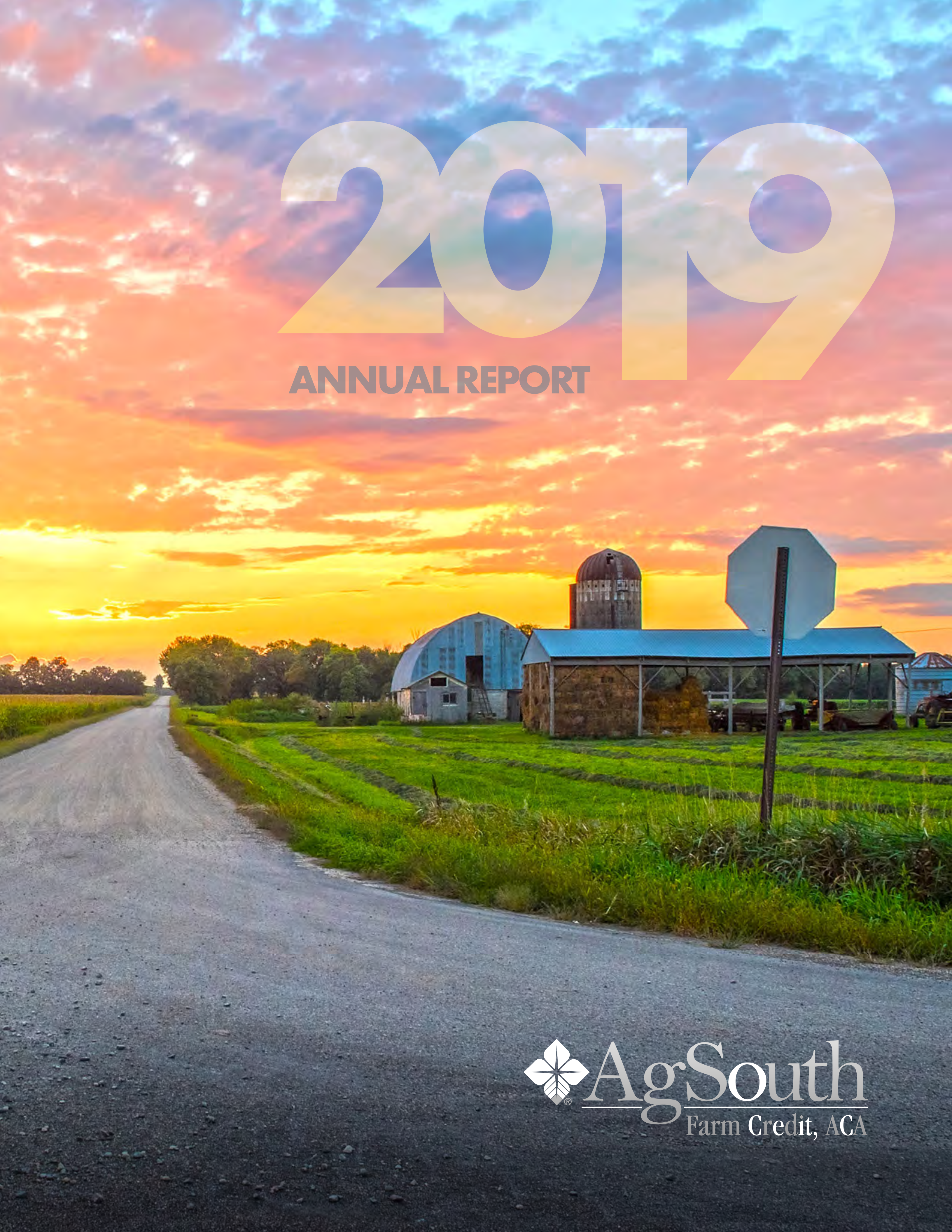
2019
ANNUAL REPORT



AgSouth
Farm Credit, ACA

IN MEMORY OF AL BALDWIN

We are honored to have worked with Al as he served AgSouth and our communities for the past 33 years. Working out of our Anderson Branch, Al served as Regional Business Development Manager for South Carolina. He was considered a loyal friend by his AgSouth colleagues and loved mentoring young people through the South Carolina New Beginning Young Farmer Programs Advisory Board at Clemson University. He will be missed by the many employees and members who have worked with him through the years.

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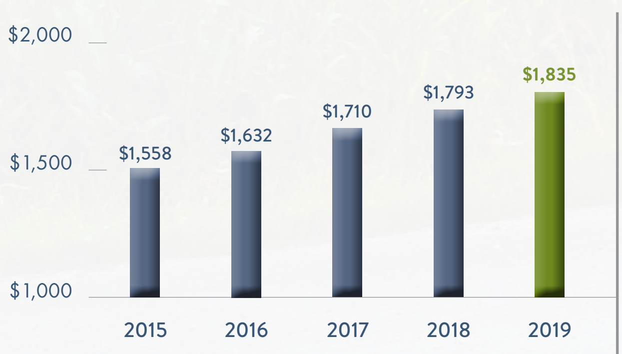
MESSAGE FROM YOUR CEO

PAT CALHOUN
Chief Executive Officer

On behalf of the Board, management and staff of AgSouth Farm Credit I am pleased to present your 2019 Annual Report. Your cooperative had another excellent year in 2019. Net loan volume grew approximately $37 million and member equity in the cooperative exceeded $400 million, more than 5% growth from the prior year. Net Earnings for the year were approximately $52.5 million, supported in part by a continued special distribution of earnings from AgFirst Farm Credit. We expect this special distribution to moderate going forward and as a result, our earnings will return to more typical levels in the coming years. In light of 2019's strong performance, your Board has for the 32nd consecutive year, declared a patronage refund from 2019's operations. Approximately $39 million of 2019's earnings were designated for this core, important cooperative purpose. This represents an increase of nearly $5 million over the distribution declared in 2018 and an increase over our initial estimated distribution for 2019. It continues to pay to do business the ***Cooperative Way*** with AgSouth.

LOANS OUTSTANDING
IN MILLIONS



NET INCOME
IN MILLIONS

Our 2019 annual report features articles about a few of our members regarding their operations and the value they find in AgSouth. We are proud to share these member's views and are hopeful that your experience with AgSouth is a positive and rewarding one also. You will also find helpful information about your Association and the services it offers. I encourage you to take advantage of many of these services to enhance your AgSouth experience.

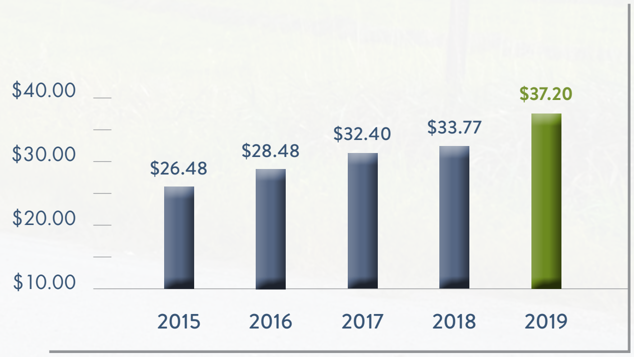
I am pleased to report that your Association is in excellent shape going into 2020. It is well capitalized, has adequate reserves and an exceptional staff ready to help you meet your financial goals. Whether it is a loan, a lease, an insurance product or a residential mortgage, our team is eager to bring solid solutions to the table for our members and prospective customers.

Finally, I want to thank you for your business. You are the reason we open our doors each business day. Our members are the cornerstone of this organization above all else. I encourage you to continue to use your cooperative and to refer others to do business the ***Cooperative Way*** here at AgSouth!

Pat Calhoun
Chief Executive Officer

TOTAL MEMBERS EQUITY
IN MILLIONS

TOTAL PATRONAGE
IN MILLIONS



BOARD OF DIRECTORS

We'd like to give a special thanks to Thomas H. Coward, who retired from the Board in 2019 after 33 years of service to the Association. We appreciate his dedication and contribution to the Association and its members, and we wish him luck and success as he continues his journey.

Thomas H. Coward
Elected to Board 1986
33 years of service

James C. Carter, Jr.
Chairman
Elected to Board in 1979
40 years of service

Hugh E. Weathers
Vice Chairman
Elected to Board in 1998
21 years of service

H. Frank Ables, Jr.
Elected to Board in 2015
4 years of service

Arthur Q. Black
Elected to Board in 1995
24 years of service

Lee H. DeLoach
Elected to Board in 2002
17 years of service

Sean F. Lennon
Elected to Board in 2017
2 years of service

Phillip E. Love, Jr.
Appointed to Board in 2014
5 years of service

Jimmy B. Metts
Elected to Board in 1978
41 years of service

Jerome G. Parker
Elected to Board in 1987
32 years of service

J. Jay Peay
Elected to Board in 2015
4 years of service

William T. Robinson
Elected to Board in 2011
8 years of service

Charles C. Rucks
Elected to Board in 1988
31 years of service

David H. Womack
Appointed to Board in 1991
28 years of service

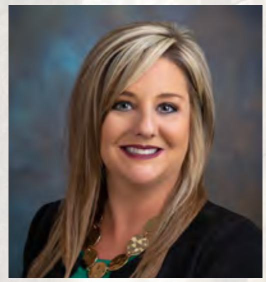
YOUR LEADERSHIP TEAM

AgSouth Farm Credit is led by a team of executive management and Directors with decades of shared financial and agricultural experience. Our Directors are vested in the success of the organization not only because they are leaders, but because they are member-borrowers themselves. You can count on AgSouth's leaders to make sound decisions for the future of our organization and for the next generation of farmers and rural residents.

EXECUTIVE MANAGEMENT

Pat Calhoun
Chief Executive Officer
31 years of service

Stacy Anderson
Chief Credit Officer
16 years of service



Jennifer Davis
Chief Information Officer
26 years of service

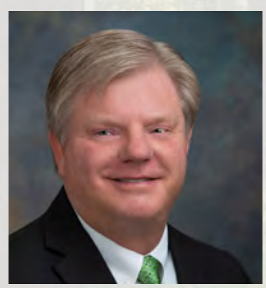
Bo Fennell
Chief Financial Officer
2 years of service

Sharmequa Franklin
Chief Human Resources Officer
18 years of service

Robbie Haranda
Chief Lending Officer
32 years of service

Bob Mikell
General Counsel
1 year of service

Debbie Sikes
Chief Compliance and Risk Officer
18 years of service



Christian Taylor
Director of Secondary Market and Financially Related Services
14 years of service

FAITH & FARMING

COBBTOWN, GEORGIA

If there was ever a picture of faith, family, fellowship and farming, it would be of the Collins.

Walk up to the barn, and you will be greeted with the warm smiles, handshakes and hugs from Mike and Donna Collins. As beautiful as you might find the barn and rolling fields, nothing compares to the beauty of the couple and their story. Talk with them for just a few minutes and you immediately know their hearts and their faith. Their many blessings have been due to "God's guidance," Mike humbly states.

It was a shared dream of Mike and Donna to build on Mike's family's farm legacy by living there, buying back as much of the land as they could and leaving it better than it was before so that they could pass it along to their own three children. And it is safe to say that they have done just that. Over time, they cleared the land, added acres and built a pond, a home and a barn – all while slowly increasing their herd of cows from three to 100.

Despite everything that Mike and Donna have built, what drives them to do it all is their love of God and community. This sweet and humble couple look at each other and light up as they tell stories of church get-togethers at their pavilion, 4th of July community fireworks over the pond, the kids and their friends tubing, riding horses and filling up their home for the weekend. They love to share what they have with others.

When asked if what they have is what they envisioned, the couple will laugh and tell you "no!" The dream they first shared has blossomed into something far greater than they imagined. Their mantra over the years has been, "You never know until you try!" But it has come with a lot of hard work, determination and dedication.

Their piece of paradise has been 20 years in the making and, as a result, their advice to others is true wisdom.

> "IF YOU HAVE A DREAM, GO FOR IT! BUT DON'T GET IN TOO BIG OF A HURRY. THINGS DON'T HAPPEN OVERNIGHT," MIKE SAID. "WHEN TIMES GET TOUGH, STAY THE COURSE. HOLD STEADY, DON'T GIVE UP. SOMETIMES YOU MAY HAVE TO SCALE BACK AND GO A DIFFERENT DIRECTION. WHAT'S IMPORTANT IS THAT YOU KEEP MOVING FORWARD."

AN EQUESTRIAN DREAM

AIKEN, SOUTH CAROLINA

Mary Guynn and husband Justin Moore Pimsner each grew up with a love of horses and knew they wanted to build their lives around them. But their dream didn't come easily. First, they had to visualize it, then they had to make it happen. Along the way, they would overcome obstacles and tragedies as they found the will to stay on the path through determination, sacrifice and hard work.

"That," says, Mary, "is the key to living your dreams. Realize that you have to put in the hard work and time to make your dreams come true."

In her younger years, Mary competed at the highest levels of competitive horse jumping. Later, she met Justin, who was a polo player healing from serious injuries sustained in a terrifying accident. After a slow and painful recovery, Justin was able to return to the sport he loved. He and Mary began sharing their dreams of owning and boarding horses together. They married and lived on a small horse farm as their dreams crystalized. They began looking for that special property to make their vision come true.

Mary and Justin worked with AgSouth loan officers Mark Fox and Matt Riddle, first to purchase the property and then to construct a 16-stall barn and 1,600-square-foot living quarters above it. They named their dream "Dollarmor Farm." Work began in 2016, and they continue to expand and improve the riding, training and boarding facilities. They already have several arenas, fields for jumping and trails for riding, and they are currently installing a six-stall horse walker to help exercise the horses. Last year, Olympic teachers used the impressive farm for training.

"Every day is a leap of faith," Mary says. "When you own horses, it becomes your life." There are no weeks away on an island somewhere for this couple – no vacation cruises and no weekend getaways. They have 18 horses of their own and board more than 30, all with the help of only two part-time employees. "We have learned the value of one night away, and that's plenty," she says. "There is no place on earth we'd rather be than at home with our horses."

The couple has learned to live in the moment and enjoy what they have: an appreciation that has grown in part because it was nearly taken away from them. Mary and Justin faced some challenges in 2008, but instead of giving up and selling, they buckled down and did what they had to do to keep the farm. They worked even longer days and nights and managed to keep the farm while never missing a payment.

"We did it on love, hope and faith," Mary says. "It was just the two of us."

> "LIFE ON A FARM IS A PROCESS; IT'S NOT A DESTINATION." ASKED WHAT ADVICE SHE MIGHT GIVE TO PEOPLE WISHING TO START LIVING THEIR OWN DREAMS, MARY SAYS THAT FORMING A DREAM IS ONLY THE BEGINNING. "YOU NEED A STRONG WORK ETHIC AND A WILLINGNESS TO WORK HARD."

HOW WE CAN HELP YOU LIVE YOUR DREAMS

As one of the largest and most successful agricultural cooperatives in the Southeast, AgSouth Farm Credit is always looking for new ways help you live your dreams by providing loans for the rural lifestyle you want to live. We also provide related services that help contribute to your success, like crop insurance and leasing.

Your Board of Directors and management work together to ensure the success of our cooperative so we can continue to help our rural communities thrive, one dream at a time. We do that by keeping our rates competitive, paying a healthy patronage distribution, revolving allocated surplus on a timely basis and educating the public and new farmers about agriculture so they can create and live out their own dreams.

SERVICES TO HELP WITH YOUR SUCCESS

AgSouth has a variety of products and services to help make living your dream a reality.

