



2019

ANNUAL REPORT

FARM CREDIT OF FLORIDA, ACA
2019 ANNUAL REPORT

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Management

Robert W. Teston	President & Chief Executive Officer
Laura Craker.....	Chief Financial Officer
Jonathan Ray	Chief Credit Officer
Marcus A. Boone	Chief Lending Officer
Roland Kampf.....	Chief Risk Officer
Deborah Caldeira	Chief Human Resources Officer
April Dawn Goodspeed	Chief Operations Officer
Ashley Layson.....	Chief Marketing Officer

Board of Directors

Howard P. “Rowdy” Bateman	Chairman
W. Eric Hopkins.....	Vice Chairman, Appointed Stockholder Director
John L. Alger.....	Director
Tobin J. “Toby” Basore	Director
Roger W. Davis	Director
Joseph C. Joyce.....	Outside Director
Bobby G. “Bob” Lines	Director
Martin J. “Marty” McKenna	Director
Douglas I. “Doug” Moore	Director
John R. Newbold, III	Director
Harrell H. “Hal” Phillips, Jr.	Director
Robert G. “Bobby” Sexton	Director
Lisa Sherman	Appointed Stockholder Director
Wayne H. Simmons	Director
E. E. “Bucky” Waldron	Outside Director

Message from the President & Chief Executive Officer

As of the end of 2019, we are proud to report our continued trend of sound financial and successful operational results. Your association reports significant net income of \$27.2 million, loan volume growth of \$107 million, and we are pleased to report total loan assets at yearend of \$1.27 billion. Our focus on becoming Bigger, Better, and Stronger has been successful with overall asset growth of 31% over the past five years.

You, our member, benefit from our growth and financial results. In 2018, your Association declared a cash patronage distribution of \$12.5 million to its stockholder/members and crop insurance customers. After another successful year, your Board of Directors is proud to announce a record distribution of **\$13.0 million** in cash patronage to be returned in the spring of 2020. This represents a real benefit from your ownership and participation in the Association. As we say, it pays to do business with Farm Credit.

We have a strong and experienced Board of Directors and an excellent group of employees who are committed daily to serving the needs of our customers and serving the rural communities in which we live and operate. This year your association did experience a leadership change with the departure of our previous Chief Executive Officer, Greg Cunningham. We thank Mr. Cunningham for his service and the success he brought to your Association. As your new CEO, I bring 42 years of Farm Credit experience with the previous seven years serving as your Chief Credit Officer. I am a firm believer in our cooperative structure and our mission to support rural communities with reliable and consistent credit and financial services.

Striving to provide superior customer service to our members is a top priority. Your association continues to make significant investments in innovative technology to improve our underwriting and loan delivery processes. Whether you are 80 or 18, we know you want things faster, easier, and problem free and we are continually evolving to gain and keep your business and trust.

As 2019 ends, we look forward to the promise and opportunities of the 20's. No one knows for sure whether this decade will be roaring or volatile in regards to our economy and agriculture in Florida. One thing you can count on is your association continues to stand ready to serve your business and personal financial needs. Thank you for your continued support of Farm Credit of Florida!

Sincerely,



Robert W. Teston
President and Chief Executive Officer

March 12, 2020


Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Farm Credit of Florida, 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 Farm Credit of Florida, 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.



Howard P. Bateman
Chairman of the Board



Robert W. Teston
Chief Executive Officer



Laura Craker
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.



Robert W. Teston
Chief Executive Officer



Laura Craker
Chief Financial Officer

March 12, 2020

Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	December 31,				
	2019	2018	2017	2016	2015
Balance Sheet Data					
Cash	\$ 561	\$ 331	\$ 211	\$ 244	\$ 23
Investments in debt securities	3,760	4,224	5,467	7,417	10,072
Loans	1,270,427	1,163,920	1,131,004	1,032,804	946,900
Allowance for loan losses	(8,321)	(9,186)	(7,774)	(6,560)	(6,097)
Net loans	1,262,106	1,154,734	1,123,230	1,026,244	940,803
Equity investments in other Farm Credit institutions	15,119	14,712	13,940	13,697	13,002
Other property owned	31	73	95	366	5,565
Other assets	30,217	30,646	28,641	28,362	28,835
Total assets	\$ 1,311,794	\$ 1,204,720	\$ 1,171,584	\$ 1,076,330	\$ 998,300
Notes payable to AgFirst Farm Credit Bank*	\$ 1,005,717	\$ 915,039	\$ 894,913	\$ 809,137	\$ 743,688
Accrued interest payable and other liabilities with maturities of less than one year	26,743	24,543	24,261	29,684	27,186
Total liabilities	1,032,460	939,582	919,174	838,821	770,874
Protected borrower stock	445	445	445	445	531
Capital stock and participation certificates	2,633	2,543	2,452	2,272	2,085
Additional paid-in-capital	7,873	7,873	7,873	7,873	7,873
Retained earnings					
Allocated	121,989	118,040	114,789	109,960	106,263
Unallocated	146,634	136,432	127,089	117,171	110,881
Accumulated other comprehensive income (loss)	(240)	(195)	(238)	(212)	(207)
Total members' equity	279,334	265,138	252,410	237,509	227,426
Total liabilities and members' equity	\$ 1,311,794	\$ 1,204,720	\$ 1,171,584	\$ 1,076,330	\$ 998,300
Statement of Income Data					
Net interest income	\$ 34,563	\$ 33,659	\$ 30,093	\$ 30,109	\$ 25,707
Provision for (reversal of allowance for) loan losses	(538)	2,321	28	(1,101)	(3,446)
Noninterest income (expense), net	(7,948)	(5,993)	(3,817)	(10,722)	(10,425)
Net income	\$ 27,153	\$ 25,345	\$ 26,248	\$ 20,488	\$ 18,728
Key Financial Ratios					
Rate of return on average:					
Total assets	2.22%	2.19%	2.41%	2.04%	2.07%
Total members' equity	9.79%	9.63%	10.56%	8.58%	8.28%
Net interest income as a percentage of					
average earning assets	2.88%	2.97%	2.83%	3.09%	2.95%
Net (chargeoffs) recoveries to average loans	(0.027)%	(0.080)%	0.112%	0.162%	0.399%
Total members' equity to total assets	21.29%	22.01%	21.54%	22.07%	22.78%
Debt to members' equity (:1)	3.70	3.54	3.64	3.53	3.39
Allowance for loan losses to loans	0.66%	0.79%	0.69%	0.64%	0.64%
Permanent capital ratio	19.32%	19.88%	19.77%	21.49%	21.62%
Total surplus ratio	**	**	**	21.35%	21.49%
Core surplus ratio	**	**	**	21.35%	21.49%
Common equity tier 1 capital ratio	19.21%	19.73%	19.64%	**	**
Tier 1 capital ratio	19.21%	19.73%	19.64%	**	**
Total regulatory capital ratio	19.81%	20.52%	20.34%	**	**
Tier 1 leverage ratio	21.32%	21.84%	21.67%	**	**
Unallocated retained earnings (URE) and					
URE equivalents leverage ratio	16.82%	16.85%	16.37%	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ 13,000	\$ 12,750	\$ 11,500	\$ 10,500	\$ 8,500
Nonqualified retained earnings	3,782	4,132	5,387	4,072	3,015

* 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 Farm Credit of Florida, 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 more than 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 south and north east Florida. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, www.farmcreditfl.com or by calling 1-800-432-4156, extension 3070, or writing Laura Craker, Chief Financial Officer, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421. The Association prepares an electronic version of the Annual Report, which is available on the website,

within 75 days after the end of the fiscal year and distributes the Annual 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 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 U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data for the Association.

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

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

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

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

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

Expected agricultural commodity prices can influence production decisions of farmers and ranchers on planted/harvested acreage of crops or inventory of livestock and thus, affect the supply of agricultural commodities. Greater area of planted/ harvested acreage and increased crop yields for some crops in recent years have contributed to increased supply, which exceeded demand. Also impacting yields are the growing conditions that are sensitive to weather conditions. Although not

generally affected by weather, livestock and dairy prices are linked to crop prices as feed is a significant input cost to these producers.

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

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

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

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

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

Looking ahead, the MFP payments are not anticipated to continue and uncertainty remains about agricultural export markets. As a result, the Association's financial performance and credit quality may be negatively impacted but is expected to remain sound overall. Additionally, geographic and commodity diversification across the Association coupled with off-farm income support for many borrowers helps to mitigate the impact

of periods of less favorable agricultural conditions. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

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

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

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

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

- *Acquisition accounting* — Acquisitions are accounted for under the acquisition method of accounting. Purchased assets, including identifiable intangible assets, and assumed liabilities are recorded at their respective

acquisition date fair values. See *Valuation methodologies* section below. The purchase date valuations and any subsequent adjustments also determine the amount of goodwill or bargain purchase gain recognized in connection with the business combination. Certain assumptions and estimates must be updated regularly in connection with the ongoing accounting for purchased loans. Valuation assumptions and estimates may also have to be revisited in connection with periodic assessments of possible value impairment, including impairment of goodwill, intangible assets and certain other long-lived assets. The use of different assumptions could produce significantly different valuation results, which could have material positive or negative effects on the Association's results of operations.

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

ECONOMIC CONDITIONS

Overall global economic conditions have emerged from the worst recession since the Great Depression. National economic indicators are mostly positive including low unemployment, increased wage growth and high consumer confidence. The Florida economy continues exhibiting a rebound with declining unemployment and increased tourism and housing activity. The economy of the area served by the Association began a significant decline during 2007 that continued rapidly through 2009 with no significant improvement noted through mid-2012. New home and commercial construction along with tourism, the leading non-farm economic drivers in the Florida economy, were stagnant until showing signs of life in late 2012. Improvement in activity continued through 2019 as population continues to increase. The inventory of new homes and permitted lots has been substantially absorbed by the market and new development is commencing or planned in some locations throughout the territory. The foreclosure process and timeline has improved and much of the backlog has been absorbed by the courts. The Florida unemployment rate that peaked at 9.8% in 2011 has now declined to below 3.5%.

The 2019 farm operating year realized overall favorable production conditions for most farm products. Weather conditions remained moderate with typical seasonal rains, dry periods and an overall mild winter. Nursery products and sod

had been the slowest to improve but demand and supply is nearing equalization with strong demand for both segments. In addition, the market for landscape trees also exhibited improvement with moderate activity for the growers who maintained quality. The row crop segments in corn and peanuts experienced stable production and cash prices.

Citrus growers continue to observe a challenging growing environment due to a number of industry diseases. Citrus canker, citrus greening and other diseases have resulted in the loss of significant acreage and production over the past five years. Contract prices for citrus products have been very good due to the demand for juice and fresh fruit and the reduction in domestic crop supply. The industry's infrastructure capacity continues to exceed producer needs. Growers continue to seek alternative crops and solutions to disease threats with little success. Citrus greening continues to be the most significant threat to tree mortality and production. Citrus growers received significant damage to the on-tree crop due to Hurricane Irma in September 2017. This resulted in reduced production and revenue in 2018 and early 2019. Some disaster assistance from the USDA has been received which has enhanced liquidity for many producers.

Cattle herd reductions across the U.S. in 2012 and 2013 resulted in record cattle prices in Florida, where production conditions have remained favorable for feeder calves and replacement heifers. During 2019, cattle producers noted a decline in prices as supply increased partially due to reduced export activity. Dairy prices were at very profitable levels in

2015 and early 2016, but began to show a decline near year-end 2016 as supply outpaces world demand. Dairy prices have remained at or below cost of production for most producers throughout 2019. Vegetable prices and production in 2019 was good for most producers financed by the Association with isolated weather impacts. Sugar producers in Florida have remained profitable and observed stable prices in 2018 and 2019. The Association's timber portfolio has exhibited favorable conditions with many sawmills returning to operation and prices on saw timber improving partially due to increased housing activity. Timberland values have remained stable.

Performance and asset quality of the Association's loan portfolio remains satisfactory. In 2019, the level of criticized assets decreased primarily related to improvements and liquidations in the citrus portfolio. The volume of criticized loans to total regulatory capital also remains within an acceptable risk level. Beginning in 2016 and throughout 2019, many distressed borrowers were able to sell land to reduce debt. Improved real estate prices and economic activity continues to assist troubled customers. Real estate sales activity has improved on certain property types but continues to be slower on non-income producing property. Overall, real estate values appear stable on all property types with improved pricing across the service territory. The Association has a department specifically dedicated to working with troubled borrowers. As in past economic downturns and natural disasters, Farm Credit stands ready to work with members who have long-term viable operations even though they are currently experiencing cash flow and profitability problems.

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 below.

Loan Type	December 31,					
	2019		2018		2017	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 737,276	58.03%	\$ 691,955	59.45%	\$ 666,425	58.92%
Production and intermediate-term	233,972	18.42	226,221	19.44	227,567	20.12
Processing and marketing	129,685	10.21	89,453	7.69	86,255	7.63
Communication	49,457	3.89	43,056	3.70	33,726	2.98
Farm-related business	40,289	3.17	42,967	3.69	45,421	4.02
Loans to cooperatives	26,406	2.08	26,939	2.31	28,912	2.56
Power and water/waste disposal	26,335	2.07	17,731	1.52	17,029	1.51
International	11,011	0.87	9,982	0.86	9,972	0.88
Rural residential real estate	10,088	0.79	9,398	0.81	9,090	0.80
Other (including Mission Related)	5,908	0.47	6,218	0.53	6,607	0.58
Total	\$ 1,270,427	100.00%	\$ 1,163,920	100.00%	\$ 1,131,004	100.00%

While the Association makes loans and provides financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, the loan portfolio remains diversified.

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

Branch	December 31,		
	2019	2018	2017
West Palm	15.70%	13.89%	17.59%
Ocala	8.47%	8.52%	7.09%
Alachua	8.10%	12.15%	7.23%
Homestead	7.49%	7.12%	6.11%
Wauchula	7.33%	7.69%	8.66%
LaBelle	5.50%	—%	—%
Okeechobee	4.91%	14.55%	12.14%
Palatka	4.70%	3.32%	5.53%
Arcadia	4.16%	4.79%	3.81%
Trenton	3.90%	1.85%	4.99%
Vero Beach	2.97%	2.40%	2.11%
Live Oak	2.79%	2.62%	3.21%
Lake Placid	0.32%	0.02%	—%
Purchased Loans	23.66%	21.08%	21.53%
Total	100.00%	100.00%	100.00%

Nonaccrual loans are included in the percentages above.

