	2.6%
Callahan	3.3%	3.6%	3.6%
Concho	2.7%	3.1%	3.2%
San Saba	2.7%	2.9%	3.3%
Knox	2.4%	2.6%	2.5%
Haskell	1.9%	1.8%	2.0%
Coke	1.8%	2.0%	2.0%
Erath	1.4%	1.2%	1.1%
Taylor	1.0%	1.1%	1.2%
Other Counties	11.0%	12.5%	14.4%
Other States	16.6%	15.9%	16.0%
Totals	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. Though 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 loan losses.

Operation/Commodity	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
Livestock, except dairy and poultry	\$ 261,236,756	49.0%	\$ 264,831,018	52.0%	\$ 252,917,569	51.0%
Field crops except cash grains	44,396,126	8.3%	41,383,742	8.1%	42,240,806	8.5%
Dairy farms	38,986,679	7.3%	31,943,202	6.3%	22,501,314	4.5%
Hunting, trapping and game propagation	36,809,969	6.9%	37,146,556	7.3%	39,391,316	7.9%
Wholesale trade - nondurable goods	28,647,195	5.4%	23,253,421	4.6%	22,115,105	4.6%
General farms, primarily crops	19,874,825	3.7%	19,810,566	3.9%	19,964,694	4.0%
Food and kindred products	19,864,424	3.7%	20,209,822	4.0%	19,311,216	3.9%
Cash grains	19,460,531	3.7%	16,302,402	3.2%	18,581,695	3.7%
Agricultural services	11,625,353	2.2%	797,869	0.2%	844,551	0.2%
Communication	11,440,327	2.1%	8,967,457	1.8%	10,566,486	2.1%
Electric services	8,968,190	1.7%	9,158,218	1.8%	11,536,860	2.3%
Chemical and allied products	7,828,258	1.5%	8,706,303	1.7%	7,859,157	1.6%
Timber	7,002,003	1.3%	11,729,804	2.3%	11,359,895	2.3%
Paper and allied products	5,261,392	1.0%	4,270,123	0.8%	6,461,861	1.3%
Fruit and tree nuts	4,289,429	0.8%	3,274,597	0.6%	3,355,089	0.7%
Tobacco products	1,936,709	0.4%	1,988,756	0.4%	2,559,359	0.5%
Real estate	1,386,151	0.3%	1,668,977	0.3%	209,213	0.0%
Lumber and wood products, except furniture	779,350	0.1%	711,664	0.1%	748,849	0.2%
Rural home loans	499,586	0.1%	810,766	0.1%	699,510	0.2%
General farms, primarily livestock	433,392	0.1%	494,867	0.1%	451,190	0.1%
Animal specialties	333,463	0.1%	455,517	0.1%	656,649	0.1%
Other	1,761,636	0.3%	1,622,951	0.3%	1,712,991	0.3%
Total	\$ 532,821,744	100.0%	\$ 509,538,598	100.0%	\$ 496,045,375	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 the 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 \$19,442,905, \$8,727,325 and \$9,282,429, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$74,068, \$52,909 and \$55,930 in 2019, 2018, and 2017, respectively, and are included in "other noninterest expense."

Nonperforming assets and related credit quality statistics are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Nonaccrual loans:			
Real estate mortgage	\$ 270,898	\$ 2,025,718	\$ 2,306,340
Production and intermediate term	<u>544,413</u>	<u>920,932</u>	<u>1,988,401</u>
Total nonaccrual loans	<u>815,311</u>	2,946,650	4,294,741
Total nonperforming loans	<u>815,311</u>	<u>2,946,650</u>	<u>4,294,741</u>
Total nonperforming assets	<u>\$ 815,311</u>	<u>\$ 2,946,650</u>	<u>\$ 4,294,741</u>

One credit quality indicator utilized by the Bank and the Association is the Farm Credit Administration's Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the 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:

	<u>2019</u>		<u>2018</u>		<u>2017</u>
Real estate mortgage					
Acceptable	95.4	%	94.5	%	98.0
OAEM	4.5		4.7		0.7
Substandard/doubtful	0.1		0.8		1.3
	100.0		100.0		100.0
Production and intermediate term					
Acceptable	96.6		91.8		87.0
OAEM	2.7		6.5		8.6
Substandard/doubtful	0.7		1.7		4.4
	100.0		100.0		100.0
Agribusiness					
Acceptable	95.9		100.0		95.1
OAEM	4.1		-		4.9
Substandard/doubtful	-		-		-
	100.0		100.0		100.0
Energy					
Acceptable	80.4		90.1		78.0
OAEM	-		9.9		9.0
Substandard/doubtful	19.6		-		13.0
	100.0		100.0		100.0
Communication					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	100.0		100.0		100.0
Rural residential real estate					
Acceptable	100.0		100.0		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	100.0		100.0		100.0
Water and waste water					
Acceptable	-		-		100.0
OAEM	-		-		-
Substandard/doubtful	-		-		-
	-		-		100.0
Total Loans					
Acceptable	95.5		94.7		95.7
OAEM	4.0		4.5		2.5
Substandard/doubtful	0.5		0.8		1.8
	100.0	%	100.0	%	100.0

The following tables provide an aging analysis of past due loans (including accrued interest) as of December 31, 2019, 2018, and 2017:

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	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 2,254,633	\$ -	\$ 2,254,633	\$ 360,208,781	\$ 362,463,414	\$ -
Production and intermediate term	181,040	353,363	534,403	79,085,719	79,620,122	-
Processing and marketing	-	-	-	44,532,958	44,532,958	-
Farm-related business	-	-	-	16,350,903	16,350,903	-
Loans to cooperatives	-	-	-	13,316,501	13,316,501	-
Communication	-	-	-	12,840,056	12,840,056	-
Energy	-	-	-	8,982,030	8,982,030	-
Rural residential real estate	-	-	-	820,474	820,474	-
Water and waste water	-	-	-	-	-	-
Total	\$ 2,435,673	\$ 353,363	\$ 2,789,036	\$ 536,137,422	\$ 538,926,458	\$ -

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	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 3,504,977	\$ 1,613,541	\$ 5,118,518	\$ 353,207,102	\$ 358,325,620	\$ -
Production and intermediate term	425,389	716,961	1,142,350	76,676,484	77,818,834	-
Processing and marketing	-	-	-	40,061,377	40,061,377	-
Farm-related business	-	-	-	16,135,257	16,135,257	-
Loans to cooperatives	-	-	-	2,286,708	2,286,708	-
Communication	-	-	-	10,461,413	10,461,413	-
Energy	-	-	-	9,089,359	9,089,359	-
Rural residential real estate	-	-	-	701,603	701,603	-
Water and waste water	-	-	-	-	-	-
Total	\$ 3,930,366	\$ 2,330,502	\$ 6,260,868	\$ 508,619,303	\$ 514,880,171	\$ -

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	Recorded Investment >90 Days and Accruing
Real estate mortgage	\$ 1,010,918	\$ 857,450	\$ 1,868,368	\$ 348,456,355	\$ 350,324,723	\$ -
Production and intermediate term	848,986	-	848,986	67,869,247	68,718,233	-
Processing and marketing	-	-	-	41,205,238	41,205,238	-
Farm-related business	-	-	-	13,955,998	13,955,998	-
Loans to cooperatives	-	-	-	3,347,965	3,347,965	-
Communication	-	-	-	10,590,656	10,590,656	-
Energy	-	-	-	11,442,153	11,442,153	-
Rural residential real estate	-	-	-	1,317,656	1,317,656	-
Water and waste water	-	-	-	39,425	39,425	-
Total	\$ 1,859,904	\$ 857,450	\$ 2,717,354	\$ 498,224,693	\$ 500,942,047	\$ -

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, the Association had no troubled debt restructured loans. In restructurings where principal is forgiven, the amount of 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).

