2019 ANNUAL REPORT

December 31, 2019

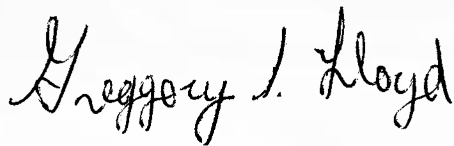
Part of the Farm Credit System

Dedicated to the Well-Being of Our Stockholders

For Plains Land Bank, 2019 was a good year. We achieved record-breaking growth and income. More than that, we underwent several changes. Most notably, our team tackled new software and challenges, and did so with ease. As we look to the future, we are continually assessing how we can further improve and better help our stockholders.

At Plains Land Bank, we work hard to be the lender of choice. Our employees truly care about and understand the needs of our customers. We have worked hard to gather a group of folks who have a heart for agriculture and the Texas Panhandle. In a way, our employees reflect our customer base. They understand that it is not just about pushing paper (even though there is a lot of paper).

Our mission is "to improve the means and well-being of farmers, ranchers and rural life in our territory." Plains Land Bank will continue to work hard to make that happen.



Gregg Lloyd

Chief Executive Officer

2019 in Review

Patronage paid to stockholders based on 2019 earnings

$8.5 million

Total assets

$736 million

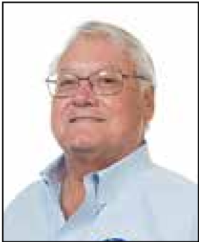
Total number of stockholders

1,304

Net income

$15.1 million

Plains Land Bank Board of Directors



Danny Krienke, Chairman

Danny was born and raised in Lipscomb and Ochiltree counties. After graduating from Follett High School, he later went on to attend Clarendon College. His grandad bought land in the area in 1923, and Danny is now the third generation farming that land. He began farming full-time in 1974 and today primarily grows dryland wheat and sorghum with a small amount of irrigated corn. Danny and his wife, Katie, raised two sons and now have eight grandchildren.

"Plains Land Bank helped my grandfather through the Depression and Dust Bowl, and my father after him," he says. "Now I am the third-generation Plains Land Bank stockholder."

Lyle Miller, Vice Chairman

Lyle grew up in the Sandhill community outside of Floydada. He and his wife of 34 years, La Tresa, have raised their family on the same farm where Lyle and his father before him were raised. Lyle graduated from Floydada High School before attending junior college and returning home to farm. He and La Tresa raised a son and two daughters and currently have one grandchild, with three more on the way. Lyle has farmed full-time for 42 years and has ownership in a family-owned cotton gin. He primarily produces cotton and corn, along with a small portion of wheat and sorghum.

"My passion is to be a good steward of the land God has provided me," says Lyle. "Plains Land Bank has played a major role in that since 1986."

Don James

Don was born in Olton and has lived in the Plainview area most of his life. He graduated from Plainview High School and then joined the Army National Guard for a six-year enlistment. After returning home, he attended both Wayland Baptist University and Texas Tech. Don's wife, Karen, is a retired school teacher. They have a son and a daughter and five grandkids.

"With help from my dad and FHA, I was able to purchase land with a Federal Land Bank loan while I was still serving part-time in the Army National Guard," says Don. "The Land Bank has always been a big part of our operation."

Steve Rader

Steve was raised on his family's ranch in Lipscomb County. After graduation from Canadian High School, he earned a degree in general agriculture from Oklahoma State University, then came home to farm and ranch with his dad. In 1981, he married his wife, Linda, a school teacher. They raised three children, and they now have three grandkids. Steve operates a cow/calf herd in Lipscomb and Hemphill counties, and grows several hundred acres of dryland crops.

"I stand on the shoulders of my dad and grandfather, who closed his first Land Bank loan in 1926," says Steve. "Linda and I came to Plains Land Bank because of a good friend's recommendation. He steered us right! The Land Bank has been a true blessing to me and my entire family for many years."

Dennis Babcock

Dennis was born and raised in the Groom area. He graduated from Groom High School and then attended West Texas A&M University, where he earned a degree in agricultural business and economics. Dennis has been farming full-time since he graduated from WTAMU in 1973. He farms with his two sons, growing wheat, corn, cotton, sorghum and cattle. He also has five grandkids, who keep him busy.

"My father recommended the Land Bank when I got my first opportunity to "Own a Piece of Texas," and I have been here ever since," Dennis says. "Best people, best rates, best deal…I wouldn't consider another option."

Rusty Henson

Rusty grew up on a ranch southwest of Canyon. He attended Canyon schools and then West Texas State University, where he graduated with a degree in agriculture business. After graduation, Rusty married his wife, Janice, who is now a retired special education teacher. They have two sons, one of whom manages the ranch southwest of Canyon. They also have four granddaughters. Rusty began farming in 1975 and raises primarily cattle and some wheat.

"We got our first loan from the Floydada Land Bank in 1978 to purchase my great-grandfather's estate. We chose the Land Bank because they offered long-term real estate loans at a competitive interest rate," says Rusty.

Perry Kirkland

Perry moved to Vega when he was six years old. He graduated from Vega High School and spent time at West Texas State University in Canyon. Perry and his wife of 50 years, Melanie, had a son and a daughter and now have six grandchildren. Perry began farming as a career in 1970. Then, in 1983, he started a feedyard operation, and in 1999, he established a hybrid seed company. Today Perry is the general manager of Kirkland Feedyard Inc. and Kirkland Agriplex Inc. He also farms and has a yearling cattle operation.

"We made our first loan with the Land Bank in 1983," says Perry. "The cooperation, convenience and speed of obtaining Land Bank loans allowed us to grow our operation. We maintain a strong relationship with loan officers and management. We have always been pleased with Plains Land Bank."

Randy Darnell

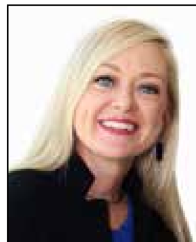
Randy was raised in Amarillo in a typical suburban household. His parents both worked outside the home — his mom, a teacher, and his dad, a leasing superintendent for Santa Fe Railroad. Randy is a 1979 graduate of Amarillo High School and a 1983 graduate of Texas Tech University with a degree in agricultural economics. He married his wife, Lisa, in 1983, and they have three children and one granddaughter. Randy began full-time farming in 1983 and now grows wheat, corn, cotton and sorghum and runs a cow/calf operation.

"When purchasing my first farm, I was encouraged to look into using the Land Bank by my commercial banker," Randy says. "I've never had a land loan anywhere else. The people and the ease of the lending options keep me coming back."

Lea Stukey, Director-Elected Director

Lea was born in Paducah but grew up and has lived her whole life in Plainview. She attended Plainview High and then studied at Texas Tech University. After two years at Tech, she transferred to West Texas A&M and completed her accounting degree there. Lea and her husband, Kenneth, raised two daughters. She has worked as a CPA for a public accounting firm in Plainview for 29 years. Her practice consists primarily of income tax and consultation services.

"Plains Land Bank has such a strong reputation as being a "farmer's friend" in the banking world," says Lea. "The people at Plains Land Bank specialize in agricultural lending, so they are very familiar with the unique aspects of the ag economy. That specialized knowledge, along with the solid integrity of the Plains Land Bank staff, provides a great foundation for its patrons to build on."



Mallory Vestal, Ph.D, Director-Elected Director

Mallory grew up in Tulia. She received her bachelor's degree in agribusiness from West Texas A&M University and then went on to Oklahoma State University, where she earned her master's and her Ph.D. Mallory still returns home to Tulia to help her parents with their operation. She has been an associate professor of agricultural business and economics at West Texas A&M University since the fall of 2012.

"It has been a great pleasure to be an external board member for Plains Land Bank," Mallory says. I continue to be impressed by the caliber of people associated with this bank. The high work ethic, moral values and positive culture are what make Plains Land Bank exceptional."

Jerrell Key

Jerrell was raised in Lubbock and attended Monterey High School. He later attended Texas Tech University, where he received an agricultural economics degree and a business finance degree. Jerrell married his wife, Holly, in 1993. They have raised a daughter and two sons together, living in Gruver since 2001. Jerrell has been the general manager of Adobe Walls Gin, LP since the gin's inception in 2006. He also owns and operates a commercial cow herd and a seedstock operation of predominantly Red Angus cattle. In addition, he raises wheat, cotton and corn.

"I chose Plains Land Bank for two reasons. I worked for the Federal Land Bank of Brady right out of college, and knew Land Banks to have excellent lenders who knew their jobs," Jerrell says. "Additionally, as a former Masked Rider at Texas Tech, I have known and respected Jess Wall, another former Masked Rider and former Plains Land Bank employee, for over 30 years."

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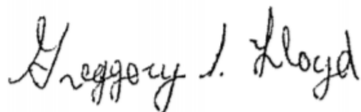
REPORT OF MANAGEMENT

The financial statements of Plains Land Bank, FLCA (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 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 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 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 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.



Greggory S. Lloyd, Chief Executive Officer
March 9, 2020

Daniel L. Krienke, Chairman, Board of Directors
March 9, 2020

Kay Lynn McLaughlin, Chief Financial Officer
March 9, 2020

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of the entire board of directors of Plains Land Bank, FLCA. In 2019, twelve (12) committee meetings were held. The committee oversees the scope of Plains Land Bank, FLCA'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 Plains Land Bank, FLCA's website. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2019.

Management is responsible for Plains Land Bank, FLCA's internal controls and the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. The financial statements are prepared under the oversight of the committee. PwC is responsible for performing an independent audit of Plains Land Bank, FLCA's 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 Plains Land Bank, FLCA's audited financial statements for the year ended December 31, 2019 (audited 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 Plains Land Bank, FLCA's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PwC its independence from Plains Land Bank, FLCA. 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 financial statements in Plains Land Bank, FLCA's Annual Report to Stockholders for the year ended December 31, 2019.

