LONE STAR, ACA

2019
Quarterly Report
Third Quarter

LONE STAR
AG CREDIT

For the Quarter and Nine Months Ended September 30, 2019

REPORT OF MANAGEMENT

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

William L. (Bill) Melton, Interim Chief Executive Officer

November 8, 2019

David Harris, Chairman, Board of Directors

November 8, 2019

Nicholas Acosta, Acting Chief Financial Officer

November 8, 2019

Don Crawford, Chairman, Audit Committee

November 8, 2019

LONE STAR, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis reviews the consolidated financial performance of the Lone Star, ACA, (ACA) including its wholly-owned subsidiaries Lone Star Ag Credit, FLCA and Lone Star Ag Credit, PCA, (collectively referred to herein as the Association) for the quarter and nine months ended September 30, 2019. The discussion should be read in conjunction with the Association's Annual Report to Stockholders, and notes thereto, for the year ended December 31, 2018. Operating results for the nine months ended September 30, 2019 are not necessarily indicative of the results for the year ending December 31, 2019 or any future period.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events:

In December 2018, the Board of Directors (Board) of Lone Star, ACA declared a 150 basis point (1.5 percent) cash patronage paid in April of 2019 based on 2018 earnings. The patronage amount paid was $20,376,991. The patronage was paid to eligible borrowers based on their average outstanding loan balance for the year ending December 31, 2018.

In December 2018, the Association received a direct loan patronage of $5,518,014 from the Farm Credit Bank of Texas (Bank), representing 42 basis points on the average daily balance of the Association's direct loan with the Bank. During 2018, the Association received $729,181 in patronage payments from the Bank, based on the Association's stock investment in the Bank. Additionally, the Association received a special loan patronage of $134,596 in 2018 from the Bank.

On November 7, 2018, the CEO's (Troy Bussmeir) resignation was accepted by the Board and on November 8, 2018, William L. (Bill) Melton was named Interim CEO.

Since 1917, the Association and its predecessors have provided its members with quality financial services. The Board 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:

Total loans outstanding at September 30, 2019, including nonaccrual loans and sales contracts, were $1,620,110,767 compared to $1,559,619,16 at December 31, 2018, reflecting an increase of 3.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at September 30, 2019, compared to 0.3 percent at December 31, 2018.

The Association recorded $277,652 and $526,311 in recoveries and $24,265 and $247,501 in charge-offs for the quarter and nine months ended September 30, 2019, and $277,548 and $473,395 in recoveries and $124,270 and $640,961 in charge-offs for the same period in 2018. The Association's allowance for loan losses was 0.4 percent and 0.6 percent of total loans outstanding as of September 30, 2019, and December 31, 2018, 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. The following table illustrates the Association's components and trends of high-risk assets.

	September 30, 2019		December 31, 2018	
	Amount	**%**	Amount	%
Nonaccrual	**$ 3,026,299**	**72.3%**	$ 4,356,030	74.7%
Formally restructured	**1,156,470**	**27.7%**	1,474,500	25.3%
Total	**$ 4,182,769**	**100.0%**	$ 5,830,530	100.0%

Results of Operations:

The Association had net income of $7,428,397 and $ 21,963,524 for the three and nine months ended September 30, 2019, as compared to net income of $4,436,637 and $23,172,131 for the same period in 2018, reflecting an increase of 67.4 and a decrease of 5.2 percent, respectively. Net interest income was $11,450,506 and $34,585,331 for the three and nine months ended September 30, 2019, compared to $11,061,253 and $37,118,015 for the same period in 2018.

	Nine Months Ended			
	September 30, 2019		September 30, 2018	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 1,575,329,861**	**$ 62,319,550**	$ 1,654,261,505	$ 63,616,695
Total interest-earning assets	**1,575,329,861**	**62,319,550**	1,654,261,505	63,616,695
Interest-bearing liabilities	**1,238,304,600**	**27,734,219**	1,326,816,488	26,498,680
Impact of capital	**$ 337,025,261**		$ 327,445,017	
Net interest income		**$ 34,585,331**		$ 37,118,015

	2019 Average Yield	2018 Average Yield
Yield on loans	**5.29%**	5.14%
Total yield on interest-earning assets	**5.29%**	5.14%
Cost of interest-bearing liabilities	**2.99%**	2.67%
Interest rate spread	**2.29%**	2.47%
Net interest income as a percentage of average earning assets	**2.94%**	3.00%

	Nine months ended: September 30, 2019 vs. September 30, 2018		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ (3,035,423)**	**$ 1,738,278**	**$ (1,297,145)**
Total interest income	**(3,035,423)**	**1,738,278**	**(1,297,145)**
Interest expense	**(1,767,727)**	**3,003,266**	**1,235,539**
Net interest income	**$ (1,267,696)**	**$ (1,264,988)**	**$ (2,532,684)**

