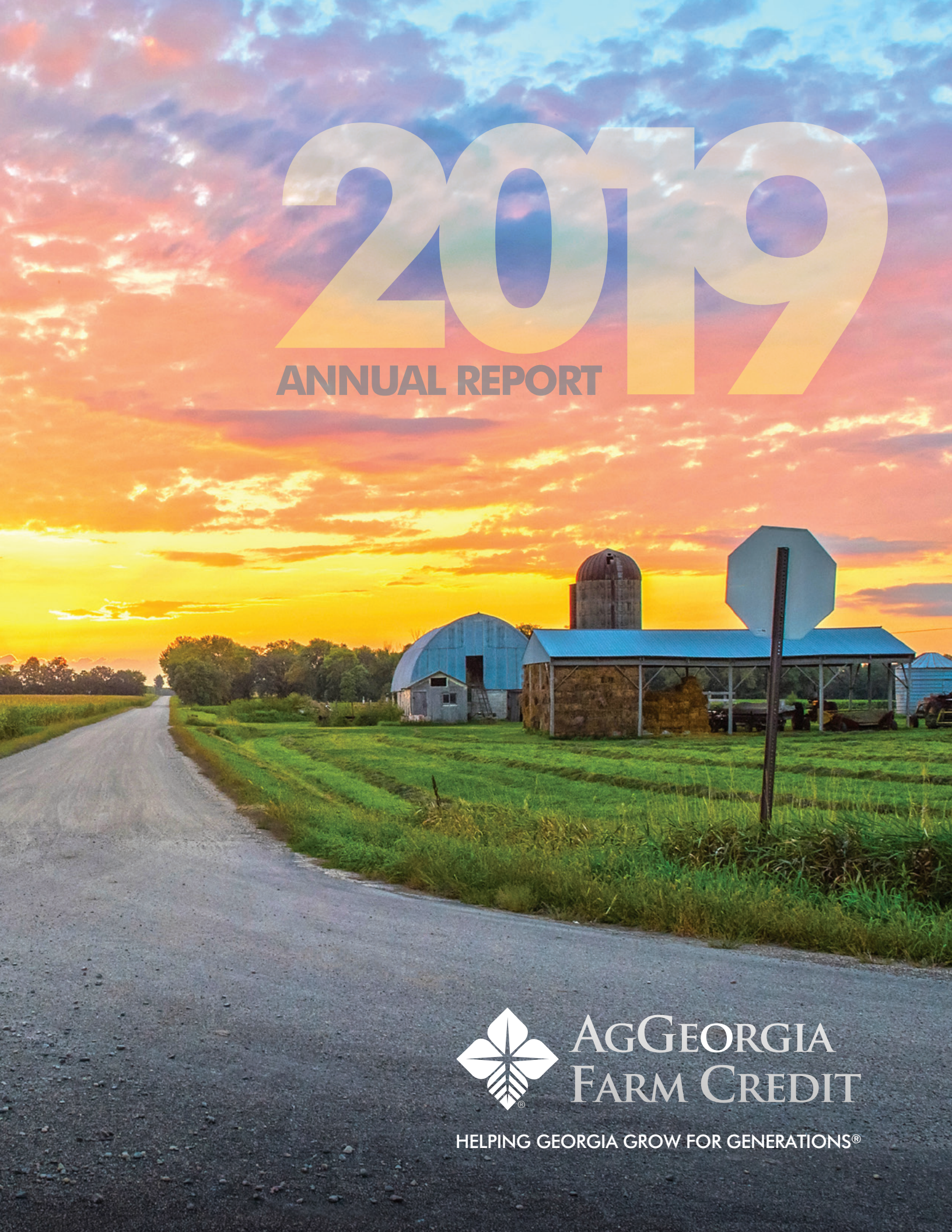


# 2019

ANNUAL REPORT



AGGEORGIA  
FARM CREDIT

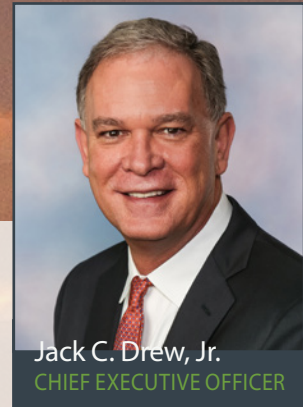
HELPING GEORGIA GROW FOR GENERATIONS®



PCH  
2649  
7435

Photo courtesy of Jessica Massey

# MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



Jack C. Drew, Jr.  
CHIEF EXECUTIVE OFFICER

On behalf of the Board of Directors, management and staff of AgGeorgia Farm Credit, ACA, I am pleased to present our 2019 Annual Report.

Our operations in 2019 produced strong earnings and enhanced the capital position of your Association reflecting final net income of \$21.87 million, which is \$6.3 million over our 2019 budget. The increase in net income is largely attributed to higher core earnings from increased loan volume and patronage received from AgFirst Farm Credit Bank. Our key financial ratios continue to reflect positive performance with AgGeorgia's return on assets at 2.30%, Common Equity Tier I Capital at 23.38% and permanent capital of 23.57%. Stockholder equity at year-end was \$243 million. Both internal and external audits conducted during the period yielded excellent results, validating our risk management practices, and AgGeorgia remains well-capitalized to withstand any adversity in the loan portfolio while continuing to strengthen your cooperative further through responsible loan growth.

This is our Mission: to provide a stable source of credit for farmers and ranchers; meet borrower expectations for superior service; and return capital to our borrowers in a financially sound manner while maintaining a strong balance sheet capable of meeting economic challenges in the future.

Despite continued downward pressure on commodity markets caused in large part by trade disputes with China, our disciplined credit philosophy has enabled us to deliver strong financial results during upward and downward agricultural business cycles. Additionally, we are proud of our employees' contributions in continuing to enhance our business model, maintaining excellent member satisfaction scores and increasing stockholder value. Through

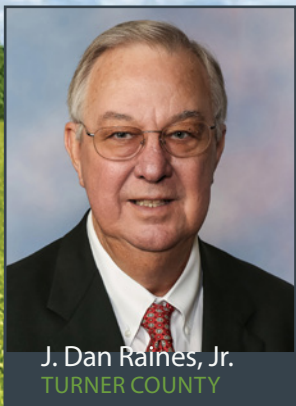
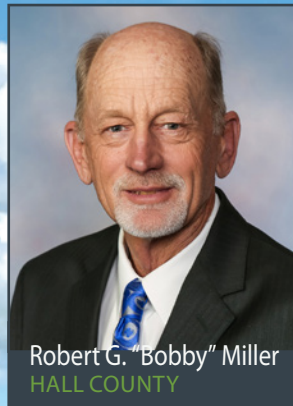
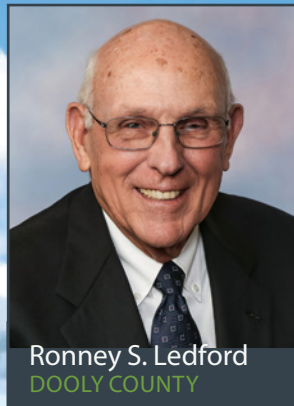
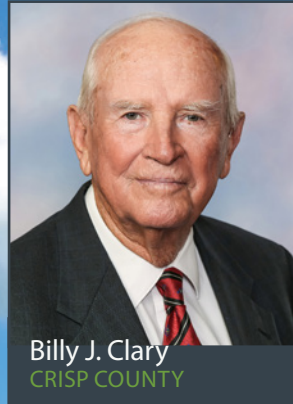
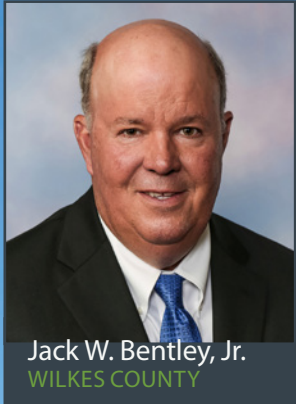
these efforts, our employees in each of our 20 branch offices continue to better serve our members and also allow you to confidently recommend AgGeorgia to others. Every new member to the Association grows a collectively stronger cooperative and the ability to return our profits at the highest level deemed responsible. More importantly, we attribute your Association's success to each of you, our stockholders, in successfully managing your operations despite depressed markets and adverse weather events.

AgGeorgia's financial performance has allowed us to pay patronage every year since 1988. As a result of our 2018 final net income of \$21.7 million, the Board of Directors declared a cash patronage of over \$4 million in April 2019, followed in June by a cash revolvment of surplus of \$12.5 million, totaling \$16.5 million in cash returned to our borrowers in 2019. I am pleased to report that once again the Association is positioned to declare a patronage payment to our eligible stockholders for fiscal year 2019. Since 1988, AgGeorgia has returned total cash in excess of \$378 million to our stockholders. We are immensely proud of this tradition and will continue to manage AgGeorgia to ensure your cooperative remains the lender of choice for agriculture.

On behalf of AgGeorgia's Board of Directors, management and employees, I thank you for placing your trust in AgGeorgia Farm Credit. It is truly an honor and a privilege to serve the farmers, agribusinesses and rural residents of our 79 counties in Georgia.

A handwritten signature in green ink that reads "Jack C. Drew, Jr." with a stylized flourish at the end.

# BOARD OF DIRECTORS



## BOARD CHAIRMAN

Mr. Guy A. Daughtrey\*

## BOARD VICE CHAIRMAN

Mr. Richard D. Neff

## AUDIT COMMITTEE

Chairman: Mr. George R. Reeves

Vice Chairman: Mr. Robert G. Miller

Financial Expert: Mr. Robert G. Miller

Members: Mr. W. Howard Brown, Mr. R. Brian Grogan  
and Mr. Franklin B. Wright

## COMPENSATION COMMITTEE

Chairman: Ms. Glee C. Smith

Vice Chairman: Mr. Jack W. Bentley, Jr.

Members: Mr. W. Howard Brown, Mr. Ronney S. Ledford  
and Mr. Franklin B. Wright

## CREDIT RISK COMMITTEE

Chairman: Mr. Jack W. Bentley, Jr.

Vice Chairman: Mr. Billy J. Clary

Members: Mr. J. Dan Raines, Jr.,  
Mr. George R. Reeves, Mr. David H. Smith and

Ms. Glee C. Smith

## GOVERNANCE COMMITTEE

Chairman: Mr. Billy J. Clary

Vice Chairman: Mr. Ronney S. Ledford

Members: Mr. Richard D. Neff, Mr. J. Al Rowland  
and Mrs. Anne G. Smith

## OUTSIDE DIRECTORS

Mr. Richard D. Neff and Ms. Glee C. Smith

\* As Board Chairman, Mr. Guy A. Daughtrey is an ex-officio  
(non-voting) member of all committees.

# MANAGEMENT TEAM



Back row (l to r): Vikki J. Wooley, Corporate Secretary; Stephen G. Connelly, Director of Information Technology; Corey W. Cottle, Director of Marketing; Carrie B. McCall, Chief Financial Officer; Zachary T. Purvis, Chief Lending Officer; Timothy H. Dean, Chief Appraiser; Brandie L. Thompson, Risk Manager

Front row (l to r): Stephen M. Yearata, Chief Credit Officer; Jack C. Drew, Jr., Chief Executive Officer; T. Lacy Royal, Chief Credit Officer