Audit Committee Members

Walter (Rusty) Henson, Chairman of the Audit Committee
Lea Stukey, CPA, Audit Committee Vice Chair – Financial Expert
Daniel Krienke
Don James
Perry Kirkland
Mallory Kay Vestal, Ph.D.
Steve Rader
Tim Stedje *(Retired June 2, 2019)*
Dennis Babcock
Randy D. Darnell
Lyle Miller
Jerrell Key

March 9, 2020

PLAINS LAND BANK, FLCA

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

	2019	2018	2017	2016	2015
Balance Sheet Data					
Assets					
Cash	**$ 14**	$ 2,796	$ 4,284	$ 3,649	$ 3,334
Loans	**709,190**	629,153	578,710	529,303	494,673
Less: allowance for loan losses	**2,074**	1,934	1,903	1,797	1,609
Net loans	**707,116**	627,219	576,807	527,506	493,064
Investment in and receivable from the Farm Credit Bank of Texas	**13,786**	10,087	9,185	8,591	7,555
Other property owned, net	**-**	520	-	-	60
Other assets	**15,593**	15,086	13,347	11,577	10,041
Total assets	**$ 736,509**	$ 655,708	$ 603,623	$ 551,323	$ 514,054
Liabilities					
Obligations with maturities of one year or less	**$ 2,133**	$ 1,966	$ 2,601	$ 3,247	$ 1,764
Obligations with maturities greater than one year	**602,884**	529,131	483,751	437,163	405,896
Total liabilities	**605,017**	531,097	486,352	440,410	407,660
Members' Equity					
Capital stock and participation certificates	**2,086**	1,983	1,912	1,837	1,808
Unallocated retained earnings	**129,258**	122,334	115,313	108,941	104,450
Accumulated other comprehensive income (loss)	**148**	294	46	135	136
Total members' equity	**131,492**	124,611	117,271	110,913	106,394
Total liabilities and members' equity	**$ 736,509**	$ 655,708	$ 603,623	$ 551,323	$ 514,054
Statement of Income Data					
Net interest income	**$ 18,960**	$ 17,238	$ 15,984	$ 14,574	$ 15,102
(Provision for loan losses) or loan loss reversal	**(328)**	(25)	(99)	(269)	(298)
Income from the Farm Credit Bank of Texas	**2,950**	2,485	2,027	1,944	1,761
Other noninterest income	**395**	549	234	330	470
Noninterest expense	**(6,853)**	(6,125)	(5,771)	(5,338)	(4,620)
Net income	**$ 15,124**	$ 14,122	$ 12,375	$ 11,241	$ 12,415
Key Financial Ratios for the Year					
Return on average assets	**2.2%**	2.2%	2.1%	2.1%	2.5%
Return on average members' equity	**12.9%**	12.8%	11.7%	10.7%	12.0%
Net interest income as a percentage of average earning assets	**2.8%**	2.9%	2.9%	2.8%	3.2%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%

PLAINS LAND BANK, FLCA

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

	2019	2018	2017	2016	2015
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**17.9%**	19.0%	19.4%	20.1%	20.7%
Debt as a percentage of members' equity	**460.1%**	426.2%	414.7%	397.1%	383.2%
Allowance for loan losses as a percentage of loans	**0.3%**	0.3%	0.3%	0.3%	0.3%
Common equity tier 1 ratio	**15.8%**	16.8%	17.1%	n/a	n/a
Tier 1 capital ratio	**15.8%**	16.8%	17.1%	n/a	n/a
Total capital ratio	**16.1%**	17.1%	17.4%	n/a	n/a
Permanent capital ratio	**15.9%**	16.9%	17.2%	17.9%	18.7%
Tier 1 leverage ratio	**16.3%**	17.4%	17.7%	n/a	n/a
UREE leverage ratio	**17.4%**	18.5%	18.9%	n/a	n/a
Total surplus ratio	**n/a**	n/a	n/a	17.5%	18.3%
Core surplus ratio	**n/a**	n/a	n/a	17.5%	18.3%
Net Income Distribution					
Cash dividends paid	**$ 8,200**	$ 7,102	$ 6,003	$ 6,750	$ 7,000

*Effective January 1, 2017 the new regulatory capital ratios were implemented by the Association. The Association’s ratios remained well above the regulatory minimums, including the conservation and leverage buffers at December 31, 2019.

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 financial condition and results of operations of Plains Land Bank, FLCA (Association) for the years ended December 31, 2019, 2018 and 2017, and should be read in conjunction with the accompanying 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:

In January 2019, a patronage of $8,200,000 was declared. This patronage was subsequently paid in March 2019.

In December 2019, the Association received a direct loan patronage of $2,596,416 from the Farm Credit Bank of Texas (Bank), representing 46 basis points on the average daily balance of the Association's direct loan with the Bank. During 2019, the Association received $314,021 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

In January 2018, a patronage of $7,100,000 was declared. This patronage was subsequently paid in March 2018. An additional patronage of $1,550 was declared and paid in March 2018 resulting in a total patronage of $7,101,550 for 2018.

For more than 100 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

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. 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 30 years with 15- to 20-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, including principal less funds held of $709,189,898, $629,153,097 and $578,709,630 as of December 31, 2019, 2018 and 2017, respectively, is described more fully in detailed tables in Note 3 to the financial statements, "Loans and Allowance for Loan Losses" included in this annual report.

Purchase and Sales of Loans:

During 2019, 2018 and 2017, the Association was participating in loans with other lenders. As of December 31, 2019, 2018 and 2017, these participations totaled $97,023,659, $92,054,905 and $75,575,294, or 13.7 percent, 14.6 percent and 13.1 percent of loans, respectively. Included in these amounts are participations purchased from entities outside the District of $690,775, $902,270 and $1,105,092, or 0.1 percent, 0.1 percent and 0.2 percent of loans, respectively. The Association has also sold participations of $5,959,573, $8,044,997 and $8,555,348 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	**$ 1,958,088**	**100.0%**	$ 2,194,696	80.8%	$ 3,264,884	100.0%
Other property owned, net	**-**	**0.0%**	519,840	19.2%	-	0.0%
Total	**$ 1,958,088**	**100.0%**	$ 2,714,536	100.0%	$ 3,264,884	100.0%

At December 31, 2019, 2018 and 2017, loans that were considered impaired were $1,958,088, $2,194,696 and $3,264,884, representing 0.3 percent, 0.3 percent and 0.6 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

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

Allowance for 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	**$ 2,074,313**	$ 1,933,554	$ 1,902,504
Allowance for loan losses to total loans	**0.3%**	0.3%	0.3%
Allowance for loan losses to nonaccrual loans	**105.9%**	88.1%	58.3%
Allowance for loan losses to impaired loans	**105.9%**	88.1%	58.3%
Net charge-offs to average loans	**0.0%**	0.0%	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 conditions 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, and/or 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 $2,074,313, $1,933,554 and $1,902,504 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. Allowance coverage is adequate due to the Association's allowance methodology, historical loss history, and first lien real estate.

Results of Operations:

The Association's net income for the year ended December 31, 2019, was $15,124,222, as compared to $14,121,791 for the year ended December 31, 2018, reflecting an increase of $1,002,431, or 7.1 percent. The Association's net income for the year ended December 31, 2017 was $12,375,604. Net income increased $1,747,187, or 14.1 percent, in 2018 versus 2017.

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.

Net interest income for 2019, 2018 and 2017 was $18,959,659, $17,237,830 and $15,984,354, respectively, reflecting increases of $1,721,829, or 10.0 percent, for 2019 versus 2018 and $1,253,476, or 7.8 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	**$ 670,452,120**	**$ 36,787,984**	$ 604,815,936	$ 31,803,678	$ 558,173,480	$ 27,555,954
Interest-bearing liabilities	**567,980,201**	**17,828,325**	506,374,561	14,565,848	463,084,343	11,571,600
Impact of capital	**$ 102,471,919**		$ 98,441,375		$ 95,089,137	
Net interest income		**$ 18,959,659**		$ 17,237,830		$ 15,984,354

	2019 Average Yield	2018 Average Yield	2017 Average Yield
Yield on loans	**5.49%**	5.26%	4.94%
Cost of interest-bearing liabilities	**3.14%**	2.88%	2.50%
Interest rate spread	**2.35%**	2.38%	2.44%

	2019 vs. 2018			2018 vs. 2017		
	Increase due to			Increase due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 3,451,413**	**$ 1,532,893**	**$ 4,984,306**	$ 2,302,645	$ 1,945,079	$ 4,247,724
Interest expense	**1,772,086**	**1,490,391**	**3,262,477**	1,081,736	1,912,512	2,994,248
Net interest income	**$ 1,679,327**	**$ 42,502**	**$ 1,721,829**	$ 1,220,909	$ 32,567	$ 1,253,476

Interest income for 2019 increased by $4,984,306, or 15.7 percent, compared to 2018, primarily due to an increase in average loan volume. Interest expense for 2019 increased by $3,262,477, or 22.4 percent, compared to 2018 due to an increase in average loan volume. The interest rate spread decreased by 3 basis points to 2.35 percent in 2019 from 2.38 percent in 2018, primarily because of a slight compression of rates. The interest rate spread decreased by 6 basis points to 2.38 percent in 2018 from 2.44 percent in 2017, primarily due to competition in the marketplace.

Noninterest income for 2019 increased by $322,310, or 10.7 percent, compared to 2018, due primarily to an increase in Bank patronage. Noninterest income for 2018 increased by $773,443, or 34.2 percent, compared to 2017, due primarily to an increase in Bank patronage and the FCSIC refund.

Provisions for loan losses increased by $303,037, or 1,213.6 percent, compared to 2018, due primarily to an increase in average loan volume.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. In 2019, operating expenses increased $738,671, or 12.1 percent compared to 2018 primarily due to an increase in salaries of $289,891, an increase in

purchased services of $209,885, an increase in communications of $14,481, and an increase in public and member relations of $62,689. In 2018, operating expenses increased $353,963, or 6.1 percent, compared to 2017 primarily due to an increase in salaries and benefits of $216,871, an increase of purchased services of $77,099, and an increase of occupancy and equipment expenses of $83,387.

Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of $536,367, $502,189 and $435,796 for 2019, 2018 and 2017, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits totaling $553,981 less net operating costs of $17,614 related to the origination of loans.

For the year ended December 31, 2019, the Association's return on average assets was 2.2 percent, as compared to 2.2 percent and 2.1 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 12.9 percent, as compared to 12.8 percent and 11.7 percent for the years ended December 31, 2018 and 2017, respectively.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank 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 $601,301,197, $527,737,407 and $482,671,262 as of December 31, 2019, 2018 and 2017, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.3 percent, 2.4 percent and 2.4 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 an increase in average loan volume. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $107,448,432, $100,954,369 and $95,735,978 at December 31, 2019, 2018 and 2017, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2019, was $706,083,187 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 $131,491,611, $124,610,820 and $117,271,080 at December 31, 2019, 2018 and 2017, respectively.