Commodity and industry categories are based upon the Standard Industry 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 in the following table. The predominant commodities are field crops, equine, cattle, forestry, tree fruits and nuts, and nursery/greenhouse, which constitute over 74 percent of the entire portfolio. From 2017 to year end 2019, the nursery group's outstanding volume increased. During the past recession, the nursery portfolio was adversely impacted by the economy and resulted in declining credit quality and a large number of nonperforming loans. As the Florida and national economy has improved, the nursery industry has experienced improving markets and financial results. Trees, landscape plants and sod are dependent on a vibrant home and commercial construction industry while flowering plants and foliage are dependent upon the general economy and discretionary spending of consumers. Increases in field crops, equine, cattle, and forestry are due to origination of new loans in these commodity segments. Decreases in tree fruits and nuts are due to several liquidations and pay down of lines of credit. The Association has experienced increases in brood cow operations and row and field crops in both the north and south Florida regions.

Commodity Group	December 31,					
	2019		2018		2017	
	<i>(dollars in thousands)</i>					
Field Crops	\$ 219,134	17.26%	\$ 201,680	17.34%	\$ 187,481	16.58%
Equine	170,634	13.44	149,174	12.82	135,368	11.97
Cattle	163,255	12.85	161,488	13.87	156,686	13.85
Forestry	144,910	11.41	119,339	10.25	135,868	12.01
Tree Fruits and Nuts	124,666	9.81	125,519	10.78	116,042	10.26
Nursery/Greenhouse	118,083	9.29	101,332	8.71	87,949	7.78
Processing	75,320	5.93	56,086	4.82	56,037	4.95
Utilities	60,122	4.73	48,824	4.19	38,531	3.41
Dairy	44,214	3.48	45,888	3.94	47,279	4.18
Other Real Estate	30,085	2.37	33,488	2.88	32,582	2.88
Swine	12,823	1.01	11,738	1.01	9,423	0.83
Grain	11,928	0.94	10,963	0.94	10,566	0.93
Rural Home Loan	10,928	0.86	10,325	0.89	10,126	0.90
Tobacco	9,209	0.72	8,873	0.76	10,174	0.90
Poultry	7,427	0.58	7,644	0.66	6,991	0.62
Corn	1,449	0.11	1,432	0.12	1,614	0.14
Cotton	—	—	377	0.03	401	0.04
Others	66,240	5.21	69,750	5.99	87,886	7.77
Total	\$ 1,270,427	100.00%	\$ 1,163,920	100.00%	\$ 1,131,004	100.00%

The primary increase in loan volume during the last three years is the result of increased demand for credit in the market and more concerted marketing efforts by Association lenders. Repayment ability remains closely related to the commodities produced by our borrowers with some having supplemental nonfarm income. The Association enjoys a diverse commodity portfolio mix with no significant single concentration. While Field Crops is reflected at 17.26 percent of the total portfolio, the group represents a broad classification that includes sugarcane as well as various fruits and vegetables grown throughout the Association's territory. Many of these operations are vertically integrated with processing, sales and marketing which increases their profitability and reduces credit risk to the Association. The Nursery/Greenhouse group, which represents 9.29 percent of the portfolio, is similar to Field Crops in that the classification is also considered broad and covers interior foliage and exterior landscape plants, trees, and sod products with very different market characteristics and credit risk profiles. Citrus, which is included in Tree Fruits and Nuts commodity group, represents approximately 9.81 percent

of the portfolio. Many citrus customers have diversified sources of farm and nonfarm income. The Equine and Timber groups, at approximately 13.44 percent and 11.41 percent, respectively, also have diversified income sources. For purposes of calculating concentration risks, each loan is classified by the principal product grown. However, many operations produce a number of products in addition to the principal product, thus reducing overall risks to the operation and the Association. In addition, the Association also segments repayment based on whether the primary repayment source is from agricultural or nonfarm personal and business income. Approximately 27.30 percent of agricultural loans have nonfarm income sources as the primary repayment source.

The Association continues to see a minor shift in loan assets. The Association grew volume in long-term real estate loans and capital market purchases. Short and intermediate-term volume was up slightly in 2019 after experiencing a decline during the previous year. The short-term portfolio, which is

heavily influenced by operating-type loans, normally reaches a peak balance in the fall and rapidly declines in the late spring and early summer months as commodities are marketed and proceeds are applied to repay operating loans. The Association continues to exhibit new loan growth in commercial corporate market transactions.

The Association continues to have activity in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen our capital position.

Loan Participations:	December 31,		
	2019	2018	2017
	<i>(dollars in thousands)</i>		
Participations Purchased – FCS Institutions	\$ 307,466	\$ 253,688	\$ 252,705
Participations Purchased – Non-FCS Institutions	5,723	6,299	4,060
Participations Sold	(323,147)	(296,924)	(249,952)
Total	\$ (9,958)	\$ (36,937)	\$ 6,813

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 residential loans into the secondary market. For the periods ended December 31, 2019, 2018 and 2017, the Association originated loans for resale totaling \$30,664, \$36,324, and \$26,918, respectively, which were sold into the secondary market.

The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2019, 2018, and 2017, the Association had loans amounting to \$15, \$23, and \$12, respectively, that are 100 percent guaranteed by Farmer Mac.

The Association additionally has loans wherein a certain portion is guaranteed by various governmental entities for the purposes of reducing risk. At December 31, 2019, 2018, and 2017, the balance of these loans was \$34,852, \$34,732, and \$34,131, respectively.

MISSION RELATED INVESTMENTS

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

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, 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, the Association had \$8,262 in Rural America Bonds, of which \$5,839 was classified as Loans and \$2,423 were classified as Investments on the Consolidated Balance Sheets. As of December 31, 2018, the Association had \$8,619 in Rural America Bonds, of which \$6,136 was classified as Loans and \$2,483 were classified as Investments. As of December 31, 2017, the Association had \$9,042 in Rural America Bonds, of which \$6,509 were classified as Loans and \$2,533 was classified as Investments.

Effective December 31, 2014, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

Refer to Note 4, *Investments*, of the Notes to the Consolidated Financial Statements for additional information regarding these Mission Related Investments.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for risk management purposes. The Bank is responsible for approving the investment activities of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association's investments consist primarily of asset-backed securities (ABS). The ABS investments amounted to \$1,337 at December 31, 2019, \$1,741 at December 31, 2018 and \$2,934 at December 31, 2017. These investments are rated AAA, as they are guaranteed by the full faith and credit of the United States government.

In view of the recent economic conditions and volatility related to these types of securities, the Association is actively monitoring the creditworthiness of these securities. These securities are supported by various forms of credit enhancements including insurance guarantees from AAA rated insurers, over-collateralization and favorable priority of payments. Based on our evaluations, we believe these securities do not pose a significant risk of loss given the credit enhancements and relatively short weighted average lives. However, in the event a security is downgraded, we may be required by our regulator to dispose of the security. FCA approval has been requested to allow the Association to continue to hold one Rural America Bond with a fair value of

\$113 whose credit quality has deteriorated beyond the program limits.

Investment securities classified as being held-to-maturity totaled \$3,760 at December 31, 2019, \$4,224 at December 31, 2018 and \$5,467 at December 31, 2017. These held-to-maturity investments consist of pools of loans with United States government guarantees.

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower’s credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower’s ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Long term mortgage 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 long term basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The Association’s collateral standards normally result in actual loan to appraised value lower than the statutory maximum percentage. Appraisals are required for non-business purpose loans of more than \$250,000 or for business purpose loans of more than \$1 million. At origination, each loan is assigned a credit risk rating based upon the Association’s loan underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Combined System 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 excluding impact of financial marks as a result of the merger at December 31.

Credit Quality	2019	2018	2017
Acceptable & OAEM	98.99%	97.70%	98.19%
Substandard	1.01%	2.30%	1.81%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Portfolio credit quality improved during 2019 as a result of a decline in both substandard accrual and nonaccrual assets. The primary decrease in substandard accrual loans is due to improvement and liquidations of loans in the Citrus commodity group.

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 in the following table:

Nonperforming Assets	December 31,		
	2019	2018	2017
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 6,918	\$ 11,630	\$ 11,423
Accruing restructured loans	718	1,291	1,029
Accruing loans 90 days or more past due	–	–	–
Total nonperforming loans	7,636	12,921	12,452
Other property owned	31	73	95
Total nonperforming assets	\$ 7,667	\$ 12,994	\$ 12,547
Ratios:			
Nonaccrual loans to total loans	0.54%	1.00%	1.01%
Nonperforming assets to total assets	0.58%	1.08%	1.07%

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 decreased \$4,712 or 40.52 percent in 2019 after having increased \$207 or 1.81 percent in 2018. The primary decrease in 2019 resulted from repayments, charge-offs, and transfers of loans to accrual status in the Equine and Nursery commodity groups due to improved performance. Dairy continues to represent the largest percentage of total nonaccrual loans at approximately 30 percent at December 31, 2019. Of the \$6,918 in nonaccrual volume at December 31, 2019, \$2,431 or 35.14 percent compared to 33.16 percent and 41.13 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.

At December 31, 2019, other property owned consisted of one property and the net carrying value is equivalent to fair value. The number of properties declined by two during 2019 and the balance declined \$42, or 57.53 percent compared to December 31, 2018. Sales of properties outpaced acquisitions during the year resulting in the decline.

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

Allowance for Loan Losses

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

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

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2019	2018	2017
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 9,186	\$ 7,774	\$ 6,560
Charge-offs:			
Real estate mortgage	-	(44)	-
Production and intermediate-term	(1,388)	(2,630)	(1,431)
Rural Residential Real Estate	(7)	-	-
Total charge-offs	(1,395)	(2,674)	(1,431)
Recoveries:			
Real estate mortgage	450	256	2,517
Production and intermediate-term	583	1,504	99
Agribusiness	28	-	1
Rural Residential Real Estate	7	5	-
Total recoveries	1,068	1,765	2,617
Net (charge-offs) recoveries	(327)	(909)	1,186
Provision for (reversal of allowance for) loan losses	(538)	2,321	28
Balance at end of year	\$ 8,321	\$ 9,186	\$ 7,774
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.027)%	(0.080)%	0.112%

The loan recoveries in 2019, 2018, and 2017 were primarily associated with Nursery/Greenhouse and Non-Farm Income commodity groups. Due to the improvement in collateral values and return of credit availability in the market, several nonaccrual loans within these commodity groups were fully collected during the year. The charge-offs in 2019 were primarily in the Field Crops commodity group, charge-offs in 2018 were primarily in the Dairy industry, and charge-offs in 2017 were primarily in the Tree Fruits and Nuts commodity group. The Association was able to reverse \$538 of the allowance for loan losses in 2019 due to lower reserves required from improvement in credit quality along with

recoveries received of amounts previously charged-off. The Association recorded a provision for loan losses of \$2,321 in 2018 as a result of the decline in credit quality and charge-offs primarily in the Dairy industry.

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

Allowance for Loan Losses by Type	December 31,		
	2019	2018	2017
	<i>(dollars in thousands)</i>		
Real estate mortgage	\$ 3,307	\$ 3,971	\$ 4,258
Production and intermediate-term	3,223	4,080	2,400
Agribusiness	1,388	850	831
Power and Water/Waste Disposal	187	46	44
Communication	140	155	129
Rural residential real estate	67	77	102
International	8	6	9
Other (including Mission Related)	1	1	1
Total Allowance for Loan Losses	\$ 8,321	\$ 9,186	\$ 7,774

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

Allowance for Loan Losses as a Percentage of:	December 31,		
	2019	2018	2017
Total loans	0.65%	0.79%	0.69%
Total nonperforming loans	108.97%	71.09%	62.43%
Nonaccrual loans	120.28%	78.99%	68.05%

The allowance for loan losses at December 31, 2019, 2018 and 2017 does not include \$1.8 million, \$2.7 million and \$3.9 million, respectively of net purchase discounts related to the acquired loans. The allowance for these loans was not carried forward at acquisition per accounting guidance. However, they were purchased at a net discount, which is the direct reduction to the recorded loan amount, to reflect the credit and market metrics related to the acquired portfolios.

At December 31, 2019, the amount of credit risk reduction, in addition to the allowance for loan losses, provided by these remaining discounts would equate to 0.14% for Total loans, 23.26% of Total nonperforming loans and 25.67% of Nonaccrual loans.

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

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2019, totaled \$27,153, an increase of \$1,808 or 7.13 percent, as compared to net income of \$25,345 for the same period of 2018 and an increase of \$905 or 3.45 percent, as compared to net income of \$26,248 for the same period of 2017. The increase in net income for the year ending 2019 as compared to 2018 is attributed to a decrease in provision for loan losses expense offset by a decrease in noninterest income. The decreased provision for loan losses expense resulted from lower reserves required due to improvement in credit quality and lower net charge-offs in 2019 compared to 2018. The decrease in noninterest income is attributed to a decrease in patronage refunds from other Farm Credit institutions.

Net Interest Income

Net interest income was \$34,563, \$33,659 and \$30,093 in 2019, 2018 and 2017, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
	<i>(dollars in thousands)</i>			
12/31/19 - 12/31/18				
Interest income	\$ 3,506	\$ 2,375	\$ (980)	\$ 4,901
Interest expense	1,716	2,281	–	3,997
Change in net interest income	<u>\$ 1,790</u>	<u>\$ 94</u>	<u>\$ (980)</u>	<u>\$ 904</u>
12/31/18 - 12/31/17				
Interest income	\$ 3,452	\$ 5,294	\$ 616	\$ 9,362
Interest expense	1,534	4,262	–	5,796
Change in net interest income	<u>\$ 1,918</u>	<u>\$ 1,032</u>	<u>\$ 616</u>	<u>\$ 3,566</u>

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

Net interest income increased by \$904 or 2.69 percent in 2019 compared to 2018 and increased by \$3,566 or 11.85 percent in 2018 compared to 2017. The primary reason for the increase during 2019 compared to 2018 is due to an increase in average loan volume outstanding during 2019 offset by a decrease in nonaccrual income. The increase in net interest income during 2019 results from an increase of \$94 attributed to an increase in rates, an increase of \$1,790 attributed to an increase in volume offset by a decrease of \$980 attributed to a decrease in nonaccrual income. The Association's net interest income as a percentage of average earning assets was 2.88 percent in 2019, compared to 2.97 percent and 2.83 percent in 2018 and 2017, respectively. The decrease in this ratio is primarily a result of a decrease in nonaccrual income during 2019.