## BRANCH OFFICES

### **Perry Corporate Office**

468 Perry Parkway  
Perry, GA 31069  
(478) 987-8300

**Cartersville**  
1300 East Main St.  
Cartersville, GA 30120  
(770) 382-3637

**Chatsworth**  
19 Woodlake Drive  
Chatsworth, GA 30705  
(706) 695-0020

**Clarkesville**  
102 Blacksnake Road  
Mt. Airy, GA 30563  
(706) 754-4158

**Cordele**  
1207 South Greer St.  
Cordele, GA 31015  
(229) 273-3927

**Dublin**  
826 Bellevue Ave.  
Dublin, GA 31021  
(478) 272-3255

**Gainesville**  
501 Broad St.  
Gainesville, GA 30501  
(770) 534-5395

**LaFayette**  
700 East Villanow St.  
LaFayette, GA 30728  
(706) 638-1940

**Montezuma**  
317 Walnut St.  
Montezuma, GA 31063  
(478) 472-5156

**Moultrie**  
22 5th Ave., S.E.  
Moultrie, GA 31768  
(229) 985-3893

**Nashville**  
707 North Davis St.  
Nashville, GA 31639  
(229) 686-5081

**Ocilla**  
302 South Cherry St.  
Ocilla, GA 31774  
(229) 468-5900

**Perry**  
468 Perry Parkway  
Perry, GA 31069  
(478) 987-1434

**Quitman**  
504 East Screven St.  
Quitman, GA 31643  
(229) 263-7551

**Rome**  
701 East 2nd Ave.  
Rome, GA 30161  
(706) 291-6340

**Royston**  
449 Franklin Springs St.  
Royston, GA 30662  
(706) 245-6142

**Sandersville**  
775 Sparta Road  
Sandersville, GA 31082  
(478) 552-6922

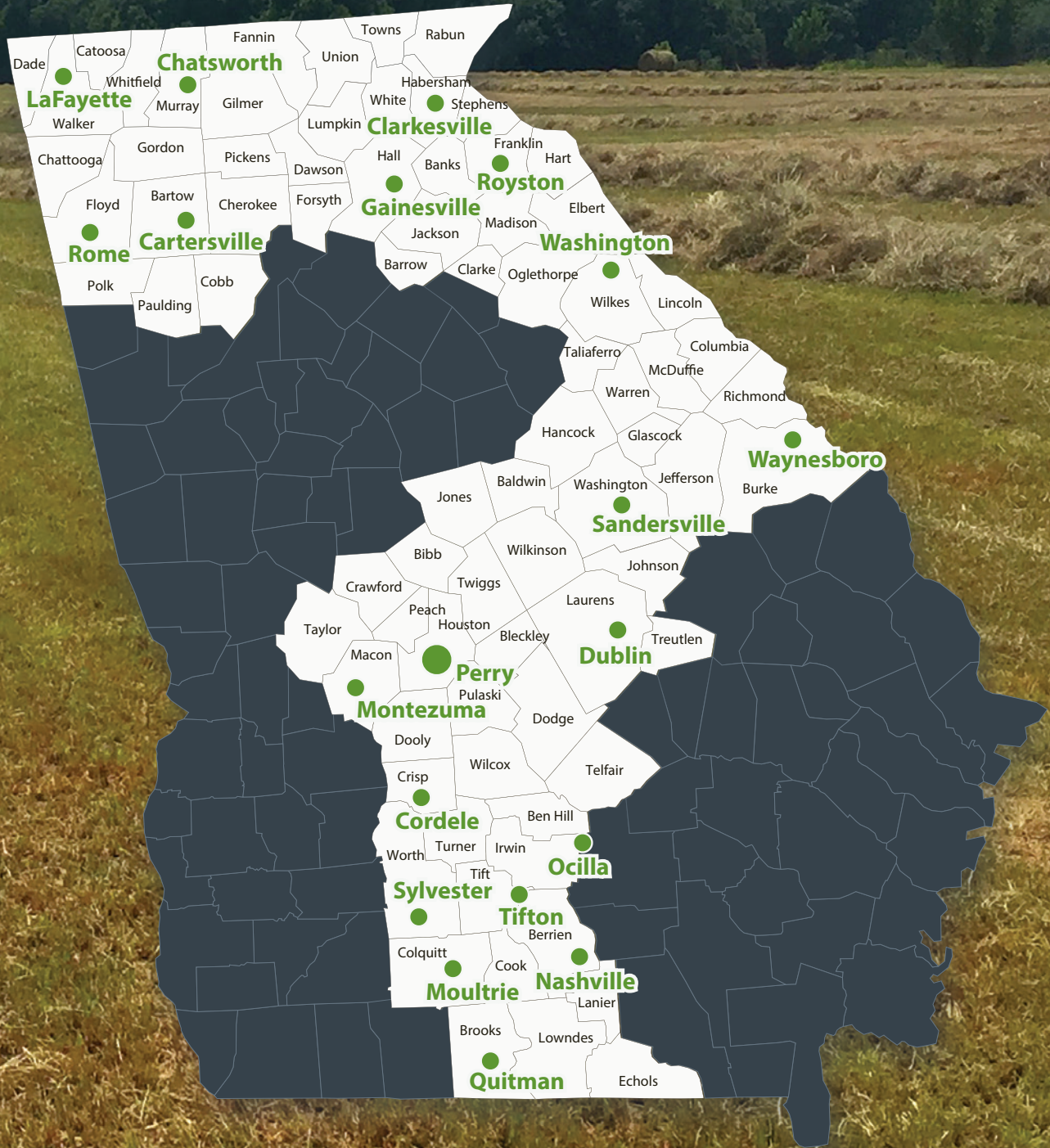
**Sylvester**  
105 Dexter Wilson Blvd.  
Sylvester, GA 31791  
(229) 776-5599

**Tifton**  
1807 King Road  
Tifton, GA 31793  
(229) 382-4300

**Washington**  
US 78, 311 North  
Bypass  
Washington, GA 30673  
(706) 678-7088

**Waynesboro**  
176 Hwy. 80 West  
Waynesboro, GA 30830  
(706) 554-2107

# TERRITORY & BRANCH LOCATIONS



*AgGeorgia Farm Credit, ACA*  
**2019 ANNUAL REPORT**

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## Report of Management

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

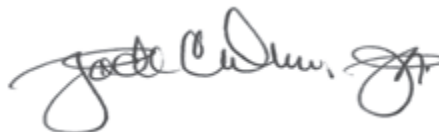
Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the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

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

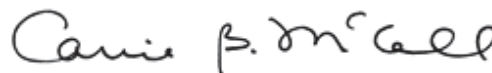
The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2019 Annual Report of AgGeorgia Farm Credit, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Guy A. Daughtrey  
Chairman of the Board



Jack C. Drew, Jr.  
Chief Executive Officer



Carrie B. McCall  
Chief Financial Officer

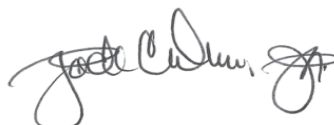
March 12, 2020

## ***Report on Internal Control Over Financial Reporting***

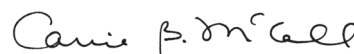
The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal 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.



Jack C. Drew, Jr.  
Chief Executive Officer



Carrie B. McCall  
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
<b>Balance Sheet Data</b>					
Cash	\$ 32	\$ 133	\$ 168	\$ 1,238	\$ 445
Loans	906,208	909,697	858,632	827,611	831,115
Allowance for loan losses	(7,404)	(7,581)	(6,995)	(7,168)	(5,577)
Net loans	898,804	902,116	851,637	820,443	825,538
Equity investments in other Farm Credit institutions	11,046	10,683	10,372	10,297	10,445
Other property owned	2,527	2,673	1,297	4,025	2,342
Other assets	35,554	35,235	33,339	34,638	36,371
Total assets	<b>\$ 947,963</b>	<b>\$ 950,840</b>	<b>\$ 896,813</b>	<b>\$ 870,641</b>	<b>\$ 875,141</b>
Notes payable to AgFirst Farm Credit Bank*	<b>\$ 683,143</b>	<b>\$ 695,597</b>	<b>\$ 647,241</b>	<b>\$ 621,886</b>	<b>\$ 623,422</b>
Accrued interest payable and other liabilities with maturities of less than one year	21,652	17,661	19,513	24,977	20,495
Total liabilities	<b>704,795</b>	<b>713,258</b>	<b>666,754</b>	<b>646,863</b>	<b>643,917</b>
Protected borrower stock	—	—	—	—	1
Capital stock and participation certificates	4,277	4,131	4,017	3,912	3,889
Retained earnings					
Allocated	71,030	70,035	75,567	79,099	93,387
Unallocated	168,613	164,340	151,976	140,914	134,084
Accumulated other comprehensive income (loss)	(752)	(924)	(1,501)	(147)	(137)
Total members' equity	<b>243,168</b>	<b>237,582</b>	<b>230,059</b>	<b>223,778</b>	<b>231,224</b>
Total liabilities and members' equity	<b>\$ 947,963</b>	<b>\$ 950,840</b>	<b>\$ 896,813</b>	<b>\$ 870,641</b>	<b>\$ 875,141</b>
<b>Statement of Income Data</b>					
Net interest income	\$ 33,062	\$ 31,361	\$ 30,230	\$ 29,570	\$ 29,600
Provision for (reversal of allowance for) loan losses	5	539	75	(805)	(1,243)
Noninterest income (expense), net	(11,192)	(9,084)	(5,424)	(12,269)	(11,143)
Net income	<b>\$ 21,865</b>	<b>\$ 21,738</b>	<b>\$ 24,731</b>	<b>\$ 18,106</b>	<b>\$ 19,700</b>
<b>Key Financial Ratios</b>					
Rate of return on average:					
Total assets	2.30%	2.36%	2.76%	2.08%	2.25%
Total members' equity	9.09%	9.33%	11.02%	7.86%	8.63%
Net interest income as a percentage of					
average earning assets	3.60%	3.52%	3.50%	3.54%	3.53%
Net (chargeoffs) recoveries to average loans	(0.020)%	0.005%	(0.029)%	0.287%	0.098%
Total members' equity to total assets	25.65%	24.99%	25.65%	25.70%	26.42%
Debt to members' equity (:1)	2.90	3.00	2.90	2.89	2.78
Allowance for loan losses to loans	0.82%	0.83%	0.81%	0.87%	0.67%
Permanent capital ratio	23.57%	23.21%	22.57%	25.56%	25.92%
Total surplus ratio	**	**	**	25.10%	25.46%
Core surplus ratio	**	**	**	20.96%	21.40%
Common equity tier 1 capital ratio	23.38%	23.03%	22.38%	**	**
Tier 1 capital ratio	23.38%	23.03%	22.38%	**	**
Total regulatory capital ratio	24.20%	23.84%	23.23%	**	**
Tier 1 leverage ratio	24.05%	23.61%	23.38%	**	**
Unallocated retained earnings (URE) and					
URE equivalents leverage ratio	17.15%	16.36%	15.64%	**	**
<b>Net Income Distribution</b>					
Estimated patronage refunds:					
Cash	\$ 3,992	\$ 3,978	\$ 4,089	\$ 3,355	\$ 3,520
Qualified allocated retained earnings	13,291	5,304	9,541	7,829	8,213

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

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

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

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be 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](http://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.aggeorgia.com](http://www.aggeorgia.com), or by calling 1-800-768-3276, or writing Carrie B. McCall, AgGeorgia Farm Credit, P.O. Box 1820, Perry, GA 31069. 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 internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

## FORWARD LOOKING INFORMATION

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

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

## AGRICULTURAL OUTLOOK

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

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

Agricultural production is a major use of land in the United States and the value of farm real estate accounted for 83 percent of the total value of the U.S. farm sector assets for 2019 according to the USDA in its February 5, 2020 forecast. Because real estate is such a significant component of the balance sheet of U.S. farms, the value of 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.

- *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

Georgia is a uniquely diversified agricultural state with production of the following commodities in order of total Farmgate value: Broilers, Eggs, Cotton, Beef, Timber, Peanuts, Greenhouse, Dairy, Blueberries, and Corn.

In 2019, cotton acreage planted in Georgia was 1.4 million acres, which is the third highest planted acreage this decade and about 30 thousand acres less than 2018. Tariffs on cotton are making profitability challenging. The yield forecast is at 932 pounds per acre with production forecast at 2.7 million bales, which would be the highest on record after 2012. For 2020, both cotton acreage and production are expected to be down due to uncertainties in the market as a result of the trade negotiations and the outlook for the global economy. Cash prices for the 2019 crop range anywhere from 54.41 to 74.46 cents per pound. Forecasts for the 2020 crop are in the 66 to 70 cents per pound range.

Peanut acreage was flat in 2019 and is expected to remain flat in 2020. The outlook is around \$400 - \$425 per ton. The USDA estimated yield for Georgia was strong at 4,300 pounds per acre in November, which is about 220 pounds per acre higher than the U. S. average expected yield. The demand for peanuts is expected to remain flat for the fourth year in a row at around 3 million tons. Corn acreage had the largest increase in planted acreage since 2016 at 20% to 390,000 acres and the average yield is projected to be 4.6% lower than 2018 at 168 bushels per acre. The planted acreage for soybeans declined for a fourth year to 100,000 acres with a projected yield of 26 bushels per acre, the lowest level since 2011. Wheat also continued a downward trend with 150,000 planted acres in 2019, the smallest acreage planted since 2010. For 2020, the expectation is corn will increase but soybeans and wheat will be flat or will be lower. The USMCA trade agreement is expected to have a positive impact on corn, wheat and

soybeans; however, the market will take awhile to bounce back to pre-trade dispute levels.

In 2019, continuing eggs sets and chick placement indicate a possible increase in poultry for 2020. Production forecast for 2020 is approximately 44.5 billion pounds which would be 1.8% higher than the estimate for 2019. Also, egg production is expected to increase in 2020. Bird weights are continuing to increase as well. The export market is key to improving poultry outlook, and China has lifted a four year ban on poultry. Overall, consumption is expected to increase, exports are expected to increase and barring no major issues the industry should be profitable in 2019.

Cattle prices in Georgia are expected to be flat in 2020 as growth in beef production is slowing down. Consumer demand remains strong, but due to heavy flooding and rains, feed availability may be limited and therefore may limit producer profitability in 2020. While the tariffs to China remain in place on cattle as well, other countries have picked up some of the excess which keeps prices at a stable level and is expected to continue into 2020 with little change.

Georgia continues to be one of the strongest milk-producing states in the Southeast, ranking second behind Florida. While there has been a loss of dairy farms across the United States as a result of depressed milk prices and the loss of several export market, Georgia has been an exception to this trend and has maintained cow numbers and production capacity. Projections for 2020 are currently showing Georgia dairy farmers can

expect to see average farm level milk prices in the \$22 to \$23/cwt range.

The timber industry is fueled in large part by the housing industry. While homebuilding is forecasted to increase in 2020 in Georgia timber prices remain flat. As of third quarter 2019, Southern Pine sawtimber was at a \$0.17 year over year decrease at \$23.64 per ton. Pine pulpwood was at a stumpage price of \$8.67 which is a small decline from 3<sup>rd</sup> quarter of 2018. Prices for pine sawtimber are not expected to increase as there remains a large supply of inventory in the South.

