Farm Credit 2019 Annual Report

FOCUSED
ON WHAT MATTERS

FOCUSED | ON CUSTOMER EXPERIENCE

We are a customer service company that is customer owned and customer driven.

We pride ourselves on a tradition of creating and fostering a feeling of family within our membership, our employees, and our community.

We pledge to provide our members service that is authentic, compassionate, and prudent, and we will work to create processes and interactions that are transparent, ethical and easy to use.

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FOCUSED
ON WHAT MATTERS

PRESIDENT'S MESSAGE

Thomas H. Truitt, Jr.
Chief Executive Officer

As I began to think about writing this message, I found it difficult to reflect solely on the 12 months that made up 2019. This past year marked the end of a decade. I'm not one to live in the past, but it's hard not to think about all that's changed since we turned the calendar over to 2010. Can you name one industry that hasn't undergone its fair share of disruption?

We've seen highs and lows in both the financial and agriculture industries. Our political climate, the unpredictable markets, and changing consumer behavior made waves across our country and the world. Technology undoubtedly drives much of our world today, with talks of artificial intelligence, robots, and self-driving cars no longer being thoughts of the future. Innovation is happening now, all around us, each and every day.

What will this decade bring?

In the fall of 2019, we set out to develop our 2020 Business Plan. We do this each year, but for some reason, this planning session felt different. The direction our Association is headed in has always been forward, but the momentum is more tangible this time around. Maybe it's the excitement around the new decade, but I think it's a result of a shift we made internally — becoming customer-centric, not just customer-focused.

Everything we do at MidAtlantic Farm Credit has you, our membership, at its core. The decisions we make, technology we research, and projects we implement are all done with your experience in mind. You are the reason for our success, and we don't take that for granted. In fact, we celebrate you. Our patronage program is one way we do that, and being able to distribute over $40 million in cash throughout 2019 is something we were extremely proud to do.

Another way we do this is by asking for your advice. We can't adequately plan for the future of our Association without knowing what your future plans are, and what you want or need from a financial partner. We're actively studying survey response data, interviewing customers, and recently created customer advisory committees, which will help us further understand the role we play in our members' lives, and how we can enhance the overall member experience.

As a cooperative, we rely on our membership to make their voices heard by running for and voting on our Board of Directors. But by giving us your feedback, your voice becomes amplified. If you receive a survey from us, please don't hold back. As you talk with your loan officer or any other employee, let us know if there's anything you feel we can improve upon. I also invite you to email me directly at **ceo@mafc.com** with your advice and feedback at any time.

My actual vision may not be 20/20 (I always have glasses in hand), but our vision for 2020 is clear: a focus on you, your family, and our communities.

On behalf of all of us at MidAtlantic Farm Credit, thank you for trusting us, and we look forward to working with you throughout this next decade.

Thomas H. Truitt, Jr.
Chief Executive Officer

"Everything we do at MidAtlantic Farm Credit has you, our membership, at its core."

FINANCIAL HIGHLIGHTS

NET INCOME $63.8 MILLION

2019	$63.8
2018	$67.9
2017	$76.6
2016	$57.3
2015	$53.1

OPERATING EXPENSES 38%

as a Percentage of Net Interest and Non-Interest Income

2019	38%
2018	37%
2017	29%
2016	42%
2015	45%

NET LOANS $2,812.8 MILLION

2019	$2,812.8
2018	$2,773.4
2017	$2,691.3
2016	$2,583.0
2015	$2,431.8

MEMBERS' EQUITY $661.5 MILLION

2019	$661.5
2018	$635.0
2017	$607.4
2016	$568.5
2015	$539.7

MEMBER CASH DISTRIBUTIONS $40.7 MILLION

2019	$40.7
2018	$37.8
2017	$28.6
2016	$31.5
2015	$35.5

ACCEPTABLE CREDIT QUALITY 96.1%

2019	96.1%
2018	96.9%
2017	98.1%
2016	98.2%
2015	97.8%

CONSOLIDATED FIVE-YEAR SUMMARY OF
SELECTED FINANCIAL DATA

(dollars in thousands)	2019	2018	December 31, 2017	2016	2015
Balance Sheet Data					
Cash	**$ 3,508**	$ 4,376	$ 4,690	$ 3,894	$ 6,578
Loans	**2,844,993**	2,803,479	2,717,226	2,607,353	2,456,577
Allowance for loan losses	**(32,197)**	(30,090)	(25,949)	(24,377)	(24,780)
Net loans	**2,812,796**	2,773,389	2,691,277	2,582,976	2,431,797
Equity investments in other Farm Credit institutions	**32,825**	32,074	31,277	29,172	27,067
Other property owned	**1,415**	622	240	729	290
Other assets	**66,855**	71,419	70,010	59,954	58,959
Total assets	**$ 2,917,399**	$2,881,880	$2,797,494	$2,676,725	$2,524,691
Notes payable to AgFirst Farm Credit Bank*	**$ 2,192,656**	$2,181,496	$2,121,161	$2,040,901	$1,914,310
Accrued interest payable and other liabilities with maturities of less than one year	**63,198**	65,434	68,972	67,294	70,674
Total liabilities	**2,255,854**	2,246,930	2,190,133	2,108,195	1,984,984
Capital stock and participation certificates	**10,974**	10,744	10,550	10,264	9,950
Retained earnings					
Allocated	**409,174**	388,255	365,603	332,358	309,030
Unallocated	**241,769**	236,149	231,530	226,148	221,238
Accumulated other comprehensive income (loss)	**(372)**	(198)	(322)	(240)	(511)
Total members' equity	**661,545**	634,950	607,361	568,530	539,707
Total liabilities and members' equity	**$ 2,917,399**	$2,881,880	$2,797,494	$2,676,725	$2,524,691
Statement of Income Data					
Net interest income	**$ 73,577**	$ 71,266	$ 69,479	$ 66,920	$ 65,205
Provision for (reversal of allowance for) loan losses	**4,000**	4,000	2,000	750	(567)
Noninterest income (expense), net	**(5,805)**	624	9,088	(8,824)	(12,698)
Net income	**$ 63,772**	$ 67,890	$ 76,567	$ 57,346	$ 53,074
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.22%**	2.43%	2.82%	2.23%	2.23%
Total members' equity	**9.74%**	10.84%	13.02%	10.26%	9.88%
Net interest income as a percentage of average earning assets	**2.61%**	2.59%	2.60%	2.65%	2.79%
Net (chargeoffs) recoveries to average loans	**(0.07)%**	0.01%	(0.02)%	(0.05)%	0.02%
Total members' equity to total assets	**22.68%**	22.03%	21.71%	21.24%	21.38%
Debt to members' equity (:1)	**3.41**	3.54	3.61	3.71	3.68
Allowance for loan losses to loans	**1.13%**	1.07%	0.95%	0.93%	1.01%
Permanent capital ratio	**20.91%**	20.26%	19.67%	20.05%	20.58%
Total surplus ratio	**	**	**	19.71%	20.23%
Core surplus ratio	**	**	**	18.91%	19.86%
Common equity tier 1 capital ratio	**19.69%**	18.84%	18.55%	**	**
Tier 1 capital ratio	**19.69%**	18.84%	18.55%	**	**
Total regulatory capital ratio	**21.81%**	21.09%	20.44%	**	**
Tier 1 leverage ratio	**20.78%**	19.88%	19.64%	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**20.75%**	19.39%	17.89%	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 17,000**	$ 20,000	$ 18,517	$ 12,595	$ 16,636
Nonqualified retained earnings	**41,251**	43,589	52,282	39,885	30,895

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2020.*
*** Not applicable due to changes in regulatory capital requirements effective January 1, 2017.*

FOCUSED | ON OUR LOCAL COMMUNITIES

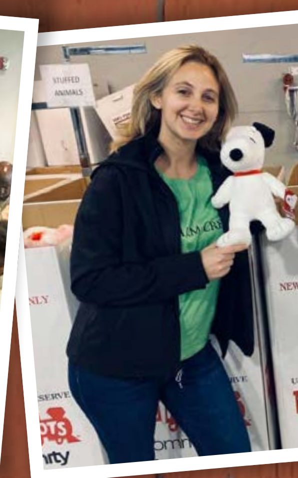
Cooperatives are guided by seven principles, making the way Farm Credit does business truly unique. One of those principles is dedication to community service. MidAtlantic Farm Credit's community spans five states, making our community both large and diverse. We're proud to support those who live and work within our footprint, and our employees are always looking for new and different ways to accomplish this.

Every year, each MidAtlantic Farm Credit employee receives eight paid hours of community service time. In 2019, our employees logged over **2,000 hours** of community service — well above the given eight hours!

In addition to volunteer hours, MidAtlantic Farm Credit employees donated **over $10,700** to various local charities and organizations throughout 2019. This amount surpassed the $6,000 donated in 2018, making a large impact on our neighbors and their families.

Some of the organizations our staff volunteered with and donated to include:

Alzheimer's Association
Baltimore Animal Rescue & Care Shelter
Bright Futures Frederick/Winchester
Boys and Girls Club of Westminster
Burrsville Ruritan
Caroline County Farm Bureau
Choptank Ruritan Club
Clarke County 4-H
Code Purple Kent County
Delaware 4-H Foundation
Delaware Agricultural Museum
Food Bank of Delaware
For the Love of Dogs Rescue
Hope and Life Outreach (HALO)
Just in Power Kids
Lancaster County Agriculture Council
Lebanon Community Theater
Maryland FFA Foundation, Inc.
Meals on Wheels
Mid-Shore Community Foundation
Smyrna FFA Alumni Association
Special Olympics of York County
St. Jude Children's Research Hospital
The Virginia Tech Foundation
Walkersville Rescue Company
Westminster Municipal Band




LEBANON VALLEY
Chamber of Commerce


PREMIUM
Mountaire
Fresh Young Chicken


NASCAR
DOVER


Food Bank
OF DELAWARE


TOYS FOR TOTS
community


FFA
EDUCATION
Association


FARM CREDIT

FOCUSED | ON THE NEXT GENERATION OF AGRICULTURE

Farm Credit Foundation *for* AGRICULTURAL ADVANCEMENT

2019 SCHOLARSHIP RECIPIENTS

Each of the students below were awarded a $10,000 scholarship to help them pursue a career in agriculture:

Laura Antizzo – Ijamsville, Maryland
Kaitlin Bell – Nottingham, Pennsylvania
Ryan Bollinger – Frederick, Maryland
Cahlen Cheatham – Myersville, Maryland
Nyah DeValle – Damascus, Maryland
Emily Griswold – Kennett Square, Pennsylvania
Amanda Grube – Manheim, Pennsylvania
Giulianna Kukor – Frederick, Maryland
Autumn Lippy – Union Bridge, Maryland
Karalyn Lonngren – Philadelphia, Pennsylvania
Justin Petrie – Stephens City, Virginia
Lesa Ramsburg – Finksburg, Maryland
Olivia Richart – North East, Maryland
Jamie Stephan – New Holland, Pennsylvania
Lynne Thomas – Fallston, Maryland
Andrew Toms – Walkersville, Maryland
Nathaniel Vincent – Laurel, Delaware
Leslie Webb – Greenwood, Delaware

Each of the agriculture educators below were awarded a $2,500 scholarship to help them achieve their advanced degree or earn continuing education credits:

Kaila Anglin – Bunker Hill, West Virginia
Katie Bethke – Charles Town, West Virginia
Brittany Bowman – Walkersville, Maryland
Erika Edwards – North East, Maryland
Nicholas Isenberg – Palmyra, Pennsylvania
Katherine Ranck – Lancaster, Pennsylvania
Elizabeth Rohrer – Sharpsburg, Maryland
Caitlin Walton – Milford, Delaware
Chrissy Whitacre – Strasburg, Virginia

For more information about the Farm Credit Foundation for Agricultural Advancement, please visit **FCFoundationForAg.org**.

REPORT of MANAGEMENT

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of MidAtlantic Farm Credit, ACA in accordance with accounting principles generally accepted in the United States of America. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been audited by independent auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2019 Annual Report of MidAtlantic Farm Credit, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and 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.

Jennifer L. Rhodes
Chairman of the Board

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian E. Rosati
Chief Financial Officer

March 12, 2020

REPORT ON
INTERNAL CONTROL over FINANCIAL REPORTING

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2019. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian E. Rosati
Chief Financial Officer

March 12, 2020

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of MidAtlantic Farm Credit, ACA, (Association) for the year ended December 31, 2019 with comparisons to the years ended December 31, 2018 and December 31, 2017. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" contained in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Delaware, Maryland, Pennsylvania, Virginia and West Virginia. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association may be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are available on the AgFirst website, ***www.agfirst.com***, or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.mafc.com***, by calling 1-888-339-3334, or by writing Brian E. Rosati, Chief Financial Officer, MidAtlantic Farm Credit, ACA, 45 Aileron Court, Westminster, MD, 21157-3022. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

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, 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 Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK

Production agriculture is a cyclical business that is heavily influenced by commodity prices, weather, tax and trade policies, interest rates and various other factors that affect supply and demand. The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to USDA information in

this section refer to the U.S. agricultural market data and are not limited to information/data for the Association.

Agricultural production is a major use of land in the United States and the value of farm real estate accounted for 83 percent of the total value of the U.S. farm sector assets for 2019 according to the USDA in its February 5, 2020 forecast. Because real estate is such a significant component of the balance sheet of U.S. farms, the value of farm real estate is a critical measure of the farm sector's financial performance. Changes in farmland values also affect the financial well-being of agricultural producers because farm real estate serves as the principal source of collateral for farm loans.

USDA's most recent forecast anticipates that farm sector equity, the difference between farm sector assets and debt, is predicted to rise 1.9 percent in 2019. Farm real estate value is expected to increase 1.8 percent and non-real estate farm assets are expected to increase 3.4 percent, while farm sector debt is forecasted to increase 3.4 percent in 2019. Farm real estate debt as a share of total debt has been rising since 2014 and is expected to account for 61.7 percent of total farm debt in 2019.

The USDA is forecasting farm sector solvency ratios to increase slightly in 2019 to 15.5 percent for the debt-to-equity ratio and 13.5 percent for the debt-to-asset ratio, which represent the second highest levels since 2009, but well below the peak of 28.5 percent and 22.2 percent in 1985. Working capital (which is defined as cash and cash convertible assets minus liabilities due to creditors within 12 months) is forecasted to decline 12.7 percent in 2019 to $61 billion from $70 billion in 2018. Farm sector working capital has steadily declined since peaking at $165 billion in 2012.

The USDA's most recent forecast estimates net farm income (income after expenses from production in the current year; a broader measure of profits) for 2019 at $93.6 billion, a $9.8 billion increase from 2018, $6.8 billion above the 10-year average and 24.3 percent below its peak of $123.7 billion in 2013. However, in terms of inflation adjusted dollars, 2019 forecasted net farm income is $2.7 billion below the 10-year average. The forecasted increase in net farm income for 2019, compared with 2018 is primarily due to increases in direct government payments of $10.0 billion to $23.7 billion, primarily driven by higher payments from the Market Facilitation Program (MFP). The MFP was first implemented in 2018 and continued in 2019 to assist farmers impacted by trade disruptions.

The USDA's outlook projects net farm income for 2020 to increase to $96.7 billion, a $3.1 billion or 3.3 percent increase from 2019. The forecasted increase in net farm income for 2020 is primarily due to expected increases in cash receipts for animals and products of $8.2 billion and crop receipts of $1.9 billion, partially offset by an $8.7 billion decrease in direct government payments due to an expected decline in payments from the MFP. The increase in animal and products receipts reflects growth in hogs, milk, cattle and poultry/eggs receipts, while the crop receipts are driven by fruit/nuts and corn. Soybeans receipts are anticipated to decrease as lower quantities outweigh an increase in price.

Expected agricultural commodity prices can influence production decisions of farmers and ranchers on planted/harvested acreage of crops or inventory of livestock and thus, affect the supply of agricultural commodities. Greater area of planted/ harvested acreage and increased crop yields for some crops in recent years have contributed to increased supply, which exceeded demand. Also impacting yields are the growing conditions that are sensitive to weather conditions. Although not generally affected by weather, livestock and dairy prices are linked to crop prices as feed is a significant input cost to these producers.

Global economic conditions also influence demand for food and agricultural products, which affects U.S. agricultural trade. Therefore, U.S. exports and imports shift to reflect changes in trade policies, world population and economic growth. Also impacting U.S. agricultural trade is global supplies and prices, changes in the value of the U.S. dollar and government support for agriculture.

