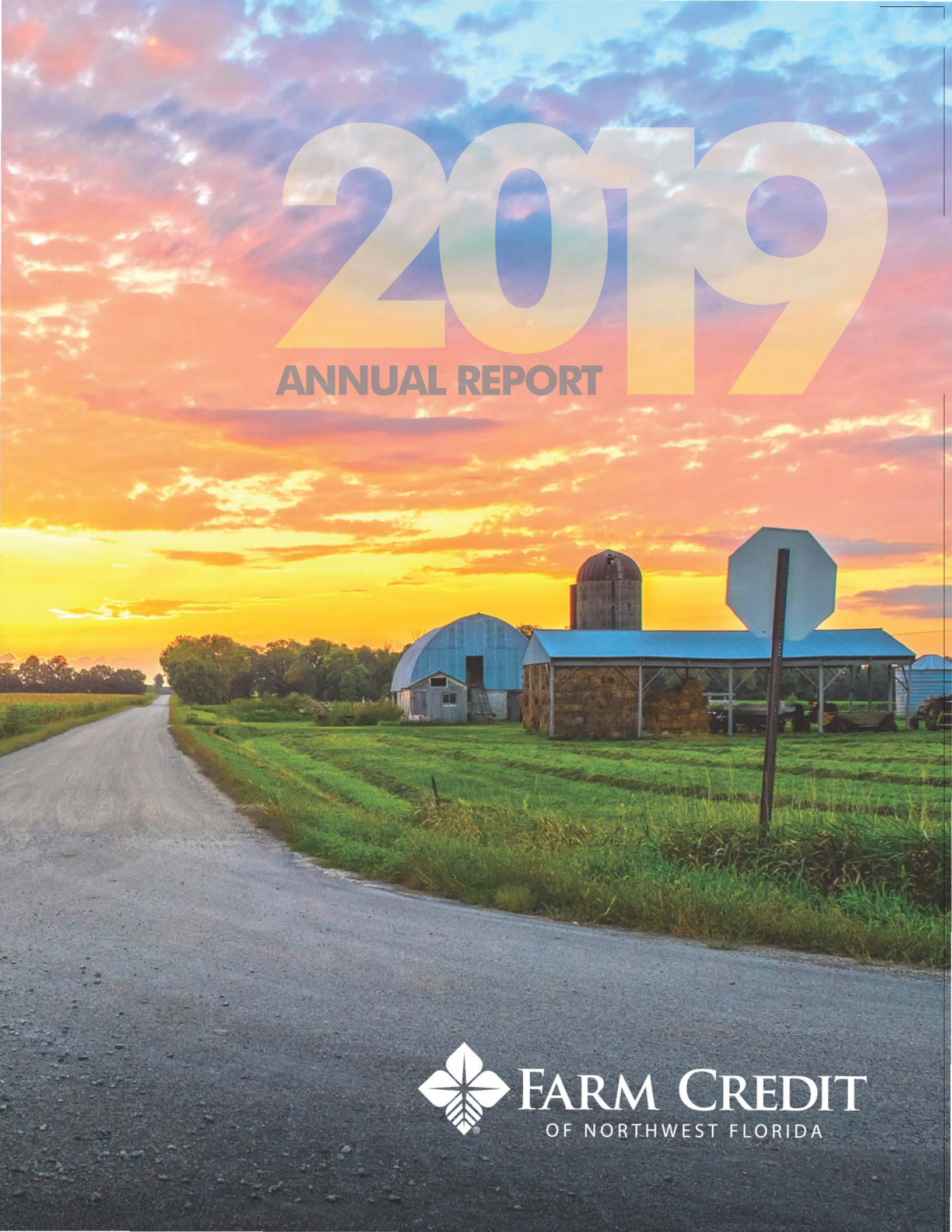


2019

ANNUAL REPORT



FARM CREDIT
OF NORTHWEST FLORIDA

FARM CREDIT OF NORTHWEST FLORIDA, ACA

2019 ANNUAL REPORT

Contents

Message from the President.....	2
Report of Management	3
Report on Internal Control Over Financial Reporting	4
Consolidated Five-Year Summary of Selected Financial Data	5
Management’s Discussion & Analysis of Financial Condition & Results of Operations	6-19
Disclosure Required by FCA Regulations	20-26
Report of the Audit Committee	27
Report of Independent Auditors	28
Consolidated Financial Statements.....	29-32
Notes to the Consolidated Financial Statements	33-56

Management

Ricky K. Bitner	President & Chief Executive Officer
John P. Mottice	Chief Financial Officer
Chuck Thiele	Chief Credit Officer
DeAndrea Barber	Chief Operations Officer
Dorislynn White-Padgett	Manager of Human Capital
Jesse Dumas.....	Regional Lending Manager
Michael Digmon.....	Regional Lending Manager

Board of Directors

Cindy Eade	Chairperson
Mark Fletcher.....	Vice Chairman
Melvin Adams.....	Director
Damon Boutwell	Director
James R. Dean.....	Director
Joseph M. Diamond	Director
Ernest C. Fulford.....	Director
Glen Strange.....	Director
Richard Terry	Director
Michael Thompson	Director
R. Douglas Walker.....	Director

Message from the President

Dear Shareholders,

Last year, this message was prepared in the immediate aftermath of Hurricane Michael. Those most closely impacted by the storm had more questions than answers, and many wondered how life would look another year down the road. Although it has been challenging, our communities, farmers and ranchers continue working to slowly recover. The Association has helped by providing needed funds and, in some cases, lengthening loan terms to make payments more affordable. We are glad to report credit quality remains good and there are no losses attributable to the storm. We will continue to monitor timber-related industries and land values until we are certain these areas have stabilized.