In summary, the outlook for Georgia in 2020 is mixed as the rural economy in Georgia is forecasted to be in a recession by the end of the year. Georgia is one of the most successful states at landing economic projects, but the trade war with China has greatly hurt the agriculture and rural economy. Now that trade opportunities are opening back up, there is some positive outlook for some industries, but it will take years to build back to pre-trade war levels. Most Georgia commodities are forecasted to experience a flat 2020 year, and commodity prices remain an issue for Georgia's farmers. One positive industry outlook for Georgia in 2020 is poultry as production estimates are higher, export markets are re-opening and egg production is expected to increase slightly. Also, Georgia's friendliness to companies wishing to relocate or increase their footprint, and their economic development projects will continue to be extremely helpful to Georgia's economy in 2020.

## LOAN PORTFOLIO

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

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

Loan Type	December 31,					
	2019		2018		2017	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 588,424	64.93 %	\$ 573,691	63.06 %	\$ 517,852	60.31 %
Production and intermediate-term	281,161	31.03	306,432	33.69	314,981	36.68
Loans to Cooperatives	2,415	0.27	1,266	0.14	—	—
Processing and marketing	20,842	2.30	17,277	1.90	15,185	1.77
Farm-related business	1,539	0.17	1,372	0.15	1,000	0.12
Power and water/waste disposal	802	0.09	965	0.11	988	0.12
Rural residential real estate	9,140	1.01	6,807	0.75	5,563	0.65
International	1,885	0.21	1,887	0.21	1,886	0.22
Other (including Mission Related)	—	—	—	—	1,177	0.14
Total	\$ 906,208	100.00 %	\$ 909,697	100.00 %	\$ 858,632	100.00 %

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

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

Branch	December 31,		
	2019	2018	2017
Cartersville	5.79%	5.62%	5.66%
Chatsworth	7.61	6.73	6.23
Clarksville	3.65	3.59	3.78
Cordele	6.60	7.97	7.95
Dublin	4.36	4.42	4.57
Gainesville	4.83	5.60	4.47
Moultrie	4.33	3.97	4.00
Nashville	3.12	2.68	2.54
Ocilla	3.10	3.49	3.52
Perry	11.93	10.11	9.50
Quitman	3.39	3.72	3.39
Royston	12.62	12.32	12.87
Sandersville	4.12	4.34	4.86
Sylvestor	2.65	3.58	3.72
Tifton	4.81	5.76	5.77
Washington	4.81	5.21	5.76
Waynesboro	3.88	3.98	4.07
Participations Purchased	6.79	5.17	4.89
Special Assets	1.61	1.74	2.45
	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial Classification (SIC) system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer. The major commodities in the Association loan portfolio are shown below. The predominant commodities are Poultry, Forestry, Cotton, and Livestock, which constitute approximately 71 percent of the entire portfolio at December 31, 2019.

Commodity Group	December 31,					
	2019		2018		2017	
	<i>(dollars in thousands)</i>					
Poultry	\$ 246,772	27%	\$ 250,302	28%	\$ 243,097	29%
Cotton	147,207	16	132,404	15	139,500	16
Forestry	142,644	16	156,406	17	117,764	14
Livestock	104,272	12	97,102	11	93,596	11
Row Crops	95,211	11	93,332	10	97,877	11
Horticulture	38,202	4	36,996	4	38,372	4
Peanuts	33,272	4	38,377	4	34,730	4
Landlords	30,299	3	31,309	3	31,312	4
Dairy	15,359	2	16,909	2	18,290	2
Rural Home	9,136	1	7,273	1	6,656	1
Other	43,834	5	46,287	5	37,438	4
Total	\$ 906,208	100%	\$ 909,697	100%	\$ 858,632	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the income of borrowers that is not associated with farming. The Association's loan portfolio contains a concentration of poultry producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations have diversified income sources that reduce overall risk exposure. Demand for poultry products, prices of feed, energy, and other inputs, as well as international trade are some of the factors affecting the income producing capacity in the poultry industry. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's

territory. Commodity concentration risk is also mitigated by the use of loan guarantees and standby letters of credit.

The decrease in gross loan volume for the twelve months ended December 31, 2019, is primarily attributed to the cyclical nature of the row crop sector as well as several factors impacting that portfolio. Hurricane Michael followed by late rains in 2018 led to operating funds that were still extended at year end 2018 and into the beginning of 2019. An early planting and harvesting season in 2019 along with Market Facilitation Payments from the USDA paid down the operating portfolio by year end 2019; therefore, year over year comparisons prove difficult with higher loan balances in 2018 due to carryover debt in 2018 and lower loan balances in 2019 due to Market Facilitation Payments.

For the past few years, the Association has experienced a fairly balanced portfolio of long-term and short-term loan assets. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and rapidly declines in the fall months as commodities are marketed and proceeds are applied to repay operating type loans.

During 2019, the Association maintained 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 capital position.

Loan Participations:	December 31,		
	2019	2018	2017
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 24,692	\$ 24,309	\$ 18,272
Participations Sold	(117,615)	(97,047)	(89,520)
Total	\$ (92,923)	\$ (72,738)	\$ (71,248)

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.

## 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. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Regulatory limits allow for real estate mortgage loans 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. Appraisals are required for loans of more than \$250,000. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

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

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

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

Credit Quality	2019	2018	2017
Acceptable & OAEM	96.63%	97.08%	97.36%
Substandard	3.37%	2.92%	2.64%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

### Nonperforming Assets

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

High-risk Assets	December 31,		
	2019	2018	2017
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 10,747	\$ 12,560	\$ 17,122
Restructured loans	27,770	27,252	30,022
Accruing loans 90 days past due	–	–	–
Total high-risk loans	38,517	39,813	47,144
Other property owned	2,527	2,673	1,297
Total high-risk assets	\$ 41,044	\$ 42,486	\$ 48,441
<b>Ratios</b>			
Nonaccrual loans to total loans	1.19%	1.39%	1.99%
High-risk assets to total assets	4.33%	4.47%	5.55%

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 \$1,813 or 14.4 percent in 2019. This decrease is primarily the result of aggressive management of high risk loans and several loans in the portfolio either liquidating in full or returning to the accruing loan portfolio due to sustained performance. Of the \$10,747 in nonaccrual volume at December 31, 2019, \$3,713 or 35 percent, compared to 38 percent and 29 percent at December 31, 2018 and 2017, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Other property owned decreased in 2019 from \$2,673 to \$2,527, primarily due to a late year auction in which several properties were sold prior to year end. The Association currently owns or owns equity in 1 property foreclosed upon in 2019, 5 foreclosed upon in 2018 and 1 foreclosed upon in 2014 which was under contract at year end.

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	\$ 7,581	\$ 6,995	\$ 7,168
Charge-offs:			
Real estate mortgage	(1)	(2)	(83)
Production and intermediate-term	(544)	(791)	(498)
Agribusiness	—	(68)	(1)
Total charge-offs	(545)	(861)	(582)
Recoveries:			
Real estate mortgage	46	31	56
Production and intermediate-term	317	875	278
Agribusiness	—	2	—
Total recoveries	363	908	334
Net (charge-offs) recoveries	(182)	47	(248)
Provision for (reversal of allowance for) loan losses	5	539	75
Balance at end of year	\$ 7,404	\$ 7,581	\$ 6,995
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.020)%	0.005%	(0.029)%

The net loan charge-offs were primarily associated with production and intermediate term loans and largely reflected prior year uncollected interest that was charged off with the exception of one larger charge off due to uncollectibility. These charge-off were offset by recoveries on loans that were liquidated in full satisfaction of the debt or loans that were successfully reinstated to accruing status.

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	\$ 2,638	\$ 2,987	\$ 2,763
Production and intermediate-term	4,698	4,521	4,185
Agribusiness	36	57	38
Power and water/waste disposal	15	1	1
Rural residential real estate	16	14	7
International	1	1	1
Total	\$ 7,404	\$ 7,581	\$ 6,995

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	0.82%	0.83%	0.81%
Nonperforming loans	18.04%	19.04%	14.84%
Nonaccrual loans	68.89%	60.36%	40.85%

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

**RESULTS OF OPERATIONS**

*Net Interest Income*

Net interest income was approximately \$33.1 million, \$31.4 million and \$30.2 million 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	Total
	<i>(dollars in thousands)</i>		
<b>12/31/19 – 12/31/18</b>			
Interest income	\$ 1,518	\$ 2,624	\$ 4,142
Interest expense	669	1,772	2,441
Change in net interest income	\$ 850	\$ 851	\$ 1,701
<b>12/31/18 – 12/31/17</b>			
Interest income	\$ 1,562	\$ 2,759	\$ 4,321
Interest expense	647	2,529	3,176
Change in net interest income	\$ 915	\$ 230	\$ 1,145

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

*Noninterest Income*

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

Noninterest Income	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2019/	2018/
	2019	2018	2017	2018	2017
	<i>(dollars in thousands)</i>				
Loan fees	\$ 690	\$ 691	\$ 650	(0.14)%	6.31 %
Fees for financially related services	46	107	78	(57.01)	37.18
Patronage refund from other Farm Credit Institutions	10,204	11,467	11,930	(11.01)	(3.88)
Gains (losses) from sales of premises and equipment, net	183	127	102	44.09	24.51
Other noninterest income	165	7	26	2,257.14	(73.08)
Total noninterest income	\$ 11,288	\$ 12,399	\$ 12,786	(8.96)%	(3.03)%

Noninterest income decreased 9 percent from 2018 to 2019 and decreased 3 percent from 2017 to 2018. The majority of noninterest income is related to Patronage refunds from other Farm Credit Institutions, primarily AgFirst Farm Credit Bank. The Association received general patronage in 2019 of \$5,232 compared to \$5,071 in 2018. The special patronage distribution received in 2019 was \$4,092 compared to \$5,591 in 2018. These are one time distributions of excess capital that are not considered to be recurring transactions. The amount of

patronage refunds directly correlates to loan volume, as the largest patronage refund from other institutions is the patronage from AgFirst which is based on the average volume of notes payable to AgFirst. Notes payable to AgFirst directly corresponds to loan volume outstanding. Both the general patronage received each year from AgFirst and the Special Patronage received from AgFirst this year is based upon the average volume of notes payable to AgFirst.

*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	\$ 11,384	\$ 11,222	\$ 10,493	1.44 %	6.95%
Postretirement Benefits	2,852	3,463	397	(17.64)	772.29
Occupancy and equipment	994	975	953	1.95	2.31
Insurance Fund premiums	612	599	955	2.17	(37.28)
(Gains)/Losses on OPO, net	725	60	886	1,108.33	(93.23)
Other operating expense	6,096	5,663	4,540	7.65	24.74
Total noninterest expense	\$ 22,663	\$ 21,982	\$ 18,224	3.10 %	20.62%

Salaries and employee benefits increased in 2019, compared to 2018, as a result of both increased salary expense and increased benefit costs. Postretirement benefits decreased from 2018 to 2019 but increased from 2017 to 2018 by \$3,066 or 772 percent, which is the result of a one time change in accounting methodology 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 \$5,696 and the reduction of Other Liabilities by \$9,216 on the Association's Balance Sheets, and a corresponding reduction of postretirement benefit costs on the Association's Statements of Income of \$3,520 during 2017. Refer to Note 9, Employee Benefit Plans, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

Insurance Fund premiums increased 2.2 percent for the twelve months ended December 31, 2019, compared to the same period of 2018. The Farm Credit System Insurance Corporation (FCSIC) did not change the assessed premium rate for 2019. The premiums assessed for 2019 were 9 basis points on average outstanding debt, compared to 9 basis points in 2018, and 10

basis points on the average principal balance outstanding on nonaccrual loans, which also remained unchanged in 2019 compared to 2018.

The Association recorded a net loss on other property owned for 2019 of \$725 and a net loss of \$60 in 2018. The loss recorded in 2019 is in part related to a write down on a large tract held in inventory that is currently under contract.

Other operating expense is primarily related to advertising and marketing costs, training and travel costs, communications and data costs, and insurance costs associated with the operation of the Association such as General Liability, Fleet Auto, Blanket Bond, and Director's and Officer's Liability.

*Income Taxes*

The Association recorded an income tax provision of \$4 for the year ended December 31, 2019, as compared to a provision of \$11 for 2018 and a provision of \$(14) for 2017. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes*, of the Notes to the

Consolidated Financial Statements, for more information concerning Association income taxes.

*Key Results of Operations Comparisons*

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

Key Results of Operations Comparisons	For the 12 Months Ended		
	2019	2018	2017
Return on average assets	2.30%	2.36%	2.76%
Return on average members' equity	9.09%	9.33%	11.02%
Net interest income as a percentage of average earning assets	3.60%	3.52%	3.50%
Net (charge-offs) recoveries to average loans	(0.020)%	0.005%	(0.029)%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income, and continued improvement in efficiency. 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 economy must show sustained improvement, 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 \$683,143 as compared to \$695,597 at December 31, 2018 and \$647,247 at December 31, 2017. The decrease of 1.8 percent and increase of 7.5 percent compared to December 31, 2018 and December 31, 2017, respectively, directly corresponds to the level of loan volume of the Association. The average volume of outstanding notes payable to the Bank was \$670,110, \$676,191, and \$652,576 for the years ended December 31, 2019, 2018, and 2017, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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

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

*Funds Management*

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, 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), though LIBOR is being phased out which is discussed later in this report in the "Future of LIBOR" section. 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.