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

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2019	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate term	\$ -	\$ -	\$ -	\$ -	\$ -
Real estate mortgage	-	-	-	-	-
Energy and water/waste water	-	-	66,667	15,805	992
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,667</u>	<u>\$ 15,805</u>	<u>\$ 992</u>
Impaired loans with no related allowance for credit losses:					
Production and intermediate term	\$ 544,413	\$ 1,195,987	\$ -	\$ 413,137	\$ 10,656
Real estate mortgage	270,898	270,898	-	248,096	-
Energy and water/waste water	-	-	-	-	-
Total	<u>\$ 815,311</u>	<u>\$ 1,466,885</u>	<u>\$ -</u>	<u>\$ 661,233</u>	<u>\$ 10,656</u>
Total impaired loans:					
Production and intermediate term	\$ 544,413	\$ 1,195,987	\$ -	\$ 413,137	\$ 10,656
Real estate mortgage	270,898	270,898	-	248,096	-
Energy and water/waste water	-	-	66,667	15,805	992
Total	<u>\$ 815,311</u>	<u>\$ 1,466,885</u>	<u>\$ 66,667</u>	<u>\$ 677,038</u>	<u>\$ 11,648</u>

	Recorded Investment at 12/31/2018	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate term	\$ -	\$ -	\$ -	\$ -	\$ -
Real estate mortgage	264,667	264,774	15,526	251,328	-
Energy and water/waste water	-	-	66,667	1,271	78
Total	<u>\$ 264,667</u>	<u>\$ 264,774</u>	<u>\$ 82,193</u>	<u>\$ 252,599</u>	<u>\$ 78</u>
Impaired loans with no related allowance for credit losses:					
Production and intermediate term	\$ 920,932	\$ 3,044,947	\$ -	\$ 1,601,726	\$ 6
Real estate mortgage	1,761,051	1,767,651	-	1,291,027	16,302
Energy and water/waste water	-	-	-	131,032	7,289
Total	<u>\$ 2,681,983</u>	<u>\$ 4,812,598</u>	<u>\$ -</u>	<u>\$ 3,023,785</u>	<u>\$ 23,597</u>
Total impaired loans:					
Production and intermediate term	\$ 920,932	\$ 3,044,947	\$ -	\$ 1,601,726	\$ 6
Real estate mortgage	2,025,718	2,032,425	15,526	1,542,355	16,302
Energy and water/waste water	-	-	66,667	132,303	7,367
Total	<u>\$ 2,946,650</u>	<u>\$ 5,077,372</u>	<u>\$ 82,193</u>	<u>\$ 3,276,384</u>	<u>\$ 23,675</u>

	Recorded Investment at 12/31/2017	Unpaid Principal Balance ^a	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate term	\$ -	\$ -	\$ -	\$ -	\$ -
Real estate mortgage	-	-	-	-	-
Energy and water/waste water	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Impaired loans with no related allowance for credit losses:					
Production and intermediate term	\$ 1,988,401	\$ 3,018,275	\$ -	\$ 2,223,136	\$ 622
Real estate mortgage	2,306,340	2,358,956	-	1,816,907	330
Energy and water/waste water	-	-	-	-	-
Total	<u>\$ 4,294,741</u>	<u>\$ 5,377,231</u>	<u>\$ -</u>	<u>\$ 4,040,043</u>	<u>\$ 952</u>
Total impaired loans:					
Production and intermediate term	\$ 1,988,401	\$ 3,018,275	\$ -	\$ 2,223,136	\$ 622
Real estate mortgage	2,306,340	2,358,956	-	1,816,907	330
Energy and water/waste water	-	-	-	-	-
Total	<u>\$ 4,294,741</u>	<u>\$ 5,377,231</u>	<u>\$ -</u>	<u>\$ 4,040,043</u>	<u>\$ 952</u>

^aUnpaid principal balance represents the recorded principal balance of the loan.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2019, 2018, and 2017.

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
Interest income which would have been recognized under the original terms	\$ 124,463	\$ 410,659	\$ 280,749
Less: interest income recognized	(11,648)	(23,675)	(952)
Foregone interest income	<u>\$ 112,815</u>	<u>\$ 386,984</u>	<u>\$ 279,797</u>

A summary of the changes in the allowance for credit losses and the ending balance of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at							
December 31, 2018	\$ 317,464	\$ 379,003	\$ 203,931	\$ 43,278	\$ 68,997	\$ 211	\$ 1,012,884
Charge-offs	(95,262)	(368,603)	-	-	-	-	(463,865)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	78,757	365,850	161,821	(3,539)	71,368	215	674,472
Other	367	212	(20,803)	(529)	(3,664)	-	(24,417)
Balance at							
December 31, 2019	<u>\$ 301,326</u>	<u>\$ 376,462</u>	<u>\$ 344,949</u>	<u>\$ 39,210</u>	<u>\$ 136,701</u>	<u>\$ 426</u>	<u>\$ 1,199,074</u>
Ending Balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,667</u>	<u>\$ -</u>	<u>\$ 66,667</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 301,326</u>	<u>\$ 376,462</u>	<u>\$ 344,949</u>	<u>\$ 39,210</u>	<u>\$ 70,034</u>	<u>\$ 426</u>	<u>\$ 1,132,407</u>
Recorded Investment in Loans Outstanding:							
Ending Balance at							
December 31, 2019	<u>\$362,463,414</u>	<u>\$ 79,620,122</u>	<u>\$ 74,200,362</u>	<u>\$ 12,840,056</u>	<u>\$ 8,982,030</u>	<u>\$ 820,474</u>	<u>\$ 538,926,458</u>
Ending balance for loans individually evaluated for impairment	<u>\$ 270,898</u>	<u>\$ 544,413</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 815,311</u>
Ending balance for loans collectively evaluated for impairment	<u>\$362,192,516</u>	<u>\$ 79,075,709</u>	<u>\$ 74,200,362</u>	<u>\$ 12,840,056</u>	<u>\$ 8,982,030</u>	<u>\$ 820,474</u>	<u>\$ 538,111,147</u>
	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at							
December 31, 2017	\$ 252,274	\$ 414,969	\$ 256,914	\$ 51,606	\$ 312,302	\$ 916	\$ 1,288,981
Charge-offs	-	(1,112,836)	-	-	-	-	(1,112,836)
Recoveries	52,508	17,992	-	-	-	-	70,500
Provision for loan losses	12,693	1,081,172	(69,348)	(8,997)	(199,635)	(1,281)	814,604
Other	(11)	(22,294)	16,365	669	(43,670)	576	(48,365)
Balance at							
December 31, 2018	<u>\$ 317,464</u>	<u>\$ 379,003</u>	<u>\$ 203,931</u>	<u>\$ 43,278</u>	<u>\$ 68,997</u>	<u>\$ 211</u>	<u>\$ 1,012,884</u>
Ending Balance: individually evaluated for impairment	<u>\$ 15,526</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,667</u>	<u>\$ -</u>	<u>\$ 82,193</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 301,938</u>	<u>\$ 379,003</u>	<u>\$ 203,931</u>	<u>\$ 43,278</u>	<u>\$ 2,330</u>	<u>\$ 211</u>	<u>\$ 930,691</u>
Recorded Investment in Loans Outstanding:							
Ending Balance at							
December 31, 2018	<u>\$358,325,620</u>	<u>\$ 77,818,834</u>	<u>\$ 58,483,342</u>	<u>\$ 10,461,413</u>	<u>\$ 9,089,359</u>	<u>\$ 701,603</u>	<u>\$ 514,880,171</u>
Ending balance for loans individually evaluated for impairment	<u>\$ 2,025,718</u>	<u>\$ 920,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,946,650</u>
Ending balance for loans collectively evaluated for impairment	<u>\$356,299,902</u>	<u>\$ 76,897,902</u>	<u>\$ 58,483,342</u>	<u>\$ 10,461,413</u>	<u>\$ 9,089,359</u>	<u>\$ 701,603</u>	<u>\$ 511,933,521</u>

