ANNUAL REPORT

AgCredit

2019

AGCREDIT AGRICULTURAL CREDIT ASSOCIATION

OUR VISION

TO INSPIRE GROWTH IN AGRICULTURE AND SERVE OUR RURAL COMMUNITIES.

OUR CORE VALUES

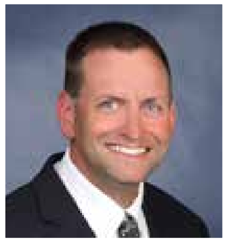
- Treat our customers, prospects and team members as we would like to be treated.
- Conduct ourselves professionally with unyielding integrity.
- Meet new challenges objectively with a positive mental attitude.
- Focus on building, nurturing and maintaining genuine relationships with our stockholders.
- Exceed our customers' expectations and produce what we promise.

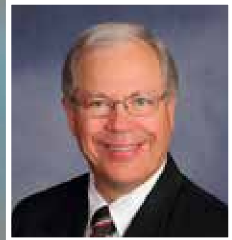
AgCredit

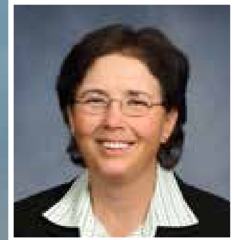
BOARD OF DIRECTORS

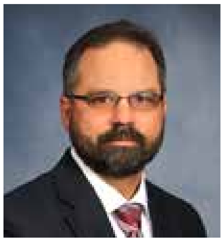

Scott A. Schroeder
Chairman, Region 1

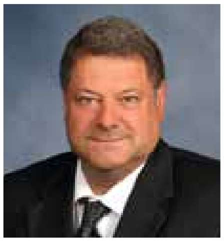

Gary L. Baldosser
Vice Chairman, Region 5

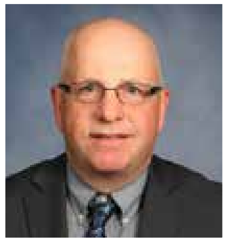

Dustin J. Sonnenberg
Region 2


Kevin Flanagan
Region 3

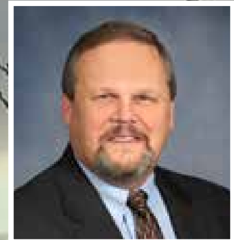

Deborah L. Johlin-Bach
Region 4


Michael A. Thiel
Region 6

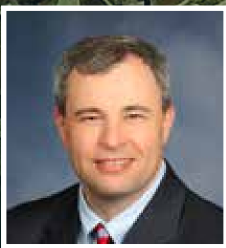

Michael W. Stump
Region 7

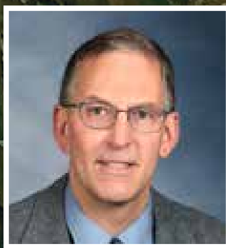

David J. Conrad
Region 8

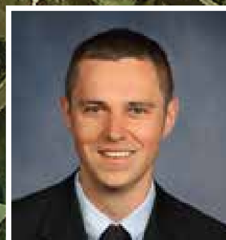

Daniel C. Rengert
Outside Director


Dr. David M. Stott, Ph.D., CPA
Outside Director

MANAGEMENT TEAM


Brian J. Ricker
President & Chief
Executive Officer


Daniel E. Ebert
Chief Operating Officer
& Secretary/Treasurer


Logan Kreais, CPA
Chief Financial
Officer


Jeffrey A. Rickenbacher
Chief Credit Officer


John J. Hunter
General Counsel


June M. O'Neill
Director of Human Resources

MESSAGE FROM
the Chairman of the Board and the Chief Executive Officer

It is truly a great time to be a member of AgCredit! We are excited to report AgCredit recently distributed a record $42 million of its net income in patronage. Forty-five cents of every dollar of interest accrued on eligible loans in 2019 was returned. This marks the 33rd consecutive year AgCredit has distributed profits to its member owners. The 33 years of patronage is worthy of extra attention because it is a measure of our dedication, financial stability and commitment to our members especially during a challenging year for so many. The patronage funds will provide needed financial flexibility to many members' farming operations.

The Association finished 2019 with net income of $55.1 million. As anticipated, credit quality declined slightly with 95.71% of the portfolio being classified either acceptable or special mention compared to 96.48% at year-end 2018. Loan growth was flat across the Association, and this was a result of the weather challenges and slightly fewer operating loans. Additional details on our financial performance are located within this report.

Our mission of returning profits, serving our rural community and building lifetime relationships for the success of our customers and members was emphasized throughout the year. With the significant weather challenges experienced in 2019, it was critical that we focused on our mission of service to our members. Some of the ways we executed this mission and provided additional value to our members are outlined below.

RETURNING PROFITS

Record patronage representing 76% of net income was returned to members. The patronage lowered rates on eligible loans by 45% and is the equivalent of lowering a 5% rate to 2.75%.

REDUCED LOAN RATES

During 2019, fixed interest rates moved lower and it became advantageous for some loans to be refinanced. Our account officers were opportunistic and contacted members who could benefit from a refinance or note modification. Over 1,300 loans were modified with lower rates, which resulted in substantial savings to our members.

OHIO AG-LINK LOANS

A program used sparingly in recent years was utilized at a higher level in 2019. One-hundred nine operating loans were connected to an Ag-LINK loan, and these loans received up to a 2% reduction in their interest rate.

LOAN RESTRUCTURES

For members experiencing financial distress, we encouraged them to visit with their account officers early and often. Interest-only, deferred payments and other options were offered to provide relief and allowed us to work with members through a variety of stressful scenarios.

RESOURCES RELATED TO STRESS

Because of the relationships built over the years and as a result of many AgCredit team members being partners in their own family farming operations, we were well aware of the mental stress and pressure brought on by the adverse weather in 2019. Providing outreach and a friendly ear to those significantly affected by adversity was foremost in our minds.

EARLY DISTRIBUTION OF ALLOCATED SURPLUS

During the peak of the unprecedented 2019 rain event, allocated surplus funds were released earlier than scheduled to provide additional flexibility and cash flow to our members.

AGSTART LOANS TO YOUNG AND BEGINNING FARMERS

Through our AgStart program, the Association closed 119 loans totaling $29.8 million of volume to this segment. AgStart loans are eligible for reduced fees, rates and extended loan terms. Young and beginning farmers are our future, and we continue to aggressively market to and serve this segment.

AGCREDIT MISSION FUND

Our Mission Fund's purpose is to recognize and reward organizations that positively affect the quality of life in our rural communities. During the year, the fund provided $84,000 in grants to a variety of organizations that are making a positive impact.

We are fortunate to have the opportunity to work with many wonderful people and their operations. Our commitment to serving agriculture and our rural communities through the good times and bad has never been stronger. We are proud to serve this cooperative and are grateful for a committed employee team that works very hard to provide a superior customer experience. Thank you for placing your trust in us and choosing AgCredit to be your financial provider. We are proud to guide, direct and manage your cooperative.

Have a safe, healthy and profitable 2020!

Scott A. Schroeder
Chairman of the Board

Brian J. Ricker
President & Chief Executive Officer

OFFICE LOCATIONS

Bowling Green
111 E. Gypsy Lane Road
Bowling Green, OH 43402
419-352-5178
877-635-3426

Bucyrus
3113 State Route 98
Bucyrus, OH 44820
419-562-7926

Findlay
7868 CR 140, Suite A
Findlay, OH 45840
419-422-7632
888-405-2221

Fostoria
Administrative Office
610 W. Lytle Street
Fostoria, OH 44830
419-435-7758
800-837-3678

Fremont
2155 Oak Harbor Road
Fremont, OH 43420
419-332-2639
800-896-4541

Kenton
12923 SR 309
Kenton, OH 43326
419-675-2303
877-808-0163

Marion
1100 E. Center Street
Marion, OH 43302
740-387-2270

Mt. Gilead
5362 US Hwy 42, Suite 100
Mt. Gilead, OH 43338
419-947-1040

Napoleon
1485 Scott Street
Napoleon, OH 43545
419-599-8656
800-347-0277

Norwalk
735 US Highway 20 East
Norwalk, OH 44857
419-663-4020
800-686-0756

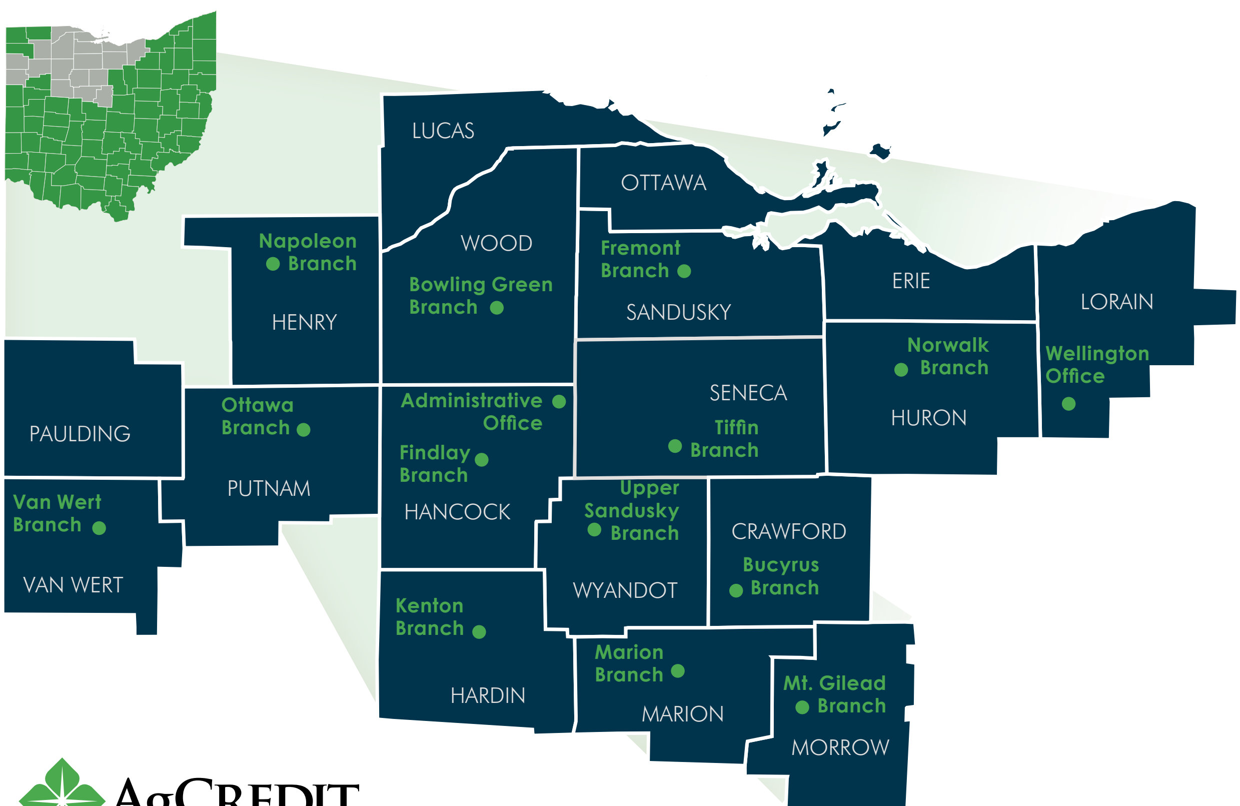
Ottawa
315 W. Williamstown Road
Ottawa, OH 45875
419-523-6677
888-380-3738

Tiffin
2500 W. Market Street
Tiffin, OH 44883
419-447-0787
877-568-1688

Upper Sandusky
97 Houpt Drive, Room E
Upper Sandusky, OH 43351
419-294-4933

Van Wert
1195 Professional Drive
Van Wert, OH 45891
419-238-6838
877-684-9455

Wellington
311 Maple Street, Suite A
Wellington, OH 44090
440-647-6611
866-685-4446



AgCredit

AgCredit Agricultural Credit Association

2019 Annual Report

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Report of Management

The accompanying Consolidated Financial Statements and related financial information appearing throughout this Annual Report have been prepared by management of AgCredit Agricultural Credit Association (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

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

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

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2019 Annual Report of AgCredit Agricultural Credit Association, 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.

Scott A. Schroeder
Chairman of the Board

Brian J. Ricker
Chief Executive Officer

Logan W. Kreais
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.