Interest income for the three and nine months ended September 30, 2019, increased by $855,217 and decreased by $1,297,145, or 4.3 and 2.0 percent respectively, from the same period of 2018, primarily due to a decrease in average loan volume offset by an increase in yields on earning assets. Interest expense for the three and nine months ended September 30, 2019, increased by $465,964 and $1,235,539, or 5.2 and 4.7 percent, from the same period of 2018 due to an increase in interest rates offset by a decrease in interest-bearing liabilities. Average loan volume for the third quarter of 2019 was $1,595,064,292, compared to $1,622,757,394 in the third quarter of 2018. The average net interest rate spread on the loan portfolio for the third quarter of 2019 was 2.22 percent, compared to 2.13 percent in the third quarter of 2018.

The Association's return on average assets for the nine months ended September 30, 2019, was 1.82 percent compared to 1.83 percent for the same period in 2018. The Association's return on average equity for the nine months ended September 30, 2019, was 8.31 percent, compared to 8.82 percent for the same period in 2018.

Noninterest income for the three and nine months ended September 30, 2019, decreased by $171,379 and $796,052, or 8.7 and 12.1 percent, respectively, compared to the same period of 2018, primarily due to a $963,257 refund of excess insurance funds balances in the allocated insurance reserve accounts (AIRCs) from the Farm Credit System Insurance Corporation (FCSIC) received in the first quarter of 2018 compared to a $340,601 refund received in the first quarter of 2019. Noninterest expenses for the three and nine months ended September 30, 2019, decreased by $1,481,624 and $305,623, or 19.7 and 1.5 percent, compared to the same period of 2018, primarily due to a decrease in purchased services as a result of a reduction in consulting, legal, and audit expenses. The decrease in noninterest expense is offset by an increase in salaries and employee benefits resulting from additional hiring to meet planned staffing needs, tax-related payments on benefits, and a decrease in deferred loan origination costs. Travel cost have increased from the prior year due to increased trainings related to new systems and new procedures. Additional costs are also associated with advertising and public and member relations as the Association explores new marketing initiatives.

Provisions for loan losses for the three and nine months ended September 30, 2019, decreased by $1,267,289 and $1,743,517, or 120.3 and 1,725.8 percent, compared to the same period last year. The provision decrease is primarily due to a provision reversal resulting from a reduction of outstanding debt and updated collateral analysis in the Association's special asset portfolio.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2019	December 31, 2018
Note payable to the bank	**$ 1,282,270,478**	$ 1,216,709,990
Accrued interest on note payable	**3,104,473**	2,990,229
Total	**$ 1,285,374,951**	$ 1,219,700,219

The outstanding balance of the note payable to the Bank was $1,282,270,478 as of September 30, 2019, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.89 percent at September 30, 2019. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2018, correlates directly with the overall increase in the Association accrual loan volume for the period and increased average cost of interest bearing-liabilities. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $337,804,504 at September 30, 2019. The maximum amount the Association may borrow from the Bank as of September 30, 2019, was $1,617,363,652 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.

Capital Resources:

The Association's capital position increased by $21,725,992 at September 30, 2019, compared to December 31, 2018. The Association's debt as a percentage of members' equity was 3.55:1 as of September 30, 2019, compared to 3.64:1 as of December 31, 2018.

FCA regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2019, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements:

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

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

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

In 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 did not impact the Association's financial condition or its results of operations as the Association did not hold qualifying hedges.

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

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The adoption of this guidance did not materially impact the Association's financial condition and results of operations but did impact lease disclosures. The Association adopted this guidance on January 1, 2019 and upon adoption, recorded a $1,488,212 right of use asset, and a $1,488,212 lease liability with no adjustment to retained earnings.

Relationship With the Farm Credit Bank of Texas:

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

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Lone Star, ACA, 1612 Summit Avenue, Suite 300, Fort Worth, Texas 76102 or calling (817) 332-6565. The annual and quarterly stockholder reports for the Association are also available on its website at www.lonestaragcredit.com. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing ShareHolderRelations@lonestaragcredit.com.