LOANS FOR REAL ESTATE

- Large acreage
- Residential lots
- Timberland

LOANS FOR HOMES

- Home purchases
- Home construction
- Home improvements
- Refinances

LOANS FOR AGRICULTURE

- Equipment
- Farm improvements
- Operating expenses
- Barns
- Fencing
- Vehicles
- Livestock
- Personal expenses (for full time farmers only)

SECONDARY MARKET DIVISION

Our Secondary Market Division, AgSouth Mortgages, offers loans to farmers and non farmers for:

- Home purchases in town or in the country
- Construction to perm loans with one closing at low fixed rates (some restrictions apply)
- Homes for investment purposes
- Second homes
- Vacation properties

MEMBER SERVICES

For more information, please contact your local branch or visit AgSouthFC.com/Products Services.

- Account Access
- AgSouth Farm Credit Mobile
- AgSweep
- AutoDraft
- Fast Cash
- Member Referral Program

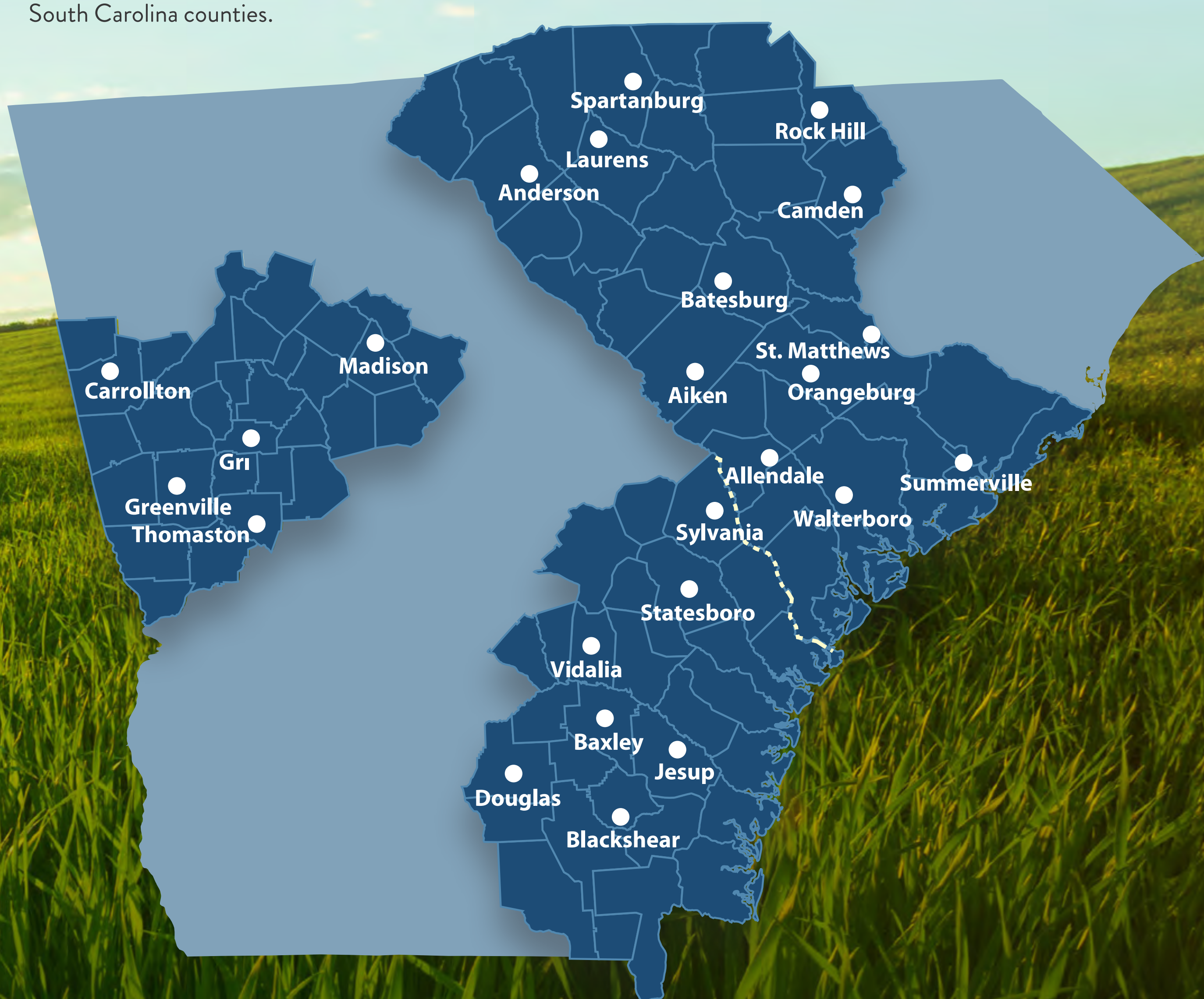
ADDITIONAL SERVICES

For more information, please contact your local branch or visit AgSouthFC.com/ Products Services.

- Crop Insurance
- Farm Credit ***EXPRESS***
- Leasing
- Life Insurance

AGSOUTH LOCATIONS

AgSouth serves members through 24 local branch offices in 59 Georgia counties and 34 South Carolina counties.



GEORGIA

BAXLEY
64 Heritage St.
Baxley, GA 31513
912 367-7006

BLACKSHEAR
111 Carter Ave.
Blackshear, GA 31516
912 449 4701

CARROLLTON
2520 Hwy. 27 South
Carrollton, GA 30117
770 834 3319

DOUGLAS
204 Bowens Mill Rd.
Douglas, GA 31533
912-384-3200

GREENVILLE
596 S. Talbotton St.
Greenville, GA 30222
706 672-4285

GRIFFIN
1298 Enterprise Way
Griffin, GA 30224
770-228-8958

JESUP
855 Odum Hwy.
Jesup, GA 31545
912 530 7777

MADISON
1691 Lions Club Rd.
Madison, GA 30650
706 342 2352

STATESBORO
40 S. Main St.
Statesboro, GA 30458
912 764 9091

SYLVANIA
302 Mims Rd.
Sylvania, GA 30467
912 564 2468

THOMASTON
620 N. Church St.
Thomaston, GA 30286
706 647 8991

VIDALIA
314 Commerce Way
Vidalia, GA 30474
912 537-4135

SOUTH CAROLINA

AIKEN
951 E. Pine Log Rd.
Aiken, SC 29803
803-648-6818

ALLENDALE
4930 Burtons Ferry Hwy.
Allendale, SC 29810
803 584 3406

ANDERSON
1325 Pearman Dairy Rd.
Anderson, SC 29625
864 226 8507

BATESBURG
109 E. Church St.
Batesburg Leesville, SC 29070
803 532-3841

CAMDEN
951 Hwy. 1 South
Lugoff, SC 29078
803 438-2464

LAURENS
306 Hillcrest Dr.
Laurens, SC 29360
864-984-3379

ORANGEBURG
1880 Joe S. Jeffords Hwy.
Orangeburg, SC 29115
803 534 6546

ROCK HILL
1321 Springdale Rd.
Rock Hill, SC 29730
803 324-1131

SPARTANBURG
101 North Town Dr.
Spartanburg, SC 29303
864 585-0344

ST. MATTHEWS
2630 Colonel Thomson Hwy.
St. Matthews, SC 29135
803-874 3703

SUMMERVILLE
702 Kate Ln.
Summerville, SC 29483
843-821 6758

WALTERBORO
529 Bells Hwy.
Walterboro, SC 29488
843 549 1584

ADMINISTRATIVE OFFICE

STATESBORO, GA — HEADQUARTERS
26 S. Main St.
Statesboro, GA 30458
912 764 9091

VISIT US AT **WWW.AGSOUTHFC.COM** OR CALL
1-844-AGSOUTH TO REACH ANY OFFICE

AgSouth Farm Credit, ACA

2019 ANNUAL REPORT

Contents

Report of Management

The accompanying Consolidated Financial Statements and related financial information appearing throughout this annual report have been prepared by management of AgSouth Farm Credit, ACA (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 AgSouth Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

James C. Carter, Jr.
Chairman of the Board

Pat Calhoun
Chief Executive Officer

Bo Fennell
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.

Pat Calhoun
Chief Executive Officer

Bo Fennell
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	**$ 5,853**	$ 5,026	$ 4,949	$ 5,160	$ 4,191
Investments in debt securities	**5,010**	5,280	5,533	7,057	8,395
Loans	**1,835,096**	1,793,452	1,710,098	1,631,945	1,557,881
Allowance for loan losses	**(16,361)**	(15,444)	(14,815)	(14,183)	(13,099)
Net loans	**1,818,735**	1,778,008	1,695,283	1,617,762	1,544,782
Equity investments in other Farm Credit institutions	**24,527**	24,151	23,568	22,847	22,145
Other property owned	**4,019**	4,627	3,669	3,289	5,425
Other assets	**65,633**	67,770	67,839	66,868	66,242
Total assets	**$ 1,923,777**	$ 1,884,862	$ 1,800,841	$ 1,722,983	$ 1,651,180
Notes payable to AgFirst Farm Credit Bank*	**$ 1,481,914**	$ 1,461,549	$ 1,405,074	$ 1,342,601	$ 1,286,760
Accrued interest payable and other liabilities with maturities of less than one year	**31,029**	33,321	30,276	41,682	39,801
Total liabilities	**1,512,943**	1,494,870	1,435,350	1,384,283	1,326,561
Protected borrower stock	**—**	—	—	2	2
Capital stock and participation certificates	**10,012**	9,567	9,097	8,493	7,972
Retained earnings					
Allocated	**131,801**	126,003	121,876	118,570	116,777
Unallocated	**269,553**	254,648	234,892	212,028	200,380
Accumulated other comprehensive income (loss)	**(532)**	(226)	(374)	(393)	(512)
Total members' equity	**410,834**	389,992	365,491	338,700	324,619
Total liabilities and members' equity	**$ 1,923,777**	$ 1,884,862	$ 1,800,841	$ 1,722,983	$ 1,651,180
Statement of Income Data					
Net interest income	**$ 62,771**	$ 60,692	$ 59,050	$ 57,582	$ 56,473
Provision for loan losses	**1,349**	581	2,738	1,072	1,232
Noninterest income (expense), net	**(8,947)**	(6,598)	(1,049)	(16,409)	(15,379)
Net income	**$ 52,475**	$ 53,513	$ 55,263	$ 40,101	$ 39,862
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.81%**	2.94%	3.15%	2.40%	2.52%
Total members' equity	**13.34%**	14.49%	16.21%	12.21%	12.60%
Net interest income as a percentage of average earning assets	**3.48%**	3.45%	3.49%	3.58%	3.71%
Net (chargeoffs) recoveries to average loans	**(0.024)%**	0.003%	(0.125)%	0.001%	(0.032)%
Total members' equity to total assets	**21.36%**	20.69%	20.30%	19.66%	19.66%
Debt to members' equity (:1)	**3.68**	3.83	3.93	4.09	4.09
Allowance for loan losses to loans	**0.89%**	0.86%	0.87%	0.87%	0.84%
Permanent capital ratio	**21.21%**	20.20%	19.38%	20.55%	20.68%
Total surplus ratio	**	**	**	20.01%	20.23%
Core surplus ratio	**	**	**	16.11%	16.31%
Common equity tier 1 capital ratio	**14.75%**	13.93%	13.14%	**	**
Tier 1 capital ratio	**14.75%**	13.93%	13.14%	**	**
Total regulatory capital ratio	**21.97%**	20.92%	20.10%	**	**
Tier 1 leverage ratio	**14.04%**	13.22%	12.51%	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**13.90%**	13.06%	12.32%	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 11,160**	$ 10,133	$ 9,720	$ 8,545	$ 7,945
Qualified allocated retained earnings	**—**	—	—	1,339	515
Nonqualified allocated retained earnings	**26,040**	23,644	22,681	18,599	18,024

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

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

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

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association 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 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly Reports are also available upon request free of charge on the Association's website, ***www.agsouthfc.com***, or by calling 1-912-489-4842, extension 2674, or writing Bo Fennell, CFO, P.O. Box 718, Statesboro, GA 30459. 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, which is available on the Association's website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK

Production agriculture is a cyclical business that is heavily influenced by commodity prices, weather, tax and trade policies, interest rates and various other factors that affect supply and demand. The following United States Department of Agriculture (USDA) analysis provides a general understanding of the US 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 US 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 US 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 US 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 US agricultural trade. Therefore, US exports and imports shift to reflect changes in trade policies, world population and economic growth. Also impacting US agricultural trade is global supplies and prices, changes in the value of the US 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 US exports of pork and other protein products but could also negatively affect US 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 US 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.

ECONOMIC CONDITIONS

The January 10, 2020 National Agricultural Statistics Service's (NASS) *Annual Crop Production Report* for Georgia showed 2019 corn for grain production totaling 56 million bushels, an increase of 12 percent from 2018. Cotton production for 2019 was at 2.65 million bales, up 36 percent from 2018. It is noted that in 2018, 125,000 acres were abandoned due to the damage sustained from Hurricane Michael. Peanut production was down 4 percent from 2018 at 2.77 billion pounds. Soybean acreage for 2019 was at its lowest level since 1959 at 100,000 acres. Tobacco production for 2019 totaled 18.9 million pounds, the lowest since 1932.

The January 10, 2020 NASS *Annual Crop Production Report* for South Carolina showed 2019 corn for grain production totaling 37.1 million bushels, a decrease of 6 percent from 2018. Despite impacts from Hurricanes Florence and Michael, cotton production for 2019 still increased to 500,000 bales, up 19 percent from 2018. Peanut production was down 13 percent from 2018 at 236 million pounds, and this was primarily attributable to a drop in planted acres. Soybean production for 2019 was down 13 percent from 2018 at 8.32 million bushels. Tobacco production for 2019 totaled 15.8 million pounds, the lowest since 1911.

As reported with the January 23, 2020 NASS *Preliminary Pecan Production Report*, Georgia, which accounts for 26 percent of the Nation's pecan production, shows a 16 percent increase in value of production for 2019. Total production is down due to the effects of the 2018 hurricanes; however, the lower production is offset by higher prices for the 2019 crop.

Conditions for Georgia's onion crop for the week ending November 24, 2019 indicated 40 percent of the crop had been transplanted. At that point in time, the crop was slightly ahead as compared to the five year average.

The January 23, 2020 NASS *Milk Production Report* indicated milk production for the fourth quarter of 2019 in the United States totaled 53.8 billion pounds, up less than one percent for the same period in 2018. Average number of milk cows in the United States was up 18,000 head over third quarter 2019, but 22,000 head less than fourth quarter 2018. For Georgia, both milk production and milk cows were mostly unchanged. South Carolina was at 85 percent of milk production and 79 percent of milk cows compared to the same period in 2018.

The January 31, 2020 NASS *Cattle Inventory Report* shows all cattle and calves in the United States as of January 1, 2020 totaled 94.4 million head, down from the 94.8 million head on January 1, 2019. All cattle and calves in Georgia totaled 1.1 million, up 3 percent from January 2019. South Carolina inventory at 340,000 head is down 3 percent from January 2019.

As shown in the January 2, 2020 NASS *Broiler Hatchery Report*, domestic broiler growers placed 189 million chicks for meat production for the week ending December 28, 2019 up 7 percent from a year ago. South Carolina chick placements were 5.1 million, up 13 percent from the same week in 2018. Georgia's placements were 27.6 million, up 5 percent from 2018.

The January 10, 2020 NASS *Winter Wheat Seedings Report* showed the expected seeded area to total 30.8 million acres, down just one percent from 2019. Georgia seedings are estimated at 160,000 acres, a 7 percent increase over 2019. South Carolina is estimated at 110,000 acres, an increase of 57 percent over 2019.

