2019 ANNUAL REPORT

AgChoice Farm Credit

DELIVERING VALUE TO CUSTOMER-OWNERS: FROM PEOPLE TO PATRONAGE

We're pleased to report the Association's results for 2019. Our growth reflects the value that we deliver to our customer-owners. We share a purpose: growing our families, business and rural communities. As your lender and financial services provider, we can best serve that purpose by remaining financially strong, growing our business through serving your needs and supporting other agricultural organizations and worthwhile initiatives.

OUR GREATEST ASSET

AgChoice has 180 dedicated team members who serve agriculture and our rural communities every day. The heart of our business is our people and the impact that they have on you, our customer-owners. People do business with people, not companies. The connections you have with our employees across the Association are the foundation of our relationship, and we are extremely proud of AgChoice staff members' efforts to fulfill our Shared Purpose.

RETURNING VALUE TO OUR MEMBERS

With your help, our Association continues to grow its customer numbers for loans and financial services while maintaining strong net income. One of the most tangible ways you share in AgChoice's success is through patronage dividends. In April 2019, AgChoice paid a record patronage dividend of $32.6 million to our members based on our 2018 earnings. We are pleased to announce that in April of 2020 we will be paying another record patronage dividend of $34.0 million based on our 2019 earnings. The Board is excited to share the Association's success with our members during a time of challenging commodity prices and profitability in some agricultural segments.

Below are several highlights from 2019.

- Growth occurred in virtually all segments of our business, with loan volume growth exceeding 10% and revenue from accounting, consulting and crop insurance services up 19%.
- Earnings remain strong at $52.9 million.
- Capital is above our targets, with total regulatory capital ratio at 18.41%.
- Credit quality declined slightly, reflecting a sustained downturn in certain commodities, but continues to be above our long-term targets with acceptably classified loans ending at 93.6%.

THE FUTURE IS BRIGHT

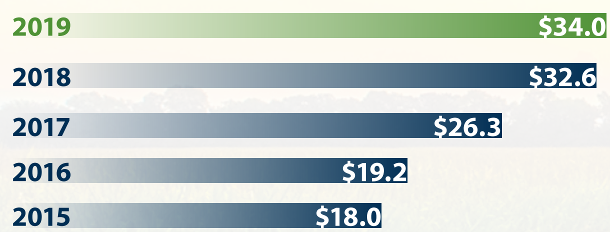
We believe that the future is bright for agriculture and for AgChoice's customer-owners. We are devoting considerable effort in 2020 to implement new processes and technology to serve your needs with improved business solutions and better response times.

Thank you for helping to make AgChoice a success. We look forward to being part of your growth and success in 2020.

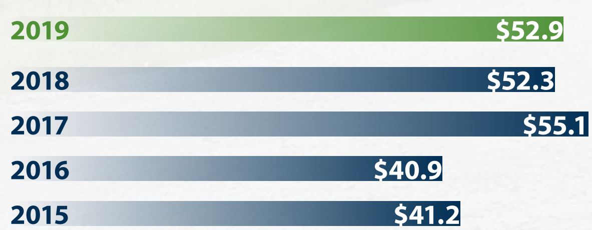
Darrell L. Curtis | President and CEO

CASH PATRONAGE PAID

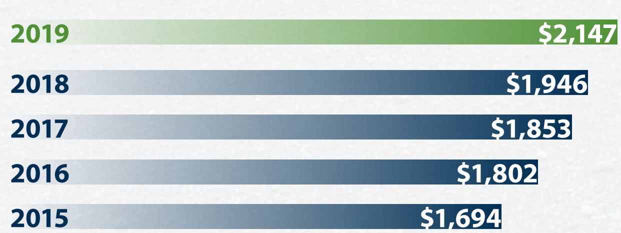
(in millions, paid the following spring)



NET INCOME (in millions)



LOANS (in millions)



*Ag***Choice** *Farm Credit, ACA*

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Management

Darrell L. Curtis .... Chief Executive Officer
Ryan S. Davis .... Director of Credit Administration
Terry A. Davis .... Chief Financial Officer
Gary S. Heckman .... Chief Business Services Officer
Brina M. Keim .... Director of Human Resources
Mark F. Kerstetter .... Chief Operating Officer
Gina M. Moshier .... Chief Administrative Officer
Michael S. Schrey .... Chief Credit Officer
Crystal A. Standish .... Chief Sales and Marketing Officer
John D. Uthman .... Chief Internal Auditor

Board of Directors

Shawn D. Wolfinger .... Chairman
Richard A. Allen .... Vice Chairman
Samuel BowerCraft .... Director
Donald G. Cotner .... Director
Kevin D. Grim .... Director
Steven H. Gross, Jr. .... Director
William K. Jackson .... Director
Larry A. Seibert .... Director
Richard D. Shuman .... Director
Dennis B. Spangler .... Director
Charles F. Ulmer .... Director
Christine Waddell .... Director

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this Annual Report have been prepared by the management of AgChoice Farm Credit, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts that 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 an Independent Auditor, whose report appears elsewhere in this Annual Report. The Association is also subject to examination by the Farm Credit Administration (FCA).

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 AgChoice Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors, 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.

Shawn D. Wolfinger
Chairman of the Board

Darrell L. Curtis
Chief Executive Officer

Terry A. Davis
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.

Darrell L. Curtis
Chief Executive Officer

Terry A. Davis
Chief Financial Officer

March 12, 2020

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2019	2018	December 31, 2017	2016	2015
Balance Sheet Data					
Cash	**$ 42**	$ 83	$ 16	$ 43	$ 50
Investments in debt securities	**—**	—	2,205	2,243	2,277
Loans	**2,146,536**	1,946,184	1,852,751	1,802,291	1,693,914
Allowance for loan losses	**(15,419)**	(14,331)	(13,492)	(11,802)	(10,028)
Net loans	**2,131,117**	1,931,853	1,839,259	1,790,489	1,683,886
Equity investments in other Farm Credit institutions	**23,238**	24,141	24,009	23,295	22,554
Other property owned	**—**	76	26	79	978
Other assets	**47,417**	50,584	46,921	42,194	39,578
Total assets	**$ 2,201,814**	$2,006,737	$1,912,436	$1,858,343	$1,749,323
Notes payable to AgFirst Farm Credit Bank*	**$ 1,731,992**	$1,557,913	$1,487,719	$1,464,915	$1,380,830
Accrued interest payable and other liabilities with maturities of less than one year	**51,090**	42,259	36,917	39,410	36,107
Total liabilities	**1,783,082**	1,600,172	1,524,636	1,504,325	1,416,937
Capital stock and participation certificates	**8,444**	8,223	11,020	11,049	11,054
Retained earnings					
Allocated	**161,489**	161,489	161,489	161,489	161,489
Unallocated	**248,884**	236,910	215,361	181,537	159,895
Accumulated other comprehensive income (loss)	**(85)**	(57)	(70)	(57)	(52)
Total members' equity	**418,732**	406,565	387,800	354,018	332,386
Total liabilities and members' equity	**$ 2,201,814**	$2,006,737	$1,912,436	$1,858,343	$1,749,323
Statement of Income Data					
Net interest income	**$ 56,079**	$ 52,283	$ 49,652	$ 46,680	$ 44,777
Provision for (reversal of allowance for) loan losses	**1,135**	1,179	1,707	1,872	(65)
Noninterest income (expense), net	**(2,054)**	1,176	7,151	(3,955)	(3,664)
Net income	**$ 52,890**	$ 52,280	$ 55,096	$ 40,853	$ 41,178
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.54%**	2.72%	2.96%	2.30%	2.51%
Total members' equity	**12.50%**	12.95%	14.78%	11.66%	12.45%
Net interest income as a percentage of average earning assets	**2.74%**	2.78%	2.72%	2.68%	2.79%
Net (chargeoffs) recoveries to average loans	**(0.002)%**	(0.018)%	(0.001)%	(0.006)%	(0.032)%
Total members' equity to total assets	**19.02%**	20.26%	20.28%	19.05%	19.00%
Debt to members' equity (:1)	**4.26**	3.94	3.93	4.25	4.26
Allowance for loan losses to loans	**0.72%**	0.74%	0.73%	0.65%	0.59%
Permanent capital ratio	**17.84%**	18.42%	17.94%	18.02%	18.01%
Total surplus ratio	**	**	**	17.17%	17.39%
Core surplus ratio	**	**	**	17.17%	17.39%
Common equity tier 1 capital ratio	**17.72%**	18.29%	17.68%	**	**
Tier 1 capital ratio	**17.72%**	18.29%	17.68%	**	**
Total regulatory capital ratio	**18.41%**	18.99%	18.34%	**	**
Tier 1 leverage ratio	**19.17%**	19.76%	19.05%	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**19.16%**	19.87%	19.15%	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 40,913**	$ 30,700	$ 21,250	$ 19,200	$ 18,000

** 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.*

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of AgChoice Farm Credit, ACA, an Agricultural Credit Association (ACA), and its subsidiaries, AgChoice Farm Credit, FLCA, a Federal Land Credit Association (FLCA) and AgChoice Farm Credit, PCA, a Production Credit Association (PCA), (collectively called "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 Consolidated Financial Statements include the accounts of the ACA, FLCA and PCA. 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" reflected 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) that 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 that is owned by the members (also referred to throughout this Annual Report as stockholders, borrowers or shareholders) served. The territory of the Association extends across a diverse agricultural region of Pennsylvania and four counties in West Virginia. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties within the Association's territory. The Association provides credit to farmers, ranchers, rural residents and agribusinesses. Our success begins with our extensive agricultural experience and market knowledge.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and unaudited Quarterly Reports are also available upon request, free of charge, on the Association's website, ***www.agchoice.com***, or by calling 1-800-998-5557, or writing Terry Davis, Chief Financial Officer, AgChoice Farm Credit, ACA, 300 Winding Creek Boulevard, Mechanicsburg, PA 17050. The Association prepares an electronic version of the Annual Report that 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 that is available on the website 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 periodically occurring adverse climatic or biological conditions that impact agricultural productivity and income;
- changes in the United States government's support of the agricultural industry and the 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.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States (US). 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, contain elements of uncertainty and imprecision. Changes in the agricultural economy and borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary 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 portfolio 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 that could have material positive or negative effects on the Association's results of operations.

ECONOMIC CONDITIONS

The Association's loan portfolio ended 2019 in a strong condition. As of December 31, 2019, the percentage of fully acceptable loans and other assets especially mentioned decreased slightly to 96.9 percent compared to 97.3 percent for the prior year-end. The strong credit quality resulted from prudent underwriting of new loans and a portfolio with diverse commodities.

The part-time farm segment, which is heavily dependent on non-farm employment, is the largest concentration in the loan portfolio at 25.4 percent of total loans. Credit quality in this segment remained steady at 97.3 percent acceptable compared to December 31, 2018. Pennsylvania's unemployment rate ended December 31, 2019 at 4.5 percent, compared to 4.2 percent at the end of the prior year. Continued strong employment is expected to have a positive impact on credit quality in the part-time farm segment.

For 2019, the dairy industry saw improvement over the prior year. The gross milk price increased $2.45 per cwt compared to 2018. These higher milk prices are projected to impact the average producer's Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) by approximately $200 per cow. We estimate EBITDA of approximately $800 per cow for 2019. The Association Class III projection for 2020 predicts slight increases in prices, which would still have the average farm producing earnings above break-even. Milk prices for the past three years are shown in the table below.

Milk Prices	**2019**	**2018**	**2017**
PA Gross Price	$ 19.16	$ 16.71	$ 18.55
% change from prior year	14.7%	(9.9%)	7.5%
Class III Price	$ 16.96	$ 14.55	$ 16.17
% change from prior year	16.6%	(13.3%)	8.8%

Credit quality in the dairy segment declined in 2019 to 86.9 percent acceptable, as compared to 88.6 percent at the end of 2018. Further deterioration is expected in 2020. The dairy industry remains the second largest concentration in the loan portfolio, representing 19.1 percent of the total portfolio.