LONE STAR, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2019 (unaudited)	December 31, 2018
ASSETS		
Cash	$ 370,519	$ 100,291
Loans	1,620,110,767	1,559,619,163
Less: allowance for loan losses	(7,089,041)	(8,645,430)
Net loans	1,613,021,726	1,550,973,733
Accrued interest receivable	10,869,068	8,983,739
Investment in and receivable from the Bank:		
Capital stock	26,555,545	26,555,545
Other	5,584,257	3,047,429
Premises and equipment, net	3,041,988	3,088,636
Other assets	3,542,837	1,360,525
Total assets	$ 1,662,985,940	$ 1,594,109,898
LIABILITIES		
Note payable to the Bank	$ 1,282,270,478	$ 1,216,709,990
Accrued interest payable	3,104,473	2,990,229
Drafts outstanding	71,715	76,843
Patronage dividends payable	-	20,278,837
Other liabilities	12,385,904	10,626,621
Total liabilities	1,297,832,570	1,250,682,520
MEMBERS' EQUITY		
Capital stock and participation certificates	5,779,700	5,911,140
Additional paid-in capital	91,343,553	91,343,553
Unallocated retained earnings	268,437,156	246,571,786
Accumulated other comprehensive income (loss)	(407,039)	(399,101)
Total members' equity	365,153,370	343,427,378
Total liabilities and members' equity	$ 1,662,985,940	$ 1,594,109,898

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

LONE STAR, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
INTEREST INCOME				
Loans	**$ 20,972,678**	$ 20,117,461	**$ 62,319,550**	$ 63,616,695
Total interest income	**20,972,678**	20,117,461	**62,319,550**	63,616,695
INTEREST EXPENSE				
Note payable to the Bank	**9,519,308**	9,055,874	**27,730,485**	26,498,312
Advance conditional payments	**2,864**	334	**3,734**	368
Total interest expense	**9,522,172**	9,056,208	**27,734,219**	26,498,680
Net interest income	**11,450,506**	11,061,253	**34,585,331**	37,118,015
PROVISION FOR LOAN LOSSES				
(Loan loss reversal) provision for credit losses	**(213,726)**	1,053,563	**(1,844,544)**	(101,027)
Net interest income after provision for credit losses	**11,664,232**	10,007,690	**36,429,875**	37,219,042
NONINTEREST INCOME				
Income from the Bank:				
Patronage income	**1,650,037**	1,662,908	**4,881,394**	4,825,119
Loan fees	**160,239**	80,772	**307,158**	226,922
Refunds from FCSIC	**-**	-	**340,601**	963,257
Financially related services income	**1,302**	1,113	**5,004**	5,496
(Loss) Gain on other property owned, net	**(88,458)**	-	**(113,593)**	26,318
Gain on sale of premises and equipment, net	**74,346**	182,577	**226,202**	263,045
Other noninterest income	**-**	41,475	**132,537**	265,198
Total noninterest income	**1,797,466**	1,968,845	**5,779,303**	6,575,355
NONINTEREST EXPENSES				
Salaries and employee benefits	**3,543,432**	3,345,019	**12,276,553**	10,253,230
Directors' expense	**168,096**	118,727	**453,365**	355,306
Purchased services	**647,158**	2,234,830	**1,958,168**	4,735,355
Travel	**249,993**	285,858	**803,214**	682,292
Occupancy and equipment	**383,141**	325,796	**1,177,499**	1,086,412
Communications	**94,476**	91,869	**283,841**	278,212
Advertising	**142,629**	159,221	**458,307**	387,310
Public and member relations	**157,739**	231,275	**803,605**	654,065
Supervisory and exam expense	**163,969**	135,356	**491,909**	463,996
Insurance Fund premiums	**256,737**	271,035	**761,854**	834,901
Other components of net periodic postretirement benefit cost	**68,611**	55,904	**205,832**	167,712
Other noninterest expense	**176,104**	278,819	**624,478**	705,457
Total noninterest expenses	**6,052,085**	7,533,709	**20,298,625**	20,604,248
Income before income taxes	**7,409,613**	4,442,826	**21,910,553**	23,190,149
(Benefit from) provision for income taxes	**(18,784)**	6,189	**(52,971)**	18,018
NET INCOME	**7,428,397**	4,436,637	**21,963,524**	23,172,131
Other comprehensive income:				
Change in postretirement benefit plans	**(2,646)**	14,811	**(7,938)**	44,433
Other comprehensive income, net of tax	**(2,646)**	14,811	**(7,938)**	44,433
COMPREHENSIVE INCOME	**$ 7,425,751**	$ 4,451,448	**$ 21,955,586**	$ 23,216,564