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at							
December 31, 2016	\$ 197,602	\$ 337,170	\$ 246,053	\$ 110,077	\$ 176,128	\$ 371	\$ 1,067,401
Charge-offs	(52,509)	-	-	-	-	-	(52,509)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	107,143	55,080	(4,300)	(68,068)	149,679	1,085	240,619
Other	38	22,719	15,161	9,597	(13,505)	(540)	33,470
Balance at							
December 31, 2017	<u>\$ 252,274</u>	<u>\$ 414,969</u>	<u>\$ 256,914</u>	<u>\$ 51,606</u>	<u>\$ 312,302</u>	<u>\$ 916</u>	<u>\$ 1,288,981</u>
Ending Balance: individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance: collectively evaluated for impairment	\$ 252,274	\$ 414,969	\$ 256,914	\$ 51,606	\$ 312,302	\$ 916	\$ 1,288,981
Recorded Investment in Loans Outstanding:							
Ending Balance at							
December 31, 2017	<u>\$350,324,723</u>	<u>\$ 68,718,233</u>	<u>\$ 58,509,201</u>	<u>\$ 10,590,656</u>	<u>\$ 11,481,578</u>	<u>\$ 1,317,656</u>	<u>\$ 500,942,047</u>
Ending balance for loans individually evaluated for impairment	\$ 2,306,340	\$ 1,988,401	\$ -	\$ -	\$ -	\$ -	\$ 4,294,741
Ending balance for loans collectively evaluated for impairment	<u>\$348,018,383</u>	<u>\$ 66,729,832</u>	<u>\$ 58,509,201</u>	<u>\$ 10,590,656</u>	<u>\$ 11,481,578</u>	<u>\$ 1,317,656</u>	<u>\$ 496,647,306</u>

NOTE 4 — LEASES

Adoption of the leasing standard impacted our previously reported results as follows:

Classification	December 31, 2019	December 31, 2018	Adjustment
Operating leases			
Operating lease right-of-use asset- building	\$ 67,161	\$ -	\$ -
Total lease assets	<u>\$ 67,161</u>	<u>\$ -</u>	<u>\$ -</u>
Operating leases			
Operating lease right-of-use liabilities-building	\$ 91,876	\$ -	\$ -
Total lease liabilities	<u>\$ 91,876</u>	<u>\$ -</u>	<u>\$ -</u>

The components of lease expense were as follows:

	December 31, 2019
Operating lease cost	\$ 11,873
Net lease cost	<u>\$ 11,873</u>

Other information related to leases was as follows:

	<u>December 31, 2019</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	\$ 11,873
Operating cash flows for finance leases	
Financing cash flows for finance leases	
Right-of-use assets obtained in exchange for new lease obligations:	
Operating leases	\$ 67,161
Finance leases	

Lease term and discount rate are as follows:

	<u>December 31, 2019</u>
Weighted average remaining lease term in years	
Operating leases	4.3
Finance leases	
Weighted average discount rate	
Operating leases	3.0%
Finance leases	

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

	<u>Total</u>
2020	17,456
2021	17,184
2022	16,912
2023	16,912
Thereafter	<u>5,638</u>
Total	<u>\$ 74,102</u>

NOTE 5 — 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 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 owned 2.47 percent of the issued stock of the Bank as of December 31, 2019. As of this date, the Bank's assets totaled \$25.66 billion, and members' equity totaled \$1.84 billion. The Bank's earnings were \$203 million during 2019.

NOTE 6 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 423,107	\$ 423,107	\$ 423,107
Building and improvements	3,737,304	3,627,173	3,566,314
Furniture and equipment	474,093	467,235	474,067
Computer equipment and software	113,332	118,687	110,890
Automobiles	529,701	346,895	323,654
	<u>5,277,537</u>	<u>4,983,097</u>	<u>4,898,032</u>
Accumulated depreciation	<u>(1,542,999)</u>	<u>(1,320,041)</u>	<u>(1,150,400)</u>
Total	<u>\$ 3,734,538</u>	<u>\$ 3,663,056</u>	<u>\$ 3,747,632</u>

The Association leases office space in Abilene, Texas, and storage space in Coleman, Texas. Lease expense was \$11,873, \$832, and \$17,522 for 2019, 2018, and 2017, respectively. Minimum annual lease payments for the next five years are as follows:

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Accounts Receivable	\$ 198,007	\$ 198,405	\$ 222,034
Other Assets	77,868	8,366	3,844
Total	<u>\$ 275,875</u>	<u>\$ 206,771</u>	<u>\$ 225,878</u>

Other liabilities comprised the following at December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Postretirement Benefits Liability	\$ 2,151,006	\$ 1,934,741	\$ 2,274,210
Accounts Payable	1,122,524	980,385	866,192
FCS Insurance Premium Payable	348,319	335,074	548,536
Allowance on Unfunded Loans	252,051	227,634	179,269
Accrued Annual Leave	226,244	209,139	199,805
Other Liabilities	93,149	1,647	-
Total	<u>\$ 4,193,293</u>	<u>\$ 3,688,620</u>	<u>\$ 4,068,012</u>

NOTE 8 — 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, was \$425,985,170 at 3.0 percent, \$404,917,907 at 3.0 percent and \$394,242,092 at 2.3 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 \$538,240,786, as defined by the general financing agreement.

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 provisions for conducting business, 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, 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 9 — MEMBERS' EQUITY:

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

Protection of certain borrower equity is provided under the Act that requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates, and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

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 A capital stock or participation is equal to 2 percent of the loan amount, up to a maximum amount of \$1,000. 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 A 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 A to Class C stock. Class C 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 Class C shares is made solely at the discretion of the Association's board of directors. At December 31, 2019, 2018, and 2017, the Association had no Class C stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of capital stock and participation certificates. In the event of liquidation of the Association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association's obligations to external parties and to the Bank would be distributed to the Association's stockholders.

Dividends and patronage distributions may be paid on the capital stock and participation certificates of the Association, 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. In 2019, 2018, and 2017, the Association declared annual patronage distributions of \$6,800,000, \$6,500,000, and \$6,300,000, respectively.

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 Capital, and Total Capital 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 an 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.