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			Percentage	
	December 31,			Increase/(Decrease)	
	2019	2018	2017	2019/ 2018	2018/ 2017
	<i>(dollars in thousands)</i>				
Loan fees	\$ 1,155	\$ 910	\$ 869	26.92 %	4.72%
Fees for financially related services	1,245	983	1,066	26.65	(7.79)
Lease income	65	–	–	100.00	–
Patronage refunds from other Farm Credit institutions	13,586	14,995	15,164	(9.40)	(1.11)
Gains (losses) on sales of rural home loans, net	485	339	353	43.07	(3.97)
Gains (losses) on sales of premises and equipment, net	4	184	60	(97.83)	206.67
Gains (losses) on other transactions	65	(18)	210	(461.11)	(108.57)
Insurance Fund refunds	243	572	–	(57.52)	100.00
Other noninterest income	399	454	373	(12.11)	21.72
Total noninterest income	<u>\$ 17,247</u>	<u>\$ 18,419</u>	<u>\$ 18,095</u>	<u>(6.36)%</u>	<u>1.79%</u>

The decrease in noninterest income of \$1,172 or 6.36 percent in 2019 compared to 2018 is primarily due to decreases in patronage refunds from other Farm Credit institutions.

Patronage refunds from other Farm Credit Institutions decreased \$1,409 or 9.40 percent largely due to a decrease in the special patronage dividend from the Bank of \$1,798 offset by an increase in the Association borrowing more from the Bank during 2019. The special patronage dividend from the Bank was \$5,483 in 2019 compared to \$7,281 in 2018 and \$7,916 in 2017.

In 2019 and 2018, the Association recorded \$243 and \$572, respectively of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest Expense

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

Noninterest Expense	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2019/	2018/
	2019	2018	2017	2018	2017
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 18,409	\$ 18,285	\$ 17,617	0.68%	3.79%
Occupancy and equipment	1,332	1,164	1,103	14.43	5.53
Insurance Fund premiums	825	778	1,200	6.04	(35.17)
(Gains) losses on other property owned, net	43	(125)	59	(134.40)	(311.86)
Other operating expenses	4,586	4,310	1,933	6.40	122.97
Total noninterest expense	\$ 25,195	\$ 24,412	\$ 21,912	3.21%	11.41%

Non-interest expense increased \$783 or 3.21 percent for the year ended December 31, 2019, as compared to the same period in 2018, and increased \$2,500 or 11.41 percent in 2018 compared to 2017.

Salaries and employee benefits increased \$124 or 0.68 percent in 2019 as compared to 2018. This increase is primarily attributable to an increase in the number of employees in 2019.

The \$168 or 14.43 percent increase in occupancy and equipment expense in 2019 compared to 2018 is due to purchase of a branch location, an increase in furniture and equipment costs and facilities maintenance expenses.

Insurance Fund premiums increased \$47 or 6.04 percent for the twelve months ended December 31, 2019, compared to the same period of 2018. This increase is primarily attributed to an increase in the insurance premium charged by the Farm Credit System Insurance Corporation in 2019 compared to 2018.

Losses on other property owned increased \$168 or 134.40 percent due to other property owned properties sold at a loss during 2019 compared to 2018.

Other operating expenses increased \$276 or 6.40 percent in 2019 as compared to 2018 due to an increase in marketing and advertising expenses. The increase in 2018 compared to 2017 primarily resulted from a change in the method of recording expenses on the Association's defined benefit pension plan in 2017. During 2017, the method of recording expenses for the Association's defined benefit pension plan and other postretirement benefit plan was modified. This change resulted in the reduction of Other Assets by \$4,597 and the reduction of Other Liabilities by \$6,810 on the Association's Balance Sheets, and a corresponding reduction of other operating expenses in noninterest expenses on the Association's Statements of Income of \$2,213 during 2017. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements, for further information concerning pension benefit expenses.

Income Taxes

The Association recorded no provision for income taxes during 2019, 2018 or 2017. Refer to Note 2, *Summary of Significant Accounting Policies, I. Income Taxes*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended		
	12/31/19	12/31/18	12/31/17
Return on average assets	2.22%	2.19%	2.41%
Return on average members' equity	9.79%	9.63%	10.56%
Net interest income as a percentage of average earning assets	2.88%	2.97%	2.83%
Net (charge-offs) recoveries to average loans	(0.027)%	(0.080)%	0.112%

Return on average assets and return on average members' equity increased during 2019 compared to 2018 as a result of increased net income in 2019 compared to 2018. The net interest income as a percentage of average earning assets, or net interest margin, decreased 9 basis points in 2019 from 2018 due to a decrease in nonaccrual income during 2019.

The Association recorded net charge-offs of \$327 in 2019 which is 0.027 percent of average loans compared to net charge-offs of \$909 or 0.080 percent of average loans in 2018. During 2019, the Association recorded charge-offs of \$1,395 which surpassed the amount of recoveries of \$1,068 during the year. This was offset by lower reserves required from improvement in credit quality due to a decline in nonperforming loans which resulted in the recording of a reversal of allowance for loan losses of \$538 in 2019. The 2019 reversal of allowance for loan losses was a decrease in expense compared to 2018 when the provision for loan losses was \$2,321 and a decrease in expense compared to 2017 when the provision for loan losses was \$28. The Association had lower net charge-offs in 2019 along with lower reserves required due to improvement in credit quality resulting in a lower provision for loan loss expense in 2019 compared to 2018.

The past years have been favorably impacted by a special patronage dividend from AgFirst Farm Credit Bank which totaled \$5,483 in 2019, \$7,281 in 2018 and \$7,916 in 2017. The Association does not forecast continued receipt of these distributions.

A key factor in the growth of net income for future years will be continued increases in acceptable loan volume, continued improvement in net interest income and controlling loan losses and effectively managing noninterest expense. 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, was \$1,005,717 as compared to \$915,039 at December 31, 2018 and \$894,913 at December 31, 2017. The 2019 increase of 90,678 or 9.91 percent compared to December 31, 2018 was a result of an increase in total asset growth offset by an increase in members' equity attributable to net income. The average volume of outstanding notes payable to the Bank was \$935,048 and \$880,669 for the years ended December 31, 2019 and 2018, respectively. Refer to Note 6, *Debt, Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to 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 the Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations.

The Association had no lines of credit from third party financial institutions as of December 31, 2019.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options,

which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to 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 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance 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 and the Bank's ability to access capital of the Association is discussed in Note 4, *Investments, Equity Investments in Other Farm Credit Institutions*, and Note 6, *Debt, Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements included in this Annual Report

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

CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2019 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 5.35 percent to \$279,334 from the December 31, 2018, total of \$265,138. At December 31, 2018, total members' equity increased 5.04 percent from the December 31, 2017 total of \$252,410. The increase during 2019 was primarily attributed to 2019 net income from operations of \$27,153 less the \$13,000 patronage distribution declared. Total capital stock and participation certificates were \$3,078 on December 31, 2019, compared to \$2,988 on December 31, 2018 and \$2,897

on December 31, 2017. The 2019 and 2018 increase is attributed to the issuance of capital stock to new stockholders.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios.

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31,		
				2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital	4.5%	1.875%	6.375%	19.21%	19.73%	19.64%
Tier 1 Capital	6.0%	1.875%	7.875%	19.21%	19.73%	19.64%
Total Capital	8.0%	1.875%	9.875%	19.81%	20.52%	20.34%
Permanent Capital	7.0%	0.0%	7.0%	19.32%	19.88%	19.77%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	21.32%	21.84%	21.67%
URE and UREE Leverage	1.5%	0.0%	1.5%	16.82%	16.85%	16.37%

* 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 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. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios.

The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	21.49%	21.62%	22.55%	20.34%	18.98%
Total Surplus Ratio	7.00%	21.35%	21.49%	22.00%	19.48%	18.11%
Core Surplus Ratio	3.50%	21.35%	21.49%	22.00%	19.48%	17.74%

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 \$13,000 in 2019, \$12,750 in 2018, and \$11,500 in 2017.

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

The Association's mission is to support rural communities and agriculture with reliable, consistent credit, which includes providing credit to Young*, Beginning** and Small*** farmers, ranchers, producers or harvesters of aquatic products (YBS Farmers and Ranchers). Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual lending goals to increase our market share of loans to YBS Farmers and Ranchers. Specific marketing plans have been developed to target this segment, and resources have been designated to help ensure YBS Farmers and Ranchers have access to a stable source of credit and financially related services. The Association met or exceeded its 2019 Goals for all YBS categories.

2019 YBS Goals and Results

	2019 Goal	2019 Actual	% of Goal
Young Farmers & Ranchers			
Number of New loans	100	119	119.00%
New Volume	\$21,000	\$34,762	165.53%
Beginning Farmers & Ranchers			
Number of New loans	250	278	111.20%
New Volume	\$50,000	\$66,999	134.00%
Small Farmers & Ranchers			
Number of New loans	350	420	120.00%
New Volume	\$50,000	\$68,202	136.40%

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

December 31, 2019 Total YBS Loan Data

Total Loans & Commitments	12/31/19	% of Total
Number of Loans	3,294	100.00%
Volume Outstanding	1,539,711	100.00%
Young Farmers & Ranchers		
Number of Loans	427	12.96%
Volume Outstanding	110,636	7.19%
Beginning Farmers & Ranchers		
Number of Loans	1,056	32.06%
Volume Outstanding	218,090	14.16%
Small Farmers & Ranchers		
Number of Loans	1,558	47.30%
Volume Outstanding	182,019	11.82%

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

The 2017 USDA Ag census data is used as the benchmark to measure penetration of the Association’s marketing efforts. The census data indicates that within the Association’s chartered territory of thirty-six counties, there are 26,284 farmers of which, by definition, 1,095 or 4.4% are Young, 6,810 or 25.4% are Beginning, and 24,315 or 91.8% are Small. Related to the total number of borrowers in the Association, Young farmers and ranchers represent 332 or 14.2% of the total, Beginning Farmers and Ranchers represent 782 or 33.4% of the total and Small Farmers and Ranchers represent 1,149 or 51.3% of the total. Similarly, of the total number of Farmers and Ranchers reported as Young (1,095), Beginning (6,810) and Small (24,315) within the Association’s territory, the Association has a segment penetration percent of 30.3%, 11.5% and 4.9% respectively.

The YBS Plan contains several components including staffing, identification, education, development, and direct financial support. Staffing and education represents the foundation of the program as the Association recognizes that to serve the community; its staff must understand the culture and needs of each group and to provide programs that not only assist this segment in getting into agriculture, but also assure this segment remains in agriculture. The Association has focused on diversity in its employment practices because we believe strongly that our staff should reflect the diversity of the community we serve. The Association has a staff member that provides educational opportunities and has trained all lending staff to serve the YBS Community. Specific quantitative and qualitative goals are annually established for the YBS Program to ensure our performance in reaching this segment of our market.

Identification and outreach are also critical components of the program. The Association constantly monitors public record

databases, organizational membership roles, etc. that are available and could assist in identification of potential YBS Farmers and Ranchers. In addition, staff is active in community, trade and cultural organizations believed to have membership that include potential YBS Farmers and Ranchers and works with agricultural trade organizations and agencies such as the Federal, State and County Agricultural Agencies to ensure these organizations and agencies understand our programs and will refer YBS Farmers and Ranchers with credit or financially related service needs to the Association. The Association has also worked with these organizations and agencies in providing training and development opportunities for YBS Farmers and Ranchers. The Association aggressively attempts to partner with these organizations and agencies in joint programs. The Association is a “Preferred Lender” in the USDA Guaranteed Lending Program.

A final component of the program is in the area of youth development programs. The Association actively supports those organizations such as FFA, 4-H, and other youth based programs that are training and developing the farmers and ranchers of the future.

The Association is committed to the future success of Young, Beginning and Small farmers, ranchers, producers or harvesters of aquatic products.

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

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

- The Census shows young farmers in a group up to age 34, whereas the Association’s YBS information shows young farmers up to age 35.
- The Census shows years on present farm up to nine years, whereas the Association’s YBS information shows 10 years or less for a beginning farmer.
- The Census data is based on number of farms, whereas the Association’s YBS information 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 U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board’s “Measurement of Credit Losses on Financial Instruments” are eligible for inclusion in a System institution’s regulatory capital. Credit loss allowances related to loans, lessor’s net investments in leases, and held-to-maturity debt securities would be included in a System institution’s Tier 2 capital up to 1.25 percent of the System institution’s total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution’s Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution’s regulatory capital ratios. The public comment period ended on November 22, 2019.

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 an alternative index 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:

	Due in 2020	Due in 2021	Due in 2022 and Thereafter
<i>(dollars in thousands)</i>			
Loans	\$ 38,641	\$ 74,600	\$ 278,494
Total Assets	\$ 38,641	\$ 74,600	\$ 278,494
Note Payable to AgFirst Farm Credit Bank	30,036	57,987	216,475
Total Liabilities	\$ 30,036	\$ 57,987	\$ 216,475

OTHER MATTERS

During the third quarter of 2015, the Association entered into an agreement with and began providing certain standard and as-requested optional or negotiated services to Puerto Rico Farm Credit, ACA for a fee. These services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources, and loan on-boarding and servicing. The agreement is expected to leverage synergies and realize operating efficiencies and savings for both institutions.

Both institutions are required to meet specified obligations under the agreement, which is automatically renewable for a one year term unless terminated by either institution with 180 days prior written notice or sooner if specified obligations are not satisfied.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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: <ol style="list-style-type: none"> 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.

Unincorporated Business Entities

The Association holds an equity investment in certain Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC).

The Association has an equity investment in a Rural Business Investment Company, Meritus Ventures, L.P, a Delaware Limited Partnership. Meritus Ventures, L.P. is licensed under the Rural Business Investment Program and provides guarantees and grants to promote rural economic development and job opportunities and supplies equity capital investment to small rural enterprises. The Association has a 4.12% ownership in the limited partnership. Additional information may be found in Note 4, *Investments*, of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

The following LLCs were organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of Operating Agreements of the respective LLCs.

<u>Entity Name</u>	<u>Entity Type</u>	<u>Entity Purpose</u>
A 1 Sequatchie Pointe, LLC	LLC	Manage Acquired Property
Pickens County Properties LLC	LLC	Manage Acquired Property

Description of Property

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

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
11903 Southern Blvd. West Palm Beach	Administrative/ Branch	Owned
12300 NW US Hwy 441 Alachua	Branch	Owned
330 N. Brevard Avenue Arcadia	Branch	Owned
24700 SW 177 th Avenue Homestead	Branch	Owned
870 W. Hickpochee Ave, Unit 800 LaBelle	Branch	Leased*
15 N. Oak Avenue Lake Placid	Branch	Leased**
1606 Canyon Avenue Live Oak	Branch	Owned
5075 NW Blitchton Road Ocala	Branch	Owned
403 NW 6th Street Okeechobee	Branch	Owned
309 North 2 nd Street Palatka	Branch	Owned

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
721 South Main Street Trenton	Branch	Owned
7925 20 th Street Vero Beach	Branch	Owned
1311 Highway 17 North Wauchula	Branch	Owned

* Lease term expires September 30, 2021

** Lease term expires October 31, 2020

The owned offices at 11903 Southern Boulevard are Administrative offices located in Suites 200, 208, 212, 214, and 216, and a Branch office located in Suite 114. Owned suites 102, 106, and 110 are partially leased to tenants.