Severe wet weather during 2019 adversely affected growing conditions in some production areas. In addition, farmers in certain locations were also impacted by inclement weather during the fall harvest. The impact of the weather related conditions on production agriculture was partially offset by crop insurance proceeds. In addition to weather related challenges, reduced exports resulting from the trade tensions with China added to the already challenging agricultural economy. During 2018 and 2019, the MFP provided a material boost in farm sector income and in early 2020, the United States and China agreed to a "phase one" trade deal, which includes a significant commitment from China to buy agricultural products, among other items. However, the recent spread of the Coronavirus (COVID-19) has created uncertainty about China's economic outlook and its ability to fulfill phase one commitments. Furthermore, African swine fever, which has been negatively impacting Asian hog production, may produce increased U.S. exports of pork and other protein products but could also negatively affect U.S. soybean exports.

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2016 to December 31, 2019:

Commodity	12/31/19	12/31/18	12/31/17	12/31/16
Hogs	$47.30	$43.40	$48.60	$43.10
Milk	$20.70	$16.60	$17.20	$18.90
Broilers	$0.45	$0.51	$0.50	$0.48
Turkeys	$0.62	$0.50	$0.53	$0.74
Corn	$3.71	$3.54	$3.23	$3.32
Soybeans	$8.70	$8.56	$9.30	$9.64
Wheat	$4.64	$5.28	$4.50	$3.90
Beef Cattle	$118.00	$117.00	$118.00	$111.00

The agricultural environment has been challenging during the past several years for many commodities. Currency fluctuations, ample inventories and U.S. trade policies, including retaliatory actions by other countries, have adversely impacted demand and prices for agricultural exports. This has reduced net farm income and eroded working capital from peak levels in 2012. The agriculture sector continues to adjust to market conditions. While producers' financial performance generally has been negatively impacted, MFP, crop insurance and producer operating adjustments have helped offset the severity of stress during the past two years.

Looking ahead, the MFP payments are not anticipated to continue and uncertainty remains about agricultural export markets. As a result, the Association's financial performance and credit quality may be negatively impacted but is expected to remain sound overall. Additionally, geographic and commodity diversification across the Association coupled with off-farm income support for many borrowers helps to mitigate the impact of periods of less favorable agricultural conditions. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary widely from the Association's expectations and predictions of those circumstances.

  Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

ECONOMIC CONDITIONS

Generally, the Mid-Atlantic States are performing reasonably well economically, but not spectacularly. During the past year, Virginia ranked 5th at 2.6 percent, Maryland ranked 29th at 3.6 percent, Delaware ranked 33rd at 3.8 percent, Pennsylvania ranked 42nd at 4.3 percent and West Virginia ranked 48th at 4.9 percent in the 2019 U.S. Unemployment Rate.

In the rural areas where most of our stockholders live and have their operations, unemployment tends to be higher than in urban areas, and the unemployment rates in our states of operation are in line or below the national average. Recent indications are that rural economies will sustain momentum heading into 2020, but have challenges ahead. The Mid-Atlantic job growth has been impacted by many of the industries driving the national economy, including logistics (e-commerce), professional services, and healthcare, and the job market is being positively impacted by a number of host areas within the region, most notably in prosperous suburban areas of Maryland and Virginia. State-level data indicates that the state of Delaware was the fastest growing job market in the Mid-Atlantic region over the most recent 12 months. The strength of consumer spending should be good for farmers in the region as consumers have the ability to spend more on locally sourced foods, organics, wine and other local agricultural products.

However, many factors shape the performance of the agricultural sector, and consumer spending is just one of them. The Mid-Atlantic agricultural sector in 2020 will most likely be impacted by commodity prices, which have remained lower in recent years.

There are many components which have likely contributed to depressed commodity prices including improved yields, a weakening global economy, U.S. dollar strength, decreased exports and increased tariffs as part of the trade disputes with China, and competition from foreign large agricultural producers.

Looking ahead to 2020, the global economy is in flux which could impact commodity prices, but the finalization and full economic impact of a "Phase One" trade deal with China remains a question and the possible negative impact from the Coronavirus may not be fully known until later in 2020. The impact of the 2020 elections add a level of uncertainty, and projections of wage gains coupled with continued relatively low interest rates could continue to be a positive contributor to economic growth in our region.

Overall, 2020 has the risk of a recession, but is generally forecasted to be a year marked with moderate economic growth, continued low commodity prices, and relatively stable interest rates, with greater dependence on the role of the consumer in driving economic growth. Final policy decisions in Washington on various issues remain somewhat of an unknown regarding the ultimate impact on 2020 performance.

Despite the overall economic challenge, 2019 was a solid year for farmers in our region, but there are signs of potential economic uncertainty heading into 2020. Acceptable credit quality had a slight decrease compared to the prior year, but continued to be strong. Crop yields varied considerably by geography and commodity, but were roughly in line with historical results offset by continued low prices. Poultry farmers saw demand for new poultry barn housing continue to decline throughout the year.

The forecasted stability of the U.S. economy suggests that the demand for value-added agricultural products will continue to be sustained in 2020. This increasing consumer preference for local, fresh products support the Association's efforts related to targeting this audience.

A significant number of our borrowers or family members involved in the farming operation are actively employed in off-farm professions. The Association's geographic proximity to several major metropolitan areas result in sizable employment in the region supported by federal government related spending.

Generally, available credit to farmers and related businesses has been quite adequate with some commercial banks reentering or continuing to expand their market presence in the agricultural sector after having abruptly curtailed or exited the industry following the 2008 financial collapse. The number of active borrowers has increased slightly from 11,576 at the end of 2018 to 11,814 at the end of 2019. A seasoned, knowledgeable lending staff enhanced with newly hired employees, combined with the inherent value of patronage paid under the cooperative structure, have positioned the Association to compete effectively to serve the financing needs for agriculture in the Association's territory, while retaining current members and their business relationships.

For the year ended December 31, 2019, the credit quality of the loan portfolio remained strong as Acceptable Loans including Other Assets Especially Mentioned (OAEM) was over 96 percent of the portfolio. During 2019, nonperforming assets as a percentage of total loans increased over 17 percent, and increased over 14 percent as a percentage of capital. The Loan Loss Provision for 2019, 2018, and 2017 of $4,000, $4,000, and $2,000, although increasing, still reflect the strength of the quality of the portfolio. The provision recorded during 2019 was mainly related to an increase in loan volume and some deterioration on accounts within the portfolio that effected all three of our largest commodity groups, with poultry being the most impacted. Stable fuel costs have continued to favorably impact most sectors of the portfolio. While lower grain prices have been somewhat unfavorable to this sector, the crop yields for the 2019 growing season are expected to be average or better to help mitigate any adverse impact. Conversely, lower grain prices are generally quite favorable for the protein sector. Industries tied to housing such as forestry, sawmills, sod, and landscape nurseries have continued to see some improvements but have never fully recovered from the past recession. Over time, the higher inputs are expected to ultimately either be passed on to the consumer or production will be cut to ensure that the supply produced will clear the market at prices that will generate an acceptable profit.

Some of the sectors of the Association's portfolio which have some reliance on off-farm income have had some challenges. In addition, some of the borrowers classified as loan type rural residential real estate, which are principally rural home loans, could be negatively impacted by the economy which has put some pressure on this segment of the portfolio. While the credit quality of the Association loan portfolio is strong, there certainly remains the potential risk of future deterioration by the factors mentioned above, as well as what impact the Administration in Washington might have on the areas impacting the Association. As mentioned above, lower demand for poultry housing and longer turnaround times for flock placements by integrators have effected loan quality for that industry. In addition, the Association's poultry farmers are also potentially susceptive to the effects of avian influenza on their flocks which could cause some financial stress to these operators and, accordingly, to their loans with the Association. Significant preparatory measures have been taken; to date, no reports of the virus have been reported in the Association's territory. The dairy sector has seen prices start to stabilize towards the end of 2019 after experiencing lower prices for four straight years, but some greater than normal servicing time has been developing. As a result the Association could realize some deterioration in this portion of the portfolio.

During 2019, the Association continued to target certain areas of our business with the goal of increasing market share. As in the prior years, in 2019 the Association continued expansion of its farm equipment financing program, Farm Credit ***EXPRESS*** (FCE) which provides an efficient electronic loan application process for farm equipment financing. The success of this program has been further realized with members who joined the Association with an equipment loan expanding their borrowing needs with a mortgage or operating loan. At the end of 2019, the Association was providing this service on a per transaction fee basis for twenty associations, both within and outside of the AgFirst District. During 2019, over five thousand notes were closed by our FCE team for approximately $205 million, including almost $39 million of loans booked to the Association. During 2019, there were over three thousand one hundred new members to the Farm Credit System as a result of the FCE program. Continued efforts are being made to expand services, increase public knowledge of our services and streamline our current delivery of products to enhance our existing portfolio. In late 2017, FCE introduced an equipment leasing program which provides an additional option to borrowers. The leasing program included over $700 of additional volume booked to the Association in 2019.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate term loans and long-term real estate mortgage loans through numerous product types. The diversification of Association loan volume by type for each of the past three years is shown below.

	December 31,					
Loan Type	**2019**		**2018**		**2017**	
	(dollars in thousands)					
Real estate mortgage	$ 1,771,690	62.28%	$ 1,740,841	62.10%	$ 1,660,982	61.14%
Production and intermediate term	796,599	28.00	805,435	28.73	808,479	29.75
Processing and marketing	78,001	2.74	66,795	2.38	54,996	2.02
Communication	62,134	2.18	52,853	1.89	56,951	2.10
Farm-related business	49,109	1.73	69,057	2.46	66,050	2.43
Rural residential real estate	41,931	1.47	44,339	1.58	40,008	1.47
International	24,944	0.88	–	–	–	–
Loans to cooperatives	17,437	0.61	20,502	0.73	25,598	0.94
Power and water/waste disposal	3,148	0.11	3,657	0.13	4,162	0.15
Total	$ 2,844,993	100.00%	$ 2,803,479	100.00%	$ 2,717,226	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The geographic distribution of the loan volume by region for the past three years is as follows:

	December 31,		
Region	**2019**	**2018**	**2017**
Potomac	27%	28%	29%
Keystone	22	22	22
Chesapeake	19	19	19
Atlantic	18	20	21
Corporate	14	11	9
Total	100%	100%	100%

Corporate includes the Association's participation loans purchased, employee loans, as well as all nonaccruing loans.

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are cash grain/crops, poultry, dairy, and landlords/lessors of real estate, which together constitute 61 percent of the entire portfolio.

	December 31,					
Commodity Group	**2019**		**2018**		**2017**	
	(dollars in thousands)					
Cash Grain/Crops	$ 664,263	23%	$ 656,631	23%	$ 650,008	24%
Poultry	605,756	21	613,909	22	595,278	22
Dairy	245,375	9	251,557	9	268,019	10
Landlords/Lessors of Real Estate	241,447	8	246,266	9	226,264	8
Livestock/Animal Specialties	217,150	8	200,090	7	166,462	6
Fruits & Vegetables	197,981	7	189,347	7	181,964	7
Equine	188,333	7	183,839	7	183,222	7
Timber/Forestry	85,582	3	76,834	3	71,491	3
Nurseries/Greenhouses	84,825	3	83,922	3	87,115	3
Other	314,281	11	301,084	10	287,403	10
Total	$ 2,844,993	100%	$ 2,803,479	100%	$ 2,717,226	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio is well diversified from both a commodity and number of producers perspective. Further, many of the Association's members are diversified within their enterprise which also reduces overall risk exposure. Demand for poultry, milk and prices of field grains are some of the factors affecting the price of these commodities. While the Association has continued to experience demand for large loans over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The average daily balance in gross loan volume for twelve months ended December 31, 2019, continues to be well diversified with no significant industry or producer concentration.

During 2019, the Association continued its activity in the buying and selling of loan participations within the Farm Credit System (FCS) as well as external to the FCS. This program provides an important vehicle to the Association by enabling it to further spread credit risk and enhance portfolio diversification while also affording an opportunity of strengthening its capital position through the generation of interest and fee income.

Loan Participations purchased and sold from other FCS institutions are summarized as follows:

	December 31,		
Loan Participations	2019	2018	2017
	(dollars in thousands)		
Participations Purchased	$ 249,848	$ 218,331	$ 230,266
Participations Sold	(75,988)	(67,926)	(62,881)
Total	$ 173,860	$ 150,405	$ 167,385

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the year ended December 31, 2019.

The Association sells qualified long-term mortgage loans into the secondary market. For the periods ended December 31, 2019, 2018, and 2017, the Association originated loans for resale totaling $55,951, $47,925, and $58,689, respectively, which were sold into the secondary market.

The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2019, 2018, and 2017, the Association had loans amounting to $473, $627, and $736, respectively, which were 100 percent guaranteed by Farmer Mac.

The Association additionally has loans wherein a certain portion of the loans are guaranteed by various governmental entities for the purpose of reducing risk. At December 31, 2019, 2018, and 2017, the balance of these loans was $84,076, $83,858, and $91,453, respectively.

MISSION RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program was to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2019, the Association has signed two commitments for total investments up to $500 but no amounts have yet been funded. As of December 2018, and 2017, the Association had no loans, investments or commitments to invest in Rural American Bonds.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds and loan terms

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- 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 facts, conditions, and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2019	2018	2017
Acceptable & OAEM	96.12%	96.90%	98.12%
Substandard	3.88	3.10	1.88
Doubtful	–	–	–
Loss	–	–	–
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing the majority of loans classified as high-risk. The High-risk Assets, including accrued interest, are detailed below:

High-risk Assets	December 31, 2019	2018	2017
	(dollars in thousands)		
Nonaccrual loans	$ 46,344	$ 43,540	$ 22,822
Restructured loans	31,184	22,109	19,995
Accruing loans 90 days past due	70	–	–
Total high-risk loans	77,598	65,649	42,817
Other property owned	1,415	622	240
Total high-risk assets	$ 79,013	$ 66,271	$ 43,057
Ratios			
Nonaccrual loans to total loans	1.63%	1.55%	0.84%
High-risk assets to total assets	2.71%	2.30%	1.54%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $2,804 or 6.44 percent in 2019, after having increased $20,718 or 90.78 percent in 2018, mainly due to financial stress in the poultry industry. Of the $46,344 in nonaccrual volume at December 31, 2019, $20,992 or 45.30 percent, compared to 48.31 percent and 33.61 percent at December 31, 2018 and 2017, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio for any of the three years reported.

The following table presents the activity in the allowance for loan losses for the most recent three years.

Allowance for Loan Losses Activity	Year Ended December 31, 2019	2018	2017
	(dollars in thousands)		
Balance at beginning of year	$ 30,090	$ 25,949	$ 24,377
Charge-offs:			
Real estate mortgage	(1,266)	–	(44)
Production and intermediate term	(628)	(53)	(294)
Agribusiness	(52)	–	(132)
Rural residential real estate	–	–	–
Total charge-offs	(1,946)	(53)	(470)
Recoveries:			
Real estate mortgage	13	86	5
Production and intermediate term	22	102	24
Agribusiness	2	–	5
Rural residential real estate	16	6	8
Total recoveries	53	194	42
Net (charge-offs) recoveries	(1,893)	141	(428)
Provision for (reversal of allowance for) loan losses	4,000	4,000	2,000
Balance at end of year	$ 32,197	$ 30,090	$ 25,949
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.07)%	0.01%	(0.02)%

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31, 2019	2018	2017
	(dollars in thousands)		
Production and intermediate term	$ 17,841	$ 17,541	$ 14,379
Real estate mortgage	12,754	11,205	10,216
Agribusiness	998	792	711
Rural residential real estate	441	400	470
Communication	139	150	168
International	22	–	–
Power and water/waste disposal	2	2	5
Total allowance	$ 32,197	$ 30,090	$ 25,949

The increase in allowance for loan losses during 2019 was mainly due to an increase in loan volume and financial stress on some accounts in the Field Crops and Poultry sector. The net loan charge-offs in 2019 were particularly concentrated in the Poultry sector.

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	December 31, 2019	2018	2017
Total loans	1.13%	1.07%	0.95%
Nonaccrual loans	69.47%	69.11%	113.70%

Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $73,577, $71,266, and $69,479 in 2019, 2018, and 2017, respectively. Net interest income is the difference between interest income and interest expense. 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 table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
	(dollars in thousands)			
12/31/19 - 12/31/18				
Interest income	$ 2,807	$ 5,859	$ (22)	$ 8,644
Interest expense	1,011	4,929	393	6,333
Change in net interest income	$ 1,796	$ 930	$ (415)	$ 2,311
12/31/18 - 12/31/17				
Interest income	$ 3,180	$ 7,912	$ (637)	$ 10,455
Interest expense	897	6,979	792	8,668
Change in net interest income	$ 2,283	$ 933	$ (1,429)	$ 1,787

**Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2019**	**2018**	**2017**	**2019/ 2018**	**2018/ 2017**
	(dollars in thousands)				
Loan fees	$ 1,346	$ 1,101	$ 1,270	22.25 %	(13.31)%
Fees for financially related services	3,165	3,240	3,220	(2.31)	0.62
Lease income	191	–	–	–	–
Patronage refund from other Farm Credit Institutions	29,423	34,076	36,226	(13.65)	(5.93)
Gains (losses) on sales of rural home loans, net	1,197	972	1,219	23.15	(20.26)
Gains (losses) on sales of premises and equipment, net	127	820	60	(84.51)	1,266.67
Gains (losses) on other transactions	284	(43)	320	760.47	(113.44)
Insurance fund refund	589	2,329	–	(74.71)	–
Other noninterest income (expense)	50	244	247	(79.51)	(1.21)
Total noninterest income	$ 36,372	$ 42,739	$ 42,562	(14.90)%	0.42 %

Noninterest income for each of the three years listed included a Special Patronage declaration from AgFirst, in which the cash was received by the Association the following year of declaration. The Association's share of the Special Patronage was $12,781, $17,624, and $20,065 for the years ended December 31, 2019, 2018, and 2017, respectively.

The Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligation, had assets exceeding the secure base amount as defined by the Farm Credit Act. As a result of the excess, FCSIC made distributions to the Farm Credit System Banks and certain associations, and retired the remaining related Financial Assistance Corporation outstanding shares. The Association's share of this distribution was $589 and $2,329 for the years ended December 31, 2019 and 2018.

Fees for financially related services are related principally to the crop insurance program and the Farm Credit ***EXPRESS*** program; the Association's income will vary depending upon product usage and commissions earned, and transactions relative to the equipment financing program.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended December 31, 2019	2018	2017	Percentage Increase/(Decrease) 2019/2018	2018/2017
	(dollars in thousands)				
Salaries and employee benefits	$ 22,876	$ 21,992	$ 21,027	4.02 %	4.59 %
Post retirement benefits	6,015	7,241	(3,879)	(16.93)	286.67
Occupancy and equipment	2,533	2,359	2,092	7.38	12.76
Insurance Fund premiums	1,951	1,888	3,044	3.34	(37.98)
(Gains) losses on other property owned, net	29	102	177	71.57	42.37
Other operating expenses	8,713	8,338	10,607	4.50	(21.39)
Total noninterest expense	$ 42,117	$ 41,920	$ 33,068	0.47 %	26.77 %

Noninterest expense increased $197 or 0.47 percent for the year ended December 31, 2019, as compared to the same period in 2018 and increased $8,852 or 26.77 percent in 2018 compared to 2017.

Salaries and employee benefits increased $884 or 4.02 percent in 2019 as compared to 2018. This increase is primarily attributable to 2019 salary adjustments and related employee benefit increases, and a slight increase in the number of employees. Excluding the impact of the deferral of salaries and employee benefits expenses which were deferred in accordance with the Accounting Standards Codification 310, salaries and benefits expense increased $1,211 or 4.85 percent.

Post retirement benefits increased $11,120 in 2018 mainly due to the method of recording expenses for the Association's defined benefit pension plan and other postretirement benefit plan was modified. In 2017 this change resulted in the reduction of Other Assets by $3,258 and the reduction of Other Liabilities by $13,800 on the Association's Balance Sheet, and a corresponding reduction of postretirement benefit costs on the Association's Statements of Income of $10,542 during 2017. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements, for further information.

The Insurance Fund premium expense increased $63 or 3.34 percent in 2019 as compared to 2018. The unfavorable change resulted from increased adjusted insured debt outstanding in 2019. The insurance premium was .09 percent of loans (9 basis points) for 2019 and 2018, and .15 percent of loans (15 basis points) for 2017.

Occupancy and equipment and Other operating expenses increased a total of $549 or 5.13 percent from 2018 to 2019 primarily attributable to legal fees related to nonaccrual loans and replacement of hardware. In 2017, an additional contribution of $3,000 was made to the Farm Credit Foundation for Agricultural Advancement that was established by the Board in 2015.

The Association's efficiency ratio, which is calculated as Operating Expenses as a percentage of Net interest income plus Total noninterest income continues to be among the lowest in the AgFirst District and significantly below the average efficiency ratio for the District. If the Association's Operating Expenses averaged the District average, then Operating Expenses would be approximately $3.8 million higher which would result in a decrease of the same amount to Income before income taxes, and, accordingly, would adversely impact the patronage distribution which the Association makes to stockholders.

Income Taxes

The Association recorded a provision for income taxes of $60 for the year ended December 31, 2019, as compared to a provision of $195 for 2018 and a provision of $406 for 2017. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the Year Ended 12/31/19	12/31/18	12/31/17
Return on average assets	2.22 %	2.43 %	2.82 %
Return on average members' equity	9.74 %	10.84 %	13.02 %
Net interest income as a percentage of average earning assets	2.61 %	2.59 %	2.60 %
Net (charge-offs) recoveries to average loans	(0.07)%	0.01 %	(0.02)%

A key factor in maintaining and growing the net income for future years will be an increase in Acceptable loan volume, continued improvement in net interest income and controlling loan losses, while effectively managing noninterest income and noninterest expense. There are many external economic factors that could negatively impact certain sections of the Associations portfolio, and could impact the Association until economic stability is restored.

The return on average assets decreased primarily as a result of a decrease in net income while higher average shareholders' equity resulted in a decline in the return on average members' equity for 2019 compared to 2018 and 2018 compared to 2017. Higher net interest income resulted in a higher return on average earnings assets in 2019. See *Allowance for Loan Losses, Net Interest Income, Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

In 2019, the Association recorded a provision for loan losses of $4,000 and net (charge-offs) recoveries of ($1,893). In 2018, the Association recorded a provision for loan losses of $4,000 and net (charge-offs) recoveries of $141. In 2017, the Association recorded a provision for loan losses of $2,000 and net (charge-offs) recoveries of ($428), respectively.

The past three years have been favorably impacted by the receipt of Special Patronage distributions from AgFirst Farm Credit Bank which totaled $12,781, $17,624, and $20,065 in 2019, 2018, and 2017, respectively. The $12,781 was the Association's share of a $104 million Special Patronage distribution from the Bank. The Association does not forecast continued receipt of these distributions. The fiscal stability of the Association enables it, during these somewhat uncertain times, to continue to emphasize its goals to: consistently meet the needs of our membership by providing quality loan products, generate earnings which are sufficient to fund operations, assure the adequate capitalization of the Association, and achieve an acceptable rate of return for stockholders. To meet these goals, the Association will continue its efforts of attracting and retaining high quality, competitively priced, loan volume while effectively managing credit risk in the entire loan portfolio. The Association has successfully implemented an Enterprise Risk Management (ERM) process which is expected to further aid the Association in its management of both short and long-term risks. The Association will continue to actively evaluate new or modified products, including recommendations and initiatives offered in conjunction with System projects.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2019, was $2,192,656 as compared to $2,181,496 at December 31, 2018 and $2,121,161 at December 31, 2017. The increase of 0.51 percent compared to December 31, 2018 was attributable to (a) the increase in loan volume and (b) the Association's increase in member's equity attributable to net income. Since the beginning of 2016, loans have increased $388,416 or 15.81 percent while Member's Equity has increased $121,838 or 22.57 percent. The average volume of outstanding notes payable to the Bank was $2,179,295 and $2,131,378 for the years ended December 31, 2019 and 2018, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's notes payable to the Bank. The Association's participation in the Farmer Mac agreements, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association has a net settlement agreement with CoBank, ACB to settle transactions between the two institutions daily to an aggregate line of credit of $100 million. The Association had no other lines of credit from third party financial institutions as of December 31, 2019.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a key driver in establishing a funds management strategy. The Associations loan portfolio includes fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. The Association has exposure to LIBOR, including in financial instruments that reference LIBOR that mature after 2021.

The exposure arises primarily from loans made to customers and the note payable to AgFirst Farm Credit Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held. In addition, to the extent that a successful transition of the LIBOR-based financial instruments to an alternative rate based index that is endorsed or supported by regulators and generally accepted by the market as a replacement to LIBOR, there could be other ramifications including those that may arise as a result of the need to redeem or terminate such instruments.

Due to the uncertainty regarding the transition of LIBOR-based financial instruments, including when it will happen, the manner in which an alternative reference rate will apply, and the mechanisms for transitioning LIBOR-based instruments to instruments with an alternative rate, the expected financial impact of the LIBOR transition cannot yet be reasonably estimated.

The FCA has issued guidelines for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure over time. The FCA identified the following as important considerations in the development of each entity's transition plan:

- a governance structure to manage the transition,
- an assessment of exposures to LIBOR,
- an assessment of the fallback provisions in contracts and the impact of a LIBOR phase-out under those provisions,
- the establishment of strategies for reducing each type of LIBOR exposure,
- an assessment of the operational processes that need to be changed,
- a communication strategy for customers and shareholders,
- the establishment of a process to stay abreast of industry developments and best practices,
- the establishment of a process to ensure a coordinated approach, to the extent possible, across the District, and
- a timeframe and action steps for completing key objectives.

The Association will continue to analyze potential risks associated with the LIBOR transition, including financial, accounting, operational, legal, reputational and compliance risks.

At this time, it is difficult to predict whether or when LIBOR will cease to be available or if SOFR will become the benchmark to replace LIBOR. Because transactions occur involving financial instruments that reference LIBOR, these developments could have a material impact on the Association, borrowers, investors, and counterparties.

The following is a summary of Association variable-rate financial instruments with LIBOR exposure at December 31, 2019:

(dollars in millions)	Due in 2020	Due in 2021	Due in 2022 and Thereafter
Loans	$ 59,175	$ 43,902	$ 184,890
Total Assets	$ 59,175	$ 43,902	$ 184,890
Note Payable to AgFirst Farm Credit Bank	44,793	33,232	139,953
Total Liabilities	$ 44,793	$ 33,232	$ 139,953

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's ability to access capital of the Association is discussed in Note 4, *Equity Investments in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this Annual Report.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2019, nor are any planned for 2020, that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2019, increased 4.19 percent to $661,545 from the December 31, 2018 total of $634,950. At December 31, 2018, total members' equity increased 4.54 percent from the December 31, 2017 total of $607,361. The 2019 increase was primarily attributed to net income, net of various patronage related distributions and the net impact of capital stock/participation certificates issued/retired. See statement "Consolidated Statements of Changes in Members' Equity" in this Annual Report for further details.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced core surplus and total surplus ratios with common equity Tier 1 (CET1) capital, Tier 1 capital, and total capital risk-based capital ratios. The new regulations also include a Tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet 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 effect 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

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 capital ratio is the sum of 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 investments in other System institutions, divided by average risk-adjusted assets.
- The Tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is Tier 1 capital plus other required borrower stock 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 for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The Tier 1 leverage ratio is Tier 1 capital, divided by average assets less regulatory deductions to Tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and 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 to Tier 1 capital.

The following sets forth the regulatory capital ratios which were effective January 1, 2017:

Ratio	2018 Minimum Requirement with Capital Conservation Buffer	2019 Capital Conservation Buffer*	2019 Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital Ratio	5.750%	0.625%	6.375%	19.69%	18.84%	18.55%
Tier 1 Capital Ratio	7.250%	0.625%	7.875%	19.69%	18.84%	18.55%
Total Capital Ratio	9.250%	0.625%	9.875%	21.81%	21.09%	20.44%
Permanent Capital Ratio	7.0%	0.0%	7.0%	20.91%	20.26%	19.67%
Non-risk-adjusted:						
Tier 1 Leverage Ratio	5.0%	0.0%	5.0%	20.78%	19.88%	19.64%
UREE Leverage Ratio	1.5%	0.0%	1.5%	20.75%	19.39%	17.89%

** The capital conservation buffers have a 3 year phase-in period starting January 1, 2017 and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the Tier 1 leverage ratio.*

If the capital ratios fall below the minimum regulatory 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 following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	20.05%	20.58%	20.98%	20.21%	18.12%
Total Surplus Ratio	7.00%	19.71%	20.23%	20.61%	19.83%	17.73%
Core Surplus Ratio	3.50%	18.91%	19.86%	20.61%	19.68%	17.57%

For all periods presented, the Association exceeded the minimum regulatory standard for all of the applicable ratios.

The changes in the Association's permanent capital at December 31, 2019 was attributed to net income, net of patronage distribution, increased investment in AgFirst stock, an increase in the Association's capital stock and participation certificates outstanding, and an increase in loan volume outstanding.

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) nonpatronage sourced income. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $17,000 in 2019, $20,000 in 2018, and $18,517 in 2017 and distributed cash relative to patronage refunds, dividends paid and retained earnings retired of $40,712, $37,813 and $28,609 to members in 2019, 2018 and 2017, respectively.

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

- Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
- Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
- Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young, Beginning and Small farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to serve the financing needs of YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers access to a stable source of credit.

The following table outlines the number of borrowers, the number of YBS loans in the portfolio and the loan volume outstanding for the past two years.

As of December 31, 2019
(dollars in thousands)

	Number of Borrowers	Number of Loans	Amount of Loans
Young	2,585	4,118	$ 464,574
Beginning	3,771	5,493	782,932
Small	6,737	9,610	910,049

As of December 31, 2018
(dollars in thousands)

	Number of Borrowers	Number of Loans	Amount of Loans
Young	2,492	4,039	$ 444,035
Beginning	3,608	5,369	767,696
Small	6,360	9,123	875,052

For 2019, the Association's quantitative goals were to book 500 new business relationships, which meet one or more of the established criteria for designation as Young, Beginning, or Small, and to maintain or increase its overall levels of lending to Young, Beginning and Small business relationships as represented by overall percentages of the 2017 USDA Census numbers (the most recent numbers available) in MidAtlantic's territory.

The goal for booking new business relationships (BEs) was achieved as evidenced by the following table:

New BEs	739
Young BEs	184 or 24.9% of the total
Beginning BEs	333 or 45.1% of the total
Small BEs	507 or 68.6% of the total

The overall goal of 500 new business relationships or greater being designated either Y, B or S was achieved as 554 or 75.0 percent qualified as Y, B or S.

The Association experienced a small increase in the overall number of farmers served within its territory with increases occurring across all three farmer categories (comparisons are against USDA data for each category).

	USDA 2017 Census	% YBS USDA	MAFC territory 12/31/18	MAFC as % USDA 12/31/18	MAFC territory 12/31/19	MAFC as % USDA 12/31/19
Total Farmers	30,740	100.0%	9,706	31.6%	9,834	32.0%
Young	5,283	17.2%	2,356	44.6%	2,444	46.3%
Beginning	9,402	30.6%	3,392	36.1%	3,541	37.7%
Small	25,590	83.2%	5,927	23.2%	6,272	24.5%

There are slight differences between the USDA Census data (Census) and the Association's YBS information as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association's YBS information includes young farmers up to age 35.
- The Census shows years on present farms up to nine years, whereas the Association's YBS information includes 10 years or less for a beginning farmer.
- The Census data is based upon Number of farms, whereas the Association's YBS information is based on Number of loans.

The working definitions of Young and Beginning include a criteria of borrower age and years farming while Small is defined by the level of agricultural sales. With the passage of time, existing borrowers will move out of these two categories regardless of any operational changes or lending activities.

The Association successfully implemented a new program in 2008, **StartRight** that focuses on the needs of Young, Beginning, and Small farmers. Since implementation, over $274 million of **StartRight** loans have been booked, with over $41 million outstanding as of year-end 2019 and over $3 million of new money in 2019.

The **StartRigh**t program includes several outreach efforts to Young, Beginning, and Small (YBS) farmers. This outreach includes a resource center for YBS farmers, found at ***www.mafc.com***. During 2019, AgBiz Masters, an online and in-person educational program, focusing on everything from macroeconomics to marketing to the importance of creating a business plan, was offered to both members and prospects fitting this segment. You can read more about **StartRight** on the Association's website, ***www.mafc.com***.

In addition to our **StartRight** program, MidAtlantic also supports a Trade Credit program, Farm Credit ***EXPRESS***. This program, supported through local equipment dealers within our territory, has further enhanced the YBS service of the Association. The Farm Credit ***EXPRESS*** program has also helped to increase sales by local equipment dealers, which promotes economic growth in the rural communities. The Farm Credit ***EXPRESS*** program has been expanded whereby the Association processes equipment financing applications for all of the other associations in the AgFirst District which enables those associations to further serve YBS borrowers in those territories.

The Association has the goal of serving YBS through extensive outreach programs that includes activities in marketing, education, training, and financial support. The Association continues previously sponsored outreach/sponsorship activities in which the Association participated for the purpose of promoting and supporting YBS efforts, as well as incorporated new outreach/sponsorships to continue building the Association's commitment to YBS. The Association's website, ***www.mafc.com***, contains an entire section of information and resources specifically applicable to YBS visitors to the site.

The **Farm Fresh Financing** program offers financing and credit options to local food organizations and "new generation" farmers, a term refers to producers who distribute their products through local food channels.

The Association continues its participation in specific credit programs and partnerships that we have developed to help small farmers, young farmers and farmers just starting out. It includes programs offered by the Farm Service Agency (FSA), such as guaranteed and direct loans to qualifying borrowers. The Association has earned the distinction of a "preferred lender," the highest status designated by FSA.