New regulations became effective January 1, 2017, which replaced the previously required Core Surplus and Total Surplus ratios with Common Equity Tier 1, Tier 1 Capital, and total capital risk-based capital 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. The Permanent Capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted Permanent Capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Permanent Capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loss accounts. The Association's Permanent Capital ratio at December 31, 2019, 2018 and 2017 was 15.9 percent, 16.9 percent and 17.2 percent, respectively. Under the new regulations, the Association is required to maintain a minimum Common Equity Tier 1 (CET1), Tier 1 Capital and Total Capital ratios of 4.5 percent, 6.0 percent, and 8.0 percent, along with a Capital Conservation buffer of 2.5 percent applicable to each ratio, respectively. The 2.5 percent Capital Conservation buffer will be phased in over a three-year period which ended on December 31, 2019. The Association's Common Equity Tier 1 ratio was 15.8 percent, Tier 1 Capital ratio

was 15.8 percent and Total Capital ratio was 16.1 percent at December 31, 2019. The Common Equity Tier 1 ratio was 16.8 percent, Tier 1 Capital ratio was 16.8 percent and Total Capital ratio was 17.1 percent at December 31, 2018. Under the new regulations, the Association is required to maintain a minimum Tier 1 Leverage ratio of 4.0 percent, along with a Leverage buffer of 1.0 percent, and a minimum Unallocated Retained Earnings Equivalents (UREE) Leverage ratio of 1.5 percent. The Association's Tier 1 Leverage ratio was 16.3 and UREE Leverage ratio was 17.4 at December 31, 2019. The Tier 1 Leverage ratio was 17.4 and UREE Leverage ratio was 18.5 as of December 31, 2018. The CET1 capital ratio is an indicator of the institution's highest quality of capital and consists of unallocated retained earnings, qualifying common cooperative equities (CCEs) that meet the required holding periods, and paid-in capital. The Tier 1 Capital ratio is a measure of the institution's quality of capital and financial strength. The Total Capital ratio is supplementary to the Tier 1 Capital ratio, the components of which include qualifying CCEs subject to certain holding periods, third-party capital subject to certain holding periods and limitations, and allowance and reserve for credit losses subject to certain limitations. The Tier 1 Leverage ratio is used to measure the amount of leverage an institution has incurred against its capital base, of which at least 1.5 percent must be Unallocated Retained Earnings (URE) and URE equivalents. This is the UREE Leverage ratio.

Prior to January 1, 2017, the Core Surplus ratio measures available Core Surplus capital relative to risk-adjusted assets and off balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's Core Surplus ratio at December 31, 2016 and 2015 was 17.5 percent and 18.3 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent. The Total Surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's Total Surplus ratio at December 31, 2016 and 2015 was 17.5 percent and 18.3 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent. The following tables reflects the Association's capital ratios at December 31:

	2019	2018	2017	Regulatory Minimum
Permanent capital ratio	15.86%	16.89%	17.15%	7.00%
Common equity tier 1 ratio	15.81%	16.84%	17.10%	7.00%
Tier 1 capital ratio	15.81%	16.84%	17.10%	8.50%
Total capital ratio	16.10%	17.12%	17.41%	10.50%
Tier 1 leverage ratio	16.27%	17.35%	17.74%	5.00%
UREE leverage ratio	17.37%	18.47%	18.86%	1.50%

	2016	2015	2014	2013	2012	Regulatory Minimum
Total surplus ratio	17.50%	18.30%	19.20%	19.00%	19.90%	7.00%
Core surplus ratio	17.50%	18.30%	19.20%	19.00%	19.90%	3.50%

Refer to Note 9, to the Financial Statements, "Members' Equity" for additional information related to our capital and related requirements and restrictions.

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 judgment 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.

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

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance 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 did not impact the Association's financial condition or its results of operations, but impacted the fair value measurements disclosures. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018.

In February 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Income Statement — Reporting Comprehensive Income — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35 percent to 21 percent. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Association early adopted the guidance during the first quarter of 2018. The adoption of this guidance did not impact the Association's financial condition or its results of operations.

In August 2017, the FASB issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance has not impacted the Association's financial condition or disclosures.

In March 2017, the FASB issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. 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 but could change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. 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 could change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by

staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The institution qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations but did impact lease disclosures. The Association adopted this guidance January 1, 2019. As of December 31, 2019, the Association had a right of use asset of $2,141 and an associated lease liability with an adjusted balance of $2,141.

In January 2016, the FASB issued guidance entitled "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 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.

In May 2014, the FASB issued guidance entitled, "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.

In 2019, 2018 and 2017, the Association paid patronage distributions of $8,200,000, $7,101,550 and $6,002,500, respectively. In January 2019, the board of directors approved a $8,200,000 patronage distribution to be paid in March 2019. See Note 9 to the financial statements, “Members’ Equity,” included in this annual report, for further information.

Relationship With the Bank:

The Association’s statutory obligation to borrow only from the Bank is discussed in Note 8 to the 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 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 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 11 to the 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 ready 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 Plains Land Bank, FLCA

We have audited the accompanying financial statements of Plains Land Bank, FLCA, which comprise the balance sheet as of December 31, 2019, December 31, 2018, and December 31, 2017, and the related statement of comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Plains Land Bank, FLCA 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

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PLAINS LAND BANK, FLCA

BALANCE SHEET

	December 31,		
	2019	2018	2017
Assets			
Cash	**$ 13,717**	$ 2,796,307	$ 4,284,273
Loans	**709,189,898**	629,153,097	578,709,630
Less: allowance for loan losses	**2,074,313**	1,933,554	1,902,504
Net loans	**707,115,585**	627,219,543	576,807,126
Accrued interest receivable	**12,654,086**	12,097,131	10,466,179
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**11,228,405**	10,050,200	9,176,475
Other	**2,557,661**	36,447	9,012
Other property owned, net	**-**	519,840	-
Premises and equipment	**2,773,609**	2,819,102	2,325,509
Other assets	**165,933**	169,213	554,606
Total assets	**$ 736,508,996**	$ 655,707,783	$ 603,623,180
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 601,301,197**	$ 527,737,407	$ 482,671,262
Accrued interest payable	**1,583,191**	1,393,690	1,079,397
Drafts outstanding	**15,953**	110,863	293,669
Other liabilities	**2,117,044**	1,855,003	2,307,772
Total liabilities	**605,017,385**	531,096,963	486,352,100
Members' Equity			
Capital stock and participation certificates	**2,086,145**	1,982,940	1,912,255
Unallocated retained earnings	**129,257,637**	122,333,415	115,313,174
Accumulated other comprehensive income	**147,829**	294,465	45,651
Total members' equity	**131,491,611**	124,610,820	117,271,080
Total liabilities and members' equity	**$ 736,508,996**	$ 655,707,783	$ 603,623,180

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

PLAINS LAND BANK, FLCA

STATEMENT OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2019	2018	2017
Interest Income			
Loans	**$ 36,787,984**	$ 31,803,678	$ 27,555,954
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**17,828,325**	14,565,848	11,571,600
Net interest income	**18,959,659**	17,237,830	15,984,354
Provision for Loan Losses	**328,008**	24,971	99,202
Net interest income after provision for losses	**18,631,651**	17,212,859	15,885,152
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**2,950,273**	2,485,092	2,026,919
Loan fees	**181,816**	156,802	146,736
Financially related services income	**24,468**	9,767	10,867
Gain (loss) on sale of premises and equipment, net	**12,679**	(10,036)	(10,235)
Other noninterest income	**176,516**	381,817	75,513
Total noninterest income	**3,345,752**	3,023,442	2,249,800
Noninterest Expenses			
Salaries and employee benefits	**3,767,422**	3,477,531	3,260,660
Directors' expense	**210,228**	220,823	224,480
Purchased services	**672,409**	462,524	385,425
Travel	**176,917**	175,721	122,598
Occupancy and equipment	**397,352**	391,781	308,394
Communications	**74,961**	60,480	56,199
Advertising	**246,983**	245,690	194,012
Public and member relations	**244,990**	182,301	157,022
Supervisory and exam expense	**253,551**	227,548	214,595
Insurance Fund premiums	**527,713**	471,691	691,443
Loss on other property owned	**87,367**	9,641	-
Other noninterest expense	**193,288**	188,779	145,520
Total noninterest expenses	**6,853,181**	6,114,510	5,760,348
NET INCOME	**15,124,222**	14,121,791	12,374,604
Other comprehensive income:			
Change in postretirement benefit plans	**(146,636)**	248,814	(89,242)
COMPREHENSIVE INCOME	**$ 14,977,586**	$ 14,370,605	$ 12,285,362

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

PLAINS LAND BANK, FLCA

STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2016	$ 1,837,220	$ 108,941,070	$ 134,893	$ 110,913,183
Comprehensive income	-	12,374,604	(89,242)	12,285,362
Capital stock/participation certificates issued	280,625	-	-	280,625
Capital stock/participation certificates and allocated retained earnings retired	(205,590)	-	-	(205,590)
Dividends declared	-	(6,002,500)	-	(6,002,500)
Balance at December 31, 2017	1,912,255	115,313,174	45,651	117,271,080
Comprehensive income	-	14,121,791	248,814	14,370,605
Capital stock/participation certificates issued	288,305	-	-	288,305
Capital stock/participation certificates and allocated retained earnings retired	(217,620)	-	-	(217,620)
Dividends declared	-	(7,101,550)	-	(7,101,550)
Balance at December 31, 2018	1,982,940	122,333,415	294,465	124,610,820
Comprehensive income	-	15,124,222	(146,636)	14,977,586
Capital stock/participation certificates issued	287,775	-	-	287,775
Capital stock/participation certificates and allocated retained earnings retired	(184,570)	-	-	(184,570)
Dividends declared	-	(8,200,000)	-	(8,200,000)
Balance at December 31, 2019	**$ 2,086,145**	**$ 129,257,637**	**$ 147,829**	**$ 131,491,611**