The Association currently owns a lot adjacent to the Arcadia branch located at 314 N. Brevard Avenue, Arcadia, Florida.

The Branch located at 340 N. Brevard Avenue, Arcadia, Florida, is now vacant as branch staff have 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 and their business experience for the past five years:

Senior Officer	Position & Other Business Interests
Robert W. Teston	<i>President and Chief Executive Officer</i> since September 2019 and <i>Chief Credit Officer</i> since January 2013, previously employed as <i>President</i> of a commercial Real Estate firm since 2011, <i>Interim CEO</i> and <i>COO</i> for Legacy Ag Credit since 2009 and provided credit management consulting services to various Farm Credit Associations since 2008.
Laura Craker	<i>Senior Vice President and Chief Financial Officer</i> since June 2012. Previously employed by community banks as a <i>Chief Financial Officer</i> and <i>Director of Accounting</i> since 2005.
Jonathan Ray	<i>Senior Vice President and Chief Credit Officer</i> since September 2019, with Farm Credit since 2016, previously employed as <i>Vice President, Credit Risk Manager</i> at Regent Bank since 2010.
Marcus A. Boone	<i>Senior Vice President and Chief Lending Officer</i> since April 2013 previously employed as <i>Vice President</i> of the Association Direct Lending Unit at Farm Credit Bank of Texas since 2006.
Roland Kampf	<i>Senior Vice President and Chief Risk Officer</i> since February 2016 and <i>Director of Risk Management</i> since February 2013 and <i>Risk Manager</i> since April 2012, previously employed as <i>Chief Risk Officer</i> and <i>Chief Credit Officer</i> at AgCarolina Financial since 2000, with Farm Credit since 1991.
Deborah Caldeira	<i>Senior Vice President and Chief Human Resources Officer</i> since March 2016 and <i>Director of Human Resources</i> since December 2012, previously employed as <i>Vice President, Manager of Employment & Employee Relations</i> at BankAtlantic since 2005.
April Dawn Goodspeed	<i>Senior Vice President and Chief Operations Officer</i> since April 2017 and <i>Director of Loan Operations and Information Technology</i> since 2015, with Farm Credit since 1989.
Ashley Layson	<i>Senior Vice President and Chief Marketing Officer</i> since April 2017 and <i>Director of Marketing</i> since September 2013, previously employed as <i>Marketing & Public Relations Director</i> at Alabama Ag Credit since 2008.

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

Name of Individual or Number in Group	Year	Annual		Deferred Comp.	Change in Pension value**	Perq./ Other	Total
		Salary	Bonus				
CEO:							
Robert W. Teston	2019	\$ 273,616	\$ 95,766	\$ -	\$ -	\$ -	\$ 369,382
Past CEO:							
Gregory M. Cunningham	2019	\$ 311,346	\$ 900	\$ -	\$ 68,027	\$ 124,523	\$ 504,796
Gregory M. Cunningham	2018	\$ 416,633	\$ 165,468	\$ -	\$ (41,499)	\$ 110,466	\$ 651,068
Gregory M. Cunningham	2017	\$ 393,050	\$ 137,562	\$ -	\$ 43,284	\$ 84,321	\$ 658,217
Senior Officers and Highly Compensated Employees:							
8	2019	\$ 1,446,897	\$ 367,665	\$ -	\$ 859,704	\$ 48,672	\$ 2,722,938
8	2018	\$ 1,435,185	\$ 206,536	\$ -	\$ 85,317	\$ 78,283	\$ 1,805,321
8	2017	\$ 1,386,415	\$ 360,659	\$ -	\$ 524,980	\$ 27,497	\$ 2,299,551

** Change in the expected future benefit payment stream based on actuarial assumptions. Does not represent any actual cash compensation provided to any employee.

**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:					
Robert W. Teston	2019	None	-	\$ -	\$ -
Past CEO:					
Gregory M. Cunningham	2019	AgFirst Farm Credit Retirement Plan	28.3	\$ 306,741	\$ -
				<u>\$ 306,741</u>	<u>\$ -</u>
Senior Officers and Highly Compensated Employees:					
3 Officers, excluding the CEO	2019	AgFirst Farm Credit Retirement Plan	29.9*	\$ 4,436,452	\$ -
				<u>\$ 4,436,452</u>	<u>\$ -</u>

* Represents the average years of credited service for the group
 ** The value of expected future benefit payment stream based on actuarial assumptions. Does not represent any actual cash compensation provided to any employee. Actual funds received can differ based on how actual events compare to assumptions used in the calculation.

Disclosure of information on total compensation paid during 2019 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Amounts in the table classified as Perquisites/Other are comprised primarily of automobile allowance, group life insurance, spousal travel, paid accumulated annual leave, relocation, and severance upon retirement or separation. It also includes amounts contributed by the Association on behalf of the employee to a defined contribution plan unless the plan is made available to all employees on the same basis.

In addition to a base salary, all employees earn additional compensation under an incentive plan. The Association incentive plan is designed to focus employees on the factors that produce success for the Association and its shareholders, and to reward employees for contributing to the Association exceeding its goals. The factors incorporated in the 2019 plan include return on assets, credit quality, credit administration, accrual loan volume growth and net income.

All Association employees, with the exception of the Chief Executive Officer are eligible for incentives under the plan. Participation is not allowed for employees terminating employment prior to the payment of the incentive except for retirement, disability or death which may be paid at the discretion of the CEO or persons having unsatisfactory performance evaluations. New employees receive a pro rata share and must be employed for a minimum of three months to participate in the current year's plan. The incentive earned is based on percentage of salary paid during the year and is calculated based on a matrix of four performance factors and four performance tiers up to a maximum percentage cap. Allowable incentives ranged up to 25 percent of salary paid for senior managers and up to 15 percent of salary paid for other employees depending upon their position.

For loan officers, an additional incentive award opportunity is available to those who perform in excess of a minimum % of their goal as defined by their position. The pool for Loan Officers is funded if the performance objectives of the plan are achieved. However, individual awards ranging up to 20 percent of salary paid will be determined by loan production and fee income goals achieved by that loan officer.

The incentive plan also includes referral awards to employees for qualified referrals to other lines of business.

All Association employees, except for the CEO who administers the awards, are eligible to receive discretionary awards based on special or exemplary performance as recommended by another employee, the employee's supervisor or directly by the CEO. The discretionary award pools are approved by the Board annually.

The Chief Executive Officer's bonus is at the discretion of the Board of Directors. Bonuses are shown in the year earned, which may be different than the year of payment.

Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

All employees are eligible to receive awards based on (a) years of service on five year, or multiple of five year anniversaries and (b) new hire referrals.

The Association provides retirement benefit plans to all employees. Employees' participation in a plan is mostly determined by date of hire. Additional information on the Association's retirement plans can be found in Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements.

The Association sponsors a non-qualified supplemental deferred compensation plan for eligible employees. The purpose of the non-qualified plan is to provide supplemental deferred compensation options to eligible key employees. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

The "Actuarial Present Value of Accumulated Benefits" column in the *Pension Benefits Table* represents 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.

Chief Executive Officer

Mr. Teston does not participate in the AgFirst Farm Credit Retirement Plan, the Farm Credit Benefits Alliance 401 (k) Plan nor the Farm Credit Benefits Alliance Nonqualified Supplemental 401 (k) Plan. Mr. Cunningham participated in the AgFirst Farm Credit Retirement Plan, the Farm Credit Benefits Alliance 401 (k) Plan and the Farm Credit Benefits Alliance Nonqualified Supplemental 401 (k) Plan. Mr. Cunningham’s participation in the AgFirst Farm Credit Retirement Plan is attributed to his service with another Farm Credit Association. Additional information on the Association’s retirement plans can be found in Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, and total cash compensation paid:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2019
Howard P. Bateman, <i>Chairman</i>	2004	2022	\$ 39,550
W. Eric Hopkins, <i>Vice Chairman, Appointed Stockholder Director</i>	2014	2020	32,350
John L. Alger	2007	2021	28,500
Tobin J. Basore	2014	2020	31,800
Roger W. Davis	1998	2022	37,800
Joseph C. Joyce, <i>Outside Director</i>	2008	2022	38,500
Bobby G. Lines	2015	2021	33,000
Martin J. McKenna	2009	2021	24,900
Douglas I. Moore	2015	2021	28,200
John R. Newbold, III	2014	2020	30,900
Harrell H. Phillips, Jr.	2015	2020	31,800
Robert G. Sexton	1995	2022	33,000
Lisa Sherman, <i>Appointed Stockholder Director</i>	2014	2020	28,900
Wayne H. Simmons	2014	2020	32,250
Charles R. Thomas*	2013	2019	13,500
Andrea Thurn, <i>Outside Director</i> **	2007	2019	24,650
E. E. Waldron, <i>Outside Director</i>	2001	2022	32,400
			<u>\$ 522,000</u>

* Term expired in 2019
 ** Resigned in 2019

Subject to approval by the board, the Association may allow directors honoraria of \$600 for attendance at regular board meetings and board committee meetings for the first day of the meeting and \$300 each day thereafter if the meeting extends beyond one day. If a committee meeting is held on a day other than the board meeting date, the Association may allow directors honoraria of \$600 for attendance. If a committee meeting is held via conference call, the Association may allow directors honoraria of \$300 for attendance. If a director is requested by the board to attend a special meeting, other than a regular board or committee meeting, the Association may allow directors honoraria of \$600 per day. Directors are paid a monthly retainer fee of \$1,200, except for the chairman and vice chairman of the board who receive \$1,700 and \$1,450, respectively. Effective January 1, 2020, the monthly retainer fee for the chairman increased to \$2,000. Committee chairs are paid an additional monthly retainer of \$250 for Audit and \$150 for Credit and Lending, Governance, and Compensation. Non-cash compensation for the year was less than \$5,000.

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

Name of Director	Days Served		Committee Assignments	Comp. Paid for other Activities*
	Regular Board Meetings	Other Official Activities*		
Howard P. Bateman, <i>Chairman</i>	13	14	Executive	\$ 12,000
W. Eric Hopkins, <i>Vice Chairman</i>	13	16	Audit, Compensation, Executive	6,900
John L. Alger	13	11	Audit	6,600
Tobin J. Basore	12	14	Credit/Lending, Governance	10,500
Roger W. Davis	13	20	Credit/Lending, Compensation	16,200
Joseph C. Joyce	13	11	Audit, Compensation	14,100
Bobby G. Lines	13	15	Audit, Compensation	11,100
Martin J. McKenna	12	12	Credit/Lending, Governance	3,600
Douglas I. Moore	13	16	Credit/Lending, Governance	6,300
John R. Newbold, III	13	16	Audit, Compensation	9,300
Harrell H. Phillips, Jr.	13	11	Governance, Compensation, Executive	9,000
Robert G. Sexton	12	11	Credit/Lending, Governance	11,700
Lisa Sherman	11	22	Audit, Credit/Lending, Executive	6,300
Wayne H. Simmons	13	18	Credit/Lending, Executive, Governance	10,500
Charles R. Thomas**	5	10	Audit, Credit/Lending	4,500
Andrea Thurn***	12	9	Audit, Executive	2,400
E. E. Waldron	13	13	Compensation, Governance	10,500
				<u>\$ 151,500</u>

* Includes board committee meetings and other board activities other than regular board meetings
 ** Term expired in 2019
 *** Resigned in 2019

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$190,308 for 2019, \$194,022 for 2018 and \$163,415 for 2017.

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

Howard P. “Rowdy” Bateman, Chairman, has interests in a family cattle operation, as well as his own cattle operation and is President of Bateman Family Partnership, Inc. and is Managing Member of I S Ranch, LLC. He was elected to the Farm Credit of Southwest Florida board in 2004 and his current term of office is 2019 - 2022. Mr. Bateman serves as the chair of the Executive Committee.

W. Eric Hopkins, Vice Chairman, is a sugarcane and vegetable grower in Western Palm Beach County, employed by, and part owner of, Hundley Farms, Inc. He is the Board Chairman of Pioneer Growers Cooperative and serves as Director on the boards of Hundley Farms, Inc., Frontier Produce, Inc., Double H Farms, Inc., Florida Fruit and Vegetable Association, and Law Enforcement Assistance Foundation, a fund raising organization. He serves as a Director of Elberta Logistics International, LLC, an agricultural transport business, is an owner and managing member of Many H’s, LLC, an

agricultural transport business, and is an owner and managing member of American Berry Company, LLC, a blueberry growing business. Mr. Hopkins had previously held elected director positions on the Boards of Farm Credit of South Florida and Farm Credit of Florida from 2009 until 2013. During this time, he was a member of the Audit Committee. On January 30, 2014, the Board appointed Mr. Hopkins as an appointed stockholder director, a position established under the Bylaws and his current term of office is 2017 - 2020. Mr. Hopkins serves as chair of the Compensation Committee and is a current member of the Audit and Executive Committees.

John L. Alger is a vegetable grower and nurseryman in Miami-Dade County and is President of Alger Farms, Inc. He is an owner, officer and Director of S. M. Jones and Company, Inc., a produce sales company in Belle Glade, and HAB Packing, LLC, a vegetable packing company in Brinson, Georgia. Mr. Alger is also on the board of Florida Fruit and Vegetable Association, and a member of the Baptist Health South Florida Founders Society and the University of Miami UHealth Champions. Mr. Alger was elected to the Farm Credit of South Florida board in 2007 and his current term of office is 2018 - 2021. He is a current member of the Audit Committee.

Tobin J. "Toby" Basore is a vegetable grower in Western Palm Beach County. He is an owner and manager of TKM Bengard Farms, LLC, a vegetable grower and packing company, and Cypress Cooling, LLC, a vegetable cooling and shipping company. He is an owner and President of TKM Farms, Inc., a vegetable grower and packing company and an owner and senior officer of TKM Management, Inc. He is an owner and managing member of American Berry Company, LLC, a blueberry growing business. He is a Director of the Florida Fruit and Vegetable Association (and serves as Chairman of the Florida Vegetable Exchange), and a Director of the Wedgworth Leadership Institute Alumni Association, a graduate of the Wedgworth Leadership Institute and a member and Director of the Leadership Palm Beach County organization. Mr. Basore was elected to the Farm Credit of Florida board in 2014 and his current term of office is 2017 - 2020. He is a current member of the Credit/Lending and Governance Committees.

Roger W. Davis is a tobacco, corn, and timber farmer and cattle rancher based in Alachua County. He is owner, President and Director of R & H Farms, Inc. He owns CWH Land, LLC and is an owner and Managing Partner of 848 Land, LLC. Mr. Davis was elected to the Farm Credit of North Florida board in 1998 and his current term of office is 2019 - 2022. He also serves on the AgFirst Farm Credit Bank Nominating Committee. He is a current member of the Compensation and Credit/Lending Committees.