President Trump authorized USDA to provide direct payments to agricultural producers through the Market Facilitation Program (MFP) for 2019. Producers that were directly impacted by tariffs imposed on commodity exports were the recipients. The MFP payments were to be made in up to three payments. The first two payments were made in 2019 and the third is slated for February 2020. These payments were very well received by producers around the country.

As reported by TimberMart-South for the fourth quarter of 2019, stumpage markets across the South experienced price increases for both pine and hardwood sawtimber, as well, as for pine pulpwood. Pine chip-n-saw and hardwood pulpwood both decreased. Southern yellow pine fell further in the fourth quarter of 2019, down 40 percent since setting record highs in June 2018. Pulp prices for both pine and hardwood have dropped 33 percent and 35 percent, respectively, since record highs in November 2018. Total US housing starts year-to-date through November 2019 were 1.18 million units which was less than a one percent increase over the same time period in 2018. Total housing starts in the South were up 7 percent from the same time period in 2018. Total log and lumber exports were down 25 percent year-to-date through October as compared to the same period in 2018. China exports, the dominate US trade partner, were down 38 percent for the same period in 2019.

The Conference Board Leading Economic Index (LEI) for the US declined 0.3 percent in December to 111.2 following a 0.1 percent increase in November, and a 0.2 percent decline in October. The Conference Board stated, "financial conditions and consumers' outlook for the economy remain positive, which should support growth of about 2 percent through early 2020."

For December 2019, The Department of Labor reported improvement in unemployment rates in both Georgia and South Carolina. The ending unemployment rate was 3.2 percent and 2.3 percent, respectively for Georgia and South Carolina. The US unemployment rate in December was 3.5 percent; again, an improvement over previous quarters in 2019.

Typically, strong employment numbers raise the likelihood of potential interest rate increases; however, the common sentiment is that the Federal Reserve will remain quiet well into 2020.

LOAN PORTFOLIO

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

The diversification of the Association loan volume by type for each of the past three years is shown in the table below. See Note 3, *Loans and Allowance for Loan Losses,* in the Notes to the Financial Statements for information on these classification revisions.

	December 31,					
Loan Type	**2019**		**2018**		**2017**	
	(dollars in thousands)					
Real estate mortgage	$ 1,364,772	74.37%	$ 1,336,239	74.51%	$ 1,308,602	76.52%
Production and intermediate-term	350,390	19.09	348,156	19.41	307,691	18.00
Processing and marketing	21,951	1.20	21,505	1.20	15,763	.92
Farm-related business	25,608	1.40	23,992	1.34	16,477	.96
Rural residential real estate	71,960	3.92	63,124	3.52	61,100	3.57
Other	415	.02	436	.02	465	.03
Total	$ 1,835,096	100.00%	$ 1,793,452	100.00%	$ 1,710,098	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. The geographic distribution of the loan volume by branch for the past three years is as follows:

Branch	**12/31/19**	**12/31/18**	**12/31/17**
Aiken	2.32%	2.16%	2.08%
Allendale	2.93	2.75	2.88
Anderson	6.65	6.63	6.38
Batesburg	5.76	5.53	5.99
Baxley	2.91	3.37	3.67
Blackshear	5.02	5.77	5.56
Camden	3.53	3.25	3.34
Carrollton	3.06	2.78	2.60
Corporate	1.05	.79	.44
Douglas	7.70	7.52	7.08
Greenville	4.44	4.82	4.74
Griffin	1.80	1.72	1.53
Jesup	1.79	1.68	1.66
Laurens	4.90	5.02	5.71
Madison	9.72	9.74	9.89
Orangeburg	4.41	4.01	4.15
Rock Hill	4.12	3.94	4.12
Spartanburg	3.85	3.81	3.97
St. Matthews	1.26	1.45	1.51
Statesboro	7.20	7.47	7.17
Summerville	3.70	3.71	3.83
Sylvania	2.10	1.87	1.72
Thomaston	3.61	3.66	3.29
Vidalia	2.62	3.12	3.15
Walterboro	2.95	2.99	2.93
SAM	.60	.44	.61
	100.00%	100.00%	100.00%

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

The major commodities in the Association loan portfolio are shown below. Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the non-farm income of borrowers. The predominant commodities are timber, forest products; broilers; turkeys; eggs; cotton; beef cattle, pasture; feed grains, soybeans and hay; horses; blueberries, fruits and nuts; timber processing and harvesting; sod, nursery and horticulture; and peanuts. These commodities constitute approximately 86 percent of the entire portfolio. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production which reduces overall risk exposure.

	December 31,					
Commodity Group	**2019**		**2018**		**2017**	
	(dollars in thousands)					
Timber, Forest Products	$ 655,641	36 %	$ 638,560	36 %	$ 627,863	37 %
Broilers	226,561	12	220,001	12	217,556	13
Cotton	155,524	8	160,381	9	138,317	8
Beef Cattle, Pasture	143,199	8	136,447	8	130,877	8
Feed Grains, Soybeans & Hay	130,291	7	124,520	7	122,620	7
Horses	72,342	4	69,693	4	70,402	4
Rural Home	70,770	4	61,867	3	59,724	3
Other	70,644	4	65,246	4	41,094	3
Blueberries, Fruits & Nuts	63,911	4	63,508	4	61,379	4
Landlords	49,547	3	47,750	3	47,347	3
Timber Processing & Harvesting	38,763	2	42,619	2	35,235	2
Peanuts	30,772	2	35,486	2	37,571	2
Sod, Nursery, & Horticulture	30,543	2	29,551	1	26,832	2
Vegetables & Tomatoes	24,609	1	21,212	1	20,631	1
Dairy	17,184	1	19,687	1	20,400	1
Onions	15,183	1	15,824	1	15,473	1
Turkeys	14,716	1	14,141	1	14,759	1
Eggs	12,069	–	12,128	1	8,178	–
Tobacco	9,082	–	11,548	–	10,637	–
Hogs	3,745	–	3,283	–	3,203	–
Total	$ 1,835,096	100 %	$ 1,793,452	100 %	$ 1,710,098	100 %

The Association holds a concentration of large loans, but the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diverse farming operations in the Association's territory.

Loan volume increased to $1,835,096 from $1,793,452 between December 31, 2018 and December 31, 2019. The increase of $41,644, or 2.32 percent, for the twelve months ended December 31, 2019, is primarily attributed to an increase in draws on operating funds, an increase in term loans originated, and the closing of several large transactions during the year. Loan volume increased from $1,710,098 at December 31, 2017 to $1,793,452 at December 31, 2018. This was an increase of $83,354 or 4.87 percent between those two reporting periods.

The short-term portfolio, heavily influenced by seasonal operating-type loans, normally reaches a peak balance in August and rapidly declines into the first quarter of the next year as commodities are marketed and proceeds are applied to repay operating loans.

During 2019, the Association activity in the purchasing of loan participations outside the System decreased, but purchases within the System increased. The purchase of participation loans increased between the periods ended December 31, 2018 and December 31, 2019 by 38.53 percent or $4,680. This includes purchases from both Farm Credit System (FCS) Institutions and Non-FCS Institutions. The increase is attributed to new participations purchased offset by normal payments and payoffs of participations purchased during the reporting period.

Loans sold increased 44.14 percent or $121,489 from $275,259 to $396,748 between the periods ended December 31, 2018 and December 31, 2019. The increase in sold loans is linked to several large participated transactions closing during the year. Selling participations in larger credits provides a means for the Association to spread credit risk, concentration risk and realize interest and fee income, which may strengthen the capital position. Between the same periods in 2017 and 2018, loans sold increased 2.69 percent.

	December 31,		
Loan Participations	**2019**	**2018**	**2017**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 13,096	$ 7,971	$ 636
Participations Purchased – Non-FCS Institutions	3,730	4,175	3,504
Participations Sold	(396,748)	(275,259)	(268,039)
Total	$ (379,922)	$ (263,113)	$ (263,899)

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 sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2019, the Association originated loans for resale totaling $197,971, which were sold into the secondary market. For the years ended December 31, 2018 and 2017, loans sold into the secondary market totaled $154,475 and $148,399, respectively. At December 31, 2019, there was $1,182 classified as loans held for sale on the Association's balance sheet. The increase in loans sold from 2018 to 2019 is the result of a lower interest rate environment and an increase in refinancing activity. The increase in loans sold between 2017 and 2018 was the result of a more favorable housing market within the Association's territory.

The Association also participates in the Farmer Mac Long - Term Stand By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2019, the Association had loans totaling $3,451 which were 100 percent guaranteed by Farmer Mac. The Association additionally originated portions of loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. During the years ended December 31, 2019, 2018, and 2017 the balance of these loans, including the unamortized premium, was $180,702, $181,496, and $170,175, respectively.

MISSION RELATED INVESTMENTS

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period and the program was extended to 2017. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing.

These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2019, 2018 and 2017 the Association had $5,010, $6,100 and, $6,353 respectively, in Rural America Bonds. At December 31, 2019, all bonds held by the Association were classified as investments on the Consolidated Balance Sheet.

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

RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral).

As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

The Association reviews 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	98.93%	99.27%	98.91%
Substandard/Doubtful/Loss	1.07%	0.73%	1.09%
Total	100.00%	100.00%	100.00%

The marginal decrease in Acceptable and OAEM percentage of volume can be linked to the increase in the amount of loans that have become distressed. Workouts can include payments and paydowns that result in moving the asset back to an acceptable quality or restructuring of the credit. The Association recognizes that there may be situations where borrowers need to sell assets to repay debt. While the underlying collateral may not be the sole repayment source, in some cases, borrowers have been attempting to sell collateral in order to pay down or liquidate their debt to the Association.

Nonperforming Assets

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

	Year Ended December 31,		
Nonperforming Assets	**2019**	**2018**	**2017**
	(dollars in thousands)		
Nonaccrual loans	$ 17,022	$ 12,093	$ 14,978
Restructured loans	5,158	6,988	6,863
Accruing loans 90 days past due	–	–	–
Total nonperforming loans	22,180	19,081	21,841
Other property owned	4,019	4,627	3,669
Total nonperforming assets	$ 26,199	$ 23,708	$ 25,510
Ratios			
Nonaccrual loans to total loans	.93%	.67%	.88%
Nonperforming assets as a percentage of total loans and other property owned	1.42%	1.32%	1.49%

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 $4,929 or 40.76 percent in 2019. This increase is the result of loans moving through the distressed collection process and includes several large accounts. Of the $17,022 in nonaccrual volume at December 31, 2019, $5,647 or 33.17 percent, compared to 39.78 percent and 44.29 percent at December 31, 2018 and 2017, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms, rates, or a compromise of amounts owed. Other receipts of assets and/or equity to pay the loan in full or in part may also be considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred for both the Association and the borrower. Restructured loans decreased in 2019 from $6,988 at December 31, 2018 to $5,158 at December 31, 2019. The decrease is the result of less customers requiring formal restructure to satisfy debt payment and paydowns on active troubled debt restructures.

The schedule below shows the number and book value of other property owned for the years ending December 31, 2019, 2018, and 2017.

	December 31,		
Other Property Owned	**2019**	**2018**	**2017**
	(dollars in thousands)		
Number of Properties	13	10	6
Book Value of Properties	$ 4,019	$ 4,627	$ 3,669

During the fiscal year, 9 properties with a book value of $1,659 were added to the portfolio and 6 dispositions, excluding partial sales, were processed through the normal course of business. Total sales price of other property owned was $1,230. The write-downs and losses, net of gains, of other property owned totaled $1,037 during the reporting period. A gain of $39 was recognized on properties upon transfer into other property owned during 2019. Expenses on other property owned totals $130 and the total net loss realized for the period ending December 31, 2019 was $1,128.

The decrease in the balance of other property owned from December 2018 to December 2019 is net of acquisitions and write-down transactions on other property owned. In some cases the acquisitions were through foreclosure and others through a deed in lieu of foreclosure process. The Association is currently marketing all other property owned for sale. Please see our website at ***www.agsouthfc.com*** and click on *Property For Sale*.

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 allowance for loan losses is prepared according to generally accepted accounting principles.

	Year Ended December 31,		
Allowance for Loan Losses Activity	**2019**	**2018**	**2017**
	(dollars in thousands)		
Balance at beginning of year	$ 15,444	$ 14,815	$ 14,183
Charge-offs:			
Real estate mortgage	(277)	(112)	(2,102)
Production and intermediate-term	(784)	(353)	(252)
Agribusiness	(15)	–	–
Rural residential real estate	(21)	(90)	(67)
Other	–	–	–
Total charge-offs	(1,097)	(555)	(2,421)
Recoveries:			
Real estate mortgage	191	338	154
Production and intermediate-term	265	182	137
Agribusiness	3	3	4
Rural residential real estate	206	80	–
Other	–	–	20
Total recoveries	665	603	315
Net (charge-offs) recoveries	(432)	48	(2,106)
Provision for (reversal of allowance for) loan losses	1,349	581	2,738
Balance at end of year	$ 16,361	$ 15,444	$ 14,815
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.024)%	0.003%	(0.125)%

The net loan charge-offs and recoveries were primarily associated with real estate mortgage, production and intermediate term, and rural residential loans. There was no specific trend in the charge-offs or recoveries recognized.

The provision for loan losses increased the Allowance for Loan Losses account by $1,349 during 2019. Analysis of the Allowance account is completed on a quarterly basis and reviewed by the Association's Asset/Liability Committee which is comprised of members of Executive Management and other selected staff members. The increase was necessary to keep the Allowance for Loan Losses at a sufficient level to absorb any expected future losses.

Allowance for Loan Losses by Type	December 31, 2019	2018	2017
	(dollars in thousands)		
Real estate mortgage	$ 11,485	$ 11,485	$ 11,214
Production and intermediate-term	3,868	3,032	2,797
Agribusiness	400	385	280
Rural residential real estate	604	538	520
Other	4	4	4
Total allowance	$ 16,361	$ 15,444	$ 14,815

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

Allowance for Loan Losses as a Percentage of	December 31, 2019	2018	2017
Total loans	.89%	.86%	.87%
Nonperforming loans	73.76%	80.94%	67.83%
Nonaccrual loans	96.12%	127.71%	98.91%

Given the possibility of portfolio growth and other potential losses, management has determined that the current level of allowance is adequate.

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income before the provision for loan loss was $62,771, $60,692, and $59,050 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, asset yield, and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past two years are presented in the following table:

Change in Net Interest Income:	Volume*	Rate	Total
	(dollars in thousands)		
12/31/19 - 12/31/18			
Interest income	$ 2,926	$ 2,877	$ 5,803
Interest expense	816	2,908	3,724
Change in net interest income	$ 2,110	$ (31)	$ 2,079
12/31/18 - 12/31/17			
Interest income	$ 3,875	$ 3,589	$ 7,464
Interest expense	1,346	4,476	5,822
Change in net interest income	$ 2,529	$ (887)	$ 1,642

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

Noninterest Income

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

Noninterest Income	For the Year Ended December 31, 2019	2018	2017	Percentage Increase/(Decrease) 2019/2018	2018/2017
	(dollars in thousands)				
Loan fees	$ 3,918	$ 3,502	$ 3,344	11.88 %	4.72 %
Fees for financially related services	2,345	2,458	1,823	(4.60)	34.83
Patronage refund from other Farm Credit Institutions	21,894	24,912	25,611	(12.11)	(2.73)
Gains (losses) on sales of rural home loans, net	2,385	1,762	1,986	35.36	(11.28)
Gains (losses) on sales of premises and equipment, net	162	193	256	(16.06)	(24.61)
Gains (losses) on other transactions	90	(386)	(1,228)	(123.32)	(68.57)
Insurance Fund refunds	366	989	–	(62.99)	–
Other noninterest income	181	178	133	1.69	33.83
Total noninterest income	$ 31,341	$ 33,608	$ 31,925	(6.75)%	5.27 %

Loan fees increased $416 or 11.88 percent when comparing the reporting periods 2019 to 2018. The increase is the result of fee collections on some large accounts and an increase in fees collected on both portfolio and loans sold in the secondary market. Loan fees increased $158 or 4.72 percent between the periods ending December 31, 2017 and December 31, 2018.