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

LONE STAR, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2017	$ 6,386,865	$ 91,343,553	$ 244,270,903	$ (1,357,769)	$ 340,643,552
Comprehensive income	-	-	23,172,131	44,433	23,216,564
Capital stock/participation certificates and allocated retained earnings issued	308,510	-	-	-	308,510
Capital stock/participation certificates and allocated retained earnings retired	(668,555)	-	-	-	(668,555)
Patronage dividends declared	-	-	(7,049,954)	-	(7,049,954)
Balance at September 30, 2018	$ 6,026,820	$ 91,343,553	$ 260,393,080	$ (1,313,336)	$ 356,450,117
Balance at December 31, 2018	$ 5,911,140	$ 91,343,553	$ 246,571,786	$ (399,101)	$ 343,427,378
Comprehensive income	-	-	21,963,524	(7,938)	21,955,586
Capital stock/participation certificates and allocated retained earnings issued	497,645	-	-	-	497,645
Capital stock/participation certificates and allocated retained earnings retired	(629,085)	-	-	-	(629,085)
Patronage dividends declared	-	-	(98,154)	-	(98,154)
Balance at September 30, 2019	**$ 5,779,700**	**$ 91,343,553**	**$ 268,437,156**	**$ (407,039)**	**$ 365,153,370**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Lone Star, ACA, including its wholly-owned subsidiaries, Lone Star, PCA and Lone Star, FLCA (collectively referred to as "the Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Bell, Borden, Bosque, Bowie, Burnet, Camp, Cass, Cooke, Coryell, Dallas, Delta, Denton, Eastland, Ellis, Erath, Falls, Fannin, Fisher, Freestone, Grayson, Hamilton, Hill, Hood, Johnson, Kent, Lamar, Lampasas, Limestone, McLennan, Milam, Mitchell, Morris, Navarro, Nolan, Palo Pinto, Parker, Red River, Scurry, Shackelford, Somervell, Stephens, Tarrant, Taylor, Throckmorton, Titus, Williamson, Wise and Young in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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

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

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

Loans comprised the following categories, at:

Loan Type	September 30, 2019 Amount	December 31, 2018 Amount
Production agriculture:		
Real estate mortgage	**$ 1,274,099,941**	$ 1,252,662,987
Production and intermediate term	**85,210,777**	93,568,833
Agribusiness:		
Loans to cooperatives	**15,500,888**	8,732,264
Processing and marketing	**142,676,540**	130,123,023
Farm-related business	**28,783,895**	12,730,535
Communication	**23,705,412**	8,957,584
Energy	**35,876,683**	37,724,209
Water and waste water	**5,513,474**	4,947,208
Rural residential real estate	**8,743,157**	10,172,520
Total	**$ 1,620,110,767**	$ 1,559,619,163

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 16,705,324	$ 7,498,988	$ -	$ -	$ 16,705,324	$ 7,498,988
Production and intermediate term	39,244,123	-	-	-	39,244,123	-
Agribusiness	154,550,063	-	-	-	154,550,063	-
Communication	23,705,412	-	-	-	23,705,412	-
Energy	35,876,683	-	-	-	35,876,683	-
Water and waste water	3,839,893	-	1,673,581	-	5,513,474	-
Total	$ 273,921,498	$ 7,498,988	$ 1,673,581	$ -	$ 275,595,079	$ 7,498,988

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. Balances of ACPs were $14,676,183 and $9,093,235 at September 30, 2019, and December 31, 2018, respectively.

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

	September 30, 2019	December 31, 2018
Nonaccrual loans:		
Real estate mortgage	**$ 2,982,104**	$ 4,156,191
Production and intermediate term	**29,664**	47,546
Rural residential real estate	**14,531**	152,293
Total nonaccrual loans	**3,026,299**	4,356,030
Accruing restructured loans:		
Real estate mortgage	**103,617**	109,118
Production and intermediate term	**1,052,853**	1,365,382
Total accruing restructured loans	**1,156,470**	1,474,500
Total nonperforming loans	**4,182,769**	5,830,530
Total nonperforming assets	**$ 4,182,769**	$ 5,830,530

During the nine months ended September 30, 2019, the Association experienced a $1,329,731 net decrease in nonaccrual loan volume for a total outstanding volume of $3,026,299 as of September 30, 2019. The primary driver of the decrease in nonaccruals from 2018 was loan payoffs in real estate mortgage nonaccrual loans.

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

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

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2019	December 31, 2018
Real estate mortgage		
Acceptable	**96%**	95%
OAEM	**3%**	4%
Substandard/doubtful	**1%**	1%
	100%	100%
Production and intermediate term		
Acceptable	**91%**	93%
OAEM	**8%**	6%
Substandard/doubtful	**1%**	1%
	100%	100%
Loans to cooperatives		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Processing and marketing		
Acceptable	**92%**	100%
OAEM	**8%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Farm-related business		
Acceptable	**100%**	99%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	1%
	100%	100%
Communication		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Energy		
Acceptable	**86%**	98%
OAEM	**2%**	2%
Substandard/doubtful	**12%**	0%
	100%	100%
Water and waste water		
Acceptable	**100%**	100%
OAEM	**0%**	0%
Substandard/doubtful	**0%**	0%
	100%	100%
Rural residential real estate		
Acceptable	**97%**	97%
OAEM	**1%**	1%
Substandard/doubtful	**2%**	2%
	100%	100%
Total loans		
Acceptable	**95%**	95%
OAEM	**4%**	4%
Substandard/doubtful	**1%**	1%
	100%	100%