Joseph C. Joyce serves as an Outside Director of the Association. He is the Executive Director of the University of Florida Leadership and Education Foundation, Inc. He retired from the University of Florida in 2015 as a Professor Emeritus after serving 20 years as Senior Associate Vice President for IFAS. He is a 2016 inductee to the Florida Agricultural Hall of Fame. He was appointed by the Governor to the Florida Environmental Regulation commission in 2008, 2012, and 2015. He is a past Director of the Citrus Research and Development Foundation, and retired as a Brigadier General, US Army Reserves after a 28 year career. Dr. Joyce was appointed to the Farm Credit of North Florida board in 2008 and his current term of office is 2019 - 2022. He serves on the AgFirst Plan Sponsor and the AgFirst / FCBT Plan Sponsor

Committees, and is a current member of the Compensation and Audit Committees.

Bobby G. "Bob" Lines is a cattle rancher, as well as a Bahia sod and seed producer in Palm Beach, Martin, and Okeechobee Counties. Mr. Lines owns and operates Agricultural Land Services, Inc., and Lines Ag Properties, LLC. He is a grassing contractor that provides sodding and seeding services to various government projects. Additionally, he supervises 4L Land & Cattle, LLC which is a beef cattle operation and also produces beef cattle and roping type cattle. He serves as a Director and is past President of the Florida Quarter Horse Association and as National Director of the American Quarter Horse Association. Mr. Lines was originally appointed to the Farm Credit of Florida board in 2015 for a term that expired in 2016, and then was elected to serve and his current term of office is 2018 - 2021. He is a current member of the Audit and Compensation Committees.

Martin J. "Marty" McKenna is a citrus grower and operates McKenna Brothers, Inc., a privately owned citrus and harvesting operation. He has ownership in Dixie Belle Grove Partnership, Tombstone Grove Partnership, JMCK Enterprises, LLC, New Port Groves Partnership, EdMac Partnership, and McKenna Family Enterprises, LLC. Mr. McKenna is a Director, Officer, and has ownership interest in McKenna & Associates Citrus, Inc., Lakemont Harvesting, Inc., M & M Groves, Inc., McKenna Harvesting, Inc., and Poachers Hammock Grove, Inc. He manages Firetower Grove Partnership. He is a former Chairman and currently serves on the Florida Citrus Commission. Mr. McKenna was elected to the Farm Credit of Southwest Florida board in 2009. His current term of office is 2018 - 2021. He is a current member of the Credit/Lending and Governance Committees.

Douglas I. "Doug" Moore is a beef cattle farmer in Duval County and timber farmer in Baker County. Mr. Moore spent over 30 years in the dairy business. Mr. Moore is a Director, Officer, and has ownership interests in M & M Dairy, Inc., a timber farm, Southeastern Stainless Fabricators, Inc., a metal fabrication business, TM Livestock, Inc., a land development business, and Flatwoods Management, LLC, an agricultural consulting business. Mr. Moore serves as a Director of the North Florida Prescribed Burn Association and serves as Vice President of Baker County Farm Bureau and is on the Farm Bureau Forestry Advisory Committee. He serves on the Advisory Committee of the Florida Wildlife Commission and the Florida Forest Service. Mr. Moore served as past Director and President of Sunshine State Milk Producers, Inc., as past Director and Secretary of Southeast Milk, Inc., and as past Chairman of the Duval County Soil and Water Board. Mr. Moore previously served as Director for 17 years on the North Florida Farm Credit and Farm Credit of Florida Boards. Then Mr. Moore was elected to the Farm Credit of Florida board in 2015 and his current term of office is 2018 - 2021. He is a current member of the Credit/Lending and Governance Committees.

John R. Newbold, III owns, operates and is President of Forest Groves, Inc., a cut-foliage farm and vineyard. He is an owner and manager of Newbold Farms, LLC. He is a Director and President of the Putnam County Fair Authority. He serves as a Director of the Viticulture Advisory Council, the Crescent City Cemetery Association, the Florida Wine and Grape Growers Association, and the Florida Wildflower Cooperative. He serves on the Board of Supervisors on the Putnam County Soil

& Water Conservation District. Mr. Newbold was elected to the Farm Credit of Florida board in 2014 and his current term of office is 2017 - 2020. He is a current member of the Audit and Compensation Committees.

Harrell H. "Hal" Phillips, Jr. is a cattleman and veterinarian in Levy and Marion Counties. Dr. Phillips owns and operates Phillips Ranch, a ranching and background / stocker operation, with almost 1,200 breeding age beef cattle and background approximately 1,500 calves annually. The ranch also produces hay, sod, grass seed, small grains, and timber. Dr. Phillips has 32 years of experience as a veterinarian. He serves as Director, and is past President, of both the Florida Cattlemen's Association and the Marion County Cattlemen's Association. Dr. Phillips is a past Director of the National Cattlemen's Beef Association. He has ownership in The Creek at Wekiva, LLC, a recreation and conservation property. He serves as Director on the Southeastern Youth Fair Board. He was originally appointed to the Farm Credit of Florida board in 2015 for a term that expired in 2016, and then was elected to serve a term of office from 2016 – 2017. His current term of office is 2017 - 2020. Dr. Phillips serves as chair of the Governance Committee, and is a current member of the Compensation and Executive Committees.

Robert G. "Bobby" Sexton is a citrus grower and juice processor from Vero Beach, Florida. He is the owner, a Director and President of Oslo Citrus Growers Association, Inc., and co-owner of Orchid Island Juice Company. He is co-owner, President and serves as a Director of Oslo Packing Company and Sexton Inc., family real estate companies. He is co-owner and serves as a Director on the boards of Oslo, Inc., Lost Legend, LLC, Sexton Grove Holdings, an agricultural company, and Sexton Citrus, LLC. He is a shareholder and also serves as a Director on the board of the Federal Agricultural Mortgage Corporation (Farmer Mac). He serves on the Board of the Scholarship Foundation of Indian River County and the Indian River Citrus League. He serves as an Outside Director for McArthur Farms, a dairy company. Mr. Sexton was elected to the Farm Credit of South Florida board in 1995 and his current term of office is 2019 - 2022. He is a current member of the Credit/Lending and Governance Committees.

Lisa Sherman is a citrus grower in Highlands County and has ownership interest in Black Bear Citrus, LLC and Lake Childs Citrus, Inc. She is a Certified Public Accountant in Lake Placid. Ms. Sherman is an officer and serves on the board of Black Bear Citrus, LLC, Lake Childs Citrus, Inc., The Great Fruit Company, Inc., Highlands County 4H Club Foundation, Embassy Ministries, Inc., Good Care Home, Inc., and Lisa Sherman, CPA, P.A. She serves as President of the Florida High School Rodeo Association. Mrs. Sherman had previously held an Outside Director position on the boards of Farm Credit of Southwest Florida and Farm Credit of Florida from 2008 until May 2014. On May 29, 2014, the board appointed Mrs. Sherman as an appointed stockholder director, a position established under the Bylaws and her current term of office is 2017 - 2020. Ms. Sherman serves as chair of the Audit Committee, and is a current member of the Credit/Lending and Executive Committees.

Wayne H. Simmons is a citrus grower, certified crop advisor, timber farmer, realtor, and rental property owner from LaBelle, Florida. He is an owner and President of Simmons Family Grove, Inc. He is an owner and manager of LaBelle Fruit Company, LLC, LaBelle Housing Company, LLC and LaBelle

Timber Company, LLC. Mr. Simmons is a Broker Associate of Southern Heritage Real Estate and Investments. He is also licensed in Georgia as an associate with Green Forest & Farm Realty, LLC. He is a Director and Past President of the Gulf Citrus Growers Association. Mr. Simmons is a past Director of the Citrus Research and Development Foundation. He is also a member of the Florida Citrus Production Managers Association, Hendry County Farm Bureau, and Realtors Land Institute. Mr. Simmons was elected to the Farm Credit of Florida board in 2014 and his term of office is 2017 - 2020. He also serves on the AgFirst District Advisory Committee. Mr. Simmons serves as chair of the Credit/Lending Committee, and is a current member of the Governance and Executive Committees.

Charles R. Thomas is a timber and cattle farmer in Suwannee County. His timber operation consists of pine plantation and pine straw. In addition, Mr. Thomas is a restaurant owner, automobile dealer, and rental property owner. He has ownership interest in and operates Dixie Grill Restaurant, Dixie Motors, LLC, Thomas Farms, Thomas Rental, Block 60 Holdings, LLC, Fields of McAlpin, LLC, Bragg Branch Crossing, Inc., and MCN Partners, LLC. Mr. Thomas is Chairman of the Suwannee County Tourist Development Council, and a member of Farm Bureau and Florida Forestry Association. Mr. Thomas was elected to the Farm Credit of Florida board in 2013 and his current term of office –expired in June 2019. Mr. Thomas served as a member of the Audit and Credit/Lending Committees.

Andrea Thurn is a Certified Public Accountant and a Partner/Owner in Morgan, Jacoby, Thurn, Boyle and Associates, P.A. in Vero Beach. She is co-owner and serves as Secretary/Treasurer of Vero Chemical Distributors, a janitorial paper and chemical supplier. Ms. Thurn was appointed to the Farm Credit of South Florida board as an Outside Director in 2007 and resigned on November 21, 2019. Ms. Thurn served as chair of the Audit Committee, and as a member of the Executive Committee.

E.E. "Bucky" Waldron serves as an Outside Director for the Association. He is an attorney with a private civil practice in Arcadia and Lake Suzy. Mr. Waldron is a board member of Kingsway Country Club, Inc., a private non-profit corporation. He was appointed to the Farm Credit of Southwest Florida board in 2001 and his current term of office is 2019 - 2022. He is a current member of the Compensation and Governance Committees.

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. In the opinion of management, none of the loans outstanding at December 31, 2019 to senior officers or directors as defined in FCA regulations involved more than the normal risk of collectability.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

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

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

	2019
<i>Independent Auditors</i>	
PricewaterhouseCoopers LLP	
Audit services	\$ 97,094
Total	\$ 97,094

Audit fees 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 1-800-432-4156 or writing Laura Craker, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421 or accessing the web site, www.farmcreditfl.com. The Association prepares an electronic version of the Annual Report which is available on the Association’s web site 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 web site, 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 ensures that new and existing borrowers are aware of the privacy

protections afforded them through FCA regulations and Farm Credit System institution efforts.

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

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

Shareholder Investment

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank’s Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst’s web site at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of Florida, 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 Farm Credit of Florida, 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:



Lisa Sherman
Chairman of the Audit Committee

Members of Audit Committee

John L. Alger
W. Eric Hopkins
Joseph C. Joyce
Bobby G. Lines
John R. Newbold, III

March 12, 2020



Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Farm Credit of Florida, 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 Farm Credit of Florida, 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

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31,		
	2019	2018	2017
Assets			
Cash	\$ 561	\$ 331	\$ 211
Investments in debt securities:			
Held to maturity (fair value of \$4,252, \$4,642, and \$5,853, respectively)	3,760	4,224	5,467
Loans	1,270,427	1,163,920	1,131,004
Allowance for loan losses	(8,321)	(9,186)	(7,774)
Net loans	1,262,106	1,154,734	1,123,230
Loans held for sale	108	260	8
Accrued interest receivable	6,671	6,422	5,393
Equity investments in other Farm Credit institutions	15,119	14,712	13,940
Premises and equipment, net	8,397	7,696	6,942
Other property owned	31	73	95
Accounts receivable	14,026	15,406	15,401
Other assets	1,015	862	897
Total assets	\$ 1,311,794	\$ 1,204,720	\$ 1,171,584
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 1,005,717	\$ 915,039	\$ 894,913
Accrued interest payable	2,685	2,566	2,062
Patronage refunds payable	13,278	12,742	11,803
Accounts payable	1,876	2,578	2,954
Advanced conditional payments	1,635	1,126	1,105
Other liabilities	7,269	5,531	6,337
Total liabilities	1,032,460	939,582	919,174
Commitments and contingencies (Note 11)			
Members' Equity			
Protected borrower stock	445	445	445
Capital stock and participation certificates	2,633	2,543	2,452
Additional paid-in-capital	7,873	7,873	7,873
Retained earnings			
Allocated	121,989	118,040	114,789
Unallocated	146,634	136,432	127,089
Accumulated other comprehensive income (loss)	(240)	(195)	(238)
Total members' equity	279,334	265,138	252,410
Total liabilities and members' equity	\$ 1,311,794	\$ 1,204,720	\$ 1,171,584

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

Consolidated Statements of Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2019	2018	2017
Interest Income			
Loans	\$ 66,254	\$ 61,363	\$ 51,976
Investments	220	210	235
Total interest income	<u>66,474</u>	<u>61,573</u>	<u>52,211</u>
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	<u>31,911</u>	<u>27,914</u>	<u>22,118</u>
Net interest income	<u>34,563</u>	<u>33,659</u>	<u>30,093</u>
Provision for (reversal of allowance for) loan losses	<u>(538)</u>	<u>2,321</u>	<u>28</u>
Net interest income after provision for (reversal of allowance for) loan losses	<u>35,101</u>	<u>31,338</u>	<u>30,065</u>
Noninterest Income			
Loan fees	1,155	910	869
Fees for financially related services	1,245	983	1,066
Lease income	65	—	—
Patronage refunds from other Farm Credit institutions	13,586	14,995	15,164
Gains (losses) on sales of rural home loans, net	485	339	353
Gains (losses) on sales of premises and equipment, net	4	184	60
Gains (losses) on other transactions	65	(18)	210
Insurance Fund refunds	243	572	—
Other noninterest income	399	454	373
Total noninterest income	<u>17,247</u>	<u>18,419</u>	<u>18,095</u>
Noninterest Expense			
Salaries and employee benefits	18,409	18,285	17,617
Occupancy and equipment	1,332	1,164	1,103
Insurance Fund premiums	825	778	1,200
(Gains) losses on other property owned, net	43	(125)	59
Other operating expenses	4,586	4,310	1,933
Total noninterest expense	<u>25,195</u>	<u>24,412</u>	<u>21,912</u>
Net income	<u>\$ 27,153</u>	<u>\$ 25,345</u>	<u>\$ 26,248</u>

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

Consolidated Statements of Comprehensive Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2019	2018	2017
Net income	\$ 27,153	\$ 25,345	\$ 26,248
Other comprehensive income net of tax			
Employee benefit plans adjustments	(45)	43	(26)
Comprehensive income	\$ 27,108	\$ 25,388	\$ 26,222