Grains, or crop production, is the third largest portfolio segment at 10.2 percent. A large number of grain farmers have other income sources (off-farm income or a livestock enterprise) to supplement their income. Total crop production and carryover inventories in the US and the world have been increasing. In 2019, the tariff situation with China hurt grain exports, but Market Facilitation Payments helped grain farmers in general, and Pennsylvania benefited from higher than normal basis levels, which generated better returns for grain farmers. There remains many unknowns that will affect the level of grain exports in 2020 (Coronavirus and African Swine Flu), and they, along with overall US and world inventory levels, result in a market outlook for grains that is slightly downward. Credit quality in the grains segment is 93.3 percent acceptable.

The forest products segment, and related industries, represents the fourth largest segment at 9.7 percent of the total portfolio. This segment has started to see some headwinds from weaker prices and significantly reduced Chinese demand. Hardwood lumber prices have declined somewhat from their peak in mid-2014, but profit margins remain positive for stronger producers. Credit quality for this segment is 94.0 percent acceptable and is showing some downward movement.

Over the last decade, the Association has increased its exposure to capital markets loans, which are large, purchased participations or syndications that are shared with other lenders to help manage the risk of a large exposure to a single borrower. As of December 31, 2019 the Association held $407.2 million in loan participations to the following industries: food processing, rural utilities, protein processing (poultry, pork and beef), dairy processing, paper and forest products, livestock, vineyards, cash grains and other commodities. Overall credit quality in this portion of the loan portfolio is 96.4 percent acceptable.

According to the United States Department of Agriculture (USDA), average US farm real estate values increased 1.9 percent as of August 2019 compared to the prior year. Farm real estate values in Pennsylvania increased by 3.5 percent and had an average value of $6.5 thousand per acre. Farm real estate values are expected to remain strong.

The Federal Funds Rate decreased 75 basis points in 2019, keeping interest rates near historical lows throughout 2019. The rate environment was impacted by ongoing trade wars between the US and China, in particular, with rate cuts intended to sustain economic growth.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for the 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	$ 1,067,624	49.7%	$ 941,675	48.4%	$ 869,306	46.9%
Production and intermediate-term	665,289	31.0	628,542	32.3	624,351	33.7
Loans to cooperatives	46,159	2.1	41,041	2.1	48,678	2.6
Processing and marketing	159,324	7.4	142,471	7.3	137,310	7.4
Farm-related business	44,639	2.1	41,486	2.1	38,881	2.1
Communication	100,024	4.7	88,462	4.5	78,911	4.2
Power and water/waste disposal	18,737	0.9	20,650	1.1	23,257	1.3
Rural residential real estate	21,746	1.0	19,923	1.0	19,432	1.1
International	18,461	0.9	16,977	0.9	11,964	0.7
Lease receivables	4,533	0.2	4,957	0.3	661	–
Total	$ 2,146,536	100.0%	$ 1,946,184	100.0%	$ 1,852,751	100.0%

While we make loans and provide financially related services (FRS) 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 branch for the past three years is as follows.

	December 31,		
Branch	**2019**	**2018**	**2017**
Susquehanna Valley (Lewisburg)	12.8%	12.8%	12.8%
Cumberland Valley (Chambersburg)	11.9	12.0	12.3
Seven Mountains (Reedsville)	10.3	9.3	8.1
York	9.2	9.6	9.7
Martinsburg	8.5	8.6	8.3
Meadville	7.4	6.9	7.1
New Stanton	5.3	5.5	5.6
Butler	4.9	5.0	5.0
Coudersport	4.8	5.2	4.9
Endless Mountains (Towanda)	2.7	3.7	3.8
Other (Capital Markets)	22.2	21.4	22.4
	100.0%	100.0%	100.0%

Commodity and industry categories are based upon the Standard Industrial Classification (SIC) 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 part-time farms, dairy and grains, which together constitute 54.7 percent of the entire portfolio. Purchased syndications and participations are included in their respective commodity groups.

	December 31,								
Commodity Group		**2019**			**2018**			**2017**	
				(dollars in thousands)					
Part-time farms	$	545,316	25.4%	$	502,895	25.8%	$	486,163	26.2%
Dairy		409,022	19.1		385,539	19.8		370,365	20.0
Grains		219,604	10.2		188,001	9.7		166,562	9.0
Forest products		207,052	9.7		188,780	9.7		182,125	9.8
Poultry		141,768	6.6		117,355	6.0		116,538	6.3
Rural utilities		109,668	5.1		96,920	5.0		85,041	4.6
Livestock		105,785	4.9		97,893	5.0		92,638	5.0
Farm services		92,673	4.3		88,162	4.5		92,452	5.0
Fruit		65,421	3.0		63,251	3.3		50,580	2.7
Floriculture and nursery		21,070	1.0		20,824	1.1		21,677	1.2
Rural home		1,135	0.1		973	0.1		926	0.1
Other		228,022	10.6		195,591	10.0		187,684	10.1
Total	$	2,146,536	100.0%	$	1,946,184	100.0%	$	1,852,751	100.0%

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 contains a concentration of dairy producers. Although a large percentage of the loan portfolio is concentrated in this enterprise, many of these operations are diversified within their enterprises and/or with crop production that reduces overall risk exposure.

The concentration of large loans has remained consistent over the past several years. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of enterprise diversity in the Association's territory.

The 10.3 percent increase in loans for the 12 months ended December 31, 2019 is attributable to growth in both the Association's local service area (LSA) and in participation loans. During 2019, the Association experienced solid growth in both long-term and short- and intermediate-term loan volume.

During 2019, the Association continued to purchase loan participations and syndications, both within and outside of the System. These loans provide a means for the Association to spread credit concentration. The Association typically holds no more than $17,000 in participation or syndication loans to a single borrower and these loans are larger than most loans in the remaining portfolio. Therefore, if one or more of these loans should deteriorate in credit quality, it can materially impact the Association. The following table presents the principal balance of purchased and sold loans for the given periods.

	December 31,					
		2019		**2018**		**2017**
			(dollars in thousands)			
Purchased						
– FCS Institutions	$	390,101	$	352,288	$	348,566
– Non-FCS Institutions		17,114		–		–
Sold		(31,477)		(60,073)		(50,744)
Total	$	375,738	$	292,215	$	297,822

During the first quarter of 2019, the Association canceled its participation in the Capitalized Participation Pool program with the Bank. As a result, the Association repurchased $26,339 of participations previously sold to AgFirst.

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 participates in the Farmer Mac Long-Term Standby Commitment to Purchase program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2019, the Association had loans amounting to $2,936 that were 100 percent guaranteed by Farmer Mac.

Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority, which regulates the London Inter-bank Offered Rate (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. 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	$ 77,566	$ 60,583	$ 377,745
Total Assets	$ 77,566	$ 60,583	$ 377,745
Note Payable to AgFirst Farm Credit Bank	$ 61,231	$ 47,825	$ 298,197
Total Liabilities	$ 61,231	$ 47,825	$ 298,197

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. The FCA approved the Rural America Bonds pilot program under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized the Bank 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 or 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, December 31, 2018 and December 31, 2017, the Association held $0, $0 and $2,205, respectively, that were classified as Investment securities.

Effective December 31, 2017, the FCA concluded each pilot program it approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

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 credit staff. 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 borrower to survive unanticipated risks and
- Conditions – intended use of the loan funds.

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. Long-term 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. Long-term 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. 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 that is used by all System institutions. The following 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 weaknesses.
- Substandard – Assets exhibit some serious weaknesses 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	96.95%	97.31%	97.47%
Substandard	3.05	2.69	2.53
Doubtful	–	–	–
Loss	–	–	–
Total	100.0%	100.0%	100.0%

Nonperforming Assets

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

	December 31,		
High-Risk Assets	**2019**	**2018**	**2017**
	(dollars in thousands)		
Nonaccrual loans	$ 12,218	$ 11,989	$ 20,158
Restructured loans	39	79	468
Accruing loans 90 days past due	–	–	–
Total high-risk loans	12,257	12,068	20,626
Other property owned	–	76	26
Total high-risk assets	$ 12,257	$ 12,144	$ 20,652
Ratios			
Nonaccrual loans to total loans	0.57%	0.62%	1.09%
High-risk assets to total assets	0.56%	0.61%	1.08%

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 remained relatively stable, increasing $229, or 1.9 percent in 2019. Of the $12,218 in nonaccrual volume at December 31, 2019, $7,398, or 60.6 percent, compared to 73.7 percent and 81.1 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 a 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 determined according to generally accepted accounting principles (GAAP) and was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses was $15,419 at December 31, 2019, compared to $14,331 and $13,492 at December 31, 2018 and December 31, 2017, respectively.

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

	Year Ended December 31,		
Allowance for Loan Losses Activity	**2019**	**2018**	**2017**
	(dollars in thousands)		
Balance at beginning of year	$ 14,331	$ 13,492	$ 11,802
Charge-offs:			
Production and intermediate-term	(79)	(25)	(60)
Energy	–	(304)	–
Rural residential real estate	–	(16)	–
Lease receivables	–	(16)	–
Total charge-offs	(79)	(361)	(60)
Recoveries:			
Real estate mortgage	–	1	–
Production and intermediate-term	24	20	14
Rural residential real estate	8	–	–
Lease receivables	–	–	29
Total recoveries	32	21	43
Net (charge-offs) recoveries	(47)	(340)	(17)
Provision for/(Reversal of allowance for) loan losses	1,135	1,179	1,707
Balance at end of year	$ 15,419	$ 14,331	$ 13,492
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.002)%	(0.018)%	(0.001)%

The Association had net loan charge-offs of $47 in 2019, compared to net loan charge-offs of $340 and $17 in 2018 and 2017, respectively. 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)		
Real estate mortgages	$ 3,563	$ 3,193	$ 3,298
Production and intermediate-term	5,854	5,325	5,756
Agribusiness	3,705	3,680	1,888
Communication	1,014	1,257	803
Power and water/waste disposal	764	232	1,618
Rural residential real estate	82	92	95
International	187	276	27
Lease receivables	250	276	7
Total allowance	$ 15,419	$ 14,331	$ 13,492

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	0.72%	0.74%	0.73%
Nonperforming loans	125.80%	118.75%	65.41%
Nonaccrual loans	126.20%	119.53%	66.93%

The financial positions of a majority of our borrowers remained favorable during 2019. That, along with solid loan growth, resulted in a slight decrease in the allowance for loan losses as a percentage of total loans. 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 Income

Net income for the year ended December 31, 2019 totaled $52,890, an increase of $610 or 1.2 percent, compared to $52,280 for the same period in 2018. Net income for the year ended December 31, 2018 decreased $2,816 or 5.1 percent, compared to $55,096 for the same period in 2017. Major components of the change in net income for the past two years are outlined in the following table.

Change in Net Income	2019-2018	2018-2017
	(dollars in thousands)	
Net income (prior year)	$ 52,280	$ 55,096
Increase (decrease) in net income due to:		
Interest income	11,972	10,221
Interest expense	(8,176)	(7,590)
Net interest income	3,796	2,631
Provision for loan losses	44	528
Noninterest income	(2,518)	(654)
Noninterest expense	(641)	(5,400)
Provision for income taxes	(71)	79
Total changes in income	610	(2,816)
Net income	$ 52,890	$ 52,280

Net Interest Income

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 loan volume, yields on assets and the cost of debt.

Net interest income was $56,079, $52,283 and $49,652 in 2019, 2018 and 2017, respectively. The Association's net interest income as a percentage of average earning assets was 2.74 percent on December 31, 2019, 2.78 percent on December 31, 2018 and 2.72 percent on December 31, 2017. The following table illustrates that in 2019, increased net interest income resulted from changes in volume and rates, offset by lower nonaccrual income.