On a broader scale, agriculture had a difficult year with low commodity prices, tariffs and average yields causing stress within the sector. Many of you are making tough decisions while dealing with factors beyond your influence and control. Success in agriculture has always required a mixture of hard work, good decisions and faith. We admire your hard work, stand ready to help as you make decisions, and trust you have faith Farm Credit will be here to provide reliable, consistent credit in good and bad times. With the uncertainty you already face, worrying if your lender will be here for you in down cycles is one thing you should never have to consider.

The general economic conditions and rural housing market in the Florida Panhandle remain strong. The diversity of borrowers in the Association provides added strength and financial performance was solid in 2019, including:

- Credit quality is within national standards for acceptability at 96.86%
- Capitalization is exceedingly strong with a Permanent Capital Ratio of 28.56%
- Return on Assets of 2.26% and Return on Equity of 7.47 %
- Net Income of \$6.41 million

In recognition of the Association's strong financial condition and performance, the Board of Directors elected to return substantially all of 2019 net income to its members in the form of \$6.33 million in cash distributions which includes:

- \$3.25 million cash patronage distribution
- \$1.24 million nonqualified allocated surplus cash distribution to be paid in early 2020
- \$1.84 million nonqualified allocated surplus distribution distributed in September 2019

We know you work hard to honor your loan obligations, and putting the profits of the Association back in your pocket, rather than distributing them to outside investors, is especially rewarding.

Our Board of Directors and staff look forward to another year of serving you, advocating on your behalf, and spreading the word about the importance of agricultural and rural communities. When you evidence your satisfaction with the service we provide by recommending us to your friends and family, it is greatly appreciated. On behalf of everyone at Farm Credit of Northwest Florida, thank you for allowing us to be your trusted financial partner, for your loyalty, and for being part of the Farm Credit community.

Sincerely,



Ricky K. Bitner
Chief Executive Officer

March 12, 2020

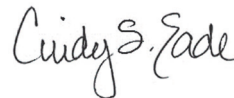
Report of Management

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

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

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

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



Cindy S. Eade
Chairperson of the Board



Ricky K. Bitner
Chief Executive Officer



John P. Mottice
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.



Ricky K. Bitner
Chief Executive Officer



John P. Mottice
Chief Financial Officer

March 12, 2020

Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	December 31,				
	2019	2018	2017	2016	2015
Balance Sheet Data					
Loans	\$ 284,180	\$ 288,415	\$ 275,112	\$ 277,375	\$ 275,864
Allowance for loan losses	(4,529)	(4,529)	(4,602)	(4,574)	(4,897)
Net loans	279,651	283,886	270,510	272,801	270,967
Equity investments in other Farm Credit institutions	3,370	3,346	3,377	3,336	3,686
Other property owned	4	118	2,968	2,940	1,883
Other assets	8,364	8,790	8,122	8,523	9,132
Total assets	\$ 291,389	\$ 296,140	\$ 284,977	\$ 287,600	\$ 285,668
Notes payable to AgFirst Farm Credit Bank*	\$ 200,279	\$ 204,857	\$ 193,164	\$ 198,227	\$ 196,766
Accrued interest payable and other liabilities with maturities of less than one year	7,135	7,477	8,338	6,304	6,414
Total liabilities	207,414	212,334	201,502	204,531	203,180
Capital stock and participation certificates	1,132	1,050	951	884	857
Retained earnings					
Allocated	37,244	40,321	43,942	47,644	50,667
Unallocated	45,599	42,435	38,582	34,541	30,964
Total members' equity	83,975	83,806	83,475	83,069	82,488
Total liabilities and members' equity	\$ 291,389	\$ 296,140	\$ 284,977	\$ 287,600	\$ 285,668
Statement of Income Data					
Net interest income	\$ 8,851	\$ 8,829	\$ 8,514	\$ 8,969	\$ 9,001
Provision for (reversal of allowance for) loan losses	(207)	(142)	(318)	(55)	(603)
Noninterest income (expense), net	(2,644)	(2,118)	(791)	(2,447)	(2,805)
Net income	\$ 6,414	\$ 6,853	\$ 8,041	\$ 6,577	\$ 6,799
Key Financial Ratios					
Rate of return on average:					
Total assets	2.26%	2.37%	2.83%	2.33%	2.44%
Total members' equity	7.47%	8.00%	9.45%	7.82%	8.17%
Net interest income as a percentage of					
average earning assets	3.16%	3.13%	3.07%	3.26%	3.33%
Net (chargeoffs) recoveries to average loans	0.074%	0.025%	0.125%	(0.098)%	0.310%
Total members' equity to total assets	28.82%	28.30%	29.29%	28.88%	28.88%
Debt to members' equity (:1)	2.47	2.53	2.41	2.46	2.46
Allowance for loan losses to loans	1.59%	1.57%	1.67%	1.65%	1.78%
Permanent capital ratio	28.56%	27.41%	28.26%	28.21%	28.26%
Total surplus ratio	**	**	**	27.90%	27.98%
Core surplus ratio	**	**	**	27.90%	26.95%
Common equity tier 1 capital ratio	28.20%	27.07%	27.91%	**	**
Tier 1 capital ratio	28.20%	27.07%	27.91%	**	**
Total regulatory capital ratio	29.46%	28.32%	29.16%	**	**
Tier 1 leverage ratio	29.20%	27.95%	28.81%	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	28.32%	25.90%	25.32%	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ 3,250	\$ 3,000	\$ 4,000	\$ 3,000	\$ 3,000

* General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2020.