*Future of LIBOR*

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

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

including those that may arise as a result of the need to redeem or terminate such instruments.

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

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

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

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

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

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

	Due in 2020	Due in 2021	Due in 2022 and Thereafter
<i>(dollars in thousands)</i>			
Loans	\$ 2,696	\$ 1,334	\$ 11,985
Total Assets	\$ 2,696	\$ 1,334	\$ 11,985
Note Payable to AgFirst Farm Credit Bank	1,958	969	8,704
Total Liabilities	\$ 1,958	\$ 969	\$ 8,704

#### Relationship with the Bank

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

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

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

#### CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2019 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 2.4 percent to \$243,168 from the December 31, 2018 total of \$237,582. At December 31, 2018 total members' equity increased 3.3 percent from the December 31, 2017 total of \$230,059. These increases are due to nonrecurring— special patronage from AgFirst in all three years and the change in accounting estimate for pension and other post-retirement employee benefits in 2017 – and the amount retained as allocated and unallocated surplus being greater than that revolved and paid out.

Total capital stock and participation certificates were \$4,277 on December 31, 2019, compared to \$4,131 on December 31, 2018 and \$4,017 on December 31, 2017. These increases were attributed to a greater amount of stock issued than retired in the normal course of business.

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

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

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

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

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

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.

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

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31,		
				2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	0.625%	5.125%	23.38%	23.03%	22.38%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	23.38%	23.03%	22.38%
Total Capital Ratio	8.0%	0.625%	8.625%	24.20%	23.84%	23.23%
Permanent Capital Ratio	7.0%	0.0%	7.0%	23.57%	23.21%	22.57%
Non-risk-adjusted:						
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	24.05%	23.61%	23.38%
UREE Leverage Ratio	1.5%	0.0%	1.5%	17.15%	16.36%	15.64%

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

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

The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	25.56%	25.92%	25.02%	23.51%	18.20%
Total Surplus Ration	7.00%	25.10%	25.46%	24.57%	24.57%	17.80%
Core Surplus Ratio	3.50%	20.96%	21.40%	20.92%	19.87%	16.48%

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 (current estimates) of \$17,283 in 2019, \$9,284 in 2018, and \$13,630 in 2017. Of the \$17,283 declared in 2019, \$3,977 is related to 2018 income and was paid in March 2019. The estimated 2019 distribution to be paid in March 2020 is \$13,306.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young\*, Beginning\*\* and Small\*\*\* farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. The Association exceeded the 4 percent business plan goal for increase in number of YBS loans by 1 percent with a 5 percent overall increase in number of YBS loans and exceeded the 4 percent goal for increase in volume with a 4.5 percent overall increase in volume of YBS loans in 2019.

The 2017 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts, though the 2017 Ag census has made some significant changes in reporting methodology since the 2012 census, while we have not. This methodology change will make it appear as if AgGeorgia has a lower market penetration in the Younger farmer category. The census data indicated that within the Association's chartered territory (counties) there were 23,809 reported farmers of which by definition 2,544 or 10.7 percent were Young, 8,278 or 34.8 percent were Beginning, and 20,703 or 86.9 percent were Small. Comparatively, as of December 31, 2019, the demographics of the Association's agricultural portfolio contained 4,593 farmers, of which by definition 882 or 19.2 percent were Young, 1,902 or 41.4 percent were Beginning and 3,382 or 73.6 percent were Small. Thus, Young and Beginning farmers are overall much better represented in the Association's agricultural portfolio than in the chartered territory of the Association, indicative of the Association's marketing efforts towards these groups. Small

farmers, however, were recognized as being represented less in the Association portfolio than in the territory.

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

	As of December 31, 2019	
	Number of Loans	Amount of Loans
Young	1,204	\$122,541
Beginning	2,431	263,406
Small	4,551	321,597

*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 Association focuses on education and financial support in helping YBS farmers finance their operations. Educational programs include seminars, speaking opportunities and training sessions, which are conducted throughout the year. These educational opportunities are both in-house, in the form of events held by the Association, and external, in which case, the Association provides a speaker or provides educational materials. In particular, the Association uses its AgAware courses, started in the AgGeorgia territory in 2015, as a way to train and educate YBS farmers in areas such as financial planning, budgeting, succession planning, risk management and other pertinent topics for YBS farmers. The Association also works with Team Agriculture Georgia or TAG to educate young, beginning, and small farmers and has piloted a succession workshop geared toward YBS farmers that is hopes to use in other regions in the future. The Association website, [www.aggeorgia.com](http://www.aggeorgia.com), includes an entire section of information and resources for YBS visitors to the site. Educational programs also include those activities in which the Association participates in local events as a sponsor (such as 4-H and FFA fairs) or as an exhibitor (such as industry or trade shows).

The focus on financial support addresses the specific credit programs and partnerships that the Association has developed to help small farmers, young farmers, and farmers just starting out. It includes programs such as those offered by the Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers. The Association is a "preferred lender," the highest status designated by FSA.

A senior executive oversees the YBS program and coordinates the efforts of other staff members. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the Board of Directors on a quarterly basis.

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

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

**REGULATORY MATTERS**

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

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

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

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<b><i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i></b>	
<ul style="list-style-type: none"> <li>• 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.</li> <li>• Changes the present incurred loss impairment guidance for loans to an expected loss model.</li> <li>• 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.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>• Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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"> <li>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,</li> <li>2. An allowance will be established for estimated credit losses on any debt securities,</li> <li>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.</li> </ol> </li> <li>• 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.</li> <li>• The guidance is expected to be adopted in first quarter 2023.</li> </ul>



# *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 has an interest in two Unincorporated Business Entities (UBEs) that were formed for the purpose of acquiring and managing collateral associated with loans in which the Association was a participant. The UBEs in which the Association has an interest in are as follows:

A-1 Ledges Wilder, LLC - A-1 Ledges Wilder, LLC is a Limited Liability Company. It was organized for the stated purpose of acquiring, holding, and preserving the former assets of J. J. Detweiler Enterprises, Inc. until such time as such assets may be sold.

A-1 Sequatchie Pointe, LLC - A-1 Sequatchie Pointe, LLC is a Limited Liability Company. It was organized for the stated purpose of acquiring, holding and preserving the former assets of J. J. Detweiler Enterprises, Inc. until such time as such assets may be sold.

## Description of Property

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

Location	Description	Form of Ownership
1300 East Main Street Cartersville 30120	Branch	Owned
102 Blacksnake Road Clarksville/Mt. Airy 30563	Branch	Owned
1207 South Greer Street Cordele 31015	Branch	Owned
19 Woodlake Drive Chatsworth 30705	Branch	Owned
826 Bellevue Avenue Dublin 31021	Branch	Owned
501 Broad Street Gainesville 30501	Branch	Owned
700 East Villanow LaFayette 30728	Outpost of Chatsworth Branch	Owned
317 Walnut Street Montezuma, GA	Outpost of Perry Branch	Leased*
22 5th Avenue, SE Moultrie 31768	Branch	Owned
707 North Davis Street Nashville 31639	Branch	Owned
302 South Cherry Street Ocilla 31774	Branch	Owned
468 Perry Parkway Perry 31069	Corporate Office & Branch	Owned
504 East Screven Street Quitman 31643	Branch	Owned
701 East Second Avenue Rome 30162	Outpost of Cartersville Branch	Leased**
449 Franklin Springs Street Royston, GA 30662	Branch	Owned
Hobbs Street Royston, GA	3.00 Acres in 1113 <sup>th</sup> G.M. District, Hart Co.	Owned
775 Sparta Road Sandersville 31082	Branch	Owned
102 Dexter Wilson Blvd. Sylvester 31791	Branch	Owned
1807 King Road Tifton 31793	Branch	Owned
U.S. 78, 311 North Bypass Washington 30673	Branch	Owned
176 Highway 80 West Waynesboro 30830	Branch	Owned

\*Lease expires 12/31/2019 (\$1,500/month); cancelable with 90 days notice. Lease was renewed for 2 years to expire at the end of 2021.

\*\*Lease expires 02/28/2022 (\$1,800/month); cancelable with 90 days notice.

**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 intrasystem financial assistance rights 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:

<b>Name and Title</b>	<b>Term of Office</b>	<b>Prior Experience</b>
Jack C. Drew, Jr. President & Chief Executive Officer	1/1/2010-present	
Carrie B. McCall Executive Vice President/Treasurer & Chief Financial Officer	11/16/2006 - present	
Zachary T. Purvis Executive Vice President & Chief Lending Officer	2/1/2016 – present	AgFirst Farm Credit Bank VP/Executive Account Manager and other positions from October 2010 thru January 2016
Stephen G. Connelly Executive Vice President & Director of Information Technology	12/1/2010-present	
Corey W. Cottle Executive Vice President & Director of Marketing	5/1/2013 – present	Branch Manager and Loan Officer since 2005
Timothy H. Dean, Executive Vice President & Chief Appraiser	7/1/2011-present	
T. Lacy Royal Executive Vice President & Retail Lending Manager	4/1/2008-present	
Brandie L. Thompson Executive Vice President & Risk Manager	12/1/2016-present	Controller and other positions since October 2004
Stephen M. Yearta Executive Vice President & Commercial Lending Manager	7/1/2009-present	

The total amount of compensation earned by the CEO and the 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	Salary	Bonus	Change in Pension Value†	Perq/ Other*	Total
Jack C. Drew, Jr.	2019	\$ 407,587	\$ 81,514	\$ 759,616	\$ 12,232	\$ 1,260,949
Jack C. Drew, Jr.	2018	\$ 394,275	\$ 79,140	\$ (124,802)	\$ 8,332	\$ 356,944
Jack C. Drew, Jr.	2017	\$ 384,189	\$ 76,835	\$ 1,668,669	\$ 9,753	\$ 2,139,446
9	2019	\$ 1,445,166	\$ 381,456	\$ 1,310,494	\$ 30,836	\$ 3,167,952
8	2018	\$ 1,357,552	\$ 366,657	\$ (141,020)	\$ 29,616	\$ 1,612,805
8	2017	\$ 1,215,963	\$ 301,326	\$ 881,814	\$ 27,159	\$ 2,426,262

\*Primarily comprised of group life insurance premiums, relocation expenses and automobile compensation.

† The increase in 2017 for the CEO is related to the addition to the Supplemental Executive Retirement Plan (SERP), and subsequent funding of that plan.

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

**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
<b>CEO:</b>					
Jack C. Drew, Jr.	2019	AgFirst Retirement Plan	40.17	\$ 1,542,307	\$ -
Jack C. Drew, Jr.	2019	Supplemental Executive Retirement Plan	40.17	3,370,692	-
				<u>\$ 4,912,999</u>	<u>\$ -</u>
<b>Senior Officers and Highly Compensated Employees:</b>					
4 Officers, excluding the CEO	2019	AgFirst Retirement Plan	32.67*	\$ 6,721,746	\$ -
				<u>\$ 6,721,746</u>	<u>\$ -</u>

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

The present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

The discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa. Also at December 31, 2019, the life expectancy actuarial assumption was updated to reflect mortality studies indicating longer life spans. This change further increased pension values as the benefit payments are expected to be made for a longer time span.

Section 415 of the Internal Revenue Code (Code) provides for dollar limitations on benefits and contributions under qualified retirement plans. This limitation on annual benefit restricts highly compensated employees from receiving their full pension benefit relative to others under a defined benefit plan.

In order to provide the current CEO with a pension commensurate with his years of service, performance and salary, the board of directors elected to add him to an existing Supplemental Executive Retirement Plan (SERP) to make his total pension calculation equivalent to an employee not subject to the limitation of IRS Section 415. A SERP is a deferred compensation agreement between the employer and the key

executive whereby the employer agrees to provide supplemental retirement income to the executive if certain pre-agreed eligibility and vesting conditions are met by the executive. The board elected to fully fund the SERP in 2017, which resulted in a high change in pension value for in the CEO compensation table.

### CEO and Senior Officer Compensation

The Association strives to award compensation in a manner that is competitive in the market place, encourages retention and rewards employees for quantitative results-based performance metrics. Each year, the Compensation Committee reviews market studies for key positions to determine if the Association's compensation packages for the CEO and Senior Officers are in line with the market for those positions. A grading system ranks positions in pay ranges where the mid-point of the range is considered to be the market salary for that position.

The CEO's compensation package consists of a base salary, benefits and incentive opportunity. Compensation increases are awarded on an annual basis, and are based upon the association's financial performance in the areas of financial and operations, credit, audit, appraisal, marketing and business development and human resources. These metrics are determined by association performance standards set each year by the Board of Directors, and actual performance is measured against those standards. Financial and operations metrics include net income performance to budget, return on assets,

return on equity, capital ratios and efficiency ratios. Metrics include credit quality, nonearning assets as a percentage of total assets, credit administration, delinquency ratio, and appraisal quality. Marketing and Development metrics include loan growth and results of an annual customer satisfaction survey, which are measured against the budget and standard set for those metrics. The human resources metric is budgeted personnel costs, and actual performance is measured against that budget amount. Performance versus metrics is measured annually and discussed each February by the Board Compensation Committee. Any salary increase for the CEO is determined by the Compensation Committee, and any increase awarded is paid retroactively to January 1<sup>st</sup>.