Fees for financially related services decreased $113 or 4.60 percent from December 31, 2018 to December 31, 2019. Fees from financially related services include fees from leasing, crop insurance and life insurance. Fees earned from leasing transactions and crop insurance decreased in 2019. The Association also earns commission on the sale of some life insurance which slightly decreased between the two reporting periods. Between the reporting periods ended December 31, 2017 and December 31, 2018, fees for financially related services increased by $635 to $2,458 from $1,823.

There was a $3,018 or 12.11 percent decrease in patronage refund from other Farm Credit Institutions between the periods ended December 31, 2018 and December 31, 2019. In 2019, the Association earned $12,951 in patronage refund and $8,523 in a special distribution from AgFirst. In 2018, the Association earned $12,487 in a patronage refund and $11,805 in a special distribution, compared to $12,023 in a patronage refund and $13,279 in a special distribution for 2017. The amount of patronage refund is based upon the notes payable balance with AgFirst. The amount of the special distribution, if any, is determined by the AgFirst Farm Credit Bank Board of Directors and may or may not reoccur in future years.

For the period ended December 31, 2019, the Association earned $420 in patronage refund from other Farm Credit Institutions other than AgFirst. This compares to $620 and $309 for the periods ended December 31, 2018 and December 31, 2017, respectively. The decrease in patronage from other Farm Credit Institutions is partially attributable to the increase in loans sold to AgFirst who may or may not pay the same level of patronage received from other Farm Credit entities.

Gains on the sales of rural home loans in the secondary market totaled $2,385 for the period ended December 31, 2019. This was an increase of $623 or 35.36 percent from the period ended December 31, 2018. The increase is the result of an increase in the yield premium earned on loans sold between the two reporting periods. For the period ended December 31, 2018, gains totaled $1,762. Gains decreased between December 31, 2017 and December 31, 2018 by $224 or 11.28 percent.

Gains on the sales of premises and equipment decreased $31 or 16.06 percent between December 31, 2018 and December 31, 2019. In both 2019 and 2018, gains from the sale of real property, automobiles, and other miscellaneous furniture and equipment are included in the $162 and $193, respectively. Net gains on the sales of premises and equipment totaled $256 for the period ending December 31, 2017.

Gains on other transactions include gains on Rabbi Trust plans held for certain retirees, a settlement amount for a disputed claim, and the expense to fund the allowance for loan losses for unused commitments. The change from December 31, 2018 to December 31, 2019 was from a loss of $386 to a gain of $90. Between December 31, 2017 and December 31, 2018, the line item moved from a loss of $1,228 to a loss of $386.

Insurance Fund refunds for the period ended December 31, 2019 totaled $366. This line item includes a nonrecurring refund from the Farm Credit System Insurance Corporation as a result of overfunding during the previous year(s). For the period ended December 31, 2018 Insurance Fund refunds totaled $989, and for December 31, 2017 the total was $0.

Other noninterest income increased $3 from $178 at December 31, 2018 to $181 at December 31, 2019. This line item includes recovery amounts from allocated surplus for some borrowers in default, payments received regarding settlement agreements, and volume incentives earned from AgFirst for secondary market loans sold. Other noninterest income increased from $133 in 2017 to $178 in 2018.

Noninterest Expense

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2019**	**2018**	**2017**	**2019/ 2018**	**2018/ 2017**
	(dollars in thousands)				
Salaries and employee benefits	$ 28,524	$ 29,293	$ 28,531	(2.63)%	2.67 %
Occupancy and equipment	2,390	2,491	2,272	(4.05)	9.64
Insurance Fund premiums	1,195	1,172	1,888	1.96	(37.92)
(Gains) losses on other property owned, net	1,128	20	465	5,540.00	(95.70)
Other operating expenses	7,054	7,230	(188)	(2.43)	3,945.74
Total noninterest expense	$ 40,291	$ 40,206	$ 32,968	0.21 %	21.95 %

Salaries and employee benefits decreased $769 or 2.63 percent in 2019, as compared with 2018, and increased $762 or 2.67 percent when comparing 2018 to 2017. The decrease between the 2019 and 2018 reporting periods was due to a lower pension. The Association has an incentive plan for full-time employees and the accruals for potential payout of incentive in 2019 were $322 more than 2018 accrued incentive. The incentive plan is comprehensive and requires achievement in several key measures both at the individual and total Association level before participation.

The increase in salaries and employee benefits between 2017 and 2018 was due to hirings necessary to replace employees who were eligible to retire or nearing eligibility status.

Occupancy and equipment expense decreased $101 between the reporting periods ended December 31, 2019 and December 31, 2018. The decrease of 4.05 percent is the result of a decrease in the purchase of furniture and equipment. The increase of $219 between December 31, 2017 and December 31, 2018 is the result of an increase of maintenance and utility costs and the completion of the Operations Center in Statesboro, Georgia between the two reporting periods. The consolidation of staff into one building in Spartanburg, South Carolina, generated some savings in 2017.

Insurance Fund premiums increased $23 or 1.96 percent for the twelve months ended December 31, 2019, compared to the same period of 2018. Between 2017 and 2018, the Insurance Fund premium decreased 37.92 percent or $716. The Farm Credit System Insurance Corporation (FCSIC) sets the premium annually and the Association's increase in loan volume and an increase in the premium resulted in a net increase in the insurance expense in the 2019 reporting period. Nonaccrual loans and other-than-temporary impaired investments are assessed a higher premium rate.

The Association took in and disposed of several pieces of other property owned in 2019. Subsequently, the Association recorded $1,128 in net losses on other property owned. The losses recorded were from the need to write-down asset values to match new and more current appraisals and sales of the owned assets offset by minimal gains. This line item also includes expenses on other property owned. This compares to losses of $20 for the period ended December 31, 2018. For the period ended December 31, 2017, the Association had recorded losses of $465.

Other operating expenses decreased $176 between December 31, 2018 and December 31, 2019. The decrease between 2019 and 2018 is due to the recoveries on nonaccrual notes. Other operating expenses includes purchased services, travel, training, advertising, public and member relations, communications, directors, supervisory and examination, and all other expenses not detailed above necessary to operate the Association. Training expenses were higher in the 2018 reporting period compared to 2017 due to training needs associated with the replacement of positions for several retirees in addition to training required due to expected staffing changes. Comparing other operating expenses for the period ended December 31, 2018 to December 31, 2017, other operating expenses increased $7,418 or 3,945.74 percent. The significant increase between 2018 and 2017 was due to how the method of recording expenses at participating District entities for the FAP and OPEB Plans were modified during 2017. The change in estimate resulted in a reduction of Other Expenses of $7,140 during 2017.

Income Taxes

The Association recorded a benefit for income taxes of $3 for the year ended December 31, 2019, as compared to a provision of $0 for 2018 and a provision of $6 for 2017. Refer to Note 2, *Summary of Significant Accounting Policies*, 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	For the 12 Months Ended		
Comparisons	12/31/19	12/31/18	12/31/17
Return on average assets	2.81%	2.94%	3.15%
Return on average members' equity	13.34%	14.49%	16.21%
Net interest income as a percentage of average earning assets	3.48%	3.45%	3.49%
Net (charge-offs) recoveries to average loans	(0.024)%	0.003%	(0.125)%

The return on average assets and return on members' equity decreased in 2019 when compared to 2018. The decrease in earnings accompanied with an increase in average assets and an increase in average members' equity resulted in lower returns on average assets and average members' equity.

The increase in the percentage of net interest income to average earning assets is due to expected variances in net interest income and average earning assets between the two reporting periods. Average earning assets increased from $1,744,337 to $1,792,190 between 2018 and 2019 as a result of growth in the portfolio.

The percentage of net charge-offs and recoveries to average loans was less than one percent in the 2019 reporting period, and the Association's charge-offs exceeded the total amount of recoveries. The decision to take a charge-off for financial purposes is made by tenured staff that specializes in handling distressed loan situations.

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue the improvement shown in recent years and the Association must meet certain objectives. 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 segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2019, were $1,481,914 as compared to $1,461,549 at December 31, 2018 and $1,405,074 at December 31, 2017. The increase of $20,365 or 1.39 percent comparing December 31, 2019 to December 31, 2018 was attributable to the higher balance of loans outstanding. When comparing December 31, 2018 to December 31, 2017, total notes payable increased $56,475 or 4.02 percent.

The average volume of outstanding notes payable to the Bank was $1,453,316 and $1,427,572 for the years ended December 31, 2019 and 2018, respectively. Refer to Note 6, *Debt*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses, and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association. The Association had no lines of credit from third party financial institutions as of December 31, 2019, 2018 and 2017.

Funds Management

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

Demand for loan types is a 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 Rates (LIBOR). It should be noted that the future of LIBOR as a recognized pricing index is uncertain and other indices may be considered going forward. Adjustable rate mortgages are indexed to US 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*, of the Notes to the Consolidated Financial Statements in this Annual Report.

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

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

The Bank also provides key services related to payroll and human resource processing and accounting services. In the area of technology, the Bank provides the backroom services including mainframe and network server applications. These applications include network communications, loan origination, loan accounting and disaster recovery. Some services include a specific fee structure, while others are incorporated into the Bank's funding formula.

CAPITAL RESOURCES

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

The Association's Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. The 2019 Capitalization Plan incorporated the new regulatory capital ratios as required by the FCA. There are no other changes that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2019, increased $20,842 or 5.34 percent to $410,834 from the December 31, 2018 total of $389,992. At December 31, 2018, total members' equity increased 6.70 percent from the December 31, 2017 total of $365,491. The increase was primarily attributed to earnings, both allocated and unallocated, in excess of revolvement of allocated earnings and the decision to retain a level of patronage source earnings to build capital.

Total capital stock and participation certificates and protected borrower stock were $10,012 on December 31, 2019, compared to $9,567 on December 31, 2018 and $9,097 on December 31, 2017. The increase was attributed to purchases of stock associated with new borrowing entities exceeding the liquidations of stock in the normal course of business.

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 regulatory capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	20.55%	20.68%	20.00%	18.69%	17.05%
Total Surplus Ratio	7.00%	20.01%	20.23%	19.53%	18.17%	16.54%
Core Surplus Ratio	3.50%	16.11%	16.31%	15.86%	14.46%	12.50%

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%	14.75%	13.93%	13.14%
Tier 1 Capital	6.0%	1.875%	7.875%	14.75%	13.93%	13.14%
Total Regulatory Capital	8.0%	1.875%	9.875%	21.97%	20.92%	20.10%
Permanent Capital	7.0%	0.000%	7.000%	21.21%	20.20%	19.38%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	14.04%	13.22%	12.51%
URE and UREE Leverage	1.5%	0.0%	1.5%	13.90%	13.06%	12.32%

** 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 slight increase in the Association's permanent capital was attributed to growth in the Association's capital components. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements. See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) 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 for more information concerning the patronage distributions. The Association declared patronage distributions of $37,200 in 2019, $33,777 in 2018, and $32,401 in 2017.

The higher total patronage distribution is tied to the Board and Management's decision to retain less earnings in 2019 compared to 2018. The Association historically pays 30 percent in cash and the remainder in a combination of qualified and/or nonqualified allocated surplus. Payment of patronage is usually made in the first quarter of the following fiscal year.

There were no significant changes to the Association's patronage policies and practices during 2019.

The Association closes the books with an estimated patronage distribution and then makes a final adjustment to the amount prior to actual payment. The adjustment entries are shown on the Member Equity Statement as a "Patronage Distribution Adjustment."

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. The following chart reflects the Association's goals and progress toward those goals in each category.

Total Portfolio Goals and Progress
December 31, 2019

	Number of Loans	Number of Loans	Amount of Loans	Amount of Loans
	2019 Goal	2019 Actual	2019 Goal	2019 Actual
Young	2,809	2,961	$303,272	$317,891
Beginning	5,880	7,064	$687,100	$792,838
Small	10,453	10,706	$1,042.496	$1,030,859

New Loan Goals and Progress
December 31, 2019

	Number of New Loans	Number of New Loans	Amount of New Loans	Amount of New Loans
	2019 Goal	2019 Actual	2019 Goal	2019 Actual
Young	882	863	$132,894	$131,046
Beginning	1,646	2,062	$273,967	$309,763
Small	2,894	2,923	$408,906	$359,916

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

The 2012 USDA Ag census data (latest data available) 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 33,783 reported farmers of which by definition 1,442 or 4.27 percent were Young, 6,327 or 18.73 percent were Beginning, and 31,312 or 92.69 percent were Small. Comparatively, as of December 31, 2019, the demographics of the Association's agricultural portfolio contained 14,518 loans, of which by definition 2,961 or 20.40 percent were Young, 7,064 or 48.66 percent were Beginning and 10,706 or 73.74 percent were Small.

In 2019, the Association's Director of Marketing was responsible for the Young, Beginning, and Small farmer program. It is an integral part of the Association's business plan. The following strategies have helped the Association work toward its goals and objectives relative to Young, Beginning, and Small farmer programs:

- Provide current and pertinent farm management and financial training to YBS customers and prospects in group settings through AGAware® program and one-on-one
- Encourage young people to choose agriculture as a profession by supporting 4-H and Future Farmers of America (FFA)
- Encourage use of Student Agricultural Project loan program by visiting with 4-H representatives and FFA chapters in the service area
- Support Young Farmer Groups in the service area and at the state level
- Make customers and prospects aware of farm related services and encourage them to take advantage of beneficial programs through advertising and public relations
- Closely work with Farm Service Agency (FSA) personnel to meet the needs of YBS customers and prospects

Specific YBS activities in fiscal year 2019 include the following:

- Conducted two, day-long workshops on financial training and management for YBS borrowers and prospects through our AGAware® program
- Sponsored and presented at Annie's Project, a farm management training for women in South Carolina
- Presented at South Carolina Resource Rodeo
- Hosted a social and conducted feedback survey for YBS support at Georgia Farm Bureau Young Farmer and Rancher State Convention
- Sponsored a couple to attend and presented at Cooperative Council's Couples Conference to educate on benefits of working with cooperatives
- Sponsored, presented and participated in Georgia Coop Council's Youth Leadership Camp
- Sponsored and presented on lending at the South Carolina New, Beginning, Farmer Program (SCNBFP) workshops
- Sponsored scholarships for attendees of the SCNBFP 2019 sessions
- Sponsored and judged a Business Plan Pitch Contest from participants in the SCNBFP 2019 class
- Active member of Ogeechee Technical College's Agribusiness Program's advisory board
- Active member of the Georgia FFA Foundation board
- Sponsored and attended Georgia FFA Blue and Gold Gala
- Sponsored 4-H Annual Banquet
- Sponsored and attended Georgia FFA Clay Shoot fundraiser
- Sponsored and attended South Carolina FFA Aim at Ag Fundraiser
- Sponsored multiple FFA awards and acted as judge for both Georgia and South Carolina State Conventions
- Advertised in multiple YBS publications in both Georgia and South Carolina
- Offered 25 grants to local Farmers Markets for a total of $25,000 investment to promoting their markets
- Sponsored multiple FFA and 4-H competitions and livestock shows in Georgia and South Carolina

- Sponsored and presented at South Carolina Farm Bureau Ag in the Classroom
- Provided scholarships at Clemson University, University of Georgia, South Carolina State, Fort Valley State and Abraham Baldwin Agricultural College
- Sponsored and presented the Farmer of the Year Awards in Georgia and South Carolina
- Presented at and sponsored the Young Farmer Dinner at the Sunbelt Ag Expo
- Sponsored and exhibited at the South Carolina AgriBiz & Farm Expo
- Sponsored and presented at Young Farmer Conferences in Georgia and South Carolina
- Sponsored and presented at Farm Bureau Young Farmer and Rancher conferences in Georgia and South Carolina
- Sponsored The South Carolina Commissioner's School of Agriculture
- Sponsored a reception at Georgia Organics Conference
- Attended, sponsored and presented, upon request, at numerous county Young Farmer and Extension meetings throughout the territory

The Association is committed to the future success of young, beginning and small farmers.