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

PLAINS LAND BANK, FLCA

STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	**$ 15,124,222**	$ 14,121,791	$ 12,374,604
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses or	**328,008**	24,971	99,202
Loss on sale of other property owned, net	**70,982**	-	-
Depreciation	**315,398**	255,711	195,347
(Gain) loss on sale of premises and equipment, net	**(12,679)**	10,036	10,235
Increase in accrued interest receivable	**(572,183)**	(1,630,952)	(1,270,905)
Increase in other receivables from the Farm Credit Bank of Texas	**(2,521,214)**	(27,435)	(9,012)
Decrease in other assets	**3,279**	385,393	4,992
Increase in accrued interest payable	**189,501**	314,293	220,588
Increase (decrease) in other liabilities	**118,128**	(192,274)	106,435
Net cash provided by operating activities	**13,043,442**	13,261,534	11,731,486
Cash flows from investing activities:			
Increase in loans, net	**(80,211,544)**	(50,968,909)	(49,406,697)
Cash recoveries of loans previously charged off	**-**	-	204
Proceeds from purchase of investment in the Farm Credit Bank of Texas	**(1,178,205)**	(873,725)	(585,375)
Purchases of premises and equipment	**(522,338)**	(749,304)	(749,738)
Proceeds from sales of other property owned	**448,858**	(10,036)	41,165
Proceeds from sales of premises and equipment	**265,112**	-	-
Net cash used in investing activities	**(81,198,117)**	(52,601,974)	(50,700,441)

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

PLAINS LAND BANK, FLCA

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	**73,563,790**	45,066,145	46,366,679
Decrease in drafts outstanding	**(94,910)**	(182,806)	(835,365)
Issuance of capital stock and participation certificates	**287,775**	288,305	280,625
Retirement of capital stock and participation certificates	**(184,570)**	(217,620)	(205,590)
Cash dividends paid	**(8,200,000)**	(7,101,550)	(6,002,500)
Net cash provided by financing activities	**65,372,085**	37,852,474	39,603,849
Net (decrease) increase in cash	**(2,782,590)**	(1,487,966)	634,894
Cash at the beginning of the year	**2,796,307**	4,284,273	3,649,379
Cash at the end of the year	**$ 13,717**	$ 2,796,307	$ 4,284,273
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned	**-**	519,840	-
Loans charged off	**174,743**	5,602	-
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 17,638,824**	$ 14,251,555	$ 11,351,012

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

PLAINS LAND BANK, FLCA
NOTES TO FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Plains Land Bank, FLCA, is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Armstrong, Briscoe, Carson, Floyd, Gray, Hale, southwest portion of Hall, Hansford, Hemphill, Hutchinson, Lipscomb, Motley, Ochiltree, Oldham, Potter, Randall, and Roberts 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, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of 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 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
The 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").

Reclassifications
Certain amounts in prior year's financial statements may have been reclassified to conform to current financial statement presentation.

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 financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates.

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 judgment 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.

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

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance 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 did not impact the Association's financial condition or its results of operations, but impacted the fair value measurements disclosures. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018.

In February 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Income Statement — Reporting Comprehensive Income — Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the recently issued tax legislation, Tax Cuts and Jobs Act (TCJA) that lowered the federal corporate tax rate from 35 percent to 21 percent. The amount of the reclassification shall include the effect of the change in the tax rate on gross deferred tax amounts and related valuation allowances at the date of enactment of the TCJA related to items remaining in accumulated other comprehensive income. The guidance becomes effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Association early adopted the guidance during the first quarter of 2018. The adoption of this guidance did not impact the Association's financial condition or its results of operations.

In August 2017, the FASB issued guidance entitled "Targeted Improvements to Accounting for Hedging Activities." The guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance has not impacted the Association's financial condition or disclosures.

In March 2017, the FASB issued guidance entitled "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost." The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. 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 but could change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. 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 could change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The institution qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations but did impact lease disclosures. The Association adopted this guidance January 1, 2019. As of December 31, 2019, the Association had a right of use asset of $2,141 and an associated lease liability with an adjusted balance of $2,141.

In January 2016, the FASB issued guidance entitled "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 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.

In May 2014, the FASB issued guidance entitled, "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 30 years. 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.

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.

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.

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 conditions 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. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances.

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.

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

The Association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Additionally, the Association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. Loans are sold and the sale terms comply with requirements under ASC 860 "Transfers and Servicing."

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 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 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 Statement of 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 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.

The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC plan of $130,549, $115,268 and $93,749 for the years ended December 31, 2019, 2018 and 2017 respectively. For the DB plan, the Association recognized pension costs of $269,029, $394,270 and $545,386 for the years ended December 31, 2019, 2018 and 2017, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were $111,728, $101,950 and $85,970 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 balance sheet.

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

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

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and the 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 12, "Fair Value Measurements."

K. 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:

	2019		2018		2017	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 612,625,230**	**86.4%**	$ 549,728,525	87.3%	$ 505,858,333	87.4%
Agribusiness:						
Processing and marketing	**45,280,343**	**6.4%**	32,552,221	5.2%	31,134,059	5.4%
Loans to cooperatives	**5,474,157**	**0.8%**	4,237,212	0.7%	5,539,575	1.0%
Farm-related business	**1,440,219**	**0.2%**	2,258,718	0.4%	1,800,075	0.3%
Energy	**16,768,127**	**2.4%**	15,806,099	2.5%	15,298,347	2.6%
Rural residential real estate	**11,533,808**	**1.6%**	9,412,327	1.5%	5,808,863	1.0%
Communication	**10,236,555**	**1.4%**	6,746,511	1.1%	5,749,373	1.0%
Production and intermediate term	**5,831,459**	**0.8%**	8,411,484	1.3%	7,521,005	1.3%
Total	**$ 709,189,898**	**100.0%**	$ 629,153,097	100.0%	$ 578,709,630	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 Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 40,392,458	$ -	$ -	$ -	$ 40,392,458	$ -
Real estate mortgage	18,493,971	5,959,573	5,301,089	-	23,795,060	5,959,573
Energy	16,768,127	-	-	-	16,768,127	-
Communication	10,236,555	-	-	-	10,236,555	-
Production and intermediate term	5,831,459	-	-	-	5,831,459	-
Total	$ 91,722,570	$ 5,959,573	$ 5,301,089	$ -	$ 97,023,659	$ 5,959,573

Geographic Distribution:

County	2019	2018	2017
Carson	**9.8%**	10.0%	9.3%
Hale	**8.4%**	9.4%	10.4%
Randall	**8.1%**	7.5%	6.9%
Gray	**4.9%**	3.6%	4.0%
Armstrong	**4.8%**	4.8%	5.8%
Ochiltree	**4.4%**	4.7%	4.9%
Hutchinson	**4.4%**	3.7%	3.6%
Floyd	**3.5%**	4.0%	4.0%
Lipscomb	**3.4%**	3.1%	3.1%
Potter	**2.6%**	2.8%	3.0%
Hansford	**2.5%**	2.4%	2.7%
Sherman	**2.2%**	2.8%	2.9%
Donley	**2.2%**	2.1%	2.2%
Other Counties	**23.8%**	23.3%	24.4%
Oklahoma	**3.4%**	2.8%	1.9%
New Mexico	**2.0%**	1.7%	1.1%
Colorado	**1.7%**	1.9%	1.8%
Other States	**7.9%**	9.4%	8.0%
Totals	**100.0%**	**100.0%**	**100.0%**

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

	2019		2018		2017	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Cattle	**$ 270,410,961**	**38.1%**	$ 232,128,139	36.8%	$ 221,689,929	38.5%
Cotton	**146,703,999**	**20.7%**	132,555,822	21.1%	102,768,816	17.8%
Coarse Grains	**122,348,077**	**17.3%**	117,503,245	18.7%	123,417,513	21.3%
Wheat	**33,396,622**	**4.7%**	34,608,563	5.5%	36,153,989	6.2%
Conservation Reserve Program	**18,621,427**	**2.6%**	13,693,566	2.2%	13,649,588	2.4%
Electric Services	**16,768,127**	**2.4%**	15,806,099	2.5%	15,217,377	2.6%
Rural Home Loans	**12,626,729**	**1.8%**	10,553,481	1.7%	6,930,031	1.2%
Telecommunications	**10,236,555**	**1.4%**	6,746,511	1.1%	5,749,373	1.0%
Groceries/Beverages	**9,109,238**	**1.3%**	10,083,110	1.6%	11,197,332	1.9%
Other	**68,968,163**	**9.7%**	55,474,561	8.8%	41,935,682	7.1%
Total	**709,189,898**	**100.0%**	629,153,097	100.0%	578,709,630	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 the loan-to-value ratios in excess of the regulatory maximum.

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. As of December 31, 2019, there were $5,804,577 of ACPs contained in funds held included on the balance sheet.

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

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

	December 31, 2019	December 31, 2018	December 31, 2017
Nonaccrual loans:			
Real estate mortgage	**$ 1,958,088**	$ 2,194,696	$ 3,264,884
Accruing loans 90 days or more past due:			
Real estate mortgage	**-**	-	-
Total nonperforming loans	**1,958,088**	2,194,696	3,264,884
Other property owned	**-**	519,840	-
Total nonperforming assets	**$ 1,958,088**	$ 2,714,536	$ 3,264,884

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:

	2019	2018	2017
Real estate mortgage			
Acceptable	**96.6** %	95.7 %	95.4 %
OAEM	**0.5**	1.9	2.7
Substandard/doubtful	**2.9**	2.4	1.9
	100.0	100.0	100.0
Production and intermediate term			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Loans to cooperatives			
Acceptable	**73.3**	63.8	71.1
OAEM	**-**	-	-
Substandard/doubtful	**26.7**	36.2	28.9
	100.0	100.0	100.0
Processing and marketing			
Acceptable	**97.0**	100.0	100.0
OAEM	**3.0**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Farm-related business			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Communication			
Acceptable	**100.0**	88.1	100.0
OAEM	**-**	11.9	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Energy			
Acceptable	**100.0**	91.5	90.0
OAEM	**-**	8.5	10.0
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
Total Loans			
Acceptable	**96.7**	95.7	95.4
OAEM	**0.6**	2.0	2.7
Substandard/doubtful	**2.7**	2.3	1.9
	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	**$ 360,345**	**$ 688,334**	**$ 1,048,679**	**$ 623,471,605**	**$ 624,520,284**	**$ -**
Processing and marketing	**-**	**-**	**-**	**45,863,174**	**45,863,174**	**-**
Energy	**-**	**-**	**-**	**16,783,979**	**16,783,979**	**-**
Rural residential real estate	**-**	**-**	**-**	**11,592,255**	**11,592,255**	**-**
Communication	**-**	**-**	**-**	**10,237,370**	**10,237,370**	**-**
Production and intermediate term	**-**	**-**	**-**	**5,849,875**	**5,849,875**	**-**
Loans to cooperatives	**-**	**-**	**-**	**5,554,684**	**5,554,684**	**-**
Farm-related business	**-**	**-**	**-**	**1,442,363**	**1,442,363**	**-**
Total	**$ 360,345**	**$ 688,334**	**$ 1,048,679**	**$ 720,795,305**	**$ 721,843,984**	**$ -**