The following tables provide an age analysis of the loan portfolio (including accrued interest) as of:

September 30, 2019	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**
Real estate mortgage	**$ 3,904,607**	**$ 136,888**	**$ 4,041,495**	**$ 1,279,566,698**	**$ 1,283,608,193**
Production and intermediate term	**341,516**	**29,664**	**371,180**	**85,587,654**	**85,958,834**
Loans to cooperatives	**-**	**-**	**-**	**15,527,999**	**15,527,999**
Processing and marketing	**-**	**-**	**-**	**142,899,130**	**142,899,130**
Farm-related business	**-**	**-**	**-**	**28,946,692**	**28,946,692**
Communication	**-**	**-**	**-**	**23,707,776**	**23,707,776**
Energy	**-**	**-**	**-**	**36,036,277**	**36,036,277**
Water and waste water	**-**	**-**	**-**	**5,523,706**	**5,523,706**
Rural residential real estate	**7,824**	**-**	**7,824**	**8,763,404**	**8,771,228**
Total	**$ 4,253,947**	**$ 166,552**	**$ 4,420,499**	**$ 1,626,559,336**	**$ 1,630,979,835**

December 31, 2018	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 2,622,847	$ 732,799	$ 3,355,646	$ 1,257,465,669	$ 1,260,821,315
Production and intermediate term	10,470	47,546	58,016	93,970,764	94,028,780
Loans to cooperatives	-	-	-	8,739,066	8,739,066
Processing and marketing	-	-	-	130,279,773	130,279,773
Farm-related business	-	-	-	12,765,501	12,765,501
Communication	-	-	-	8,958,923	8,958,923
Energy	85,370	-	85,370	37,806,152	37,891,522
Water and waste water	-	-	-	4,952,834	4,952,834
Rural residential real estate	9,064	121,085	130,149	10,035,039	10,165,188
Total	$ 2,727,751	$ 901,430	$ 3,629,181	$ 1,564,973,721	$ 1,568,602,902

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

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

As of September 30, 2019, the total recorded investment of troubled debt restructured loans was $1,218,974, including $62,504 classified as nonaccrual and $1,156,470 classified as accrual, with no specific allowance for loan losses. As of September 30, 2019, commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were zero at period end and at December 31, 2018.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three months ended September 30, 2018 and nine months ended September 30, 2019 and 2018. There were no troubled debt restructurings that occurred during the three months ended September 30, 2019. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

For the Three Months Ended September 30, 2018	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 201,506	$ 201,506
Rural residential real estate	120,213	121,085
Total	$ 321,719	$ 322,591

For the Nine Months Ended September 30, 2019	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 26,000	$ 23,433
Total	$ 26,000	$ 23,433

For the Nine Months Ended September 30, 2018	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 381,922	$ 376,428
Rural residential real estate	120,213	121,085
Total	$ 502,135	$ 497,513

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no restructurings where principal was forgiven that required a charge-off, at the modification date, for the three and nine months ended September 30, 2019 and 2018, respectively.

The predominant form of concession granted for troubled debt restructuring includes a delay in the repayment of principal. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

At September 30, 2019, the Association had no payment defaults on loans that were restructured within the previous 12 months. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Real estate mortgage	$ 166,121	$ 497,525	$ 62,504	$ 388,407
Production and intermediate term	1,052,853	1,391,122	-	25,740
Rural residential real estate	-	121,085	-	121,085
Total	$ 1,218,974	$ 2,009,732	$ 62,504	$ 535,232

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

Additional impaired loan information is as follows:

	September 30, 2019			December 31, 2018		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	$ -	$ -	$ -	$ 569,621	$ 649,861	$ 136,829
Production and intermediate term	-	-	-	21,363	85,499	4,450
Rural residential real estate	-	-	-	121,085	168,942	49,207
Total	$ -	$ -	$ -	$ 712,069	$ 904,302	$ 190,486
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 3,085,721**	**$ 3,143,292**	**$ -**	$ 3,695,688	$ 3,779,159	$ -
Production and intermediate term	**1,082,517**	**1,507,650**	**-**	1,391,565	2,469,221	-
Rural residential real estate	**14,531**	**14,727**	**-**	31,208	31,404	-
Total	**$ 4,182,769**	**$ 4,665,669**	**$ -**	$ 5,118,461	$ 6,279,784	$ -
Total impaired loans:						
Real estate mortgage	**$ 3,085,721**	**$ 3,143,292**	**$ -**	$ 4,265,309	$ 4,429,020	$ 136,829
Production and intermediate term	**1,082,517**	**1,507,650**	**-**	1,412,928	2,554,720	4,450
Rural residential real estate	**14,531**	**14,727**	**-**	152,293	200,346	49,207
Total	**$ 4,182,769**	**$ 4,665,669**	**$ -**	$ 5,830,530	$ 7,184,086	$ 190,486