*The Census shows young farmers in a group up to age 34, whereas the Association's YBS information defines Young Farmers 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.

**The Census shows years on present farm up to nine years, whereas the Association's YBS information defines Beginning Farmers 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 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

Additionally, the Census data is based upon number of farms; whereas, the Association's data is based on number of loans.

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 US 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.

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 (Secured Overnight Financing Rate) 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 thousands)	**Due in 2020**	**Due in 2021**	**Due in 2022 and Thereafter**
Loans	$ 1,703	$ 418	$ 9,799
Total Assets	$ 1,703	$ 418	$ 9,799
Note Payable to AgFirst Farm Credit Bank	$ 9,349	$ 334	$ 7,828
Total Liabilities	$ 9,349	$ 334	$ 7,828

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 Update (ASU) was 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.

The Association distributes its earnings in a Patronage Allocation program as described in *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in this Annual Report. During 2019, there were no significant changes to existing patronage policies and practices.

The Association is a member of an unincorporated business entity called CFB Holdings, LLC. CFB Holdings, LLC is a North Carolina Limited Liability Company and was organized to acquire, operate in an idle mode, market, and re-sell the Purchased Assets (an ethanol plant) and to engage in such activities as may be approved by the Majority Interest (collectively, the "Business"), in each case subject to any limitations of the Act or Applicable Laws of any jurisdiction in which the Company transacts business. The Company shall be authorized to engage in any and all other activities related to the foregoing.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity:

Location	Description	Form of Ownership
26 South Main Street Statesboro, GA	Headquarters	Owned
20 East Vine Street Statesboro, GA	Operations Center	Owned
951 East Pine Log Road Aiken, SC	Branch	Owned
4930 Burtons Ferry Highway Allendale, SC	Branch	Owned
1325 Pearman Dairy Road Anderson, SC	Branch	Owned
109 East Church Street Batesburg-Leesville, SC	Branch	Owned
64 Heritage Street Baxley, GA	Branch	Owned
111 Carter Avenue Blackshear, GA	Branch	Owned
951 Highway 1 South Lugoff, SC	Branch	Owned
2520 Highway 27 South Carrollton, GA	Branch	Owned
204 Bowens Mill Road Douglas, GA	Branch	Owned
596 South Talbotton Street Greenville, GA	Branch	Owned
1298 Enterprise Way Griffin, GA	Branch	Owned
855 Odum Highway Jesup, GA	Branch	Owned
306 Hillcrest Drive Laurens, SC	Branch	Owned
1691 Lions Club Road Madison, GA	Branch	Owned
1880 Joe S. Jeffords Highway Orangeburg, SC	Branch	Owned
1321 Springdale Road Rock Hill, SC	Branch	Owned
2630 Colonel Thomson Highway St. Matthews, SC	Branch	Owned
101 North Town Drive Spartanburg, SC	Branch	Owned
40 South Main Street Statesboro, GA	Branch	Owned
702 Kate Lane Summerville, SC	Branch	Owned
302 Mims Road Sylvania, GA	Branch	Owned
620 North Church Street Thomaston, GA	Branch	Owned
314 Commerce Way Vidalia, GA	Branch	Owned
529 Bells Highway Walterboro, SC	Branch	Owned

The Association is currently in the process of building a new branch building in Baxley, Georgia. Construction is scheduled to be completed by the end of March 2020. Staff is scheduled to move into the new branch building by the end of April 2020.

The Association currently owns a 2 acre lot on Fairfax Highway in Allendale, South Carolina.

In April of 2018 the Association sold a building and lot on the Barnwell Highway in Allendale, South.

The Administrative office located at 1884 Joe S. Jeffords Highway in Orangeburg, South Carolina, is now vacant as administrative staff have retired or been relocated. The Board of Directors is currently considering the next use, if any, for this building.

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 as of December 31, 2019:

Name	Current Position	Date Started in Current Position	Previous Position(s) During Last Five Years
Pat Calhoun	Chief Executive Officer	September 2016	Director of Risk Management
Stacy Anderson	Chief Credit Officer	October 2016	Regional Credit Administrator
Jennifer Davis	Chief Information Officer	January 2018	Director of Information Technology
Bo Fennell	Chief Financial Officer	January 2018	Chief Financial Officer Altamaha Bank and Trust
Sharmequa Franklin	Chief Human Resources Officer	January 2018	Organizational Development & Talent Management Manager MidAtlantic Farm Credit
Robbie Haranda	Chief Lending Officer	October 2018	Regional Business Development Manager
Bob Mikell	General Counsel	July 2019	Attorney Brown Rountree PC Senior Attorney
Debbie Sikes	Chief Compliance and Risk Officer	October 2017	Loan Officer – Analyst Compliance Officer
Christian Taylor	Director of Secondary Market and Financially Related Services	August 2018	Leasing Agent

The majority business experience for the past five years for the senior officers is with the Farm Credit System. Other business or organizational interests are as follows:

- **Pat Calhoun** serves on the advisory board of the Palmetto Agribusiness Council (promotes agriculture), the advisory board of the University of Georgia's Advancing Georgia's Leaders in Agriculture and Forestry (leadership training program), and the advisory board for the South Carolina AgriBiz and Farm Expo (promotes agriculture and agribusiness). He also serves on the Executive Committee of the AgFirst Farm Credit Council (legislative support).

- **Jennifer Davis** serves as the Race Committee Chair for Open Hearts Community Mission (charity), is a committee member for Rockin' out Alzheimer's (charity), and serves as the Co-Chairman of Leadership Bulloch with the Statesboro-Bulloch Chamber of Commerce (civic).

- **Bob Mikell** serves as the Chairman of the Board for the Statesboro-Bulloch Chamber of Commerce (civic), Advisory Board President for the Statesboro Family YMCA (non-profit), and a board member for the Georgia Southern University Housing Foundation (non-profit).

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

Individual or Number in Group	Year	Annual Salary	Annual Bonus	Deferred Comp.	Change in Pension Value[(a)]	Perq./ Other[(b)]	Total
CEO							
Pat Calhoun	2019	$ 330,013	$ 134,475	$ –	$ 448,195	$ 14,764	$ 927,446
Pat Calhoun	2018	300,012	121,650	–	117,683	17,496	556,841
Pat Calhoun	2017	257,510	87,550	–	379,027	–	724,087
PAST CEO							
William P. Spigener Jr.	2017	112,504	–	–	1,036,157	–	1,148,661
10	2019	1,247,655	821,855	25,000	1,284,774	118,535	3,497,819
14	2018	1,364,933	841,209	90,439	(865,946)	223,509	1,654,144
7	2017	1,090,547	508,664	29,000	912,350	79,847	2,620,408

(a) 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.

(b) The Perquisites/Other amount disclosed in the above chart can include club memberships, automobile allowance, relocation assistance, spousal expenses, payout of accrued annual leave, employer-match/employer-paid 401(k) contributions, and life insurance.

The disclosure of information on the total compensation paid during 2019 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

All employees including the CEO and senior officers have defined duty statements and standards of performance. These standards are reviewed at least annually and graded on a one to five scale, with five indicating “Performance over a sustained period consistently far exceeds standards and expectations for all position responsibilities.” Annually, supervisors evaluate performance and a merit increase is rewarded, if performance score warrants.

In addition to a base salary, deferred compensation and perquisites/other, senior officers earn additional compensation under an annual incentive plan. The Association’s annual incentive plan is designed to motivate employees to exceed the business plan goals during the fiscal year. These goals include Association income, credit quality, credit administration, loan volume, delinquencies, and other key success measurements. Income to pay the incentive payments is derived from profits over and above those budgeted in the board-approved business plan for 2019. Full-time employees are covered by the annual incentive plan which runs for the full calendar year and employees can earn between 0 and 30 percent of base salary. An estimated incentive was accrued prior to December 31, 2019 and final calculations and payments were made in January 2020. Employees that are not eligible for merit increases based upon individual performance are not eligible for incentive. A copy of the incentive plan is available to stockholders upon request.

Certain additional bonuses have been approved by the board based on either the overall performance of the Association, or particular ideas or performance leading to sustained increases in profits to the stockholders. Bonuses are shown in the year earned, which may be different than the year of payment.

Selected staff members participate in a long-term incentive program. The long-term incentive program was established by the board in fiscal year 2006 and measures performance at the end of each three (3) year period. Goals are set annually by the Executive and Compensation Committee. Payments under the long-term incentive program can range from 0 to 15 percent. Goals include reaching key financial ratios and building and maintaining the Association’s patronage program. Estimated long-term incentive payments were accrued in December 2019. The final calculations and payments were made in January 2020. The purpose of the long-term incentive program is to retain key staff and reward them for reaching established goals.

Selected staff members may also participate in a defined contribution benefit plan separate from the Association’s existing 401(k) plan. The defined contribution plan has requirements for vesting and is reflected in the Deferred Compensation column above.

The overall compensation program of the Association is designed to reward performance that exceeds expectations set by both managers and by the Board of Directors. The results outlined in the compensation table reflect the success the Association had in 2019 in increasing loan volume, generating significant earnings and maintaining a strong, consistent patronage program.

The chart below details the value of accumulated benefits on a present value basis for the CEO and senior officers and other highly compensated employees under the two retirement plans offered by the Association. Reference Note 2, *Summary of Significant Accounting Policies,* for additional information about these multiemployer pension plans.

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:					
Pat Calhoun	2019	AgFirst Retirement Plan	32.50	$ 2,688,053	$ –
				$ 2,688,053	$ –
Senior Officers and Highly Compensated Employees:					
4 Officers, Excluding CEO*	2019	AgFirst Retirement Plan	24.58*	$ 4,189,966	$ –
				$ 4,189,966	$ –

**Represents the number and the average years of credited service for those eligible to participate in the AgFirst Retirement Plan.*

The present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. 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, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa.

The life expectancy actuarial assumption was updated at December 31, 2018 to reflect recent mortality studies indicating longer life spans. This change further increased pension values as the benefit payments are expected to be made for a longer time span.

There was a significant decrease in the discount rate assumption from December 31, 2018 to December 31, 2019, causing the pension values to increase. Other actuarial assumptions are updated periodically. At December 31, 2019, the mortality and mortality improvement assumptions were updated to reflect recent mortality studies. These changes resulted in a minor increase in Retirement Plan present values.

All employees are eligible to receive awards based on years of service on five year, or multiple of five year anniversaries. A copy of this plan is available to stockholders upon request.

Directors

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $241,616 for 2019, $197,499 for 2018, and $239,138 for 2017.

The Association provides iPads to directors for data and information access to Association financial reports and other material through a secure portal. The expense for the iPads and network access is included in the other related expenses amount above.

Subject to approval by the board, the Association may allow directors honoraria of $600 for attendance at meetings, committee meetings, or special assignments. In cases when a video or teleconference is held in lieu of an onsite meeting to take up the regularly scheduled business of a committee, an honorarium of $300 will be paid. Directors are also allowed travel honorarium of $300 depending upon meeting location relative to their headquarters. Directors are paid a monthly retainer fee of $600 each. The retainer for the chairman, vice-chairman, and chairman of the Audit Committee was $930 per month.

There was no noncash compensation paid to directors in 2019.

The following chart details the year the director began serving on the board and the current term expiration.

Director	Original Year of Election or Appointment	Current Term Expiration	Days in Board Meetings	Comp. for Board Meetings & Retainer	Days in Committee Meetings	Days in Other Activities	Comp. for Committee and other Activities	Total All Compensation
James C. Carter, Jr.	1979	2021	8	$17,460	16	19	$14,100	$31,560
Hugh E. Weathers	1998	2023	9	17,460	9	17	13,800	31,260
H. Frank Ables, Jr.	2015	2023	9	13,500	9	16	14,100	27,600
Arthur Q. Black	1995	2021	9	13,500	11	15	14,700	28,200
Thomas H. Coward	1986	2019	9	14,100	6	13	9,600	23,700
Lee H. DeLoach	2002	2020	9	13,500	9	15	13,500	27,000
Sean F. Lennon	2017	2021	8	14,100	10	17	14,100	28,200
Phillip E. Love, Jr.*	2014	2022	9	12,900	7	9	9,600	22,500
Jimmy B. Metts	1978	2020	9	14,100	7	15	12,600	26,700
Jerome G. Parker	1987	2022	9	14,100	7	12	9,600	23,700
J. Jay Peay	2015	2023	9	13,200	13	13	12,600	25,800
William T. Robinson	2011	2020	9	12,000	14	15	9,300	21,300
Charles C. Rucks	1988	2022	9	12,600	7	14	13,800	26,400
David H. Womack*	1991	2023	9	17,460	16	16	17,100	34,560
TOTAL COMPENSATION				**$199,980**			**$178,500**	**$378,480**

****Serves as Outside Director***

Days in Board Meetings and Days in Committee meetings may include participation in conference calls.

Days in Other Activities includes partial days traveling and days spent attending other Farm Credit related functions or special assignments.

The following represents certain information regarding the directors of the Association. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

James C. Carter, Jr., Chairman is the Co-Owner and Secretary of Southern Belle Farm, Inc. that he operates with his son. Southern Belle Farm, Inc. specializes in the production of strawberries, blackberries, blueberries, peaches, beef cattle, hay, agritourism and school field trips promoting agricultural education. He is also the Co-Owner of JC Carter Family Farm, LLC with his son. Mr. Carter is the Vice-President of Henry County Farm Bureau (agricultural organization), the Board Chairman of the Henry County Water Authority (water supply and distribution organization), and member of the Henry County Cattlemen's Association (beef cattle production). He also serves on the board of directors of the Farm Credit Council (legislative support for agriculture). Mr. Carter serves as Vice-Chairman of the Executive and Compensation Committee and is an ad hoc member of all other board committees at AgSouth Farm Credit.

Hugh E. Weathers, Vice-Chairman is a row crop farmer, a farm property landlord, and serves the state of South Carolina as Commissioner of Agriculture. Mr. Weathers is the Owner of Weathers Farms, Inc. (row crops and farm property landlord), owner of Weathers Trucking, Inc. (bulk milk delivery), partner in Circle W. Farms (row crops), and owner of WB Bowman, LLC (land holdings). He serves on the boards of Southern United States Trade Association (agricultural exporting), South Carolina Poultry Federation (promotes poultry industry), the Southern Association of State Departments of Agriculture (agricultural organization), Catch the Vision Ministry (foreign ministry organization), and the South Carolina Department of Commerce Coordinating Council (economic development). Mr. Weathers serves on the Risk Management Committee and as Chairman of the Executive and Compensation Committee.