Brian J. Ricker

Brian J. Ricker
Chief Executive Officer

Logan W. Kreais

Logan W. Kreais
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	**$ 3,917**	$ 7,950	$ 6,143	$ 5,148	$ 4,080
Investments in debt securities	**9,774**	10,594	11,523	12,720	19,193
Loans	**1,967,764**	1,960,392	1,879,677	1,796,515	1,716,490
Allowance for loan losses	**(11,289)**	(11,058)	(12,330)	(13,484)	(13,858)
Net loans	**1,956,475**	1,949,334	1,867,347	1,783,031	1,702,632
Equity investments in other Farm Credit institutions	**23,243**	22,351	21,458	20,747	19,122
Other property owned	**—**	—	—	—	60
Other assets	**63,581**	68,305	65,119	59,414	56,829
Total assets	**$ 2,056,990**	$2,058,534	$1,971,590	$1,881,060	$1,801,916
Notes payable to AgFirst Farm Credit Bank*	**$ 1,654,570**	$1,673,338	$1,611,375	$1,551,034	$1,500,003
Accrued interest payable and other liabilities with maturities of less than one year	**54,787**	38,870	40,360	36,081	33,021
Total liabilities	**1,709,357**	1,712,208	1,651,735	1,587,115	1,533,024
Capital stock and participation certificates	**17,262**	18,672	19,522	19,661	19,505
Retained earnings					
Allocated	**239,120**	241,680	219,004	197,649	177,063
Unallocated	**91,251**	85,974	81,329	76,635	72,324
Total members' equity	**347,633**	346,326	319,855	293,945	268,892
Total liabilities and members' equity	**$ 2,056,990**	$2,058,534	$1,971,590	$1,881,060	$1,801,916
Statement of Income Data					
Net interest income	**$ 53,164**	$ 52,094	$ 49,210	$ 47,297	$ 43,961
Provision for (reversal of allowance for) loan losses	**1,607**	(1,084)	(1,154)	(259)	(57)
Noninterest income, net	**3,557**	6,859	6,664	2,047	3,400
Net income	**$ 55,114**	$ 60,037	$ 57,028	$ 49,603	$ 47,418
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.76%**	3.08%	3.09%	2.80%	2.86%
Total members' equity	**15.15%**	17.56%	18.21%	17.11%	18.02%
Net interest income as a percentage of average earning assets	**2.75%**	2.76%	2.75%	2.75%	2.72%
Net (chargeoffs) recoveries to average loans	**(0.072)%**	(0.010)%	0.000%	(0.007)%	(0.006)%
Total members' equity to total assets	**16.90%**	16.82%	16.22%	15.63%	14.92%
Debt to members' equity (:1)	**4.92**	4.94	5.16	5.40	5.70
Allowance for loan losses to loans	**0.57%**	0.56%	0.66%	0.75%	0.81%
Permanent capital ratio	**21.33%**	20.43%	19.87%	20.49%	19.85%
Total surplus ratio	**	**	**	19.05%	18.32%
Core surplus ratio	**	**	**	17.52%	17.05%
Common equity tier 1 capital ratio	**20.57%**	18.96%	17.90%	**	**
Tier 1 capital ratio	**20.57%**	18.96%	17.90%	**	**
Total regulatory capital ratio	**21.31%**	20.25%	19.71%	**	**
Tier 1 leverage ratio	**16.86%**	15.35%	14.34%	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**17.42%**	15.87%	14.85%	**	**
Net Income Distribution					
Cash dividends declared/paid	**$ 153**	$ 177	$ 184	$ 184	$ 188
Estimated patronage refunds:					
Cash	**42,219**	27,616	25,060	19,034	18,474
Nonqualified retained earnings	**7,634**	27,767	27,175	26,204	25,167

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

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System's mission is to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

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

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 Quarterly reports are also available upon request free of charge on the Association's website, ***www.agcredit.net***, or by calling 1-800-837-3678, extension 1048, or writing Logan Kreais, Chief Financial Officer at 610 W. Lytle St, Fostoria, OH 44830. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. The intent of words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms is 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 changes in the United States and abroad;
- Economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- Weather, disease, and other climatic or biological conditions that impact agricultural productivity and income;
- Changes in governmental support of the agricultural industry and the Farm Credit System, a government-sponsored enterprise;
- Investor and rating-agency reactions to events involving other government-sponsored enterprises and financial institutions; and
- Actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK AND ECONOMIC CONDITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies,* and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and certain related entities, we strive to diversify our loan portfolio through loan participations purchased and sold, geographic locations served, loan type, commodity, and loan size. The following tables illustrate the diversification by loan type, geography, commodity, and by loan participations. Refer to Note 3, *Loans and Allowance for Loan Losses,* for more loan portfolio information.

The diversification of the Association loan volume by type for each of the past three years is shown below.

	December 31,					
Loan Type	**2019**		**2018**		**2017**	
Real estate mortgage	$ 1,204,151	61.19%	$ 1,178,021	60.09 %	$ 1,105,137	58.79%
Production and intermediate-term	563,068	28.61	600,444	30.63	600,206	31.93
Cooperatives	3,596	0.18	3,412	0.18	380	0.02
Processing and marketing	53,088	2.70	39,658	2.02	30,547	1.63
Farm-related business	17,040	0.87	16,588	0.85	15,788	0.84
Communications	–	–	–	–	2,418	0.13
Power and water/waste disposal	2,811	0.14	3,385	0.17	3,469	0.18
Rural residential real estate	117,075	5.95	118,238	6.03	120,662	6.42
Lease receivables	340	0.02	646	0.03	1,070	0.06
Other	6,595	0.34	–	–	–	–
Total	$ 1,967,764	100.00%	$ 1,960,392	100.00 %	$ 1,879,677	100.00%

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

	December 31,		
Branch	**2019**	**2018**	**2017**
Findlay	6.5%	7.1%	7.1%
Fremont	5.1	5.5	5.5
Tiffin	6.5	7.0	7.4
Bowling Green	5.7	5.8	5.9
Marion	4.1	3.9	3.9
Bucyrus	3.9	3.9	4.0
Kenton	4.2	4.3	4.7
Mt. Gilead	6.1	6.2	6.3
Upper Sandusky	3.4	3.3	3.1
Norwalk	9.1	9.4	9.5
Ottawa	6.5	6.5	6.6
Van Wert	10.1	10.1	9.2
Napoleon	4.1	4.0	4.2
Residential Lending	7.7	7.5	7.9
100% Guaranteed Purchases	2.0	1.1	0.6
Agribusiness	15.0	14.4	14.1
Total	100.0%	100.0%	100.0%

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. Commodity or industry categories are assigned based upon the largest agricultural commodity of the customer or specific commodity upon which repayment is dependent. The major commodities in the Association loan portfolio are shown below. The predominant commodities of general cash grains (primarily soybeans, corn and wheat), livestock, and landlords constitute about 82 percent of the entire portfolio.

	December 31,					
Commodity Group	**2019**		**2018**		**2017**	
General Cash Grain	$ 1,126,585	57%	$ 1,149,658	59%	$ 1,122,394	60%
Livestock	297,121	15	261,827	13	235,322	13
Landlords	190,174	10	187,779	9	189,404	10
Rural Home Loans	117,075	6	118,237	6	120,662	6
Horticulture	74,337	4	89,797	5	78,607	4
Other	162,472	8	153,094	8	133,288	7
Total	$ 1,967,764	100%	$ 1,960,392	100%	$ 1,879,677	100%

Repayment ability is primarily related to the profitability of the commodities produced by our borrowers and the borrowers' off-farm income. The Association's loan portfolio contains a high concentration of cash grain producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are supplemented with off-farm employment income helping to reduce overall risk exposure. Consumer demand for beef, poultry, and pork, demand for alternate renewable fuel sources, weather, regulations, government policies, and international trade are some of the factors affecting the price of these commodities. Refer to the Agricultural Outlook and Economic Conditions discussion in this report for more details. The risk in the portfolio associated with commodity concentration and large loans is reduced by the utilization of crop insurance, and the use of FSA, USDA, Business and Industry, SBA, and Farmer Mac loan guarantees.

Loan portfolio concentration risk, whether by enterprise, individual, or related parties, is managed through loan participations, adherence to sound underwriting standards, loan guarantees, internal lending limits, and sound portfolio management practices. As a part of these risk management strategies, the Association has entered into participation agreements with AgFirst, System entities, and other entities and continues to participate in the federal loan guarantee programs. Refer to the Agricultural Outlook and Economic Conditions discussion in this report for more details.

The dollar and percentage changes between 2019 and 2018 for the different loan types are shown in the chart below.

Loan Type	December 31, 2019	December 31, 2018	$ Change	% Change
Real estate mortgage	$ 1,204,151	$ 1,178,021	$ 26,130	2.22 %
Production and intermediate-term	563,068	600,444	(37,376)	(6.22)
Cooperatives	3,596	3,412	184	5.39
Processing and marketing	53,088	39,658	13,430	33.86
Farm related business	17,040	16,588	452	2.72
Power and water/waste disposal	2,811	3,385	(574)	(16.96)
Rural residential real estate	117,075	118,238	(1,163)	(0.98)
Lease receivables	340	646	(306)	(47.37)
Other	6,595	–	6,595	–
Total	$ 1,967,764	$ 1,960,392	$ 7,372	0.38 %

Real estate mortgage volume increased primarily due to the increased average size of loans and new loans generated by marketing efforts by our branch teams, favorable recommendations from our members, excellent customer service, competitive interest rates, and the value returned to members via the Association's patronage program.

Production and intermediate-term (IT) volume declined due to our members minimizing spending for operational needs and scaling back their use of IT credit as they limited their purchases of farm equipment and buildings due to the decline in farm profitability and reduced in-season needs for cash due to crop insurance payments and government program payments.

Process and marketing and cooperative volume increased primarily due to increased participation purchased and larger commercial loans.

Rural residential real estate decreased due to payments made on loan balances, increased competition, and the interest rate market.

Since the formation of an Agribusiness department in 2014, the Association has actively purchased and sold loan participations within and outside the System. During 2017, the Association's participation purchased efforts were enhanced by purchasing the 100 percent of the guaranteed portions of loans. Participations purchased provide another source of income along with portfolio diversification. Participations sold volume is used to decrease the amounts held on large commercial accounts that exceed the Association's internal lending limits. This reduces the risk to the Association and its members, while providing stable credit availability to large commercial borrowers.

Loan Participations:	December 31, 2019	December 31, 2018	December 31, 2017
Participations Purchased – FCS Institutions	$ 86,297	$ 60,394	$ 48,342
Participations Purchased – Non-FCS Institutions	42,880	28,611	13,303
Participations Sold	(245,242)	(261,560)	(229,771)
Total	$ (116,065)	$ (172,555)	$ (168,126)

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 period ended December 31, 2019.

The Association also sells qualified long-term home mortgage loans into the secondary market. In 2019, the Association originated $391 of home loans for resale into the secondary market, compared to $858 in 2018, and $484 in 2017.

MISSION RELATED INVESTMENTS

In 2004, 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 under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot program. FCA approved a continuation of the program on October 31, 2008, for an undetermined time period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments funding 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 increased access to capital 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, 2018 and 2017, the Association had $9,774, $10,594 and $11,523, respectively, in Rural America Bonds.

Effective December 31, 2017, the FCA concluded each pilot program 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 ended, the FCA can consider future requests on a case-by-case basis. The Association plans to continue looking for Rural America Bond opportunities that will help diversify the Association's portfolio and enhance earnings and will work with FCA to gain their approval of the investment.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of a borrower to meet their repayment obligation. As part of the process to monitor credit risk, 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 on how to evaluate a loan. 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 including non-farm income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

All Title I loans must be collateralized by a first lien on real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. The regulatory maximum loan to appraised value (LTV) is 85 percent for all Title I loans unless the loan is guaranteed by a state, federal, or other governmental agency, then the maximum is 97 percent. Although these are the regulatory maximums, the Association's general lending level for all agricultural Title 1 loans is 70% LTV and includes a loanable limit on a tillable acre basis. The loanable limit curbs over reliance on standard lending strategies in an environment of rapidly increasing asset values. To offer flexibility to higher quality borrowers with probability of default (PD) indicators of 4 through 6 (post-closing), the lending level can go up to 80 percent LTV but only if the repayment plan is limited to 20 years or less on a fixed principal payment plan or 15 years or less if on an equal-amortized payment plan. For a loan with a PD of 10, the LTV must be less than or equal to 65 percent and must have a loan guarantee, if eligible. Title 1 loans made to PDs of 11 and 12 require Credit Department approval. Rural residential mortgage loans (rural home loans and resident loans to farmers) utilize the 85 percent LTV (97 percent with state, federal, or other governmental agency guarantee) lending level. As a result of the Association's internal policies, the actual loan to appraised value when loans are originated is generally lower than the statutory maximum percentage. Appraisals by state certified appraisers are required for Title 1 loans if:

- The transaction value is over $1 million.
- FSA guaranteed loans over $250,000.
- The transaction value is over $250,000 if the borrower is dependent on income derived from the sale or cash rental of real estate as the primary source of repayment.
- Any size loan with a PD 10-14.
- The loan is below the above limits where:
    - The loan is a RHL or RLF.
    - The account officer or appraiser feels an appraisal is necessary in order to properly assess risk.

Each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses and risks in a particular relationship.

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

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

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

Credit Quality	2019	2018	2017
Acceptable & OAEM	95.71%	96.48%	96.02%
Substandard	4.19	3.52	3.96
Doubtful	0.10	–	0.02
Loss	–	–	–
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

	December 31,		
High-risk Assets	**2019**	**2018**	**2017**
Nonaccrual loans	$ 13,377	$ 6,120	$ 2,969
Restructured loans	5,894	6,760	7,320
Accruing loans 90 days past due	–	–	–
Total high-risk loans	19,271	12,880	10,289
Other property owned	–	–	–
Total high-risk assets	$ 19,271	$ 12,880	$ 10,289
Ratios			
Nonaccrual loans to total loans	0.68%	0.31%	0.16%
High-risk assets to total assets	0.94%	0.63%	0.52%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $7,257 or 118.57 percent in 2019 primarily due to a large commercial relationship moving to nonaccrual, along with the challenging agricultural environment. Nonaccruals remain at manageable levels as a percentage of total loans. Current nonaccrual volume is defined as nonaccrual volume that is current on scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred back into accrual status. Current nonaccrual volume at December 31, 2019 was $5,776 of the total nonaccrual volume of $13,377. Current nonaccrual volume to total nonaccrual volume at December 31, 2019, 2018, and 2017 was 43.18 percent, 70.93 percent, and 60.42 percent, respectively.