Change in Net Interest Income	Volume*	Rate	Nonaccrual Income	Total
	(dollars in thousands)			
12/31/19 - 12/31/18				
Interest income	$ 8,775	$ 3,491	$ (294)	$ 11,972
Interest expense	4,553	3,623	–	8,176
Change in net interest income	$ 4,222	$ (132)	$ (294)	$ 3,796
12/31/18 - 12/31/17				
Interest income	$ 2,753	$ 7,877	$ (409)	$ 10,221
Interest expense	779	6,811	–	7,590
Change in net interest income	$ 1,974	$ 1,066	$ (409)	$ 2,631

**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.

Noninterest Income	For the Year Ended December 31, 2019	2018	2017	Percentage Increase/(Decrease) 2019/ 2018	2018/ 2017
	(dollars in thousands)				
Loan fees	$ 1,350	$ 1,215	$ 1,327	11.1%	(8.4)%
Fees for financially related services	2,532	2,303	2,080	9.9	10.7
Patronage refund from other Farm Credit institutions	22,353	25,081	26,804	(10.9)	(6.4)
Gains (losses) on sales of rural home loans, net	–	6	23	(100.0)	(73.9)
Gains (losses) on sales of premises and equipment, net	531	77	170	589.6	(54.7)
Gains (losses) on other transactions	146	(111)	88	231.5	(226.1)
Investment Fund refunds	414	1,268	–	(67.4)	100.0
Other noninterest income, Gains (losses)	37	42	43	(11.9)	(2.3)
Total noninterest income	$ 27,363	$ 29,881	$ 30,535	(8.4)%	(2.1)%

Loan fees increased by $135 or 11.1 percent, primarily due to higher servicing and participations purchased fees. Fees for FRS increased by $229 or 9.9 percent for the 12 months ended December 31, 2019, principally due to higher crop insurance and tax services revenue.

During 2019, the Association received from the Bank $22.4 million in patronage, including a special distribution of $9.6 million, compared to total patronage of $25.1 million in 2018 and $26.8 million in 2017. Gains on sales of premises and equipment, net, increased by $454 during 2019 as a result of the sales of two former branch offices.

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 during 2019, FCSIC made distributions to the Farm Credit System Banks and certain associations. The Association's share of this distribution was $414, as compared to $1,268 during 2018.

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	$ 18,768	$ 18,563	$ 17,469	1.1%	6.3%
Occupancy and equipment	1,509	1,338	1,345	12.8	(0.5)
Insurance fund premiums	1,458	1,326	2,156	10.0	(38.5)
(Gains) losses on other property owned, net	13	23	20	(43.5)	15.0
Other operating expenses	7,425	7,282	2,142	2.0	240.0
Total noninterest expense	$ 29,173	$ 28,532	$ 23,132	2.2%	23.3%

Noninterest expense increased $641 or 2.2 percent for the period ended December 31, 2019, compared to the same period in 2018. Noninterest expense increased $5,400 or 23.3 percent for the period ended December 31, 2018 compared to the same period in 2017.

Salaries and employee benefits increased by $205 or 1.1 percent in 2019, as compared with 2018. This increase was principally due to an increase in salaries and incentives of $991 or 6.9 percent, primarily due to the increase in number of employees, along with 2019 salary and related benefits adjustments, offset by a decrease of $764 or 31.2 percent in pension expense.

Occupancy and equipment and other operating expenses increased by $314 or 3.6 percent, mostly due to increased depreciation, tax and purchased services expenses.

Other operating expenses increased by $5,140 during 2018 because in 2017, the method of recording expenses for the Association's defined benefit pension plan and other postretirement benefit plan was modified. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

FCSIC premiums increased $132 or 10.0 percent for the 12 months ended December 31, 2019, compared to the same period of 2018, mostly due to growth in loan volume. The FCSIC premiums were 9 basis points on adjusted insured debt outstanding in 2019 and 2018, as compared to 15 basis points in 2017.

Income Taxes

The Association recorded a provision for income taxes of $244 for the year ended December 31, 2019, as compared to a provision of $173 for 2018 and a provision of $252 for 2017. Refer to Note 2, *Summary of Significant Accounting Policies, 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 12 months ended December 31 are shown in the following table.

Key Results of Operations Comparisons	**For the 12 Months Ended 12/31/19**	**12/31/18**	**12/31/17**
Return on average assets	2.54%	2.72%	2.96%
Return on average members' equity	12.50%	12.95%	14.78%
Net interest income as a percentage of average earning assets	2.74%	2.78%	2.72%

The 2019 return on average assets and return on average members' equity decreased compared to 2018, primarily due to lower patronage received from the Bank and a lower FCSIC refund. The 2018 return on average assets and return on average members' equity were lower than 2017 due to significantly lower expenses in 2017 for the final average pay plan (FAP) and the other post employment benefits plan (OPEB Plan) as a result of a change in the accounting method of recording FAP and OPEB Plan expenses.

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association and achieve an adequate rate of return for our members. To meet this goal, the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates, manage credit risk in our entire portfolio and improve fee income from loans and FRS, while efficiently meeting the credit needs of our members.

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 from 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. The Association's 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 $1,731,992, as compared to $1,557,913 at December 31, 2018 and $1,487,719 at December 31, 2017. The increase of 11.2 percent in 2019 compared to December 31, 2018, and the increase of 4.7 percent in 2018 compared to December 31, 2017, were attributable to changes in Association loan volume. The average volume of outstanding notes payable to the Bank was $1,642,868 and $1,496,841 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 note payable to the Bank. 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 had no 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 that 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 driving force in establishing a funds management strategy. The Association offers 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 30-day LIBOR. Adjustable rate mortgages are indexed to US Treasury Rates. Fixed rate loans are priced based on the current cost of the System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets 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.

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, *Investment 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 Sources" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, 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's Board of Directors (Board) establishes, adopts and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, provide for growth necessary to meet the needs of borrowers and ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2019 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 3.0 percent to $418,732 from the December 31, 2018 total of $406,565. At December 31, 2018, total members' equity increased 4.8 percent from the December 31, 2017 total of $387,800. The 2019 increase was primarily related to net income, offset by cash patronage paid.

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 that generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were:

- inclusion of off-balance-sheet commitments less than 14 months and
- 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 seven years, allocated equities held for a minimum of seven years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of 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 five years, subordinated debt and limited-life preferred stock greater than five 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 that 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%	17.72%	18.29%	17.68%
Tier 1 Capital	6.0%	1.875%	7.875%	17.72%	18.29%	17.68%
Total Capital	8.0%	1.875%	9.875%	18.41%	18.99%	18.34%
Permanent Capital	7.0%	0.000%	7.000%	17.84%	18.42%	17.94%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	19.17%	19.76%	19.05%
URE and UREE Leverage	1.5%	0.0%	1.5%	19.16%	19.87%	19.15%

** The capital conservation buffers have a three-year phase-in period 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	7.00%	18.02%	18.01%	18.14%	17.48%	16.51%
Total Surplus	7.00%	17.17%	17.39%	17.47%	16.78%	15.75%
Core Surplus	3.50%	17.17%	17.39%	17.13%	15.84%	14.13%

The Board and management monitor these ratios regularly. Throughout 2019, management discussed with the Board hypothetical operational scenarios that could stress the Association's capital position, along with potential responses to those scenarios. In the opinion of management, the Association remains adequately capitalized. The Association's 2020 business plan anticipates only slight reductions in capital ratios over the next three years as we expect to be able to manage a moderate level of growth. 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, 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 setting aside funds to increase surplus and meet minimum capital adequacy standards established by the FCA regulations, increasing surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels and maintaining reasonable reserves for the necessary purposes of the Association.

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 $40,913 in 2019, $30,700 in 2018 and $21,250 in 2017. The 2019 patronage will be paid in cash.

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

AgChoice believes that:

- the long-range strength and soundness of the Association and of the agricultural community within our LSA depends on individuals entering agriculture, including producers or harvesters of aquatic products, basic processing and marketing operations and farm-related services.
- the amount of capital needed and its cost make it exceedingly difficult for individuals to become established in agriculture or agricultural-related fields.
- sound business knowledge and management skills are critical to the success of YBS farmers and that the Association has a responsibility to help them develop in those areas.
- any assistance provided to YBS farmers should not impede our ability to serve the remainder of our membership.

AgChoice's mission is to:

- assist YBS farmers who have a high potential for success become established in farming by providing loans and FRS.
- cooperate with other lenders and alliance partners to ensure that all available resources are being used to best serve our YBS farmers.
- promote agriculture and support its growth throughout our LSA.
- encourage YBS farmers to do business with us by earning their trust and respect and providing financial incentives.
- support and encourage participation in activities that improve the management skills of our YBS farmers.
- demonstrate our passion to serve the needs of our YBS farmer market by achieving our established goals.

The following table outlines the loan volume (net of participation loans sold) and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2019					
	Number of Loans	% of Loans by Number	2019 Goal (% by Number)	Amount of Loans	2019 Goal (by Volume)	Difference
Young	3,215	22.8%	>20.0%	$348,101	$344,655	$3,446
Beginning	3,808	27.0%	>23.0%	418,822	406,755	12,067
Small	6,986	49.6%	>44.0%	609,379	558,900	50,479

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2017 USDA Ag Census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that of those farms with debt in our Association territory, 21.1 percent were young, 31.2 percent were beginning and 78.8 percent were small. Comparatively, as of December 31, 2019, the demographics of the Association's agricultural portfolio contained 14,098 loans, of which by definition 3,215 or 22.8 percent were young, 3,808 or 27.0 percent were beginning and 6,986 or 49.6 percent were small.

One slight difference between the Census and the Association's YBS information is the Census data is based on number of farms, whereas the Association's YBS information is based on number of loans.

The Association's SmartStart program encourages young farmers or those who are both beginning and small farmers to invest in business and financial management education to enhance their success, while lowering the Association's risk in lending to this market segment. In 2019, the Association implemented a series of enhancements to SmartStart, which offers interest rate reductions to young or beginning and small farmers based on completion of educational activities. Program enhancements included:

- expanding the program to include part-time farmers as well as full-time farmers
- adding SmartStart EXPRESS to offer specialized interest rates for small loans for start-up operations and
- offering a scholarship reimbursement to cover the cost of educational trainings.

During 2019, SmartStart had 1,377 SmartStart participants. The Association closed 28 loans with SmartStart incentives in 2019, totaling $6,512. The director of AgChoice's Knowledge Center administers the SmartStart program.

The Association is pleased to be a program partner and leader for AgBiz Masters, an educational learning series for young and beginning farmers that was initiated in February 2010. AgBiz Masters is a two-year program that teaches business and financial management skills through a blended learning approach. Participants complete five online modules and attend several in-person sessions each year. The program is supported by a network of more than 25 agricultural organizations serving as marketing, resource and financial partners. AgBiz Masters currently has 205 young and beginning farmers in Pennsylvania and surrounding states participating in the program. A significant percentage of those participants are shareholders or family members of shareholders of the Association. SmartStart credits can be earned by participants of AgBiz Masters, offering additional incentive to participate in the program.

In addition to AgBiz Masters, the Association offers targeted educational workshops through its AgChoice Knowledge Center efforts. Educational topics at 2019 events included record-keeping, business planning, transition planning and other topics related to business and financial management. Some of the events are hosted solely by AgChoice and others are collaborative efforts with partner agricultural organizations to build on the success of AgBiz Masters.

The Association is very active through partnerships with other lenders to help YBS farmers. It comprises programs such as those offered by Farm Service Agency (FSA), which include guaranteed and direct loans to qualifying borrowers. The Association is a "preferred lender," the highest status designated by FSA. The AgBiz Masters program offered by the Association is approved by FSA for the educational training it requires of its borrowers.

Besides SmartStart, the Association provides incentives for participation in the Association's other BMS, as well as covers certain costs for appraisal services and FSA guarantee fees.

In 2019, the Association was actively involved in many outside industry activities to expand its reach to YBS farmers. The Association sponsored and participated in several trade shows and educational activities for new generation market, including womens' and sustainable agriculture events. This participation and sponsorship provides opportunities for the Association to be exposed to non-traditional YBS farmers and share information about the Association's products and services. The Association also continued its support for YBS farmers at other educational activities such as the PA Dairy Summit, offering scholarships for customers in attendance.

The Association has remained supportive of youth-related organizations to help ensure a strong future for agriculture. The Association provided significant monetary and in-kind support of 4-H, FFA and other youth and young farmer organizations in 2019. Additionally, the Association offers programs such as AgChoice Scholars to develop future agricultural leaders.

REGULATORY MATTERS

On February 13, 2020, the FCA 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 FCA 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 FCA 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 US GAAP. 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.

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• 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.	• 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.

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 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, interest rates to borrowers, borrower patronage or dividends, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, concentrations of assets and changes in patronage policies or practices, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this Annual Report.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Pennsylvania.