H. Frank Ables, Jr. is a poultry, cattle, corn, wheat, and soybean producer. He is the owner of Chikamoo Farms, majority partner of Chikamoo, LLC, and is a board member of the Oconee County Conservation Bank (conservation organization). Mr. Ables serves as Chairman of the Risk Management Committee and serves on the Executive and Compensation Committee.

Arthur Q. Black is a hay and produce farmer and owns Black's Peaches (farming and agritourism). He serves on the boards of the York County Farm Bureau (agricultural organization) and the South Carolina Farm Bureau (agricultural organization). Mr. Black also serves as president on the board of Farmers Mutual Insurance (insurance) and is a member of the York Investment Association (investment club). Mr. Black is the board's representative on the AgFirst District Advisory Council (agricultural organization). He also serves on the Audit Committee.

Thomas H. Coward boards horses, is a real estate developer and is the owner of Hopeland Farm (horse boarding). Mr. Coward is the board's representative to the AgFirst Farm Credit Bank (agricultural lending) Nominating Committee and serves as an alternate on the AgFirst District Advisory Council (agricultural organization). He serves on the Risk Management Committee.

Lee H. DeLoach is a retired Probate Court Judge for Bulloch County, Georgia, a timber farmer, beef cattle and hay producer, and landlord. Mr. DeLoach serves as the alternate representative to the AgFirst Farm Credit Bank (agricultural lending) Nominating Committee. He serves on the Executive and Compensation Committee and is the Chairman of the Governance and Ethics Committee.

Sean F. Lennon is a fruit farmer, landlord and is the President of Fitzgerald Fruit Farms, LLC (fruit farm), Fitzgerald Packing & Storage, LLC (commercial fruit packing), Fitzgerald Fruit Sourcing, LLC (produce sourcing), LSW Farming, LLC (fruit farm), Lennon Real Properties, LLC (land and assets), Lennon Business Holdings, LLC (land and assets), Warm Springs Winery, LLC (wine), Fitzgerald Real Properties, LLC (land and assets), and The Shed at Fitzgerald Farms (agritourism and retail sales). Mr. Lennon is also the Second Vice President of the National Peach Council (agricultural organization) and is on the board of the Meriwether County Farm Bureau (agricultural organization). He is also a member of the Georgia Peach Council (agricultural organization), the Georgia Agribusiness Council (agricultural organization), and the Georgia Fruit & Vegetables Growers Association (agricultural organization). Mr. Lennon serves as a member of the Audit Committee.

Phillip E. Love, Jr. is the Chairman of the board of directors of Amerisure Mutual Insurance Company (insurance) where he serves on the Compensation and Governance Committee and the Audit Committee. He also serves on the board of the South Carolina Medical Malpractice Liability Insurance Joint Underwriting Association (insurance), where he serves on the Executive Committee. He serves on the Reinsurance Committee of the South Carolina Windstorm and Hail Underwriting Association (insurance) and is Chairman of the Board of Managers for Agency Business Solutions, LLC (insurance). Mr. Love serves as an outside director and serves as Vice-Chairman of the Governance and Ethics Committee.

Jimmy B. Metts is a tree farmer, manages forest lands, is a landlord of agricultural lands, a producer of pine straw, and President and Owner of Land Services Inc. (land clearing). Mr. Metts serves on the Risk Management Committee.

Jerome G. Parker is a pecan farmer and also owns and operates Jerome Parker Refrigeration, Inc. (refrigeration business). He serves on the board of Tattnall County Farm Bureau (agricultural organization) and on the Vidalia Onion Committee (agricultural organization). Mr. Parker serves on the Governance and Ethics Committee.

J. Jay Peay is a Certified Public Accountant and President and Owner of Peay & Associates, LLC (accounting firm) and President and Owner of SwaimBrown Wealth Management, LLC (investment consulting and advising) where he is a Registered Investment Advisor. He is a Partner in Enoree Holdings, LLC (investment holding company) and Bush River Realty, LLC (real estate). For the past five years, Mr. Peay has been employed as a Certified Public Accountant. Mr. Peay manages personal and family property that primarily produces timber. He serves as Vice-Chairman for Laurens County Healthcare System (medical) and is a founding member of the Laurens County Cancer Association (non-profit organization) where he serves as Treasurer. He also serves as the Chair of the Endowment Committee of the Broad Street United Methodist Church. Mr. Peay serves as Vice-Chairman of the Audit Committee.

William T. Robinson is a hay, cattle and timber farmer. Mr. Robinson is the Owner and Operator of Robinson Family Farm. He retired from Santee Cooper (utility provider) in the Treasury and Corporate Planning Department in early 2015. He is employed by The SEFA Group (engineering and construction) and serves as Executive Director within the SEFA Industrial Solutions division and previously served as the Market Development Officer. Mr. Robinson serves on the board of directors of the AgFirst Farm Credit Bank (agricultural lending) and is the Chairman of the AgFirst/Farm Credit Bank of Texas Benefits Plan Sponsor Committee (agricultural lending). He is a member of the South Carolina Farm Bureau (insurance) and serves on the board on the Orangeburg Area Cattlemen's Association (beef cattle production), and the Tri-County Electric Cooperative. Mr. Robinson serves on the Audit Committee and the Executive and Compensation Committee.

Charles C. Rucks is a retired dairy farmer and now grows hay and raises beef cattle. He is the owner of Rucks Dairy (farming), serves on the Spalding County Farm Bureau (agricultural organization), and serves as a board member for the Upper Flint Water Council (water conservation). Mr. Rucks serves on the Governance and Ethics Committee.

David H. Womack is a Certified Public Accountant and President of the firm, David H. Womack & Company, PC, CPAs (accounting firm). Mr. Womack serves as Vice President of the Board of Trustees for Brewton Cemetery, Inc. (perpetual care, non-profit), and as Finance Chairman for First United Methodist Church. Mr. Womack is as an outside director serving on the Executive and Compensation Committee and as Chairman of the Audit Committee.

Mr. Thomas H. Coward retired December 31, 2019. His seat has been filled by Mr. David V. Cantley, who began his term on January 1, 2020.

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. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations except those discussed in Note 10, *Related Party Transactions*.

Involvement in Certain Legal Proceedings

From time to time, the Association may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, the Association is not aware of any such actions that would have a material impact on our financial condition and 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 paid by the Association for services rendered by its independent auditors for the year ended December 31, 2019 were as follows:

Independent Auditors	2019
PricewaterhouseCoopers, LLP	
Audit services	$ 97,044
Total	$ 97,044

Audit services were for the annual audit of the Consolidated Financial Statements.

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 1-912-489-4842, ext. 2674, or writing Bo Fennell, AgSouth Farm Credit, ACA, P.O. 718 Statesboro, GA 30459 or accessing the website, ***www.agsouthfc.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual 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 that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensure that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

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

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the *Management's Discussion and Analysis of Financial Condition and Results of Operations* section included in this Annual Report to 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. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Reports of suspected or actual wrongdoings involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (Convercent) at 1-844-850-6496 or ***www.convercent.com/report.***

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 AgSouth Farm Credit, ACA (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 AgSouth Farm Credit, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

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

David H. Womack
Chairman of the Audit Committee

Members of Audit Committee

Arthur Q. Black
Sean F. Lennon
J. Jay Peay
William T. Robinson

March 12, 2020

pwc

Report of Independent Auditors

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 12, 2020

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

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2019	2018	2017
Assets			
Cash	**$ 5,853**	$ 5,026	$ 4,949
Investments in debt securities:			
Held to maturity (fair value of $5,307, $5,419, and $5,456, respectively)	**5,010**	5,280	5,533
Loans	**1,835,096**	1,793,452	1,710,098
Allowance for loan losses	**(16,361)**	(15,444)	(14,815)
Net loans	**1,818,735**	1,778,008	1,695,283
Loans held for sale	**1,182**	359	3,375
Accrued interest receivable	**18,827**	19,251	16,860
Equity investments in other Farm Credit institutions	**24,527**	24,151	23,568
Premises and equipment, net	**21,332**	20,894	19,724
Other property owned	**4,019**	4,627	3,669
Accounts receivable	**22,120**	25,162	25,710
Other assets	**2,172**	2,104	2,170
Total assets	**$ 1,923,777**	$ 1,884,862	$ 1,800,841
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,481,914**	$ 1,461,549	$ 1,405,074
Accrued interest payable	**4,078**	4,136	3,495
Patronage refunds payable	**11,532**	10,361	9,901
Accounts payable	**1,721**	1,700	2,310
Advanced conditional payments	**24**	—	—
Other liabilities	**13,674**	17,124	14,570
Total liabilities	**1,512,943**	1,494,870	1,435,350
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**10,012**	9,567	9,097
Retained earnings			
Allocated	**131,801**	126,003	121,876
Unallocated	**269,553**	254,648	234,892
Accumulated other comprehensive income (loss)	**(532)**	(226)	(374)
Total members' equity	**410,834**	389,992	365,491
Total liabilities and members' equity	**$ 1,923,777**	$ 1,884,862	$ 1,800,841

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

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Interest Income			
Loans	**$ 111,420**	$ 105,600	$ 98,117
Investments	**341**	358	377
Total interest income	**111,761**	105,958	98,494
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**48,990**	44,977	39,164
Other	**—**	289	280
Total interest expense	**48,990**	45,266	39,444
Net interest income	**62,771**	60,692	59,050
Provision for loan losses	**1,349**	581	2,738
Net interest income after provision for loan losses	**61,422**	60,111	56,312
Noninterest Income			
Loan fees	**3,918**	3,502	3,344
Fees for financially related services	**2,345**	2,458	1,823
Patronage refunds from other Farm Credit institutions	**21,894**	24,912	25,611
Gains (losses) on sales of rural home loans, net	**2,385**	1,762	1,986
Gains (losses) on sales of premises and equipment, net	**162**	193	256
Gains (losses) on other transactions	**90**	(386)	(1,228)
Insurance Fund refunds	**366**	989	—
Other noninterest income	**181**	178	133
Total noninterest income	**31,341**	33,608	31,925
Noninterest Expense			
Salaries and employee benefits	**28,524**	29,293	28,531
Occupancy and equipment	**2,390**	2,491	2,272
Insurance Fund premiums	**1,195**	1,172	1,888
(Gains) losses on other property owned, net	**1,128**	20	465
Other operating expenses	**7,054**	7,230	(188)
Total noninterest expense	**40,291**	40,206	32,968
Income before income taxes	**52,472**	53,513	55,269
Provision (benefit) for income taxes	**(3)**	—	6
Net income	**$ 52,475**	$ 53,513	$ 55,263

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Net income	**$ 52,475**	$ 53,513	$ 55,263
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(306)**	148	19
Comprehensive income	**$ 52,169**	$ 53,661	$ 55,282

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2016	$ 2	$ 8,493	$ 118,570	$ 212,028	$ (393)	$ 338,700
Comprehensive income				55,263	19	55,282
Protected borrower stock issued/(retired), net	(2)					(2)
Capital stock/participation certificates issued/(retired), net		604				604
Patronage distribution						
Cash				(9,720)		(9,720)
Nonqualified allocated retained earnings			22,681	(22,681)		—
Retained earnings retired			(19,373)			(19,373)
Patronage distribution adjustment			(2)	2		—
Balance at December 31, 2017	$ —	$ 9,097	$ 121,876	$ 234,892	$ (374)	$ 365,491
Comprehensive income				53,513	148	53,661
Capital stock/participation certificates issued/(retired), net		470				470
Patronage distribution						
Cash				(10,133)		(10,133)
Nonqualified allocated retained earnings			23,644	(23,644)		—
Retained earnings retired			(19,503)			(19,503)
Patronage distribution adjustment			(14)	20		6
Balance at December 31, 2018	$ —	$ 9,567	$ 126,003	$ 254,648	$ (226)	$ 389,992
Cumulative effect of change in accounting principle				**8**		**8**
Comprehensive income				**52,475**	**(306)**	**52,169**
Capital stock/participation certificates issued/(retired), net		**445**				**445**
Patronage distribution						
Cash				**(11,160)**		**(11,160)**
Nonqualified allocated retained earnings			**26,040**	**(26,040)**		**—**
Retained earnings retired			**(20,506)**			**(20,506)**
Patronage distribution adjustment			**264**	**(378)**		**(114)**
Balance at December 31, 2019	**$ —**	**$ 10,012**	**$ 131,801**	**$ 269,553**	**$ (532)**	**$ 410,834**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Cash flows from operating activities:			
Net income	**$ 52,475**	$ 53,513	$ 55,263
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,324**	1,223	1,199
Amortization (accretion) of net deferred loan costs (fees)	**626**	624	595
Premium amortization (discount accretion) on investments in debt securities	**(1)**	(1)	(1)
Provision for loan losses	**1,349**	581	2,738
(Gains) losses on other property owned	**999**	(35)	406
(Gains) losses on sales of premises and equipment, net	**(162)**	(193)	(256)
(Gains) losses on sales of rural home loans, net	**(2,385)**	(1,762)	(1,986)
(Gains) losses on other transactions	**(90)**	386	1,228
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(197,971)**	(154,475)	(148,399)
Proceeds from sales of loans held for sale, net	**199,533**	159,253	149,870
(Increase) decrease in accrued interest receivable	**424**	(2,391)	(2,322)
(Increase) decrease in accounts receivable	**3,042**	548	(4,754)
(Increase) decrease in other assets	**(60)**	66	7,591
Increase (decrease) in accrued interest payable	**(58)**	641	470
Increase (decrease) in accounts payable	**21**	(610)	(160)
Increase (decrease) in other liabilities	**(3,666)**	2,316	(14,153)
Total adjustments	**2,925**	6,171	(7,934)
Net cash provided by (used in) operating activities	**55,400**	59,684	47,329
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	**271**	254	1,525
Net (increase) decrease in loans	**(43,624)**	(85,393)	(81,815)
(Increase) decrease in equity investments in other Farm Credit institutions	**(376)**	(583)	(721)
Purchases of premises and equipment	**(1,771)**	(2,443)	(2,262)
Proceeds from sales of premises and equipment	**171**	243	348
Proceeds from sales of other property owned	**531**	540	175
Net cash provided by (used in) investing activities	**(44,798)**	(87,382)	(82,750)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**20,365**	56,475	62,473
Net increase (decrease) in advanced conditional payments	**24**	—	—
Protected borrower stock retired	**—**	—	(2)
Capital stock and participation certificates issued/(retired), net	**445**	470	604
Patronage refunds and dividends paid	**(10,103)**	(9,667)	(8,492)
Retained earnings retired	**(20,506)**	(19,503)	(19,373)
Net cash provided by (used in) financing activities	**(9,775)**	27,775	35,210
Net increase (decrease) in cash	**827**	77	(211)
Cash, beginning of period	**5,026**	4,949	5,160
Cash, end of period	**$ 5,853**	$ 5,026	$ 4,949
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 737**	$ 1,141	$ 162
Receipt of property in settlement of loans	**1,659**	2,604	1,123
Estimated cash dividends or patronage distributions declared or payable	**11,160**	10,133	9,720
Employee benefit plans adjustments (Note 9)	**306**	(148)	(19)
Supplemental information:			
Interest paid	**$ 49,048**	$ 44,625	$ 38,974

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:** AgSouth Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the states of Georgia and South Carolina in the following counties:

Georgia: Counties of Appling, Atkinson, Bacon, Brantley, Bryan, Bulloch, Butts, Camden, Candler, Carroll, Charlton, Chatham, Clayton, Clinch, Coffee, Coweta, DeKalb, Douglas, Effingham, Emanuel, Evans, Fayette, Fulton, Glynn, Greene, Gwinnett, Haralson, Harris, Heard, Henry, Jasper, Jeff Davis, Jenkins, Lamar, Liberty, Long, McIntosh, Meriwether, Monroe, Montgomery, Morgan, Muscogee, Newton, Oconee, Pierce, Pike, Putnam, Rockdale, Screven, Spalding, Talbot, Tattnall, Toombs, Troup, Upson, Walton, Ware, Wayne, and Wheeler.