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2019		September 30, 2018		September 30, 2019		September 30, 2018	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	$ -	$ -	$ 862,284	$ -	$ -	$ -	$ 530,847	$ 11,207
Production and intermediate term	-	-	195,603	-	-	-	395,663	2,325
Farm-related business	-	-	-	-	-	-	-	-
Rural residential real estate	-	-	120,624	-	-	-	59,982	2,243
Total	$ -	$ -	$ 1,178,511	$ -	$ -	$ -	$ 986,492	$ 15,775
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 3,103,623**	**$ 6,095**	$ 3,597,585	$ 4,433	**$ 3,444,794**	**$ 16,150**	$ 4,592,254	$ 23,085
Production and intermediate term	**1,103,417**	**13,726**	1,489,201	27,076	**1,118,940**	**43,686**	1,643,249	86,170
Farm-related business	-	-	-	1,844	-	-	-	10,647
Rural residential real estate	**15,909**	-	39,271	-	**82,349**	-	45,201	-
Total	**$ 4,222,949**	**$ 19,821**	$ 5,126,057	$ 33,353	**$ 4,646,083**	**$ 59,836**	$ 6,280,704	$ 119,902
Total impaired loans:								
Real estate mortgage	**$ 3,103,623**	**$ 6,095**	$ 4,459,869	$ 4,433	**$ 3,444,794**	**$ 16,150**	$ 5,123,101	$ 34,292
Production and intermediate term	**1,103,417**	**13,726**	1,684,804	27,076	**1,118,940**	**43,686**	2,038,912	88,495
Farm-related business	-	-	-	1,844	-	-	-	10,647
Rural residential real estate	**15,909**	-	159,895	-	**82,349**	-	105,183	2,243
Total	**$ 4,222,949**	**$ 19,821**	$ 6,304,568	$ 33,353	**$ 4,646,083**	**$ 59,836**	$ 7,267,196	$ 135,677

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at June 30, 2019	$ 4,866,078	$ 953,947	$ 565,987	$ 16,093	$ 575,172	$ 55,001	$ 7,032,278
Charge-offs	-	(24,265)	-	-	-	-	(24,265)
Recoveries	-	183,997	7,886	-	-	85,769	277,652
(Loan loss reversal) provision for credit losses	(104,082)	(175,865)	184,492	4,973	(13,641)	(109,603)	(213,726)
Other*	-	23,032	(8,750)	173	2,647	-	17,102
Balance at September 30, 2019	$ 4,761,996	$ 960,846	$ 749,615	$ 21,239	$ 564,178	$ 31,167	$ 7,089,041
Balance at December 31, 2018	$ 6,497,578	$ 1,457,800	$ 350,450	$ 12,783	$ 224,208	$ 102,611	$ 8,645,430
Charge-offs	(141,299)	(55,953)	-	-	-	(50,249)	(247,501)
Recoveries	57,105	359,647	23,790	-	-	85,769	526,311
(Loan loss reversal) provision for credit losses	(1,651,280)	(841,161)	412,876	8,828	333,157	(106,964)	(1,844,544)
Other*	(108)	40,513	(37,501)	(372)	6,813	-	9,345
Balance at September 30, 2019	$ 4,761,996	$ 960,846	$ 749,615	$ 21,239	$ 564,178	$ 31,167	$ 7,089,041
Ending Balance:							
Collectively evaluated for impairment	4,761,996	960,846	749,615	21,238	564,179	31,166	7,089,041
Balance at September 30, 2019	$ 4,761,996	$ 960,846	$ 749,615	$ 21,238	$ 564,179	$ 31,166	$ 7,089,041
Balance at June 30, 2018	$ 5,842,098	$ 1,218,325	$ 500,664	$ 11,909	$ 186,075	$ 107,302	$ 7,866,373
Charge-offs	-	(124,270)	-	-	-	-	(124,270)
Recoveries	-	200,722	76,826	-	-	-	277,548
(Loan loss reversal) provision for credit losses	886,218	329,372	(179,754)	55	22,652	(4,980)	1,053,563
Other*	(857)	6,692	(7,442)	54	4,475	-	2,922
Balance at September 30, 2018	$ 6,727,459	$ 1,630,841	$ 390,294	$ 12,018	$ 213,202	$ 102,322	$ 9,076,136
Balance at December 31, 2017	$ 6,775,679	$ 1,510,355	$ 530,851	$ 15,578	$ 188,448	$ 161,086	$ 9,181,997
Charge-offs	(108,113)	(484,991)	-	-	-	(47,857)	(640,961)
Recoveries	-	253,317	220,078	-	-	-	473,395
(Loan loss reversal) provision for credit losses	56,303	218,950	(378,812)	(3,546)	16,985	(10,907)	(101,027)
Other*	3,590	133,210	18,177	(14)	7,769	-	162,732
Balance at September 30, 2018	$ 6,727,459	$ 1,630,841	$ 390,294	$ 12,018	$ 213,202	$ 102,322	$ 9,076,136
Ending Balance:							
Individually evaluated for impairment	$ 52,852	$ 219,141	$ -	$ -	$ -	$ 49,012	$ 321,005
Collectively evaluated for impairment	6,674,607	1,411,700	390,294	12,018	213,202	53,310	8,755,131
Balance at September 30, 2018	$ 6,727,459	$ 1,630,841	$ 390,294	$ 12,018	$ 213,202	$ 102,322	$ 9,076,136