Location	Description	Form of Ownership
610 Evans City Road Butler, PA 16001	Branch	Owned
109 Farm Credit Drive Chambersburg, PA 17202	Branch	Owned
1 Buffalo Street, Suite 3 Coudersport, PA 16915	Branch	Leased
2322 Curryville Road Martinsburg, PA 16662	Branch	Owned
921 S. Center Avenue Hunker, PA 15639	Branch	Owned
450 International Drive Lewisburg, PA 17837	Branch	Owned
11555 State Highway 98 Meadville, PA 16335	Branch	Owned
45 Sheetz Drive Reedsville, PA 17084	Branch	Owned
24668 Route 6 Towanda, PA 18848	Branch	Owned
1434 Seven Valleys Road York, PA 17408	Branch	Owned
300 Winding Creek Boulevard Mechanicsburg, PA 17050	Headquarters	Owned

Senior Officers

The following represents certain information regarding the senior officers of the Association.

Senior Officer	Position
Darrell L. Curtis	*President and Chief Executive Officer* since January 2013, previously *Chief Financial Officer* and *Chief Operating Officer* since 2012.
Ryan S. Davis	*Vice President and Director of Credit Administration* since August 2018, previously *Assistant Credit Analysis Manager* since April 2017, *Senior Credit Analyst* since January 2017, *Credit Analyst* since July 2015 and employed by local community banks as a *Credit Analyst* since April 2009.
Terry A. Davis	*Senior Vice President, Treasurer and Chief Financial Officer* since July 2018 and previously *Controller* since 2013.
Gary S. Heckman	*Executive Vice President and Chief Business Services Officer* since January 2016, previously *Chief Business Development Officer* since 2013.
Brina M. Keim	*Senior Vice President, Assistant Corporate Secretary and Director of Human Resources* since August 2014 and previously *Human Resources and Training Manager* since 2006.
Mark F. Kerstetter	*Executive Vice President and Chief Operating Officer since July 2018,* previously *Chief Financial Officer* since August 2014, *Director of Capital Markets Lending* since August 2014, and *Capital Markets Manager* since 2011.
Gina M. Moshier	*Senior Vice President and Chief Administrative Officer since July 2018,* previously the *Director of Organizational Effectiveness* since August 2014 and *Operations/Project Manager* since 2008.
Michael S. Schrey	*Executive Vice President and Chief Credit Officer since July 2018* previously *Chief Lending Officer* since January 2016 and *Regional Manager* since 2008.
Crystal A. Standish	*Senior Vice President, Chief Sales and Marketing Officer* since July 2018, previously *Director of Sales and Marketing* since January 2014 and *Regional Sales Manager*
John D. Uthman	*Senior Vice President and Chief Internal Auditor* since 2010 and previously *Chief Reviewer* since 2006.

The total amount of compensation earned by the chief executive officer (CEO), the senior officers and other highly compensated employees as a group during the years ended December 31, 2019, 2018 and 2017, is as follows.

Name of Individual or Number in Group	Year	Annual Salary	Bonus	Changes in Pension Value	Deferred/ Perquisites *(b)*	Total
Darrell L. Curtis	2019	$ 412,015	$ 155,000	$ 530,710 *(c)*	$ 26,119	$ 1,123,844
Darrell L. Curtis	2018	$ 400,015	$ 125,000	$ 79,275	$ 25,233	$ 629,523
Darrell L. Curtis	2017	$ 387,514	$ 118,000	$ 63,654	$ 24,436	$ 593,604
9 *(a)*	2019	$ 1,359,812	$ 410,386	$ 616,430 *(c)*	$ 132,154	$ 2,518,782
10	2018	$ 1,401,203	$ 306,713	$ 67,799	$ 130,743	$ 1,906,458
8	2017	$ 1,299,930	$ 291,684	$ 463,107	$ 132,667	$ 2,187,388

(a) Disclosure of information on the total compensation paid during 2019 to any senior officer, or to any other individual included in the aggregate, is available to shareholders upon request.
(b) The Deferred/Perquisites amounts disclosed in the above chart include deferred compensation, automobile allowance, employer 401(k) match, non-elective 401(k) contributions, employer Health Savings Account contributions, life insurance and relocation reimbursement.
(c) The Changes in Pension Value in 2019 as reflected in the table above resulted primarily from assumption changes including a decrease in the discount rate assumption, additional service time and higher compensation. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

The senior officers' incentive plan provides for payouts based on Association performance in the areas of credit quality, operating expenses, quality loan volume growth, FRS revenues and results from customer surveys. The incentive plan for all other non-temporary employees is based on the same goals and requires at least a satisfactory performance rating. The compensation will be paid out by March 15, 2020. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Pension Benefits Table
As of December 31, 2019

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2019
CEO:					
Darrell L. Curtis	2019	AgFirst Farm Credit Retirement Plan	33.3	$ 3,529,048	$ –
				$ 3,529,048	$ –
Senior Officers and Highly Compensated Employees:					
2 Officers, excluding the CEO	2019	AgFirst Farm Credit Retirement Plan	*30.4	$ 3,463,222	$ –
7 Officers, excluding the CEO	2019	AgFirst Farm Credit Cash Balance Plan	*12.6	–	–
				$ 3,463,222	$ –

**Represents the average years of credited service for the group*

Retirement and Deferred Compensation Plans

The Association's compensation programs include retirement and deferred compensation plans designed to provide income following an employee's retirement. Although retirement benefits are paid following an employee's retirement, the benefits are earned while employed. The objective of the Association is to offer benefit plans that 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 supports the Association's mission and that allows the Association to align the human capital needs with the Association's overall strategic plan.

Employees participate in one of two qualified defined benefit retirement plans. Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal 85. Upon retirement, annual payout is equal to two percent of the highest three year's average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees hired on or after January 1, 2003, but prior to November 4, 2014, previously participated in the AgFirst Farm Credit Cash Balance Retirement Plan. Benefit accruals in the plan were frozen as of December 31, 2014, at which time active participants were fully vested regardless of years of credited service. The plan was terminated effective as of December 31, 2017, was submitted to the Internal Revenue Service for review and received a favorable determination letter from the Internal Revenue Service. Benefits in the plan were distributed to plan participants during March 2017.

Employees 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 hire. 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 percent, subject to the Internal Revenue Code limitation 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 contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Beginning January 1, 2015, employees hired on or after January 1, 2003 also received an employer nonelective contribution equal to 3 percent of employee compensation, subject to the Internal Revenue Code limitation on compensation.

Senior officers and other highly compensated employees participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows certain key employees to defer compensation and restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions made by the Bank.

Chief Executive Officer

Mr. Curtis participates in the AgFirst Farm Credit Retirement Plan, as described above.

Mr. Curtis participates in the Farm Credit Benefits Alliance 401(k) Plan, as described above.

Mr. Curtis participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above.

Senior Officers and Other Highly Compensated Employees

Senior officers and other highly compensated employees participate in one of two qualified defined benefit retirement plans based upon date of hire, as described above.

Senior officers and other highly compensated employees participate in the Farm Credit Benefits Alliance 401(k) Plan, as described above.

Association compensation plans are reviewed annually by the Board's Compensation Committee.

Transactions with Senior Officers and Directors

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

Directors

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

Director	Election Year	Current Term Expiration	Total Compensation
Shawn D. Wolfinger, *2019 Chairman*	2012	2023	$ 34,100
Richard A. Allen, *2019 Vice Chairman*	2011	2022	30,100
Samuel BowerCraft, *Appointed and Outside*	2011	2020	22,750
Donald G. Cotner	1982	2020	22,625
Kevin D. Grim	2016	2023	25,200
Steven H. Gross, Jr.	2019	2022	30,800
Richard D. Shuman	2018	2021	33,650
William K. Jackson	2000	2020	25,000
Larry A. Seibert, *Appointed and Outside*	2016	2023	27,600
Dennis B. Spangler	1994	2022	25,700
Charles F. Ulmer	1999	2021	28,350
Christine Waddell	2009	2020	34,000
Total			$ 339,875

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, 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 $230,372 for 2019, $100,491 for 2018 and $115,649 for 2017.

Subject to approval by the Board, the Association may allow directors honoraria of up to $700 for attendance at other meetings or special assignments. Directors were paid an annual retainer fee of $7,000, except for the chairman of the Board who receives $11,000. Members of committees also received a $3,000 retainer. The chairs of the Governance and Audit Committees also received a $1,000 and $2,500 retainer, respectively. Total compensation paid to directors as a group was $339,875. No director received more than $5,000 in non-cash compensation during the year.

The following represents certain information regarding the directors of the Association as of the end of 2019 and their principal occupations during the past five years.

Shawn D. Wolfinger, *Chairman*, is an owner of Timberwolf Lands, LLC. Mr. Wolfinger and his father also own Northern Forests, LLC. These forestry consulting companies provide timber sales for clients in northern Pennsylvania and western New York. They also manage several thousand acres of family owned land through Wolfinger Timberlands, LLC. Mr. Wolfinger holds real estate sales licenses in Pennsylvania and New York through Timberland Realty. He is active in the local community, serving on the Potter County Housing and Redevelopment Authority board of directors. He is a member of the Pennsylvania Forest Products Association, Northcentral Pennsylvania Forest Land Owners Association, Chautauqua County Board of Realtors, Potato Creek Trail Association, Coudersport Golf Club, St. Eulalia Catholic Church and volunteers as a member of the Big 30 Football All Star Selection Committee.

Richard A. Allen, *Vice Chairman,* owns and operates Crabapple Valley Farms, a 100-acre registered Black Angus cow/calf operation. He is also employed by Allen-Hill Dairy, LLC. He is a member of the Pennsylvania Angus Association and the Pennsylvania Holstein Association.

Samuel BowerCraft, *Appointed and Outside Director,* is vice president in the Operations division at the Hospital & Healthsystem Assoc of PA. He supervises the human resources, information technology and administrative teams to serve the association's staff and mission to improve healthcare in Pennsylvania. He is a Certified Information Systems Auditor and is active in his community.

Donald G. Cotner, is an officer and owner of Cotner Farms, Inc., which produces, packages, markets and distributes eggs and egg products from nearly 500,000 hens. Don Cotner Farms, LP is a partnership with his two sons and daughter that grows corn, soybeans and barley and manufactures feed on nearly 1,250 acres. The partnership also operates Boyd Station, LLC, which transloads soybean meal from rail to truck to supply local mills. The operation also extrudes local soybeans to produce high-quality express meal and refined soy oil used in the food industry. Mr. Cotner serves on the Board of Trustees of The Pennsylvania State University, the Central Susquehanna Community Foundation Board and the Rush Township Zoning Hearing Board.

Kevin D. Grim, is a grain farmer and owner-operator of Shady Dell Farms, LLC, where he grows corn, soybean and wheat on 1,560 acres. He also custom plants and harvests for other farmers in his community.

Steven H. Gross, Jr., owns and operates D&S Gross Cold Springs Farms, LLC, a dairy-beef and crop operation, in partnership with his brother, Dan. They feed 1,500 head of cattle and farm 2,800 acres of corn, soybeans, wheat, sunflowers and cover crop turnips. Mr. Gross also has a feed store with a Purina dealership for direct customer sales. Mr. Gross has served on many local, county, state and national agricultural committees over the last 25 years, including serving his community as an East Manchester Township supervisor for the past 19 years and chairman for the last 12 years. He has served as the chairman of the personnel committee for the Northeastern Regional Police Board of Directors for 22 years. His past service includes the PA Farm Bureau York County Board, PA Farm Bureau Young Farmer and Rancher State Committee, AFBF National Young Farmer and Rancher Committee, the AgChoice Nominating Committee, York County Farmland Preservation Board and York County Farm and Natural Lands Trust Board.

William K. Jackson, is a partner in Jackson Farms, a dairy that milks 150 cows and grows corn, soybeans and alfalfa on 900 acres. He is also president of Jackson Farms 2, LLC, which operates an on-farm dairy product processing plant and convenience store. He is president of Jackson Farms 3, LLC and managing partner of Jackson Farms, LP, which manage natural gas holdings. He is president of the Fayette County Fair Board and a board member of the Fay-Penn Economic Development Council and the Penn State Fayette, the Eberly Campus Advisory Board. Mr. Jackson also serves on the AgFirst Farm Credit Bank Board of Directors.