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

Allowance for Loan Losses

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

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**
Balance at beginning of year	$ 11,058	$ 12,330	$ 13,484
Charge-offs:			
Real estate mortgage	–	(30)	–
Production and intermediate-term	–	(399)	(254)
Agribusiness	(2,175)	–	–
Rural residential real estate	–	(58)	–
Total charge-offs	(2,175)	(487)	(254)
Recoveries:			
Production and intermediate-term	799	297	254
Rural residential real estate	–	2	–
Total recoveries	799	299	254
Net (charge-offs) recoveries	(1,376)	(188)	–
Provision for (reversal of) loan losses	1,607	(1,084)	(1,154)
Balance at end of year	$ 11,289	$ 11,058	$ 12,330
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.072)%	(0.010)%	0.000%

The table below shows the allowance for loan losses by loan type for the most recent three years.

	December 31,		
Allowance for Loan Losses by Type	**2019**	**2018**	**2017**
Real estate mortgage	$ 2,679	$ 2,743	$ 2,504
Production and intermediate-term	7,210	6,851	8,912
Agribusiness	819	887	304
Communications	–	–	11
Power and water/waste disposal	42	21	15
Rural residential real estate	538	555	582
Lease receivables	1	1	2
Total allowance	$ 11,289	$ 11,058	$ 12,330

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	December 31,		
as a Percentage of:	**2019**	**2018**	**2017**
Total loans	0.57%	0.56%	0.66%
Nonperforming loans	58.58%	85.85%	119.84%
Nonaccrual loans	84.39%	180.69%	415.29%

The slight increase in the allowance for loan losses for 2019 was a result of the slight loan growth and continued strain on the farm economy. The decrease in allowance for loan losses for 2018 was a result of the elimination of the management qualitative allowance (MQA) and reduced specific reserves on loans in nonaccrual status.

The MQA within the general reserves were implemented in 2013 to address the Board and management's analysis and conclusion of the cyclical risk inherent in our cash grain and related landlord segments of our portfolio. Over time the Association reduced the MQA portion of the allowance until eliminated in 2018.

During 2019, producers margins remained narrow and adverse weather conditions further challenged members financially, which increased the risk to the Association. Despite the adverse conditions, our credit quality remains strong. Continued emphasis on sound underwriting and servicing standards will help our members and the Association through any difficult times ahead. Refer to the Agricultural Outlook and Economic Conditions section of this report for factors posing potential adverse impact to the portfolio in 2020.

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 for the year that ended December 31, 2019, totaled $55,114, a decrease of $4,923 or 8.20 percent when compared to the 2018 net income of $60,037. The 2018 net income was $3,009 or 5.28 percent higher than the 2017 net income of $57,028. 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**
Net income (prior year)	$ 60,037	$ 57,028
Increase (decrease) in net income due to:		
Investment securities	(54)	(64)
Interest income	4,618	10,424
Interest expense	(3,494)	(7,476)
Net interest income	1,070	2,884
(Provision for) reversal of loan losses	(2,691)	(70)
Loan fees	235	(13)
Financially related services	(16)	13
Lease Income	189	–
Patronage refunds from other Farm Credit institutions	(3,301)	(910)
Net impairment losses on investment	(83)	–
Insurance fund refund	(569)	892
Gains (losses) on sales of premises and equipment, net	58	495
Other noninterest income	663	(116)
Salaries and employee benefits	(144)	(739)
Occupancy and equipment	(279)	(164)
Gains (losses) on other property owned, net	–	19
Insurance Fund premiums	(31)	599
Guarantee fees	159	324
Other operating expenses	(179)	(209)
(Provision for) reversal of income taxes	(4)	4
Total changes in income	(4,923)	3,009
Net income	$ 55,114	$ 60,037

Net Interest Income

Net interest income was $53,164, $52,094 and $49,210 in 2019, 2018 and 2017, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets, and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

	Volume*	**Rate**	**Total**
12/31/19 – 12/31/18			
Interest income	$ 2,369	$ 2,195	$ 4,564
Interest expense	756	2,738	3,494
Change in net interest income	$ 1,613	$ (543)	$ 1,070
12/31/18 – 12/31/17			
Interest income	$ 4,771	$ 5,589	$ 10,360
Interest expense	1,933	5,543	7,476
Change in net interest income	$ 2,838	$ 46	$ 2,884

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

Net interest income for 2019 increased by $1,070 or 2.05 percent when compared to the 2018 net interest income. Net interest income for 2018 increased by $2,884 or 5.86 percent when compared to 2017 net interest income.

For 2019, 2018, and 2017 the Association's earnings on its own funds in loans were $10,841, $9,393, and $7,787 respectively. The $1,448 or 15.42 percent increase for 2019 when compared to 2018 is primarily a result of the increase in our own funds in loans. The 2018 increase when compared to 2017 is primarily a result of an increase in our own funds and a slight increase in the return on these funds.

Provision for Loan Losses

The Association evaluates risks inherent in our loan portfolio on an ongoing basis and establishes appropriate reserves for loan losses. For 2019 the Association recorded a provision of $1,607, while in 2018 and 2017 the Association recorded a reversal of provision for loan losses of ($1,084) and ($1,154), respectively. The increase in 2019 was driven by charge-offs on a large commercial borrower and the changes in the allowance, the reversals resulted from the changes in the allowance for loan loss as previously discussed.

Please refer to the *Allowance for Loan Losses* portion of Note 2, *Summary of Significant Accounting Policies* section of this report for further information concerning the calculation of the allowance for loan losses.

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
Loan fees	$ 690	$ 455	$ 468	51.65 %	(2.78)%
Fees for financially related services	305	321	308	(4.98)	4.22
Patronage refund from other Farm Credit Institutions	23,395	26,696	27,606	(12.37)	(3.30)
Insurance fund refunds	323	892	–	(63.79)	–
Gains (losses) on sales of premises and equipment, net	13	(45)	(540)	(128.89)	(91.67)
Net impairment losses on investments	(83)	–	–	–	–
Other noninterest income	799	(53)	63	(1,607.55)	(184.13)
Total noninterest income	$ 25,442	$ 28,266	$ 27,905	(9.99)%	1.29 %

Noninterest income decreased for 2019 primarily due to the reduction in patronage refund from other Farm Credit Institutions of $3,301 and a reduction of $569 of FCSIC refund received. This was offset in part by increases in other noninterest income and loan fees. Noninterest income for 2018 increased from 2017 primarily due to a FCSIC refund received and the reduction of loss on the sale of premises and equipment, partially offset by a reduction in special patronage from the Bank.

The 2019 patronage from the Bank is comprised of $12,105 of general patronage, $9,466 in special patronage, $1,685 in patronage on participation loans sold to the Bank, and $139 in other patronage earned. The Association received special distributions of $9,466, $13,132, and $14,563 for 2019, 2018, and 2017, respectively. The significant special patronage refunds for 2019, 2018, and 2017 are due to the benefit of the Association's cooperative membership in AgFirst. During all three years, AgFirst had excess capital resulting from strong earnings and flat to limited volume growth within the AgFirst District. As a result of their capital strength, the Bank's Board of Directors approved the payment of the special distributions to the AgFirst District associations, which are the Bank's member owners.

Loan fees increased in 2019 compared to 2018 primarily due to the increased servicing fees from note modifications and origination fees. The increase in note modifications was driven by declining interest rates. Loan fees decreased in 2018 due to decreased income from participation sold and bond fees, partially offset by increased servicing, secondary market sold loans, and origination fees.

Fees for financially related services decreased in 2019 as compared to 2018 as a result of decreases in crop hail insurance and appraisal services. The decline was partially offset by increase in crop multi-peril insurance. Fees for financially related services increased in 2018 as a result of an increase in appraisal and crop hail insurance income. This was partially offset by a decrease of income in multi-peril insurance.

Gains (losses) on sales of premises and equipment saw a large reduction for 2017 as a result the Association retiring all assets under $5,000. No such loss occurred in 2018 and 2019.

The 2019 increase in other non-interest income is a result of net gains as well as an accounting adjustment recognizing build lease income. Noninterest income decreased in 2018 as a result of other losses.

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
Salaries and employee benefits	$ 14,569	$ 14,425	$ 13,686	1.00%	5.40%
Occupancy and equipment expense	1,568	1,289	1,125	21.64	14.58
Insurance Fund premium	1,067	1,036	1,635	2.99	(36.64)
Guarantee fee	676	835	1,159	(19.04)	(27.96)
Losses (gains) on other property owned, net	–	–	19	–	(100.00)
Other operating expense	4,001	3,822	3,613	4.68	5.78
Total noninterest expense	$ 21,881	$ 21,407	$ 21,237	2.21%	0.80%

Salaries and employee benefits expenses increased due to staffing increases, merit compensation and salary related benefits. These were offset in part by reduced expenses for the Association's pension plan and incentives. 2018 salaries and employee benefits increased due to staffing increases, merit compensation and salary related benefits. These were offset in part by reduced expenses for the Association's pension plan.

Insurance Fund premium expenses increased slightly for 2019 due to slight volume growth. In 2018, the Association saw a decrease in insurance fund premium expenses due to lower premium rates.

Occupancy and equipment expenses increased for 2019 primarily due to building/expanding branch offices, additional furniture purchases, increased depreciation, and accounting treatment for leases. 2018 occupancy and equipment expenses increased primarily due to increased expenses for maintenance and cost of space, partially offset by a reduction in depreciation expense.

Guarantee fees are one-time and/or annual fees paid by the Association to obtain federal government and Farmer Mac loan guarantees. Guarantee related expenses decreased in 2019 and 2018 due to reduced guarantee loan applications.

There were no losses (gains) on other property owned in 2019 or 2018.

The 2019 increase in other operating expenses was driven by higher expenses in active nonaccrual loan, supervisory and examination, data processing fees, purchased services, public member relations, and travel. These expenses were partially offset by reduced origination servicing fees and training. The 2018 increase in other operating expenses was a result of increased expenses for directors, purchased services, training, member relations, data processing, non-property insurance, and supervisory and examination. These were offset in part by decreased expenses for travel, printing, and advertising.

During 2017, the method of recording expenses for the Association's defined benefit pension plan and other postretirement benefit plan was modified. This change resulted in the reduction of Other Assets by $4,585 and the reduction of Other Liabilities by $4,459 on the Association's Balance Sheets, and a corresponding increase in postretirement benefit costs on the Association's Statements of Income of $126 during 2017. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

Income Taxes

For 2019, the Association recorded provision for income taxes of $4 as compared to no provision for taxes in 2018. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes* and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/19	12/31/18	12/31/17
Return on average assets	2.76%	3.08%	3.09%
Return on average members' equity	15.15%	17.56%	18.21%
Net interest income as a percentage of average earning assets	2.75%	2.76%	2.75%
Net (charge-offs) recoveries to average loans	(0.072)%	(0.010)%	(0.000)%
Total members' equity to total assets	16.90%	16.82%	16.22%
Debt to members' equity (:1)	4.92	4.94	5.16

The ratios as of December 31, 2019 and the changes in the ratios shown in the table are due to the financial information previously stated.

Key factors in maximizing net income for future years will be increasing net interest and noninterest income while controlling operating expenses. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, 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 on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are matched to the Association's interest earning assets. The variable rate note is also utilized by the Association to fund variable day-to-day operations. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2019, was $1,654,570 as compared to $1,673,338 at December 31, 2018 and $1,611,375 at December 31, 2017. This is a decrease of $18,768 or 1.12 percent for 2019 compared to an increase of $61,963 or 3.85 percent for 2018. The small decrease in 2019 is attributable to slower loan growth and current year net income partially offset by strong patronage payments to help members with weather related challenges. The average volume of outstanding notes payable to the Bank was $1,614,079, $1,588,045 and $1,513,967 for the years ended December 31, 2019, 2018 and 2017, respectively. Refer to Note 6, *Debt, 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 increase loan volume while managing cash balances to minimize the note payable. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in loan guarantees, investments, and other secondary market programs provide additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association 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, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to maintain and increase 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 London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance 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, *Debt, Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this Annual Report.

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, *Debt, Notes Payable to AgFirst Farm Credit Bank*, included in this Annual Report.

Future of LIBOR

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

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

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

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

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

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

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

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

(dollars in millions)	Due in 2020	Due in 2021	Due in 2022 and Thereafter
Loans	$ 71,440	$ 59,336	$ 108,260
Total Assets	$ 71,440	$ 59,336	$ 108,260
Note Payable to AgFirst Farm Credit Bank	$ 59,247	$ 49,209	$ 89,784
Total Liabilities	$ 59,247	$ 49,209	$ 89,784

CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure 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.

The following table shows the components of and total members' equity as of December 31, 2019, 2018 and 2017.