In addition to FSA guaranteed loans, the Association is also a Guaranteed Participating Lender for the Small Business Administration (SBA), which offers lending programs specifically for small borrowers, and also participates in a number of State lending programs that promote the agriculture industry and environmental stewardship. The Association also offers flexible financing options in-house for qualifying borrowers.

The Association remains fully committed to serving the financing needs of YBS borrowers and will continue to evaluate its programs and efforts in order to be even more effective in 2020. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the board of directors on a quarterly basis. The Association is committed to the future success of Young, Beginning, and Small farmers.

REGULATORY MATTERS

On February 13, 2020, the Farm Credit Administration approved a rule that clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule also revises the criteria by which loans are reinstated to accrual status, and revises the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status.

On September 18, 2019, the Farm Credit Administration issued a proposed rule to amend its investment regulations to allow System associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to timely payment of principal and interest. The rule would authorize associations to buy investments 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, and to enhance the ability of associations to manage risk. The public comment period ended on November 18, 2019.

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure 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. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ended on November 22, 2019.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) but have not yet been adopted:

<table>
<tr><th>Summary of Guidance</th><th>Adoption and Potential Financial Statement Impact</th></tr>
<tr><td colspan="2">ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</td></tr>
<tr><td>• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets.
• Changes the present incurred loss impairment guidance for loans to an expected loss model.
• The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.
• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.
• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.
• Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.</td><td>• Implementation efforts began with establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance.
• The new guidance is expected to result in a change in allowance for credit losses due to several factors, including:
1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,
2. An allowance will be established for estimated credit losses on any debt securities,
3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.
• The extent of change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date.
• The guidance is expected to be adopted in first quarter 2023.</td></tr>
</table>

DISCLOSURE REQUIRED BY
FARM CREDIT ADMINISTRATION REGULATIONS

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report to shareholders.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity as of December 31, 2019:

Location	Description	Form of Ownership
1614 E. Churchville Road Suite 102 Bel Air, MD 21015	Branch Operations	Rented
112 East Liberty Street Charles Town, WV 25414	Satellite Office	Rented
102 Morgnec Road Chestertown, MD 21620	Branch Operations	Owned
379 Deep Shore Road Denton, MD 21629	Branch Operations	Owned
1410 South State Street Dover, DE 19901	Branch Operations	Owned
105 Railroad Avenue East New Market, MD 21631	Branch Operations	Owned
925 North East Street Frederick, MD 21701	Branch Operations	Owned
20816 DuPont Boulevard Georgetown, DE 19947	Branch Operations	Owned
1260 Maryland Avenue Suite 103A Hagerstown, MD 21740	Satellite Office	Rented
158 Crimson Circle Martinsburg, WV 25403	Branch Operations	Owned
15 Eby Chiques Road Mount Joy, PA 17552	Branch Operations	Owned
1035 Ocean Highway Pocomoke, MD 21851	Branch Operations	Owned
680 Robert Fulton Highway Quarryville, PA 17566	Branch Operations	Owned
6546 Mid Atlantic Lane Salisbury, MD 21804	Branch Operations	Owned
1513 Main Street Shoemakersville, PA 19555	Branch Operations	Owned
45 Aileron Court Westminster, MD 21157	Administrative Headquarters & Branch Operations	Owned
125 Prosperity Drive Winchester, VA 22602	Branch Operations	Owned
1031 South Main Street Woodstock, VA 22664	Branch Operations	Owned
South Main Street Woodstock, VA 22664	Unimproved 1 acre lot	Owned

Rented facilities are leased by the Association at prevailing market rates from independent third parties for periods not currently exceeding five years. The Association leases excess space at two of its owned Branch Operations to third parties at prevailing market rates and expire no later than May 31, 2020.

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 11, *Commitments and Contingencies*, of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 11 of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

Management's Discussion and Analysis of Financial Condition and Results of Operations

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report to shareholders and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years.

Senior Officer	Position
Thomas H. Truitt, Jr.	*President & Chief Executive Officer* since January 2016. From June 2013 until December 31, 2019 was Sr. Vice President & Chief Operating Officer. From January 2009 until June 2013 was Sr. Vice President and Regional Lending Manager.
Cathy L. Blair	*Sr. Vice President & Corporate Services and Risk* since September 2017. From February 2016 through August 2017 was Vice President, Administrative Services and Corporate Secretary. Previously served the Association in various positions in the Finance and Human Resources Departments since May 2007.
Stuart D. Cooper	*Sr. Vice President & Chief Lending Officer* effective January 1, 2019. From September 2015 until December 31, 2018 was *Sr. Vice President & Division Manager*. Previously served the Association in various operations positions since October 1995.
Kurt H. Fuchs	*Sr. Vice President & Legislative Affairs* since January 2018. Employed by the Association in August 2012 as Government Affairs Manager.
Thomas J. Marshall	*Sr. Vice President & Director of Audit and Review* since January 2004 until March 2019.
Bessie H. Moy	*Sr. Vice President & Chief Audit Executive* beginning July 2019. Previous four years was Vice President of Internal Audit for a community bank and prior to that served as Director of Internal Audit for an international non-profit and in public accounting.
Tammy L. Price	*Sr. Vice President & Director of Technology and Strategic Partnerships* since March 2009. Previously served Association in various positions in the Information Technology Department since July 2000.
Brian E. Rosati	*Sr. Vice President and Chief Financial Officer* since December 2018. Employed until October 2018 as Vice President of Finance with privately owned international advertising technology company. From 2010 until 2014 was Director of Corporate Finance for a publicly traded software company. His prior twelve years of experience are with major international accounting firms in audit and tax services.
William J. Rutter	*Sr. Vice President & Chief Credit Officer* since March 2017. From October 2016 through February 2017 he served as the Interim Chief Credit Officer. Previously served the Association in various credit and operations positions since January 1998.
Mark A. Schnebly	*Sr. Vice President & Loan Operations Manager* since April 2017. From October 2016 through March 2017 he served as the Interim Loan Operations Manager. Previously served the Association in various operations positions since June 2002.
Cheryl L. Steinbacher	*Sr. Vice President & Director of Human Resources and Training* since March 2015. Previous three years was Senior Vice President of Human Resources & Organizational Development Director for Cardinal Bank in McLean, Virginia.

Compensation

The total amount of compensation earned by the CEO and by all senior officers as a group during the years ended December 31, 2019, 2018 and 2017, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Change in Pension Value	Deferred/ Perquisites (d)	Total
Thomas H. Truitt, Jr.	2019	$ 500,019	$ 222,761	$ 442,529	$ 220,593	$ 1,385,902
Thomas H. Truitt, Jr.	2018	450,018	181,097	(45,237)	145,994	731,872
Thomas H. Truitt, Jr.	2017	400,015	125,904	341,072	168,658	1,035,649
11 Officers*	2019(a)	1,524,990	323,200	1,428,557	677,839	3,954.586
12 Officers	2018(b)	1,860,423	503,386	(245,845)	442,701	2,560,665
11 Officers	2017(c)	1,754,983	321,852	1,268,370	591,824	3,937,029

** Disclosure of information on the total compensation paid during 2019 to any senior officers is available to shareholders upon request.*
(a) For 2019, the table includes compensation for 1 senior officer until March 2019 and 1 senior officer who began employment in July 2019.
(b) For 2018, the table includes compensation for 1 senior officer until April 2018 when the officer resigned, 1 senior officer who started employment in October 2018, and 2 senior officers who retired in December 2018.
(c) For 2017, the table includes the amount for one senior officer who retired in March 2017.
(d) Amounts in the table classified as Deferred/Perquisites is comprised primarily of deferred compensation, life insurance, the Association's contributions to thrift plans (see Note 9, Employee Benefit Plans, of the notes to the Financial Statements), sign-on bonus, payment of accrued annual leave, a one-time severance payment, relocation assistance and Association provided automobile.

All of the senior officers of the Association participate in the Senior Management Incentive Plan. Goals are established annually by the Board of Directors based upon the Association's Annual Business Plan and include specific objectives regarding various Profitability objectives, Credit Quality review, and a Board defined Qualitative measure. Award opportunity for the CEO ranges between 0 and 75% of base salary; between 0 and 50% for the CFO, CCO and CLO and 0 to 40% for all other senior officers. For the CEO, 80% of the incentive award is based on Association Performance and the remaining 20% is based on Personal Performance. For the CFO, CCO and CLO, 70% of the incentive is based on Association Performance and the remaining 30% is based on Personal Performance. For all other senior officers, except the Chief Audit Executive, 60% is based on Association Performance and the remaining 40% is based on Personal Performance. For the Chief Audit Executive, 20% is based on Association Performance and the remaining 80% is based on Personal Performance.

Fifty percent of the annual incentive for all senior officers must be deferred for three years and the deferred portion is at risk during the deferral period. Annual Performance objectives must be obtained during the deferral period. The amount of the deferred portion can increase by 25% and, conversely, can reduce to 0% if annual Association Performance is not achieved at prescribed levels.

All employees other than the CEO and senior officers are eligible to participate in the Staff Profit Sharing/Incentive Plan.

The Staff Plan includes certain requirements regarding Profitability, Credit Quality, Capital and certain regulatory requirements. Awards under the Plan are up to 10% for Association Performance and up to an additional 10% for individual performance for a maximum total of 20% of base salary.

Established targets for both plans are measured at December 31, 2019 so that bonuses can be accrued in the plan year. Payment of accrued bonuses is made by March 31 following the close of the plan year. For the deferred portion of senior officers' incentive, the payment is made by March 31 of the fourth year following the initial plan year.

On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders; Pension Benefit Disclosures." The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. The impact to the Association is reflected in the compensation table effective 2015.

Pension Benefits Table - 2019	Number of Years of Credited Service	Actuarial Present Value of Accumulated Benefits [2]	Payments During Last Fiscal Year
Thomas H. Truitt, Jr., CEO			
AgFirst Retirement Plan	27	$ 2,241,551	$ –
Total		$ 2,241,551	$ –
Senior Officers (excluding CEO)[1]			
Supplemental Executive Retirement Plan	–	$ –	$ –
AgFirst Defined Benefit	22	3,972,854	–
Retirement Plan	–	–	–
-Total		$ 3,972,854	$ –

[1] *Deferred Benefits Plan.*
[2] *The Present Value of Accumulated Benefits is based upon assumptions and valuation dates that are the same as those used for the valuation of pension liabilities in the 2019 Annual Report, see Note 9, Employee Benefit Plans.*

Retirement and Deferred Compensation Plans

The Association's compensation programs include retirement and deferred compensation plans which are designed to provide income following an employee's retirement. Retirement benefits are paid following the employee's retirement while the benefits are earned while employed. The Association's objective is to offer benefit plans which are market competitive and aligned with the Association's strategic objectives. The Plans are designed to enable the Association to proactively attract, retain, recognize and reward a highly skilled, motivated and diverse staff that both supports the Association's mission and allows the Association to effectively align the human capital requirements with the Association's overall strategic objectives.

Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan which is a non-contributory defined benefit plan. Benefits under this plan are determined by a formula based on years of service and eligible compensation. Employees are eligible to retire and begin receiving unreduced pension benefits at age 65 or when years of service plus age equals "85". Upon retirement, annual payout is 2.0 percent of the highest three years of average salary, not including incentives, times years of credited service, subject to the Internal Revenue Code limitations.

Employees hired on or after January 1, 2003, but prior to November 4, 2014, participated in the AgFirst Farm Credit Cash Balance Retirement Plan. This plan was a qualified defined contribution pension plan. The Plan was terminated as of December 31, 2017 and vested benefits of the plan were distributed to plan participants in 2017 after plan termination approval by the Internal Revenue Service.

All employees are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan that has an employer matching contribution determined by the employee's date of employment. Employees hired prior to January 1, 2003, receive a maximum employer matching contribution equal to $0.50 for each $1.00 of employee compensation contributed up to 6.0 percent, subject to Internal Revenue Code limitations on compensation. Employees hired on or after January 1, 2003, receive a maximum employer matching contribution equal to $1.00 for each $1.00 of employee compensation contribution up to 6.0 percent, and beginning January 1, 2015, employees hired on or after January 1, 2003 also received an employer nonelective contribution equal to 3.0 percent of employee compensation, subject to the Internal Revenue Code limitation on compensation.

Senior officers and other highly compensated employees may participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a non-qualified deferred compensation plan. The purpose of the plan is to allow those employees to defer income taxes on a portion of their compensation until retirement or separation from the Association and to restore benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan includes a provision for discretionary contributions by the Association.

Employees who choose to defer a portion of their compensation may defer part or all of their base salary or incentive.

Also, all employees are eligible to receive rewards (a) based on years of service on five year, or multiple of five year, anniversaries, and (b) based on special exemplary performance as defined in the plan. A copy of these plans are available to stockholders upon request.

Directors

Directors and senior officers are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $410,198 for 2019, $327,327 for 2018 and $335,442 for 2017. The Association provides computer equipment to the directors to provide for an electronic means of communication. Expenses for the equipment are accounted for in accordance with the Association's equipment policy.

Subject to approval by the board, directors are compensated for meeting attendance and special assignments. As of December 31, 2019, an honorarium of $650 per day is paid for meetings, committee meetings (reduced to $300 if occurring on the same day as daily honorarium) and special assignments. $200 is paid for telephone conference meetings. Committee chairs receive an additional $100 for each meeting of the Committee.

In addition to the honoraria, as of December 31, 2019, directors are paid a quarterly retainer fee of $1,250 and the chairman and vice-chairman are paid an additional $650 and $300, respectively. Directors are compensated at a per hour rate of $20 for travel time to Board meetings in excess of one hour.

The following chart details for each director serving on the Board, the current term of expiration, and total cash compensation paid during 2019.

Director	Current Term Expiration	Total Compensation
Jennifer L. Rhodes *2019 Chairman*	2020	$ 47,310
Brian L. Boyd *2019 Vice Chairman*	2022	45,270
Paul D. Baumgardner	2020	33,975
Gary L. Grossnickle	2023	25,100
John Travis Hastings	2023	24,043
Laura M. Heilinger	2020	32,360
Dale R. Hershey	2019	7,795
Walter C. Hopkins	2021	27,120
Anthony M. Ill *Appointed and Outside*	2021	37,255
T. Jeffery Jennings	2023	30,520
M. Wayne Lambertson	2019	6,680
Fred R. Moore, Jr.	2021	31,960
Michael S. Nelson	2022	32,275
Dale J. Ockels	2019	7,450
Douglas D. Scott	2022	27,655
Alan N. Siegfried *Appointed and Outside*	2022	37,675
David R. Smith	2023	26,663
Joseph D. Snapp	2021	39,360
Fred N. West	2022	25,745
Charles M. Wright IV	2023	21,183
Total		$ 567,395

The following represents certain information regarding Association Directors and their principal occupations during the past five years:

Jennifer L. Rhodes, Chairman, owns and operates Deerfield Farms LLC, a 110-acre poultry and grain operation with her two sons. The operation consists of a four-house poultry farm producing 500,000 broilers annually and an irrigated grain farm producing corn, wheat, soybeans and cover crops. She is also employed as the Principal Agent for Agriculture and Food Systems, University of Maryland Extension, Queen Anne's County, Maryland. She holds leadership positions in the following organizations: Board member of the Compass Regional Hospice, Delmarva Poultry Industry, Inc. and US Roundtable for Sustainable Poultry & Eggs; County Board Member for the Farm Bureau; Board member for Queen Anne's Soil Conservation District; Board member of Dean's Global Leadership Council, UMD AGNR; Chair of the USDA State Farm Service Agency Committee; member of Delmarva Land and Litter Challenge Steering Committee; past President and past member of the executive committee of the Delmarva Poultry Industry, Inc.; past President of the Maryland Association of County Agricultural Agents; past member of the Maryland Agriculture Commission; and served as the Governor's appointee to the Regulatory Reform Commission.

Brian L. Boyd, Vice Chairman, owns and operates a poultry production facility producing 860,000 broilers annually in four poultry houses on three different farms totaling 160 acres. He owns and operates Boyd's Custom Planting, covering 3,000+ acres per year planting soybeans and small grains. He also is the owner of Boyd Boys, LLC and trucks commodities for a local feed mill. In addition, he is a member of the PA Farm Bureau and serves on the South Lebanon Ag Land Preserve Committee.

Paul D. Baumgardner owns Baumgardner's Hay and Straw, as well as the Harvest Barn Country Market. He also farms 400 acres, growing corn, soybeans, hay, wheat, as well as produce and proteins for the Market. Mr. Baumgardner also serves on the Farm Credit Foundation for Agricultural Advancement (a 501 (c)(3) organization) Board.

Gary L. Grossnickle is a dairy and crop farmer, and President of Grossnickle Farms, Inc. His operation consists of 1,300 acres (600 owned) in cultivation and 260 cows and 200 replacement heifers. He is also involved in Grossnickle Limited Partnership, a real estate enterprise.