Larry A. Seibert, *Appointed and Outside Director*, retired as a regional manager for the Ben Franklin Technology Partners of Northeast Pennsylvania in 2017. He holds a Masters of Science in Education degree from Bloomsburg University. Mr. Seibert serves on the board of directors of the Susquehanna Economic Development Association – Council of Governments as the treasurer and chair of the finance committee. He also serves as a board member of Core Business Solutions, a board member of the Central Keystone Council of Governments, a member of the tax consolidation committee for Northumberland County and a township supervisor for White Deer Township.

Richard D. Shuman, is an owner and operator of RD Shuman Farms. The farm consists of 750 acres, 92 of which are owned and 658 are rented. He is a grain farmer, raises dairy replacements and feeder beef. He does custom harvesting on an additional 200 acres and supports his parents' 500-acre operation with some management decisions.

Dennis B. Spangler, is an owner/operator of a dairy, crop and solar farm. Mr. Spangler serves as a director on the Union County Conservation District, a member of the Farm Bureau, a member of the local American Dairy Association and Dairy Council Committee, a member of the PA Holstein Association and the Mifflinburg Young Farmers Association. Mr. Spangler served as chairman of the AgChoice Board of Directors from 2013 to 2015.

Charles F. Ulmer, owns a grain and forage operation, farming 2,100 acres. In addition, Mr. Ulmer owns three dairy facilities, providing young and beginning farmers the opportunity to start a career in agriculture.

Christine Waddell, owns and operates Apple Shamrock Farms, LLC, a 2,400-acre farm where she and her family milk 1,200 Holsteins and care for 950 replacement heifers. Crops grown include corn, soybeans, alfalfa and orchard grass. Ms. Waddell actively promotes the dairy industry through her work with the Dairy Princess Program, speakers bureau and offers tours of the dairy farm to local school children.

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

	Days Served			
Name	**Board Meetings**	**Other Activities**	**Committee Assignments**	**Compensation for other activities***
Shawn D. Wolfinger, *2019 Chairman*	14	27.0	Executive and Compensation	$ 19,600
Richard A. Allen, *2019 Vice Chairman*	14	28.0	Executive and Compensation	19,600
Samuel BowerCraft, *Appointed and Outside*	13	18.5	Governance	12,250
Donald G. Cotner	12	19.5	Audit	12,250
Kevin D. Grim	14	21.5	Audit	14,700
Steven H. Gross, Jr.	12	29.0	Governance	20,300
William K Jackson	14	24.0	Executive and Compensation	14,500
Larry A. Seibert, *Appointed and Outside*	14	25.5	Audit	17,100
Richard D. Shuman	14	33.5	Governance	23,150
Dennis B. Spangler	13	21.0	Governance	14,200
Charles F. Ulmer	14	26.0	Executive and Compensation	17,850
Christine Waddell	14	30.5	Audit	21,000
Total				$ 206,500

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

Legal Proceedings

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

Involvement in Certain Legal Proceedings

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

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 Consolidated Financial Statements included in this Annual Report.

Description of Capital Structure

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

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. Aggregate fees paid by the Association for services rendered by its independent auditor, PricewaterhouseCoopers LLP (PwC), for the year ended December 31, 2019 were $75,839, which includes reimbursement for expenses. Fees were for the annual audit of the Consolidated Financial Statements.

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 and is to be disclosed in this section, is incorporated herein by reference.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report therein of PwC dated March 12, 2020, and the report of management that appear in this Annual Report, are incorporated herein by reference. Copies of the Association's Quarterly Reports are available upon request, free of charge, by calling 1-800-998-5557 or writing Terry Davis, Chief Financial Officer, AgChoice Farm Credit, ACA, 300 Winding Creek Boulevard, Mechanicsburg, PA 17050, or accessing the website at ***www.agchoice.com***. The Association prepares an electronic version of the Annual Report that 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 needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

Since 1972, the FCA regulations have required that borrower information be held in strict confidence by the System institutions, their directors, officers and employees. These regulations provide the System institutions clear guidelines for protecting their borrowers' nonpublic, personal information.

On November 10, 1999, the FCA board adopted a policy that requires the System 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. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through the FCA regulations and the 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 the shareholders.

Shareholder Investment

Shareholder investment in the Association could 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 upon request, free of charge, by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning the Bank can also be obtained on AgFirst's website at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report that 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.

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. No director who serves on the Committee is an employee of AgChoice Farm Credit, ACA, 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 auditor 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 AgChoice Farm Credit, ACA. 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:

Christine Waddell

Christine Waddell
Chairman of the 2020 Audit Committee

Members of the 2020 Audit Committee

Donald G. Cotner
Kevin D. Grim
Larry A. Seibert

March 12, 2020

pwc

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of AgChoice 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 AgChoice 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	**$ 42**	$ 83	$ 16
Investments in debt securities:			
Held to maturity (fair value of $0, $0, and $2,371 respectively)	**—**	—	2,205
Loans	**2,146,536**	1,946,184	1,852,751
Allowance for loan losses	**(15,419)**	(14,331)	(13,492)
Net loans	**2,131,117**	1,931,853	1,839,259
Accrued interest receivable	**8,224**	8,297	7,027
Equity investments in other Farm Credit institutions	**23,238**	24,141	24,009
Premises and equipment, net	**15,220**	15,766	11,299
Other property owned	**—**	76	26
Accounts receivable	**22,691**	25,311	27,171
Other assets	**1,282**	1,210	1,424
Total assets	**$ 2,201,814**	$ 2,006,737	$ 1,912,436
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,731,992**	$ 1,557,913	$ 1,487,719
Accrued interest payable	**4,547**	4,343	3,500
Patronage refunds payable	**34,210**	25,893	21,593
Accounts payable	**2,531**	4,379	5,384
Other liabilities	**9,802**	7,644	6,440
Total liabilities	**1,783,082**	1,600,172	1,524,636
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**8,444**	8,223	11,020
Retained earnings			
Allocated	**161,489**	161,489	161,489
Unallocated	**248,884**	236,910	215,361
Accumulated other comprehensive income (loss)	**(85)**	(57)	(70)
Total members' equity	**418,732**	406,565	387,800
Total liabilities and members' equity	**$ 2,201,814**	$ 2,006,737	$ 1,912,436

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	**$ 110,913**	$ 98,821	$ 88,582
Investments	**—**	120	138
Total interest income	**110,913**	98,941	88,720
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**54,834**	46,658	39,068
Net interest income	**56,079**	52,283	49,652
Provision for loan losses	**1,135**	1,179	1,707
Net interest income after provision for loan losses	**54,944**	51,104	47,945
Noninterest Income			
Loan fees	**1,350**	1,215	1,327
Fees for financially related services	**2,532**	2,303	2,080
Patronage refunds from other Farm Credit institutions	**22,353**	25,081	26,804
Gains (losses) on sales of rural home loans, net	**—**	6	23
Gains (losses) on sales of premises and equipment, net	**531**	77	170
Gains (losses) on other transactions	**146**	(111)	88
Insurance Fund refunds	**414**	1,268	—
Other noninterest income	**37**	42	43
Total noninterest income	**27,363**	29,881	30,535
Noninterest Expense			
Salaries and employee benefits	**18,768**	18,563	17,469
Occupancy and equipment	**1,509**	1,338	1,345
Insurance Fund premiums	**1,458**	1,326	2,156
(Gains) losses on other property owned, net	**13**	23	20
Other operating expenses	**7,425**	7,282	2,142
Total noninterest expense	**29,173**	28,532	23,132
Income before income taxes	**53,134**	52,453	55,348
Provision for income taxes	**244**	173	252
Net income	**$ 52,890**	$ 52,280	$ 55,096

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Net income	**$ 52,890**	$ 52,280	$ 55,096
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(28)**	13	(13)
Comprehensive income	**$ 52,862**	$ 52,293	$ 55,083

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	$ 11,049	$ 161,489	$ 181,537	$ (57)	$ 354,018
Comprehensive income			55,096	(13)	55,083
Capital stock/participation certificates issued/(retired), net	(61)				(61)
Dividends declared/paid	32		(32)		—
Patronage distribution					
Cash			(21,250)		(21,250)
Patronage distribution adjustment			10		10
Balance at December 31, 2017	$ 11,020	$ 161,489	$ 215,361	$ (70)	$ 387,800
Comprehensive income			52,280	13	52,293
Capital stock/participation certificates issued/(retired), net	(2,806)				(2,806)
Dividends declared/paid	9		(9)		—
Patronage distribution					
Cash			(30,700)		(30,700)
Patronage distribution adjustment			(22)		(22)
Balance at December 31, 2018	$ 8,223	$ 161,489	$ 236,910	$ (57)	$ 406,565
Cumulative effect of change in accounting principle			**2**		**2**
Comprehensive income			**52,890**	**(28)**	**52,862**
Capital stock/participation certificates issued/(retired), net	**221**				**221**
Patronage distribution					
Cash			**(40,913)**		**(40,913)**
Patronage distribution adjustment			**(5)**		**(5)**
Balance at December 31, 2019	**$ 8,444**	**$ 161,489**	**$ 248,884**	**$ (85)**	**$ 418,732**

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	**$ 52,890**	$ 52,280	$ 55,096
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,070**	977	981
Amortization (accretion) of net deferred loan costs (fees)	**(40)**	(64)	(8)
Provision for loan losses	**1,135**	1,179	1,707
(Gains) losses on other property owned	**6**	16	10
(Gains) losses on sales of premises and equipment, net	**(531)**	(77)	(170)
(Gains) losses on sales of rural home loans, net	**—**	(6)	(23)
(Gains) losses on other transactions	**(146)**	111	(88)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**—**	(261)	(1,175)
Proceeds from sales of loans held for sale, net	**—**	267	1,198
(Increase) decrease in accrued interest receivable	**73**	(1,270)	(625)
(Increase) decrease in accounts receivable	**2,620**	1,860	(5,576)
(Increase) decrease in other assets	**(70)**	214	1,246
Increase (decrease) in accrued interest payable	**204**	843	565
Increase (decrease) in accounts payable	**(1,848)**	(1,005)	882
Increase (decrease) in other liabilities	**2,276**	1,106	(5,795)
Total adjustments	**4,749**	3,890	(6,871)
Net cash provided by (used in) operating activities	**57,639**	56,170	48,225
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	**—**	2,205	38
Net (increase) decrease in loans	**(200,416)**	(93,855)	(50,485)
(Increase) decrease in equity investments in other Farm Credit institutions	**903**	(132)	(714)
Purchases of premises and equipment	**(944)**	(5,456)	(969)
Proceeds from sales of premises and equipment	**951**	89	386
Proceeds from sales of other property owned	**127**	80	59
Net cash provided by (used in) investing activities	**(199,379)**	(97,069)	(51,685)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**174,079**	70,194	22,804
Capital stock and participation certificates issued/(retired), net	**221**	(2,806)	(61)
Patronage refunds and dividends paid	**(32,601)**	(26,422)	(19,310)
Net cash provided by (used in) financing activities	**141,699**	40,966	3,433
Net increase (decrease) in cash	**(41)**	67	(27)
Cash, beginning of period	**83**	16	43
Cash, end of period	**$ 42**	$ 83	$ 16
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ 57**	$ 146	$ 16
Estimated cash dividends or patronage distributions declared or payable	**40,913**	30,700	21,250
Dividends declared or payable in shares of preferred stock	**—**	9	32
Employee benefit plans adjustments (Note 9)	**28**	(13)	13
Supplemental information:			
Interest paid	**$ 54,630**	$ 45,815	$ 38,503
Taxes (refunded) paid, net	**305**	185	140

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:** AgChoice Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Adams, Allegheny, Armstrong, Beaver, Bedford, Blair, Bradford, Butler, Cambria, Cameron, Centre, Clarion, Clearfield, Clinton, Columbia, Crawford, Cumberland, Elk, Erie, Fayette, Forest, Franklin, Fulton, Greene, Huntingdon, Indiana, Jefferson, Juniata, Lackawanna, Lawrence, Luzerne, Lycoming, McKean, Mercer, Mifflin, Montour, Northumberland, Perry, Potter, Snyder, Somerset, Sullivan, Susquehanna, Tioga, Union, Venango, Warren, Washington, Wayne, Westmoreland, Wyoming and York in the state of Pennsylvania, and Brooke, Hancock, Marshall and Ohio 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 banks. System banks are also responsible for supervising the activities of associations within their districts. AgFirst (Bank) and its related associations (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 19 District associations. All 19 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 (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (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 FCSIC to provide assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to associations, 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 two 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 FCSIC at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums 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 District 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 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 each 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 loans, each association's 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 specific services.