South Carolina: Counties of Abbeville, Aiken, Allendale, Anderson, Bamberg, Barnwell, Beaufort, Berkeley, Calhoun, Charleston, Cherokee, Chester, Colleton, Dorchester, Edgefield, Fairfield, Greenville, Greenwood, Hampton, Jasper, Kershaw, Lancaster, Laurens, Lexington, McCormick, Newberry, Oconee, Orangeburg, Pickens, Richland, Saluda, Spartanburg, Union, and York.

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

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

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

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

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

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

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

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

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

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

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of farm or 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 $5,577 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 five to forty years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

   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 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). Premiums and discounts are amortized or accreted ratably over the term of the respective security using the interest method. The amortization of premiums on certain purchased callable debt securities that have explicit, noncontingent call features and that are callable at fixed prices on preset dates are amortized to the earliest call date.

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

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

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

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

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

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

G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

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

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

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

Additional information may be found in Note 9.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Additional information may be found in Note 8.

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

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

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

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

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

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

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

N. **Leases:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In April 2019, the FASB issued ASU 2019-04 Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825 Financial Instruments. The amendments in this Update clarify, correct, and improve various aspects of the guidance in the following Updates related to financial instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The items addressed generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in ASU 2016-

13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of the amendments in this Update for determining when accrued interest receivables are deemed uncollectible and written off. For entities that have adopted the amendments in ASU 2017-12 as of the issuance date of this Update, the effective date is as of the beginning of the first annual period beginning after the issuance date of this Update. For those entities, early adoption is permitted, including adoption on any date on or after the issuance of this Update. The amendments in this Update related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of this Update as long as the entity has adopted all of the amendments in ASU 2016-01. The amendments in this Update should be applied on a modified-retrospective transition basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted all of the amendments in ASU 2016-01. Adoption of the guidance related to ASU 2016-01 and ASU 2017-12 is not expected to have an impact on the statements of financial condition or results of operations. Evaluation of any possible effects the ASU 2016-13 guidance may have on the statements of financial condition and results of operations is in progress.

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

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

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

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

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

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

Transition Information

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
- The package of practical expedients related to initial application of the guidance was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- Upon adoption, a cumulative-effect adjustment to equity of approximately $8 was recorded. In addition, a Right of Use Asset in the amount of $218 and Lease Liability in the amount of $210 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, producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.

- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of US agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31, 2019	December 31, 2018	December 31, 2017
Real estate mortgage	$ 1,364,772	$ 1,336,239	$ 1,308,602
Production and intermediate-term	350,390	348,156	307,691
Processing and marketing	21,951	21,505	15,763
Farm-related business	25,608	23,992	16,477
Rural residential real estate	71,960	63,124	61,100
Other (including Mission Related)	415	436	465
Total loans	$ 1,835,096	$ 1,793,452	$ 1,710,098

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 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	$ 5,954	$ 152,114	$ 386	$ 9,127	$ –	$ –	$ 6,340	$ 161,241
Production and intermediate-term	1,056	88,188	1,531	–	3,730	–	6,317	88,188
Processing and marketing	–	106,685	309	27,960	–	–	309	134,645
Farm-related business	3,860	12,674	–	–	–	–	3,860	12,674
Total	$ 10,870	$ 359,661	$ 2,226	$ 37,087	$ 3,730	$ –	$ 16,826	$ 396,748

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	$ 3,268	$ 162,669	$ 434	$ 9,551	$ –	$ –	$ 3,702	$ 172,220
Production and intermediate-term	–	53,384	618	–	4,175	–	4,793	53,384
Processing and marketing	–	20,254	293	18,039	–	–	293	38,293
Farm-related business	3,358	11,362	–	–	–	–	3,358	11,362
Total	$ 6,626	$ 247,669	$ 1,345	$ 27,590	$ 4,175	$ –	$ 12,146	$ 275,259

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	$ –	$ 175,459	$ –	$ 17,819	$ –	$ –	$ –	$ 193,278
Production and intermediate-term	–	49,732	636	–	3,504	–	4,140	49,732
Processing and marketing	–	14,029	–	1,833	–	–	–	15,862
Farm-related business	–	9,167	–	–	–	–	–	9,167
Total	$ –	$ 248,387	$ 636	$ 19,652	$ 3,504	$ –	$ 4,140	$ 268,039

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	$ 31,878	$ 195,639	$ 1,137,255	$ 1,364,772
Production and intermediate term	189,058	123,968	37,364	350,390
Processing and marketing	4,232	7,754	9,965	21,951
Farm-related business	4,607	11,891	9,110	25,608
Rural residential real estate	5,003	2,047	64,910	71,960
Other (including Mission Related)	–	–	415	415
Total loans	$ 234,778	$ 341,299	$ 1,259,019	$ 1,835,096
Percentage	12.79%	18.60%	68.61%	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	97.51%	97.46%	97.12%
OAEM	1.71	1.90	1.71
Substandard/doubtful/loss	0.78	0.64	1.17
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	95.35%	96.76%	95.42%
OAEM	2.97	2.48	3.74
Substandard/doubtful/loss	1.68	0.76	0.84
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	92.45%	94.32%	91.83%
OAEM	–	–	8.17
Substandard/doubtful/loss	7.55	5.68	–
	100.00%	100.00%	100.00%

	December 31, 2019	2018	2017
Farm-related business:			
Acceptable	88.27%	94.11%	97.60%
OAEM	8.42	4.59	2.38
Substandard/doubtful/loss	3.31	1.30	0.02
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	98.34%	98.34%	98.03%
OAEM	0.82	0.98	0.86
Substandard/doubtful/loss	0.84	0.68	1.11
	100.00%	100.00%	100.00%
Other (including Mission Related):			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	96.94%	97.27%	96.80%
OAEM	1.99	2.00	2.11
Substandard/doubtful/loss	1.07	0.73	1.09
	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	$ 7,572	$ 3,313	$ 10,885	$ 1,365,719	$ 1,376,604
Production and intermediate-term	3,639	3,376	7,015	349,739	356,754
Processing and marketing	310	–	310	21,769	22,079
Farm-related business	1,458	403	1,861	23,969	25,830
Rural residential real estate	221	122	343	71,868	72,211
Other (including Mission Related)	–	–	–	416	416
Total	$ 13,200	$ 7,214	$ 20,414	$ 1,833,480	$ 1,853,894

	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	$ 6,254	$ 2,483	$ 8,737	$ 1,339,698	$ 1,348,435
Production and intermediate-term	2,687	1,693	4,380	350,162	354,542
Processing and marketing	281	666	947	20,809	21,756
Farm-related business	152	194	346	23,808	24,154
Rural residential real estate	400	80	480	62,869	63,349
Other (including Mission Related)	–	–	–	437	437
Total	$ 9,774	$ 5,116	$ 14,890	$ 1,797,783	$ 1,812,673

	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	$	6,402	$	3,894	$	10,296	$	1,309,635	$	1,319,931
Production and intermediate-term		2,287		1,521		3,808		308,801		312,609
Processing and marketing		340		–		340		15,711		16,051
Farm-related business		165		3		168		16,393		16,561
Rural residential real estate		697		340		1,037		60,272		61,309
Other (including Mission Related)		–		–		–		466		466
Total	$	9,891	$	5,758	$	15,649	$	1,711,278	$	1,726,927

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

	December 31,					
	2019		2018		2017	
Nonaccrual loans:						
Real estate mortgage	$	9,030	$	6,798	$	10,751
Production and intermediate-term		7,415		4,008		3,671
Processing and marketing		–		667		–
Farm-related business		403		313		3
Rural residential real estate		174		307		553
Total	$	17,022	$	12,093	$	14,978
Accruing restructured loans:						
Real estate mortgage	$	4,434	$	6,579	$	5,946
Production and intermediate-term		444		273		757
Rural residential real estate		280		136		160
Total	$	5,158	$	6,988	$	6,863
Accruing loans 90 days or more past due:						
Total	$	–	$	–	$	–
Total nonperforming loans	$	22,180	$	19,081	$	21,841
Other property owned		4,019		4,627		3,669
Total nonperforming assets	$	26,199	$	23,708	$	25,510
Nonaccrual loans as a percentage of total loans		0.93%		0.67%		0.88%
Nonperforming assets as a percentage of total loans and other property owned		1.42%		1.32%		1.49%
Nonperforming assets as a percentage of capital		6.38%		6.08%		6.98%

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	$	5,647	$	4,810	$	6,634
Past due		11,375		7,283		8,344
Total	$	17,022	$	12,093	$	14,978
Impaired accrual loans:						
Restructured	$	5,158	$	6,988	$	6,863
90 days or more past due		–		–		–
Total	$	5,158	$	6,988	$	6,863
Total impaired loans	$	22,180	$	19,081	$	21,841
Additional commitments to lend	$	–	$	–	$	–

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	$ 384	$ 368	$ –	$ 341	$ 30
Production and intermediate-term	3,265	3,193	928	2,902	253
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 3,649	$ 3,561	$ 928	$ 3,243	$ 283
With no related allowance for credit losses:					
Real estate mortgage	$ 13,080	$ 15,368	$ –	$ 11,625	$ 1,016
Production and intermediate-term	4,594	5,884	–	4,083	358
Farm-related business	403	524	–	358	31
Rural residential real estate	454	495	–	404	35
Total	$ 18,531	$ 22,271	$ –	$ 16,470	$ 1,440
Total:					
Real estate mortgage	$ 13,464	$ 15,736	$ –	$ 11,966	$ 1,046
Production and intermediate-term	7,859	9,077	928	6,985	611
Farm-related business	403	524	–	358	31
Rural residential real estate	454	495	–	404	35
Total	$ 22,180	$ 25,832	$ 928	$ 19,713	$ 1,723

	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	$ 255	$ 255	$ 54	$ 264	$ 17
Production and intermediate-term	332	488	32	343	21
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 587	$ 743	$ 86	$ 607	$ 38
With no related allowance for credit losses:					
Real estate mortgage	$ 13,122	$ 15,145	$ –	$ 13,571	$ 857
Production and intermediate-term	3,949	5,469	–	4,085	259
Processing and marketing	667	652	–	689	43
Farm-related business	313	397	–	324	20
Rural residential real estate	443	505	–	459	29
Total	$ 18,494	$ 22,168	$ –	$ 19,128	$ 1,208
Total:					
Real estate mortgage	$ 13,377	$ 15,400	$ 54	$ 13,835	$ 874
Production and intermediate-term	4,281	5,957	32	4,428	280
Processing and marketing	667	652	–	689	43
Farm-related business	313	397	–	324	20
Rural residential real estate	443	505	–	459	29
Total	$ 19,081	$ 22,911	$ 86	$ 19,735	$ 1,246

	December 31, 2017			Year Ended December 31, 2017	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 1,109	$ 1,180	$ 31	$ 1,281	$ 74
Production and intermediate-term	608	695	148	702	40
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 1,717	$ 1,875	$ 179	$ 1,983	$ 114
With no related allowance for credit losses:					
Real estate mortgage	$ 15,588	$ 19,436	$ –	$ 18,009	$ 1,037
Production and intermediate-term	3,820	5,121	–	4,413	254
Farm-related business	3	90	–	3	–
Rural residential real estate	713	849	–	824	48
Total	$ 20,124	$ 25,496	$ –	$ 23,249	$ 1,339
Total:					
Real estate mortgage	$ 16,697	$ 20,616	$ 31	$ 19,290	$ 1,111
Production and intermediate-term	4,428	5,816	148	5,115	294
Farm-related business	3	90	–	3	–
Rural residential real estate	713	849	–	824	48
Total	$ 21,841	$ 27,371	$ 179	$ 25,232	$ 1,453

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***	**Rural Residential Real Estate**	**Other**	**Total**
Activity related to the allowance for credit losses:						
Balance at December 31, 2018	$ 11,485	$ 3,032	$ 385	$ 538	$ 4	$ 15,444
Charge-offs	(277)	(784)	(15)	(21)	–	(1,097)
Recoveries	191	265	3	206	–	665
Provision for loan losses	86	1,355	27	(119)	–	1,349
Balance at December 31, 2019	$ 11,485	$ 3,868	$ 400	$ 604	$ 4	$ 16,361
Balance at December 31, 2017	$ 11,214	$ 2,797	$ 280	$ 520	$ 4	$ 14,815
Charge-offs	(112)	(353)	–	(90)	–	(555)
Recoveries	338	182	3	80	–	603
Provision for loan losses	45	406	102	28	–	581
Balance at December 31, 2018	$ 11,485	$ 3,032	$ 385	$ 538	$ 4	$ 15,444
Balance at December 31, 2016	$ 11,297	$ 2,271	$ 178	$ 426	$ 11	$ 14,183
Charge-offs	(2,102)	(252)	–	(67)	–	(2,421)
Recoveries	154	137	4	–	20	315
Provision for loan losses	1,865	641	98	161	(27)	2,738
Balance at December 31, 2017	$ 11,214	$ 2,797	$ 280	$ 520	$ 4	$ 14,815
Allowance on loans evaluated for impairment:						
Individually	$ –	$ 928	$ –	$ –	$ –	$ 928
Collectively	11,485	2,940	400	604	4	15,433
Balance at December 31, 2019	$ 11,485	$ 3,868	$ 400	$ 604	$ 4	$ 16,361
Individually	$ 54	$ 32	$ –	$ –	$ –	$ 86
Collectively	11,431	3,000	385	538	4	15,358
Balance at December 31, 2018	$ 11,485	$ 3,032	$ 385	$ 538	$ 4	$ 15,444
Individually	$ 31	$ 148	$ –	$ –	$ –	$ 179
Collectively	11,183	2,649	280	520	4	14,636
Balance at December 31, 2017	$ 11,214	$ 2,797	$ 280	$ 520	$ 4	$ 14,815
Recorded investment in loans evaluated for impairment:						
Individually	$ 13,596	$ 7,859	$ 403	$ 454	$ –	$ 22,312
Collectively	1,363,008	348,895	47,506	71,757	416	1,831,582
Balance at December 31, 2019	$ 1,376,604	$ 356,754	$ 47,909	$ 72,211	$ 416	$ 1,853,894
Individually	$ 13,598	$ 4,285	$ 980	$ 445	$ –	$ 19,308
Collectively	1,334,837	350,257	44,930	62,904	437	1,793,365
Balance at December 31, 2018	$ 1,348,435	$ 354,542	$ 45,910	$ 63,349	$ 437	$ 1,812,673
Individually	$ 18,411	$ 4,438	$ 3	$ 715	$ –	$ 23,567
Collectively	1,301,520	308,171	32,609	60,594	466	1,703,360
Balance at December 31, 2017	$ 1,319,931	$ 312,609	$ 32,612	$ 61,309	$ 466	$ 1,726,927

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain Government-Sponsored Enterprises (GSEs), including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $163,041, $164,626, and $157,195 at December 31, 2019, 2018, and 2017, respectively. Fees paid for such guarantee commitments totaled $157, $147, and $163 for 2019, 2018, and 2017, respectively. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

	Year Ended December 31, 2019				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 333	$ 1,833	$ –	$ 2,166	
Production and intermediate-term	171	386	–	557	
Rural residential real estate	106	–	–	106	
Total	$ 610	$ 2,219	$ –	$ 2,829	
Post-modification:					
Real estate mortgage	$ 327	$ 1,868	$ –	$ 2,195	$ –
Production and intermediate-term	164	422	–	586	(39)
Rural residential real estate	107	–	–	107	–
Total	$ 598	$ 2,290	$ –	$ 2,888	$ (39)

	Year Ended December 31, 2018				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 383	$ 514	$ –	$ 897	
Production and intermediate-term	305	48	–	353	
Total	$ 688	$ 562	$ –	$ 1,250	
Post-modification:					
Real estate mortgage	$ 391	$ 474	$ –	$ 865	$ –
Production and intermediate-term	319	54	–	373	–
Total	$ 710	$ 528	$ –	$ 1,238	$ –

	Year Ended December 31, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 597	$ 3,226	$ –	$ 3,823	
Production and intermediate-term	–	1,189	–	1,189	
Rural residential real estate	37	–	–	37	
Total	$ 634	$ 4,415	$ –	$ 5,049	
Post-modification:					
Real estate mortgage	$ 612	$ 3,241	$ –	$ 3,853	$ –
Production and intermediate-term	–	1,202	–	1,202	–
Rural residential real estate	37	–	–	37	–
Total	$ 649	$ 4,443	$ –	$ 5,092	$ –

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.