The CEO administers, but does not participate in the Incentive Plan in which all other employees, including the Senior Officers, participate. The CEO's incentive is determined solely at the discretion of the Board of Directors. Factors that may be considered in awarding the CEO an incentive are performance of the Association, and market studies of incentives granted by similar size associations and companies. CEO incentive is typically awarded by the Compensation Committee during the fourth quarter and paid in December. The incentive awarded the CEO in 2019 was paid in December at the same time other Association employees were paid per the stipulations in the Incentive Plan.

The Senior Officers' compensation also consists of base salary, benefits, and incentive. Senior Officer compensation is administered annually, and increases are based on meeting qualitative and quantitative performance standards set forth each year. Senior Officers are measured by essentially the same standards as the CEO. Actual performance against metrics such as return on assets, return on equity, capital ratios, credit quality, delinquency ratios, loan growth, credit administration and nonearning assets to total assets are the basis for determining pay increases for this group. Senior officer compensation is reviewed annually, and any increases are paid in February 2020, retroactively to January 1<sup>st</sup>. Senior Officers participate in the same incentive plan as other Association employees, as detailed below.

The Association's CEO and Senior Officers participate in various employee benefit plans that are available to all employees under the same terms and conditions. These include health insurance, life insurance, dental insurance, and pension benefits. Because the CEO and Senior Officers receive these benefits on the same basis as other employees, they are not determined separately by the Compensation Committee for the CEO and Senior Officers.

The Incentive Plan is based on a fiscal year and is designed to motivate employees to exceed performance targets established by the Board of Directors. The Incentive Plan period is January 1, 2019 through December 31, 2019, and all employees eligible for benefits were eligible under this plan except as shown below.

- ❖ The Association CEO will administer all parts of the AgGeorgia Incentive Plan and will, therefore, not be eligible for distributions under any part of the plan. CEO bonus and/or incentive payments will be recommended by the Compensation Committee and approved by the Board of Directors.

- ❖ The Incentive Plan is divided into three distinct plans – the Administrative Plan which includes all employees, the Individual Plan which includes primarily credit staff and the Discretionary Plan which is at the discretion of the CEO.
- ❖ A combined payment to an individual employee under the plan shall not exceed 40% of regular pay (including any retroactive pay and overtime pay).

The Administrative Plan is based on key performance indicators such as return on assets, efficiency, credit quality and nonearning assets to total assets ratio. It is a tiered plan, with higher earning opportunities for those not included in the Individual plan. The Individual Plan is based on each individual's goals and standards of performance. Once a covered individual reaches their standard, they begin earning incentive for that criteria. There are clawback features in the plan for loans that are made with poor credit administration or that move to nonaccrual status within 24 months after an employee is paid an incentive for that loan.

The board approved 50% of the estimated Administrative Plan benefit to be paid out in December with the remainder of the Administrative Plan and the entirety of the Individual Plan paid during February 2020 when final numbers are calculated.

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.

### Directors

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

<b>DIRECTOR</b>	<b>ORIGINAL YEAR OF ELECTION OR APPOINTMENT</b>	<b>CURRENT TERM EXPIRATION</b>
Guy A. Daughtrey, <i>Chairman</i>	2001	2020
Richard D. "Dave" Neff, <i>Vice-Chairman, Outside Director</i>	2002	2/2021
Jack W. Bentley, Jr.	1985	2022
W. Howard Brown	2015	2021
Billy J. Clary	1986	2020
R. Brian Grogan	2018	2019*
Ronney S. Ledford	1986	2019*
Robert "Bobby" G. Miller,	1991	2021
J. Dan Raines, Jr.	1981	2020
George R. Reeves	1982	2022
Joe A. "Al" Rowland	2018	2022
Anne G. Smith	2001	2021
David H. Smith	1991	2019*
Glee C. Smith, <i>Outside Director</i>	2013	2/2023
Franklin B. Wright	1991	2020

\*Director re-elected to a four (4) year term expiring 12/31/2023.

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.

**Guy A. Daughtrey, Chairman**, is a pecan grower and shipper, and also a timber grower. He is an auditor employed by Southern Company (regional energy company), and he serves on the South Georgia Regional Commission (an 18 county, 45 city regional intergovernmental coordination and long term planning agency).

**Richard D. “Dave” Neff, Vice-Chairman, Outside Director,** retired as a poultry industry marketing and business development executive in late 2018. He was employed by International Poultry Breeders/Wincorp International, Inc. until his retirement in November 2018.

**Jack W. Bentley, Jr.,** is owner/operator of A & J Dairy. He also serves on the boards of AgFirst Farm Credit Bank (cooperative banking services); the American Dairy Association of Georgia (trade association and milk promotion); the Southeast United Dairy Industry Association (trade association and milk promotion), the Wilkes County Farm Bureau (insurance sales and ag promotion and development), Lonestar Milk Producers (milk production), and the USDA FSA (government farm program).

**W. Howard Brown** is a row crop farmer growing vegetables, soybeans, cotton, peanuts, corn, and silage; he has a pecan and peach operation, works in agritourism, and is owner/operator of Georgia Peas and Produce (crop production and sales).

**Billy J. Clary** is a row crop farmer growing cotton and peanuts, and is part owner of Arabi Peanut Company (crop production and sales).

**R. Brian Grogan** is a broiler producer, has an angus/sim-angus operation, and grows feed corn, hay and forage.

**Ronney S. Ledford** is a row crop farmer growing cotton and peanuts.

**Robert “Bobby” G. Miller** has a cow-calf operation and manages rental properties and real estate. He serves as manager on the boards of H. R. Miller, LLC, RGM Foothills Properties, LLC, and Jebeha, LLC (commercial and residential rentals and real estate). Mr. Miller is the Association’s Financial Expert appointed by the board.

**J. Dan Raines, Jr.,** has a cow-calf operation, and softwood and timber operation.

**George R. Reeves** has a cow/calf operation. He serves on the boards of the McDuffie County Farm Bureau (insurance broker, ag promotion and development), and the McDuffie County Soil and Water Conservation District (conservation of natural resources), and the McDuffie, Warren, Columbia and Richmond FSA Committee (government farm programs).

**Joe A. “Al” Rowland** is a row crop farmer growing cotton, peanuts, rye and hay, and operates a small scale trucking company that transports agricultural products.

**Anne G. Smith** is a broiler chicken grower and has a cow-calf operation.

**David H. Smith** is row crop farmer growing cotton, and is an owner/operator of Tri County Gin, LLC (cotton ginning/processing), and Carroll Fertilizer, LLC (commercial and residential fertilizer production and sales).

**Glee C. Smith, Outside Director,** is a private practice attorney, and is owner/president of GCS Enterprises, Inc. (rental property).

**Franklin B. Wright** is a dairy farmer, and works in general dairy products and agritourism. He also serves on the boards of Wright Development, Inc. (land development), and the Gilmer County Farm Bureau (insurance broker, ag promotion and development).

#### **Director Compensation**

Subject to approval by the board, the Association may allow directors honoraria of \$500 for attendance at meetings, committee meetings, or special assignments. They are also paid \$100 for participating in conference calls. Directors are paid a quarterly retainer fee of \$1,250 except for the chairman of the board who receives \$1,500 and the chairman of the Special Investigative Committee who is paid an additional quarterly retainer of \$1,500. Total compensation paid to directors as a group was \$380,800 for 2019, compared to \$377,900 for 2018. No director received more than \$5,000 in non-cash compensation during the year.

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

Name of Director	Days Served		Committee Assignments	Comp. Paid for other Activities*	Qtrly Retainer and Regular Meeting Compensation	Total Compensation for 2019
	Regular Board Meetings	Other Official Activities*				
Guy A. Daughtrey, <i>Board Chairman</i>	12	66	Executive, Credit Review, Audit, Compensation, Credit Risk, Governance, Special Investigative Committee, Ad Hoc Budget, Ad Hoc Building	\$22,400	\$11,000	\$33,400
Richard D. "Dave" Neff <i>Board Vice-Chairman</i> <i>Outside Director</i>	12	29	Executive, Credit Review, Governance, Ad Hoc Budget, Ad Hoc Building	\$19,700	\$10,000	\$29,700
Jack W. Bentley, Jr.	11	38	Executive, Credit Review, Compensation, Special Investigative Committee, Credit Risk, Ad Hoc Building	\$10,700	\$9,500	\$20,200
W. Howard Brown	10	19	Executive, Credit Review, Audit, Compensation	\$10,300	\$10,000	\$20,300
Billy J. Clary	10	16	Executive, Credit Review, Credit Risk, Governance	\$8,100	\$9,500	\$17,600
R. Brian Grogan	11	14	Executive, Credit Review, Audit	\$12,300	\$9,500	\$21,800
Ronney S. Ledford	9	16	Executive, Credit Review, Compensation, Governance	\$12,100	\$8,500	\$20,600
Robert G. Miller	12	41	Executive, Credit Review, Audit (Financial Expert), Special Investigative Committee, Ad Hoc Budget, Ad Hoc Building	\$16,900	\$10,000	\$26,900
J. Dan Raines, Jr.	11	18	Executive, Credit Review, Credit Risk, Ad Hoc Budget	\$14,600	\$10,000	\$24,600
George R. Reeves, <i>Audit Committee Chairman</i>	12	41	Executive, Credit Review, Audit, Special Investigative Committee, Credit Risk	\$15,300	\$10,000	\$25,300
Joe A. "Al" Rowland	11	23	Executive, Credit Review, Governance	\$21,100	\$10,000	\$31,100
Anne G. Smith	10	21	Executive, Credit Review, Governance, Ad Hoc Budget, Ad Hoc Building	\$15,700	\$9,000	\$24,700
David H. Smith	11	20	Executive, Credit Review, Ad Hoc Budget, Ad Hoc Building	\$12,200	\$10,000	\$22,200
Glee C. Smith <i>Outside Director</i>	12	41	Executive, Credit Review, Compensation, Special Investigative Committee, Credit Risk	\$21,600	\$10,000	\$31,600
Franklin B. Wright	12	32	Executive, Credit Review, Audit, Compensation	\$20,800	\$10,000	\$30,800
						\$380,800

\*Includes board committee meetings and other board activities other than regular board meetings.

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 expense 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 \$228,406 for 2019, \$226,319 for 2018, and \$215,680 for 2017.

#### Transactions with Senior Officers and Directors

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

#### Involvement in Certain Legal Proceedings

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

#### Relationship with Independent Auditors

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

Aggregate fees incurred 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	\$ 95,024
Total	\$ 95,024

Audit fees were for the annual audit of the Consolidated Financial Statements. There were no nonaudit services provided by the Association's independent auditors during 2019. All nonaudit service fees incurred by the Association require approval by the Audit Committee.

#### Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 12, 2020 and the report of management, which appear in this Annual Report, are incorporated herein by reference. Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 800-768-3276, Ext. 120 or writing Carrie B. McCall, Chief Financial Officer,

P.O. Box 1820, Perry, GA 31069 or accessing the web site, [www.aggeorgia.com](http://www.aggeorgia.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 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 could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at [www.agfirst.com](http://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 AgGeorgia Farm Credit (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

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

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

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.