John Travis Hastings is the owner and operator of a grain, produce, and processing vegetable farm on a total of 1,500 acres. He currently serves as the Vice President of the Mar-Del Watermelon Association and as a Board member of the Laurel Grain Company.

Laura M. Heilinger is a co-owner with her husband of a dairy and grain operation consisting of 140 Brown Swiss and Holstein cows and 350 acres of corn, alfalfa, soybeans and some small grains.

Dale R. Hershey is a senior partner in Hershey Brothers Dairy Farm, managing the real estate and rental property aspects of the family business. Until 2010, he also managed the 300-cow dairy aspect of the business. The operation includes 650 acres of corn, alfalfa, soybeans, rye and barley. Mr. Hershey also served on the Farm Credit Council Board of Directors, the Farm Credit Council Services Board, the Farm Credit Foundation for Agricultural Advancement (a 501 (c)(3) organization) Board, the AgFirst Farm Credit Bank Board of Directors and the AgFirst District Farm Credit Council Board. Days of service disclosed here for Mr. Hershey as a member of the MidAtlantic Board do not reflect activities in his capacity as a Farm Credit Council Board member, or an AgFirst Board or committee member. For further information related to specific duties, compensation, and days served in those positions, please see the AgFirst Farm Credit Bank 2019 Annual Report at ***www.agfirst.com***. Mr. Hershey's term of service on the MidAtlantic Board ended in May 2019.

Walter C. Hopkins and his son operate a dairy and grain farm consisting of 600 milk cows, 500 replacement heifers, and 1,000 acres of corn, alfalfa, grass and small grain. He owns and serves as President of Green Acres Farm, Inc. (dairy farm), and is manager of Lyon's, LLC (land holding company). Mr. Hopkins also serves on the Board, Governance Committee, and Compensation Committee of the AgFirst Farm Credit District

Bank, the Farm Credit Foundation for Agricultural Advancement (a 501 (c)(3) organization) Board, and on the AgFirst District Farm Credit Council Board. Days of service disclosed here for Mr. Hopkins as a member of the MidAtlantic Board do not reflect activities in his capacity as a board or committee member for the AgFirst Farm Credit District. For further information related to specific duties, compensation, and days served in those positions, please see the AgFirst Farm Credit Bank 2019 Annual Report at ***www.agfirst.com***.

Anthony M. Ill was appointed as one of the Board's outside directors effective January 1, 2015. He is a Certified Public Accountant holding an active license in the state of Maryland. Mr. Ill is the founder of Rock Glenn Advisors, a consulting practice focusing on the financial, operational, and strategic aspects of business and has served as an interim CFO for a variety of companies in transition. His other recent professional experience includes the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization, and Chief Financial and Operating Officer for Ripken Baseball. Recent engagements have included the University of Delaware, DAP Products, and various startups. Mr. Ill has held various senior positions such as President, CFO, and COO with firms including Planit Advertising, Certis USA, Jewett Machine Manufacturing Company, and Baker Equipment Engineering Company.

T. Jeffery Jennings operates a farm consisting of 100 head of beef cows, poultry facilities with capacity for 13,000 breeder hens, and 500 acres producing corn, soybeans, barley, hay, pasture, and timber. He serves as a Board member of the Page Coop Farm Bureau and as Chairman of the Scholarship Committee of the Page County Farmers Association.

M. Wayne Lambertson farming with his son, has a 1,650 acre cash grain operation (630 acres owned) producing soybeans, corn, and wheat. He also has a 254,000 capacity broiler operation. He is owner/president of Amen Corner LLC (poultry), president of Twin Oak Farms, Inc. (grain), a partner and vice-president of JWL Enterprises (construction), and a partner in Don's Seafood Restaurant. Mr. Lambertson's term of service on the MidAtlantic Board ended in May 2019.

Fred R. Moore, Jr. owns and operates Fred R. Moore & Son, Inc. and Collins Wharf Sod, consisting of a 750-acre turf production and grain operation. In addition, he is a partner in a land holding and rental management firm. He also serves on the boards of the Wicomico County Farm Bureau and the Wicomico County Soil Conservation District. Within the last five years, he served as Chief and Assistant Chief for the Allen Fire Company. He also serves on the Board and Chair of the compensation committee of the AgFirst Farm Credit District Bank, and on the AgFirst District Farm Credit Council Board. Days of service disclosed here for Mr. Moore as a member of the MidAtlantic Board do not reflect activities in his capacity as a member of the AgFirst Board and committees or the AgFirst Farm Credit Council Board. For further information related to specific duties, compensation, and days served in those positions, please see the AgFirst Farm Credit Bank 2019 Annual Report at ***www.agfirst.com***.

Michael S. Nelson is the president of Nelson's Agri-Service, LLC operating in seed sales. As well, he is the owner/operator at Triple Creek Farm, consisting of row crops with a total of 600 acres rented/owned, and 40 head of Black Angus cows.

Dale J. Ockels along with his two brothers, operate as a family corporation tilling 4,000 acres of corn, soybeans, and small grains. They also have a 160,000 capacity poultry operation. He serves as President of Ockels' Farms, Inc., is a partner in Ockels Acres LLC (land holding and farming), and as Treasurer of RCDG (land holding). He also serves on the boards of the Sussex County Farm Bureau, Sussex County Soil Conservation District (Treasurer), the Farm Credit Foundation for Agricultural Advancement (a 501 (c)(3) organization) Board, and on the Delaware Governor's Council on Agriculture. Mr. Ockel's term of service on the MidAtlantic Board ended in May 2019.

Douglas D. Scott is owner and President of Walnut Hill Farms, Inc., a family-owned and managed cash-grain and vegetable operation consisting of 1,600 acres. Mr. Scott currently holds leadership positions in: Venture Farms, Inc. (Secretary), Choptank Electric Cooperative (Board member and Secretary/Treasurer) and Mid Atlantic Cooperative Solutions, Inc., a holding company owning Aero-Energy (Board member and Treasurer).

Alan N. Siegfried was appointed as one of the Board's outside directors and its designated financial expert effective January 1, 2015. He is a Certified Public Accountant and currently serves as an adjunct professor at the University of Maryland Smith School of Business. His recent professional experience includes serving as the Director of Internal Audit for the Bank-Fund Staff Federal Credit Union, and as Auditor General for the Inter-American Development Bank. He has recently served on the Board and Audit Compliance Committee of Bon Secours Health System, Inc., and as the Vice Chair and a member of the UNICEF Audit Committee. In 2018, Mr. Siegfried was reappointed to serve as an outside director and the Board's designated financial expert effective January 1, 2019.

David R. Smith is the owner and operator of a dairy and crop farm on 432 acres and consisting of 150 dairy replacement heifers. David serves as Executive Director of the Pennsylvania Dairymen's Association, Board member of the Penn State Ag Council, and Advisory Committee member of the All-American Dairy Show. He also serves as a member of the Pennsylvania Farm Bureau, the Pennsylvania Holstein Association, Holstein Association USA, and the Lebanon County Farm Bureau.

Joseph D. Snapp is a self-employed farmer and orchardist operating and managing West Oaks Farm, LLC. His farm operation includes 200 acres in fruit production, 600 acres in row crops, 20 acres in vegetable and sweet corn production, and cow-calf production of over 400 head. The operation also includes West Oaks Farm Market and Event Venue, a family venture. Mr. Snapp serves as Directors for the Frederick County Farm Bureau.

Fred N. West owns and operates a poultry and grain (corn, soybeans, wheat) farm consisting of 2,600 acres (200 owned) and producing 550,000 broilers annually. He is a partner in F & F Farm LLC (poultry) and is also a partner of Fred West Farms LLC (grain).

Charles M. Wright IV is owner and President of Cornerstone Farms Inc. t/a Wright's Market, a family owned and managed farm market, vegetable and cash grain operation consisting of 650 acres. He is also co-owner, with his wife, of MC Farms a poultry farm producing 210,000 broilers annually. Mr. Wright is the past President of the Wicomico County Farm Bureau, where he remains a Director, serves on the Executive Board of the Mar-DEL Watermelon Association, and is a member of the Salisbury Chamber of Commerce.

The following chart details the number of meetings, other activities and additional compensation paid for other activities for each director.

Director	Days Served: Board Meetings	Days Served: Other Official Activities	Committee Assignments	Compensation for Other Activities*
Jennifer L. Rhodes, *2019 Chairman*	11	47	Executive	$ 30,000
Brian L. Boyd, *2019 Vice Chairman*	11	49	Executive, and Audit & Review	28,300
Paul D. Baumgardner	11	33	Executive, and Audit & Review	17,025
Gary L. Grossnickle	11	22	Audit & Review, and Governance	11,500
John Travis Hastings	8	24	Governance	15,683
Laura M. Heilinger	11	31	Governance, and Executive	17,550
Dale R. Hershey	2	9	Human Resources	5,425
Walter C. Hopkins	11	24	Audit & Review, and Human Resources	12,800
Anthony M. Ill, *Appointed and Outside*	11	41	Executive, and Human Resources	24,475
T. Jeffery Jennings	9	29	Human Resources, and Executive	17,350
M. Wayne Lambertson	2	5	Governance	3,800
Fred R. Moore, Jr.	11	27	Executive, and Audit & Review	13,450
Michael S. Nelson	11	32	Governance	20,275
Dale J. Ockels	2	7	Human Resources	5,100
Douglas D. Scott	11	24	Human Resources, and Governance	15,075
Alan N. Siegfried, *Appointed and Outside*	11	40	Executive, and Audit & Review	22,225
David R. Smith	8	28	Human Resources	18,283
Joseph D. Snapp	11	41	Executive, Governance, and Audit & Review	25,120
Fred N. West	10	23	Human Resources and Governance	14,425
Charles M. Wright IV	8	20	Audit & Review	12,433
Total				$ 330,295

**Included in the Total Compensation amount in the previous table.*

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditors

There were no changes in or material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

For the year ended December 31, 2019, the Association paid fees and expenses of $63,750 for audit services rendered by its independent auditors, PricewaterhouseCoopers LLP, (PwC). No other fees were paid to PwC.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 12, 2020 and the report of management, which appear in this Annual Report to shareholders are incorporated herein by reference. Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-888-339-3334 or writing Brian E. Rosati, MidAtlantic Farm Credit, ACA, 45 Aileron Court, Westminster, Maryland 21157-3022, or accessing the website, ***www.mafc.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clean guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to shareholders.

Shareholder Investment

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Whistleblower

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (SpeakUp) at 1-844-321-9164 or a link to the website is available at ***www.convercent.com/report***.

Privacy Policy

Your privacy is a top priority in all aspects of our business. Our employees are informed of their responsibility to protect your confidential information and are governed by strict standards of conduct, which prohibit unauthorized use of your information. Security procedures and internal controls are also in place to protect your privacy.

We collect personally identifiable information (name, address, SSN) only if specifically and knowingly provided by you. We do not give, sell, or transfer any personal information to third parties, unless required by law or under such other permissible purposes as set forth by regulation.

For more details, visit ***www.mafc.com/privacy-security***.

REPORT OF THE

AUDIT COMMITTEE

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee are employees of MidAtlantic Farm Credit (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 2019, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from MidAtlantic Farm Credit. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2019. The foregoing report is provided by the following independent directors, who constitute the Committee:

Fred Moore, Jr.

Fred R. Moore, Jr.
Chairman of the Audit Committee

Members of Audit Committee

Paul D. Baumgardner
Vice Chairman

Brian L. Boyd
Alan N. Siegfried
Joseph D. Snapp
Charles M. Wright IV

March 12, 2020

REPORT OF
INDEPENDENT AUDITORS

pwc

Report of Independent Auditors

To the Board of Directors and Management of MidAtlantic Farm Credit, ACA

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 12, 2020

PricewaterhouseCoopers LLP, *1075 Peachtree Street NE Suite 2600 Atlanta, Georgia 30309*
T: 678 419 1000, www.pwc.com/us

CONSOLIDATED
BALANCE SHEETS

(dollars in thousands)	December 31, 2019	2018	2017
Assets			
Cash	**$ 3,508**	$ 4,376	$ 4,690
Loans	**2,844,993**	2,803,479	2,717,226
Allowance for loan losses	**(32,197)**	(30,090)	(25,949)
Net loans	**2,812,796**	2,773,389	2,691,277
Loans held for sale	**900**	593	—
Accrued interest receivable	**16,249**	17,069	15,267
Equity investments in other Farm Credit institutions	**32,825**	32,074	31,277
Premises and equipment, net	**15,938**	16,438	15,026
Other property owned	**1,415**	622	240
Accounts receivable	**29,895**	34,519	36,913
Other assets	**3,873**	2,800	2,804
Total assets	**$ 2,917,399**	$ 2,881,880	$ 2,797,494
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 2,192,656**	$ 2,181,496	$ 2,121,161
Accrued interest payable	**5,796**	5,900	5,018
Patronage refunds payable	**27,346**	30,836	28,030
Accounts payable	**2,748**	2,420	4,170
Other liabilities	**27,308**	26,278	31,754
Total liabilities	**2,255,854**	2,246,930	2,190,133
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**10,974**	10,744	10,550
Retained earnings			
Allocated	**409,174**	388,255	365,603
Unallocated	**241,769**	236,149	231,530
Accumulated other comprehensive income (loss)	**(372)**	(198)	(322)
Total members' equity	**661,545**	634,950	607,361
Total liabilities and members' equity	**$ 2,917,399**	$ 2,881,880	$ 2,797,494

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

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Interest Income			
Loans	**$ 145,626**	$ 136,982	$ 126,527
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**72,049**	65,716	57,048
Net interest income	**73,577**	71,266	69,479
Provision for loan losses	**4,000**	4,000	2,000
Net interest income after provision for loan losses	**69,577**	67,266	67,479
Noninterest Income			
Loan fees	**1,346**	1,101	1,270
Fees for financially related services	**3,165**	3,240	3,220
Lease income	**191**	—	—
Patronage refunds from other Farm Credit institutions	**29,423**	34,076	36,226
Gains (losses) on sales of rural home loans, net	**1,197**	972	1,219
Gains (losses) on sales of premises and equipment, net	**127**	820	60
Gains (losses) on other transactions	**284**	(43)	320
Insurance Fund refunds	**589**	2,329	—
Other noninterest income	**50**	244	247
Total noninterest income	**36,372**	42,739	42,562
Noninterest Expense			
Salaries and employee benefits	**28,891**	29,233	27,573
Occupancy and equipment	**2,533**	2,359	2,092
Insurance Fund premiums	**1,951**	1,888	3,044
(Gains) losses on other property owned, net	**29**	102	177
Other operating expenses	**8,713**	8,338	182
Total noninterest expense	**42,117**	41,920	33,068
Income before income taxes	**63,832**	68,085	76,973
Provision for income taxes	**60**	195	406
Net income	**$ 63,772**	$ 67,890	$ 76,567

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Net income	**$ 63,772**	$ 67,890	$ 76,567
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(174)**	124	(82)
Comprehensive income	**$ 63,598**	$ 68,014	$ 76,485

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

CONSOLIDATED STATEMENTS OF
CHANGES IN MEMBERS' EQUITY

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2016	$ 10,264	$ 332,358	$ 226,148	$ (240)	$ 568,530
Comprehensive income			76,567	(82)	76,485
Capital stock/participation certificates issued/(retired), net	286				286
Patronage distribution					
Cash			(18,517)		(18,517)
Nonqualified retained earnings		52,282	(52,282)		—
Retained earnings retired		(19,331)			(19,331)
Patronage distribution adjustment		294	(386)		(92)
Balance at December 31, 2017	$ 10,550	$ 365,603	$ 231,530	$ (322)	$ 607,361
Comprehensive income			67,890	124	68,014
Capital stock/participation certificates issued/(retired), net	194				194
Patronage distribution					
Cash			(20,000)		(20,000)
Nonqualified retained earnings		43,589	(43,589)		—
Retained earnings retired		(20,702)			(20,702)
Patronage distribution adjustment		(235)	318		83
Balance at December 31, 2018	$ 10,744	$ 388,255	$ 236,149	$ (198)	$ 634,950
Cumulative effect of change in accounting principle			**(11)**		**(11)**
Comprehensive income			**63,772**	**(174)**	**63,598**
Capital stock/participation certificates issued/(retired), net	**230**				**230**
Patronage distribution					
Cash			**(17,000)**		**(17,000)**
Nonqualified retained earnings		**41,251**	**(41,251)**		**—**
Retained earnings retired		**(20,222)**			**(20,222)**
Patronage distribution adjustment		**(110)**	**110**		**—**
Balance at December 31, 2019	**$ 10,974**	**$ 409,174**	**$ 241,769**	**$ (372)**	**$ 661,545**