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

Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
				Allocated	Unallocated		
Balance at December 31, 2016	\$ 445	\$ 2,272	\$ 7,873	\$ 109,960	\$ 117,171	\$ (212)	\$ 237,509
Comprehensive income					26,248	(26)	26,222
Capital stock/participation certificates issued/(retired), net		180					180
Patronage distribution							
Cash					(11,500)		(11,500)
Nonqualified retained earnings				5,387	(5,387)		—
Patronage distribution adjustment				(558)	557		(1)
Balance at December 31, 2017	\$ 445	\$ 2,452	\$ 7,873	\$ 114,789	\$ 127,089	\$ (238)	\$ 252,410
Comprehensive income					25,345	43	25,388
Capital stock/participation certificates issued/(retired), net		91					91
Patronage distribution							
Cash					(12,750)		(12,750)
Nonqualified retained earnings				4,132	(4,132)		—
Patronage distribution adjustment				(881)	880		(1)
Balance at December 31, 2018	\$ 445	\$ 2,543	\$ 7,873	\$ 118,040	\$ 136,432	\$ (195)	\$ 265,138
Comprehensive income					27,153	(45)	27,108
Capital stock/participation certificates issued/(retired), net		90					90
Patronage distribution							
Cash					(13,000)		(13,000)
Nonqualified retained earnings				3,782	(3,782)		—
Patronage distribution adjustment				167	(169)		(2)
Balance at December 31, 2019	\$ 445	\$ 2,633	\$ 7,873	\$ 121,989	\$ 146,634	\$ (240)	\$ 279,334

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

Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 27,153	\$ 25,345	\$ 26,248
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	672	594	552
Amortization (accretion) of net deferred loan costs (fees)	(530)	(664)	(561)
Premium amortization (discount accretion) on investments in debt securities	20	57	83
Amortization (accretion) of yield mark resulting from merger	(1,043)	(1,241)	(1,219)
Provision for (reversal of allowance for) loan losses	(538)	2,321	28
(Gains) losses on other property owned	8	(98)	32
(Gains) losses on sales of premises and equipment, net	(4)	(184)	(60)
(Gains) losses on sales of rural home loans, net	(485)	(339)	(353)
(Gains) losses on other transactions	(65)	18	(210)
Changes in operating assets and liabilities:			
Origination of loans held for sale	(30,664)	(36,324)	(26,918)
Proceeds from sales of loans held for sale, net	31,301	36,411	27,840
(Increase) decrease in accrued interest receivable	(249)	(1,029)	(1,150)
(Increase) decrease in accounts receivable	1,380	(5)	(3,980)
(Increase) decrease in other assets	(153)	35	4,598
Increase (decrease) in accrued interest payable	119	504	521
Increase (decrease) in accounts payable	(702)	(376)	(241)
Increase (decrease) in other liabilities	1,760	(709)	(6,425)
Total adjustments	827	(1,029)	(7,463)
Net cash provided by (used in) operating activities	27,980	24,316	18,785
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	451	1,196	1,882
Net (increase) decrease in loans	(105,881)	(31,958)	(95,479)
(Increase) decrease in equity investments in other Farm Credit institutions	(407)	(772)	(243)
Purchases of premises and equipment	(1,369)	(1,364)	(868)
Proceeds from sales of premises and equipment	—	200	60
Proceeds from sales of other property owned	584	80	490
Net cash provided by (used in) investing activities	(106,622)	(32,618)	(94,158)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	90,739	20,122	85,748
Net increase (decrease) in advanced conditional payments	509	21	9
Capital stock and participation certificates issued/(retired), net	90	91	180
Patronage refunds and dividends paid	(12,466)	(11,812)	(10,597)
Net cash provided by (used in) financing activities	78,872	8,422	75,340
Net increase (decrease) in cash	230	120	(33)
Cash, beginning of period	331	211	244
Cash, end of period	\$ 561	\$ 331	\$ 211
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	\$ 552	\$ 32	\$ 258
Estimated cash dividends or patronage distributions declared or payable	13,000	12,500	11,500
Employee benefit plans adjustments (Note 9)	45	(43)	26
Supplemental information:			
Interest paid	\$ 31,853	\$ 27,406	\$ 21,569

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:** Farm Credit of Florida, ACA (the Association) is a member-owned cooperative which provides credit and credit-related services to qualified borrowers in the counties of Alachua, Baker, Bradford, Broward, Charlotte, Clay, Collier, Columbia, DeSoto, Dixie, Duval, Flagler, Gilchrist, Glades, Hamilton, Hardee, Hendry, Highlands, Indian River, Lafayette, Lee, Levy, Manatee, Marion, Martin, Miami-Dade, Monroe, Nassau, Okeechobee, Palm Beach, Putnam, St. Johns, St. Lucie, Sarasota, Suwannee and Union in the state of Florida.

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

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or

harvesters of aquatic products, rural residents, and farm-related businesses.

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

Note 2 — Summary of Significant Accounting Policies

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

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

Certain amounts in the prior year financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or total capital as previously reported.

A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held \$308 in cash in excess of insured amounts.

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

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

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan

instrument is not received on or before the due date. A loan remains contractually past due until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full. A formal restructuring may also cure a past due status.

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

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

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

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

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

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

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

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

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

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

The Association may acquire loans individually, in groups or portfolios. Acquired loans are recorded at estimated fair value on their purchase date with no carryover of any related allowance for loan losses. Acquired loans are segregated between those considered to be credit impaired and those deemed performing. To make this determination, management considers such factors as past due status, nonaccrual status and credit risk ratings. The fair value of acquired performing loans is determined by discounting expected cash flows, both principal and interest, for each loan at prevailing market interest rates. The difference between the fair value and principal balances due at

acquisition date, the fair value discount, is accreted into income over the estimated life of each loan.

Purchased Credit Impaired (PCI) Loans

For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Association would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. The purchaser then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all PCI loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

- 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. Generally, only home loans that are to be sold on the secondary mortgage market through various lenders are held for sale.
- D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount

of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) on Other Property Owned, Net in the Consolidated Statements of 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 Consolidated Balance Sheets as securities on the trade date.

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

Other Equity Investments

Any equity securities with a readily determinable fair value are carried at fair value with unrealized gains and losses included in earnings. Equity securities without a readily

determinable fair value are carried at cost less any impairment.

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

Other Investments

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

Impairment

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

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

Investment Income

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

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

- G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent

the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

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

Defined Contribution Plans

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

Additional information may be found in Note 9.

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

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

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

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

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

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

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

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

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

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose 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.

Unfunded commitments, and other 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. **Acquisition Accounting:** Mergers are accounted for under the acquisition method of accounting. Purchased assets, including identifiable intangibles, and assumed liabilities are recorded at their respective acquisition date fair values. If the fair value of net assets purchased exceeds the consideration given, a "bargain purchase gain" is recognized. If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. See Loans and Allowance for Loan Losses section above for accounting policy regarding loans acquired in a business combination.

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

Financial Instruments

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

Contracts with Customers

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

Gains and Losses from Nonfinancial Assets

Any gains or losses on sales of Premises and Equipment and OPO are included as part of Noninterest Income. These gains and losses are recognized, and the nonfinancial asset is derecognized, when the Association has entered into a valid contract with a noncustomer and transferred control of

the asset. If the criteria to meet the definition of a contract have not been met, the Association does not derecognize the nonfinancial asset and any consideration received is recognized as a liability. If the criteria for a contract are subsequently met, or if the consideration received is or becomes nonrefundable, a gain or loss may be recognized at that time.

O. Leases:

Lessee

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

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

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

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

Lessor

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

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

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

P. 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 less than \$1 was recorded. In addition, a Right of Use Asset in the amount of \$55 and Lease Liability in the amount of \$55 were recognized.
- Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or

unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.

- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31,		
	2019	2018	2017
Real estate mortgage	\$ 737,276	\$ 691,955	\$ 666,425
Production and intermediate-term	233,972	226,221	227,567
Loans to cooperatives	26,406	26,939	28,912
Processing and marketing	129,685	89,453	86,255
Farm-related business	40,289	42,967	45,421
Communication	49,457	43,056	33,726
Power and water/waste disposal	26,335	17,731	17,029
Rural residential real estate	10,088	9,398	9,090
International	11,011	9,982	9,972
Other (including Mission Related)	5,908	6,218	6,607
Total loans	<u>\$ 1,270,427</u>	<u>\$ 1,163,920</u>	<u>\$ 1,131,004</u>

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

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

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

December 31, 2019								
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 28,171	\$ 137,206	\$ –	\$ 22,186	\$ –	\$ –	\$ 28,171	\$ 159,392
Production and intermediate-term	46,749	4,673	954	80	1,637	–	49,340	4,753
Loans to cooperatives	23,023	–	3,435	–	–	–	26,458	–
Processing and marketing	107,502	46,233	7,159	89,453	–	–	114,661	135,686
Farm-related business	–	22,057	3,497	1,259	588	–	4,085	23,316
Communication	49,462	–	–	–	–	–	49,462	–
Power and water/waste disposal	26,479	–	–	–	–	–	26,479	–
International	11,035	–	–	–	–	–	11,035	–
Other (including Mission Related)	–	–	–	–	3,498	–	3,498	–
Total	\$ 292,421	\$ 210,169	\$ 15,045	\$ 112,978	\$ 5,723	\$ –	\$ 313,189	\$ 323,147

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	\$ 18,591	\$ 112,684	\$ –	\$ 24,006	\$ –	\$ –	\$ 18,591	\$ 136,690
Production and intermediate-term	48,129	9,284	1,352	1,289	1,729	–	51,210	10,573
Loans to cooperatives	22,635	–	4,356	–	–	–	26,991	–
Processing and marketing	73,474	33,747	9,740	88,142	–	–	83,214	121,889
Farm-related business	766	22,395	3,714	3,057	850	–	5,330	25,452
Communication	43,138	–	–	–	–	–	43,138	–
Power and water/waste disposal	17,793	–	–	–	–	–	17,793	–
International	10,000	–	–	–	–	–	10,000	–
Other (including Mission Related)	–	2,320	–	–	3,720	–	3,720	2,320
Total	\$ 234,526	\$ 180,430	\$ 19,162	\$ 116,494	\$ 6,299	\$ –	\$ 259,987	\$ 296,924

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	\$ 13,442	\$ 97,757	\$ –	\$ 23,217	\$ –	\$ –	\$ 13,442	\$ 120,974
Production and intermediate-term	57,369	9,922	4,938	–	14	–	62,321	9,922
Loans to cooperatives	28,961	–	–	–	–	–	28,961	–
Processing and marketing	75,768	21,781	5,429	72,863	–	–	81,197	94,644
Farm-related business	2,521	19,586	3,346	2,019	23	–	5,890	21,605
Communication	33,849	–	–	–	–	–	33,849	–
Power and water/waste disposal	17,082	–	–	–	–	–	17,082	–
International	10,000	–	–	–	–	–	10,000	–
Other (including Mission Related)	–	2,807	–	–	4,023	–	4,023	2,807
Total	\$ 238,992	\$ 151,853	\$ 13,713	\$ 98,099	\$ 4,060	\$ –	\$ 256,765	\$ 249,952

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	\$ 17,684	\$ 145,770	\$ 573,822	\$ 737,276
Production and intermediate-term	75,507	130,947	27,518	233,972
Loans to cooperatives	1,994	14,335	10,077	26,406
Processing and marketing	3,355	68,791	57,539	129,685
Farm-related business	7,905	15,498	16,886	40,289
Communication	—	20,461	28,996	49,457
Power and water/waste disposal	591	19,397	6,347	26,335
Rural residential real estate	26	892	9,170	10,088
International	—	1,025	9,986	11,011
Other (including Mission Related)	—	3,168	2,740	5,908
Total loans	\$ 107,062	\$ 420,284	\$ 743,081	\$ 1,270,427
Percentage	8.43%	33.08%	58.49%	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,				December 31,		
	2019	2018	2017		2019	2018	2017
Real estate mortgage:				Communication			
Acceptable	94.86%	93.07%	93.74%	Acceptable	100.00%	91.23%	100.00%
OAEM	4.00	4.58	4.46	OAEM	—	8.77	—
Substandard/doubtful/loss	1.14	2.35	1.80	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Production and intermediate-term:				Power and water/waste disposal			
Acceptable	92.58%	88.93%	89.43%	Acceptable	62.39%	100.00%	100.00%
OAEM	6.45	8.20	8.81	OAEM	37.61	—	—
Substandard/doubtful/loss	0.97	2.87	1.76	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Loans to cooperatives:				Rural residential real estate:			
Acceptable	100.00%	100.00%	100.00%	Acceptable	98.00%	97.05%	97.01%
OAEM	—	—	—	OAEM	0.11	0.11	0.19
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss	1.89	2.84	2.80
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Processing and marketing:				International:			
Acceptable	96.72%	99.34%	100.00%	Acceptable	100.00%	100.00%	100.00%
OAEM	3.28	0.66	—	OAEM	—	—	—
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Farm-related business:				Other (including Mission Related):			
Acceptable	88.36%	87.72%	99.31%	Acceptable	100.00%	100.00%	100.00%
OAEM	11.04	11.71	0.15	OAEM	—	—	—
Substandard/doubtful/loss	0.60	0.57	0.54	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
				Total loans:			
				Acceptable	94.15%	92.87%	94.13%
				OAEM	4.97	5.13	4.41
				Substandard/doubtful/loss	0.88	2.00	1.46
					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	\$ 4,141	\$ 2,013	\$ 6,154	\$ 735,577	\$ 741,731
Production and intermediate-term	493	2,302	2,795	232,322	235,117
Loans to cooperatives	—	—	—	26,432	26,432
Processing and marketing	—	—	—	130,309	130,309
Farm-related business	—	—	—	40,467	40,467
Communication	—	—	—	49,463	49,463
Power and water/waste disposal	—	—	—	26,388	26,388
Rural residential real estate	66	20	86	10,032	10,118
International	—	—	—	11,064	11,064
Other (including Mission Related)	—	—	—	5,978	5,978
Total	\$ 4,700	\$ 4,335	\$ 9,035	\$ 1,268,032	\$ 1,277,067

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	\$ 4,894	\$ 2,077	\$ 6,971	\$ 689,457	\$ 696,428
Production and intermediate-term	600	5,083	5,683	221,755	227,438
Loans to cooperatives	—	—	—	26,962	26,962
Processing and marketing	—	—	—	89,712	89,712
Farm-related business	54	—	54	43,122	43,176
Communication	—	—	—	43,062	43,062
Power and water/waste disposal	—	—	—	17,771	17,771
Rural residential real estate	127	38	165	9,261	9,426
International	—	—	—	10,041	10,041
Other (including Mission Related)	—	—	—	6,290	6,290
Total	\$ 5,675	\$ 7,198	\$ 12,873	\$ 1,157,433	\$ 1,170,306