	December 31,		
	2019	2018	2017
Class A Preferred Stock	$ 9,694	$ 11,096	$ 11,979
C Stock and Participation Certificates	7,568	7,576	7,543
Nonqualified Retained Earnings	239,120	231,662	203,997
Nonqualified Allocated Retained Earnings	–	10,018	15,007
Unallocated Retained Earnings	91,251	85,974	81,329
Total members' equity	$ 347,633	$ 346,326	$ 319,855

Total members' equity increased by $1,307 or 0.38 percent for 2019 when compared to 2018. In 2019 members' equity increased due to strong earnings offset by cash patronage. In 2019 nonqualified allocated retained earnings (NQA) decreased due to the distribution of the 2013 NQA. There is no further NQA to be distributed. Total members' equity increased for 2018 due to strong earnings offset in part by cash patronage.

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

Capital

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

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

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

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

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

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

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

Ratio	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%	20.57%	18.96%	17.90%
Tier 1 Capital	6.0%	1.875%	7.875%	20.57%	18.96%	17.90%
Total Capital	8.0%	1.875%	9.875%	21.31%	20.25%	19.71%
Permanent Capital	7.0%	0.0%	7.0%	21.33%	20.43%	19.87%
Non-risk-adjusted ratios						
Tier 1 Leverage	4.0%	1.0%	5.0%	16.86%	15.35%	14.34%
URE and UREE Leverage	1.5%	0.0%	1.5%	17.42%	15.87%	14.85%

** The capital conservation buffers have a 3 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 Ratio	7.00%	20.49%	19.85%	20.95%	20.28%	19.36%
Total Surplus Ratio	7.00%	19.05%	18.32%	19.23%	18.46%	17.39%
Core Surplus Ratio	3.50%	17.52%	17.05%	17.71%	16.73%	15.25%

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, and the *Consolidated Statements in Changes in Members' Equity,* of the Consolidated Financial Statements, for more information concerning the patronage distributions.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning**, and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. We are pleased to report the 2019 goals were met.

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association. Statistics for minority farmers are not available.

	As of December 31, 2019	
	Number of Loans	Amount of Loans
Young	3,357	$426,550
Beginning	3,351	$386,892
Small	8,238	$679,509

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 2012 USDA (2012 is the latest USDA Ag census data available) Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 13,574 reported farmers of which by definition 1,161 or 8.2 percent were young, 2,265 or 16.7 percent were beginning, and 11,072 or 81.3 percent were small. Comparatively, as of December 31, 2019, the demographics of the Association's agricultural portfolio contained 6,711 farmers, of which by definition 1,566 or 23.3 percent were young, 1,715 or 25.6 percent were beginning, and 4,158 or 62.0 percent were small.

Slight differences between the Census and our YBS information are as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association's YBS information shows young farmers up to age 35.
- The Census shows years on present farm up to 9 years, whereas the Association's YBS information shows 10 years or less for a beginning farmer.

The Association's YBS program is designed to help YBS farmers finance their operations. It consists of three focus areas: education, events, and financial support. Education is at the heart of the program, and includes supporting or conducting seminars and training sessions. These educational opportunities may be in-house; in the form of events held by the Association, or external; in which case the Association provides a speaker or provides educational materials. The Association's website, www.agcredit.net, includes information and resources for YBS visitors to the site.

The second focus area of the program includes those activities in which the Association sponsors local events (such as 4-H and FFA activities at county fairs), or events where the Association is an exhibitor (such as industry or trade shows).

The third prong of the program, financial support, addresses the specific credit programs and partnerships that we've developed to help small farmers, young farmers, and beginning farmers. It includes programs such as those offered by the Farm Service Agency (FSA). As a "preferred lender" with FSA, the Association utilizes this relationship to obtain guarantees providing financial support to YBS farmers.

The Association is also a Guaranteed Participating Lender for the Small Business Administration (SBA), which offers lending programs specifically for small borrowers. Additionally, the Association offers flexible financing options in-house for qualifying borrowers.

A member of the Credit team and the Corporate Services team coordinates the Association's YBS efforts. Additional team members in each of the Association's branch offices help conduct or coordinate YBS programs. The Association includes YBS goals in the annual strategic plan and reports on those goals and achievements to the Board of Directors on a quarterly basis.

The Association is committed to the future success of Young, Beginning and Small farmers.

* Young farmers are defined as those farmers, ranchers, producers, or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** Beginning farmers are defined as those farmers, ranchers, producers, or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** Small farmers are defined as those farmers, ranchers, producers, or harvesters of aquatic products who normally generate less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

Credit Programs:

The Association continues to promote three credit programs to better assist Young, Beginning, and Small as well as Minority, Women, and Veteran Farmers (AgStart Farmers):

AgGrow loans for farm operators. This loan program was created for AgStart Farmers who are making their first or second time farmland purchases or contract livestock building purchases. This loan program eases requirements on certain credit ratios, provides extended terms, has lower borrowing costs, and requires an FSA guarantee along with other certain loan requirements.

AgGrow loans for non-farm operators. This loan program was created for AgStart Farmers who desire to purchase farmland to continue/expand their family farm legacy and/or for a long term investment in our agriculture communities. This loan program eases requirements on certain credit ratios, provides extended terms, has lower borrowing costs, and gives strong consideration for the applicant's off-farm profession for business management experience.

AgNiche loans for non-traditional/niche farm programs. This loan program is intended for AgStart farmers running a non-traditional operation with benefits consisting of: flexible repayment terms to match income stream, strong focus on the operator's education/experience/research background of their non-traditional business, a business plan that includes a detailed marketing plan, and proper research of their public relations with their community. Loan limit of $25,000 on new start-up operations with higher loan amounts available on established operations.

The following strategies and outreach programs have been implemented to allow the Association to meet its objectives and goals for the young, beginning and small farmer program to date.

Use of FSA and other loan related programs including:

- FSA guarantees
- FSA Beginning Farmer Down Payment Farm Ownership loan
- FSA 50/50 and 50/45/5 Participation Programs
- FSA Socially Disadvantaged Loan Program

FFA and 4-H Involvement:

- Participated in FFA career days, field days, and judging events
- Offered $300 per county for 4-H "Real Money, Real World" money management projects
- Sponsored the FFA 110 Percent Awards, attended award banquets, and recognized winners in the AgCredit Leader magazine
- Supported 4-H, FFA, and young farmer organizations through local, district, state, and national sponsorships
- Donated FFA Handbooks for students (1,138 in 2019) and CDs (as needed) for teachers and advisors
- All branches supported their local junior fair livestock sales and other junior fair activities
- Gave scholarships for young FFA women to attend Women in Agriculture conference
- Made loans for FFA and 4-H projects (with parent co-signer)
- Provided financing for calf clubs to help provide animals for Jr. Fair exhibitors
- Donated money for prizes, giveaways for barn meetings, chairs for exhibitors, back tags for show ring, and t-shirts for Jr. Fair exhibitors
- Advertised in newspapers and on social media for National 4-H and FFA week
- Sponsored FFA Gold Medal Chapter Award
- Celebrated FFA Week at area schools by providing snacks and gifts
- Donated 1,187 t-shirts to local FFA chapters in 2019
- Served on 4-H Endowment Boards and Scholarship Committees
- Donated 4-H project books
- Sponsored shirts for every Jr. Fair livestock exhibitor at the Putnam County Fair
- Sponsored a "Catch-a-Pig" contest at the Pemberville Fair
- Sponsored Ohio FFA Farm Business Management Career Development Event
- Sponsored Ohio 4-H Foundation annual fundraiser (An Evening of Ohio Food & Wine)

Other Youth Involvement:

- Reimbursed course fees to youth who successfully complete any farm safety course
- Provided three $2,000 college scholarships to students studying an agricultural curriculum
- Provided PowerPoint presentation to use when talking with vocational agriculture classes about the importance of establishing and maintaining good credit
- Taught eighth graders from county schools the importance of paying loans back on time or earlier
- Association employees made presentations to high school agri-business classes explaining AgCredit, the cooperative method of doing business, and agricultural finance issues
- Made donations to support area youth programs like, but not limited to, Flying Horse summer camp, local ballpark sponsorships and banners, golf teams, yearbook ads, community safety programs, farm rescue bin safety training, high school music, athletic, and academic boosters, advertised at the Ohio HS All Star game,

fishing derby for kids, "Pork in the Classroom", school essay winner prizes, and judging
- Sponsored, organized and ran Pee Wee Pig shows at six fairs (Wood, Ottawa, Seneca, Hancock, Wyandot and Attica Independent). Awarded 42 prize bags and over 250 t-shirts in 2019
- Sponsored Pee Wee Sheep show at Huron County Fair
- Employed three interns in summer of 2019
- Taught business-planning classes and explained AgCredit at Lorain Community College and Terra Community College
- Sponsored Farm Safety Camp for third graders, sponsor breakfast and lunch, teach at a station, and providing the t-shirts (Ottawa)
- Sponsored and participated in OABA Bowling for Scholarships event

Other Young, Beginning, Small, Minority, Women and Veteran Farmer Activities:

- Featured Veteran members on Facebook for Veteran's day
- Sponsored OSU Women in Ag Conference
- Sponsored and attended Farm Bureau Young Ag Professionals Conference
- Sponsored Ohio Sheep Improvement Association LEAD Program
- Sponsored Alpha Gamma Rho Fraternity's Holiday Classic Cattle Show
- Sponsored Ohio Cattlemen's Association's Ohio Beef Expo – Junior Division
- Sponsored Ohio Pork Council's OH-Pigs Show Circuit
- During 2019, closed a total of 109 Farm Credit Express point of purchase equipment loans for a total of $4,464,179
- During 2019, closed 119 AgStart loans for a total of $28,862,902. These loans to help YBS Farmers to purchase their first or second farm with special terms and reduced costs. Total AgStart loans closed since this program started in 2015 is 434 loans for a total of $106,115,607
- Sponsored Northwest Ohio Women in Ag Conference

In 2019, AgCredit sponsored YBS borrowers and staff (who also are YBS farmers) to attend:

- Tomorrow's Top Producer Seminar in Chicago
- Executive Women in Ag seminar in Chicago
- Grain Marketing seminar with Jon Scheve

Other YBS outreach:

- Farm tours with lawmakers
- Served as FCS rep with the North Central Risk Management Education Center Advisory Committee
- Delivered snack bags and refreshments to many YBS farmers in the field during spring planting
- Hosted annual branch advisory meetings

REGULATORY MATTERS

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

On September 18, 2019, the Farm Credit Administration issued a proposed rule to amend its investment regulations to allow System associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to timely payment of principal and interest. The rule would authorize associations to buy investments to augment the liquidity of rural credit markets, reduce the capital burden on community banks and other non-System lenders who choose to sell their USDA guaranteed portions of loans, and to enhance the ability of associations to manage risk. The public comment period ended on November 18, 2019.

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in 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 or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* included in this Annual Report.

Description of Property

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

Location	Description	Form of Ownership
610 W. Lytle St. Fostoria	Administrative	Owned
602 W. Lytle St. Fostoria	Administrative	Owned
121 N. Main St. Fostoria	Branch	Leased(1)
7868 County Rd. 140, Ste. A Findlay	Branch	Leased(2)
2155 Oak Harbor Rd., Ste. B Fremont	Branch	Owned(3)
2500 W. Market St. Tiffin	Branch	Owned
111 E. Gypsy Lane Rd. Bowling Green	Branch	Owned
1100 E. Center St. Marion	Branch	Owned
3113 St. Rt. 98 Bucyrus	Branch	Owned
12923 St. Rt. 309 Kenton	Branch	Owned
5362 US Highway 42 Mt. Gilead	Branch	Owned
97 Houpt Dr., Room E Upper Sandusky	Branch	Leased(4)
735 US Highway 20 E. Norwalk	Branch	Owned
311 Maple St., Ste. A Wellington	Office	Leased(5)
315 W. Williamstown Rd. Ottawa	Branch	Owned
1195 Professional Dr. Van Wert	Branch	Leased(6)
1485 Scott St. Napoleon	Branch	Owned
103 E. Perry St. Paulding	Office	Leased(7)

(1) One-year lease terminating on August 31, 2020. Annual lease of $13,800.

(2) One-year lease terminating on December 31, 2020. Annual lease of $31,228.

(3) The Association owns the West half of the building.

(4) Five-year lease terminating February 28, 2022. Annual lease of $20,400.

(5) Five-year lease terminating September 30, 2025. Annual lease of $31,200.

(6) Ten-year lease terminating August 1, 2029. Annual lease of $48,920.

(7) Lease agreement is on a month-to-month basis until terminated. Annual lease of $3,000.

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.

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.

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.

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.