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

CONSOLIDATED STATEMENTS OF
CASH FLOWS

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Cash flows from operating activities:			
Net income	**$ 63,772**	$ 67,890	$ 76,567
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,273**	1,234	1,125
Amortization (accretion) of net deferred loan costs (fees)	**1,520**	1,002	764
Provision for loan losses	**4,000**	4,000	2,000
(Gains) losses on other property owned	**(82)**	51	121
(Gains) losses on sales of premises and equipment, net	**(127)**	(820)	(60)
(Gains) losses on sales of rural home loans, net	**(1,197)**	(972)	(1,219)
(Gains) losses on other transactions	**(284)**	43	(320)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(55,951)**	(47,925)	(58,689)
Proceeds from sales of loans held for sale, net	**56,841**	48,304	60,381
(Increase) decrease in accrued interest receivable	**820**	(1,802)	(1,611)
(Increase) decrease in accounts receivable	**4,624**	2,394	(8,747)
(Increase) decrease in other assets	**(1,084)**	4	3,111
Increase (decrease) in accrued interest payable	**(104)**	882	702
Increase (decrease) in accounts payable	**328**	(1,750)	193
Increase (decrease) in other liabilities	**1,043**	(5,395)	(8,310)
Total adjustments	**11,620**	(750)	(10,559)
Net cash provided by (used in) operating activities	**75,392**	67,140	66,008
Cash flows from investing activities:			
Net (increase) decrease in loans	**(46,482)**	(87,754)	(111,446)
(Increase) decrease in equity investments in other Farm Credit institutions	**(751)**	(797)	(2,105)
Purchases of premises and equipment	**(803)**	(3,472)	(4,437)
Proceeds from sales of premises and equipment	**157**	1,646	90
Proceeds from sales of other property owned	**941**	207	749
Net cash provided by (used in) investing activities	**(46,938)**	(90,170)	(117,149)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**11,160**	60,335	80,260
Capital stock and participation certificates issued/(retired), net	**230**	194	286
Patronage refunds and dividends paid	**(20,490)**	(17,111)	(9,278)
Retained earnings retired	**(20,222)**	(20,702)	(19,331)
Net cash provided by (used in) financing activities	**(29,322)**	22,716	51,937
Net increase (decrease) in cash	**(868)**	(314)	796
Cash, beginning of period	**4,376**	4,690	3,894
Cash, end of period	**$ 3,508**	$ 4,376	$ 4,690
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 413**	$ —	$ —
Receipt of property in settlement of loans	**1,968**	640	381
Estimated cash dividends or patronage distributions declared or payable	**17,000**	20,000	18,517
Employee benefit plans adjustments (Note 9)	**174**	(124)	82
Supplemental information:			
Interest paid	**$ 72,153**	$ 64,834	$ 56,346
Taxes (refunded) paid, net	**59**	228	150

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

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** MidAtlantic Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to borrowers in the counties of Kent, New Castle and Sussex in the state of Delaware; counties of Baltimore, Caroline, Carroll, Cecil, Dorchester, Frederick, Harford, Howard, Kent, Montgomery, Queen Anne's, Somerset, Talbot, Washington, Wicomico and Worcester in the state of Maryland; counties of Berks, Bucks, Carbon, Chester, Dauphin, Delaware, Lancaster, Lebanon, Lehigh, Monroe, Montgomery, Northampton, Philadelphia, Pike and Schuylkill in the state of Pennsylvania; counties of Accomack, Clarke, Frederick, Northampton, Page, Shenandoah and Warren, in the state of Virginia; and the counties of Berkeley, Jefferson and Morgan, in the state of West Virginia.

The Association is a lending institution in the Farm Credit System (System), a nationwide network of cooperatively owned banks and associations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), (collectively, the System Banks) each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities.

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate long-term, short-term and intermediate term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst (Bank) and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own substantially all of AgFirst's voting stock. As of year-end, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries. FLCAs are tax-exempt while ACAs and PCAs are taxable.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) 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 (Insured Debt), (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 discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount 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 such other percentage of the aggregate obligations as the Insurance Corporation at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions. However, it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity and financial services that can be offered by the Association, and the persons eligible to borrow.

The Associations borrow from the Bank and in turn may originate and service short- and intermediate term loans to their members, as well as long-term real estate mortgage loans.

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a General Financing Agreement (GFA) between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information systems, and marketing. The costs of these

support services are included in the cost of the Direct Note or in some cases billed directly to certain Associations that use a specific service.

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 may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with 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 Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA.

Certain amounts in the prior year financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or total members' equity of prior years.

A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held $3,246 in cash in excess of insured amounts.

B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate term loans for agricultural production or operating purposes with maturities of not more than 10 years.

   Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

Impaired loans are loans for which it is probable that all principal and interest will not 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 remains contractually past due until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full. A formal restructuring may also cure a past due status.

Loans are generally classified as nonaccrual when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, payments are applied against 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 received in cash may be recognized as interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified "doubtful" or "loss." Loans are charged off at the time they are determined to be uncollectible.

In cases where the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. 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. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Association considers the following factors, among others, when determining the allowance for loan losses:

- Changes in credit risk classifications
- Changes in collateral values
- Changes in risk concentrations
- Changes in weather-related conditions
- Changes in economic conditions

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Association uses a two-dimensional loan rating model based on 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 ratings 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 significantly as a loan moves from a 9 to 10 (other assets especially mentioned) and grows more significantly as a loan moves to a substandard viable level of 11. A substandard non-viable rating of 12 indicates that the probability of default is almost certain. Loans risk rated 13 or 14 are generally written off.

C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value.

D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. 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. 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, expenses, and carrying value adjustments related to other property owned are included in (Gains) Losses on Other Property Owned, Net in the Consolidated Statements of Income.

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized. Premises and equipment are evaluated for impairment whenever events or circumstances indicate that the carrying value of the asset may not be recoverable.

From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in Other Assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-down of property held for sale is recorded as a loss in the period identified.

F. **Investments:** The Association may hold investments as described below.

Equity Investments in Other Farm Credit System Institutions
Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Other Investments
As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within Noninterest Income on the Consolidated Statements of Income and the balance of these investments is included in Other Assets on the accompanying Consolidated Balance Sheets.

Investment Income
Dividends from Investments in Other Farm Credit Institutions are generally recorded as patronage income and included in Noninterest Income.

G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced 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 other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. **Employee Benefit Plans:** The Association participates in District and multi-district sponsored benefit plans. These plans may include defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

Defined Contribution Plans
Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

The Association also offers a FCBA supplemental 401(k) plan for certain key employees. This plan is nonqualified. Company contributions are expensed as funded.

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans
Substantially all employees hired before January 1, 2003 may participate in the AgFirst Farm Credit Retirement Plan (Plan), which is a defined benefit plan and considered multiemployer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-district sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits.

Since the foregoing plans are multiemployer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Annual Information Statement of the Farm Credit System.

Additional information may be found in Note 9 and in the Notes to the Annual Information Statement of the Farm Credit System.

Single Employer Defined Benefit Plan
The Association also sponsors a single employer defined benefit supplemental retirement plan for certain key employees. This plan is nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. See Note 9 for additional information.

I. **Income Taxes:** The Association evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to, an entity's status, including its status as a pass-through entity or tax-exempt entity.

The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the expected patronage program, which reduces taxable earnings.

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

K. **Valuation Methodologies:** FASB 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. This guidance also 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. It prescribes three levels of inputs that may be used to measure fair value.

   Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

   Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

   Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing.

   The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

   A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, and certain derivatives, investment securities and other financial instruments. Inputs to these valuations can involve estimates and assumptions that require a substantial degree of judgment. Some of the assumptions used include, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on results of operations.

   Additional information may be found in Note 8.

L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and 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.

   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.

   Letters of credit are 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.

M. **Revenue Recognition:** The Association generates income from multiple sources.

   Financial Instruments
   The largest source of revenue for the Association is interest income. Interest Income is recognized on an accrual basis driven by nondiscretionary formulas based on written contracts, such as loan agreements or securities contracts. Credit-related fees, including letter of credit fees, finance charges and other fees are recognized in Noninterest Income when earned. Other types of noninterest revenues, such as service charges, professional services and broker fees, are accrued and recognized into income as services are provided and the amount of fees earned is reasonably determinable.

   Contracts with Customers
   The Association maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. As most of the contracts are to provide access to expertise or system capacity that the Association maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. The Association also does not generally incur costs to obtain contracts. Revenue is recognized to reflect the transfer of goods and services to customers in an amount equal to the consideration the Association receives or expects to receive.

   Gains and Losses from Nonfinancial Assets
   Any gains or losses on sales of Premises and Equipment and OPO are included as part of Noninterest Income. These gains and losses are recognized, and the nonfinancial asset is derecognized, when the Association has entered into a valid contract with a noncustomer and transferred control of the asset. If the criteria to meet the definition of a contract have not been met, the Association does not derecognize the nonfinancial asset and any consideration received is recognized as a liability. If the criteria for a contract are subsequently met, or if the consideration received is or becomes nonrefundable, a gain or loss may be recognized at that time.

N. **Leases:**
   Lessee
   Contracts entered into are evaluated at inception to determine if they contain a lease. Assets and liabilities are recognized on the Consolidated Balance Sheets to reflect the rights and obligations created by any contracts that do. These contracts are then classified as either operating or finance leases.

   In the course of normal operations, the Association may enter into leases for various business purposes. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement. Any options are assessed individually to determine if it is reasonably certain they will be exercised.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make the payments arising from the lease. ROU assets and lease liabilities are initially recognized based on the present value of lease payments over the lease term. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Lease expense for finance leases is recognized on a declining basis over the lease term.

ROU assets are included on the Consolidated Balance Sheets in Premises and Equipment for finance leases and Other Assets for operating leases. Lease liabilities are included in Other Liabilities on the Consolidated Balance Sheets. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets and lease expense is recognized over the lease term.

Lessor

The Association acts as lessor in certain contractual arrangements. The contracts relate to office space in an owned property and are considered operating leases. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement.

Lease income is recognized on a straight-line basis over the lease term. Lease and nonlease components are accounted for separately in the Consolidated Statements of Income. Any initial direct costs are deferred and recognized as an expense over the lease term on the same basis as lease income. Any taxes assessed by a governmental authority are excluded from consideration as variable payments.

Lease receivables and income are included in Accounts Receivable on the Consolidated Balance Sheets and Lease Income in the Consolidated Statements of Income.

O. **Accounting Standards Updates (ASUs):** In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments simplify the accounting for income taxes by removing the following exceptions:

- Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income),
- Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment,
- Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and
- Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

The amendments also simplify the accounting for income taxes by doing the following:

- Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax,
- Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction,
- Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; however, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority,
- Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date, and
- Making minor codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

In November 2019, the FASB issued ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained a greater understanding about the implementation challenges encountered by all types of entities when adopting a major Update. The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations. In response to those issues and requests to defer certain major Updates not yet effective for all entities, the Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). Credit Losses guidance in ASU 2016-13 will be effective for all bucket two entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

In May 2019, the FASB issued ASU 2019-05 Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. The amendments in this Update provide entities with an option to irrevocably elect the fair value option applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in that update. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

In April 2019, the FASB issued ASU 2019-04 Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825 Financial Instruments. The amendments in this Update clarify, correct, and improve various aspects of the guidance in the following Updates related to financial instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The items addressed generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in ASU 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of the amendments in this Update for determining when accrued interest receivables are deemed uncollectible and written off. For entities that have adopted the amendments in ASU 2017-12 as of the issuance date of this Update, the effective date is as of the beginning of the first annual period beginning after the issuance date of this Update. For those entities, early adoption is permitted, including adoption on any date on or after the issuance of this Update. The amendments in this Update related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of this Update as long as the entity has adopted all of the amendments in ASU 2016-01. The amendments in this Update should be applied on a modified-retrospective transition basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted all of the amendments in ASU 2016-01. Adoption of the guidance related to ASU 2016-01 and ASU 2017-12 is not expected to have an impact on the statements of financial condition or results of operations. Evaluation of any possible effects the ASU 2016-13 guidance may have on the statements of financial condition and results of operations is in progress.

In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align 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 the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The guidance will be adopted on a prospective basis in 2020 and is not expected to have a material impact on the statements of financial condition or results of operations.

In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB's disclosure framework project. The project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. The amendments remove, modify or add certain disclosures contained in the financial statement footnotes related to fair value. Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance. Entities are permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The removed disclosures were adopted effective with the 2018 Annual Report, and the remaining disclosures were adopted with the 2019 Annual Report.

In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance was effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update was effective for interim and annual periods beginning after December 15, 2018 for public business entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2018. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update, and subsequent clarifying guidance issued, requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases are classified as either finance leases or operating leases. This distinction is relevant for the pattern of expense recognition in the income statement. Lessor accounting guidance is largely unchanged from the previous standard. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. The amendments were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities.

Transition Information

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
- The package of practical expedients related to initial application of the guidance was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- Upon adoption, a cumulative-effect adjustment to equity of approximately $(11) was recorded. In addition, a Right of Use Asset in the amount of $596 and Lease Liability in the amount of $607 were recognized.
- Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

Note 3 — Loans and Allowance for Loan Losses

For a description of the Association's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2 subsection B above.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the Board of Directors.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (see further discussion in Note 2 subsection B above) and a separate scale addressing estimated percentage loss in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

The Association's loan portfolio, which includes purchased interests in loans, has been segmented by the following loan types as defined by the FCA:

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31, 2019	2018	2017
Real estate mortgage	$ 1,771,690	$ 1,740,841	$ 1,660,982
Production and intermediate term	796,599	805,435	808,479
Loans to cooperatives	17,437	20,502	25,598
Processing and marketing	78,001	66,795	54,996
Farm-related business	49,109	69,057	66,050
Communication	62,134	52,853	56,951
Power and water/waste disposal	3,148	3,657	4,162
Rural residential real estate	41,931	44,339	40,008
International	24,944	–	–
Total loans	$ 2,844,993	$ 2,803,479	$ 2,717,226

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.

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 collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent, if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present the principal balance of participation loans at periods ended:

	December 31, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 44,750	$ –	$ –	$ –	$ –	$ –	$ 44,750	$ –
Production and intermediate term	51,029	56,028	10,795	4,333	–	–	61,824	60,361
Loans to cooperatives	6,911	–	10,573	–	–	–	17,484	–
Processing and marketing	29,367	15,627	4,426	–	–	–	33,793	15,627
Farm-related business	1,579	–	–	–	–	–	1,579	–
Communication	18,251	–	44,010	–	–	–	62,261	–
Power and water/waste disposal	–	–	3,157	–	–	–	3,157	–
International	–	–	25,000	–	–	–	25,000	–
Total	$ 151,887	$ 71,655	$ 97,961	$ 4,333	$ –	$ –	$ 249,848	$ 75,988

	December 31, 2018							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 27,347	$ –	$ –	$ –	$ –	$ –	$ 27,347	$ –
Production and intermediate term	52,526	41,906	10,719	4,410	–	–	63,245	46,316
Loans to cooperatives	8,016	–	12,510	–	–	–	20,526	–
Processing and marketing	18,185	21,610	7,821	–	–	–	26,006	21,610
Farm-related business	1,533	–	23,027	–	–	–	24,560	–
Communication	15,968	–	37,013	–	–	–	52,981	–
Power and water/waste disposal	–	–	3,666	–	–	–	3,666	–
Total	$ 123,575	$ 63,516	$ 94,756	$ 4,410	$ –	$ –	$ 218,331	$ 67,926

	December 31, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 18,971	$ –	$ –	$ –	$ –	$ –	$ 18,971	$ –
Production and intermediate term	59,548	39,963	10,876	4,172	–	–	70,424	44,135
Loans to cooperatives	8,925	–	16,708	–	–	–	25,633	–
Processing and marketing	22,984	18,746	7,245	–	–	–	30,229	18,746
Farm-related business	713	–	23,052	–	–	–	23,765	–
Communication	17,498	–	39,571	–	–	–	57,069	–
Power and water/waste disposal	–	–	4,175	–	–	–	4,175	–
Total	$ 128,639	$ 58,709	$ 101,627	$ 4,172	$ –	$ –	$ 230,266	$ 62,881

A significant source of liquidity for the Association is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

	December 31, 2019			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	$ 92,021	$ 497,895	$ 1,181,774	$ 1,771,690
Production and intermediate term	196,399	384,998	215,202	796,599
Loans to cooperatives	8,666	1,068	7,703	17,437
Processing and marketing	3,318	33,996	40,687	78,001
Farm-related business	7,453	25,908	15,748	49,109
Communication	5,508	27,175	29,451	62,134
Power and water/waste disposal	–	3,148	–	3,148
Rural residential real estate	1,903	3,487	36,541	41,931
International	–	1,996	22,948	24,944
Total loans	$ 315,268	$ 979,671	$ 1,550,054	$ 2,844,993
Percentage	11.08%	34.44%	54.48%	100.00%

The recorded investment in a 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.