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	$ 421,898	$ 133,915	$ 555,813	$ 560,985,645	$ 561,541,458	$ -
Processing and marketing	-	-	-	32,619,735	32,619,735	-
Energy	28,457	-	28,457	15,819,915	15,848,372	-
Rural residential real estate	-	-	-	9,458,724	9,458,724	-
Communication	-	-	-	6,747,224	6,747,224	-
Production and intermediate term	-	-	-	8,451,152	8,451,152	-
Loans to cooperatives	-	-	-	4,318,400	4,318,400	-
Farm-related business	-	-	-	2,265,163	2,265,163	-
Total	$ 450,355	$ 133,915	$ 584,270	$ 640,665,958	$ 641,250,228	$ -

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	$ 282,430	$ -	$ 282,430	$ 515,808,804	$ 516,091,234	$ -
Processing and marketing	-	-	-	31,195,317	31,195,317	-
Energy	-	-	-	15,336,174	15,336,174	-
Rural residential real estate	-	-	-	5,837,499	5,837,499	-
Communication	-	-	-	5,761,250	5,761,250	-
Production and intermediate term	-	-	-	7,551,082	7,551,082	-
Loans to cooperatives	-	-	-	5,597,138	5,597,138	-
Farm-related business	-	-	-	1,806,115	1,806,115	-
Total	$ 282,430	$ -	$ 282,430	$ 588,893,379	$ 589,175,809	$ -

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.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The predominant form of concession granted for troubled debt restructuring includes principle concessions. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring. The Association had no troubled debt restructurings as of December 31, 2019.

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:					
Real estate mortgage	$ 1,307,976	$ 1,482,450	$ 69,046	$ 1,305,090	$ -
Total	$ 1,307,976	$ 1,482,450	$ 69,046	$ 1,305,090	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 650,112	$ 650,112	$ -	$ 469,711	$ -
Total	$ 650,112	$ 650,112	$ -	$ 469,711	$ -
Total impaired loans:					
Real estate mortgage	$ 1,958,088	$ 2,132,562	$ 69,046	$ 1,774,801	$ -
Total	$ 1,958,088	$ 2,132,562	$ 69,046	$ 1,774,801	$ -

	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:					
Real estate mortgage	$ 133,915	$ 133,915	$ 6,758	$ 42,926	$ -
Total	$ 133,915	$ 133,915	$ 6,758	$ 42,926	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,060,781	$ 2,060,781	$ -	$ 2,128,291	$ -
Total	$ 2,060,781	$ 2,060,781	$ -	$ 2,128,291	$ -
Total impaired loans:					
Real estate mortgage	$ 2,194,696	$ 2,194,696	$ 6,758	$ 2,171,217	$ -
Total	$ 2,194,696	$ 2,194,696	$ 6,758	$ 2,171,217	$ -

	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:					
Real estate mortgage	$ -	$ -	$ -	$ -	$ -
Total	$ -	$ -	$ -	$ -	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,264,884	$ 3,265,029	$ -	$ 2,931,674	$ 5,177
Total	$ 3,264,884	$ 3,265,029	$ -	$ 2,931,674	$ 5,177
Total impaired loans:					
Real estate mortgage	$ 3,264,884	$ 3,265,029	$ -	$ 2,931,674	$ 5,177
Total	$ 3,264,884	$ 3,265,029	$ -	$ 2,931,674	$ 5,177

[a] Unpaid 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	**$ 181,836**	$ 167,652	$ 204,114
Less: interest income recognized	**-**	-	-
Foregone interest income	**$ 181,836**	$ 167,652	$ 204,114

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	$ 1,506,648	$ 26,804	$ 191,405	$ 51,890	$ 138,781	$ 18,026	$ 1,933,554
Charge-offs	(174,743)	-	-	-	-	-	(174,743)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	368,174	(12,235)	80,488	(29,894)	(84,011)	5,486	328,008
Other	(1,671)	947	(15,226)	193	3,251	-	(12,506)
Balance at December 31, 2019	$ 1,698,408	$ 15,516	$ 256,667	$ 22,189	$ 58,021	$ 23,512	$ 2,074,313
Ending Balance: individually evaluated for impairment	$ 69,046	$ -	$ -	$ -	$ -	$ -	$ 69,046
Ending Balance: collectively evaluated for impairment	$ 1,629,362	$ 15,516	$ 256,667	$ 22,189	$ 58,021	$ 23,512	$ 2,005,267
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2019	$ 624,520,284	$ 5,849,875	$ 52,860,221	$ 10,237,370	$ 16,783,979	$ 11,592,255	$ 721,843,984
Ending balance for loans individually evaluated for impairment	$ 1,958,088	$ -	$ -	$ -	$ -	$ -	$ 1,958,088
Ending balance for loans collectively evaluated for impairment	$ 622,562,196	$ 5,849,875	$ 52,860,221	$ 10,237,370	$ 16,783,979	$ 11,592,255	$ 719,885,896

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2017	$ 1,458,451	$ 26,496	$ 211,359	$ 50,625	$ 142,371	$ 13,202	$ 1,902,504
Charge-offs	(5,602)	-	-	-	-	-	(5,602)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	53,484	(3,377)	(30,663)	1,241	(538)	4,824	24,971
Other	315	3,685	10,709	24	(3,052)	-	11,681
Balance at December 31, 2018	$ 1,506,648	$ 26,804	$ 191,405	$ 51,890	$ 138,781	$ 18,026	$ 1,933,554
Ending Balance: individually evaluated for impairment	$ 6,758	$ -	$ -	$ -	$ -	$ -	$ 6,758
Ending Balance: collectively evaluated for impairment	$ 1,499,890	$ 26,804	$ 191,405	$ 51,890	$ 138,781	$ 18,026	$ 1,926,796
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2018	$ 561,541,458	$ 8,451,152	$ 39,203,298	$ 6,747,224	$ 15,848,372	$ 9,458,724	$ 641,250,228
Ending balance for loans individually evaluated for impairment	$ 2,194,696	$ -	$ -	$ -	$ -	$ -	$ 2,194,696
Ending balance for loans collectively evaluated for impairment	$ 559,346,762	$ 8,451,152	$ 39,203,298	$ 6,747,224	$ 15,848,372	$ 9,458,724	$ 639,055,532

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2016	$ 1,218,496	$ 126,716	$ 209,105	$ 33,335	$ 201,849	$ 8,068	$ 1,797,569
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	204	-	204
Provision for loan losses	242,373	(109,290)	12,148	17,115	(68,278)	5,134	99,202
Other	(2,418)	9,070	(9,894)	175	8,596	-	5,529
Balance at December 31, 2017	$ 1,458,451	$ 26,496	$ 211,359	$ 50,625	$ 142,371	$ 13,202	$ 1,902,504
Ending Balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Balance: collectively evaluated for impairment	$ 1,458,451	$ 26,496	$ 211,359	$ 50,625	$ 142,371	$ 13,202	$ 1,902,504
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2017	$ 516,091,234	$ 7,551,082	$ 38,598,570	$ 5,761,250	$ 15,336,174	$ 5,837,499	$ 589,175,809
Ending balance for loans individually evaluated for impairment	$ 3,264,884	$ -	$ -	$ -	$ -	$ -	$ 3,264,884
Ending balance for loans collectively evaluated for impairment	$ 512,826,350	$ 7,551,082	$ 38,598,570	$ 5,761,250	$ 15,336,174	$ 5,837,499	$ 585,910,925

NOTE 4 — 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 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 3.35 percent, 3.18 percent, and 3.05 percent of the issued stock of the Bank as of December 31, 2019, 2018, and 2017. As of those dates, the Bank's assets totaled $25.66 billion, $24.53 billion and $22.84 billion and members' equity totaled $1.84 billion, $1.78 billion and $1.67 billion. The Bank's earnings were $203.0 million, $190.5 million and $196.0 million during 2019, 2018 and 2017.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2019	2018	2017
Building and improvements	**$ 2,863,390**	$ 2,757,598	$ 1,576,784
Automobiles	**531,356**	451,055	448,427
Land and improvements	**519,772**	519,772	464,298
Furniture and equipment	**272,394**	287,681	236,359
Computer equipment and software	**160,542**	143,108	89,407
Construction in progress	**-**	-	675,218
	4,347,454	4,159,214	3,490,493
Accumulated depreciation	**(1,573,845)**	(1,340,112)	(1,164,984)
Total	**$ 2,773,609**	$ 2,819,102	$ 2,325,509

The Association owns office space in Plainview, Texas. Lease expense began in 2016 and expired as of March 31, 2018. Lease expense was $3,900 and $15,600 for 2018 and 2017, respectively. The Association constructed a new location which they began using as of April 2018. The Association currently owns all office space.

NOTE 6 — OTHER PROPERTY OWNED, NET:

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

	2019	2018	2017
Loss on sale, net	**$ (70,981)**	$ -	$ -
Operating expense, net	**(16,386)**	(9,641)	-
Net loss on other property owned	**$ (87,367)**	$ (9,641)	$ -

The Association incurred $16,386 of expense related to marketing a piece of acquired property. The Association also incurred a loss of $70,981 on the sale of the previously owned acquired property. The net amount of $87,367 is shown as a loss on the Income Statement.