Senior Officers

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

Senior Officer	Position
Brian Ricker	*President and Chief Executive Officer* since February 1, 2014. *Chief Operating Officer* from October 1, 2013 through January 31, 2014. *Chief Credit Officer* from September 2012 through September 2013. *Senior Credit Officer* from March 2012 through August 2012. *Relationship Manager* from November 2009 through February 2012. *Branch Manager* from March 1997 through October 2009. Employed by AgCredit for the past 5 years and since March 1997.
Daniel Ebert	*Chief Operating Officer and Secretary / Treasurer* since March 1, 2019. *Chief Financial Officer* from August 2007 through February 2019. *Secretary / Treasurer* since April 2008. Employed by AgCredit for the past 5 years. Employed by AgCredit, or predecessor associations, since July 1986.
Logan Kreais, CPA	*Chief Financial Officer* since March 1, 2019. *Controller* from March 1, 2017 through February 28, 2019. *Assistant Controller* from May 1, 2011 through February 28, 2017. Employed by AgCredit for the past 5 years and since May 2011.
Jeff Rickenbacher	*Chief Credit Officer* since May 16, 2016. *Senior Credit Officer* from January 10, 2014 through May 14, 2016. *Regional Manager* from April 1, 2012 through January 9, 2014. *Branch Manager* from July 01, 1999 through March 31, 2012. *Account Officer* from October 1997 through July 1999. Employed by AgCredit for the past 5 years and since October 1997.
John Hunter	*General Counsel* since May 2014. *Corporate Counsel* from April 2013 through April 2014. Served as outside counsel to AgCredit from approximately 1987 through March 2013. Was in private practice in Toledo, Ohio starting in 1986 and focused on commercial credit and creditor's rights, including matters affecting System lenders. Employed by AgCredit for the past five years and since April 2014.
June O'Neill	*Director of Human Resources* since January 1, 2017. *Human Resources Manager* from January 1, 2016 through December 31, 2016. *Senior Human Resources Administrator* from January 1, 2009 through December 31, 2015. *Human Resources Administrator* from January 1, 2000 through December 31, 2008. Employed by AgCredit for the past five years. Employed by AgCredit, or predecessor associations, since January 1986.

The total amount of compensation earned by the CEO and the highest paid officers and 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	Salary	Bonus	Deferred	Change in Pension Value	Perq/ Other*	Total
Brian Ricker	2019	$ 321,325	$ 56,461	$ 39,572	$ 422,339	$ 1,769	$ 841,466
Brian Ricker	2018	$ 316,879	$ 62,328	$ 18,868	$ (69,494)	$ 1,053	$ 329,634
Brian Ricker	2017	$ 313,210	$ 47,589	$ 5,743	$ 225,781	$ 1,039	$ 593,362
6	2019	$ 1,024,346	$ 165,296	$ 5,000	$ 877,423	$ 10,364	$ 2,082,429
5	2018	$ 844,457	$ 155,937	$ 5,000	$ (23,539)	$ 9,053	$ 990,908
6	2017	$ 839,025	$ 125,000	$ 5,000	$ (132,526)	$ 31,399	$ 867,898

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.

The changes in pension values as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

**Amounts in the above table classified as Perquisites include one or more of the following items: travel incentives, group life insurance, automobile compensation, relocation, annual leave payments and tuition reimbursement.*

The Association participates in multi-association, District and multi-district sponsored benefit plans. Change in pension value is considered a part of compensation. The Pension Benefits table below reflects number of years credited service, actuarial present value of accumulated benefits, along with any payments made during 2019 for the CEO and senior officers and other highly compensated employees as a group.

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:					
Brian Ricker	2019	Independent Association Retirement Plan	24.00	$ 1,522,978	$ –
				$ 1,522,978	$ –
Senior Officers and Highly Compensated Employees:					
3 Individuals, excluding the CEO	2019	Independent Association Retirement Plan	32.67	$ 3,934,221	$ –
				$ 3,934,221	$ –

For the Retirement Plan, the present value of pension benefits is the value at a specific date of the benefit payment stream an individual is expected to receive upon retirement based on pay and service earned to date. These present values change year over year as (1) pension benefits increase due to an additional year of pay and service being earned under the benefit formula, (2) individuals are one year closer to receiving payments, and (3) the assumptions used to determine the present value change.

The present value of Retirement Plan pension benefits will naturally increase as the benefits earned under the plan increase. Since the pension benefit formula is dependent on base pay, pay increases directly impact the pension values.

The present values are calculated by discounting each expected future benefit payment back to the determination date at a specified interest (or discount) rate. When a year passes, there is one fewer year of discounting, which increases the present value.

Finally, the present value of the expected future benefit payment stream is based on actuarial assumptions, chiefly the discount rate mentioned above. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values. The discount rate is updated every year based on the interest rate environment at December 31. A decrease in the discount rate (i.e. less discounting) increases the present values and vice versa.

Disclosure of information on the total compensation paid during 2019 to any senior officer, or to any other employee included in the aggregate group totals shown previously, is available and will be disclosed to Association's shareholders upon request.

Senior officers and other highly compensated employees may 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/or which 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 to be made by the Association.

In addition to base salary, employees and senior officers can earn additional compensation under an annual bonus plan designed to encourage teamwork in meeting or exceeding key financial and growth objectives established by the Board of Directors. The President and Chief Executive Officer can earn additional compensation under an annual bonus plan similar to the employee bonus plan and is designed to encourage teamwork in meeting or exceeding key financial and growth objectives established by the Board of Directors. The term of both plans is the year beginning September 1 through August 31. Both plans are based upon the achievement of predetermined Association performance goals for net income, return on equity, increase in loan volume, credit quality and credit administration with an emphasis on net income. The Board of Directors approves both plans annually.

Employees may earn additional incentive compensation under the Mortgage Loan Originator Incentive Plan (MLO Incentive), Residential Lending Referral Incentive, Farm Credit Express Incentive (FCE), Crop Insurance Incentive, Appraisal Path Incentive, Loan Processor Incentive Plan and the Retirement Early Notification Incentive. The MLO Incentive pays the employee for making qualified home mortgage loans. The MLO Incentive is designed to motivate employees to make loans to qualified borrowers and help the Association extend credit to the rural communities it serves. The Residential Loan Referral Incentive is paid to team members who make a referral that results in a closed rural home loan, residence loan to farmer, secondary market home loans, or lot loans. The FCE Incentive is paid to the Account Manager - Financial Services and Governmental Affairs for establishing and maintaining relationships with FCE dealers providing increased ease and access to equipment financing. The Crop Insurance Incentive is paid to team members to promote the use of crop insurance products sold by the Association or its affiliated agents to reduce borrower risk and provide income to the Association. The Appraisal Path Incentive is paid to Association appraisers to promote achievement of required certifications. The Loan Processor Incentive is made to loan processors for processing and/or closing rural home or secondary market home loans. The Retirement Early Notification Incentive is paid to team members who provide at least nine months notice of their intention to retire allowing the Association the ability to manage succession. Incentives are shown in the year earned, which may be different from the year of payment.

All employees are reimbursed for mileage on personally owned automobiles at the rate allowed by IRS regulations and for all actual travel expenses incurred when traveling on Association business. A copy of the travel and other business expenses policy is available to shareholders upon written request.

Directors

The following chart details the year the director began serving on the board, the current term expiration, current committee assignments, number of meetings, other activities, additional compensation paid for other activities and total cash compensation paid for each director:

Director	Original Year of Election or Appointment	Current Term Expiration	Committee Assignment	Days Served* Regular Board Meetings	Days Served* Other Official Activities**	Comp. Paid for Other Activities**	Total Comp. Paid During 2019
Scott A. Schroeder *Chairman*	2008	2020	Governance, Compensation, Scholarship	9.0	13.8	$ 17,187	$ 28,137
Gary L. Baldosser *Vice Chairman*	2009	2021	Governance, Compensation	9.0	20.5	19,475	28,025
David J. Conrad	2015	2021	Audit	8.0	10.2	9,700	17,300
Deborah L. Johlin-Bach	2007	2022	Audit, Governance, Compensation	9.0	17.3	16,425	24,975
S. Jerry Layman	2004	2019	Credit, Compensation, Scholarship	3.0	3.0	2,850	5,700
Daniel C. Rengert *Outside Dir*	2012	2020	Governance, Compensation, Operations	9.0	9.2	8,750	17,300
Dustin J. Sonnenberg	2016	2022	Credit, Scholarship, Compensation	9.0	16.5	15,638	24,488
David M. Stott, Ph.D., CPA *Outside Dir*	2012	2021	Audit, Compensation	7.0	7.7	7,325	13,975
Michael W. Stump	2008	2020	Operations	8.0	12.0	11,400	19,000
Michael A. Thiel	2015	2021	Operations, Audit	8.0	9.5	9,025	16,625
Kevin P. Flanagan	2019	2022	Credit, Scholarship	5.0	4.2	4,000	8,750
						$ 121,775	$ 204,275

**The number of board meeting days and per diem totals include travel time to and from meetings*
*** Includes board committee meetings and other board activities other than regular board meetings*

The following represents certain information regarding the directors of the Association:

Scott A. Schroeder, Chairman, represents Paulding, Putnam, and Van Wert counties. For the past five years, his principal occupation and employment was farming. Mr. Schroeder currently serves as treasurer of the Ohio Pork Council.

Gary L. Baldosser, Vice Chairman, represents Seneca county. For the past five years, his principal occupation and employment was farming.

David J. Conrad represents Erie, Huron, and Lorain counties. For the past five years, his principal occupation and employment was farming.

Deborah L. Johlin-Bach represents Ottawa, Sandusky, and eastern Lucas counties. For the past five years, her principal occupation and employment was farming.

S. Jerry Layman represents Hardin and Hancock counties. For the past five years, Mr. Layman's principal occupation and employment has been farming, a partner in a custom farm drainage operation and he served as Chairman of the Buck Township trustees.

Daniel C. Rengert is an outside director. For the past five years he has been retired. Mr. Rengert's principal occupation and employment prior to his retirement in June 2010 was president of TODCO, a division of the Overhead Door Company. During his 45 year career he served in various senior management capacities including President of TODCO and on the Senior Executive Team at the Overhead Door Company.

Dustin J. Sonnenberg represents Western Lucas, Henry, and Wood counties. For the past five years, Mr. Sonnenberg has been a farmer at Sonnenberg Farms and a consultant. Mr. Sonnenberg serves as Vice President for Tri-County Rural Electric Cooperative, Inc.

David M. Stott, Ph.D., CPA is an outside director. Dr. Stott's primary occupation and employment since July 2016 is as the Director of the School of Accountancy and the *O'Bleness Professor of Accountancy* at Ohio University. Prior to that time, he served as Chair of the Department of Accounting and MIS and Professor at Bowling Green State University for seventeen years. Dr. Stott also is a shareholder and secretary/treasurer of S&S CPA, Inc.

Michael W. Stump represents Crawford and Morrow counties. For the past five years, his principal occupation and employment was farming. Mr. Stump currently co-owns and operates Stump's Heritage Farm Inc.

Michael A. Thiel represents Marion and Wyandot counties. For the past five years, his principal occupation and employment was farming.

Kevin P. Flanagan represents Hardin and Hancock counties. For the past five years, his principal occupation and employment has been farming. Mr. Flanagan is an Allen Township Trustee and serves on the board of Hancock SWCD, the Hancock County Farm Bureau, and the Ohio Soybean Council.

Subject to approval by the Board, the Association may allow directors honoraria for attendance at regular meetings, committee meetings, or special assignments. Honoraria for these meetings were $1,250 per day for the Chairman and $950 per day for all other directors. Total compensation paid to directors, as a group was $204,275. No director received non-cash compensation during the year.

Directors are reimbursed for mileage on personally owned automobiles at the rate allowed by IRS and for all actual travel expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to stockholders of the Association upon request. The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $124,824 for 2019, $115,833 for 2018, and $82,294 for 2017.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report.

FCA regulations require the disclosure of the purchase or retirement of Association preferred stock held by an Association officer or director. The Association only has Class A Preferred Stock (preferred stock) and is available for purchase by members and others in accordance with the Association's Bylaws. The average preferred stock dividend rate for dividends paid in 2019 was 1.50 percent. Dividends are declared quarterly and paid in cash. The following chart shows the directors and senior officers holding preferred stock and the preferred stock activity for each individual for 2019.

Director/Officer	Beginning Balance 1/1/19	Purchases	Retirements	Dividends Paid	Transfer In	Transfer Out	Ending Balance 12/31/19
S. Jerry Layman	$ 41,805	$ –	$ –	$ –	$ –	$ 41,805	$ –

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

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

Aggregate fees incurred by the Association for services rendered by its independent auditors for the year ended December 31, 2019 were as follows:

	2019
Independent Auditors	
Pricewaterhouse Coopers LLP	$ 93,289

Audit fees for PricewaterhouseCoopers LLP were for the annual audit of the Consolidated Financial Statements.