** Not applicable due to changes in regulatory capital requirements effective January 1, 2017.

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

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

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for 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 Northwest Florida. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or the Bank). The Association is materially affected and shareholder investment in the Association may be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, www.agfirst.com, or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly Reports are also available upon request free of charge on the Association's website, www.farmcredit-fl.com, or by calling 1-850-526-4910 or writing John Mottice, Chief Financial Officer, Farm Credit of Northwest Florida, P.O. Box 7000, Marianna, FL 32447.

The Association prepares an electronic version of the Annual Report, which is available on the website within 75 days after the end of the fiscal year, and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly Report, which is available on the website within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

Expected agricultural commodity prices can influence production decisions of farmers and ranchers on planted/harvested acreage of crops or inventory of livestock and thus, affect the supply of agricultural commodities. Greater area of planted/ harvested acreage and increased crop yields for

some crops in recent years have contributed to increased supply, which exceeded demand. Also impacting yields are the growing conditions that are sensitive to weather conditions. Although not generally affected by weather, livestock and dairy prices are linked to crop prices as feed is a significant input cost to these producers.

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

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

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

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

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

Looking ahead, the MFP payments are not anticipated to continue and uncertainty remains about agricultural export markets. As a result, the Association’s financial performance and credit quality may be negatively impacted but is expected

to remain sound overall. Additionally, geographic and commodity diversification across the Association coupled with off-farm income support for many borrowers helps to mitigate the impact of periods of less favorable agricultural conditions. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

The Consolidated 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 underlying security that, by nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan 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

Florida Economy

The University of Central Florida's Institute for Economic Competitiveness projects annual Florida Real Gross State Product expansion of 3.1 percent in 2019, 2.8 percent in 2020, 2.8 percent in 2021 and 2.4 percent in 2022. Average annual growth is expected to be 0.7 percentage points faster than U.S. Real GDP over the same period. Florida payroll job growth is robust and continues to outpace national job growth. Year-over-year payroll growth is projected to average 2.3 percent in 2019, 2.2 percent in 2020, 2.0 percent in 2021, and 1.3 percent in 2022. Average job growth is expected to be 0.9 percent faster than the national economy over the same period. Labor force growth in Florida is projected to average 1.6 percent annually for 2019-2022. The strong job market will continue to put more Floridians back into the labor market and attract out-of-state job seekers.

Additional key factors for the Florida economy include:

- Sectors expected to have the strongest average job growth during 2019-2022 are Professional & Business Services, Construction, Leisure & Hospitality, Education & Health Services, Financial and Federal Government.
- Housing starts will accelerate going forward, but not fast enough to ease the shortage of single-family housing in the near term. Total housing starts are forecasted at 137,886 in 2019, 134,744 in 2020, 135,331 in 2021, and 138,555 in 2022.
- Real personal income growth is expected to average 3.2 percent during 2019-2022. Florida's average real personal income growth is projected to exceed the national rate by 0.7 percent.
- Retail sales are forecasted to grow at an average pace of over 4.2 percent during 2019-2022, boosted by a stronger national economy, continued strength in Florida's labor market, and rising household wealth.

The Florida housing market remains tight. The October 2019 single-family home report released by Florida Realtors®

reflects a market for existing housing that continues to fuel price appreciation surpassing the highs of the housing bubble. The median sales price for single-family homes increased by \$9,147 in October 2019, year over year, and now stands at \$263,000, a year over year price appreciation of a solid 3.6 percent. Inventories of single-family homes are down from a year ago, and are just 3.7 months of supply, indicating an inventory balance that continues to favor sellers in the single-family market. Distressed sales of single-family homes in the form of short sales continue to plummet year over year, down 26.7 percent, as have foreclosure/REO sales, down 12.3 percent. Traditional sales are up 6.2 percent year over year.

The fundamentals of the housing market in Florida continue to be strong. Economic and job growth in Florida are forecasted to continue to outperform the U.S. labor market as more Baby Boomers reach the end of their working lives. This bodes well for continued population growth via the in-migration of retirees and job seekers to Florida. In addition to domestic population growth, international immigration will also feed the state's population growth.

Overall, the Florida economy is poised for solid growth over the next several years. In-migration trends continue to support economic growth, housing, and employment that exceed national averages. Agriculture in Florida will likely see continued weakness from diminished commodity prices, specifically in the northern region that produces peanuts and cotton, but also in other parts of the state where beef cattle production is more common. The citrus industry in Florida continues to suffer from the effects of greening, with significant transition occurring into other commodities to diversify from single commodity risk.

Regional Economy

The Northwest Florida/Panhandle area has a permanent population of 1.5 million and a workforce of over 590,000. The Association's eighteen county region includes over 25 percent of the state's counties and 20 percent of Florida's land mass. The area economy is driven by tourism, government, service and manufacturing industries. Three research universities – Florida State University, Florida A&M University, and the University of West Florida – provide research in a variety of disciplines. The region's military facilities provide contract opportunities for a number of local, regional and national companies, while also providing a source of skilled and dedicated workers after they separate from the military.

The regional economy as a whole has fully recovered from the 2007-2008 recession. Employment in the eighteen county region is up 5.9 percent from December 2006. By contrast, Florida statewide employment is up 9.3 percent over the same period. The recovery has been uneven within the Association's territory – of eighteen counties, only eight have seen net employment growth since December 2006. These counties tend to be located in one of the four MSAs (Metropolitan Statistical Areas) within the territory. Recent trends are more encouraging, with twelve of the eighteen counties experiencing stable to increasing job growth over the past twelve months.