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

Risk-adjusted:	Regulatory Minimums	Conservation Buffer*	Total	As of December 31, 2019
Common equity tier 1 ratio	4.50%	2.50%	7.00%	19.19%
Tier 1 capital ratio	6.00%	2.50%	8.50%	19.19%
Total capital ratio	8.00%	2.50%	10.50%	19.44%
Permanent capital ratio	7.00%	0.00%	7.00%	19.23%
Non-risk-adjusted:				
Tier 1 leverage ratio**	4.00%	1.00%	5.00%	20.27%
UREE leverage ratio	1.50%	0.00%	1.50%	21.33%

*the 2.5 percent capital conservation buffer for the risk-adjusted ratios will be phased in over a three-year period ending on December 31, 2019.

**Must include the regulatory minimum requirement for the URE and UREE Leverage ratio

Risk-adjusted assets have been defined by FCA Regulations 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 (referred herein as PCR risk-adjusted assets) 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 ratio 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 revolving, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and 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 (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt, and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR 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 revolvment 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-day average balances, were as follows at December 31, 2019:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	115,166,875	115,166,875	115,166,875	115,166,875
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	2,243,137	2,243,137	2,243,137	2,243,137
Allowance for loan losses and reserve for credit losses subject to certain limitations*			1,446,452	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(7,961,880)	(7,961,880)	(7,961,880)	(7,961,880)
	<u>109,448,132</u>	<u>109,448,132</u>	<u>110,894,584</u>	<u>109,448,132</u>
Denominator:				
Risk-adjusted assets excluding allowance	578,314,768	578,314,768	578,314,768	578,314,768
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(7,961,880)	(7,961,880)	(7,961,880)	(7,961,880)
Allowance for loan losses				(1,175,413)
	<u>570,352,888</u>	<u>570,352,888</u>	<u>570,352,888</u>	<u>569,177,475</u>

*Capped at 1.25 percent of risk-adjusted assets

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

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	115,166,875	115,166,875
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	2,243,137	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	(7,961,880)	-
	<u>109,448,132</u>	<u>115,166,875</u>
Denominator:		
Total Assets	551,334,285	551,334,285
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	(11,468,736)	(11,468,736)
	<u>539,865,549</u>	<u>539,865,549</u>

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

An FCA regulation empowers the FCA to direct a transfer of funds or equities by one or more System institution(s) 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 stock and participation certificates outstanding at a par value of \$5 per share:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Class A stock	443,716	448,606	456,957
Participation certificates	3,445	3,032	4,180
Total	<u>447,161</u>	<u>451,638</u>	<u>461,137</u>

An additional component of equity is accumulated other comprehensive income (loss), which is reported net of taxes as follows:

Accumulated Other Comprehensive Income (Loss)			
December 31, 2019	<u>Before Tax</u>	<u>Deferred Tax</u>	<u>Net of Tax</u>
Nonpension postretirement benefits	<u>\$ 98,755</u>	<u>\$ -</u>	<u>\$ 98,755</u>
December 31, 2018	<u>Before Tax</u>	<u>Deferred Tax</u>	<u>Net of Tax</u>
Nonpension postretirement benefits	<u>\$ 62,870</u>	<u>\$ -</u>	<u>\$ 62,870</u>
December 31, 2017	<u>Before Tax</u>	<u>Deferred Tax</u>	<u>Net of Tax</u>
Nonpension postretirement benefits	<u>\$ (386,966)</u>	<u>\$ -</u>	<u>\$ (386,966)</u>

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension 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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Accumulated other comprehensive income (loss) at January 1	\$ 62,870	\$(386,966)	\$(188,571)
Actuarial gains(losses)	(141,150)	330,217	(183,612)
Prior service (cost) credit	-	107,290	-
Amortization of prior service credit included in salaries and employee benefits	(20,475)	(13,493)	(17,991)
Amortization of actuarial loss included in salaries and employee benefits	-	25,822	3,208
Other comprehensive income (loss), net of tax	<u>(161,625)</u>	<u>449,836</u>	<u>(198,395)</u>
Accumulated other comprehensive (loss) income at December 31	<u>\$ (98,755)</u>	<u>\$ 62,870</u>	<u>\$ (386,966)</u>

NOTE 10 — INCOME TAXES:

There was no provision for income taxes for the years December 31, 2019, 2018, or 2017.

The provision for 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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Federal tax at statutory rate	\$ 2,023,422	\$ 1,957,986	\$ 3,466,386
Effect of nontaxable FLCA subsidiary	(1,783,393)	(1,867,377)	(3,030,223)
Patronage distributions	(250,646)	(78,739)	(459,889)
Change in valuation allowance	10,617	(37,135)	(457,010)
Rate change in deferred tax asset	-	-	480,736
Other	-	25,265	-
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Deferred Tax Assets</u>			
Allowance for loan losses	\$ 108,808	\$ 98,191	\$ 110,062
Loss carryforwards	585,778	585,778	611,042
Gross deferred tax assets	<u>694,586</u>	<u>683,969</u>	<u>721,104</u>
Deferred tax asset valuation allowance	<u>(694,586)</u>	<u>(683,969)</u>	<u>(721,104)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Association recorded valuation allowances of \$694,586, \$683,969, and \$721,104 during 2019, 2018, and 2017, respectively. 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 programs, which reduces taxable earnings. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. The Association adopted FASB guidance on accounting for uncertainty in income taxes (originally effective January 1, 2007) when the Association became an ACA in 2006. Under adoption, the Association did not need to recognize the tax liability for any uncertain tax position and at December 31, 2019, 2018, and 2017, the Association did not recognize a tax liability for any uncertain tax position.

The Association has a net operating loss carryforward of \$2,789,417, which can be carried forward 20 years as follows: \$704,202 will expire after 2027, \$589,383 will expire after 2028, \$1,022,882 will expire after 2031, and \$472,950 will expire after 2033.

The enactment of federal tax legislation in late December 2017, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with GAAP, the change to the lower corporate tax rate led to a revaluation of our deferred tax liabilities and deferred tax assets in the period of enactment (2017). The provision for income taxes in 2017 was mainly due to a decrease in deferred tax assets with a corresponding valuation allowance resulting from the enactment of federal tax legislation in late December 2017.

NOTE 11 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB plan) or the defined contributions plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. These plans are described more fully in section H of Note 2, “Summary of Significant Accounting Policies.” The structure of the District’s DB plan is characterized as multi-employer, because 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 executive 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 of the following benefits:

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

There were no payments made from the supplemental 401(k) plan to active employees during 2019, 2018, and 2017.

The DB plan is noncontributory and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. 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 a percentage approved by the plan sponsor. The plan sponsor is the board 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 obligation 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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Funded status of plan	66.2%	68%	69.7%
Association's contribution	\$ 209,381	\$ 429,910	\$ 351,453
Percentage of Association's contribution to total contributions	2.6%	4.4%	0.3%

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). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities.

In October 2014, the Society of Actuaries issued revised mortality tables (RP 2014) and a mortality improvement scale (MP 2014) for use by actuaries, insurance companies, governments, benefit plan sponsors, and others setting assumptions regarding life expectancy in the United States for purposes of estimating pension and other postemployment benefit obligations, costs, and required contribution amounts. The new mortality tables indicate substantial life expectancy improvements since the last study published in 2000 (RP 2000). The adoption of these new tables resulted in an increase in \$225,204 to our retiree welfare plan’s projected benefit obligation.