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 borrower, 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, including crop insurance and related products available through the risk management agency in the United States Department of Agriculture (USDA).

The Association provides additional services to borrowers such as financial record keeping, payroll, tax return preparation, tax planning, farm accounting software, fee appraisals, business consulting and leasing.

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 no cash in excess of insured amounts.

B. **Loans, Allowance for Loan Losses and Reserve for Unfunded Commitments:** 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 amounts 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 and
- 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.

The Association has established a reserve for unfunded commitments that provides for potential losses related to unfunded commitments and is maintained at a level that is considered the best estimate of the amount required to absorb estimated probable losses related to these unfunded commitments. The reserve is determined using a methodology similar to that of the allowance for loan losses. The reserve for unfunded commitment is recorded as a liability in the Consolidated Balance Sheets.

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):** OPO 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 OPO are included in gains (losses) on OPO, 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.

Investments in Debt Securities
The Association may hold certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded in the Consolidated Balance Sheets as securities on the trade date.

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and carried at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included as a component of other comprehensive income (OCI). Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security using the interest method. The amortization of premiums on certain purchased callable debt securities that have explicit, noncontingent call features and that are callable at fixed prices on preset dates are amortized to the earliest call date.

Other Equity Investments
Any equity securities with a readily determinable fair value are carried at fair value with unrealized gains and losses included in earnings. Equity securities without a readily determinable fair value are carried at cost less any impairment.

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.

Impairment
The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected in OCI, unless the investment is deemed to be other-than-temporarily impaired (OTTI). Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a *credit loss*). If the Association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in OCI.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Association will record additional OTTI and adjust the yield of the security prospectively. The amount of total OTTI for an AFS security that previously was impaired is determined as the difference between its carrying amount prior to the determination of OTTI and its fair value.

Investment Income
Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

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 (IRS). Company contributions to the 401(k) Plan are expensed as funded.

The Association also offers an 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 employees, their beneficiaries and covered dependents during the years the employees render 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 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.

Additional information may be found in Note 9.

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 prices have 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 borrowers, 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 borrower to a third party. These letters of credit are issued to facilitate commerce and can result in the commitment being funded when the underlying transaction is consummated between the borrower 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 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 may act as lessor in certain contractual arrangements that 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 $2 was recorded. In addition, a Right of Use Asset in the amount of $38 and Lease Liability in the amount of $36 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 a borrower 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 borrower. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the Board of Directors (Board).

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 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 the 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 5 to 30 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 10 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 service 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 US 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.

Following is a summary of loans outstanding at period end.

	December 31, 2019	2018	2017
Real estate mortgage	$ 1,067,624	$ 941,675	$ 869,306
Production and intermediate-term	665,289	628,542	624,351
Loans to cooperatives	46,159	41,041	48,678
Processing and marketing	159,324	142,471	137,310
Farm-related business	44,639	41,486	38,881
Communication	100,024	88,462	78,911
Power and water/waste disposal	18,737	20,650	23,257
Rural residential real estate	21,746	19,923	19,432
International	18,461	16,977	11,964
Lease receivables	4,533	4,957	661
Total loans	$ 2,146,536	$ 1,946,184	$ 1,852,751

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 inventory and 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.

During the first quarter of 2019, the Association canceled its participation in the Capitalized Participation Pool program with the Bank. As a result, the Association repurchased $26,339 of participations previously sold to AgFirst. The Association may purchase or sell participation or syndication interests with other parties in order to diversify risk, manage loan volume and comply with the FCA regulations. The following tables present the principal balance of purchased and sold loans for the given periods.

	December 31, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 28,561	$ 5,863	$ 8,913	$ 7,459	$ –	$ –	$ 37,474	$ 13,322
Production and intermediate-term	33,176	4,431	51,410	8,227	–	–	84,586	12,658
Loans to cooperatives	–	–	46,250	–	–	–	46,250	–
Processing and marketing	40,933	5,497	38,814	–	17,114	–	96,861	5,497
Communication	7,626	–	92,585	–	–	–	100,211	–
Power and water/waste disposal	6,638	–	12,162	–	–	–	18,800	–
International	–	–	18,500	–	–	–	18,500	–
Lease receivables	–	–	4,533	–	–	–	4,533	–
Total	$ 116,934	$ 15,791	$ 273,167	$ 15,686	$ 17,114	$ –	$ 407,215	$ 31,477

	December 31, 2018							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 13,154	$ 30,744	$ 6,357	$ –	$ –	$ –	$ 19,511	$ 30,744
Production and intermediate-term	38,665	19,377	35,587	8,948	–	–	74,252	28,325
Loans to cooperatives	–	–	41,139	–	–	–	41,139	–
Processing and marketing	41,624	599	44,410	–	–	–	86,034	599
Farm-related business	–	260	–	–	–	–	–	260
Communication	8,109	–	80,578	–	–	–	88,687	–
Power and water/waste disposal	8,100	–	12,609	–	–	–	20,709	–
Rural residential real estate	–	145	–	–	–	–	–	145
International	–	–	17,000	–	–	–	17,000	–
Lease receivables	–	–	4,956	–	–	–	4,956	–
Total	$ 109,652	$ 51,125	$ 242,636	$ 8,948	$ –	$ –	$ 352,288	$ 60,073

	December 31, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 6,574	$ 27,578	$ 7,121	$ –	$ –	$ –	$ 13,695	$ 27,578
Production and intermediate-term	45,021	15,453	41,164	7,219	–	–	86,185	22,672
Loans to cooperatives	–	–	48,725	–	–	–	48,725	–
Processing and marketing	37,003	–	47,814	–	–	–	84,817	–
Farm-related business	–	337	–	–	–	–	–	337
Communication	10,100	–	69,037	–	–	–	79,137	–
Power and water/waste disposal	8,698	–	14,648	–	–	–	23,346	–
Rural residential real estate	–	157	–	–	–	–	–	157
International	–	–	12,000	–	–	–	12,000	–
Lease receivables	–	–	661	–	–	–	661	–
Total	$ 107,396	$ 43,525	$ 241,170	$ 7,219	$ –	$ –	$ 348,566	$ 50,744

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	$ 23,015	$ 160,664	$ 883,945	$ 1,067,624
Production and intermediate-term	149,987	338,290	177,012	665,289
Loans to cooperatives	3,975	28,662	13,522	46,159
Processing and marketing	7,452	85,790	66,082	159,324
Farm-related business	8,722	22,978	12,939	44,639
Communication	11,363	45,490	43,171	100,024
Power and water/waste disposal	2,498	8,551	7,688	18,737
Rural residential real estate	722	2,187	18,837	21,746
International	–	1,489	16,972	18,461
Lease receivables	7	4,363	163	4,533
Total loans	$ 207,741	$ 698,464	$ 1,240,331	$ 2,146,536
Percentage	9.68%	32.54%	57.78%	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 for the given periods.

	December 31, 2019	2018	2017
Real estate mortgage:			
Acceptable	93.42%	94.98%	95.37%
OAEM	3.17	1.89	1.61
Substandard/doubtful/loss	3.41	3.13	3.02
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	93.53%	93.52%	93.83%
OAEM	2.97	3.06	3.38
Substandard/doubtful/loss	3.50	3.42	2.79
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	91.99%	99.16%	100.00%
OAEM	6.68	0.84	–
Substandard/doubtful/loss	1.33	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	98.31%	97.18%	97.39%
OAEM	1.27	1.15	2.55
Substandard/doubtful/loss	0.42	1.67	0.06
	100.00%	100.00%	100.00%
Communication:			
Acceptable	100.00%	97.65%	100.00%
OAEM	–	2.35	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31, 2019	2018	2017
Power and water/waste disposal:			
Acceptable	58.56%	100.00%	90.44%
OAEM	26.29	–	–
Substandard/doubtful/loss	15.15	–	9.56
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	93.43%	93.70%	92.75%
OAEM	3.39	2.48	2.78
Substandard/doubtful/loss	3.18	3.82	4.47
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Lease receivables:			
Acceptable	100.00%	100.00%	92.55%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	7.45
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	93.67%	95.19%	95.49%
OAEM	3.28	2.12	1.98
Substandard/doubtful/loss	3.05	2.69	2.53
	100.00%	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest for the given periods.

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 and Accrued Interest
Real estate mortgage	$ 3,727	$ 1,109	$ 4,836	$ 1,066,751	$ 1,071,587
Production and intermediate-term	2,528	1,848	4,376	663,887	668,263
Loans to cooperatives	–	–	–	46,253	46,253
Processing and marketing	–	–	–	159,898	159,898
Farm-related business	4	–	4	44,916	44,920
Communication	–	–	–	100,091	100,091
Power and water/waste disposal	–	–	–	18,790	18,790
Rural residential real estate	161	102	263	21,555	21,818
International	–	–	–	18,589	18,589
Lease receivables	–	–	–	4,551	4,551
Total	$ 6,420	$ 3,059	$ 9,479	$ 2,145,281	$ 2,154,760

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 and Accrued Interest
Real estate mortgage	$ 1,442	$ 889	$ 2,331	$ 943,295	$ 945,626
Production and intermediate-term	1,632	1,890	3,522	628,106	631,628
Loans to cooperatives	–	–	–	41,134	41,134
Processing and marketing	–	–	–	143,088	143,088
Farm-related business	–	–	–	41,762	41,762
Communication	–	–	–	88,494	88,494
Power and water/waste disposal	–	–	–	20,674	20,674
Rural residential real estate	170	132	302	19,688	19,990
International	–	–	–	17,109	17,109
Lease receivables	–	–	–	4,976	4,976
Total	$ 3,244	$ 2,911	$ 6,155	$ 1,948,326	$ 1,954,481

	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 and Accrued Interest
Real estate mortgage	$ 2,398	$ 342	$ 2,740	$ 869,914	$ 872,654
Production and intermediate-term	1,406	1,948	3,354	623,564	626,918
Loans to cooperatives	–	–	–	48,743	48,743
Processing and marketing	–	–	–	137,913	137,913
Farm-related business	529	–	529	38,508	39,037
Communication	–	–	–	79,031	79,031
Power and water/waste disposal	–	–	–	23,310	23,310
Rural residential real estate	196	234	430	19,071	19,501
International	–	–	–	11,997	11,997
Lease receivables	–	–	–	663	663
Total	$ 4,529	$ 2,524	$ 7,053	$ 1,852,714	$ 1,859,767

Nonperforming assets (including related accrued interest) and related credit quality statistics at period end were as follows.