Anchored by the metro areas of Tallahassee to the east and Pensacola to the west, with local economies in between driven by agriculture, tourism and a strong military base presence, economic growth in the Panhandle is typically less cyclical than peninsular Florida. Positive economic growth in the

Tallahassee and Pensacola metro areas is forecasted during the 2018-2021 periods, but at a lower rate than most other metro areas in Florida. Growth in economic activity comes from a combination of in-flow population migration, hospitality/leisure and military/government expenditures.

Employment in service-related industries is currently leading growth in the Panhandle. During 2019-2022, Tallahassee area professional and business services jobs are projected to grow at a 5.9 percent average annual rate, with financial services employment in the Pensacola region projected at a 2.5 percent average annual growth rate.

Operations at area military bases have been expanded over the past several years and unless there is a significant cut in defense spending, these facilities should continue to be positive economic growth engines for the foreseeable future. With an expanding military presence come various ancillary industries such as Navy Federal Credit Union, which projects that its operations center campus in Escambia County will increase employment from 1,200 positions in 2017 to 5,000 by 2026.

The absence of a state income tax and the presence of a hospitable climate should help to attract retirees and others to the Panhandle region in the coming years.

On October 10, 2018, the central section of the Panhandle was hit by Hurricane Michael, a category 5 storm with sustained 100+ mph winds which made landfall near Mexico Beach, Florida. Significant damage occurred within the path of the hurricane, including major damage to Tyndall Air Force Base located just west of landfall. All counties in the impact zone sustained extensive damage to buildings, infrastructure, and agriculture, especially the timber industry. Recovery has been slow in the affected counties, with four of the hardest hit counties suffering employment losses in 2019. Federal and state funding has been appropriated to provide assistance to individuals and businesses impacted by the hurricane, including agriculture; however, the distribution of funds has been slow.

Agricultural Economy

The agricultural economy in Northwest Florida experienced an improved year in 2019 after sustaining losses as a result of Hurricane Michael in 2018. Please see below for additional information on the primary commodity groups served by the Association.

Forestry –

The forestry industry in Northwest Florida was severely impacted by Hurricane Michael. The Florida Forest Service has estimated that 2.8 million forested acres in eleven northwest Florida counties sustained damages in excess of \$1.3 billion. Estimates account for the immediate and direct impact of Hurricane Michael on timber resources and do not factor in additional indirect and long-term impacts and value losses. Expected indirect and long-term impacts include debris removal, reforestation, increased risk of and cost to suppress wildfires, and potential loss or reduction of jobs in the forestry industry.

The southern United States continues to be a world leader in traditional and emerging timber products due to a strong infrastructure of mills, productive forestland, and updated market strategies. "Stumpage" prices for four of the five major

products (pine saw timber, pine chip-n-saw, pine pulpwood, hardwood saw timber, and hardwood pulpwood) in the Association's territory increased in fourth quarter 2019 year over year when compared to 2018.

Row Crops –

World cotton demand is projected to decrease to 121.6 million bales in 2019/20. Supply is expected to outpace demand resulting in an increase in ending stocks to 83.7 million bales. In the U.S., 2019 harvested acreage was forecasted to increase by 2.3 million acres compared to 2018. The national yield is estimated at 799 pounds per harvested acre, 65 pounds less per acre than 2018. Total U.S. cotton production in 2019/20 is projected at 20.8 million bales, an increase of nearly 13% or 2.4 million bales. Cotton prices for 2019 ranged in the upper 50 to high 70 cent range, trading mostly in the upper 50 to lower 60 cent range. The higher end of the price range was seen early in the planting season resulting in limited marketing opportunities.

U.S. corn production is estimated at 13.7 billion bushels in 2019/20, a decrease of 0.8 billion bushels from 2018/19. Yields are forecasted at 167 bushels per acre. Growers in the U.S. planted approximately 89.9 million acres in 2019, a slight increase from the previous year. The season average farm price is projected at \$3.80 per bushel in 2019/20, up from \$3.60 in 2018/19 according to IHS Markit. U.S. ending stocks are projected to decrease from 2.2 million bushels in 2018/19 to 2.0 million bushels in 2019/20. The majority of corn grown in Northwest Florida is used for feed and sold locally, often receiving a positive basis resulting in a cash price higher than reported national prices.

Livestock –

After reaching a low in 2014, rebuilding of the U.S. cattle herd began in 2015 and continued through 2018 before leveling off in 2019, signaling a possible end to the four year expansion. The net beef supply for 2019 was expected to increase by an average of 0.7 percent with 2020 forecasted to increase by 0.8 percent. After price volatility in 2015 and a steady price descent in 2016, prices appear to have found a lower band of support and stabilized into seasonal patterns. The cattle market in 2020 is expected to exhibit price levels similar to 2019. Although beef exports were strong in 2019 and are forecasted higher for 2020, ongoing trade disputes and tariffs could adversely impact the cattle market. Exposure to swine and poultry within the Association's territory is very limited.

Peanuts –

Acreage for the 2019 crop was similar to 2018 plantings of 1.43 million acres. Harvested acres were expected to exceed

2018 which was negatively impacted by Hurricanes Michael and Florence. Early reports indicate the peanut crop yield is above average with yields exceeding 4,000 pounds per acre. Production is forecasted to increase by 2.6% in 2019 to 5.6 billion pounds. Domestic peanut use has continued to increase and exports are projected to increase to 1.3 billion pounds in 2019. Total use is forecasted to exceed production by 290 million pounds resulting in a decrease in ending stocks to 2.23 billion pounds. Most peanut producers in the Association's territory contracted or received a cash price for the 2018 crop in the \$400 - \$425 range, depending on variety.