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

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	2019	2018	2017
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	\$ 1,934,741	\$ 2,274,210	\$ 1,979,965
Service cost	38,390	52,123	51,563
Interest cost	90,547	90,345	90,485
Plan participants' contributions	25,363	22,386	16,459
Plan amendments	-	(107,290)	-
Actuarial loss (gain)	141,150	(330,217)	183,612
Benefits paid	<u>(79,185)</u>	<u>(66,816)</u>	<u>(47,874)</u>
Accumulated postretirement benefit obligation, end of year	\$ 2,151,006	\$ 1,934,741	\$ 2,274,210
Change in Plan Assets			
Employer contributions	\$ 53,822	\$ 44,430	\$ 31,415
Plan participants' contributions	25,363	22,386	16,459
Benefits paid	<u>(79,185)</u>	<u>(66,816)</u>	<u>(47,874)</u>
Plan assets at fair value, end of year	\$ -	\$ -	\$ -
Funded status of the plan	\$ (2,151,006)	\$ (1,934,741)	\$ (2,274,210)
Amounts Recognized in Statement of Financial Position			
Other liabilities	\$ (2,151,006)	\$ (1,934,741)	\$ (2,274,210)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss	\$ 185,570	\$ 44,420	\$ 400,459
Prior service credit	<u>(86,815)</u>	<u>(107,290)</u>	<u>(13,493)</u>
Total	\$ 98,755	\$ (62,870)	\$ 386,966
Weighted-Average Assumptions Used to Determine Obligations at Year End			
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) - medical	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

Total Cost	2019	2018	2017
Service cost	\$ 38,390	\$ 52,123	\$ 51,563
Interest cost	90,547	90,345	90,485
Amortization of:			
Unrecognized prior service cost	(20,475)	(13,493)	(17,987)
Unrecognized net loss	-	25,822	3,208
Net postretirement benefit cost	\$ 108,462	\$ 154,797	\$ 127,269

**Other Changes in Plan Assets and Projected Benefit Obligation
Recognized in Other Comprehensive Income**

Net actuarial loss (gain)	\$ 141,150	\$ (330,217)	\$ 183,612
Amortization of net actuarial gain	-	(25,822)	(3,208)
Prior service credit	-	(107,290)	-
Amortization of prior service cost	20,475	13,493	17,987
Total recognized in other comprehensive income	\$ 161,625	\$ (449,836)	\$ 198,391

AOCI Amounts Expected to be Amortized Into Expense in 2020

Unrecognized prior service cost	\$ (20,475)
Unrecognized net loss (gain)	-
Total	\$ (20,475)

Weighted-Average Assumptions Used to Determine 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) - medical	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	2026/2027	2026/2026	2025/2024

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)

Fiscal 2020	\$ 61,218
Fiscal 2021	78,682
Fiscal 2022	94,520
Fiscal 2023	76,403
Fiscal 2024	85,028
Fiscal 2025–2029	440,012

Expected Contributions

Fiscal 2020	\$ 61,218
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NOTE 12 — 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 at December 31, 2019, 2018, and 2017 for the Association amounted to \$5,422,418, \$6,215,874, and \$6,601,790. During 2019, \$1,663,309 of new loans were made, and repayments totaled \$1,621,265. In the opinion of management, no such loans outstanding at December 31, 2019, 2018, and 2017 involved more than a normal risk of collectability.

Expenses included in purchased services 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 \$192,350, \$183,122, and \$186,069 in 2019, 2018, and 2017, respectively.

The Association received patronage payments from the Bank totaling \$2,345,489, \$2,076,701 and \$1,748,317 during 2019, 2018, and 2017, respectively.

NOTE 13 — 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.

There were no assets and liabilities measured at fair value on a recurring basis at December 31, 2019, 2018, and 2017. Assets and liabilities measured at fair value on a nonrecurring basis at December 31, 2019, 2018, and 2017 for each of the fair value hierarchy values are summarized below:

December 31, 2019	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ -	\$ -
December 31, 2018	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 182,581	\$ 182,581
December 31, 2017	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ -	\$ -

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
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 4,036	\$ 4,036	\$ -	\$ -	\$ 4,036
Net loans	<u>531,622,670</u>	<u>-</u>	<u>-</u>	<u>536,232,890</u>	<u>536,232,890</u>
Total Assets	<u><u>\$531,626,706</u></u>	<u><u>\$ 4,036</u></u>	<u><u>\$ -</u></u>	<u><u>\$536,232,890</u></u>	<u><u>\$536,236,926</u></u>
Liabilities:					
Note payable to Bank	<u>\$425,985,170</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$429,670,990</u>	<u>\$429,670,990</u>
Total Liabilities	<u><u>\$425,985,170</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$429,670,990</u></u>	<u><u>\$429,670,990</u></u>

December 31, 2018
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 11,112	\$ 11,112	\$ -	\$ -	\$ 11,112
Net loans	<u>508,343,133</u>	<u>-</u>	<u>-</u>	<u>500,804,274</u>	<u>500,804,274</u>
Total Assets	<u><u>\$508,354,245</u></u>	<u><u>\$ 11,112</u></u>	<u><u>\$ -</u></u>	<u><u>\$500,804,274</u></u>	<u><u>\$500,815,386</u></u>
Liabilities:					
Note payable to Bank	<u>\$404,917,907</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$398,923,845</u>	<u>\$398,923,845</u>
Total Liabilities	<u><u>\$404,917,907</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$398,923,845</u></u>	<u><u>\$398,923,845</u></u>

December 31, 2017
Fair Value Measurement Using

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	\$ 9,872	\$ 9,872	\$ -	\$ -	\$ 9,872
Net loans	<u>494,756,394</u>	<u>-</u>	<u>-</u>	<u>487,274,811</u>	<u>487,274,811</u>
Total Assets	<u><u>\$494,766,266</u></u>	<u><u>\$ 9,872</u></u>	<u><u>\$ -</u></u>	<u><u>\$487,274,811</u></u>	<u><u>\$487,284,683</u></u>
Liabilities:					
Note payable to Bank	<u>\$394,242,092</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$388,807,386</u>	<u>\$388,807,386</u>
Total Liabilities	<u><u>\$394,242,092</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$388,807,386</u></u>	<u><u>\$388,807,386</u></u>

Uncertainty of Fair Value Measurements

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would have resulted in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default would have been accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

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.

Information about Recurring and Nonrecurring Level 3 Fair Value Measurements:

	<u>Valuation Technique(s)</u>	<u>Input</u>
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Note payable to Bank	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk

Valuation Techniques

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.

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.

NOTE 14 — 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 commercial 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. At December 31, 2019, \$98,808,519 of commitments and \$959,705 of commercial letters of credit were outstanding.