All audit fees incurred by the Association were approved by the Audit Committee.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 12, 2020 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-419-435-7758, ext. 1048, or writing Logan Kreais, Chief Financial Officer, AgCredit, Agricultural Credit Association, 610 West Lytle Street, Fostoria, OH 44830 or accessing the website, ***www.agcredit.net***. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except 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. None of the directors who serve on the Committee is an employee of AgCredit Agricultural Credit Association, and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

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

PricewaterhouseCoopers LLP (PwC), the Association's independent auditors for 2019, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from AgCredit. 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:

David M. Stott, Ph.D., CPA
Chairman of the Audit Committee

Members of Audit Committee

David J. Conrad
Deborah L. Johlin-Bach

March 12, 2020

Report of Independent Auditors

To the Board of Directors and Management of AgCredit Agricultural Credit Association

We have audited the accompanying consolidated financial statements of AgCredit Agricultural Credit Association 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 AgCredit Agricultural Credit Association and its subsidiaries as of December 31, 2019, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 12, 2020

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

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2019	2018	2017
Assets			
Cash	**$ 3,917**	$ 7,950	$ 6,143
Investments in debt securities:			
Held to maturity (fair value of $10,390, $10,942, and $11,719, respectively)	**9,774**	10,594	11,523
Loans	**1,967,764**	1,960,392	1,879,677
Allowance for loan losses	**(11,289)**	(11,058)	(12,330)
Net loans	**1,956,475**	1,949,334	1,867,347
Other investments	**1,039**	—	—
Accrued interest receivable	**29,338**	30,937	28,440
Equity investments in other Farm Credit institutions	**23,243**	22,351	21,458
Premises and equipment, net	**8,714**	8,506	7,845
Accounts receivable	**23,398**	26,783	27,584
Other assets	**1,092**	2,079	1,250
Total assets	**$ 2,056,990**	$ 2,058,534	$ 1,971,590
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,654,570**	$ 1,673,338	$ 1,611,375
Accrued interest payable	**4,133**	4,439	3,691
Patronage refunds payable	**42,280**	27,686	25,133
Accounts payable	**1,446**	1,245	1,789
Advanced conditional payments	**1,033**	1,001	5,442
Other liabilities	**5,895**	4,499	4,305
Total liabilities	**1,709,357**	1,712,208	1,651,735
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**17,262**	18,672	19,522
Retained earnings			
Allocated	**239,120**	241,680	219,004
Unallocated	**91,251**	85,974	81,329
Total members' equity	**347,633**	346,326	319,855
Total liabilities and members' equity	**$ 2,056,990**	$ 2,058,534	$ 1,971,590

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
Interest Income			
Loans	**$ 103,918**	$ 99,300	$ 88,876
Investments	**565**	619	683
Total interest income	**104,483**	99,919	89,559
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**51,319**	47,825	40,349
Net interest income	**53,164**	52,094	49,210
Provision for (reversal of allowance for) loan losses	**1,607**	(1,084)	(1,154)
Net interest income after provision for (reversal of allowance for) loan losses	**51,557**	53,178	50,364
Noninterest Income			
Loan fees	**690**	455	468
Fees for financially related services	**305**	321	308
Lease income	**189**	—	—
Patronage refunds from other Farm Credit institutions	**23,395**	26,696	27,606
Gains (losses) on sales of premises and equipment, net	**13**	(45)	(540)
Gains (losses) on other transactions	**572**	(89)	26
Net impairment losses on investments	**(83)**	—	—
Insurance Fund refunds	**323**	892	—
Other noninterest income	**38**	36	37
Total noninterest income	**25,442**	28,266	27,905
Noninterest Expense			
Salaries and employee benefits	**14,569**	14,425	13,686
Occupancy and equipment	**1,568**	1,289	1,125
Insurance Fund premiums	**1,067**	1,036	1,635
Guarantee fees	**676**	835	1,159
(Gains) losses on other property owned, net	**—**	—	19
Other operating expenses	**4,001**	3,822	3,613
Total noninterest expense	**21,881**	21,407	21,237
Income before income taxes	**55,118**	60,037	57,032
Provision for income taxes	**4**	—	4
Net income	**55,114**	60,037	57,028
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 55,114**	$ 60,037	$ 57,028

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	Total Members' Equity
Balance at December 31, 2016	$ 19,661	$ 197,649	$ 76,635	$ 293,945
Comprehensive income			57,028	57,028
Capital stock/participation certificates issued/(retired), net	(139)			(139)
Dividends declared/paid			(184)	(184)
Patronage distribution				
Cash			(25,060)	(25,060)
Nonqualified retained earnings		27,175	(27,175)	—
Retained earnings retired		(5,734)		(5,734)
Patronage distribution adjustment		(86)	85	(1)
Balance at December 31, 2017	$ 19,522	$ 219,004	$ 81,329	$ 319,855
Comprehensive income			60,037	60,037
Capital stock/participation certificates issued/(retired), net	(850)			(850)
Dividends declared/paid			(177)	(177)
Patronage distribution				
Cash			(27,616)	(27,616)
Nonqualified retained earnings		27,767	(27,767)	—
Retained earnings retired		(4,989)		(4,989)
Patronage distribution adjustment		(102)	168	66
Balance at December 31, 2018	$ 18,672	$ 241,680	$ 85,974	$ 346,326
Cumulative effect of change in accounting principle			**(7)**	**(7)**
Comprehensive income			**55,114**	**55,114**
Capital stock/participation certificates issued/(retired), net	**(1,410)**			**(1,410)**
Dividends declared/paid			**(153)**	**(153)**
Patronage distribution				
Cash			**(42,219)**	**(42,219)**
Nonqualified retained earnings		**7,634**	**(7,634)**	**—**
Retained earnings retired		**(10,018)**		**(10,018)**
Patronage distribution adjustment		**(176)**	**176**	**—**
Balance at December 31, 2019	**$ 17,262**	**$ 239,120**	**$ 91,251**	**$ 347,633**

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	**$ 55,114**	$ 60,037	$ 57,028
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**524**	475	560
Amortization (accretion) of net deferred loan costs (fees)	**901**	580	448
Premium amortization (discount accretion) on investments in debt securities	**(27)**	(17)	(17)
Provision for (reversal of allowance for) loan losses	**1,607**	(1,084)	(1,154)
(Gains) losses on other property owned	**—**	(2)	19
Net impairment losses on investments	**83**	—	—
(Gains) losses on sales of premises and equipment, net	**(13)**	45	540
(Gains) losses on other transactions	**(572)**	89	(26)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**1,599**	(2,497)	(3,140)
(Increase) decrease in accounts receivable	**3,385**	801	(6,235)
(Increase) decrease in other assets	**980**	(829)	3,546
Increase (decrease) in accrued interest payable	**(306)**	748	557
Increase (decrease) in accounts payable	**201**	(544)	(301)
Increase (decrease) in other liabilities	**1,968**	105	(6,957)
Total adjustments	**10,330**	(2,130)	(12,160)
Net cash provided by (used in) operating activities	**65,444**	57,907	44,868
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	**764**	946	1,214
Net (increase) decrease in loans	**(9,649)**	(81,501)	(83,610)
(Increase) decrease in equity investments in other Farm Credit institutions	**(892)**	(893)	(711)
Purchases of other investments	**(1,039)**	—	—
Purchases of premises and equipment	**(732)**	(1,195)	(979)
Proceeds from sales of premises and equipment	**13**	14	3
Proceeds from sales of other property owned	**—**	20	—
Net cash provided by (used in) investing activities	**(11,535)**	(82,609)	(84,083)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**(18,768)**	61,963	60,341
Net increase (decrease) in advanced conditional payments	**32**	(4,441)	4,958
Capital stock and participation certificates issued/(retired), net	**(1,410)**	(850)	(139)
Patronage refunds and dividends paid	**(27,778)**	(25,174)	(19,216)
Retained earnings retired	**(10,018)**	(4,989)	(5,734)
Net cash provided by (used in) financing activities	**(57,942)**	26,509	40,210
Net increase (decrease) in cash	**(4,033)**	1,807	995
Cash, beginning of period	**7,950**	6,143	5,148
Cash, end of period	**$ 3,917**	$ 7,950	$ 6,143
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ —**	$ 18	$ —
Estimated cash dividends or patronage distributions declared or payable	**42,372**	27,793	25,244
Supplemental information:			
Interest paid	**$ 51,625**	$ 47,077	$ 39,792
Taxes (refunded) paid, net	**5**	—	—

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:** AgCredit Agricultural Credit Association (the Association or ACA) is a member-owned cooperative providing credit and credit-related services to qualified borrowers in the counties of Huron, Erie, Lorain, Paulding, Putnam, Van Wert, Henry, Lucas, Wood, Hancock, Ottawa, Sandusky, Seneca, Wyandot, Marion, Hardin, Crawford, and Morrow in the state of Ohio.

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

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

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

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

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on System wide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions. However, it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

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

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

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

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information systems, and marketing. The costs of these support services are included in the cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers, or harvesters of aquatic products, rural residents, and farm-related businesses.

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

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

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

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

A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held $3,415 in cash in excess of insured amounts.

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

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

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full. A formal restructuring may also cure a past due status.

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

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

In cases where the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

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

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

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

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

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

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Association uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the ratings carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows significantly as a loan moves from a 9 to 10 (other assets especially mentioned) and grows more significantly as a loan moves to a substandard viable level of 11. A substandard non-viable rating of 12 indicates that the probability of default is almost certain. Loans risk rated 13 or 14 are generally written off.

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

   As of December 31, 2019, there were no loans held for sale.

D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) on Other Property Owned, Net in the Consolidated Statements of Comprehensive 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 per Association policy. 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 holds 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, non-contingent 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.

The Association holds minority equity interests in a Rural Business Investment Company (RBIC). This investment is carried at cost less any impairment, plus or minus adjustments resulting from any observable price changes.

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

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

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans
Substantially all employees hired before January 1, 2009 may participate in the Independent Associations Retirement Plan (Plan), which is a defined benefit plan and considered multiemployer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

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

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

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

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

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

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

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

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

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

K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

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

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

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

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

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

Additional information may be found in Note 8.

L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

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

Financial Instruments
The largest source of revenue for the Association is interest income. Interest income is recognized on an accrual basis

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

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

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

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

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

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

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

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

Lease income is recognized on a straight-line basis over the lease term. Lease and non-lease components are accounted for separately in the Consolidated Statements of Comprehensive 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 Comprehensive 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 $(7) was recorded. In addition, a Right of Use Asset in the amount of $408 and Lease Liability in the amount of $415 were recognized.
- Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31, 2019	2018	2017
Real estate mortgage	$ 1,204,151	$ 1,178,021	$ 1,105,137
Production and intermediate-term	563,068	600,444	600,206
Loans to cooperatives	3,596	3,412	380
Processing and marketing	53,088	39,658	30,547
Farm-related business	17,040	16,588	15,788
Communication	–	–	2,418
Power and water/waste disposal	2,811	3,385	3,469
Rural residential real estate	117,075	118,238	120,662
Lease receivables	340	646	1,070
Other (including Mission Related)	6,595	–	–
Total loans	$ 1,967,764	$ 1,960,392	$ 1,879,677

A substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

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

December 31, 2019	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 21,178	$ 50,409	$ –	$ 6,249	$ 31,635	$ –	$ 52,813	$ 56,658
Production and intermediate-term	22,353	172,946	217	446	4,748	–	27,318	173,392
Loans to cooperatives	3,611	–	–	–	–	–	3,611	–
Processing and marketing	36,111	4,847	–	10,345	657	–	36,768	15,192
Power and water/waste disposal	2,827	–	–	–	–	–	2,827	–
Other (including Mission Related)	–	–	–	–	5,840	–	5,840	–
Total	$ 86,080	$ 228,202	$ 217	$ 17,040	$ 42,880	$ –	$ 129,177	$ 245,242

December 31, 2018	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 19,085	58,745	$ 225	$ 2,027	$ 21,891	$ –	$ 41,201	$ 60,772
Production and intermediate-term	13,813	185,206	135	392	6,720	–	20,668	185,598
Loans to cooperatives	3,428	–	–	–	–	–	3,428	–
Processing and marketing	20,315	4,803	–	10,387	–	–	20,315	15,190
Power and water/waste disposal	3,393	–	–	–	–	–	3,393	–
Total	$ 60,034	$ 248,754	$ 360	$ 12,806	$ 28,611	$ –	$ 89,005	$ 261,560

December 31, 2017	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 6,555	$ 62,801	$ –	$ 2,500	$ 11,971	$ –	$ 18,526	$ 65,301
Production and intermediate-term	18,580	156,118	192	769	1,332	–	20,104	156,887
Loans to cooperatives	383	–	–	–	–	–	383	–
Processing and marketing	16,731	2,961	–	4,622	–	–	16,731	7,583
Communication	2,422	–	–	–	–	–	2,422	–
Power and water/waste disposal	3,479	–	–	–	–	–	3,479	–
Total	$ 48,150	$ 221,880	$ 192	$ 7,891	$ 13,303	$ –	$ 61,645	$ 229,771

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	$ 3,017	$ 63,171	$ 1,137,963	$ 1,204,151
Production and intermediate term	216,435	229,158	117,475	563,068
Loans to cooperatives	–	3,214	382	3,596
Processing and marketing	8,719	15,648	28,721	53,088
Farm-related business	4,014	3,724	9,302	17,040
Power and water/waste disposal	–	2,811	–	2,811
Rural residential real estate	387	3,826	112,862	117,075
Lease receivables	86	254	–	340
Other (including Mission Related)	–	294	6,301	6,595
Total loans	$ 232,658	$ 322,100	$ 1,413,006	$ 1,967,764
Percentage	11.82%	16.37%	71.81%	100.00%

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

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	December 31, 2019	2018	2017
Real estate mortgage:			
Acceptable	93.70%	95.03%	95.45%
OAEM	2.82	1.88	1.25
Substandard/doubtful/loss	3.48	3.09	3.30
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	87.61%	90.03%	90.24%
OAEM	5.78	5.67	3.62
Substandard/doubtful/loss	6.61	4.30	6.14
	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	96.36%	90.91%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	3.64	9.09	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	85.36%	86.52%	87.76%
OAEM	2.50	0.54	11.34
Substandard/doubtful/loss	12.14	12.94	0.90
	100.00%	100.00%	100.00%