George R. Reeves  
Chairman of the Audit Committee

### **Members of Audit Committee**

W. Howard Brown  
R. Brian Grogan  
Robert G. Miller  
Franklin B. Wright

March 12, 2020





## Report of Independent Auditors

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

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

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

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

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

### ***Opinion***

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

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

Charlotte, North Carolina  
March 12, 2020

# Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31,		
	2019	2018	2017
<b>Assets</b>			
Cash	\$ 32	\$ 133	\$ 168
Loans	906,208	909,697	858,632
Allowance for loan losses	(7,404)	(7,581)	(6,995)
Net loans	898,804	902,116	851,637
Loans held for sale	187	—	—
Accrued interest receivable	13,566	14,791	12,791
Equity investments in other Farm Credit institutions	11,046	10,683	10,372
Premises and equipment, net	9,644	7,242	6,900
Other property owned	2,527	2,673	1,297
Accounts receivable	10,213	11,498	11,883
Other assets	1,944	1,704	1,765
Total assets	\$ 947,963	\$ 950,840	\$ 896,813
<b>Liabilities</b>			
Notes payable to AgFirst Farm Credit Bank	\$ 683,143	\$ 695,597	\$ 647,241
Accrued interest payable	1,911	1,954	1,593
Patronage refunds payable	5,383	5,144	5,221
Accounts payable	2,103	762	1,209
Advanced conditional payments	28	—	—
Other liabilities	12,227	9,801	11,490
Total liabilities	704,795	713,258	666,754
Commitments and contingencies (Note 11)			
<b>Members' Equity</b>			
Capital stock and participation certificates	4,277	4,131	4,017
Retained earnings			
Allocated	71,030	70,035	75,567
Unallocated	168,613	164,340	151,976
Accumulated other comprehensive income (loss)	(752)	(924)	(1,501)
Total members' equity	243,168	237,582	230,059
Total liabilities and members' equity	\$ 947,963	\$ 950,840	\$ 896,813

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
<b>Interest Income</b>			
Loans	\$ 56,563	\$ 52,421	\$ 48,114
<b>Interest Expense</b>			
Notes payable to AgFirst Farm Credit Bank	23,501	21,060	17,884
Net interest income	33,062	31,361	30,230
Provision for loan losses	5	539	75
Net interest income after provision for loan losses	33,057	30,822	30,155
<b>Noninterest Income</b>			
Loan fees	690	691	650
Fees for financially related services	46	107	78
Patronage refunds from other Farm Credit institutions	10,204	11,467	11,930
Gains (losses) on sales of premises and equipment, net	183	127	102
Gains (losses) on other transactions	162	(60)	25
Insurance Fund refunds	187	577	—
Other noninterest income	3	—	1
Total noninterest income	11,475	12,909	12,786
<b>Noninterest Expense</b>			
Salaries and employee benefits	14,236	14,685	14,380
Occupancy and equipment	994	975	953
Insurance Fund premiums	612	599	955
(Gains) losses on other property owned, net	725	60	886
Other operating expenses	6,096	5,663	1,050
Total noninterest expense	22,663	21,982	18,224
Income before income taxes	21,869	21,749	24,717
Provision (benefit) for income taxes	4	11	(14)
Net income	\$ 21,865	\$ 21,738	\$ 24,731

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	\$ 21,865	\$ 21,738	\$ 24,731
<b>Other comprehensive income net of tax</b>			
Employee benefit plans adjustments	172	577	(1,354)
Comprehensive income	<b>\$ 22,037</b>	<b>\$ 22,315</b>	<b>\$ 23,377</b>

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

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# Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2016	\$ 3,912	\$ 79,099	\$ 140,914	\$ (147)	\$ 223,778
Comprehensive income			24,731	(1,354)	23,377
Capital stock/participation certificates issued/(retired), net	105				105
Patronage distribution					
Cash			(4,089)		(4,089)
Qualified allocated retained earnings		9,541	(9,541)		—
Retained earnings retired		(13,099)			(13,099)
Patronage distribution adjustment		26	(39)		(13)
Balance at December 31, 2017	\$ 4,017	\$ 75,567	\$ 151,976	\$ (1,501)	\$ 230,059
Comprehensive income			21,738	577	22,315
Capital stock/participation certificates issued/(retired), net	114				114
Patronage distribution					
Cash			(3,978)		(3,978)
Qualified allocated retained earnings		5,304	(5,304)		—
Retained earnings retired		(10,893)			(10,893)
Patronage distribution adjustment		57	(92)		(35)
Balance at December 31, 2018	\$ 4,131	\$ 70,035	\$ 164,340	\$ (924)	\$ 237,582
<b>Cumulative effect of change in accounting principle</b>			<b>3</b>		<b>3</b>
<b>Comprehensive income</b>			<b>21,865</b>	<b>172</b>	<b>22,037</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>146</b>				<b>146</b>
<b>Patronage distribution</b>					
<b>Cash</b>			<b>(3,992)</b>		<b>(3,992)</b>
<b>Qualified allocated retained earnings</b>		<b>13,291</b>	<b>(13,291)</b>		<b>—</b>
<b>Retained earnings retired</b>		<b>(12,508)</b>			<b>(12,508)</b>
<b>Patronage distribution adjustment</b>		<b>212</b>	<b>(312)</b>		<b>(100)</b>
Balance at December 31, 2019	\$ 4,277	\$ 71,030	\$ 168,613	\$ (752)	\$ 243,168

*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
<b>Cash flows from operating activities:</b>			
Net income	\$ 21,865	\$ 21,738	\$ 24,731
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	652	648	666
Amortization (accretion) of net deferred loan costs (fees)	(580)	(448)	(398)
Provision for loan losses	5	539	75
(Gains) losses on other property owned	548	(38)	634
(Gains) losses on sales of premises and equipment, net	(183)	(127)	(102)
(Gains) losses on other transactions	(162)	60	(25)
Changes in operating assets and liabilities:			
Origination of loans held for sale	(5,400)	(6,218)	(6,524)
Proceeds from sales of loans held for sale, net	5,213	6,218	7,569
(Increase) decrease in accrued interest receivable	1,225	(2,000)	(1,571)
(Increase) decrease in accounts receivable	1,285	385	(2,753)
(Increase) decrease in other assets	(237)	61	4,374
Increase (decrease) in accrued interest payable	(43)	361	255
Increase (decrease) in accounts payable	1,341	(447)	(336)
Increase (decrease) in other liabilities	2,760	(1,156)	(7,422)
Total adjustments	6,424	(2,162)	(5,558)
Net cash provided by (used in) operating activities	28,289	19,576	19,173
<b>Cash flows from investing activities:</b>			
Net (increase) decrease in loans	2,714	(52,359)	(29,986)
(Increase) decrease in equity investments in other Farm Credit institutions	(363)	(311)	(75)
Purchases of premises and equipment	(3,082)	(1,155)	(464)
Proceeds from sales of premises and equipment	211	292	104
Proceeds from sales of other property owned	771	435	1,130
Net cash provided by (used in) investing activities	251	(53,098)	(29,291)
<b>Cash flows from financing activities:</b>			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(12,454)	48,356	25,355
Net increase (decrease) in advanced conditional payments	28	—	—
Capital stock and participation certificates issued/(retired), net	146	114	105
Patronage refunds and dividends paid	(3,853)	(4,090)	(3,313)
Retained earnings retired	(12,508)	(10,893)	(13,099)
Net cash provided by (used in) financing activities	(28,641)	33,487	9,048
Net increase (decrease) in cash	(101)	(35)	(1,070)
Cash, beginning of period	133	168	1,238
Cash, end of period	\$ 32	\$ 133	\$ 168
<b>Supplemental schedule of non-cash activities:</b>			
Financed sales of other property owned	\$ 497	\$ —	\$ 1,200
Receipt of property in settlement of loans	1,670	1,789	315
Estimated cash dividends or patronage distributions declared or payable	3,992	3,978	4,089
Employee benefit plans adjustments (Note 9)	(172)	(577)	1,354
<b>Supplemental information:</b>			
Interest paid	\$ 23,544	\$ 20,699	\$ 17,629

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:** AgGeorgia Farm Credit, ACA (Association or AgGeorgia) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Baldwin, Banks, Barrow, Bartow, Ben Hill, Berrien, Bibb, Bleckley, Brooks, Burke, Catoosa, Chattooga, Cherokee, Clarke, Cobb, Colquitt, Columbia, Cook, Crawford, Crisp, Dade, Dawson, Dodge, Dooly, Echols, Elbert, Fannin, Floyd, Forsyth, Franklin, Gilmer, Glascock, Gordon, Habersham, Hall, Hancock, Hart, Houston, Irwin, Jackson, Jefferson, Johnson, Jones, Lanier, Laurens, Lincoln, Lowndes, Lumpkin, Macon, Madison, McDuffie, Murray, Oglethorpe, Paulding, Peach, Pickens, Polk, Pulaski, Rabun, Richmond, Stephens, Taliaferro, Taylor, Telfair, Tift, Towns, Treutlen, Turner, Twiggs, Union, Walker, Warren, Washington, White, Whitfield, Wilcox, Wilkes, Wilkinson and Worth in the state of Georgia.

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

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

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

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

subject to the prior approval of the FCA and the supervising bank.

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

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

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

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

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information

systems, and marketing. The costs of these support services are included in the cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

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

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

## Note 2 — Summary of Significant Accounting Policies

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

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

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

A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held no cash in excess of insured amounts.

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

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

an adjustment to interest income using the effective interest method.

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

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

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

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

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



of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

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

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

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

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

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

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

11. A substandard non-viable rating of 12 indicates that the probability of default is almost certain. Loans risk rated 13 or 14 are generally written off.

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

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

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

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

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

***Equity Investments in Other Farm Credit System Institutions***

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

***Other Investments***

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

**Investment Income**

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

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

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

**Defined Contribution Plans**

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

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

Additional information may be found in Note 9.

**Multiemployer Defined Benefit Plans**

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

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

Since the foregoing plans are multiemployer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit

pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Annual Information Statement of the Farm Credit System.

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

**Single Employer Defined Benefit Plan**

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

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

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.

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

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

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

#### ***Financial Instruments***

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

#### ***Contracts with Customers***

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

#### ***Gains and Losses from Nonfinancial Assets***

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

**N. Leases:**

**Lessee**

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

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

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

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

**Lessor**

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

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

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

**O. Accounting Standards Updates (ASUs):** In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security

under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

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

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

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

- Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax,
- Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction,
- Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; however, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority,
- Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual

- effective tax rate computation in the interim period that includes the enactment date, and
- Making minor codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

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

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

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

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

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

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

In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB’s disclosure framework project. The project’s objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity’s financial statements. The amendments remove, modify or

add certain disclosures contained in the financial statement footnotes related to fair value. Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance. Entities are permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The removed disclosures were adopted effective with the 2018 Annual Report, and the remaining disclosures were adopted with the 2019 Annual Report.

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

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

In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-

for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2018. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

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

#### Transition Information

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
- The package of practical expedients related to initial application of the guidance was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- Upon adoption, a cumulative-effect adjustment to equity of approximately \$3 was recorded. In addition, a Right of Use Asset in the amount of \$153 and Lease Liability in the amount of \$150 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	\$ 588,424	\$ 573,691	\$ 517,852
Production and intermediate-term	281,161	306,432	314,981
Loans to cooperatives	2,415	1,266	—
Processing and marketing	20,842	17,277	15,185
Farm-related business	1,539	1,372	1,000
Power and water/waste disposal	802	965	988
Rural residential real estate	9,140	6,807	5,563
International	1,885	1,887	1,886
Other (including Mission Related)	—	—	1,177
Total loans	\$ 906,208	\$ 909,697	\$ 858,632

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	\$ 8,684	\$ 10,102	\$ -	\$ -	\$ -	\$ -	\$ 8,684	\$ 10,102
Production and intermediate-term	5,127	15,060	165	-	-	-	5,292	15,060
Loans to cooperatives	2,424	-	-	-	-	-	2,424	-
Processing and marketing	5,590	92,453	-	-	-	-	5,590	92,453
Power and water/waste disposal	808	-	-	-	-	-	808	-
International	1,894	-	-	-	-	-	1,894	-
Total	\$ 24,527	\$ 117,615	\$ 165	\$ -	\$ -	\$ -	\$ 24,692	\$ 117,615

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	\$ 9,510	\$ 7,868	\$ -	\$ -	\$ -	\$ -	\$ 9,510	\$ 7,868
Production and intermediate-term	5,212	14,514	296	-	-	-	5,508	14,514
Loans to cooperatives	1,273	-	-	-	-	-	1,273	-
Processing and marketing	5,155	74,665	-	-	-	-	5,155	74,665
Power and water/waste disposal	969	-	-	-	-	-	969	-
International	1,894	-	-	-	-	-	1,894	-
Total	\$ 24,013	\$ 97,047	\$ 296	\$ -	\$ -	\$ -	\$ 24,309	\$ 97,047

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	\$ 3,669	\$ 8,373	\$ -	\$ -	\$ -	\$ -	\$ 3,669	\$ 8,373
Production and intermediate-term	5,781	12,893	188	-	-	-	5,969	12,893
Processing and marketing	5,746	68,254	-	-	-	-	5,746	68,254
Power and water/waste disposal	994	-	-	-	-	-	994	-
International	1,894	-	-	-	-	-	1,894	-
Total	\$ 18,084	\$ 89,520	\$ 188	\$ -	\$ -	\$ -	\$ 18,272	\$ 89,520

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	\$ 4,891	\$ 61,430	\$ 522,103	\$ 588,424			
Production and intermediate term	97,750	123,300	60,111	281,161			
Loans to cooperatives	-	321	2,094	2,415			
Processing and marketing	3,776	2,755	14,311	20,842			
Farm-related business	551	588	400	1,539			
Power and water/waste disposal	-	802	-	802			
Rural residential real estate	115	938	8,087	9,140			
International	-	-	1,885	1,885			
Total loans	\$ 107,083	\$ 190,134	\$ 608,991	\$ 906,208			
Percentage	11.82%	20.98%	67.20%	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
<b>Real estate mortgage:</b>				<b>Power and water/waste disposal:</b>			
Acceptable	93.81%	93.55%	93.80%	Acceptable	—%	100.00%	100.00%
OAEM	3.80	4.68	5.09	OAEM	100.00	—	—
Substandard/doubtful/loss	2.39	1.77	1.11	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
<b>Production and intermediate-term:</b>				<b>Rural residential real estate:</b>			
Acceptable	88.25%	89.11%	89.17%	Acceptable	98.97%	99.22%	99.20%
OAEM	5.93	5.55	5.48	OAEM	0.20	0.64	0.67
Substandard/doubtful/loss	5.82	5.34	5.35	Substandard/doubtful/loss	0.83	0.14	0.13
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
<b>Loans to cooperatives:</b>				<b>International:</b>			
Acceptable	100.00%	100.00%	—%	Acceptable	100.00%	100.00%	100.00%
OAEM	—	—	—	OAEM	—	—	—
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	—%		100.00%	100.00%	100.00%
<b>Processing and marketing:</b>				<b>Other (including Mission Related):</b>			
Acceptable	100.00%	100.00%	100.00%	Acceptable	—%	—%	100.00%
OAEM	—	—	—	OAEM	—	—	—
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		—%	—%	100.00%
<b>Farm-related business:</b>				<b>Total loans:</b>			
Acceptable	100.00%	100.00%	95.35%	Acceptable	92.23%	92.25%	92.28%
OAEM	—	—	—	OAEM	4.40	4.83	5.08
Substandard/doubtful/loss	—	—	4.65	Substandard/doubtful/loss	3.37	2.92	2.64
	100.00%	100.00%	100.00%		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	\$ 3,837	\$ 634	\$ 4,471	\$ 592,369	\$ 596,840
Production and intermediate-term	2,382	4,922	7,304	278,842	286,146
Loans to cooperatives	—	—	—	2,415	2,415
Processing and marketing	—	—	—	20,929	20,929
Farm-related business	177	—	177	1,402	1,579
Power and water/waste disposal	—	—	—	802	802
Rural residential real estate	77	63	140	9,035	9,175
International	—	—	—	1,888	1,888
Total	\$ 6,473	\$ 5,619	\$ 12,092	\$ 907,682	\$ 919,774