NOTE 15 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 (in thousands) follow:

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,885	\$ 3,882	\$ 3,886	\$ 3,901	\$ 15,554
(Provision for) reversal of loan losses	(125)	(131)	(143)	(275)	(674)
Noninterest income (expense), net	(1,316)	(1,403)	(1,368)	(1,158)	(5,245)
Net income	\$ 2,444	\$ 2,348	\$ 2,375	\$ 2,468	\$ 9,635

	2018				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,711	\$ 3,709	\$ 3,702	\$ 3,772	\$ 14,894
(Provision for) reversal of loan losses	(71)	399	(934)	(209)	(815)
Noninterest income (expense), net	(992)	(1,493)	(1,280)	(990)	(4,755)
Net income	\$ 2,648	\$ 2,615	\$ 1,488	\$ 2,573	\$ 9,324

	2017				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,621	\$ 3,690	\$ 3,656	\$ 3,724	\$ 14,691
(Provision for) reversal of loan losses	(158)	2	(33)	(52)	(241)
Noninterest income (expense), net	(1,246)	(1,205)	(1,112)	(983)	(4,546)
Net income	\$ 2,217	\$ 2,487	\$ 2,511	\$ 2,689	\$ 9,904

NOTE 16 — 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 from 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, interest rates to borrowers, patronage, or dividends and acquisitions or dispositions of material assets, changes in the reporting entity, changes in patronage policies or practices and financial assistance provided by or to the Association through loss sharing or capital preservation agreements or from any other source, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

The Central Texas Farm Credit, ACA (Association) serves its 20-county territory through its main administrative and lending office at 1026 Early Boulevard, Early, Texas. Additionally, there are seven branch lending offices located throughout the territory. The Association owns the office buildings in Brady, Coleman, Comanche, Early, Haskell, San Angelo, and San Saba, Texas. The Association has lease space in an office building in Abilene, Texas, and also leases a storage unit in Coleman, Texas.

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 consolidated financial statements of the Association.

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 9 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 8, "Note Payable to the Bank," Note 11, "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 14 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 annual and quarterly stockholder reports of the Farm Credit Bank of Texas (Bank) are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 465-1881. Copies of the Bank's annual and quarterly stockholder reports can also be requested by e-mailing fcf@farmcreditbank.com. The annual and quarterly stockholder reports are also available on its website at www.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 Central Texas Farm Credit, ACA, P.O. Box 3200, Early, Texas, 76803 or calling (325) 643-5563. Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing Keith.Prater@farmcreditbank.com. The Association’s annual stockholder report is available on its website at www.ranchmoney.com 75 days after the fiscal year end. Copies of the Association’s annual stockholder report can also be requested 90 days after the fiscal 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 member-elected and director-elected board of directors and senior officers are as follows:

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES
Robby A. Halfmann	Chairman	2008	2020
Kenneth D. Harvick	Vice Chairman	2012	2022
Mike Finlay	Director	2008	2021
Philip W. Hinds	Director	2009	2021
Burl D. Lowery	Director-Elected Director	2013	2021
Steven Lehrmann	Director	2014	2020
Boyd J. Chambers	Chief Executive Officer	2006	
Travis B. McKinney	Chief Credit Officer	2000	
Zach May	Chief Operating Officer	2009	
Keith Prater	Chief Financial Officer	2015	
Jim Ed Field	SVP – Lending and Credit	2013	

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

Robby A. Halfmann – age 39 – Mr. Halfmann is a farmer and rancher in Runnels, Coleman, and Concho counties. His principal business is managing his stocker cattle and cow-calf operations and farming small grains. He is also a co-owner of Frey Cattle Company, a cattle order buying operation, and serves as a foreman and an order buyer for that company. In addition, he is a co-owner of S&H Land and Livestock, LLC, whose primary business is managing a stocker cattle operation and farming small grains. Mr. Halfmann is the chairman of the Association’s board, vice chairman of the audit committee, and serves on the compensation and executive committees. He is also the Association’s representative on the District Bank’s stockholder advisory and nominating committees. Mr. Halfmann was first appointed to the board in 2008 and is serving a three-year term which expires in 2020.

Kenneth D. Harvick – age 68 – Mr. Harvick is a farmer and rancher in Comanche County. His principal business is managing his cow-calf operation, operating a small feedlot, and buying and selling real estate. Mr. Harvick conducts most of his farming and ranching business under the name Chatto Creek Ranch. He is the former president of Gore’s Inc. in Comanche, Texas, which was a dairy, beef cattle, and feed business that operated in Texas and New Mexico. Mr. Harvick is the vice chairman of the Association’s board and serves on the audit, compensation, and executive committees. He was first elected to the board in 2012 and is serving a three-year term which expires in 2022.

Mike Finlay – age 71 – Mr. Finlay is a farmer and rancher in McCulloch and Coleman counties. His principal business consists of farming cotton, wheat, grain sorghum, and hay crops and managing his cattle and sheep operation. Mr. Finlay conducts most of his farming and ranching business under the name Finlay Farms. He is the president of the Fife Cemetery Association, and he is also a member of the McCulloch County Conservation Board. Mr. Finlay serves on the Association’s audit and compensation committees. He was first elected to the board in 2008 and is serving a three-year term which expires in 2021.

Philip W. Hinds – age 62 – Mr. Hinds is a cow-calf operator in Coleman County. His principal business is that of owner/operator of Glasson Rentals and Self-Storage in Coleman, Texas. He is a former member of the Coleman County Farm Bureau and the Coleman County Rodeo Association. Mr. Hinds serves on the Association’s audit and compensation committees. He was first appointed to the board in 2009 and is currently serving a three-year term which expires in 2021.

Burl D. Lowery – age 69 – Mr. Lowery, a Certified Public Accountant, owns and operates Burl D. Lowery, CPA, an accounting practice in Brownwood, Texas. His primary business is managing the accounting practice. In addition, he has a small cow-calf and hay operation in Comanche County. He is a member of the American Institute of Certified Public Accountants and the Texas Society of Certified Public Accountants. Mr. Lowery was first appointed by the board in January 2013 to serve as the “Outside Director.” He is also the designated “financial expert” as defined in and required by FCA regulation. He serves as the chairman of the audit committee and is also a member of the compensation committee. Mr. Lowery is serving a three-year term which expires in 2021.

Steven Lehrmann – age 65 – Mr. Lehrmann is a farmer and rancher in Haskell and Stonewall counties. His primary business is farming wheat, cotton, and sesame crops and managing a cow-calf operation. He is also the co-owner and operating manager of K&L Spraying, LLC, which is an insect and weed control crop spraying business. Mr. Lehrmann is the former chairman of the Haskell County appraisal review Board, and he serves on the Association’s audit and compensation committees. Mr. Lehrmann was first elected to the board in 2014 and is serving a three-year term which expires in 2020.

Boyd J. Chambers – age 59 – Mr. Chambers has served as the chief executive officer of the Association since 2011, and that is his principal occupation. He graduated from Sul Ross State University with a bachelor’s degree in agricultural business. He previously served as the Association’s executive vice president and chief credit officer. Prior to joining the Association in 2006, Mr. Chambers served as vice president of lending with Southwest Texas, ACA. He has twenty-nine years of Farm Credit experience and operates a small, part-time farm in Coleman County.

Travis B. McKinney – age 43 – Mr. McKinney has served as the chief credit officer of the Association since 2013, and that is his principal occupation. He has a bachelor’s degree in agricultural services and development from Tarleton State University and a 2018 graduate of the Southwest Graduate School of Banking at SMU. He previously served as senior vice president of lending and branch president of the Early branch office. Mr. McKinney has twenty years of Farm Credit experience.