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	\$ 2,116	\$ 513	\$ 2,629	\$ 667,544	\$ 670,173
Production and intermediate-term	2,371	3,598	5,969	222,590	228,559
Loans to cooperatives	—	—	—	28,957	28,957
Processing and marketing	—	—	—	86,460	86,460
Farm-related business	—	—	—	45,594	45,594
Communication	—	—	—	33,758	33,758
Power and water/waste disposal	—	—	—	17,039	17,039
Rural residential real estate	154	24	178	8,943	9,121
International	—	—	—	10,014	10,014
Other (including Mission Related)	—	—	—	6,681	6,681
Total	\$ 4,641	\$ 4,135	\$ 8,776	\$ 1,127,580	\$ 1,136,356

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

	December 31,		
	2019	2018	2017
Nonaccrual loans:			
Real estate mortgage	\$ 4,195	\$ 5,847	\$ 5,481
Production and intermediate-term	2,306	5,339	5,517
Farm-related business	243	247	247
Rural residential real estate	174	197	178
Total	\$ 6,918	\$ 11,630	\$ 11,423
Accruing restructured loans:			
Real estate mortgage	\$ 526	\$ 1,092	\$ 773
Production and intermediate-term	192	199	256
Total	\$ 718	\$ 1,291	\$ 1,029
Accruing loans 90 days or more past due:			
Total	\$ —	\$ —	\$ —
Total nonperforming loans	\$ 7,636	\$ 12,921	\$ 12,452
Other property owned	31	73	95
Total nonperforming assets	\$ 7,667	\$ 12,994	\$ 12,547
Nonaccrual loans as a percentage of total loans	0.54%	1.00%	1.01%
Nonperforming assets as a percentage of total loans and other property owned	0.60%	1.12%	1.11%
Nonperforming assets as a percentage of capital	2.74%	4.90%	4.97%

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	\$ 2,431	\$ 3,857	\$ 4,698
Past due	4,487	7,773	6,725
Total	<u>\$ 6,918</u>	<u>\$ 11,630</u>	<u>\$ 11,423</u>
Impaired accrual loans:			
Restructured	\$ 718	\$ 1,291	\$ 1,029
90 days or more past due	-	-	-
Total	<u>\$ 718</u>	<u>\$ 1,291</u>	<u>\$ 1,029</u>
Total impaired loans	<u>\$ 7,636</u>	<u>\$ 12,921</u>	<u>\$ 12,452</u>
Additional commitments to lend	<u>\$ 14</u>	<u>\$ 6</u>	<u>\$ -</u>

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

Impaired loans:	December 31, 2019			Year Ended December 31, 2019	
	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	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate-term	2,096	4,683	733	2,475	368
Farm-related business	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	<u>\$ 2,096</u>	<u>\$ 4,683</u>	<u>\$ 733</u>	<u>\$ 2,475</u>	<u>\$ 368</u>
With no related allowance for credit losses:					
Real estate mortgage	\$ 4,721	\$ 9,528	\$ -	\$ 5,575	\$ 829
Production and intermediate-term	402	1,515	-	475	71
Farm-related business	243	282	-	287	43
Rural residential real estate	174	403	-	206	30
Total	<u>\$ 5,540</u>	<u>\$ 11,728</u>	<u>\$ -</u>	<u>\$ 6,543</u>	<u>\$ 973</u>
Total impaired loans:					
Real estate mortgage	\$ 4,721	\$ 9,528	\$ -	\$ 5,575	\$ 829
Production and intermediate-term	2,498	6,198	733	2,950	439
Farm-related business	243	282	-	287	43
Rural residential real estate	174	403	-	206	30
Total	<u>\$ 7,636</u>	<u>\$ 16,411</u>	<u>\$ 733</u>	<u>\$ 9,018</u>	<u>\$ 1,341</u>

Impaired loans:	December 31, 2018			Year Ended December 31, 2018	
	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	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate-term	4,750	7,289	1,929	4,441	860
Farm-related business	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	<u>\$ 4,750</u>	<u>\$ 7,289</u>	<u>\$ 1,929</u>	<u>\$ 4,441</u>	<u>\$ 860</u>
With no related allowance for credit losses:					
Real estate mortgage	\$ 6,939	\$ 12,382	\$ -	\$ 6,488	\$ 1,256
Production and intermediate-term	788	4,692	-	737	143
Farm-related business	247	295	-	231	45
Rural residential real estate	197	507	-	184	36
Total	<u>\$ 8,171</u>	<u>\$ 17,876</u>	<u>\$ -</u>	<u>\$ 7,640</u>	<u>\$ 1,480</u>
Total impaired loans:					
Real estate mortgage	\$ 6,939	\$ 12,382	\$ -	\$ 6,488	\$ 1,256
Production and intermediate-term	5,538	11,981	1,929	5,178	1,003
Farm-related business	247	295	-	231	45
Rural residential real estate	197	507	-	184	36
Total	<u>\$ 12,921</u>	<u>\$ 25,165</u>	<u>\$ 1,929</u>	<u>\$ 12,081</u>	<u>\$ 2,340</u>

	December 31, 2017			Year Ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 236	\$ 334	\$ 187	\$ 252	\$ 33
Production and intermediate-term	1,800	3,000	200	1,923	251
Farm-related business	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	<u>\$ 2,036</u>	<u>\$ 3,334</u>	<u>\$ 387</u>	<u>\$ 2,175</u>	<u>\$ 284</u>
With no related allowance for credit losses:					
Real estate mortgage	\$ 6,018	\$ 11,957	\$ -	\$ 6,430	\$ 840
Production and intermediate-term	3,973	11,028	-	4,245	554
Farm-related business	247	304	-	264	34
Rural residential real estate	178	404	-	190	25
Total	<u>\$ 10,416</u>	<u>\$ 23,693</u>	<u>\$ -</u>	<u>\$ 11,129</u>	<u>\$ 1,453</u>
Total impaired loans:					
Real estate mortgage	\$ 6,254	\$ 12,291	\$ 187	\$ 6,682	\$ 873
Production and intermediate-term	5,773	14,028	200	6,168	805
Farm-related business	247	304	-	264	34
Rural residential real estate	178	404	-	190	25
Total	<u>\$ 12,452</u>	<u>\$ 27,027</u>	<u>\$ 387</u>	<u>\$ 13,304</u>	<u>\$ 1,737</u>

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

	Real Estate Mortgage	Production and Intermediate -term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:									
Balance at December 31, 2018	\$ 3,971	\$ 4,080	\$ 850	\$ 155	\$ 46	\$ 77	\$ 6	\$ 1	\$ 9,186
Charge-offs	—	(1,388)	—	—	—	(7)	—	—	(1,395)
Recoveries	450	583	28	—	—	7	—	—	1,068
Provision of loan losses	(1,114)	(52)	510	(15)	141	(10)	2	—	(538)
Balance at December 31, 2019	\$ 3,307	\$ 3,223	\$ 1,388	\$ 140	\$ 187	\$ 67	\$ 8	\$ 1	\$ 8,321
Balance at December 31, 2017	\$ 4,258	\$ 2,400	\$ 831	\$ 129	\$ 44	\$ 102	\$ 9	\$ 1	\$ 7,774
Charge-offs	(44)	(2,630)	—	—	—	—	—	—	(2,674)
Recoveries	256	1,504	—	—	—	5	—	—	1,765
Provision of loan losses	(499)	2,806	19	26	2	(30)	(3)	—	2,321
Balance at December 31, 2018	\$ 3,971	\$ 4,080	\$ 850	\$ 155	\$ 46	\$ 77	\$ 6	\$ 1	\$ 9,186
Balance at December 31, 2016	\$ 3,774	\$ 1,884	\$ 659	\$ 121	\$ 33	\$ 81	\$ 8	\$ —	\$ 6,560
Charge-offs	—	(1,431)	—	—	—	—	—	—	(1,431)
Recoveries	2,517	99	1	—	—	—	—	—	2,617
Provision of loan losses	(2,033)	1,848	171	8	11	21	1	1	28
Balance at December 31, 2017	\$ 4,258	\$ 2,400	\$ 831	\$ 129	\$ 44	\$ 102	\$ 9	\$ 1	\$ 7,774
Allowance on loans evaluated for impairment:									
Individually	\$ —	\$ 733	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 733
Collectively	3,307	2,490	1,388	140	187	67	8	1	7,588
PCI**	—	—	—	—	—	—	—	—	—
Balance at December 31, 2019	\$ 3,307	\$ 3,223	\$ 1,388	\$ 140	\$ 187	\$ 67	\$ 8	\$ 1	\$ 8,321
Individually	\$ —	\$ 1,929	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,929
Collectively	3,971	2,151	850	155	46	77	6	1	7,257
PCI**	—	—	—	—	—	—	—	—	—
Balance at December 31, 2018	\$ 3,971	\$ 4,080	\$ 850	\$ 155	\$ 46	\$ 77	\$ 6	\$ 1	\$ 9,186
Individually	\$ 187	\$ 200	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 387
Collectively	4,071	2,200	831	129	44	102	9	1	7,387
PCI**	—	—	—	—	—	—	—	—	—
Balance at December 31, 2017	\$ 4,258	\$ 2,400	\$ 831	\$ 129	\$ 44	\$ 102	\$ 9	\$ 1	\$ 7,774
Recorded investment in loans evaluated for impairment:									
Individually	\$ 4,370	\$ 2,499	\$ 243	\$ —	\$ —	\$ 174	\$ —	\$ —	\$ 7,286
Collectively	736,719	232,619	196,965	49,463	26,388	9,944	11,064	5,978	1,269,140
PCI**	642	(1)	—	—	—	—	—	—	641
Balance at December 31, 2019	\$ 741,731	\$ 235,117	\$ 197,208	\$ 49,463	\$ 26,388	\$ 10,118	\$ 11,064	\$ 5,978	\$ 1,277,067
Individually	\$ 6,496	\$ 5,544	\$ 247	\$ —	\$ —	\$ 197	\$ —	\$ —	\$ 12,484
Collectively	687,889	221,900	159,603	43,062	17,771	9,229	10,041	6,290	1,155,785
PCI**	2,043	(6)	—	—	—	—	—	—	2,037
Balance at December 31, 2018	\$ 696,428	\$ 227,438	\$ 159,850	\$ 43,062	\$ 17,771	\$ 9,426	\$ 10,041	\$ 6,290	\$ 1,170,306
Individually	\$ 5,724	\$ 6,108	\$ 247	\$ —	\$ —	\$ 178	\$ —	\$ —	\$ 12,257
Collectively	662,243	222,787	160,764	33,758	17,039	8,943	10,014	6,681	1,122,229
PCI**	2,206	(336)	—	—	—	—	—	—	1,870
Balance at December 31, 2017	\$ 670,173	\$ 228,559	\$ 161,011	\$ 33,758	\$ 17,039	\$ 9,121	\$ 10,014	\$ 6,681	\$ 1,136,356

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

** Purchased credit impaired (PCI) loans.

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain 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 \$31,860, \$31,709, and \$31,191 at December 31, 2019, 2018, and 2017, respectively. Fees paid for such guarantee commitments totaled \$0, \$2, and \$4 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. The tables do not include purchased credit impaired loans.

Outstanding Recorded Investment	Year Ended December 31, 2019				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Real estate mortgage	\$ -	\$ 780	\$ -	\$ 780	
Production and intermediate-term	-	90	-	90	
Total	\$ -	\$ 870	\$ -	\$ 870	
Post-modification:					
Real estate mortgage	\$ -	\$ 787	\$ -	\$ 787	\$ -
Production and intermediate-term	-	86	-	86	-
Total	\$ -	\$ 873	\$ -	\$ 873	\$ -

Outstanding Recorded Investment	Year Ended December 31, 2018				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Real estate mortgage	\$ 172	\$ 425	\$ -	\$ 597	
Production and intermediate-term	-	-	3	3	
Total	\$ 172	\$ 425	\$ 3	\$ 600	
Post-modification:					
Real estate mortgage	\$ 173	\$ 432	\$ -	\$ 605	\$ -
Production and intermediate-term	-	-	4	4	-
Total	\$ 173	\$ 432	\$ 4	\$ 609	\$ -

Outstanding Recorded Investment	Year Ended December 31, 2017				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Real estate mortgage	\$ -	\$ 169	\$ -	\$ 169	
Production and intermediate-term	-	67	-	67	
Total	\$ -	\$ 236	\$ -	\$ 236	
Post-modification:					
Real estate mortgage	\$ -	\$ 181	\$ -	\$ 181	\$ -
Production and intermediate-term	-	68	-	68	-
Total	\$ -	\$ 249	\$ -	\$ 249	\$ -

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.

Defaulted troubled debt restructurings	Year Ended December 31,		
	2019	2018	2017
Production and intermediate-term	\$ -	\$ -	\$ 67
Total	\$ -	\$ -	\$ 67

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2019	2018	2017	2019	2018	2017
Real estate mortgage	\$ 1,974	\$ 3,056	\$ 3,421	\$ 1,448	\$ 1,964	\$ 2,648
Production and intermediate-term	184	72	3,370	(8)	(127)	3,114
Farm-related business	243	247	247	243	247	247
Total loans	\$ 2,401	\$ 3,375	\$ 7,038	\$ 1,683	\$ 2,084	\$ 6,009
Additional commitments to lend	\$ -	\$ -	\$ -			

The following table presents information as of period end:

	<u>December 31, 2019</u>	
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$	31
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$	20

Purchased Credit Impaired (PCI) Loans

The Association acquires loans individually and in groups or portfolios. For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Association would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or whether such loans would be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. It then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all PCI loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

The carrying amounts of such loans acquired in a 2011 business combination included in the balance sheet amounts of loans receivable at period end were as follows:

	<u>December 31, 2019</u>	
Real estate mortgage	\$	642
Production and intermediate-term		(1)
Total Loans	\$	641

There was no allowance for loan losses related to these loans at December 31, 2019, 2018 or 2017. During the years ended December 31, 2019, 2018, and 2017 provision for loan losses on these loans was an expense reversal of \$96, an expense reversal of \$1,537, and an expense reversal of \$272, respectively. See above for a summary of changes in the total allowance for loan losses. There were no loans acquired during the years ended December 31, 2019, 2018 or 2017 for which it was probable at acquisition that all contractually required payments would not be collected.

Certain of the loans acquired by the Association in the 2011 business combination that were within the scope of PCI loan guidance are accounted for using a cash basis method of income recognition because the Association cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. The real estate market in Florida was extremely unstable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the Association did not have the information necessary to reasonably estimate cash flows expected to be collected to compute a yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance. These amounts are included in the carrying values, net of allowance, described above.