The following table shows loans and related accrued interest classified under the FCA 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	91.41%	92.92%	94.60%
OAEM	4.66	4.01	3.32
Substandard/doubtful/loss	3.93	3.07	2.08
	100.00%	100.00%	100.00%
Production and intermediate term:			
Acceptable	89.25%	91.77%	93.28%
OAEM	5.87	4.30	4.86
Substandard/doubtful/loss	4.88	3.93	1.86
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	0.00	0.00	0.00
Substandard/doubtful/loss	0.00	0.00	0.00
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	93.67%	100.00%	100.00%
OAEM	6.33	0.00	0.00
Substandard/doubtful/loss	0.00	0.00	0.00
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	95.37%	99.11%	97.32%
OAEM	4.11	0.10	2.55
Substandard/doubtful/loss	0.52	0.79	0.13
	100.00%	100.00%	100.00%

	December 31, 2019	2018	2017
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	0.00	0.00	0.00
Substandard/doubtful/loss	0.00	0.00	0.00
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	0.00	0.00	0.00
Substandard/doubtful/loss	0.00	0.00	0.00
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	92.66%	94.80%	93.13%
OAEM	3.32	2.58	3.21
Substandard/doubtful/loss	4.02	2.62	3.66
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	0.00%	0.00%
OAEM	0.00	0.00	0.00
Substandard/doubtful/loss	0.00	0.00	0.00
	100.00%	0.00%	0.00%
Total loans:			
Acceptable	91.28%	93.13%	94.53%
OAEM	4.84	3.77	3.59
Substandard/doubtful/loss	3.88	3.10	1.88
	100.00%	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest as of:

December 31, 2019	30 Through 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	$ 8,265	$ 14,832	$ 23,097	$ 1,758,779	$ 1,781,876
Production and intermediate term	2,779	6,932	9,711	792,259	801,970
Loans to cooperatives	–	–	–	17,502	17,502
Processing and marketing	–	–	–	78,208	78,208
Farm-related business	217	145	362	48,956	49,318
Communication	–	–	–	62,142	62,142
Power and water/waste disposal	–	–	–	3,173	3,173
Rural residential real estate	514	835	1,349	40,700	42,049
International	–	–	–	25,004	25,004
Total	$ 11,775	$ 22,744	$ 34,519	$ 2,826,723	$ 2,861,242

December 31, 2018	30 Through 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	$ 14,382	$ 13,367	$ 27,749	$ 1,723,731	$ 1,751,480
Production and intermediate term	6,516	5,687	12,203	798,856	811,059
Loans to cooperatives	–	–	–	20,615	20,615
Processing and marketing	–	–	–	67,040	67,040
Farm-related business	118	80	198	69,126	69,324
Communication	–	–	–	52,865	52,865
Power and water/waste disposal	–	–	–	3,686	3,686
Rural residential real estate	507	144	651	43,828	44,479
Total	$ 21,523	$ 19,278	$ 40,801	$ 2,779,747	$ 2,820,548

	December 31, 2017				
	30 Through 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	$ 5,073	$ 8,733	$ 13,806	$ 1,656,984	$ 1,670,790
Production and intermediate term	4,123	5,248	9,371	803,909	813,280
Loans to cooperatives	–	–	–	25,684	25,684
Processing and marketing	–	–	–	55,113	55,113
Farm-related business	–	52	52	66,225	66,277
Communication	–	–	–	57,024	57,024
Power and water/waste disposal	–	–	–	4,195	4,195
Rural residential real estate	550	274	824	39,306	40,130
Total	$ 9,746	$ 14,307	$ 24,053	$ 2,708,440	$ 2,732,493

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

	December 31,		
	2019	2018	2017
Nonaccrual loans:			
Real estate mortgage	$ 26,256	$ 26,695	$ 14,750
Production and intermediate term	18,900	15,963	7,008
Farm-related business	75	77	85
Rural residential real estate	1,113	805	979
Total	$ 46,344	$ 43,540	$ 22,822
Accruing restructured loans:			
Real estate mortgage	$ 18,458	$ 13,866	$ 13,090
Production and intermediate term	12,344	8,058	6,709
Rural residential real estate	382	185	196
Total	$ 31,184	$ 22,109	$ 19,995
Accruing loans 90 days or more past due:			
Farm-related business	$ 70	$ –	$ –
Total	$ 70	$ –	$ –
Total nonperforming loans	$ 77,598	$ 65,649	$ 42,817
Other property owned	1,415	622	240
Total nonperforming assets	$ 79,013	$ 66,271	$ 43,057
Nonaccrual loans as a percentage of total loans	1.63%	1.55%	0.84%
Nonperforming assets as a percentage of total loans and other property owned	2.78%	2.36%	1.58%
Nonperforming assets as a percentage of capital	11.94%	10.44%	7.09%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

	December 31,		
	2019	2018	2017
Impaired nonaccrual loans:			
Current as to principal and interest	$ 20,992	$ 21,032	$ 7,670
Past due	25,352	22,508	15,152
Total impaired nonaccrual loans	$ 46,344	$ 43,540	$ 22,822
Impaired accrual loans:			
Restructured	$ 31,184	$ 22,109	$ 19,995
90 days or more past due	70	–	–
Total impaired accrual loans	$ 31,254	$ 22,109	$ 19,995
Total impaired loans	$ 77,598	$ 65,649	$ 42,817
Additional commitments to lend	$ 1,384	$ 153	$ 22

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	December 31, 2019			Year Ended December 31, 2019	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 8,627	$ 9,877	$ 2,351	$ 8,032	$ 51
Production and intermediate term	8,055	8,999	3,829	7,499	48
Farm-related business	75	89	16	70	–
Rural residential real estate	1,117	1,238	230	1,039	7
Total	$ 17,874	$ 20,203	$ 6,426	$ 16,640	$ 106
With no related allowance for credit losses:					
Real estate mortgage	$ 36,087	$ 41,397	$ –	$ 33,595	$ 213
Production and intermediate term	23,189	25,246	–	21,587	137
Farm-related business	70	122	–	65	1
Rural residential real estate	378	396	–	353	2
Total	$ 59,724	$ 67,161	$ –	$ 55,600	$ 353
Total impaired loans:					
Real estate mortgage	$ 44,714	$ 51,274	$ 2,351	$ 41,627	$ 264
Production and intermediate term	31,244	34,245	3,829	29,086	185
Farm-related business	145	211	16	135	1
Rural residential real estate	1,495	1,634	230	1,392	9
Total	$ 77,598	$ 87,364	$ 6,426	$ 72,240	$ 459

	December 31, 2018			Year Ended December 31, 2018	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 9,241	$ 10,635	$ 2,861	$ 7,396	$ 67
Production and intermediate term	9,010	9,871	6,355	7,212	65
Farm-related business	77	92	16	62	1
Rural residential real estate	684	803	184	548	5
Total	$ 19,012	$ 21,401	$ 9,416	$ 15,218	$ 138
With no related allowance for credit losses:					
Real estate mortgage	$ 31,320	$ 35,289	$ –	$ 25,072	$ 228
Production and intermediate term	15,011	17,520	–	12,016	109
Farm-related business	–	–	–	–	–
Rural residential real estate	306	446	–	244	2
Total	$ 46,637	$ 53,255	$ –	$ 37,332	$ 339
Total impaired loans:					
Real estate mortgage	$ 40,561	$ 45,924	$ 2,861	$ 32,468	$ 295
Production and intermediate term	24,021	27,391	6,355	19,228	174
Farm-related business	77	92	16	62	1
Rural residential real estate	990	1,249	184	792	7
Total	$ 65,649	$ 74,656	$ 9,416	$ 52,550	$ 477

	December 31, 2017			Year Ended December 31, 2017	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 7,623	$ 9,332	$ 1,142	$ 6,482	$ 197
Production and intermediate term	4,179	5,002	2,146	3,553	108
Farm-related business	85	91	17	72	2
Rural residential real estate	870	955	199	740	22
Total	$ 12,757	$ 15,380	$ 3,504	$ 10,847	$ 329
With no related allowance for credit losses:					
Real estate mortgage	$ 20,217	$ 22,137	$ –	$ 17,191	$ 521
Production and intermediate term	9,538	12,312	–	8,111	245
Farm-related business	–	7	–	–	–
Rural residential real estate	305	437	–	259	8
Total	$ 30,060	$ 34,893	$ –	$ 25,561	$ 774
Total impaired loans:					
Real estate mortgage	$ 27,840	$ 31,469	$ 1,142	$ 23,673	$ 718
Production and intermediate term	13,717	17,314	2,146	11,664	353
Farm-related business	85	98	17	72	2
Rural residential real estate	1,175	1,392	199	999	30
Total	$ 42,817	$ 50,273	$ 3,504	$ 36,408	$ 1,103

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

	Real Estate Mortgage	Production and Intermediate term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2018	$ 11,205	$ 17,541	$ 792	$ 150	$ 2	$ 400	$ –	$ 30,090
Charge-offs	(1,266)	(628)	(52)	–	–	–	–	(1,946)
Recoveries	13	22	2	–	–	16	–	53
Provision for loan losses	2,802	906	256	(11)	–	25	22	4,000
Balance at December 31, 2019	$ 12,754	$ 17,841	$ 998	$ 139	$ 2	$ 441	$ 22	$ 32,197
Balance at December 31, 2017	$ 10,216	$ 14,379	$ 711	$ 168	$ 5	$ 470	$ –	$ 25,949
Charge-offs	–	(53)	–	–	–	–	–	(53)
Recoveries	86	102	–	–	–	6	–	194
Provision for loan losses	903	3,113	81	(18)	(3)	(76)	–	4,000
Balance at December 31, 2018	$ 11,205	$ 17,541	$ 792	$ 150	$ 2	$ 400	$ –	$ 30,090
Balance at December 31, 2016	$ 9,715	$ 13,304	$ 634	$ 219	$ 11	$ 494	$ –	$ 24,377
Charge-offs	(44)	(294)	(132)	–	–	–	–	(470)
Recoveries	5	24	5	–	–	8	–	42
Provision for loan losses	540	1,345	204	(51)	(6)	(32)	–	2,000
Balance at December 31, 2017	$ 10,216	$ 14,379	$ 711	$ 168	$ 5	$ 470	$ –	$ 25,949
Allowance on loans evaluated for impairment:								
Individually	$ 2,351	$ 3,829	$ 16	$ –	$ –	$ 230	$ –	$ 6,426
Collectively	10,403	14,012	982	139	2	211	22	25,771
Balance at December 31, 2019	$ 12,754	$ 17,841	$ 998	$ 139	$ 2	$ 441	$ 22	$ 32,197
Individually	$ 2,861	$ 6,355	$ 16	$ –	$ –	$ 184	$ –	$ 9,416
Collectively	8,344	11,186	776	150	2	216	–	20,674
Balance at December 31, 2018	$ 11,205	$ 17,541	$ 792	$ 150	$ 2	$ 400	$ –	$ 30,090
Individually	$ 1,142	$ 2,146	$ 17	$ –	$ –	$ 199	$ –	$ 3,504
Collectively	9,074	12,233	694	168	5	271	–	22,445
Balance at December 31, 2017	$ 10,216	$ 14,379	$ 711	$ 168	$ 5	$ 470	$ –	$ 25,949
Recorded investment in loans evaluated for impairment:								
Individually	$ 26,256	$ 18,900	$ 75	$ –	$ –	$ 1,113	$ –	$ 46,344
Collectively	1,755,620	783,070	144,953	62,142	3,173	40,936	25,004	2,814,898
Balance at December 31, 2019	$ 1,781,876	$ 801,970	$ 145,028	$ 62,142	$ 3,173	$ 42,049	$ 25,004	$ 2,861,242
Individually	$ 26,695	$ 15,963	$ 77	$ –	$ –	$ 805	$ –	$ 43,540
Collectively	1,724,785	795,096	156,902	52,865	3,686	43,674	–	2,777,008
Balance at December 31, 2018	$ 1,751,480	$ 811,059	$ 156,979	$ 52,865	$ 3,686	$ 44,479	$ –	$ 2,820,548
Individually	$ 14,750	$ 7,008	$ 85	$ –	$ –	$ 979	$ –	$ 22,822
Collectively	1,656,040	806,272	146,989	57,024	4,195	39,151	–	2,709,671
Balance at December 31, 2017	$ 1,670,790	$ 813,280	$ 147,074	$ 57,024	$ 4,195	$ 40,130	$ –	$ 2,732,493

**Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*

To mitigate risk of loan losses, the Association has entered into Long-Term Standby Commitments to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under Long-Term Standby Commitments to Purchase held by the Association was $473, $627, and $736 at December 31, 2019, 2018, and 2017, respectively. Fees paid to Farmer Mac for such commitments totaled $3, $3, and $4 for 2019, 2018, and 2017, respectively.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) 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. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

	Year Ended December 31, 2019				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 5,242	$ 3,008	$ –	$ 8,250	
Production and intermediate term	5,177	25,972	–	31,149	
Total	$ 10,419	$ 28,980	$ –	$ 39,399	
Post-modification:					
Real estate mortgage	$ 5,241	$ 3,011	$ –	$ 8,252	$ –
Production and intermediate term	5,186	25,980	–	31,166	–
Total	$ 10,427	$ 28,991	$ –	$ 39,418	$ –

Outstanding Recorded Investment	Year Ended December 31, 2018 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 2,673	$ 3,437	$ –	$ 6,110	
Production and intermediate term	678	12,179	–	12,857	
Rural residential real estate	222	–	8	230	
Total	$ 3,573	$ 15,616	$ 8	$ 19,197	
Post-modification:					
Real estate mortgage	$ 2,678	$ 3,430	$ –	$ 6,108	$ –
Production and intermediate term	680	12,157	–	12,837	–
Rural residential real estate	224	–	8	232	–
Total	$ 3,582	$ 15,587	$ 8	$ 19,177	$ –

Outstanding Recorded Investment	Year Ended December 31, 2017 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 4,364	$ 3,294	$ –	$ 7,658	
Production and intermediate term	1,234	7,372	–	8,606	
Rural residential real estate	232	163	–	395	
Total	$ 5,830	$ 10,829	$ –	$ 16,659	
Post-modification:					
Real estate mortgage	$ 4,401	$ 3,129	$ –	$ 7,530	$ –
Production and intermediate term	1,383	6,553	–	7,936	–
Rural residential real estate	240	163	–	403	–
Total	$ 6,024	$ 9,845	$ –	$ 15,869	$ –

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extensions. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

Defaulted troubled debt restructurings	Year Ended December 31, 2019	2018	2017
Real estate mortgage	$ 14	$ 1,632	$ 1,012
Production and intermediate term	563	525	1,083
Rural residential real estate	–	413	–
Total	$ 577	$ 2,570	$ 2,095

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.

	Total TDRs December 31, 2019	2018	2017	Nonaccrual TDRs December 31, 2019	2018	2017
Real estate mortgage	$ 21,518	$ 18,907	$ 17,275	$ 3,060	$ 5,041	$ 4,185
Production and intermediate term	21,408	15,769	8,828	9,064	7,711	2,119
Farm-related business	18	25	33	18	25	33
Rural residential real estate	624	749	580	242	564	384
Total loans	$ 43,568	$ 35,450	$ 26,716	$ 12,384	$ 13,341	$ 6,721
Additional commitments to lend	$ 1,287	$ 152	$ 18			

The following table presents information as of period end:

	December 31, 2019
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ –

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions
Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $30,387 for 2019, $29,612 for 2018 and $28,788 for 2017. The Association owned 10.74 percent of the issued stock of the Bank as of December 31, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled $34.5 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $272 million for 2019. In addition, the Association had investments of $2,438 related to other Farm Credit institutions at December 31, 2019.

Note 5 — Real Estate and Other Property

Premises and Equipment
Premises and equipment consists of the following:

	December 31,		
	2019	2018	2017
Land	$ 2,844	$ 2,843	$ 2,544
Buildings and improvements	17,892	17,668	18,334
Furniture and equipment	8,189	8,719	7,565
	28,925	29,230	28,443
Less: accumulated depreciation	12,987	12,792	13,417
Total	$ 15,938	$ 16,438	$ 15,026

Other Property Owned
Net (gains) losses on other property owned consist of the following:

	December 31,		
	2019	2018	2017
(Gains) losses on sale, net	$ (82)	$ 51	$ 49
Carrying value unrealized (gains) losses	–	–	72
Operating (income) expense, net	111	51	56
(Gains) losses on other property owned, net	$ 29	$ 102	$ 177

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. Deferred gains were $97, $0, and $0 at December 31, 2019, 2018, or 2017, respectively.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank
Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has 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, the Association's notes payable were within the specified limitations.