	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	\$ 3,357	\$ 245	\$ 3,602	\$ 578,862	\$ 582,464
Production and intermediate-term	3,469	4,675	8,144	304,068	312,212
Loans to cooperatives	—	—	—	1,266	1,266
Processing and marketing	—	—	—	17,469	17,469
Farm-related business	—	—	—	1,388	1,388
Power and water/waste disposal	—	—	—	966	966
Rural residential real estate	70	4	74	6,758	6,832
International	—	—	—	1,891	1,891
Total	\$ 6,896	\$ 4,924	\$ 11,820	\$ 912,668	\$ 924,488

	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	\$ 2,761	\$ 1,307	\$ 4,068	\$ 521,730	\$ 525,798
Production and intermediate-term	1,621	9,217	10,838	308,839	319,677
Processing and marketing	—	—	—	15,266	15,266
Farm-related business	—	—	—	1,014	1,014
Power and water/waste disposal	—	—	—	989	989
Rural residential real estate	82	—	82	5,508	5,590
International	—	—	—	1,889	1,889
Other (including Mission Related)	—	—	—	1,200	1,200
Total	\$ 4,464	\$ 10,524	\$ 14,988	\$ 856,435	\$ 871,423

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

	December 31,		
	2019	2018	2017
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 2,504	\$ 2,222	\$ 2,767
Production and intermediate-term	8,167	10,330	14,301
Farm-related business	—	—	47
Rural residential real estate	76	9	7
Total	\$ 10,747	\$ 12,561	\$ 17,122
<b>Accruing restructured loans:</b>			
Real estate mortgage	\$ 17,377	\$ 13,451	\$ 15,165
Production and intermediate-term	10,377	13,781	14,834
Rural residential real estate	16	20	23
Total	\$ 27,770	\$ 27,252	\$ 30,022
<b>Accruing loans 90 days or more past due:</b>			
Total	\$ —	\$ —	\$ —
Total nonperforming loans	\$ 38,517	\$ 39,813	\$ 47,144
Other property owned	2,527	2,673	1,297
Total nonperforming assets	\$ 41,044	\$ 42,486	\$ 48,441
Nonaccrual loans as a percentage of total loans	1.19%	1.38%	1.99%
Nonperforming assets as a percentage of total loans and other property owned	4.52%	4.66%	5.55%
Nonperforming assets as a percentage of capital	16.88%	17.88%	21.06%

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

	December 31,		
	2019	2018	2017
<b>Impaired nonaccrual loans:</b>			
Current as to principal and interest	\$ 3,713	\$ 4,685	\$ 4,998
Past due	7,034	7,876	12,124
Total	\$ 10,747	\$ 12,561	\$ 17,122
<b>Impaired accrual loans:</b>			
Restructured	\$ 27,770	\$ 27,252	\$ 30,022
Total	\$ 27,770	\$ 27,252	\$ 30,022
Total impaired loans	\$ 38,517	\$ 39,813	\$ 47,144
Additional commitments to lend	\$ —	\$ —	\$ —

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

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
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 741	\$ 842	\$ 23	\$ 762	\$ 36
Production and intermediate-term	3,538	4,219	1,591	3,638	171
Farm-related business	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Total	\$ 4,279	\$ 5,061	\$ 1,614	\$ 4,400	\$ 207
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 19,140	\$ 19,147	\$ —	\$ 19,680	\$ 924
Production and intermediate-term	15,006	17,957	—	15,431	725
Farm-related business	—	68	—	—	—
Rural residential real estate	92	94	—	95	4
Total	\$ 34,238	\$ 37,266	\$ —	\$ 35,206	\$ 1,653
<b>Total:</b>					
Real estate mortgage	\$ 19,881	\$ 19,989	\$ 23	\$ 20,442	\$ 960
Production and intermediate-term	18,544	22,176	1,591	19,069	896
Farm-related business	—	68	—	—	—
Rural residential real estate	92	94	—	95	4
Total	\$ 38,517	\$ 42,327	\$ 1,614	\$ 39,606	\$ 1,860

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
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 148	\$ 162	\$ 14	\$ 149	\$ 7
Production and intermediate-term	5,312	5,742	1,337	5,357	242
Rural residential real estate	—	—	—	—	—
Total	\$ 5,460	\$ 5,904	\$ 1,351	\$ 5,506	\$ 249
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 15,525	\$ 15,854	\$ —	\$ 15,655	\$ 708
Production and intermediate-term	18,799	21,166	—	18,953	858
Rural residential real estate	29	30	—	29	1
Total	\$ 34,353	\$ 37,050	\$ —	\$ 34,637	\$ 1,567
<b>Total:</b>					
Real estate mortgage	\$ 15,673	\$ 16,016	\$ 14	\$ 15,804	\$ 715
Production and intermediate-term	24,111	26,908	1,337	24,310	1,100
Rural residential real estate	29	30	—	29	1
Total	\$ 39,813	\$ 42,954	\$ 1,351	\$ 40,143	\$ 1,816

Impaired Loans	December 31, 2017			Year Ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 444	\$ 458	\$ 30	\$ 472	\$ 24
Production and intermediate-term	7,210	7,649	1,155	7,677	391
Farm-related business	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Total	\$ 7,654	\$ 8,107	\$ 1,185	\$ 8,149	\$ 415
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 17,488	\$ 17,932	\$ —	\$ 16,013	\$ 701
Production and intermediate-term	21,925	24,795	—	22,734	1,016
Farm-related business	47	51	—	50	3
Rural residential real estate	30	30	—	32	2
Total	\$ 39,490	\$ 42,808	\$ —	\$ 38,829	\$ 1,722
<b>Total:</b>					
Real estate mortgage	\$ 17,932	\$ 18,390	\$ 30	\$ 16,485	\$ 725
Production and intermediate-term	29,135	32,444	1,155	30,411	1,407
Farm-related business	47	51	—	50	3
Rural residential real estate	30	30	—	32	2
Total	\$ 47,144	\$ 50,915	\$ 1,185	\$ 46,978	\$ 2,137

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*	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Other (including Mission Related)	Total
<b>Activity related to the allowance for credit losses:</b>								
Balance at December 31, 2018	\$ 2,987	\$ 4,521	\$ 57	\$ 1	\$ 14	\$ 1	\$ -	\$ 7,581
Charge-offs	(1)	(544)	-	-	-	-	-	(545)
Recoveries	46	317	-	-	-	-	-	363
Provision for loan losses	(394)	404	(21)	14	2	-	-	5
Balance at December 31, 2019	\$ 2,638	\$ 4,698	\$ 36	\$ 15	\$ 16	\$ 1	\$ -	\$ 7,404
Balance at December 31, 2017	\$ 2,763	\$ 4,185	\$ 38	\$ 1	\$ 7	\$ 1	\$ -	\$ 6,995
Charge-offs	(2)	(791)	(68)	-	-	-	-	(861)
Recoveries	31	875	2	-	-	-	-	908
Provision for loan losses	195	252	85	-	7	-	-	539
Balance at December 31, 2018	\$ 2,987	\$ 4,521	\$ 57	\$ 1	\$ 14	\$ 1	\$ -	\$ 7,581
Balance at December 31, 2016	\$ 2,208	\$ 4,835	\$ 103	\$ -	\$ 20	\$ 2	\$ -	\$ 7,168
Charge-offs	(83)	(498)	(1)	-	-	-	-	(582)
Recoveries	56	278	-	-	-	-	-	334
Provision for loan losses	582	(430)	(64)	1	(13)	(1)	-	75
Balance at December 31, 2017	\$ 2,763	\$ 4,185	\$ 38	\$ 1	\$ 7	\$ 1	\$ -	\$ 6,995
<b>Allowance on loans evaluated for impairment:</b>								
Individually	\$ 23	\$ 1,591	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,614
Collectively	2,615	3,107	36	15	16	1	-	5,790
Balance at December 31, 2019	\$ 2,638	\$ 4,698	\$ 36	\$ 15	\$ 16	\$ 1	\$ -	\$ 7,404
Individually	\$ 14	\$ 1,337	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,351
Collectively	2,973	3,184	57	1	14	1	-	6,230
Balance at December 31, 2018	\$ 2,987	\$ 4,521	\$ 57	\$ 1	\$ 14	\$ 1	\$ -	\$ 7,581
Individually	\$ 30	\$ 1,155	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,185
Collectively	2,733	3,030	38	1	7	1	-	5,810
Balance at December 31, 2017	\$ 2,763	\$ 4,185	\$ 38	\$ 1	\$ 7	\$ 1	\$ -	\$ 6,995
<b>Recorded investment in loans evaluated for impairment:</b>								
Individually	\$ 30,322	\$ 30,009	\$ -	\$ -	\$ 92	\$ -	\$ -	\$ 60,423
Collectively	566,518	256,137	24,923	802	9,083	1,888	-	859,351
Balance at December 31, 2019	\$ 596,840	\$ 286,146	\$ 24,923	\$ 802	\$ 9,175	\$ 1,888	\$ -	\$ 919,774
Individually	\$ 23,507	\$ 32,753	\$ -	\$ -	\$ 29	\$ -	\$ -	\$ 56,289
Collectively	558,957	279,459	20,123	966	6,803	1,891	-	868,199
Balance at December 31, 2018	\$ 582,464	\$ 312,212	\$ 20,123	\$ 966	\$ 6,832	\$ 1,891	\$ -	\$ 924,488
Individually	\$ 17,830	\$ 29,237	\$ 47	\$ -	\$ 30	\$ -	\$ -	\$ 47,144
Collectively	507,968	290,440	16,233	989	5,560	1,889	1,200	824,279
Balance at December 31, 2017	\$ 525,798	\$ 319,677	\$ 16,280	\$ 989	\$ 5,590	\$ 1,889	\$ 1,200	\$ 871,423

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

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

Outstanding Recorded Investment	Year Ended December 31, 2019				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 2,992	\$ -	\$ 2,992	
Production and intermediate-term	529	9,837	-	10,366	
Total	\$ 529	\$ 12,829	\$ -	\$ 13,358	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 3,467	\$ -	\$ 3,467	\$ -
Production and intermediate-term	531	10,452	-	10,983	(24)
Total	\$ 531	\$ 13,919	\$ -	\$ 14,450	\$ (24)

Outstanding Recorded Investment	Year Ended December 31, 2018				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 4,467	\$ -	\$ 4,467	
Production and intermediate-term	653	10,134	-	10,787	
Total	\$ 653	\$ 14,601	\$ -	\$ 15,254	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 4,956	\$ -	\$ 4,956	\$ -
Production and intermediate-term	653	9,268	-	9,921	-
Total	\$ 653	\$ 14,224	\$ -	\$ 14,877	\$ -

Outstanding Recorded Investment	Year Ended December 31, 2017				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 4,030	\$ -	\$ 4,030	
Production and intermediate-term	296	9,896	-	10,192	
Total	\$ 296	\$ 13,926	\$ -	\$ 14,222	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 4,268	\$ -	\$ 4,268	\$ -
Production and intermediate-term	296	10,005	-	10,301	(17)
Total	\$ 296	\$ 14,273	\$ -	\$ 14,569	\$ (17)

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 majority of AgGeorgia's principal concessions are principal deferments. The post-modification balances for principal deferments may include fees that have been financed, which may cause the post-modification balances to be higher than the pre-modification balances.

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	\$ -	\$ 108	\$ 497
Total	\$ -	\$ 108	\$ 497

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	\$ 18,272	\$ 14,677	\$ 11,562	\$ 895	\$ 1,226	\$ 933
Production and intermediate-term	14,887	19,212	17,134	4,510	5,431	5,447
Rural residential real estate	16	20	23	-	-	-
Total loans	\$ 33,175	\$ 33,909	\$ 28,719	\$ 5,405	\$ 6,657	\$ 6,380
Additional commitments to lend	\$ -	\$ -	\$ -			

#### Note 4 — Investments

##### Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled \$9,760 for 2019, \$9,340 for 2018 and \$8,943 for 2017. The Association owned 3.45 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 \$1,286 related to other Farm Credit institutions at December 31, 2019.