Dairy –

In 2019, average milk and dairy product prices increased from 2018 levels. The higher prices are mainly a result of flat overall production and an increase in domestic consumption. Production remained flat despite a reduction in the dairy herd, as productivity per cow continues to grow. Production in Florida is down 4.9 percent as a result of 7,000 fewer cows. Exports will remain a key driver for milk prices. Feed costs increased slightly in 2019 as a result of marginally higher corn prices. The increase in milk prices outpaced the higher feed costs, resulting in higher overall margins. The outlook for dairy prices is projected to remain relatively flat to marginally higher in 2020.

LOAN PORTFOLIO

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

The gross loan volume of the Association as of December 31, 2019 was \$284,180, a decrease of \$4,235 or 1.47 percent compared to \$288,415 at December 31, 2018, which represented an increase of \$13,303 or 4.84 percent compared to \$275,112 at December 31, 2017. Net loans outstanding (gross loans net of the allowance for loan losses) at December 31, 2019 were \$279,651, a decrease of \$4,235 or 1.49 percent compared to \$283,886 at December 31, 2018, which represented an increase of \$13,376 or 4.94 percent compared to \$270,510 at December 31, 2017. Net loans accounted for 95.97 percent of total assets at December 31, 2019, compared to 95.86 percent of total assets at December 31, 2018 and 94.92 percent of total assets at December 31, 2017. The decreases in gross loan volume and net loans outstanding in 2019 were due to a decrease in net originated loans and nonaccrual loans, partially offset by an increase in purchased participation loans.

The diversification of the Association's loan volume by FCA loan type for each of the past three years is shown in the table below.

Loan Type	December 31,					
	2019		2018		2017	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 200,755	70.64%	\$ 202,015	70.04%	\$ 185,083	67.28%
Production and intermediate-term	62,040	21.83	66,787	23.16	68,978	25.07
Loans to cooperatives	786	0.28	1,463	0.51	555	0.20
Processing and marketing	7,280	2.56	5,184	1.80	9,307	3.38
Farm-related business	3,907	1.38	3,814	1.32	3,305	1.20
Communication	1,337	0.47	1,411	0.49	1,485	0.54
Power and water/waste disposal	1,205	0.42	1,450	0.50	1,487	0.54
Rural residential real estate	5,827	2.05	5,345	1.85	3,966	1.44
International	1,043	0.37	946	0.33	946	0.35
Total	\$ 284,180	100.00%	\$ 288,415	100.00%	\$ 275,112	100.00%

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

Branch	12/31/19	12/31/18	12/31/17
Marianna	27.85%	30.19%	28.05%
Milton	24.72	24.94	26.72
Tallahassee	18.39	21.91	23.00
Monticello	11.42	9.97	9.57
Special Assets	0.64	0.69	0.72
Home Loans	4.92	3.59	2.64
Capital Markets	12.06	8.71	9.30
Total	100.00%	100.00%	100.00%

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

The major commodities in the Association’s loan portfolio are shown below. The predominant commodities are forestry, row crops, livestock, peanuts, and hunting/trapping/game, which together constituted 77 percent of the entire portfolio at December 31, 2019.

Commodity Group	December 31,					
	2019		2018		2017	
	<i>(dollars in thousands)</i>					
Forestry	\$ 114,665	40%	\$ 120,635	42%	\$ 116,919	43%
Row Crops	40,709	14	41,040	14	33,875	12
Livestock	34,097	12	34,991	12	27,143	10
Peanuts	16,286	6	15,596	5	20,308	7
Hunting/Trapping/Game	14,349	5	14,251	5	14,916	6
Landlords	14,301	5	12,858	4	14,247	5
Horticulture	12,314	5	13,083	5	12,760	5
Dairy	6,274	2	6,279	2	5,867	2
Rural Homes	5,820	2	5,336	2	3,956	1
Other	25,365	9	24,346	9	25,121	9
Total	\$ 284,180	100%	\$ 288,415	100%	\$ 275,112	100%

Repayment ability is closely related to the commodities produced by borrowers and, increasingly, by borrowers’ non-farm income. The Association’s loan portfolio contains a large concentration in the forestry industry; however, due to the non-farm income of borrowers in this industry classification, sources of repayment are varied, reducing the overall risk exposure to this commodity.

During 2019, the Association was active in buying and selling 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, further strengthening its capital position.

Loan Participations	2019	2018	2017
	<i>(dollars in thousands)</i>		
Participations Purchased – FCS Institutions	\$ 34,134	\$ 24,958	\$ 25,252
Participations Purchased – Non-FCS Institutions	195	2,347	2,467
Participations Sold	(55,865)	(51,182)	(42,428)
Total	\$ (21,536)	\$ (23,877)	\$ (14,709)

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 reviews the credit quality of the loan portfolio on an ongoing basis. With the approval of the Board of Directors, the Association has established 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 or industry implications

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 anticipated cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by a first lien on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. In addition, each loan is assigned a credit risk rating based upon the Association’s underwriting standards. The credit risk rating process incorporates both objective and subjective criteria to identify inherent strengths, weaknesses and risks in loan transactions.

The credit quality of the loan portfolio is reviewed on an ongoing basis as part of the Association’s 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	96.86%	96.29%	96.97%
Substandard	3.14	3.71	3.03
Doubtful	—	—	—
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. The high-risk assets, including accrued interest, are detailed below:

	12/31/19	12/31/18	12/31/17
	(dollars in thousands)		
High-risk Assets			
Nonaccrual loans	\$ 1,833	\$ 2,612	\$ 3,969
Accruing loans 90 days past due	—	—	—
Total high-risk loans	1,833	2,612	3,969
Other property owned	4	118	2,968
Total high-risk assets	\$ 1,837	\$ 2,730	\$ 6,937
Ratios			
Nonaccrual loans to total loans	0.64%	0.91%	1.44%
High-risk assets to total assets	0.63%	0.92%	2.43%

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 by \$779 or 29.82 percent in 2019. Of the \$1,833 in nonaccrual loan volume at December 31, 2019, \$922 or 50.30 percent was current as to scheduled principal and interest payments, compared to 37.44 percent and 39.08 percent at December 31, 2018 and 2017, respectively.