* Changes in allowance reserves on unfunded commintments

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at September 30, 2019	$ 1,283,608,193	$ 85,958,834	$ 187,373,821	$ 23,707,776	$ 41,559,983	$ 8,771,228	$ 1,630,979,835
Individually evaluated for impairment	$ 3,085,721	$ 1,082,517	$ -	$ -	$ -	$ 14,531	$ 4,182,769
Collectively evaluated for impairment	$ 1,280,522,472	$ 84,876,317	$ 187,373,821	$ 23,707,776	$ 41,559,983	$ 8,756,697	$ 1,626,797,066
Ending Balance at December 31, 2018	$ 1,260,821,315	$ 94,028,780	$ 151,784,340	$ 8,958,923	$ 42,844,356	$ 10,165,188	$ 1,568,602,902
Individually evaluated for impairment	$ 4,265,309	$ 1,412,928	$ -	$ -	$ -	$ 152,293	$ 5,830,530
Collectively evaluated for impairment	$ 1,256,556,006	$ 92,615,852	$ 151,784,340	$ 8,958,923	$ 42,844,356	$ 10,012,895	$ 1,562,772,372

NOTE 3 —LEASES:

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

	Balance Sheet Classification	As of September 30, 2019	As Previously Reported December 31, 2018	Lease Standard Adjustment	As Restated January 1, 2019
Operating leases	Operating lease right-of-use asset	$ 2,088,191	$ -	$ 1,488,212	$ 1,488,212
Total lease assets		$ 2,088,191	$ -	$ 1,488,212	$ 1,488,212
Operating leases	Operating lease liabilities	$ 2,097,497	$ -	$ 1,488,212	$ 1,488,212
Total lease liabilities		$ 2,097,497	$ -	$ 1,488,212	$ 1,488,212

The Association’s operating leases consist of five office space leases and one consolidated copier lease.

The components of lease expense were as follows:

	Classificaiton	Nine Months Ended September 30, 2019
Operating lease cost	Operating	$ 429,681

Other information related to leases was as follows:

	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 415,716

Lease term and discount rate are as follows:

		September 30, 2019
Weighted average remaining lease term in years		
Operating leases	$	4
Weighted average discount rate		
Operating leases		2.9%

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

		Operating Leases
2019 (excluding the nine months ended 9/30/19)	$	145,615
2020		583,612
2021		596,639
2022		393,669
2023		354,246
Thereafter		150,103
Total lease payments	$	2,223,884

NOTE 4 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected patronage 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 and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	**Regulatory Minimums**	**Conservation Buffer**	**Total Regulatory Requirement**	**As of September 30, 2019**
Common equity tier 1 ratio	4.50%	2.50%	7.00%	19.73%
Tier 1 capital ratio	6.00%	2.50%	8.50%	19.73%
Total capital ratio	8.00%	2.50%	10.50%	20.17%
Permanent capital ratio	7.00%	0.00%	7.00%	19.81%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	20.64%
UREE leverage ratio	1.50%	0.00%	1.50%	21.93%