	December 31,		
	2019	2018	2017
Nonaccrual loans:			
Real estate mortgage	$ 8,094	$ 7,844	$ 11,802
Production and intermediate-term	3,901	3,962	8,072
Farm-related business	14	20	–
Rural residential real estate	209	163	235
Lease receivables	–	–	49
Total	$ 12,218	$ 11,989	$ 20,158
Accruing restructured loans:			
Real estate mortgage	$ 39	$ 60	$ 324
Production and intermediate-term	–	19	144
Total	$ 39	$ 79	$ 468
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 12,257	$ 12,068	$ 20,626
Other property owned	–	76	26
Total nonperforming assets	$ 12,257	$ 12,144	$ 20,652
Nonaccrual loans as a percentage of total loans	0.57%	0.62%	1.09%
Nonperforming assets as a percentage of total loans and other property owned	0.57%	0.62%	1.11%
Nonperforming assets as a percentage of capital	2.93%	2.99%	5.33%

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	$ 7,398	$ 8,836	$ 16,346
Past due	4,820	3,153	3,812
Total	$ 12,218	$ 11,989	$ 20,158
Impaired accrual loans:			
Restructured	$ 39	$ 79	$ 468
90 days or more past due	–	–	–
Total	$ 39	$ 79	$ 468
Total impaired loans	$ 12,257	$ 12,068	$ 20,626
Additional commitments to lend	$ 500	$ 401	$ 27

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:					
Production and intermediate-term	$ 178	$ 179	$ 149	$ 171	$ 14
Total	$ 178	$ 179	$ 149	$ 171	$ 14
With no related allowance for credit losses:					
Real estate mortgage	$ 8,133	$ 9,879	$ –	$ 7,809	$ 629
Production and intermediate-term	3,723	5,448	–	3,575	288
Farm-related business	14	17	–	13	1
Rural residential real estate	209	245	–	200	16
Total	$ 12,079	$ 15,589	$ –	$ 11,597	$ 934
Total:					
Real estate mortgage	$ 8,133	$ 9,879	$ –	$ 7,809	$ 629
Production and intermediate-term	3,901	5,627	149	3,746	302
Farm-related business	14	17	–	13	1
Rural residential real estate	209	245	–	200	16
Total	$ 12,257	$ 15,768	$ 149	$ 11,768	$ 948

	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:					
Production and intermediate-term	$ 84	$ 148	$ 45	$ 114	$ 9
Total	$ 84	$ 148	$ 45	$ 114	$ 9
With no related allowance for credit losses:					
Real estate mortgage	$ 7,904	$ 9,821	$ –	$ 10,715	$ 815
Production and intermediate-term	3,897	5,573	–	5,283	402
Farm-related business	20	353	–	26	2
Rural residential real estate	163	277	–	222	17
Total	$ 11,984	$ 16,024	$ –	$ 16,246	$ 1,236
Total:					
Real estate mortgage	$ 7,904	$ 9,821	$ –	$ 10,715	$ 815
Production and intermediate-term	3,981	5,721	45	5,397	411
Farm-related business	20	353	–	26	2
Rural residential real estate	163	277	–	222	17
Total	$ 12,068	$ 16,172	$ 45	$ 16,360	$ 1,245

	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	$ 1,685	$ 1,869	$ 310	$ 1,833	$ –
Production and intermediate-term	586	684	159	637	–
Lease receivables	49	50	–	54	–
Total	$ 2,320	$ 2,603	$ 469	$ 2,524	$ –
With no related allowance for credit losses:					
Real estate mortgage	$ 10,441	$ 12,063	$ –	$ 11,358	$ 707
Production and intermediate-term	7,630	9,250	–	8,300	806
Farm-related business	–	507	–	–	130
Rural residential real estate	235	343	–	255	14
Total	$ 18,306	$ 22,163	$ –	$ 19,913	$ 1,657
Total:					
Real estate mortgage	$ 12,126	$ 13,932	$ 310	$ 13,191	$ 707
Production and intermediate-term	8,216	9,934	159	8,937	806
Farm-related business	–	507	–	–	130
Rural residential real estate	235	343	–	255	14
Lease receivables	49	50	–	54	–
Total	$ 20,626	$ 24,766	$ 469	$ 22,437	$ 1,657

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

	Real Estate Mortgage	Production and Intermediate -term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:										
Balance at December 31, 2018	$ 3,193	$ 5,325	$ 3,680	$ 1,257	$ 232	$ 92	$ 276	$ 276	$ –	$ 14,331
Charge-offs	–	(79)	–	–	–	–	–	–	–	(79)
Recoveries	–	24	–	–	–	8	–	–	–	32
Provision for loan losses	370	584	25	(243)	532	(18)	(89)	(26)	–	1,135
Balance at December 31, 2019	$ 3,563	$ 5,854	$ 3,705	$ 1,014	$ 764	$ 82	$ 187	$ 250	$ –	$ 15,419
Balance at December 31, 2017	$ 3,298	$ 5,756	$ 1,888	$ 803	$ 1,618	$ 95	$ 27	$ 7	$ –	$ 13,492
Charge-offs	–	(25)	–	–	(304)	(16)	–	(16)	–	(361)
Recoveries	1	20	–	–	–	–	–	–	–	21
Provision for loan losses	(106)	(426)	1,792	454	(1,082)	13	249	285	–	1,179
Balance at December 31, 2018	$ 3,193	$ 5,325	$ 3,680	$ 1,257	$ 232	$ 92	$ 276	$ 276	$ –	$ 14,331
Balance at December 31, 2016	$ 1,184	$ 6,057	$ 1,996	$ 1,496	$ 956	$ 68	$ 34	$ 10	$ 1	$ 11,802
Charge-offs	–	(60)	–	–	–	–	–	–	–	(60)
Recoveries	–	14	–	–	–	–	–	29	–	43
Provision for loan losses	2,114	(255)	(108)	(693)	662	27	(7)	(32)	(1)	1,707
Balance at December 31, 2017	$ 3,298	$ 5,756	$ 1,888	$ 803	$ 1,618	$ 95	$ 27	$ 7	$ –	$ 13,492
Allowance on loans evaluated for impairment:										
Individually	$ –	$ 149	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 149
Collectively	3,563	5,705	3,705	1,014	764	82	187	250	–	15,270
Balance at December 31, 2019	$ 3,563	$ 5,854	$ 3,705	$ 1,014	$ 764	$ 82	$ 187	$ 250	$ –	$ 15,419
Individually	$ –	$ 45	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 45
Collectively	3,193	5,280	3,680	1,257	232	92	276	276	–	14,286
Balance at December 31, 2018	$ 3,193	$ 5,325	$ 3,680	$ 1,257	$ 232	$ 92	$ 276	$ 276	$ –	$ 14,331
Individually	$ 310	$ 159	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 469
Collectively	2,988	5,597	1,888	803	1,618	95	27	7	–	13,023
Balance at December 31, 2017	$ 3,298	$ 5,756	$ 1,888	$ 803	$ 1,618	$ 95	$ 27	$ 7	$ –	$ 13,492
Recorded investment in loans evaluated for impairment:										
Individually	$ 4,468	$ 1,926	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 6,394
Collectively	1,067,119	666,337	251,071	100,091	18,790	21,818	18,589	4,551	–	2,148,366
Balance at December 31, 2019	$ 1,071,587	$ 668,263	$ 251,071	$ 100,091	$ 18,790	$ 21,818	$ 18,589	$ 4,551	$ –	$ 2,154,760
Individually	$ 5,707	$ 1,266	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 6,973
Collectively	939,919	630,362	225,984	88,494	20,674	19,990	17,109	4,976	–	1,947,508
Balance at December 31, 2018	$ 945,626	$ 631,628	$ 225,984	$ 88,494	$ 20,674	$ 19,990	$ 17,109	$ 4,976	$ –	$ 1,954,481
Individually	$ 9,620	$ 4,796	$ –	$ –	$ –	$ –	$ –	$ 50	$ –	$ 14,466
Collectively	863,034	622,122	225,693	79,031	23,310	19,501	11,997	613	–	1,845,301
Balance at December 31, 2017	$ 872,654	$ 626,918	$ 225,693	$ 79,031	$ 23,310	$ 19,501	$ 11,997	$ 663	$ –	$ 1,859,767

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain Government Sponsored Enterprises (GSEs), including the Federal Agricultural Mortgage Corporation (Farmer Mac) and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $47,461, $50,552 and $56,696 at December 31, 2019, 2018 and 2017, respectively. Fees paid for such guarantee commitments totaled $20, $43 and $81 for 2019, 2018 and 2017, respectively. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a TDR if the creditor, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower 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. There were no new TDRs that occurred during the year ended December 31, 2019.

	Year Ended December 31, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 145	$ –	$ –	$ 145	
Production and intermediate-term	42	–	–	42	
Total	$ 187	$ –	$ –	$ 187	
Post-modification:					
Real estate mortgage	$ 145	$ –	$ –	$ 145	$ –
Production and intermediate-term	42	–	–	42	–
Total	$ 187	$ –	$ –	$ 187	$ –

	Year Ended December 31, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 320	$ –	$ 320	
Production and intermediate-term	1,207	1,032	–	2,239	
Total	$ 1,207	$ 1,352	$ –	$ 2,559	
Post-modification:					
Real estate mortgage	$ –	$ 301	$ –	$ 301	$ –
Production and intermediate-term	1,343	1,032	–	2,375	–
Total	$ 1,343	$ 1,333	$ –	$ 2,676	$ –

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

The following table presents outstanding recorded investment for TDRs that occurred during the previous 12 months, and for which there was a subsequent payment default during that period. Payment default is defined as a payment that was 30 days or more past due.

	Year Ended December 31,		
Defaulted troubled debt restructurings	**2019**	**2018**	**2017**
Real estate mortgage	$ –	$ 133	$ –
Production and intermediate-term	–	37	–
Total	$ –	$ 170	$ –

The following table provides information at period-end on outstanding loans restructured in TDRs. These loans are included as impaired loans in the impaired loan table.

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Real estate mortgage	$ 1,067	$ 1,161	$ 2,872	$ 1,028	$ 1,101	$ 2,548
Production and intermediate-term	1,093	1,451	3,071	1,093	1,432	2,927
Total loans	$ 2,160	$ 2,612	$ 5,943	$ 2,121	$ 2,533	$ 5,475
Additional commitments to lend	$ –	$ –	$ 27			

The following table presents information as of the latest 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

Investments in Debt Securities
The Association may hold investments that consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers an RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to the FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by the FCA, may have different eligibility requirements. At December 31, 2019, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows. The Association held no investments in debt securities at December 31, 2019 or 2018.

	December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 2,205	$ 166	$ –	$ 2,371	6.23%

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The Association had no investments in a continuous unrealized loss position for the periods presented.

The recording of an impairment loss is predicated on (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, OTTI loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including OTTI analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates and percentage of nonperforming assets), loan-to-collateral value ratios, third party guarantees, current levels of subordination, vintage, geographic concentration and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate and loss severity rate from an independent third party or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit-related factors.

Equity Investments in Other Farm Credit Institutions
Equity investments in other 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 $22,234 for 2019, $23,108 for 2018 and $22,947 for 2017. The Association owned 7.86 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 $1,004 related to other System institutions at December 31, 2019.

Note 5 — Real Estate and Other Property

Premises and Equipment
Premises and equipment consist of the following.

	December 31,		
	2019	2018	2017
Land and improvements	$ 2,706	$ 2,745	$ 1,513
Buildings and improvements	12,071	12,753	9,710
Furniture and equipment	4,921	5,104	4,575
	19,698	20,602	15,798
Less: accumulated depreciation	4,478	4,836	4,499
Total	$ 15,220	$ 15,766	$ 11,299

Other Property Owned
Net (gains) losses on OPO consist of the following.

	Year Ended December 31,		
	2019	2018	2017
(Gains) losses on sale, net	$ 6	$ 16	$ 9
Carrying value unrealized (gains) losses	–	–	1
Operating (income) expense, net	7	7	10
(Gains) losses on other property owned, net	$ 13	$ 23	$ 20

Gains on sales of OPO were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. There were no deferred gains at December 31, 2019, 2018 and 2017.

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 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 that 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 the 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, 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 2.78 percent for LIBOR-based loans and 2.89 percent for Prime-based loans, and the weighted-average remaining maturities were 4.0 years and 2.2 years, respectively, at December 31, 2019. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans that are match-funded by the Bank was 3.31 percent, and the weighted average remaining maturity was 10.6 years at December 31, 2019. The weighted-average interest rate on all interest-bearing notes payable was 3.15 percent and the weighted-average remaining maturity was 8.5 years at December 31, 2019. Variable rate and fixed rate notes payable represent approximately 11.83 percent and 88.17 percent, respectively, of total notes payable at December 31, 2019. The weighted average maturities described above are related to match-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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 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 be in an amount equal to the statutory minimum investment of $1,000 or 2 percent of the amount of the loan, whichever is less. The Board may increase the amount of investment if necessary to meet the Association's capital needs.

   Loans designated for sale or sold into the secondary mortgage market on or after April 16, 1996, will 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, but usually does not make 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 the borrower. 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 the 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 seven years, allocated equities held for a minimum of seven 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 five years, subordinated debt and limited-life preferred stock greater than five 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 PCR 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 that 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%	17.72%	18.29%	17.68%
Tier 1 Capital	6.0%	1.875%	7.875%	17.72%	18.29%	17.68%
Total Capital	8.0%	1.875%	9.875%	18.41%	18.99%	18.34%
Permanent Capital	7.0%	0.000%	7.000%	17.84%	18.42%	17.94%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	19.17%	19.76%	19.05%
URE and UREE Leverage	1.5%	0.0%	1.5%	19.16%	19.87%	19.15%

** The capital conservation buffers have a three 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 and D preferred stock, Classes A and C 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 $5 per share.