Other property owned (OPO) decreased by \$114 or 96.61 percent in 2019. During 2019, real estate and equipment with a book value of \$669 were sold. As of December 31, 2019, OPO consisted of equipment with a book value of \$4.

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

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

Allowance for Loan Loss Activity:	2019	2018	2017
	(dollars in thousands)		
Balance at beginning of year	\$ 4,529	\$ 4,602	\$ 4,574
Charge-offs:			
Real estate mortgage	(199)	(13)	—
Production and intermediate term	(319)	(173)	(19)
Agribusiness	—	—	—
Rural residential real estate	—	—	—
Total charge-offs	(518)	(186)	(19)
Recoveries:			
Real estate mortgage	247	20	111
Production and intermediate term	394	95	160
Agribusiness	44	49	3
Rural residential real estate	40	91	91
Total recoveries	725	255	365
Net (charge-offs) recoveries	207	69	346
Provision for (reversal) of allowance for loan losses	(207)	(142)	(318)
Balance at end of year	\$ 4,529	\$ 4,529	\$ 4,602
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.074%	0.025%	0.125%

The allowance for loan losses by loan type for the most recent three years is presented in the following table.

Allowance for Loan Losses by Type	December 31,		
	2019	2018	2017
	(dollars in thousands)		
Real estate mortgage	\$ 3,204	\$ 3,184	\$ 3,106
Production and intermediate-term	983	1,035	1,140
Agribusiness	192	166	224
Rural residential real estate	93	84	66
Other	57	60	66
Total loans	\$ 4,529	\$ 4,529	\$ 4,602

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	1.59%	1.57%	1.67%
Nonperforming loans	123.74%	98.48%	77.46%
Nonaccrual loans	247.08%	173.39%	115.95%

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

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2019 totaled \$6,414, a decrease of \$439 or 6.41 percent compared to net income of \$6,853 for 2018, which represented a decrease of \$1,188 or 14.77 percent compared to net income of \$8,041 for 2017. The decrease in net income for 2019 was due primarily to decreased noninterest income, partially offset by increased net interest income and reversal of the allowance for loans losses. The decrease in net income for 2018 was due to increased noninterest expense and decreased noninterest income and reversal of the allowance for loan losses, partially

offset by increased net interest income. Major components of the changes in net income for the past two years are outlined in the following table. Further discussion of each component is provided in the sections below.

Change in Net Income:	2019-2018	2018-2017
	<i>(dollars in thousands)</i>	
Net income (loss) prior year	\$ 6,853	\$ 8,041
Increase (decrease) in net income due to:		
Interest income	383	1,407
Interest expense	(361)	(1,092)
Net interest income	22	315
Provision for loan losses	65	(176)
Noninterest income	(509)	(64)
Noninterest expense	(17)	(1,263)
Provision for income taxes	-	-
Total changes in income	(439)	(1,188)
Net income (loss)	\$ 6,414	\$ 6,853

Net Interest Income

Net interest income (before provision for or reversal of allowance for loan loss) for the year ended December 31, 2019 totaled \$8,851, an increase of \$22 or 0.25 percent compared to net interest income of \$8,829 for 2018, which represented an increase of \$315 or 3.70 percent compared to net interest income of \$8,514 for 2017. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt.

Net interest income is impacted by changes to interest income and interest expense. Interest income for the year ended December 31, 2019 increased due to higher interest rates on loans, partially offset by lower average net accruing loans outstanding and decreased interest income recognized on nonaccrual loans. Interest expense increased for 2019 due to higher interest rates, partially offset by lower average notes payable to AgFirst. Interest income for 2018 increased due to higher interest rates on loans, higher average net accruing loans outstanding, and increased interest income recognized on nonaccrual loans. Interest expense increased for 2018 due to higher interest rates and higher average notes payable to AgFirst.

The effects of changes in average volume and interest rates on net interest income are presented in the following table:

Change in Net Interest Income:			
	Volume*	Rate	Total
	<i>(dollars in thousands)</i>		
12/31/19 - 12/31/18			
Interest income	\$ (120)	\$ 503	\$ 383
Interest expense	(125)	486	361
Change in net interest income	<u>\$ 5</u>	<u>\$ 17</u>	<u>\$ 22</u>
12/31/18 - 12/31/17			
Interest income	\$ 270	\$ 1,137	\$ 1,407
Interest expense	98	994	1,092
Change in net interest income	<u>\$ 172</u>	<u>\$ 143</u>	<u>\$ 315</u>

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

Noninterest Income

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

Noninterest Income	For the Year Ended			Percentage	
	December 31,			Increase/(Decrease)	
	2019	2018	2017	2019/ 2018	2018/ 2017
	<i>(dollars in thousands)</i>				
Loan fees	\$ 53	\$ 57	\$ 72	(7.02)%	(20.83)%
Patronage refunds from other Farm Credit Institutions	3,030	3,494	3,708	(13.28)	(5.77)
Other noninterest income	413	454	289	(9.03)	57.09
Total noninterest income	<u>\$ 3,496</u>	<u>\$ 4,005</u>	<u>\$ 4,069</u>	<u>(12.71)%</u>	<u>(1.57)%</u>

Noninterest income for the year ended December 31, 2019 totaled \$3,496, a decrease of \$509 or 12.71 percent compared to \$4,005 in 2018, which represented a decrease of \$64 or 1.57 percent compared to noninterest income of \$4,069 in 2017. The decrease in noninterest income for 2019 was due to decreases in patronage refunds, loan fees, and insurance fund refunds, partially offset by an increase in gains on sales of rural home loans and other noninterest income. The decrease in noninterest income for 2018 was due to decreases in patronage refunds,

loan fees and gains on sales of rural home loans, partially offset by gains on other transactions, insurance fund refunds, and other noninterest income. Special patronage refunds from AgFirst totaled \$1,142 in 2019, \$1,644 in 2018, and \$1,876 in 2017. These special patronage distributions are expected to decrease in future years.