	December 31, 2019	2018	2017
Communication:			
Acceptable	–%	–%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	–%	–%	100.00%
Power and water/waste disposal:			
Acceptable	–%	100.00%	100.00%
OAEM	100.00	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	95.28%	94.89%	95.11%
OAEM	3.60	4.21	3.81
Substandard/doubtful/loss	1.12	0.90	1.08
	100.00%	100.00%	100.00%
Lease receivables:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Other (including Mission Related):			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Total loans:			
Acceptable	91.95%	93.35%	93.79%
OAEM	3.76	3.13	2.23
Substandard/doubtful/loss	4.29	3.52	3.98
	100.00%	100.00%	100.00%

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

	December 31, 2019				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 12,578	$ 2,522	$ 15,100	$ 1,207,863	$ 1,222,963
Production and intermediate-term	2,176	1,309	3,485	569,405	572,890
Loans to cooperatives	–	–	–	3,598	3,598
Processing and marketing	–	2,984	2,984	50,202	53,186
Farm-related business	150	–	150	17,020	17,170
Power and water/waste disposal	–	–	–	2,814	2,814
Rural residential real estate	530	189	719	116,704	117,423
Lease receivables	–	–	–	339	339
Other (including Mission Related)	–	–	–	6,618	6,618
Total	$ 15,434	$ 7,004	$ 22,438	$ 1,974,563	$ 1,997,001

	December 31, 2018				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 5,363	$ 697	$ 6,060	$ 1,191,297	$ 1,197,357
Production and intermediate-term	2,239	966	3,205	608,173	611,378
Loans to cooperatives	–	–	–	3,415	3,415
Processing and marketing	–	–	–	39,774	39,774
Farm-related business	65	–	65	16,656	16,721
Power and water/waste disposal	–	–	–	3,388	3,388
Rural residential real estate	306	9	315	118,270	118,585
Lease receivables	–	–	–	646	646
Total	$ 7,973	$ 1,672	$ 9,645	$ 1,981,619	$ 1,991,264

	December 31, 2017				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 1,820	$ 95	$ 1,915	$ 1,121,494	$ 1,123,409
Production and intermediate-term	4,020	541	4,561	605,193	609,754
Loans to cooperatives	–	–	–	380	380
Processing and marketing	–	–	–	30,609	30,609
Farm-related business	84	–	84	15,827	15,911
Communication	–	–	–	2,419	2,419
Power and water/waste disposal	–	–	–	3,471	3,471
Rural residential real estate	544	74	618	120,408	121,026
Lease receivables	–	–	–	1,070	1,070
Total	$ 6,468	$ 710	$ 7,178	$ 1,900,871	$ 1,908,049

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

	December 31,		
	2019	2018	2017
Nonaccrual loans:			
Real estate mortgage	$ 7,959	$ 4,033	$ 1,262
Production and intermediate-term	2,140	2,037	1,587
Processing and marketing	2,984	–	–
Rural residential real estate	294	50	120
Total	$ 13,377	$ 6,120	$ 2,969
Accruing restructured loans:			
Real estate mortgage	$ (10)	$ 321	$ 321
Production and intermediate-term	5,904	6,439	6,999
Total	$ 5,894	$ 6,760	$ 7,320
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 19,271	$ 12,880	$ 10,289
Other property owned	–	–	–
Total nonperforming assets	$ 19,271	$ 12,880	$ 10,289
Nonaccrual loans as a percentage of total loans	0.68%	0.31%	0.16%
Nonperforming assets as a percentage of total loans and other property owned	0.98%	0.66%	0.55%
Nonperforming assets as a percentage of capital	5.54%	3.72%	3.22%

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	$ 5,776	$ 4,341	$ 1,794
Past due	7,601	1,779	1,175
Total	$ 13,377	$ 6,120	$ 2,969
Impaired accrual loans:			
Restructured	$ 5,894	$ 6,760	$ 7,320
90 days or more past due	–	–	–
Total	$ 5,894	$ 6,760	$ 7,320
Total impaired loans	$ 19,271	$ 12,880	$ 10,289
Additional commitments to lend	$ –	$ 38	$ 3

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

	December 31, 2019			Year Ended December 31, 2019	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses					
Real estate mortgage	$ 2,082	$ 2,253	$ 231	$ 2,198	$ 133
Production and intermediate-term	375	382	317	396	24
Total	$ 2,457	$ 2,635	$ 548	$ 2,594	$ 157
With no related allowance for credit losses					
Real estate mortgage	$ 5,868	$ 6,070	$ –	$ 6,196	$ 375
Production and intermediate-term	7,669	17,488	–	8,097	490
Processing and marketing	2,983	5,205	–	3,151	191
Rural residential real estate	294	305	–	310	19
Total	$ 16,814	$ 29,068	$ –	$ 17,754	$ 1,075
Total					
Real estate mortgage	$ 7,950	$ 8,323	$ 231	$ 8,394	$ 508
Production and intermediate-term	8,044	17,870	317	8,493	514
Processing and marketing	2,983	5,205	–	3,151	191
Rural residential real estate	294	305	–	310	19
Total	$ 19,271	$ 31,703	$ 548	$ 20,348	$ 1,232

	December 31, 2018			Year Ended December 31, 2018	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses					
Real estate mortgage	$ 1,995	$ 2,143	$ 419	$ 2,079	$ 186
Production and intermediate-term	159	169	74	166	15
Total	$ 2,154	$ 2,312	$ 493	$ 2,245	$ 201
With no related allowance for credit losses					
Real estate mortgage	$ 2,360	$ 2,450	$ –	$ 2,461	$ 221
Production and intermediate-term	8,316	18,778	–	8,670	778
Rural residential real estate	50	111	–	52	5
Total	$ 10,726	$ 21,339	$ –	$ 11,183	$ 1,004
Total					
Real estate mortgage	$ 4,355	$ 4,593	$ 419	$ 4,540	$ 407
Production and intermediate-term	8,475	18,947	74	8,836	793
Rural residential real estate	50	111	–	52	5
Total	$ 12,880	$ 23,651	$ 493	$ 13,428	$ 1,205

	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	$ 75	$ 73	$ 29	$ 90	$ 9
Production and intermediate-term	553	563	506	662	65
Rural residential real estate	74	73	32	88	9
Total	$ 702	$ 709	$ 567	$ 840	$ 83
With no related allowance for credit losses					
Real estate mortgage	$ 1,508	$ 1,583	$ –	$ 1,807	$ 178
Production and intermediate-term	8,033	18,327	–	9,624	947
Rural residential real estate	46	48	–	56	5
Total	$ 9,587	$ 19,958	$ –	$ 11,487	$ 1,130
Total					
Real estate mortgage	$ 1,583	$ 1,656	$ 29	$ 1,897	$ 187
Production and intermediate-term	8,586	18,890	506	10,286	1,012
Rural residential real estate	120	121	32	144	14
Total	$ 10,289	$ 20,667	$ 567	$ 12,327	$ 1,213

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	Lease Receivables	Other	Total
Activity related to the allowance for credit losses:									
Balance at December 31, 2018	$ 2,743	$ 6,851	$ 887	$ –	$ 21	$ 555	$ 1	$ –	$ 11,058
Charge-offs	–		(2,175)	–	–	–	–	–	(2,175)
Recoveries	–	799	–	–	–	–	–	–	799
Provision for loan losses	(64)	(440)	2,107	–	21	(17)	–	–	1,607
Balance at December 31, 2019	$ 2,679	$ 7,210	$ 819	$ –	$ 42	$ 538	$ 1	$ –	$ 11,289
Balance at December 31, 2017	$ 2,504	$ 8,912	$ 304	$ 11	$ 15	$ 582	$ 2	$ –	$ 12,330
Charge-offs	(30)	(399)	–	–	–	(58)	–	–	(487)
Recoveries	–	297	–	–	–	2	–	–	299
Provision for loan losses	269	(1,959)	583	(11)	6	29	(1)	–	(1,084)
Balance at December 31, 2018	$ 2,743	$ 6,851	$ 887	$ –	$ 21	$ 555	$ 1	$ –	$ 11,058
Balance at December 31, 2016	$ 2,550	$ 10,140	$ 220	$ 10	$ –	$ 561	$ 3	$ –	$ 13,484
Charge-offs	–	(254)	–	–	–	–	–	–	(254)
Recoveries	–	254	–	–	–	–	–	–	254
Provision for loan losses	(46)	(1,228)	84	1	15	21	(1)	–	(1,154)
Balance at December 31, 2017	$ 2,504	$ 8,912	$ 304	$ 11	$ 15	$ 582	$ 2	$ –	$ 12,330
Allowance on loans evaluated for impairment:									
Individually	$ 231	$ 317	$ –	$ –	$ –	$ –	$ –	$ –	$ 548
Collectively	2,448	6,893	819	–	42	538	1	–	10,741
Balance at December 31, 2019	$ 2,679	$ 7,210	$ 819	$ –	$ 42	$ 538	$ 1	$ –	$ 11,289
Individually	$ 419	$ 74	$ –	$ –	$ –	$ –	$ –	$ –	$ 493
Collectively	2,324	6,777	887	–	21	555	1	–	10,565
Balance at December 31, 2018	$ 2,743	$ 6,851	$ 887	$ –	$ 21	$ 555	$ 1	$ –	$ 11,058
Individually	$ 29	$ 506	$ –	$ –	$ –	$ 32	$ –	$ –	$ 567
Collectively	2,475	8,406	304	11	15	550	2	–	11,763
Balance at December 31, 2017	$ 2,504	$ 8,912	$ 304	$ 11	$ 15	$ 582	$ 2	$ –	$ 12,330
Recorded investment in loans evaluated for impairment:									
Individually	$ 7,949	$ 8,044	$ 2,984	$ –	$ –	$ 294	$ –	$ –	$ 19,271
Collectively	1,215,014	564,846	70,970	–	2,814	117,129	339	6,618	1,977,730
Balance at December 31, 2019	$ 1,222,963	$ 572,890	$ 73,954	$ –	$ 2,814	$ 117,423	$ 339	$ 6,618	$ 1,997,001
Individually	$ 4,354	$ 8,476	$ –	$ –	$ –	$ 50	$ –	$ –	$ 12,880
Collectively	1,193,003	602,902	59,910	–	3,388	118,535	646	–	1,978,384
Balance at December 31, 2018	$ 1,197,357	$ 611,378	$ 59,910	$ –	$ 3,388	$ 118,585	$ 646	$ –	$ 1,991,264
Individually	$ 1,583	$ 8,586	$ –	$ –	$ –	$ 120	$ –	$ –	$ 10,289
Collectively	1,121,826	601,168	46,900	2,419	3,471	120,906	1,070	–	1,897,760
Balance at December 31, 2017	$ 1,123,409	$ 609,754	$ 46,900	$ 2,419	$ 3,471	$ 121,026	$ 1,070	$ –	$ 1,908,049

**May include the loan types; Loans to cooperatives, Processing and marketing, and Farm-related business.*

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. The tables do not include purchased credit impaired loans. There were no TDRs that occurred during 2019.

	Year Ended December 31, 2018				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	$ –	$ –	$ 79	$ 79	
Total	$ –	$ –	$ 79	$ 79	
Post-modification:					
Production and intermediate-term	$ –	$ –	$ 79	$ 79	$ –
Total	$ –	$ –	$ 79	$ 79	$ –

	Year Ended December 31, 2017				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 172	$ –	$ 172	
Production and intermediate-term	374	296	–	670	
Total	$ 374	$ 468	$ –	$ 842	
Post-modification:					
Real estate mortgage	$ –	$ 152	$ –	$ 152	$ –
Production and intermediate-term	374	315	–	689	(207)
Total	$ 374	$ 467	$ –	$ 841	$ (207)

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 which might be in the form of cash or other assets.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

The following table provides information at each period end on outstanding loans restructured in troubled debt restructurings. 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	$ 101	$ 447	$ 463	$ 111	$ 126	$ 142
Production and intermediate-term	5,947	6,559	7,452	43	120	453
Total loans	$ 6,048	$ 7,006	$ 7,915	$ 154	$ 246	$ 595
Additional commitments to lend	$ –	$ 38	$ 3			

The following table presents information as of period end:

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

Note 4 — Investments

Investments in Debt Securities

The Association's investments 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 a RAB ineligible if its investment rating, based on the internal 14-point probability of default scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At December 31, 2019, the Association held two RABs with a fair value of $291 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:

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 9,774	$ 691	$ (75)	$ 10,390	5.44%

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 10,594	$ 510	$ (162)	$ 10,942	5.43%

	December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 11,523	$ 397	$ (201)	$ 11,719	5.41%

A summary of the contractual maturity, amortized cost, and estimated fair value of investment securities held-to-maturity follows:

	December 31, 2019		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	278	290	5.14
After five years through ten years	2,773	2,729	5.31
After ten years	6,723	7,371	5.50
Total	$ 9,774	$ 10,390	5.44%

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	December 31, 2019			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 1,374	$ (75)

	December 31, 2018			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 4,096	$ (162)

	December 31, 2017			
	Less Than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 341	$ (1)	$ 860	$ (200)

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, other-than-temporary impairment 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 other-than-temporary impairment 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.