Zach May – age 41 – Mr. May has served as the chief operating officer of the Association since 2011, and that is his principal occupation. He holds a bachelor’s degree in international studies and a master’s degree in public policy from Texas A&M University. Mr. May is also a 2018 graduate of the Southwest Graduate School of Banking at SMU. He previously served as the Association’s operations manager. Prior to joining the Association in 2009, he was a senior credit analyst at Capital Farm Credit and a commissioned examiner with the Farm Credit Administration. Mr. May has fourteen years of Farm Credit experience.

Keith Prater – age 45 – Mr. Prater has served as the chief financial officer since 2018, and that is his principal occupation. He has bachelor’s degrees in both accounting and finance from the University of Texas at Arlington. He previously served as the controller for the Association. Before joining the Association, Mr. Prater was the controller for a pecan shelling operation. He has been employed in the Farm Credit System since 2015. Mr. Prater has five years of Farm Credit experience and runs a small part-time cow-calf operation in Comanche County.

Jim Ed Field – age 43 – Mr. Field has served as the senior vice president of lending and credit for the Association since 2018, and that is his principal occupation. He previously served as the director of credit analysis for the Association. Mr. Field has a bachelor’s degree in agricultural development from Texas A&M University and a master’s degree in agricultural and applied economics from Texas Tech University. Prior to joining the Association in 2013, he was a credit office president with First Ag Credit and an investment manager with MetLife Agricultural Investments. Mr. Field has fourteen years of Farm Credit experience.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium at the rate of \$800 per month. The Chairman and Director-Elected Director received an honorarium of \$1,000. All directors were also compensated at the rate of \$400 per day for in-person, unscheduled meetings and training sessions, \$150 for each committee meeting held on the same day as a board meeting (excluding audit committee meetings), and they were 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. A copy of the travel policy is available to stockholders of the Association upon request.

Director	Number of Days Served Associated With		Total Compensation in 2019
	Board Meetings	Other Official Activities	
Robby A. Halfmann	12	24	\$ 21,100
Kenneth D. Harvick	11	20	16,850
Mike Finlay	11	18	15,600
Philip W. Hinds	11	18	16,050
Burl D. Lowery	12	21	18,650
Steven Lehrmann	12	24	17,700
			\$ 105,950

The aggregate compensation paid to directors in 2019, 2018, and 2017 was \$105,950, \$93,350, and \$91,800, respectively. We do not compensate members for audit committee meeting attendance because those meetings occur on the same day as board meetings. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows for 2019:

Director	Committee Compensation
Robby A. Halfmann	\$ 550
Kenneth D. Harvick	550
Mike Finlay	550
Philip W. Hinds	550
Burl D. Lowery	550
Steven Lehrmann	550
	\$ 3,300

The aggregate amount of reimbursement for travel, subsistence, and other related expenses paid to directors and on their behalf was \$75,480, \$42,792, and \$47,643 in 2019, 2018, and 2017, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

Overview

All employee salaries are administered in accordance with the Salary Administration Program, which is approved annually by the compensation committee (comprised of the entire board of directors). All salary decisions for employees other than the CEO are determined by the CEO with input from employee supervisors. The aggregate amount of annual employee salary increases is proposed by the CEO and approved by the compensation committee at the December meeting.

All employee bonuses are determined using the calculation methodology outlined in the Annual Bonus Plan, which is approved annually by the board of directors. The plan is based on the Association's net income, growth in accrual loan volume, and individual branch performance in three areas (credit quality, credit administration, and new loan originations). Each employee has a target bonus payout, which is a percentage of their base salary. The target payouts vary according to the employee's level of responsibility. The compensation committee approves the aggregate bonus payout for all other employees except the CEO at the January compensation committee meeting immediately following the end of the plan year. Bonuses are generally paid in the second payroll period following the January compensation committee meeting. The compensation committee is not bound by the results of the bonus calculation. Final bonus payouts are at the sole discretion of the committee. The Association does not defer any compensation.

Chief Executive Officer (CEO) Compensation Policy

The CEO's salary and bonus are determined by the compensation committee. The CEO's total compensation for the last three years is detailed in the table below. Changes in pension value in the table below represent the change in actuarial value of the CEO's defined benefit pension plan. Changes in this value are based on additional years of service, compensation increases or decreases, plan amendments, and increases or decreases in the year the compensation was earned.

Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the Association during 2019, 2018, and 2017. This may include other non-senior officers if their total compensation is within the top five highest-paid employees. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Individual or number in group (a)	Year	Salary (b)	Bonus (c)	Change in Pension Value (d)	Deferred/Perquisite (e)	Other (f)	Total
Boyd J. Chambers							
CEO	2019	\$ 260,010	\$ 90,489	\$ 700,940	\$ 10,648	\$ -	\$1,062,087
	2018	240,009	83,890	722,724	17,127	-	1,063,750
	2017	235,009	79,667	330,970	18,221	-	663,866
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable)							
5	2019	\$ 691,232	\$ 240,282	\$ -	\$ 114,047	\$ -	\$1,045,562
5	2018	644,298	219,909	-	108,855	500	973,562
5	2017	589,989	179,894	294,914	90,186	23,800	1,178,783

- (a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
- (b) Gross salary, including retention plan compensation for certain senior officers.
- (c) Bonuses paid within the first 31 days of the subsequent calendar year.
- (d) 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.
- (e) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile and premiums paid for life insurance.
- (f) Amounts in the "Other" column include payouts for accrued annual leave and service awards, when applicable.

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 officer included in the aggregate are available and will be disclosed to shareholders of the institution upon request.

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
Boyd J. Chambers CEO	Farm Credit Bank of Texas Pension Plan	30	\$ 3,489,124	\$ -
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable)				
0		-	\$ -	\$ -

Pension Benefits Table Narrative Disclosure

The Association participates 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 the 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 items and (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 reporting purposes with the 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.

Other Compensation and Benefit Disclosures

Employees assigned Association automobiles reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2019 at the IRS-approved rate of 58.0 cents per mile.

Neither the CEO nor any other senior officer received noncash compensation exceeding \$5,000 in 2019, 2018, and 2017.

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 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

No directors or senior officers of the Association have had any involvement in any events or legal proceedings as required to be disclosed per FCA Regulation 620.6(f) during the past five years.

RELATIONSHIP WITH INDEPENDENT AUDITOR

No change in auditors has taken place since the last annual report to stockholders, and no disagreements with the auditor have occurred that the Association is required to report to the Farm Credit Administration under part 621 of the FCA regulations governing disclosure. The total fees for professional services rendered by PricewaterhouseCoopers, LLP, for the Association during 2019 were \$77,980 for audit services.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The Association has business relationships with Central Texas Holding, LLC, and FCBT Biostar B, LLB, which are limited liability companies, formed for the purpose of acquiring and managing unusual and complex collateral (acquired property).

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers, LLP, 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. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the association or its members.

CODE OF ETHICS

The Association and its directors, officers, and employees have committed to conduct business in accordance with the highest ethical standards as set forth in the Association's Standards of Conduct Policy relating to ethical conduct, conflicts of interest, and compliance with the law.

This Code of Ethics applies to the board chairman, board members, officers, and all other Association employees. The Association is responsible for the preparation and distribution of its financial statements and related disclosures and for providing relevant information that is true, accurate, and complete to the Federal Farm Credit Banks Funding Corporation for use in preparing the Farm Credit System financial statements and related disclosures.