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 2.77 percent for LIBOR-based loans and 2.91 percent for Prime-based loans, and the weighted average remaining maturities were 4.1 years and 1.9 years, respectively, at December 31, 2019. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.27 percent, and the weighted average remaining maturity was 9.3 years at December 31, 2019. The weighted-average interest rate on all interest-bearing notes payable was 3.19 percent and the weighted-average remaining maturity was 8.2 years at December 31, 2019. Variable rate and fixed rate notes payable represent approximately 17.08 percent and 82.92 percent, respectively, of gross notes payable at December 31, 2019 (-9.24 percent and 109.24 percent of total notes payable, respectively, after consideration of netting the Association's available equities). The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or Class C participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must equal two percent of the loan amount or one thousand dollars, whichever is less. The Association's Board of Directors may increase the amount of investment if necessary to meet the

Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually as part of the loan proceeds and not as a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. 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 stock or participation certificates.

B. **Regulatory Capitalization Requirements and Restrictions:** An FCA regulation empowers it 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.

There are currently no prohibitions in place that would prevent the Association from retiring stock, distributing earnings, or paying dividends per the statutory and regulatory restrictions, and the Association has no reason to believe any such restrictions may apply in the future.

Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. These regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity Tier 1 (CET1) capital, Tier 1 capital, and total capital risk-based ratios. The regulations also include a Tier 1 leverage ratio and an unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 capital ratio is the sum of 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, and paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The Tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is Tier 1 capital plus other required borrower stock 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, and allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The Tier 1 leverage ratio is Tier 1 capital, divided by average total assets less regulatory deductions to Tier 1 capital.
- The URE and UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average total assets less regulatory deductions to Tier 1 capital.

The following sets forth the regulatory capital ratios which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital	4.5%	1.875%	6.375%	19.69%	18.84%	18.55%
Tier 1 Capital	6.0%	1.875%	7.875%	19.69%	18.84%	18.55%
Total Capital	8.0%	1.875%	9.875%	21.81%	21.09%	20.44%
Permanent Capital	7.0%	0.0%	7.0%	20.91%	20.26%	19.67%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	20.78%	19.88%	19.64%
URE and UREE Leverage	1.5%	0.0%	1.5%	20.75%	19.39%	17.89%

** The capital conservation buffers have a 3 year phase-in period and became fully effective January 1, 2020. Risk-adjusted ratio minimums increased 0.625% each year until fully phased in. There was no phase-in period for the Tier 1 leverage ratio.*

If the capital ratios fall below the minimum regulatory 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.

C. **Description of Equities:** The Association is authorized to issue or have outstanding Classes A, C, D and E Common Stock, Class C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The Association had the following shares outstanding at December 31, 2019:

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
C Common/Voting	No	2,025,604	$ 10,128
C Participation Certificates/Nonvoting	No	169,139	846
Total Capital Stock and Participation Certificates		2,194,743	$ 10,974

At-risk common stock and participation certificates are retired at the sole discretion of the Association's Board of Directors at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains unallocated and allocated retained earnings accounts. The minimum aggregate amount of these two accounts is determined by the Association's Board of Directors. At the end of any fiscal year, if the retained earnings accounts would be less than the minimum amount deemed necessary to maintain adequate capital reserves to meet the commitments of the Association, earnings for the year shall be applied to the unallocated retained earnings account in such amounts deemed necessary by the Association's Board of Directors. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all surplus account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board of Directors, may order any and all surplus account allocations owned by such borrower to be applied against the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board of Directors, provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained equity is considered to be permanently invested in the Association and there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2019, allocated members' equity consisted of $15,507 of nonqualified allocated surplus and $393,667 of nonqualified retained surplus.

Voting Rights

Classes A and E Common Stock and Class C Participation Certificates are nonvoting. Classes C and D Common Stock have voting rights. Each voting shareholder shall be entitled to only one vote.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed eight percent (8%) of the par value of the respective capital stock and participation certificates.

The rate of dividends paid on Classes A, C, D and E Common Stock and Class C Participation Certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board of Directors, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for each fiscal year. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board of Directors. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Transfer

Classes A, C, D and E Common Stocks, and Class C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and shall be borne ratably by each share of Class A, C, D and E Common Stock and Class C Participation Certificates outstanding.

Impaired stock and participation certificates shall be restored in the reverse of the impairment sequence until each share of stock and participation certificates has a book value equal to its par or face value, respectively.

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities and payment of all accrued but unpaid dividends shall be distributed to the holders of the outstanding stock and participation certificates in the following order of priority:

First, to the holders of Class A Common Stock, Class C Common Stock, Class D Common Stock, Class E Common Stock, and Participation Certificates pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;

Second, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;

Third, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed; and

Fourth, insofar as is practicable, any remaining assets shall be distributed to past and present Patrons on a patronage basis in a fair and equitable manner determined by the Board or receiver.

D. **Accumulated Other Comprehensive Income (AOCI):**

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	For the Year Ended December 31, 2019	2018	2017
Employee Benefit Plans:			
Balance at beginning of period	$ (198)	$ (322)	$ (240)
Other comprehensive income before reclassifications	(175)	117	(123)
Amounts reclassified from AOCI	1	7	41
Net current period OCI	(174)	124	(82)
Balance at end of period	$ (372)	$ (198)	$ (322)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	For the Year Ended December 31, 2019	2018	2017	Income Statement Line Item
Defined Benefit Pension Plans:				
Periodic pension costs	$ (1)	$ (7)	$ (41)	See Note 9.
Amounts reclassified	$ (1)	$ (7)	$ (41)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

Note 8 — Fair Value Measurement

Fair value is defined 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.

Accounting guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy Tiers is based upon the lowest level of input that is significant to the fair value measurement.

Estimating the fair value of the Association's equity investments in the Bank and other Farm Credit institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost.

The classifications within the fair value hierarchy (See Note 2) are as follows:

Level 1
Assets held in trust funds related to deferred compensation plans are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. These funds may be redeemed on any business day on which the New York Stock Exchange is open for regular trading.

For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2
The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at December 31, 2019.

Level 3
Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at

which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. 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.

Notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

There were no Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

	December 31, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 2,687	$ 2,687	$ –	$ –	$ 2,687
Recurring Assets	$ 2,687	$ 2,687	$ –	$ –	$ 2,687
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 11,448	$ –	$ –	$ 11,448	$ 11,448
Other property owned	1,415	–	–	1,572	1,572
Nonrecurring Assets	$ 12,863	$ –	$ –	$ 13,020	$ 13,020
Other Financial Instruments					
Assets:					
Cash	$ 3,508	$ 3,508	$ –	$ –	$ 3,508
Loans	2,802,248	–	–	2,801,621	2,801,621
Other Financial Assets	$ 2,805,756	$ 3,508	$ –	$ 2,801,621	$ 2,805,129
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 2,192,656	$ –	$ –	$ 2,199,173	$ 2,199,173
Other Financial Liabilities	$ 2,192,656	$ –	$ –	$ 2,199,173	$ 2,199,173

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 2,495	$ 2,495	$ –	$ –	$ 2,495
Recurring Assets	$ 2,495	$ 2,495	$ –	$ –	$ 2,495
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 9,596	$ –	$ –	$ 9,596	$ 9,596
Other property owned	622	–	–	714	714
Nonrecurring Assets	$ 10,218	$ –	$ –	$ 10,310	$ 10,310
Other Financial Instruments					
Assets:					
Cash	$ 4,376	$ 4,376	$ –	$ –	$ 4,376
Loans	2,764,386	–	–	2,708,265	2,708,265
Other Financial Assets	$ 2,768,762	$ 4,376	$ –	$ 2,708,265	$ 2,712,641
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 2,181,496	$ –	$ –	$ 2,153,868	$ 2,153,868
Other Financial Liabilities	$ 2,181,496	$ –	$ –	$ 2,153,868	$ 2,153,868

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 2,562	$ 2,562	$ –	$ –	$ 2,562
Recurring Assets	$ 2,562	$ 2,562	$ –	$ –	$ 2,562
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 9,253	$ –	$ –	$ 9,253	$ 9,253
Other property owned	240	–	–	270	270
Nonrecurring Assets	$ 9,493	$ –	$ –	$ 9,523	$ 9,523
Other Financial Instruments					
Assets:					
Cash	$ 4,690	$ 4,690	$ –	$ –	$ 4,690
Loans	2,682,024	–	–	2,644,135	2,644,135
Other Financial Assets	$ 2,686,714	$ 4,690	$ –	$ 2,644,135	$ 2,648,825
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 2,121,161	$ –	$ –	$ 2,105,418	$ 2,105,418
Other Financial Liabilities	$ 2,121,161	$ –	$ –	$ 2,105,418	$ 2,105,418

Uncertainty in Measurements of Fair Value

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements at December 31, 2019

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 13,020	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 9 — Employee Benefit Plans

The Association participates in three District sponsored benefit plans. These plans include a multiemployer defined benefit pension plan, the AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan). In addition, the Association participates in a multiemployer defined benefit other postretirement benefits plan (OPEB Plan), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan, and a defined contribution 401(k) plan. The risks of participating in these multiemployer plans are different from single employer plans in the following aspects:

1. Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

1. The Employer Identification Number (EIN) and three-digit Pension Plan Number.
2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Income were $4,110 for 2019, $5,444 for 2018, and $4,886 for 2017. At December 31, 2019, 2018, and 2017, the total liability balance for the FAP Plan presented in the District Combined Balance Sheets was $129,713, $94,491, and $139,104, respectively. The FAP Plan was 87.55 percent, 89.56 percent, and 86.41 percent funded to the projected benefit obligation as of December 31, 2019, 2018, and 2017, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Income were $613 for 2019, $594 for 2018, and $572 for 2017. At December 31, 2019, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $209,531.

During 2017, the method of recording expenses at participating District entities for the FAP and OPEB Plans was modified. Prior to 2017, expense was recorded based on allocations of actuarially-determined costs and any differences between recorded expense and actual contributions were recorded in Other Assets or Other Liabilities on the Consolidated Balance Sheets. For 2017 and future years, participating entities will record employee benefit costs based on the actual contributions to the Plans. This change caused the Association to modify its accounting estimates recorded in Other Assets and Other Liabilities since the assets and liabilities do not impact future contributions to the Plans. The change in estimate resulted in the reduction of Other Assets by $3,258 and the reduction of Other Liabilities by $13,800 on the Association's Balance Sheets, and a total reduction of noninterest expenses on the Association's Statements of Income of $10,542 during 2017.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $1,284, $1,185, and $1,080 for the years ended December 31, 2019, 2018, and 2017, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2019, 2018, and 2017, $(174), $124 and ($82), respectively, has been recognized as a net debit, a net credit and a net debit, respectively, to AOCI to reflect these elements.

Additional information for the above may be found in the Notes to the Annual Information Statement of the Farm Credit System.

In addition to the multiemployer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of $1,863 and a net under-funded status of $1,863 at December 31, 2019. Assumptions used to determine the projected benefit obligation as of December 31, 2019 included a discount rate of 3.30 percent. The expenses of these nonqualified plans included in noninterest expenses were $83, $94, and $126 for 2019, 2018, and 2017, respectively.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the 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 unaffiliated borrowers.

Total loans to such persons at December 31, 2019 amounted to $29,110. During 2019, $6,767 of new loans were made and repayments totaled $5,110. Additionally, $1,837 was added and $6,489 was removed due to changes in directors throughout the year. In the opinion of management, none of these loans outstanding at December 31, 2019 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

The 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.

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 Consolidated 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. At December 31, 2019, $414,608 of commitments to extend credit and $108 of commercial letters of credit were outstanding. The reserve for unfunded commitments totaled $1,500 at December 31, 2019, and was included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2019, standby letters of credit outstanding totaled $3,388 with expiration dates ranging from January 1, 2020 to December 12, 2023. The maximum potential amount of future payments that may be required under these guarantees was $3,388.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	$ 30	$ 85	$ 347
State	30	110	59
	60	195	406
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ 60	$ 195	$ 406

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

	December 31,		
	2019	2018	2017
Federal tax at statutory rate	$ 13,405	$ 14,298	$ 26,940
State tax, net	48	–	–
Patronage distributions	(3,570)	(4,200)	(12,046)
Tax-exempt FLCA earnings	(10,641)	(12,794)	(21,230)
Dividends from tax-exempt FLCA	434	1,807	7,461
Change in deferred tax asset valuation allowance	453	991	(1,729)
Impact of tax reform	–	–	865
Other	(69)	93	145
Provision (benefit) for income taxes	$ 60	$ 195	$ 406

In late December 2017, federal tax legislation was enacted which, among other things, lowered the federal corporate tax rate from 35% to 21% beginning on January 1, 2018. The change to the lower corporate tax rate led to an insignificant remeasurement of the deferred tax liabilities and deferred tax assets in 2017, the period of enactment. Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2019	2018	2017
Deferred income tax assets:			
Allowance for loan losses	$ 5,100	$ 5,030	$ 3,927
Net operating loss – carryforward	608	600	609
Nonaccrual loan interest	762	450	326
Other	275	266	264
Gross deferred tax assets	6,745	6,346	5,126
Less: valuation allowance	(3,656)	(2,981)	(1,707)
Gross deferred tax assets, net of valuation allowance	3,089	3,365	3,419
Deferred income tax liabilities:			
Bank patronage allocation	(2,337)	(2,681)	(2,829)
Loan fees	(752)	(684)	(590)
Other	–	–	–
Gross deferred tax liability	(3,089)	(3,365)	(3,419)
Net deferred tax asset	$ –	$ –	$ –

At December 31, 2019, deferred income taxes have not been provided by the Association on approximately $17.8 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $3,656, $2,981 and $1,707 as of December 31, 2019, 2018 and 2017, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

At December 31, 2019 the Company has Federal loss carryforwards totaling approximately $2.2M that expire in varying amounts beginning in 2033. The valuation allowance at December 31, 2019 was primarily related to allowance for loan losses and federal loss carryforwards that, in the judgement of management, are more likely than not to expire before realized. In evaluating the Company's ability to recover its deferred income tax assets, it considers all available evidence, both positive and negative, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2019 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2016 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2019				
	First	Second	Third	Fourth	Total
Net interest income	$ 18,270	$ 18,162	$ 18,481	$ 18,664	$ 73,577
Provision for (reversal of allowance for) loan losses	1,000	1,000	1,000	1,000	4,000
Noninterest income (expense), net	(4,547)	(4,804)	(4,486)	8,032	(5,805)
Net income	$ 12,723	$ 12,358	$ 12,995	$ 25,696	$ 63,772

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 17,561	$ 17,682	$ 17,827	$ 18,196	$ 71,266
Provision for (reversal of allowance for) loan losses	1,000	1,000	1,000	1,000	4,000
Noninterest income (expense), net	(2,946)	(4,656)	(4,122)	12,348	624
Net income	$ 13,615	$ 12,026	$ 12,705	$ 29,544	$ 67,890

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 17,651	$ 16,889	$ 17,437	$ 17,502	$ 69,479
Provision for (reversal of allowance for) loan losses	500	500	500	500	2,000
Noninterest income (expense), net	(5,312)	(4,731)	(4,538)	23,669	9,088
Net income	$ 11,839	$ 11,658	$ 12,399	$ 40,671	$ 76,567

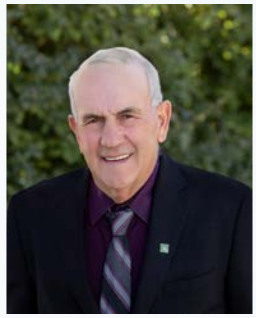
Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 12, 2020, which was the date the financial statements were issued.

BOARD of DIRECTORS


Jennifer L. Rhodes
Chairman


Brian L. Boyd
Vice Chairman


Paul D. Baumgardner


Gary L. Grossnickle


John Travis Hastings


Laura M. Heilinger


Walter C. Hopkins

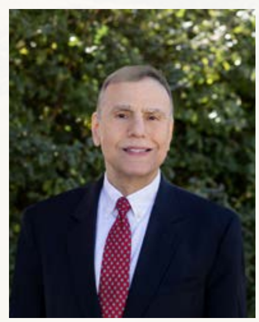

Anthony M. III
Outside Director


T. Jeffery Jennings


Fred R. Moore, Jr.


Michael S. Nelson


Douglas D. Scott


Alan N. Siegfried
Outside Director


David R. Smith


Joseph D. Snapp


Fred N. West


Charles M. Wright IV

EXECUTIVE LEADERSHIP TEAM

Thomas H. Truitt, Jr.
President &
Chief Executive Officer

Cathy L. Blair
Sr. Vice President,
Corporate Services
and Risk

Stuart D. Cooper
Sr. Vice President,
Chief Lending Officer

Kurt H. Fuchs
Sr. Vice President,
Legislative Affairs

Bessie H. Moy
Sr. Vice President,
Chief Audit Executive

Tammy L. Price
Sr. Vice President,
Director of Technology
and Strategic Partnerships

Brian E. Rosati
Sr. Vice President,
Chief Financial Officer

William J. Rutter
Sr. Vice President,
Chief Credit Officer

Mark A. Schnebly
Sr. Vice President,
Loan Operations
Manager

Cheryl L. Steinbacher
Sr. Vice President,
Director of Human
Resources and Training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