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

	Year Ended December 31,		
Defaulted troubled debt restructurings	**2019**	**2018**	**2017**
Real estate mortgage	$ 615	$ 229	$ 416
Production and intermediate-term	72	117	88
Rural residential real estate	–	–	31
Total	$ 687	$ 346	$ 535

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 December 31, 2019	2018	2017	Nonaccrual TDRs December 31, 2019	2018	2017
Real estate mortgage	$ 8,113	$ 10,633	$ 10,666	$ 3,679	$ 4,054	$ 4,720
Production and intermediate-term	1,489	1,545	1,999	1,045	1,272	1,242
Farm-related business	3	3	3	3	3	3
Rural residential real estate	280	171	302	–	35	142
Total loans	$ 9,885	$ 12,352	$ 12,970	$ 4,727	$ 5,364	$ 6,107
Additional commitments to lend	$ –	$ –	$ –			

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 risk rating scale used to also grade loans, falls below 9 and 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 no RABs whose credit quality had deteriorated beyond the program limits.

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

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 5,010	$ 297	$ –	$ 5,307	6.41 %

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 5,280	$ 139	$ –	$ 5,419	6.41 %

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 5,533	$ 91	$ (168)	$ 5,456	6.41 %

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	–	–	–
After five years through ten years	880	929	5.16
After ten years	4,130	4,378	6.68
Total	$ 5,010	$ 5,307	6.41%

Some of these investments have 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. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category. There were no securities in a continuous unrealized loss position at December 31, 2019 or December 31, 2018.

December 31, 2017	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Unrealized Losses
RABs	$ –	$ –	$ 1,076	$ (168)

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.

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

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 $20,352 for 2019, $19,730 for 2018 and $18,961 for 2017. The Association owned 7.19 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 $4,175 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	$ 6,021	$ 5,816	$ 5,130
Buildings and improvements	21,034	20,537	19,894
Furniture and equipment	7,026	6,796	6,467
	34,081	33,149	31,491
Less: accumulated depreciation	12,749	12,255	11,767
Total	$ 21,332	$ 20,894	$ 19,724

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

	Year Ended December 31,		
	2019	2018	2017
(Gains) losses on sale, net	$ 40	$ (21)	$ (27)
Carrying value unrealized (gains) losses	958	(13)	433
Operating (income) expense, net	130	54	59
(Gains) losses on other property owned, net	$ 1,128	$ 20	$ 465

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 2.80 percent for LIBOR-based loans and 2.91 percent for Prime-based loans, and the weighted average remaining maturities were 2.4 years and 1.3 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 3.33 percent, and the weighted average remaining maturity was 10.6 years at December 31, 2019. The weighted-average interest rate on all interest-bearing notes payable was 3.28 percent and the weighted-average remaining maturity was 9.5 years at December 31, 2019. Approximately 88.72 percent of the Association's loan portfolio is match funded at the Bank as a fixed rate note. The remainder of the loan portfolio is funded through a variable rate note or free cash. 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. **Protected Borrower Equity:** Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of $1 thousand or 2 percent of the amount of the loan. 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 April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

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

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

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

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

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

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

paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.

- The tier 1 leverage ratio is tier 1 capital, divided by average total assets less regulatory deductions to tier 1 capital.
- The URE and UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average total assets less regulatory deductions to tier 1 capital.

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital	4.5%	1.875%	6.375%	14.75%	13.93%	13.14%
Tier 1 Capital	6.0%	1.875%	7.875%	14.75%	13.93%	13.14%
Total Regulatory Capital	8.0%	1.875%	9.875%	21.97%	20.92%	20.10%
Permanent Capital	7.0%	0.000%	7.000%	21.21%	20.20%	19.38%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	14.04%	13.22%	12.51%
URE and UREE Leverage	1.5%	0.0%	1.5%	13.90%	13.06%	12.32%

** 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.

D. **Description of Equities:** The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B, and C Common Stock, Classes B and 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
C Common/Voting	No	1,765,011	$ 8,825
C Participation Certificates/Nonvoting	No	237,360	1,187
Total Capital Stock and Participation Certificates		2,002,371	$ 10,012

Protected common stock and participation certificates are retired at par or face value in the normal course of business. 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 minimum aggregate amount of these two accounts is determined by the Board. 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 account 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 $2,577 of qualified surplus and $129,224 of nonqualified allocated surplus.

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

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

Dividends
The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A and D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B, or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B, or C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

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

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

1. Allocated Surplus
2. Class C Common Stock and Class C Participation Certificates
3. Classes A and B Common Stock and Class B Participation Certificates
4. Classes A and D 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 to the holders of the outstanding stock and participation certificates in the following order:

1. Classes A and D Preferred Stock
2. Classes A and B Common Stock and Class B Participation Certificates
3. Class C Common Stock and Class C Participation Certificates
4. Allocated Surplus
5. Unallocated Surplus issued after January 1, 1996 shall be distributed to all holders of Class C Common Stock and Class C Participation Certificates from January 1, 1996
6. Remaining Assets shall be distributed ratably to the holders of all classes of Stock and Participation Certificates

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

	Changes in Accumulated Other Comprehensive Income by Component *(a)*		
	For the Year Ended December 31,		
	2019	**2018**	**2017**
Employee Benefit Plans:			
Balance at beginning of period	$ (226)	$ (374)	$ (393)
Other comprehensive income before reclassifications	(306)	142	(140)
Amounts reclassified from AOCI	–	6	159
Net current period OCI	(306)	148	19
Balance at end of period	$ (532)	$ (226)	$ (374)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*			
	For the Year Ended December 31,			
	2019	**2018**	**2017**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ –	$ (6)	$ (159)	See Note 9.
Amounts reclassified	$ –	$ (6)	$ (159)	

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

Note 8 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

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

Estimating the fair value of the Association's equity investments in the Bank and other 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 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	$ 1,975	$ 1,975	$ –	$ –	$ 1,975
Recurring Assets	$ 1,975	$ 1,975	$ –	$ –	$ 1,975
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 2,721	$ –	$ –	$ 2,721	$ 2,721
Other property owned	4,019	–	–	4,460	4,460
Nonrecurring Assets	$ 6,740	$ –	$ –	$ 7,181	$ 7,181
Other Financial Instruments					
Assets:					
Cash	$ 5,853	$ 5,853	$ –	$ –	$ 5,853
Investments in debt securities, held-to-maturity	5,010	–	–	5,307	5,307
Loans	1,817,196	–	–	1,830,735	1,830,735
Other Financial Assets	$ 1,828,059	$ 5,853	$ –	$ 1,836,042	$ 1,841,895
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,481,914	$ –	$ –	$ 1,484,797	$ 1,484,797
Other Financial Liabilities	$ 1,481,914	$ –	$ –	$ 1,484,797	$ 1,484,797

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 2,006	$ 2,006	$ –	$ –	$ 2,006
Recurring Assets	$ 2,006	$ 2,006	$ –	$ –	$ 2,006
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 501	$ –	$ –	$ 501	$ 501
Other property owned	4,627	–	–	5,103	5,103
Nonrecurring Assets	$ 5,128	$ –	$ –	$ 5,604	$ 5,604
Other Financial Instruments					
Assets:					
Cash	$ 5,026	$ 5,026	$ –	$ –	$ 5,026
Investments in debt securities, held-to-maturity	5,280	–	–	5,419	5,419
Loans	1,777,866	–	–	1,763,220	1,763,220
Other Financial Assets	$ 1,788,172	$ 5,026	$ –	$ 1,768,639	$ 1,773,665
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,461,549	$ –	$ –	$ 1,439,810	$ 1,439,810
Other Financial Liabilities	$ 1,461,549	$ –	$ –	$ 1,439,810	$ 1,439,810

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,979	$ 1,979	$ –	$ –	$ 1,979
Recurring Assets	$ 1,979	$ 1,979	$ –	$ –	$ 1,979
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,538	$ –	$ –	$ 1,538	$ 1,538
Other property owned	3,669	–	–	3,931	3,931
Nonrecurring Assets	$ 5,207	$ –	$ –	$ 5,469	$ 5,469
Other Financial Instruments					
Assets:					
Cash	$ 4,949	$ 4,949	$ –	$ –	$ 4,949
Investments in debt securities, held-to-maturity	5,533	–	–	5,456	5,456
Loans	1,697,120	–	–	1,695,034	1,695,034
Other Financial Assets	$ 1,707,602	$ 4,949	$ –	$ 1,700,490	$ 1,705,439
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,405,074	$ –	$ –	$ 1,386,868	$ 1,386,868
Other Financial Liabilities	$ 1,405,074	$ –	$ –	$ 1,386,868	$ 1,386,868

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	$	7,181	Appraisal	Income and expense	*
				Comparable sales	*
				Replacement costs	*
				Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Investments in debt securities, held-to-maturity	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 9 — Employee Benefit Plans

The Association participates in three District sponsored benefit plans. These plans include a multiemployer defined benefit pension plan, the AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan), and a multiemployer defined benefit other postretirement benefits plan (OPEB Plan). In addition, the Association participates in 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 Employee Retirement Income Security Act (ERISA) and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

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

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Income were $3,453 for 2019, $5,158 for 2018, and $4,676 for 2017. At December 31, 2019, 2018, and 2017, the total liability balance for the FAP Plan presented in the District Combined Balance Sheets was $129,713, $94,491, and $139,104, respectively. The FAP Plan was 87.55 percent, 89.56 percent, and 86.41 percent funded to the projected benefit obligation as of December 31, 2019, 2018, and 2017, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Income were $908 for 2019, $878 for 2018, and $771 for 2017. At December 31, 2019, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $209,531.

During 2017, the method of recording expenses at participating District entities for the FAP and OPEB Plans was modified. Prior to 2017, expense was recorded based on allocations of actuarially-determined costs and any differences between recorded expense and actual contributions were recorded in Other Assets or Other Liabilities on the Consolidated Balance Sheets. For 2017 and future years, participating entities will record employee benefit costs based on the actual contributions to the Plans. This change caused the Association to modify its accounting estimates recorded in Other Assets and Other Liabilities since the assets and liabilities do not impact future contributions to the Plans. The change in estimate resulted in the reduction of Other Assets by $8,053 and the reduction of Other Liabilities by $15,193 on the Association's Balance Sheets, and a total reduction of noninterest expenses on the Association's Statements of Income of $7,140 during 2017.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $1,194, $1,084, and $1,047 for the years ended December 31, 2019, 2018, and 2017, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2019, 2018, and 2017, ($306), $148, and $19 have been recognized as a net debit and net credits to AOCI to reflect these elements.

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

In addition to the multiemployer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of $2,462 and a net under-funded status of $2,462 at December 31, 2019. Assumptions used to determine the projected benefit obligation as of December 31, 2019 included a discount rate of 3.30 percent. The expenses of these nonqualified plans included in noninterest expenses were $100, $81, and $262 for 2019, 2018, and 2017, respectively.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with related parties, which include 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 $6,010. During 2019, $3,879 of new loans were made and repayments totaled $3,964. In the opinion of management, none of these loans outstanding at December 31, 2019 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

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

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2019, $166,146 of commitments to extend credit and no commercial letters of credit were outstanding.

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 $77 with expiration dates ranging from September 9, 2020 to October 31, 2021. The maximum potential amount of future payments that may be required under these guarantees was $77.

The total amount of reserve for unfunded commitments, which is classified in Other Liabilities in the Consolidated Balance Sheets, was $639 at December 31, 2019. During 2019, the Association recorded a provision for unfunded commitments totaling $83.

Note 12 — Income Taxes

The provision for income taxes follows:

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	$ (3)	$ –	$ 6
State	–	–	–
	(3)	–	6
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision for income taxes	$ (3)	$ –	$ 6

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

	December 31,		
	2019	2018	2017
Federal tax at statutory rate	$ 11,019	$ 11,238	$ 19,344
State tax, net	–	–	–
Patronage distributions	(2,344)	(2,128)	(3,402)
Tax-exempt FLCA earnings	(8,672)	(9,164)	(15,284)
Change in valuation allowance	(16)	118	(1,786)
Change in tax rate	–	–	908
Other	10	(64)	226
Provision (benefit) for income taxes	$ (3)	$ –	$ 6

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	$ 960	$ 950	$ 840
Annual leave	182	185	202
Nonaccrual loan interest	294	462	421
Loan Fees	–	–	–
Pensions and other postretirement benefits	–	–	–
Loss carryforward	432	417	414
Other property owned	252	54	54
Gross deferred tax assets	2,120	2,068	1,931
Less: valuation allowance	(1,845)	(1,861)	(1,743)
Gross deferred tax assets, net of valuation allowance	275	207	188
Deferred income tax liabilities:			
Loan fees	(206)	(201)	(183)
Pensions and other postretirement benefits	–	–	–
Depreciation	(69)	(6)	(5)
Gross deferred tax liability	(275)	(207)	(188)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2019, deferred income taxes have not been provided by the Association on approximately $7,400 of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of ($1,845), ($1,861), and ($1,743) 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	$ 15,135	$ 15,386	$ 15,693	$ 16,557	$ 62,771
Provision for (reversal of allowance for) loan losses	–	905	326	118	1,349
Noninterest income (expense), net	(4,874)	(4,417)	(3,801)	4,145	(8,947)
Net income	$ 10,261	$ 10,064	$ 11,566	$ 20,584	$ 52,475

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 14,767	$ 14,850	$ 15,481	$ 15,594	$ 60,692
Provision for (reversal of allowance for) loan losses	(18)	(544)	729	414	581
Noninterest income (expense), net	(3,949)	(6,113)	(3,367)	6,831	(6,598)
Net income	$ 10,836	$ 9,281	$ 11,385	$ 22,011	$ 53,513

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 14,344	$ 14,474	$ 15,119	$ 15,113	$ 59,050
Provision for (reversal of allowance for) loan losses	(226)	881	1,299	784	2,738
Noninterest income (expense), net	(6,613)	(5,320)	(4,060)	14,944	(1,049)
Net income	$ 7,957	$ 8,273	$ 9,760	$ 29,273	$ 55,263

Note 14 — Subsequent Events

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

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