Based on the results of all analyses, the Association has recognized credit-related other-than-temporary impairment of $83, $0, and $0 for 2019, 2018, and 2017, respectively, which is included in Impairment Losses on Investments in the Statements of Income. Since the Association does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total other-than temporary impairment is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

For all other impaired investments, the Association has not recognized any credit losses as the impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings:

	For the Year Ended December 31,		
	2019	2018	2017
Amount related to credit loss-beginning balance	$ –	$ –	$ –
Additions for initial credit impairments	83	–	–
Additions for subsequent credit impairments	–	–	–
Reductions for increases in expected cash flows	–	–	–
Reductions for securities sold, settled, or matured	–	–	–
Amount related to credit loss-ending balance	83	–	–
Life to date incurred credit losses	–	–	–
Remaining unrealized credit losses	$ 83	$ –	$ –

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $22,808 for 2019, $21,955 for 2018, and $21,068 for 2017. The Association owned 8.06 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 $435 related to other Farm Credit institutions at December 31, 2019.

Note 5 — Real Estate and Other Property

Premises and Equipment
Premises and equipment consists of the following:

	December 31,		
	2019	2018	2017
Land	$ 1,209	$ 1,190	$ 1,195
Buildings and improvements	10,217	9,638	8,752
Furniture and equipment	1,905	1,805	1,770
Total cost	13,331	12,633	11,717
Less: accumulated depreciation	4,617	4,127	3,872
Total	$ 8,714	$ 8,506	$ 7,845

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

	December 31,		
	2019	2018	2017
(Gains) losses on sale, net	$ –	$ (2)	$ –
Carrying value unrealized (gains) losses, net	–	–	19
Operating (income) expense, net	–	2	–
(Gains) losses on other property owned, net	$ –	$ –	$ 19

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. 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 General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2019, the Association's notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 2.79 percent for LIBOR-based loans and 2.91 percent for prime-based loans, and the weighted average remaining maturities were 3.4 years and 2.9 years, respectively, at December 31, 2019. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.05 percent, and the weighted average remaining maturity was 13.4 years at December 31, 2019. The weighted-average interest rate on all interest-bearing notes payable was 3.00 percent and the weighted-average remaining maturity was 11.2 years at December 31, 2019. Variable rate and fixed rate notes payable represent approximately 5.53 percent and 94.47 percent, respectively, of total notes payable at December 31, 2019. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans or 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 2 percent of the member's outstanding principal balance or $1 thousand, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after January 30, 1997 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 borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

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

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

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

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

   - The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, and paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
   - The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
   - The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, and allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
   - The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
   - The tier 1 leverage ratio is tier 1 capital, divided by average total assets less regulatory deductions to tier 1 capital.
   - The URE and UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average total assets less regulatory deductions to tier 1 capital.

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital	4.5%	1.875%	6.375%	20.57%	18.96%	17.90%
Tier 1 Capital	6.0%	1.875%	7.875%	20.57%	18.96%	17.90%
Total Capital	8.0%	1.875%	9.875%	21.31%	20.25%	19.71%
Permanent Capital	7.0%	0.0%	7.0%	21.33%	20.43%	19.87%
Non-risk-adjusted ratios						
Tier 1 Leverage	4.0%	1.0%	5.0%	16.86%	15.35%	14.34%
URE and UREE Leverage	1.5%	0.0%	1.5%	17.42%	15.87%	14.85%

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

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

C. **Description of Equities:** The Association is authorized to issue or have outstanding Class A Preferred Stock, Class B Common Stock, Class 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 five dollars ($5.00) per share.

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

Class	Protected	Shares Outstanding Number	Aggregate Par Value
A Preferred/Nonvoting	No	1,938,641	$ 9,694
C Common/Voting	No	1,284,795	6,424
C Participation Certificates/Nonvoting	No	228,884	1,144
Total Capital Stock and Participation Certificates		3,452,320	$ 17,262

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.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The Board determines the minimum aggregate amount of these two accounts. At the end of any fiscal year, if the retained earnings 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 shall apply earnings for the year to the unallocated retained earnings accounts in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

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

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

Allocated equities shall 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 $239,120 of nonqualified retained surplus.

Dividends

The Association may declare dividends on its capital stock and participation certificates. Dividend declaration, dividend rates, and method of payment are at the discretion of the Board in accordance with the Association's bylaws.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. The Association declared dividends for each of the periods included in these Consolidated Financial Statements.

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 the Board approves another proportionate patronage basis.

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 shall always be paid in cash.

Transfer

Class A Preferred Stock, Class B Common Stock, Class C Common Stock, and Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Class B Common Stock, Class C Common Stock, and Participation Certificates
2. Class A Preferred Stock

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 consistent with the Association's bylaws and pro rata to the holders of the outstanding stock and participation certificates in the following order:

1. Class A Preferred Stock
2. Class B Common Stock; Class C Common Stock and 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 accrued after March 31, 1997 on a patronage basis
6. Any remaining assets of the Association after such distribution ratably to the holders of all classes of stock and participation certificates

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 Farm Credit institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost.

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

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

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

Level 2
The Association had no Level 2 assets and 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) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

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

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

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

There are no observable market values for the Association's RBIC investments. These investments are measured at cost, adjusted for any observable sales and impairment.

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	$ 145	$ 145	$ –	$ –	$ 145
Recurring Assets	$ 145	$ 145	$ –	$ –	$ 145
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,909	$ –	$ –	$ 1,909	$ 1,909
Other property owned	–	–	–	–	–
Other investments	1,039	–	–	1,039	1,039
Nonrecurring Assets	$ 2,948	$ –	$ –	$ 2,948	$ 2,948
Other Financial Instruments					
Assets:					
Cash	$ 3,917	$ 3,917	$ –	$ –	$ 3,917
Investments in debt securities, held-to-maturity	9,774	–	–	10,390	10,390
Loans	1,954,566	–	–	1,939,713	1,939,713
Other Financial Assets	$ 1,968,257	$ 3,917	$ –	$ 1,950,103	$ 1,954,020
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,654,570	$ –	$ –	$ 1,649,186	$ 1,649,186
Other Financial Liabilities	$ 1,654,570	$ –	$ –	$ 1,649,186	$ 1,649,186

	December 31, 2018									
		Total Carrying Amount		Level 1		Level 2		Level 3		Total Fair Value
Recurring Measurements										
Assets:										
Assets held in trust funds	$	81	$	81	$	–	$	–	$	81
Recurring Assets	$	81	$	81	$	–	$	–	$	81
Liabilities:										
Recurring Liabilities	$	–	$	–	$	–	$	–	$	–
Nonrecurring Measurements										
Assets:										
Impaired loans	$	1,660	$	–	$	–	$	1,660	$	1,660
Other property owned		–		–		–		–		–
Nonrecurring Assets	$	1,660	$	–	$	–	$	1,660	$	1,660
Other Financial Instruments										
Assets:										
Cash	$	7,950	$	7,950	$	–	$	–	$	7,950
Investments in debt securities, held-to-maturity		10,594		–		–		10,942		10,942
Loans		1,947,674		–		–		1,890,840		1,890,840
Other Financial Assets	$	1,966,218	$	7,950	$	–	$	1,901,782	$	1,909,732
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	$	1,673,338	$	–	$	–	$	1,629,824	$	1,629,824
Other Financial Liabilities	$	1,673,338	$	–	$	–	$	1,629,824	$	1,629,824

	December 31, 2017									
		Total Carrying Amount		Level 1		Level 2		Level 3		Total Fair Value
Recurring Measurements										
Assets:										
Assets held in trust funds	$	77	$	77	$	–	$	–	$	77
Recurring Assets	$	77	$	77	$	–	$	–	$	77
Liabilities:										
Recurring Liabilities	$	–	$	–	$	–	$	–	$	–
Nonrecurring Measurements										
Assets:										
Impaired loans	$	135	$	–	$	–	$	135	$	135
Other property owned		–		–		–		–		–
Nonrecurring Assets	$	135	$	–	$	–	$	135	$	135
Other Financial Instruments										
Assets:										
Cash	$	6,143	$	6,143	$	–	$	–	$	6,143
Investments in debt securities, held-to-maturity		11,523		–		–		11,719		11,719
Loans		1,867,212		–		–		1,824,700		1,824,700
Other Financial Assets	$	1,884,878	$	6,143	$	–	$	1,836,419	$	1,842,562
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	$	1,611,375	$	–	$	–	$	1,575,848	$	1,575,848
Other Financial Liabilities	$	1,611,375	$	–	$	–	$	1,575,848	$	1,575,848

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	$ 1,909	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*
Other investments – RBIC	1,039	Third party evaluation	Income, expense, capital	Not applicable

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

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

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

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

The IAR Plan covers employees hired prior to January 1, 2009 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. IAR Plan expenses included in employee benefit costs on the

Association's Statements of Income were $1,296 for 2019, $1,684 for 2018, and $2,061 for 2017. At December 31, 2019, 2018, and 2017, the total liability balance for the IAR Plan presented in the District Combined Balance Sheets was $14,603, $8,626, and $15,078, respectively. The IAR Plan was 83.65 percent, 88.42 percent, and 81.82 percent funded to the projected benefit obligation as of December 31, 2019, 2018, and 2017, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Income were $189 for 2019, $201 for 2018, and $164 for 2017. At December 31, 2019, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $209,531.

During 2017, the method of recording expenses at participating District entities for the IAR 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 $4,585 and the reduction of Other Liabilities by $4,459 on the Association's Balance Sheets, and a total addition to noninterest expenses on the Association's Statements of Income of $126 during 2017.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. This 401(k) plan requires the Association to match 100 percent of employee optional contributions up to a maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $822, $764, and $692 for the years ended December 31, 2019, 2018, and 2017, respectively. Contributions include an additional 3 percent of eligible compensation for participants hired after December 31, 2008.

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 a nonqualified supplemental 401(k) plan. The expenses of this nonqualified plan included in noninterest expenses were $5, $5, and $6 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 $14,438. During 2019, $10,211 of new loans were made and repayments totaled $12,246. In the opinion of management, none of these loans outstanding at December 31, 2019 involved more than a normal risk of collectability.

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, $293,062 of commitments to extend credit and no commercial letters of credit were outstanding. There was no reserve for unfunded commitments included in Other Liabilities on the Consolidated Balance Sheets at December 31, 2019.

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 $842 with expiration dates ranging from January 19, 2020 to September 1, 2029. The maximum potential amount of future payments that may be required under these guarantees was $842.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	$ 4	$ –	$ 4
State	–	–	–
	4	–	4
Deferred:	–	–	–
Total provision for income taxes	$ 4	$ –	$ 4

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

	December 31,		
	2019	2018	2017
Federal tax at statutory rate	$ 11,575	$ 12,608	$ 19,961
State tax, net	–	–	–
Patronage distributions	(8,866)	(5,799)	(8,771)
Tax-exempt FLCA earnings	(3,025)	(6,484)	(10,879)
Change in deferred tax asset valuation allowance	35	(299)	(2,130)
Impact of tax reform	–	–	1,837
Other	285	(26)	(14)
Provision for income taxes	$ 4	$ –	$ 4

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

	December 31,		
	2019	2018	2017
Deferred income tax assets:			
Allowance for loan losses	$ 1,533	$ 1,545	$ 1,890
Annual leave	184	176	167
Nonaccrual loan interest	797	720	683
Pensions and other postretirement benefits	30	17	16
Other	–	–	–
Gross deferred tax assets	2,544	2,458	2,756
Less: valuation allowance	(2,336)	(2,301)	(2,599)
Gross deferred tax assets, net of valuation allowance	208	157	157
Deferred income tax liabilities:			
Pensions and other postretirement benefits	–	–	–
Other	(208)	(157)	(157)
Gross deferred tax liability	(208)	(157)	(157)
Net deferred tax asset	$ –	$ –	$ –

At December 31, 2019, deferred income taxes have not been provided by the Association on approximately $3.3 million of its investment in the Bank. Management expects that these earnings will not be converted to cash.

The Association recorded a valuation allowance of $2,336, $2,301 and $2,599 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, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2016 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2019				
	First	Second	Third	Fourth	Total
Net interest income	$ 13,374	$ 13,384	$ 13,312	$ 13,094	$ 53,164
Provision for (reversal of allowance for) loan losses	(339)	(251)	1,356	841	1,607
Noninterest income (expense), net	(1,198)	(1,822)	(1,585)	8,162	3,557
Net income	$ 12,515	$ 11,813	$ 10,371	$ 20,415	$ 55,114

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 12,712	$ 12,879	$ 13,176	$ 13,327	$ 52,094
Provision for (reversal of allowance for) loan losses	(1,306)	(734)	580	376	(1,084)
Noninterest income (expense), net	(1,389)	(1,686)	(1,521)	11,455	6,859
Net income	$ 12,629	$ 11,927	$ 11,075	$ 24,406	$ 60,037

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 12,039	$ 12,191	$ 12,464	$ 12,516	$ 49,210
Provision for (reversal of allowance for) loan losses	(1,297)	177	(150)	116	(1,154)
Noninterest income (expense), net	(2,137)	(1,782)	(1,679)	12,262	6,664
Net income	$ 11,199	$ 10,232	$ 10,935	$ 24,662	$ 57,028

Note 14 — Subsequent Events

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

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