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	\$ 4,144	\$ 4,014	\$ 3,730	3.24%	7.61%
Occupancy and equipment	327	290	270	12.76	7.41
Insurance Fund premiums	173	178	286	(2.81)	(37.76)
(Gains) losses on OPO	(14)	274	61	(105.11)	349.18
Other operating expenses	1,510	1,367	513	10.46	166.47
Total noninterest expense	\$ 6,140	\$ 6,123	\$ 4,860	0.28%	25.99%

Salaries and employee benefits increased by \$130 or 3.24 percent in 2019, reflecting an increase in salaries, partially offset by decreases in incentives and employee benefits. Occupancy and equipment expense increased by \$37 or 12.76 percent, primarily reflecting increases in maintenance, repair and utility expenses. Insurance fund premiums decreased by \$5 or 2.81 percent due to lower average notes payable balances. Losses on OPO decreased by \$288 or 105.11 percent. Other operating expenses increased by \$143 or 10.46 percent. A one-time accounting change related to postretirement benefits reduced 2017 other operating expenses by \$722. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

Income Taxes

The Association recorded \$0 income tax provision or benefit for the year ended December 31, 2019, compared to \$0 for 2018 and \$0 for 2017.

Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/19	For the 12 Months Ended 12/31/18	For the 12 Months Ended 12/31/17
Return on Average Assets	2.26%	2.37%	2.83%
Return on Average Members' Equity	7.47%	8.00%	9.45%
Net Interest Income as a Percentage of Average Earning Assets	3.16%	3.13%	3.07%
Net (Charge-offs) Recoveries to Average Loans	0.074%	0.025%	0.125%

The return on average assets and return on average members' equity decreased for the year ended December 31, 2019 due primarily to the changes in net income described above. Net interest income as a percentage of average earning assets increased in 2019 due to an increase in earnings provided by the loanable funds credit, partially offset by a decrease in net interest spread. Net recoveries to average loans increased in

2019 due to net recoveries of \$207 in 2019 compared to net recoveries of \$69 in 2018.

The return on average assets and average members' equity decreased for the year ended December 31, 2018 due primarily to the changes in net income described above. Net interest income as a percentage of average earning assets increased in 2018 due to increases in nonaccrual interest income and earnings provided by the loanable funds credit, partially offset by a decrease in net interest spread. Net recoveries to average loans decreased in 2018 due to net recoveries of \$69 in 2018 compared to net recoveries of \$346 in 2017.

Key factors in the growth of net income for future years will be quality loan growth, adequate net interest margins, operating expense control, and improvement in noninterest income. The Association's goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve a desirable rate of return for members. To meet this goal, the Association must attract and maintain high quality loan volume priced at competitive rates and manage credit risk across the entire portfolio, while efficiently meeting the credit needs of 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 the 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."

The total notes payable to the Bank at December 31, 2019 were \$200,279 compared to \$204,857 at December 31, 2018 and \$193,164 at December 31, 2017. The 2019 decrease of \$4,578

or 2.23 percent was due primarily to a decrease in net loans. The 2018 increase of \$11,693 or 6.05 percent was due primarily to an increase in net loans.

The average volume of notes payable to the Bank was \$194,747, \$198,755 and \$195,017 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 with the Bank.

The Association had no lines of credit outstanding with third parties as of December 31, 2019.

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control interest rate risk associated with the loan portfolio.

The Association's net interest income as a percentage of average earning assets increased to 3.16 percent for the year ended December 31, 2019 from 3.13 percent for the year ended December 31, 2018. The increase reflected increased earnings on loanable funds in 2019.

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 require additional capital contributions from 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.

The Association has an agreement with the Bank whereby the Bank may provide certain fiscal, personnel, accounting, marketing, communication, public relations, information management, computer and certain other services as requested by the Association. Specific services currently provided by the Bank to the Association, in which each service provided would constitute a material interdependent relationship, include information management, computer services/hosting, payroll processing and related payroll tax services.

CAPITAL RESOURCES

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

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

In 2019, total members' equity increased \$169 or 0.20 percent to \$83,975 at December 31, 2019. In 2018, total members' equity increased \$331 or 0.40 percent to \$83,806 at December 31, 2018. The increases for 2019 and 2018 were due to net income retained in excess of distributions to members.

Total capital stock and participation certificates were \$1,132 on December 31, 2019, compared to \$1,050 on December 31, 2018 and \$951 on December 31, 2017. The changes are reflective of the stock and participation certificate requirements as existing loans are repaid and new loans are made.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios.

Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized

approach that the federal banking regulatory agencies have adopted. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital and total capital risk-based capital ratios. The new

regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio remains in effect.