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

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

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

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

- Common equity tier 1 ratio is statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to 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 5 years, allocated equities held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance and reserve for credit losses under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- UREE leverage ratio is unallocated retained earnings, paid-in capital, allocated surplus not subject to 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 minimum regulatory requirements, including the capital conservation and leverage buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary bonus payments to senior officers 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 September 30, 2019:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	$ 195,072,947	$ 195,072,947	$ 195,072,947	$ 195,072,947
Paid-in capital	91,343,553	91,343,553	91,343,553	91,343,553
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	5,778,193	5,778,193	5,778,193	5,778,193
Nonqualified allocated equities not subject to retirement	65,733,966	65,733,966	65,733,966	65,733,966
Allowance for loan losses and reserve for credit losses subject to certain limi	-	-	7,401,900	-
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	(26,555,545)	(26,555,545)	(26,555,545)	(26,555,545)
	$ 331,373,114	$ 331,373,114	$ 338,775,014	$ 331,373,114
Denominator:				
Risk-adjusted assets excluding allowance	$ 1,706,346,215	$ 1,706,346,215	$ 1,706,346,215	$ 1,706,346,215
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	(26,555,545)	(26,555,545)	(26,555,545)	(26,555,545)
Allowance for loan losses	-	-	-	(7,206,394)
	$ 1,679,790,670	$ 1,679,790,670	$ 1,679,790,670	$ 1,672,584,276

The components of the Association's non-risk-adjusted capital, based on 90 day average balances, were as follows at September 30, 2019:

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**$ 195,072,947**	**$ 195,072,947**
Paid-in capital	**91,343,553**	**91,343,553**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**5,778,193**	**-**
Nonqualified allocated equities not subject to retirement	**65,733,966**	**65,733,966**
Amount of allocated investments in other System institutions	**(26,555,545)**	**(1,000)**
	$ 331,373,114	**$ 352,149,466**
Denominator:		
Total Assets	**$ 1,635,645,441**	**$ 1,635,645,441**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(29,884,013)**	**(29,884,013)**
	$ 1,605,761,428	**$ 1,605,761,428**

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

Accumulated Other Comp Income (Loss)

September 30, 2019	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ (7,938)**	**$ -**	**$ (7,938)**
Total	**$ (7,938)**	**$ -**	**$ (7,938)**

September 30, 2018	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ 44,433	$ -	$ 44,433
Total	$ 44,433	$ -	$ 44,433

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

	2019	**2018**
Accumulated other comprehensive income (loss) at January 1	**$ (399,101)**	$ (1,357,769)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(19,887)**	(19,551)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**11,949**	63,984
Other comprehensive income (loss), net of tax	**(7,938)**	44,433
Accumulated other comprehensive income (loss) at September 30	**$ (407,039)**	$ (1,313,336)

NOTE 5 — INCOME TAXES:

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

As of September 30, 2019, the deferred income tax valuation allowance was $10,517,705.

NOTE 6 — FAIR VALUE MEASUREMENTS:

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

Assets and liabilities measured at fair value on a recurring basis are summarized below:

September 30, 2019	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 239,166**	**$ -**	**$ -**	**$ 239,166**
Total assets	**$ 239,166**	**$ -**	**$ -**	**$ 239,166**

December 31, 2018	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 159,320	$ -	$ -	$ 159,320
Total assets	$ 159,320	$ -	$ -	$ 159,320

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

September 30, 2019	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ -**	**$ -**

December 31, 2018	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 515,785	$ 515,785

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

Valuation Techniques

As more fully discussed in Note 2 to the 2018 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities.

Assets Held in Nonqualified Benefits Trusts

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

Loans Evaluated for Impairment

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

NOTE 7 — EMPLOYEE BENEFIT 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.

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

	Other Benefits	
	2019	2018
Service cost	**$ 75,157**	$ 67,244
Interest cost	**161,402**	161,552
Amortization of prior service (credits) costs	**(19,552)**	(26,068)
Amortization of net actuarial (gain) loss	**63,982**	32,228
Net periodic benefit cost	**$ 280,989**	$ 234,956

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2019, was $4,752,840 and is included in "Other Liabilities" in the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement. The Association previously disclosed in its financial statements for the year ended December 31, 2018, that it expects to contribute $198,179 to the district's DC plan in 2019.

The structure of the district's DB plan, which is noncontributory and benefits are based on salary and years of service, is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and Associations). The Association recognizes its amortized annual contributions to the DB plan as an expense. The Association has contributed $464,696 to fund the DB plan for 2019. As of September 30, 2019, the Association has expensed and recognized $348,522.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

In the normal course of business, the Association has various outstanding commitments and contingent liabilities, including the possibility of actions against the association in which claims for monetary damages may be asserted. Upon the basis of current information, management and legal counsel are of the opinion that the ultimate liability, if any, resulting from lawsuits or other pending actions will not be material in relation to the financial position, results of operations or cash flows of the Association.

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 8, 2019, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 8, 2019.