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

Class	Protected	Shares Outstanding Number	Aggregate Par Value
C Common/Voting	No	1,589,277	$ 7,946
C Participation Certificates/Nonvoting	No	99,602	498
Total Capital Stock and Participation Certificates		1,688,879	$ 8,444

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

Surplus

The Association maintains an unallocated surplus account and an allocated surplus account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the surplus accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association will apply earnings for the year to the unallocated surplus account in such amounts as may be determined necessary by the Board.

The Association maintains an allocated surplus 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 surplus 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 by the Board, may order any and all surplus account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities will be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and, as such, 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 $161,489 of nonqualified retained surplus.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, 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 such fiscal year or for that and subsequent fiscal years. 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. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year will always be available to be paid in cash.

Dividends

Dividends may be paid on stock and participation certificates as determined by the Board's resolution. Dividends may not be paid on common stock and participation certificates during any fiscal year with respect to which the Association has obligated itself to distribute earnings on a patronage basis pursuant to the Bylaws. The rate of dividends paid on Class A preferred stock for any fiscal year may not be less than the rate of dividend paid on common stock or participation certificates for such year. All dividends will be paid on a per share basis. Dividends on common stock and participation certificates will be noncumulative without preference between classes.

Transfer

Class A common stock, Class C common stock and Class C participation certificates and Class A preferred stock may be transferred to persons or entities eligible to receive or to hold such stock or certificates under the Bylaws.

Impairment

Losses that result in any impairment of the Association's capital will be borne ratably by, first, unallocated surplus account; second, allocated surplus account (latest allocation first); third, each share of Class A common stock, Class C common stock and unit of Class C participation certificates outstanding and, fourth, each share of Class A preferred stock and Class D preferred stock outstanding. Notwithstanding the above sentence, the Association, when retiring stock and participation certificates, will retire such equities at par value to the extent required by the Farm Credit Act.

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the order that follows.

1. Classes A and D preferred stock.
2. Classes A and C common stock and Class C participation certificates.
3. Allocated surplus evidenced by qualified written notices of allocation on the basis of oldest allocations first.
4. Allocated surplus evidenced by nonqualified notices of allocation on the basis of oldest allocations first.
5. Unallocated surplus will be distributed to holders of Class C common stock, Class A common stock and Class C participation certificates on a patronage basis.

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	$ (57)	$ (70)	$ (57)
Other comprehensive income before reclassifications	(30)	11	(15)
Amounts reclassified from AOCI	2	2	2
Net current period OCI	(28)	13	(13)
Balance at end of period	$ (85)	$ (57)	$ (70)

	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	$ (2)	$ (2)	$ (2)	See Note 9.
Amounts reclassified	$ (2)	$ (2)	$ (2)	

(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 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 System 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.

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) that 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.

OPO 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 OPO. OPO 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, the FCA regulations require that these types of properties 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.

For investments in debt securities, fair value is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

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	$ 498	$ 498	$ –	$ –	$ 498
Recurring Assets	$ 498	$ 498	$ –	$ –	$ 498
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 29	$ –	$ –	$ 29	$ 29
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 29	$ –	$ –	$ 29	$ 29
Other Financial Instruments					
Assets:					
Cash	$ 42	$ 42	$ –	$ –	$ 42
Loans	2,131,088	–	–	2,132,504	2,132,504
Other Financial Assets	$ 2,131,130	$ 42	$ –	$ 2,132,504	$ 2,132,546
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,731,992	$ –	$ –	$ 1,735,998	$ 1,735,998
Other Financial Liabilities	$ 1,731,992	$ –	$ –	$ 1,735,998	$ 1,735,998

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 601	$ 601	$ –	$ –	$ 601
Recurring Assets	$ 601	$ 601	$ –	$ –	$ 601
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 39	$ –	$ –	$ 39	$ 39
Other property owned	76	–	–	86	86
Nonrecurring Assets	$ 115	$ –	$ –	$ 125	$ 125
Other Financial Instruments					
Assets:					
Cash	$ 83	$ 83	$ –	$ –	$ 83
Loans	1,931,814	–	–	1,904,355	1,904,355
Other Financial Assets	$ 1,931,897	$ 83	$ –	$ 1,904,355	$ 1,904,438
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,557,913	$ –	$ –	$ 1,541,821	$ 1,541,821
Other Financial Liabilities	$ 1,557,913	$ –	$ –	$ 1,541,821	$ 1,541,821

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 722	$ 722	$ –	$ –	$ 722
Recurring Assets	$ 722	$ 722	$ –	$ –	$ 722
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,851	$ –	$ –	$ 1,851	$ 1,851
Other property owned	26	–	–	29	29
Nonrecurring Assets	$ 1,877	$ –	$ –	$ 1,880	$ 1,880
Other Financial Instruments					
Assets:					
Cash	$ 16	$ 16	$ –	$ –	$ 16
Investments in debt securities, held-to-maturity	2,205	–	–	2,371	2,371
Loans	1,837,408	–	–	1,825,991	1,825,991
Other Financial Assets	$ 1,839,629	$ 16	$ –	$ 1,828,362	$ 1,828,378
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,487,719	$ –	$ –	$ 1,478,128	$ 1,478,128
Other Financial Liabilities	$ 1,487,719	$ –	$ –	$ 1,478,128	$ 1,478,128

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.

Investments in Debt Securities

The fair values of predominantly all Level 3 investments in debt securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

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

	Fair Value		Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$	29	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
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
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 the Employee Retirement Income Security Act (ERISA) and Form 5500 is not 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 who 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 $1,686 for 2019, $2,450 for 2018 and $2,254 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 age of 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 System employees who 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 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 $424 for 2019, $412 for 2018 and $356 for 2017. At December 31, 2019, the total AgFirst District liability balance for the OPEB Plan presented in the 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 $1,533 and the reduction of Other Liabilities by $6,359 on the Association's Balance Sheets, and a total reduction of noninterest expenses on the Association's Statements of Income of $4,826 during 2017.

The Association also participates in a defined contribution Farm Credit Benefits Alliance 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 six percent of contribution (based on total compensation) up to the maximum employer contribution of three 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 six percent of contribution up to the maximum employer contribution of six percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the IRS. The 401(k) Plan costs are expensed as funded. Employer contributions to this Plan included in salaries and employee benefit costs were $1,038, $958 and $881 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, $(28), $13 and ($13) respectively, have been recognized as a net debit, a net credit, and a net debit 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 $249 and a net under-funded status of $249 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 $16, $16 and $19 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 $17,533. During 2019, $9,783 of new loans were made and repayments totaled $6,284. 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, there were no commercial letters of credit outstanding and $441,312 of commitments to extend credit outstanding with a related reserve for unfunded commitments of $542 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 $7,525 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 $7,525.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows.

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	$ 244	$ 173	$ 252
	244	173	252
Deferred:			
Federal	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ 244	$ 173	$ 252

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

	Year Ended December 31,		
	2019	2018	2017
Federal tax at statutory rate	$ 11,158	$ 11,015	$ 19,371
Patronage distributions	(7,140)	(5,397)	(7,438)
Tax-exempt FLCA earnings	(3,880)	(5,465)	(10,777)
Change in valuation allowance	154	163	(1,404)
Adjustment for lower statutory rate	–	–	336
Other	(48)	(143)	164
Provision (benefit) for income taxes	$ 244	$ 173	$ 252

In late December 2017, federal tax legislation was enacted that, 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.

	December 31,		
	2019	2018	2017
Deferred income tax assets:			
Allowance for loan losses	$ 1,462	$ 1,457	$ 1,419
Nonaccrual loan interest	388	427	392
Net operating loss – carryforward	901	860	833
Gross deferred tax assets	2,751	2,744	2,644
Less: valuation allowance	(821)	(667)	(504)
Gross deferred tax assets, net of valuation allowance	1,930	2,077	2,140
Deferred income tax liabilities:			
Bank patronage allocation	(1,521)	(1,684)	(1,820)
Loan origination fees	(331)	(308)	(233)
Depreciation	(78)	(85)	(87)
Gross deferred tax liability	(1,930)	(2,077)	(2,140)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2019, deferred income taxes have not been provided by the Association on approximately $9,400 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 $821, $667 and $504 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.

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 related to unrecognized tax benefits as a component of income tax expense.

At December 31, 2019 the Association has federal loss carryforwards totaling approximately $4,200, of which $163 has no expiration date, and the remainder expires in varying amounts beginning in 2033. The valuation allowance at December 31, 2019 was primarily related to nonaccrual interest loans and federal loss carryforwards that, in the judgment of management, are more likely than not to expire before realized. In evaluating the Association'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.

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	$ 13,769	$ 13,823	$ 14,146	$ 14,341	$ 56,079
Provision for (reversal of allowance for) loan losses	864	(220)	458	33	1,135
Noninterest income (expense), net	(3,016)	(2,360)	(3,063)	6,385	(2,054)
Net income	$ 9,889	$ 11,683	$ 10,625	$ 20,693	$ 52,890

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 12,745	$ 12,875	$ 13,357	$ 13,306	$ 52,283
Provision for (reversal of allowance for) loan losses	(180)	498	502	359	1,179
Noninterest income (expense), net	(2,065)	(3,152)	(3,187)	9,580	1,176
Net income	$ 10,860	$ 9,225	$ 9,668	$ 22,527	$ 52,280

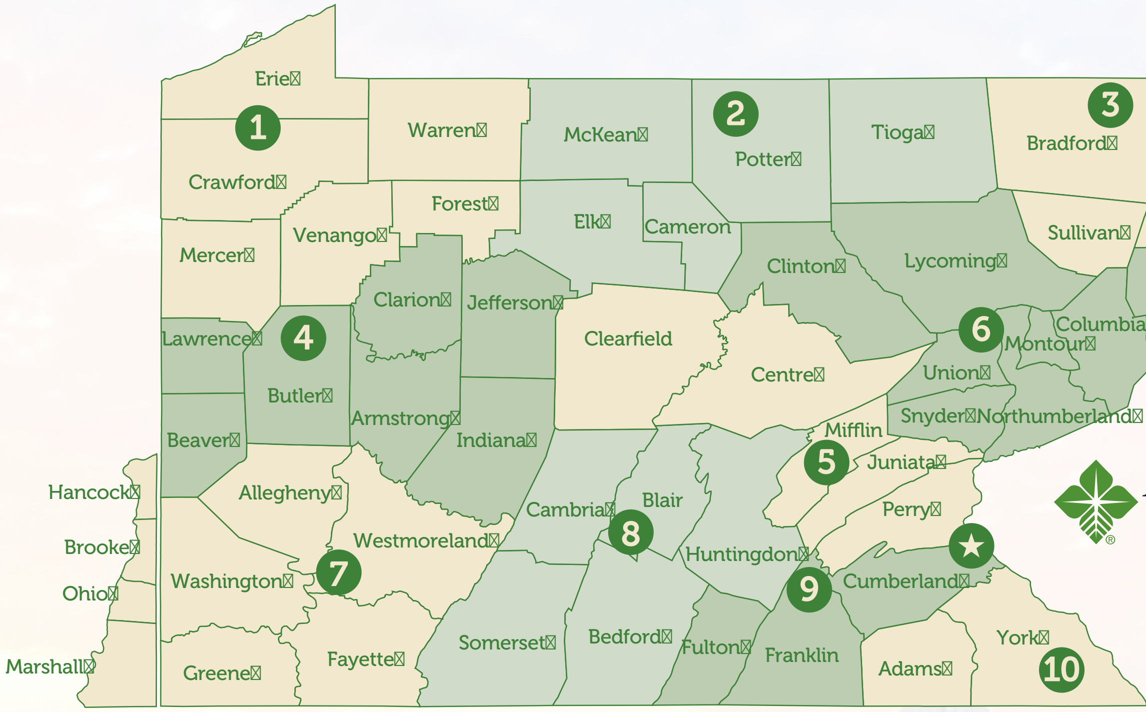
	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 12,054	$ 12,049	$ 12,370	$ 13,179	$ 49,652
Provision for (reversal of allowance for) loan losses	389	336	172	810	1,707
Noninterest income (expense), net	(3,145)	(2,938)	(2,763)	15,997	7,151
Net income	$ 8,520	$ 8,775	$ 9,435	$ 28,366	$ 55,096

Note 14 — Subsequent Events

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

AgChoice Farm Credit, ACA

Branch Office Listing



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