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2019	2018	2017
Accounts receivable, net	**$ 163,235**	$ 168,682	$ 513,414
Other	**2,698**	531	41,192
Total	**$ 165,933**	$ 169,213	$ 554,606

Other liabilities comprised the following at December 31:

	2019	2018	2017
Postretirement benefits liability	**$ 1,161,529**	$ 1,019,961	$ 1,234,483
Insurance premium payable	**483,610**	430,251	653,161
Accrued leave	**165,811**	136,706	134,626
Accounts payable, net	**143,662**	130,015	100,935
Other	**162,432**	138,070	184,567
Total	**$ 2,117,044**	$ 1,855,003	$ 2,307,772

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 $601,301,197 at 2.3 percent, $527,737,407 at 2.4 percent and $482,671,262 at 2.4 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 $706,083,187, 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. The Association was in compliance with the general financing agreement for the years 2019, 2018, and 2017.

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 (farm loans), or participation certificates (for rural home and farm related businesses) 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 capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class 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 Class A 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. The following dividends and patronage distributions were declared and paid in 2019, 2018 and 2017, respectively:

Date Declared	**Date Paid**	**Patronage**
January 2019	**March 2019**	**$8,200,000**
March 2018	**March 2018**	**$1,550**
January 2018	March 2018	$7,100,000
April 2017	April 2017	$2,500
January 2017	March 2017	$6,000,000

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%	15.81%
Tier 1 capital ratio	6.00%	2.50%	8.50%	15.81%
Total capital ratio	8.00%	2.50%	10.50%	16.10%
Permanent capital ratio	7.00%	0.00%	7.00%	15.86%
Non-risk-adjusted:				
Tier 1 leverage ratio**	4.00%	1.00%	5.00%	16.27%
UREE leverage ratio	1.50%	0.00%	1.50%	17.37%

*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 seven years, allocated equities held for a minimum of seven years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, 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 five years, allocated equities held for a minimum of five years, subordinated debt and limited-life preferred stock greater than five 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 revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

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

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**125,288,353**	**125,288,353**	**125,288,353**	**125,288,353**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,078,855**	**2,078,855**	**2,078,855**	**2,078,855**
Allowance for loan losses and reserve for credit losses subject to certain limitations*			**2,129,844**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(10,063,291)**	**(10,063,291)**	**(10,063,291)**	**(10,063,291)**
	117,303,917	117,303,917	119,433,761	117,303,917
Denominator:				
Risk-adjusted assets excluding allowance	**751,924,872**	**751,924,872**	**751,924,872**	**751,924,872**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(10,063,291)**	**(10,063,291)**	**(10,063,291)**	**(10,063,291)**
Allowance for loan losses				**(2,052,671)**
	741,861,581	741,861,581	741,861,581	739,808,910

*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:

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**125,288,353**	**125,288,353**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**2,078,855**	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(10,063,291)**	**-**
	117,303,917	**125,288,353**
Denominator:		
Total Assets	**732,829,132**	**732,829,132**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(11,694,958)**	**(11,694,958)**
	721,134,174	721,134,174

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, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan portfolio; 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. A strong capital base, as outlined in the Plan, will afford the Association the opportunity to position itself to address the changing lending environment, and provide the highest quality service to its stockholders.

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

At December 31, the Association had the following shares of Class A capital stock, Class B stock and participation certificates outstanding at a par value of $5 per share:

	2019	2018	2017
Class A stock	**398,516**	380,872	369,687
Participation certificates	**18,713**	15,716	12,764
Total	**417,229**	396,588	382,451

An additional component of equity is accumulated other comprehensive income, which is reported as follows:

	2019	**2018**	**2017**
Nonpension postretirement benefits	**$ 147,829**	**$ 294,465**	**$ 45,651**

The Association's accumulated other comprehensive income relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive income and the location on the income statement for the year ended December 31:

	2019	2018	2017
Accumulated other comprehensive income at January 1	**$ 294,465**	$ 45,651	$ 134,893
Actuarial (losses) gains	**(107,704)**	215,741	(72,412)
Prior service credit	**-**	45,698	-
Amortization of prior service credit included in salaries and employee benefits	**(38,932)**	(12,625)	(16,830)
Other comprehensive (loss) income, net of tax	**(146,636)**	248,814	(89,242)
Accumulated other comprehensive income at December 31	**$ 147,829**	$ 294,465	$ 45,651

NOTE 10 — 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, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon District combination only. The Association records current contributions to the DB plan as an expense in the current year.

The CEO and certain 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 Supplemental 401(k) plans 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:

	2019	2018	2017
Funded status of plan	**66.2** %	68.0 %	69.7 %
Association's contribution	**$ 269,029**	$ 394,270	$ 545,386
Percentage of association's contribution to total contributions	**3.3** %	4.0 %	4.7 %

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 in 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 of $145,699 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	**$ 1,019,961**	$ 1,234,483	$ 1,111,630
Service cost	**16,574**	25,307	21,825
Interest cost	**47,648**	48,871	50,552
Plan participants' contributions	**6,791**	4,324	2,415
Plan amendments	**-**	(45,698)	-
Actuarial loss (gain)	**107,704**	(215,741)	72,412
Benefits paid	**(37,149)**	(31,585)	(24,351)
Accumulated postretirement benefit obligation, end of year	**$ 1,161,529**	$ 1,019,961	$ 1,234,483
Change in Plan Assets			
Plan assets at fair value, beginning of year	**$ -**	$ -	$ -
Company contributions	**30,358**	27,261	21,936
Plan participants' contributions	**6,791**	4,324	2,415
Benefits paid	**(37,149)**	(31,585)	(24,351)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (1,161,529)**	$ (1,019,961)	$ (1,234,483)
Amounts Recognized in Statement of Financial Position			
Other liabilities	**$ (1,161,529)**	$ (1,019,961)	$ (1,234,483)
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial gain	**$ (112,564)**	$ (248,767)	$ (33,026)
Prior service credit	**(35,265)**	(45,698)	(12,625)
Total	**$ (147,829)**	$ (294,465)	$ (45,651)
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**	2027	2026

Total Cost	**2019**	2018	2017
Service cost	**$ 16,574**	$ 25,307	$ 21,825
Interest cost	**47,648**	48,871	50,552
Amortization of:			
Unrecognized prior service credit	**(10,433)**	(12,625)	(16,830)
Unrecognized net gain	**(28,499)**	-	-
Net postretirement benefit cost	**$ 25,290**	$ 61,553	$ 55,547
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial loss (gain)	**$ 107,704**	$ (215,741)	$ 72,412
Amortization of net actuarial gain	**28,499**	-	-
Prior service credit	**-**	(45,698)	-
Amortization of prior service credit	**10,433**	12,625	16,830
Total recognized in other comprehensive income (loss)	**$ 146,636**	$ (248,814)	$ 89,242
AOCI Amounts Expected to be Amortized Into Expense in 2016			
Unrecognized prior service credit	**$ (10,433)**	$ (10,433)	$ (12,625)
Unrecognized net gain	**-**	(28,499)	-
Total	**$ (10,433)**	$ (38,932)	$ (12,625)
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	**2027**	2026	2025

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2020	**$ 40,167**
Fiscal 2021	**48,803**
Fiscal 2022	**58,648**
Fiscal 2023	**68,694**
Fiscal 2024	**48,431**
Fiscal 2025–2029	**268,771**
Expected Contributions	
Fiscal 2020	**$ 40,167**

NOTE 11 — 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 $18,847,728, $23,724,786 and $27,732,170. During 2019, 2018 and 2017, $1,836,813, $5,078,498 and $5,184,106 of new loans were made, and repayments totaled $2,296,146, $5,546,513 and $3,115,307, respectively. 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 $33,142, $25,757 and $27,326 in 2019, 2018 and 2017, respectively.

The Association received patronage payments from the Bank totaling $2,950,273, $2,485,092 and $2,026,919 during 2019, 2018 and 2017, respectively.

NOTE 12 — FAIR VALUE MEASUREMENTS:

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

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

December 31, 2019	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$ 1,735,115**	**$ 1,735,115**
Other property owned	**-**	**-**	**-**	**-**

December 31, 2018	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ -	$ -
Other property owned	-	-	519,840	519,840

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

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

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the 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	**$ 13,717**	**$ 13,717**	**$ -**	**$ -**	**$ 13,717**
Net loans	**705,380,470**	**-**	**-**	**710,107,621**	**710,107,621**
Total Assets	**$ 705,394,187**	**$ 13,717**	**$ -**	**$ 710,107,621**	**$ 710,121,338**
Liabilities:					
Note payable to bank	**$ 601,301,197**	**$ -**	**$ -**	**$ 605,319,432**	**$ 605,319,432**

	December 31, 2018				
	Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 2,796,307	$ 2,796,307	$ -	$ -	$ 2,796,307
Net loans	627,219,543	-	-	609,057,162	609,057,162
Total Assets	$ 630,015,850	$ 2,796,307	$ -	$ 609,057,162	$ 611,853,469
Liabilities:					
Note payable to bank	$ 527,737,407	$ -	$ -	$ 512,502,693	$ 512,502,693

	December 31, 2017				
	Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 4,284,273	$ 4,284,273	$ -	$ -	$ 4,284,273
Net loans	576,807,126	-	-	562,534,843	562,534,843
Total Assets	$ 581,091,399	$ 4,284,273	$ -	$ 562,534,843	$ 566,819,116
Liabilities:					
Note payable to bank	$ 482,671,262	$ -	$ -	$ 470,767,501	$ 470,767,501

Information about Other Financial Instrument Fair Value Measurements:

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Mission-related and other investments held to maturity	Discounted cash flow	Prepayment rates Probability of default Loss severity
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Other Property Owned	Appraisal	Income and expense Comparable sales Replacement cost Comparability adjustments
Note payable to bank	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk
Other interest bearing liabilities	Carrying value	Par/principal and appropriate interest yield

Valuation Techniques

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

Loans

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.

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 Payable to the Bank

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

NOTE 13 — 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.

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, $64,379,848 of commitments and $617,461 of commercial letters of credit were outstanding.