Note 4 — Investments

Investments in Debt Securities

The Association's investments consist of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

The Association's investments also consist 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 one RAB with a fair value of \$113 whose credit quality has 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	\$ 2,423	\$ 533	\$ -	\$ 2,956	6.24%
ABSs	1,337	1	(42)	1,296	2.32
Total	\$ 3,760	\$ 534	\$ (42)	\$ 4,252	4.85%

December 31, 2018					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 2,483	\$ 460	\$ -	\$ 2,943	6.24%
ABSs	1,741	4	(46)	1,699	2.17
Total	\$ 4,224	\$ 464	\$ (46)	\$ 4,642	4.56%

December 31, 2017					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 2,533	\$ 424	\$ -	\$ 2,957	5.50%
ABSs	2,934	15	(53)	2,896	0.85
Total	\$ 5,467	\$ 439	\$ (53)	\$ 5,853	3.00%

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	981	1,025	6.17
After five years through ten years	444	427	2.00
After ten years	2,335	2,800	4.83
Total	\$ 3,760	\$ 4,252	4.85%

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

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

December 31, 2019				
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	\$ 21	\$ -	\$ 1,104	\$ (42)

December 31, 2018				
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	\$ -	\$ -	\$ 1,457	\$ (46)

December 31, 2017				
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	\$ 399	\$ (1)	\$ 1,602	\$ (52)

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

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

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

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

A substantial portion of these investments was in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

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 \$13,204 for 2019, \$12,616 for 2018 and \$11,576 for 2017. The Association owned 4.67 percent of the issued stock of the Bank as of December 31, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled \$34.5 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$272 million for 2019. In addition, the Association had investments of \$1,915 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	\$ 991	\$ 975	\$ 973
Buildings and improvements	10,173	9,227	8,719
Furniture and equipment	5,768	5,359	4,852
	16,932	15,561	14,544
Less: accumulated depreciation	8,535	7,865	7,602
Total	<u>\$ 8,397</u>	<u>\$ 7,696</u>	<u>\$ 6,942</u>

Other Property Owned

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

	December 31,		
	2019	2018	2017
(Gains) losses on sale, net	\$ 2	\$ (70)	\$ (31)
Carrying value unrealized (gains) losses	6	(28)	63
Operating (income) expense, net	35	(27)	27
(Gains) losses on other property owned, net	<u>\$ 43</u>	<u>\$ (125)</u>	<u>\$ 59</u>

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. Deferred gains totaled \$23, \$25, and \$97 at December 31, 2019, 2018, and 2017, respectively.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2019, the Association's notes payable were within the specified limitations.

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

The weighted-average interest rate on all interest-bearing notes payable was 3.21 percent and the weighted-average remaining maturity was 8.3 years at December 31, 2019. Variable rate and fixed rate notes payable represent approximately 23.43 percent and 76.57 percent, respectively, of total notes payable at December 31, 2019. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

- A. **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 that 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 lessor of two percent of the loan amount or \$1 thousand. 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%	19.21%	19.73%	19.64%
Tier 1 Capital	6.0%	1.875%	7.875%	19.21%	19.73%	19.64%
Total Capital	8.0%	1.875%	9.875%	19.81%	20.52%	20.34%
Permanent Capital	7.0%	0.0%	7.0%	19.32%	19.88%	19.77%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	21.32%	21.84%	21.67%
URE and UREE Leverage	1.5%	0.0%	1.5%	16.82%	16.85%	16.37%

* 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 Class 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, except for Class D Preferred Stock which, if issued, would have a par value of (\$0.01) per share.

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
A Common/Nonvoting	Yes	89,103	\$ 445
C Common/Voting	No	468,252	2,341
C Participation Certificates/Nonvoting	No	58,409	292
Total Capital Stock and Participation Certificates		615,764	\$ 3,078

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 Board determines the minimum aggregate amount of these two accounts. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings 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. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2019, allocated members’ equity consisted of \$56,830 of nonqualified allocated surplus and \$65,159 of nonqualified retained surplus.

Patronage Distributions

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

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members’ equity account, or any one or more of such forms of distribution. Patronage distributions of the Association’s earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year 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 8 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Class D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class D 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

Class D Preferred, Classes A, B and C Common Stocks, 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:

- a) **First**, Assistance Preferred Stock issued and outstanding;
- b) **Second**, allocated surplus, in its entirety, with application to most recent allocation first and then in reverse order until all allocated surplus has been exhausted;
- c) **Third**, Class C Common Stock and Class C Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;
- d) **Fourth**, Class A Common and Class B Common Stock and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired; and
- e) **Fifth**, Class D Preferred Stock issued and outstanding, if any.

Distribution on Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities, shall be distributed in the following order of priority:

- a) **First**, to the holders of Class D Preferred Stock until an amount equal to the aggregate par value of all shares of

said stock then issued and outstanding has been distributed to such holders,

- b) **Second**, to the holders of Class A Common Stock, Class B Common Stock, Class C Common Stock and Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
- c) **Third**, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of the year of issuance, until the total amount of such account has been distributed;
- d) **Fourth**, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of the year of issuance, until the total amount of such account has been distributed;
- e) **Fifth**, all unallocated surplus accrued or issued after April 22, 1995, shall be distributed to present and former Patrons from said date through the date of liquidation on a patronage basis to the extent practicable; and
- f) **Sixth**, any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of Common Stock and Participation Certificates in proportion to the number of shares or units of such class of Common Stock or participation certificates held by such holders.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made in proportion to the number of shares or units of such classes of stock or participation certificates held by such holders. All distributions to holders of allocated surplus shall be pro-rata by year of issuance.

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	\$	(195)	\$	(238)	\$	(212)
Other comprehensive income before reclassifications		(54)		32		(35)
Amounts reclassified from AOCI		9		11		9
Net current period OCI		(45)		43		(26)
Balance at end of period	\$	(240)	\$	(195)	\$	(238)

	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	\$	(9)	\$	(11)	\$	(9)	See Note 9.
Amounts reclassified	\$	(9)	\$	(11)	\$	(9)	

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 8 — Fair Value Measurement

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

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

Estimating the fair value of the Association's equity investments in the Bank and other 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

ABSs, such as those issued through the Small Business Administration, are classified Level 2.

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	\$	791	\$ 791	\$ –	\$ –	\$ 791
Recurring Assets	\$	791	\$ 791	\$ –	\$ –	\$ 791
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	1,363	\$ –	\$ –	\$ 1,363	\$ 1,363
Other property owned		31	–	–	34	34
Nonrecurring Assets	\$	1,394	\$ –	\$ –	\$ 1,397	\$ 1,397
Other Financial Instruments						
Assets:						
Cash	\$	561	\$ 561	\$ –	\$ –	\$ 561
RABs		2,423	–	–	2,956	2,956
ABSs		1,337	–	1,296	–	1,296
Loans		1,260,851	–	–	1,266,355	1,266,355
Other Financial Assets	\$	1,265,172	\$ 561	\$ 1,296	\$ 1,269,311	\$ 1,271,168
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	1,005,717	\$ –	\$ –	\$ 1,010,367	\$ 1,010,367
Other Financial Liabilities	\$	1,005,717	\$ –	\$ –	\$ 1,010,367	\$ 1,010,367

		December 31, 2018				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Assets held in trust funds	\$	689	\$ 689	\$ –	\$ –	\$ 689
Recurring Assets	\$	689	\$ 689	\$ –	\$ –	\$ 689
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	2,821	\$ –	\$ –	\$ 2,821	\$ 2,821
Other property owned		73	–	–	80	80
Nonrecurring Assets	\$	2,894	\$ –	\$ –	\$ 2,901	\$ 2,901
Other Financial Instruments						
Assets:						
Cash	\$	331	\$ 331	\$ –	\$ –	\$ 331
RABs		2,483	–	–	2,943	2,943
ABSs		1,741	–	1,699	–	1,699
Loans		1,152,173	–	–	1,141,744	1,141,744
Other Financial Assets	\$	1,156,728	\$ 331	\$ 1,699	\$ 1,144,687	\$ 1,146,717
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	915,039	\$ –	\$ –	\$ 908,211	\$ 908,211
Other Financial Liabilities	\$	915,039	\$ –	\$ –	\$ 908,211	\$ 908,211

		December 31, 2017				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Assets held in trust funds	\$	740	\$ 740	\$ –	\$ –	\$ 740
Recurring Assets	\$	740	\$ 740	\$ –	\$ –	\$ 740
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	1,649	\$ –	\$ –	\$ 1,649	\$ 1,649
Other property owned		95	–	–	103	103
Nonrecurring Assets	\$	1,744	\$ –	\$ –	\$ 1,752	\$ 1,752
Other Financial Instruments						
Assets:						
Cash	\$	211	\$ 211	\$ –	\$ –	\$ 211
RABs		2,533	–	–	2,957	2,957
ABSs		2,934	–	2,896	–	2,896
Loans		1,121,589	–	–	1,120,461	1,120,461
Other Financial Assets	\$	1,127,267	\$ 211	\$ 2,896	\$ 1,123,418	\$ 1,126,525
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	894,913	\$ –	\$ –	\$ 891,906	\$ 891,906
Other Financial Liabilities	\$	894,913	\$ –	\$ –	\$ 891,906	\$ 891,906

Uncertainty in Measurements of Fair Value

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

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

Investments in Debt Securities

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 1,397	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
RABs	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
ABSs	Vendor priced	**
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

** The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.

Note 9 — Employee Benefit Plans

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

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

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

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

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not

employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Income were \$1,744 for 2019, \$2,869 for 2018, and \$2,551 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 \$398 for 2019, \$318 for 2018, and \$299 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 \$4,597 and the reduction of Other Liabilities by \$6,810 on the Association's Balance Sheets, and a total reduction of noninterest expenses on the Association's Statements of Income of \$2,213 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 \$953, \$798, and \$795 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, \$(45), \$43, and \$(26) has been recognized as a net debit, a net credit, and a net debit, respectively, to AOCI to reflect these elements.

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

In addition to the multiemployer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of \$614 and a net underfunded status of \$614 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 \$42, \$52, and \$46 for 2019, 2018, and 2017, respectively.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which

such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2019 amounted to \$132,280. During 2019, \$329,593 of new loans were made and repayments totaled \$309,373.

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, \$336,336 of commitments to extend credit and no commercial letters of credit were outstanding with a related reserve for unfunded commitments of \$352 included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2019, standby letters of credit outstanding totaled \$5,046 with expiration dates ranging from January 1, 2020 to December 12, 2023. The maximum potential amount of future payments that may be required under these guarantees was \$5,046.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	\$ -	\$ -	\$ -
Deferred:	-	-	-
Total provision (benefit) for income taxes	\$ -	\$ -	\$ -

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

	December 31,		
	2019	2018	2017
Federal tax at statutory rate	\$ 5,702	\$ 5,322	\$ 9,187
Patronage distributions	(2,730)	(2,678)	(4,025)
Tax-exempt FLCA earnings	(6,418)	(6,345)	(10,802)
Dividend from FLCA	2,730	2,678	4,025
Change in deferred tax asset			
valuation allowance	717	966	(3,003)
Adjustment for lower statutory rate	-	-	4,618
P/Y Provision to Return, Permanent Trueup	(20)	33	-
Meals & Entertainment	19	28	-
Other	-	(4)	-
Provision (benefit) for income taxes	\$ -	\$ -	\$ -

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2019	2018	2017
Deferred income tax assets:			
Allowance for loan losses	\$ 452	\$ 752	\$ 319
Deferred Revenue – Merger	168	171	174
Net operating loss – carryforward	10,159	8,731	7,872
Nonaccrual loan interest	169	406	627
Loss Reserve – Letters of Credit	52	49	48
Non qualified allocations	-	-	-
Gross deferred tax assets	11,000	10,109	9,040
Less: valuation allowance	(10,380)	(9,524)	(8,357)
Gross deferred tax assets, net of valuation allowance	620	585	683
Deferred income tax liabilities:			
Bank patronage allocation	(562)	(631)	(652)
Loan Origination Fees	(58)	46	(31)
Gross deferred tax liability	(620)	(585)	(683)
Net deferred tax asset (liability)	\$ -	\$ -	\$ -

The Tax Cuts and Jobs Act was enacted on December 22, 2017, and includes, among other items, a reduction in the federal corporate income tax rate. The reduced rate does not have an impact in our effective tax rate due to a full valuation allowance in our books. Additionally, since our deferred tax balances are calculated based on the tax rates in effect during the period, a change in federal corporate income tax rates is recorded as a component of the income tax provision for the period in which the law is enacted to change current or future tax rates. Therefore, this reduction in the corporate federal income tax rate resulted in a one-time adjustment of our deferred tax balances and a corresponding credit to income tax expense in 2017. This one-time adjustment is entirely offset by an adjustment to the valuation allowance.

At December 31, 2019, deferred income taxes have not been provided by the Association on approximately \$4.6 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$10,380, \$9,524 and \$8,357 as of December 31, 2019, 2018 and 2017, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

At December 31, 2019 the Association has Federal loss carryforwards totaling approximately \$40 million that expire in varying amounts beginning in 2023. Of this loss carryforward, \$4 of non-pat carryforwards and \$3,882 of pat carryforwards were generated starting in the year 2018 and therefore have no expiration date. The Association also has state loss carryforwards totaling approximately \$39 million that expire in varying amounts beginning in 2023. The valuation allowance at December 31, 2019 was primarily related to federal and state loss carryforwards that, in the judgment of management, are more likely than not to expire before realized. In evaluating the Company's ability to recover its deferred income tax assets, it considers all available evidence, both positive and negative, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2019 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

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

Note 13 — Additional Financial Information**Quarterly Financial Information (Unaudited)**

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 8,441	8,563	8,392	9,167	34,563
Provision for (reversal of allowance for) loan losses	660	(885)	(600)	287	(538)
Noninterest income (expense), net	(2,669)	(2,848)	(3,070)	639	(7,948)
Net income	\$ 5,112	6,600	5,922	9,519	27,153

	2018				
	First	Second	Third	Fourth	Total
Net interest income	\$ 8,280	8,061	9,312	8,006	33,659
Provision for (reversal of allowance for) loan losses	104	377	1,476	364	2,321
Noninterest income (expense), net	(1,840)	(3,509)	(3,226)	2,582	(5,993)
Net income	\$ 6,336	4,175	4,610	10,224	25,345

	2017				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,240	8,034	7,351	7,468	30,093
Provision for (reversal of allowance for) loan losses	(253)	(522)	397	406	28
Noninterest income (expense), net	(2,522)	(2,727)	(3,105)	4,537	(3,817)
Net income	\$ 4,971	5,829	3,849	11,599	26,248

Note 14 — Subsequent Events

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



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