**Note 5 — Real Estate and Other Property**

**Premises and Equipment**

Premises and equipment consists of the following:

	December 31,		
	2019	2018	2017
Land	\$ 2,294	\$ 2,279	\$ 2,129
Buildings and improvements	10,462	7,958	7,942
Furniture and equipment	4,293	4,328	4,130
	17,049	14,565	14,201
Less: accumulated depreciation	7,405	7,323	7,301
Total	<u>\$ 9,644</u>	<u>\$ 7,242</u>	<u>\$ 6,900</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	\$ 34	\$ (13)	\$ (25)
Carrying value unrealized (gains) losses	514	(25)	659
Operating (income) expense, net	177	98	252
(Gains) losses on other property owned, net	<u>\$ 725</u>	<u>\$ 60</u>	<u>\$ 886</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 were immaterial for all periods presented.

**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. On March 20, 2019, the Bank approved a waiver of the Association's events of default under the GFA, and the Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2019, the Association's notes payable were within the specified limitations.

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

the terms of the GFA and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 2.77 percent for LIBOR-based loans and 2.91 percent for Prime-based loans, and the weighted average remaining maturities were 4.5 years and 0.7 years, respectively, at December 31, 2019. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.32 percent, and the weighted average remaining maturity was 10.5 years at December 31, 2019. The weighted-average interest rate on all interest-bearing notes payable was 3.27 percent and the weighted-average remaining maturity was 9.3 years at December 31, 2019. Gross notes payable consist of approximately 13.24 percent variable rate and 86.76 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2019. Notes Payable to AgFirst Farm Credit Bank, as reflected on the Consolidated Balance Sheets, also include a credit which reduces the notes payable balance and corresponding interest expense. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

**Note 7 — Members' Equity**

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

**A. Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to 2.0 percent or \$1 thousand, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after 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.

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

initiate any transfers and is not aware of any proposed action under this regulation.

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

Effective January 1, 2017, the regulatory capital requirements for System banks and associations were modified. These regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based ratios. The regulations also include a tier 1 leverage ratio and 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%	23.38%	23.03%	22.38%
Tier 1 Capital	6.0%	1.875%	7.875%	23.38%	23.03%	22.38%
Total Capital	8.0%	1.875%	9.875%	24.20%	23.84%	23.23%
Permanent Capital	7.0%	0.0%	7.0%	23.57%	23.21%	22.57%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	24.05%	23.61%	23.38%
URE and UREE Leverage	1.5%	0.0%	1.5%	17.15%	16.36%	15.64%

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

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

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

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
C Common/Voting	No	823,583	\$ 4,118
C Participation Certificates/Nonvoting	No	31,850	159
Total Capital Stock and Participation Certificates		855,433	\$ 4,277

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not

to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

#### *Retained Earnings*

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

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

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

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met.

At December 31, 2019, allocated members' equity consisted of \$71,030 of qualified distributions. Nonqualified distributions are tax deductible only when redeemed.

#### *Dividends*

The Association may declare non-cumulative 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 on Classes 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.

#### *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.

#### *Transfer*

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

#### *Impairment*

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

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

Impairments shall be considered as being applied pro rata to each share and/or unit outstanding in the class.

#### *Liquidation*

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

- 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**, pro rata to the holders of Class C Common Stock and Class C Participation Certificates, until an amount equal to the aggregate par value or face amount of all such shares or units then issued and outstanding has been distributed to such holders;
- c) **Third**, to the holders of allocated surplus pro rata, on the basis of oldest allocations first, until an amount equal to the total account has been distributed to the holders;
- d) **Fourth**, all unallocated surplus issued after May 4, 1995 (the effective date of this bylaw amendment) shall be

- distributed to the holders of Class C Stock and Class C Participation Certificates on a patronage basis;
- e) **Fifth**, any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates.;

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

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

<b>Changes in Accumulated Other Comprehensive income by Component (a)</b>			
<b>For the Year Ended December 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Employee Benefit Plans:</b>			
Balance at beginning of period	\$ (924)	\$ (1,501)	\$ (147)
Other comprehensive income before reclassifications	(271)	134	(1,360)
Amounts reclassified from AOCI	443	443	6
Net current period OCI	172	577	(1,354)
Balance at end of period	\$ (752)	\$ (924)	\$ (1,501)

<b>Reclassifications Out of Accumulated Other Comprehensive Income (b)</b>				
<b>For the Year Ended December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>Income Statement Line Item</b>
<b>Defined Benefit Pension Plans:</b>				
Periodic pension costs	\$ (443)	\$ (443)	\$ (6)	See Note 9.
Amounts reclassified	\$ (443)	\$ (443)	\$ (6)	

(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**

The Association had no Level 2 assets and liabilities measured at fair value on a recurring basis.

**Level 3**

Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of

and judgment about current market conditions, specific issues relating to the collateral and other matters.

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

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property

owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

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

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
<b><u>Recurring Measurements</u></b>						
<b>Assets:</b>						
Assets held in trust funds	\$	1,696	\$ 1,696	\$ -	\$ -	\$ 1,696
Recurring Assets	\$	1,696	\$ 1,696	\$ -	\$ -	\$ 1,696
<b>Liabilities:</b>						
Recurring Liabilities	\$	-	\$ -	\$ -	\$ -	\$ -
<b><u>Nonrecurring Measurements</u></b>						
<b>Assets:</b>						
Impaired loans	\$	2,665	\$ -	\$ -	\$ 2,665	\$ 2,665
Other property owned		2,527	-	-	2,845	2,845
Nonrecurring Assets	\$	5,192	\$ -	\$ -	\$ 5,510	\$ 5,510
<b><u>Other Financial Instruments</u></b>						
<b>Assets:</b>						
Cash	\$	32	\$ 32	\$ -	\$ -	\$ 32
Loans		896,326	-	-	904,638	904,638
Other Financial Assets	\$	896,358	\$ 32	\$ -	\$ 904,638	\$ 904,670
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$	683,143	\$ -	\$ -	\$ 683,535	\$ 683,535
Other Financial Liabilities	\$	683,143	\$ -	\$ -	\$ 683,535	\$ 683,535

December 31, 2018						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$ 1,540	\$ 1,540	\$ –	\$ –	\$ 1,540	
Recurring Assets	\$ 1,540	\$ 1,540	\$ –	\$ –	\$ 1,540	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 4,109	\$ –	\$ –	\$ 4,109	\$ 4,109	
Other property owned	2,673	–	–	2,902	2,902	
Nonrecurring Assets	\$ 6,782	\$ –	\$ –	\$ 7,011	\$ 7,011	
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 133	\$ 133	\$ –	\$ –	\$ 133	
Loans	898,007	–	–	890,670	890,670	
Other Financial Assets	\$ 898,140	\$ 133	\$ –	\$ 890,670	\$ 890,803	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 695,597	\$ –	\$ –	\$ 685,169	\$ 685,169	
Other Financial Liabilities	\$ 695,597	\$ –	\$ –	\$ 685,169	\$ 685,169	

December 31, 2017						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$ 1,592	\$ 1,592	\$ –	\$ –	\$ 1,592	
Recurring Assets	\$ 1,592	\$ 1,592	\$ –	\$ –	\$ 1,592	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 6,469	\$ –	\$ –	\$ 6,469	\$ 6,469	
Other property owned	1,297	–	–	1,439	1,439	
Nonrecurring Assets	\$ 7,766	\$ –	\$ –	\$ 7,908	\$ 7,908	
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 168	\$ 168	\$ –	\$ –	\$ 168	
Loans	845,168	–	–	841,980	841,980	
Other Financial Assets	\$ 845,336	\$ 168	\$ –	\$ 841,980	\$ 842,148	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 647,241	\$ –	\$ –	\$ 638,306	\$ 638,306	
Other Financial Liabilities	\$ 647,241	\$ –	\$ –	\$ 638,306	\$ 638,306	

**Uncertainty in Measurements of Fair Value**

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

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an

opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

**Inputs to Valuation Techniques**

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

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk

characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements**

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 5,510	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

**Information about Other Financial Instrument Fair Value Measurements**

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

**Note 9 — Employee Benefit Plans**

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

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

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

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

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Income were \$2,169 for 2019, \$2,794 for 2018, and \$2,724 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 \$647 for 2019, \$631 for 2018, and \$589 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 \$5,696 and the reduction of Other Liabilities by \$9,216 on the Association's Balance Sheets, and a total reduction of noninterest expenses on the Association's Statements of Income of \$3,520 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 \$651, \$557, and \$573 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, \$172, \$577 and \$(1,354) has been recognized as net credits 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 \$2,154 and a net underfunded status of \$2,154 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 and a rate of compensation increase of 3.00 percent. The expenses of these nonqualified plans included in noninterest expenses were \$560, \$553, and \$31 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, amortized 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 \$16,308. During 2019, \$8,319 of new loans were made and repayments totaled \$7,807. In the opinion of management, none of these loans outstanding at December 31, 2019 to senior officers or directors as defined in FCA regulations involved more than a normal risk of collectibility.

## Note 11 — Commitments and Contingencies

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

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

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

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

credit, is based on management's credit evaluation of the borrower. At December 31, 2019, \$102,850 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2019, standby letters of credit outstanding totaled \$24 with expiration dates ranging from January 19, 2020 to December 28, 2020. The maximum potential amount of future payments that may be required under these guarantees was \$24.

### Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	\$ 3	\$ 8	\$ (4)
State	1	3	(10)
	<u>\$ 4</u>	<u>\$ 11</u>	<u>\$ (14)</u>
Deferred:			
Federal	—	—	—
State	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Total provision (benefit) for income taxes	<u>\$ 4</u>	<u>\$ 11</u>	<u>\$ (14)</u>

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	\$ 4,592	\$ 4,659	\$ 8,651
State tax, net	1	1	1
Effect of non-taxable FLCA subsidiary	(929)	(2,353)	(2,356)
Patronage distributions	(3,722)	(2,251)	(4,770)
Change in valuation allowance	71	(69)	(2,679)
Deferred tax rate change	—	—	989
Other	(9)	24	150
Provision (benefit) for income taxes	<u>\$ 4</u>	<u>\$ 11</u>	<u>\$ (14)</u>

In late December 2017, federal tax legislation was enacted which, among other things, lowered the federal corporate tax rate from

35% to 21% beginning on January 1, 2018. The change to the lower corporate tax rate led to an insignificant remeasurement of the deferred tax liabilities and deferred tax assets in 2017, the period of enactment. Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2019	2018	2017
Deferred income tax assets:			
Allowance for loan losses	\$ 899	\$ 908	\$ 909
Other property owned writedown	101	—	—
Annual leave	280	273	270
Nonaccrual loan interest	668	630	724
Pensions and other postretirement benefits	20	16	12
Depreciation	8	96	81
Gross deferred tax assets	<u>1,976</u>	<u>1,923</u>	<u>1,996</u>
Less: valuation allowance	<u>(1,936)</u>	<u>(1,865)</u>	<u>(1,934)</u>
Gross deferred tax assets, net of valuation allowance	<u>40</u>	<u>58</u>	<u>62</u>
Deferred income tax liabilities:			
Pensions and other postretirement benefits	—	—	—
Depreciation	—	—	—
Loan origination fees	(40)	(58)	(62)
Gross deferred tax liability	<u>(40)</u>	<u>(58)</u>	<u>(62)</u>
Net deferred tax asset (liability)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At December 31, 2019, deferred income taxes have not been provided by the Association on approximately \$5.9 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 \$1,936, \$1,865 and \$1,934 as of December 31, 2019, 2018 and 2017, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

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

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

### Note 13 — Additional Financial Information

#### Quarterly Financial Information (Unaudited)

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,833	\$ 8,139	\$ 8,647	\$ 8,443	\$ 33,062
Provision for (reversal of allowance for) loan losses	(563)	600	311	(343)	5
Noninterest income (expense), net	(2,995)	(4,165)	(3,528)	(504)	(11,192)
Net income	<u>\$ 5,401</u>	<u>\$ 3,374</u>	<u>\$ 4,808</u>	<u>\$ 8,282</u>	<u>\$ 21,865</u>
	2018				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,424	\$ 7,641	\$ 7,971	\$ 8,325	\$ 31,361
Provision for (reversal of allowance for) loan losses	46	168	221	104	539
Noninterest income (expense), net	(3,028)	(4,149)	(3,452)	1,545	(9,084)
Net income	<u>\$ 4,350</u>	<u>\$ 3,324</u>	<u>\$ 4,298</u>	<u>\$ 9,766</u>	<u>\$ 21,738</u>

	2017				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,172	\$ 7,291	\$ 8,205	\$ 7,562	\$ 30,230
Provision for (reversal of allowance for) loan losses	728	501	(51)	(1,103)	75
Noninterest income (expense), net	(3,351)	(3,761)	(3,510)	5,198	(5,424)
Net income	\$ 3,093	\$ 3,029	\$ 4,746	\$ 13,863	\$ 24,731

**Note 14 — Subsequent Events**

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



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