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

NOTE 14 — 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	**$ 4,667**	**$ 4,677**	**$ 4,768**	**$ 4,848**	**$ 18,960**
(Provision for) reversal of loan losses	**(259)**	**57**	**(101)**	**(25)**	**(328)**
Noninterest income (expense), net	**(1,478)**	**(641)**	**(852)**	**(537)**	**(3,508)**
Net income	**$ 2,930**	**$ 4,093**	**$ 3,815**	**$ 4,286**	**$ 15,124**

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,228	$ 4,228	$ 4,322	$ 4,460	$ 17,238
(Provision for) reversal of loan losses	139	18	(32)	(150)	(25)
Noninterest income (expense), net	(1,102)	(761)	(630)	(598)	(3,091)
Net income	$ 3,265	$ 3,485	$ 3,660	$ 3,712	$ 14,122

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,883	$ 3,946	$ 4,029	$ 4,126	$ 15,984
(Provision for) reversal of loan losses	43	(85)	(53)	(4)	(99)
Noninterest income (expense), net	(1,215)	(753)	(684)	(858)	(3,510)
Net income	$ 2,711	$ 3,108	$ 3,292	$ 3,264	$ 12,375

NOTE 15 — 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 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 Plains Land Bank, FLCA (Association) serves its 17-county territory through its main administrative and lending office at 5625 Fulton Drive, Amarillo, Texas 79109. Additionally, there are three branch lending offices located at: 2526 Perryton Parkway, Pampa, Texas 79065; 506 South Main, Perryton, Texas 79070; and 3102 W. 7th Street, Plainview, Texas 79072. The Association owns the office buildings in Amarillo, Pampa, Perryton, and Plainview.

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 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 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 10, “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 13 to the 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 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 annual and quarterly stockholder reports can also be requested by e-mailing *fcb@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 Plains Land Bank, FLCA, 5625 Fulton Drive, Amarillo, Texas 79109-4212 or calling (806) 353-6688. Copies of the Association’s quarterly stockholder reports can also be requested by e-mailing

kmclaughlin@plainslandbank.com. The Association's annual stockholder report is available on its website at *www.plainslandbank.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 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 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
Perry Kirkland	Director	2012	2021
Dennis Babcock	Director	1998	2022
Randy D. Darnell	Director	2002	2020
Steve Rader	Director	2002	2020
Daniel L. Krienke	Chairman	1999	2020
Walter (Rusty) Henson	Director	2001	2021
Don James	Director	2004	2022
Tim Stedje	Director	2013	Retired 2019
Jerrell Key	Director	2019	2022
Lyle Miller	Vice Chairman	2015	2021
Lea Stukey, CPA	Director – Elected Director	2016	2020
Mallory Kay Vestal, Ph.D.	Director – Elected Director	2016	2021
Greggory S. Lloyd	CEO	1983	N/A
Cathy D. Scribner	CFO	1985	Retired 2018
Kenneth Hooper	SVP/Lending	1988	N/A
Stephen W. Donnell	SVP/Lending	1994	N/A
Cory W. Bruce	CCO	1998	N/A
Kay Lynn McLaughlin	CFO	2010	N/A

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

The following biographies of the board of directors and senior officers represent the past five years' business experience, principal occupation and /or employment for each individual.

Perry Kirkland, age 70, is a farmer, stockman, and agribusiness man in Oldham County. He owns and is general manager of Kirkland Feedyard, Inc., a 20,000-head custom feeding operation. Mr. Kirkland serves as Chairman of the Compensation Committee and was elected to the board in 2012.

Dennis Babcock, age 68, is a farmer and rancher in Carson, Gray, and Hutchinson counties with his two sons, experienced in both dryland and irrigated farming. Mr. Babcock has a bachelor of science degree in ag economics from West Texas State University. He currently serves as a director of Groom Irrigation Gas, Inc. and is co-owner of Hutchco Farms, Inc. Mr. Babcock was elected to the board in 1998.

Randy D. Darnell, age 59, is a farmer/stockman in northeast Deaf Smith and northwest Randall counties. Mr. Darnell has a bachelor of science degree in ag economics from Texas Tech University. He is a member and past president of the Canyon Independent School District board. Mr. Darnell was elected to the board in 2002.

Steve Rader, age 66, operates a family cow calf operation in Ellis County, Oklahoma, and has a farming operation in Lipscomb and Hemphill counties, Texas. Mr. Rader has a bachelor of science degree in general agriculture from Oklahoma State University. He is also a partner in RNR Seeding, which specializes in reclaiming oil field pipelines and locations. Mr. Rader was elected to the board in 2002.

Daniel L. Krienke, age 69, is a farmer in Ochiltree County, experienced in both dryland and irrigated farming. He is presently a director of the Texas Grain Sorghum Association and National Sorghum Check-off, as well as a member of the Region A State Water Planning Committee. Mr. Krienke was elected to the board in 1999 and currently serves as Chairman of the Board.

Walter (Rusty) Henson, age 63, is a farmer/rancher from Briscoe County for the last 40 years. Mr. Henson has a bachelor of science degree in agribusiness from West Texas State University. He currently serves as a director of the Caprock Soil & Water Conservation District and is a past board member of the Valley ISD school board. Mr. Henson serves as Chairman of the Audit Committee and was first appointed to the board to fill an unexpired board term in October 2000 and was then elected to the board in 2001.

Don James, age 68, farms in Hale County. Mr. James attended Wayland Baptist University and Texas Tech University. He is a past board member of United Farm Industries in Plainview, Texas, and the Llano Estacado Regional Planning Group. Mr. James was elected to the board in 2004.

Tim Stedje, age 51, is a farmer, rancher, and feeder from Gruver, Texas. He owns and operates a feedyard business with his brother in Hansford County and does business in Hansford and Sherman counties, Texas and Texas County, Oklahoma. Presently he serves as Hansford County Commissioner. Mr. Stedje serves as Chairman of the Compensation Committee and was elected to the board in 2013. Tim was replaced by Jerrell Key in the 2019 board election.

Jerrell Key, age 56, is a farmer and rancher in Hansford and Armstrong counties, experienced in cattle, cotton, corn, and wheat. Mr. Key has a bachelor of science degree in ag economics from Texas Tech University. He currently serves on the board of the Hansford & Hutchinson FSA County Committee and is the General Manager of Adobe Walls Gin, L.P. Mr. Key serves as Vice-Chairman of the Compensation Committee and was elected to the board in 2019.

Lyle Miller, age 65, is an operator in Floydada, Floyd County, Texas. He is one of three partners in Four M Brothers partnership, which owns farm land and equipment with notes. He is also one of five partners in Miller Farms Texas and one of five family members that own Hale Center Gin. Mr. Miller graduated from Floydada High School and went to college for 2 years following graduation. He currently serves as president of the Floydada School Board of Trustees. Mr. Miller was elected to the board in 2015 and currently serves as Vice-Chairman of the board.

Lea Stukey, CPA, age 51, is a CPA and shareholder/owner of Lewis, Kaufman, Reid, Stukey, Gattis & Co., PC, which is a CPA firm located in Plainview, Texas. Her practice consists primarily of tax planning and preparation, payroll services, and business consultation services. Mrs. Stukey holds a bachelor of business administration in accounting from West Texas A&M University. She currently serves as the president of the board for the Plainview Christian Academy. Ms. Stukey was appointed to the board as an outside director in December 2016 and currently serves as Vice-Chairman of the Audit Committee.

Mallory Kay Vestal, Ph.D., age 36, has been an Associate Professor of Agricultural Business and Economics in the Department of Agricultural Sciences at West Texas A&M University since 2018 and was an Assistant Professor beginning in 2012. Dr. Vestal holds a doctor of philosophy in agricultural economics and a master of science in agricultural economics from Oklahoma State University, as well as a bachelor of science in agribusiness/equine industry and business from West Texas A&M University. She currently serves on the board of the Texas Agricultural Cooperative Council. Dr. Vestal was appointed to the board as an outside director in December 2016.

Greggory S. Lloyd, age 61, has been employed with the Association for the past 37 years. He holds a bachelor of science degree and a master of science degree in agricultural economics from Texas Tech University. He previously served as a vice president of the High Plains Federal Land Bank Association of Pampa and president of the Federal Land Bank Association of Amarillo. He served as executive vice president and chief credit officer of the Association until July 1, 2010, when he was promoted to CEO of the Association.

Kenneth Hooper, age 61, was employed with the Association in June 1988. Mr. Hooper holds a bachelor of science degree from Texas A&M University. He currently serves as Senior Vice President of Lending in the Plainview office and oversees lending operations in Hale, Motley, Briscoe, Floyd, and Hall counties.

Stephen W. Donnell, age 61, has been employed with the Association for the past 25 years. Mr. Donnell holds a bachelor of general studies degree from West Texas A & M University. He currently serves as Senior Vice President of Lending in the Amarillo office and oversees lending operations in Armstrong, Carson, Oldham, Potter, and Randall counties.

Cory W. Bruce, age 48, began his employment with the Association in March 1998. Mr. Bruce holds a bachelor of science degree in plant science and a master of business administration degree in agriculture from West Texas A&M University. He previously served as

vice president/assistant branch manager of the Amarillo office and vice president/capital markets of Panhandle-Plains Land Bank, FLCA. Mr. Bruce was promoted to Chief Credit Officer of the Association effective August 1, 2010.

Kay Lynn McLaughlin, age 39, has been employed with the Association for the past 10 years. Ms. McLaughlin holds a bachelor of business administration, as well as a master of business administration and a master of public accounting degree, all from West Texas A&M University. She previously served as a Loan Officer, Operations Manager, Controller, and Interim Chief Financial Officer for Plains Land Bank, FLCA, and has served as Chief Financial Officer since March 1, 2018.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium at the rate of $650 per day for director meetings and 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.

	Number of Days Served Associated With		
Director	**Board Meetings**	**Other Official Activities**	**Total Compensation in 2019**
Perry Kirkland	11	8	$15,796
Dennis Babcock	11	3	10,757
Randy Darnell	12	10	18,481
Steve Rader	10	4	13,031
Daniel L. Krienke	12	10	25,500
Walter (Rusty) Henson	12	12	24,878
Don James	12	12	20,773
Tim Stedje	4	0	3,110
Jerrell Key	7	0	5,176
Lyle Miller	12	8	16,792
Lea Stukey	11	7	15,535
Mallory Vestal	11	7	14,529
			$184,358

The aggregate compensation paid to directors in 2019, 2018 and 2017 was $184,358, $137,035 and $139,550, respectively.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $69,128, $87,523 and $84,930 in 2019, 2018 and 2017, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

The primary objective of the compensation package is to create a work environment such that employees are fully engaged in the mission statement of "improving the means and well-being of farmers, ranchers, and rural life in our territory." The compensation plan will allow the Association to attract and retain top talent and align the interest of our employees and shareholders. It is important to offer our employees a strong and competitive compensation package. The package is designed to strengthen Association productivity and employee loyalty, while building team effort as well as reward for individual accomplishment. The compensation plan includes base pay, incentive bonus and benefits. The board of directors believes the compensation plan is competitive for our employees and brings value to our shareholders (owners). The Association will continue to strive to maintain this type of balance between employees and shareholders. Base salaries and benefits are based on market data and deemed to be competitive with other employers in the market place. The current incentive plan is administered in accordance with board-approved Association policy, as recommended by the board compensation committee. The board-approved incentive plan is intended to achieve the following:

- All the employees to share a portion of the increase in stockholder value of the organization after certain performance goals have been met.
- Motivate employees to achieve and exceed the desired Association business goals over the long term.
- Reward employees for increase productivity based on their individual contributions and the overall success of the Association.
- Reinforce teamwork throughout the organization.
- Provide an overall competitive compensation opportunity so that the Association can attract, retain and motivate high-quality individuals.