The Association expects all of its directors, officers, and other employees to act in accordance with the highest standards of personal and professional integrity in all aspects of their activities, to comply with all applicable laws, rules, and regulations, to deter wrongdoing and abide by its Standards of Conduct Policy and other policies and procedures approved by the board of directors and employed by the Association that governs their conduct. This Code of Ethics is intended to supplement the Association's Standards of Conduct Policy.

Each director, officer, and employee agree to:

- Engage in and promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
- Avoid conflicts of interest and disclose to the Association's Standards of Conduct Official any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest or gives the appearance of a conflict of interest.
- Take all reasonable measures to protect the confidentiality of nonpublic information about the Association and its customers obtained or created in connection with its activities and to prevent the unauthorized disclosure of this information unless required by applicable law or regulation or legal or regulatory process.
- Produce full, fair, accurate, timely, and understandable disclosure in Association financial statements and related financial reports or communications as well as Association reports and documents filed with, or submitted to, the Funding Corporation and the Farm Credit Association.
- Comply with applicable governmental laws, rules, and regulations, as well as the rules and regulations of self-regulatory agreements to which the Association is a party.
- Promptly report any possible violation of this Code of Ethics to the Association's Standards of Conduct Official.

Directors, officers, and employees are prohibited from directly or indirectly taking any action to fraudulently influence, coerce, manipulate, or mislead the Association's independent public accountant, other director, officer, or employee for the purpose of rendering the financial statements of the Association misleading or for any purpose that is in violation of the Standards of Conduct.

Directors, officers, and employees understand that they will be held accountable for adherence to the Code of Ethics. Failure to observe the terms of this Code of Ethics may result in disciplinary action, up to and including termination of employment or removal from the board of directors. Violations of the Code of Ethics may also constitute violations of law and may result in civil and criminal penalties.

Directors, officers, and employees understand that any questions regarding the best course of action in a particular situation should be promptly addressed to the Association's Standards of Conduct Official and that any individual reporting any possible violation of this Code of Ethics may remain anonymous when reporting a possible violation of this Code of Ethics.

The Association has retained a qualified, independent, third-party individual to serve as the Association's Standards of Conduct Official, who shall be the primary contact for reporting of alleged violations of this Code of Ethics or Association Standards of Conduct.

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

MISSION STATEMENT

The mission of Central Texas Farm Credit is to partner with agricultural producers and rural communities by providing a reliable source of credit and financial support.

DEFINITIONS

1. **Young Borrower**: A farmer, rancher, or producer or harvester of aquatic products is age 35 or younger as of the loan transaction date.
2. **Beginning Borrower**: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming, ranching, or aquatic experience as of the loan transaction date.
3. **Small Borrower**: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than \$250,000 in annual gross sales of agricultural products at the date the loan was originally made.

STRATEGY

To accomplish the mission, the Association will provide:

1. Utilization of the flexibilities of existing loan programs to the advantage of young, beginning, and small (YBS) applicants.

Loan approvals will fully utilize all flexibilities in term, repayment schedules, amortization requirements, initial deferments, schedule of advances, and other such loan approval conditions consistent with existing lending standards and policies.

Loan servicing remedies such as re-amortization, deferments, extensions, renewals, and other techniques will be available to program borrowers to the fullest extent possible within policies.

A relaxed set of underwriting standards for young farmers is in place to enable and encourage young farmers to begin, grow, and/or remain in agricultural production.

2. A commitment of staff resources and expertise to effectively make and service loans and provide credit-related services to this group of farmers, ranchers, and producers or harvesters of aquatic products.

The Association's CEO will have primary responsibility for a) developing expertise in meeting the special financing and related services needs of program applicants; b) implementing the Association program, and; c) developing and submitting reports on the program.

3. A commitment of financial resources and a risk management philosophy to ensure the objective of this policy is met.

The Association board of directors will monitor this program to ensure that adequate financial human resources and an appropriate risk management philosophy exist. The program will also be monitored to ensure that objectives are being met without compromising the ability of the Association to serve non-program farmers, ranchers, and producers of aquatic products. The board will monitor this program through reports on the program's progress to the board by the CEO at least quarterly.

4. The offering of guidance and financial assistance to this specialized group of farmers and the groups that support them.

The Association will provide instruction and guidance to young, beginning, and small farmers, ranchers, and producers in areas such as recordkeeping, financial analysis and management, leasing, capital investment decision-making, marketing strategies, and other such management areas. In addition, our financial support will be given to extension service and young farmer groups to sponsor seminars, field days, and special events.

The Association will also expand the criteria used to determine a full-time farmer to include those part-time young, beginning, and small farmers and ranchers who demonstrate intent to progress toward farming and/or ranching as their primary business and vocation. Such demonstration of intent shall be documented in the loan file and will include, but is not limited to, the following criteria:

- a) The degree of day-to-day involvement the borrower must have in the agricultural production operation, through labor and/or management that demonstrates a clear commitment to agricultural production.
- b) The intent of the borrower to actively engage in agricultural production, as supported by his or her education, training, experience, business plan, or some other means.
- c) A level or projected level of gross agricultural income or production that shows a clear commitment to agricultural production.
- d) The terms and structure of the loan, as well as planned use of loan proceeds, demonstrate a commitment to be truly engaged in agricultural production.

The Association’s internal controls and annual YBS review ensure that YBS policies and program are implemented for the benefit of all YBS farmers and ranchers. Our goal is to, ensure that these borrowers have the opportunity to begin or grow their agricultural operation, or remain in agricultural production.

TARGETS

Based on USDA’s 2017 Census of Agriculture, the makeup of young, beginning, and small farmers in our territory is as follows:

	Total	With Debt
Young	986	330
Beginning	4,277	1,226
Small	12,846	3,240

As of the end of 2019, the number of YBS loans in the Association’s portfolio is as follows:

Young Farmers:

There were 480 loans to this group of borrowers. This equates to 18 percent of the total number of loans in our portfolio and 49 percent of the total number of young farmers in our territory cited in the 2017 census.

Beginning Farmers:

There were 1,107 loans to this group of borrowers. This equates to 44 percent of the total number of loans in our portfolio and 26 percent of the total number of beginning farmers in our territory cited in the 2017 census.

Small Farmers:

There were 1,896 loans to this group of borrowers. This equates to 70 percent of the total number of loans in our portfolio and 59 percent of the total number of small farmers with debt in our territory cited in the 2017 census.

The Association will continue all efforts to target those remaining YBS farmers and ranchers in our territory through the use of outreach programs, including but not limited to, advertising, participating in educational programs, working with extension agents, participations in agricultural field days, livestock shows, and agricultural seminars, etc. In addition, Association loan officers and senior management will offer credit counseling and work with other financial institutions to the extent possible to ensure the credit needs of these borrowers are met.

GOALS

The Association’s goal for 2019 was to have at least 60 percent of all new loans go to borrowers who meet one or more of the YBS criteria. This goal was met as of December 31, 2019. The goal in the 2020-2022 Strategic Business Plan will again be that 60 percent of all new loans should be to borrowers who meet one or more of the YBS criteria.

REPORTING

The Association will incorporate the goals of its YBS Program into the Strategic Business Plan, shall report the performance results to the board of directors at least quarterly and to the District Bank annually, and include in its Annual Report a description of the YBS Program and a status report on each component thereof. In addition, the Association shall continue to post its Annual Report, with the YBS Program information on its website.

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