The sum of funds available for the incentive bonus payout to Association employees under the plan is a set percentage of 5 percent of the year-ending net income. This amount can be decreased by the Association, each office, and individual loan officers not meeting its and/or their goals. The goals used in the plan are balanced between new loan volume and volume growth, credit quality, and other job performance areas. Incentive payments are paid in the first quarter of each year based on the performance from January 1 through December 31 of the previous year.

Chief Executive Officer (CEO) Compensation Policy

The CEO salary is set by the compensation committee and is part of the same compensation plan for all employees. Part of the compensation plan is the incentive plan, which is also the same for all employees including the CEO. The CEO does not have an employment agreement; this is the same practice for all employees. The employment of the CEO by the Association is on an "at will" relationship. This means that either the employer or the employee is free to terminate the employment relationship at any time with or without reason.

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
Greggory S. Lloyd							
CEO	**2019**	**$ 261,468**	**$ 38,187**	**$ 744,765**	**$ 17,312**	**$ 5,048**	**$ 1,066,780**
	2018	248,760	31,088	(26,124)	16,523	4,808	275,055
	2017	235,009	29,017	399,376	15,937	5,197	684,536
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable)							
5	**2019**	**$ 700,277**	**$ 180,177**	**$ 344,451**	**$ 101,885**	**$ 4,354**	**$ 1,331,144**
5	2018	674,776	158,816	(54,272)	96,324	3,747	879,391
5	2017	738,726	171,277	382,742	97,498	2,238	1,392,481

(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 30 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 benefits and premiums paid for life insurance.
(f) Amounts in the "Other" column include unused accrued annual leave.

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:

Pension Benefits Table:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2018
Gregory S. Lloyd CEO	Farm Credit Bank of Texas Pension Plan	39	$ 3,796,174	$ -
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable) 1		33	$ 1,875,945	$ -

Pension Benefits Table Narrative Disclosure

The CEO and one of the other senior officers of the Association participate in the Farm Credit Bank of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation, and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over 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.

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

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

During the past five years, none of the Association's officers or directors have been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as director or senior officer on January 1, 2019, or at any time during the fiscal year just ended.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The Association's audit committee engaged the independent accounting firm of PricewaterhouseCoopers LLP (PwC) to perform the annual audit of the Association's financial statements included in this annual report. The fees for professional services rendered for the Association by PwC during 2019 were $42,640 for audit services performed. Other non-audit services were provided in the amount of $900 during 2019.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

As of March 28, 2019, the Association terminated Panhandle-Plains Land Bank Holding Co. LLC, and as of May 8, 2019, the Association has terminated the previously held relationship with Biostar B, LLC. These entities were limited liability companies, originally formed for the purpose of acquiring and managing unusual and complex collateral.

FINANCIAL STATEMENTS

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

MEMBER/SHAREHOLDER PRIVACY

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

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

This Association is committed to providing sound and dependable credit to young, beginning and small (YBS) farmers and ranchers. The Association recognizes the vital nature of YBS to the overall future well-being of the agricultural industry. To ease entry for those new to agriculture, the Association provides reasonably priced financial products and services, considers flexibility with loan approvals and servicing, works with other Farm Credit and non-System lenders and implements outreach programs.

Mission Statement

To encourage and facilitate the entry of young, beginning and small borrowers into agricultural operations.

Definitions for YBS farmers and ranchers are:

- *Young Farmer*: A farmer, rancher or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
- *Beginning Farmer*: A farmer, rancher or producer or harvester of aquatic products who had 10 years or less of experience at farming, ranching or producing or harvesting aquatic products as of the date the loan was originally made.
- *Small Farmer*: A farmer, rancher or producer or harvester of aquatic products who normally generated less than $250,000 annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The following table outlines the Association's percentage of YBS loans as a percentage of our loan portfolio as of December 31, 2019. The Ag Census information, complied from the USDA 2012 Ag Census, is based on the number of Young, Beginning and Small operators as a percentage of total operators in the Association territory. The Association reports on the percentage of Young, Beginning and Small loans in the loan portfolio (by number) compared to the total number of loans in the portfolio. This difference in the two methods of calculation is considered to be insignificant and reasonable for comparison purposes. Also shown in the table are the goals for 2019 established by the board.

By Number					
	USDA	Goals	2019	2018	2017
Young	5.77%	16%	17.76%	17.70%	17.49%
Beginning	19.20%	32%	29.63%	30.17%	30.56%
Small	75.34%	55%	44.81%	45.78%	46.76%

The following table outlines our percentage of YBS volume as a percentage of our total loan volume as of December 31, 2019.

By Volume			
	2019	2018	2017
Young	15.40%	14.31%	14.25%
Beginning	32.58%	28.50%	27.92%
Small	31.74%	31.51%	31.35%

The Association established the following as some of the qualitative goals for 2019 in an effort to reach YBS farmers and ranchers.

- Report on a quarterly basis to the board YBS activity.
- Association to complete a demographic study of its territory in 2019.
- Effectively make and service loans and provide credit related services to the YBS segment.
- The demographic study shows 5.77% of Young operators in our territory. Maintain our goal of loans to Young borrowers at 16%, through 2023.
- The demographic study shows 19.20% of Beginning operators in our territory. Maintain our goal of loans to Beginning borrowers at 32.0%, through 2023.
- The demographic study shows 75.34% of Small operators in our territory. Increase our goal of loans to Small borrowers to 50% in 2019 and target 55% into 2023.
- Provide five $1,000 scholarships to Junior/Senior level Ag College students at WTAMU.
- Participate in the District's YBS leader development program.
- Participation by employees, primarily loan officers, in stock shows, producers meetings, county farm demonstrations, trade shows and any other activities that reach YBS producers.
- Implement effective outreach programs to attract YBS farmers and ranchers. Special programs and events we have held or sponsored to meet this need include:
    - West Texas A&M University Scholarships – The Association currently provides five $1,000 scholarships to Junior/Senior level Ag College students at West Texas A&M University. The Ag College faculty decides on the recipients. The Association criterion for the faculty is that there should be one recipient from each of the branch offices territory.
    - Livestock Shows/Farm Shows/Rodeos – The Association will continue to provide assistance and sponsorship to various livestock shows, area farm shows and rodeos. These shows provide an opportunity to make contact with existing customers and reach potential customers.
    - Campus Visits – Association loan officers are committed to the development of YBS farmers in our area. They will continue to visit and make presentations for local agricultural students.
    - Educational Opportunities – The Association is actively involved with other lenders, producer groups, and the extension service in developing and sponsoring educational opportunities, leadership training, and business/financial training for YBS farmers and ranchers. The Association and board of directors also annually host the Canyon FFA Ag Issues Team, who give a mock presentation during one board meeting. Finally, Plains Land Bank is a sponsor of a classroom in the new West Texas A&M University Ag Complex, completed for the Fall Semester 2018.

- West Texas A&M University Ag Development Association – Four Association officers are currently on the board of directors for the Ag Development Association. Ag Development is involved in the ongoing growth and development of a dynamic collegiate agriculture program.

- Agriculture/Community Boards/Committees – Several Association officers are members of local agricultural (FFA, 4-H, Ag Group, County/City Ag), as well as non-agricultural committees/boards. This exposes many existing or potential YBS producers to Farm Credit and this Association.

- TALL – The Texas Agricultural Lifetime Leadership program is sponsored by Texas A&M System AgriLife Extension Service. The Association sponsors and participates in the TALL program.

- Online Presence – The website details the Association's commitment to identify and meet the needs of Young, Beginning and Small operators. It features press releases on recent Association scholarship recipients, YBS programs available to applicants and The Farm Credit Young Leaders Program, to name a few. All of which are designed to benefit and educate the YBS operator. Articles targeting YBS borrowers are regularly posted to Facebook.

- Media –
    - Print: Both the District-wide portion of the *Landscapes* publication, as well as the Association insert, frequently feature articles on YBS operators. The insert also features the Association scholarship winners. *Landscapes* is mailed to existing and potential borrowers, as well as to title companies, realtors and other prospects, many of whom are eligible for the YBS program.
    - Radio: Several Association officers participate in live or recorded interviews with local radio stations to promote area agricultural (including YBS) events and programs.
    - Television: Television ads feature some of the Association's YBS borrowers.

The YBS mission is to make a concerted and cooperative effort to finance Young, Beginning, or Small farmers, ranchers and producers through a program designed to meet the needs of such applicants to the fullest extent of their credit worthiness. Association loan officers will provide instruction and guidance, as prudent lenders, to young, beginning and small farmers and ranchers in areas such as financial analysis and management, and other management related areas. Specific activities and services to be provided will include association sponsorship, co-sponsorship, participation in, or support of programs through or with FFA, FSA, commercial banks and the Texas Cooperative Extension Service that target the YBS segment. Participation will be in the form of financial help, or direct personnel participation.

Loan officers will utilize when applicable the Association YBS Loan Program and FSA guarantee programs for qualified loan applicants. The demographics information was compiled from the USDA 2012 Ag Census. The Ag Census information is based on the number of Young, Beginning and Small operators as a percentage of total operators in the association territory. The Association reports on the percentage of Young, Beginning, and Small loans in the loan portfolio (by number) compared to the total number of loans in the portfolio. The difference in the two methods of calculation is considered to be insignificant and thus reasonable for comparison purposes. The CCO will monitor and oversee the Association YBS activity.

Quarterly reports are provided to the Association board of directors detailing the number and volume of YBS customers in the portfolio. The Association also reports all of the YBS activity to the board on a quarterly basis.

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