The following sets forth the regulatory capital ratios which were effective January 1, 2017 and the Association's capital ratios as of December 31, 2019, 2018 and 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%	28.20%	27.07%	27.91%
Tier 1 Capital	6.0%	1.875%	7.875%	28.20%	27.07%	27.91%
Total Capital	8.0%	1.875%	9.875%	29.46%	28.32%	29.16%
Permanent Capital	7.0%	0.0%	7.0%	28.56%	27.41%	28.26%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	29.20%	27.95%	28.81%
URE and UREE Leverage	1.5%	0.0%	1.5%	28.32%	25.90%	25.32%

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

If 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%	28.21%	28.26%	28.77%	26.26%	22.79%
Total Surplus Ratio	7.00%	27.90%	27.98%	28.46%	25.97%	22.48%
Core Surplus Ratio	3.50%	27.90%	26.95%	26.26%	24.57%	21.60%

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 consideration of these capital needs, 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 patronage distributions. The Association declared patronage distributions of \$3.25 million in 2019. Patronage distributions of \$3.0 million were declared in 2018 and \$4.0 million in 2017.

YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS PROGRAM

The Association's mission includes providing sound and constructive credit to Young, Beginning and Small (YBS) farmers and ranchers. The Board of Directors and management are responsible to ensure the Association is making appropriate

efforts to implement an effective YBS program. The Board of Directors approves YBS policies, as well as the annual business plan, which outline strategies to accomplish the YBS mission and goals, and measure the program's performance. As part of its YBS program, the Association also seeks to provide financing to underserved commodities and local food hubs within its territory, many of which are operated by YBS farmers and ranchers.

Definitions

Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who is 35 years of age or less as of the date the loan is originally made.

Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products whose experience in farming or ranching as of the date the loan is originally made is 10 years or less.

Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than \$250 thousand in annual gross sales of agricultural or aquatic products as of the date the loan is originally made.

YBS Program Strategies

The Association's YBS Farmer and Rancher Program complies with statutory and regulatory requirements which include program goals for quantitative measurements of the number

and volume of YBS loans and strategies the Association will employ to meet program objectives.

The Association’s YBS Farmer and Rancher Policy provides for loans in this segment to be underwritten according to normal commodity-based standards. Since these groups may have weaker credit factors, consideration has been given in regard to certain financial benchmarks traditionally weaker for the YBS segment. The Association’s policy provides pricing and fee concessions for production-oriented YBS borrowers. Association staff works with otherwise qualified YBS applicants to offset weaknesses through additional obligors, additional pledges of collateral, or through obtaining FSA loan guarantees. The Association is an approved FSA lender. The Association’s Board of Directors and management continue to evaluate the YBS Farmer and Rancher Policy to determine if additional lending inducements can be added in a manner still providing for safe and constructive financing.

In 2019, the Association continued to place emphasis on “hands-on” involvement in agricultural events and affiliations in our chartered territory with a tie to Young, Beginning, and Small farmers and ranchers. The Association actively participated in agricultural events through sponsorships and speaking engagements as exhibitors, volunteers, and through staff attendance. The Association worked both independently and in cooperation with agriculturally focused affiliates and educational systems in the territory. Association members can expect this level of participation to continue throughout 2020.

In complementary initiatives, the YBS Advisory Committee continued to provide input to the Association’s Board of Directors regarding future YBS policy development and program planning. The YBS Advisory Committee will continue meeting in 2020. The Association’s AgVocator Scholarship program awards six \$1,500 scholarships to high school seniors and college students residing in Northwest Florida. The scholarship program functions in cooperation with agriculturally affiliated colleges, 4-H, FFA, and other community organizations.

2020 strategies for meeting program objectives include:

- Continue to periodically evaluate the effectiveness of the YBS Policy and Program and provide consideration for YBS Advisory Committee input into the policy and program.
- Host or co-host educational seminars for YBS farmers and ranchers within the territory.
- Participation in YBS events to teach skills important to agriculture and promote Farm Credit products and services.
- YBS Volunteer Program to encourage non-lending staff participation in events educating about and/or promoting agriculture.

YBS Program Quantitative Goals

In 2019, the Association continued to market and originate loans to YBS farmers and ranchers. Because new loans being originated continue to be smaller than loans being liquidated, the Association projected there would be an approximate 3 percent decrease in loan volume classified in each of the Young, Beginning and Small lending categories. In 2019, the Association increased both the number and volume of loans to

all categories over the prior year-end with the exception of a decrease in Small farmer loan volume. For 2020, the Association projects an increase in the number of loans to all categories, a decrease in loan volume for loans classified Young, and an increase in loan volume for loans classified Beginning and Small.

The following charts show by YBS category:

- Changes in number and volume of YBS loans during 2019
- Number and volume of YBS loans as of December 31, 2019
- 2020 quantitative YBS goals

Changes in YBS Categories during 2019:

	Increase/(Decrease) # Loans	Increase/(Decrease) Loan Volume <i>(dollars in thousands)</i>
Young	35	\$ 2,807
Beginning	75	\$ 5,203
Small	122	\$ (7,294)

Association Number and Volume of YBS Loans as of December 31, 2019:

	# of YBS Loans	Volume YBS Loans <i>(dollars in thousands)</i>
Young	206	\$ 24,661
Beginning	677	\$ 86,528
Small	1,067	\$ 124,056

2020 Quantitative Goals for YBS:

	# of YBS Loans	Volume YBS Loans <i>(dollars in thousands)</i>
Young	201	\$ 23,000
Beginning	800	\$ 91,000
Small	1,267	\$ 131,000

For purposes of the above tables, a loan could be included in more than one of the categories depending on the characteristics of the underlying borrower.

Association Comparison to YBS Territorial Demographics

Association Market Share as of December 31, 2019:

	2012 Ag Census	Association Loans “In Territory”	Market Share Percentage
Young	253	196	77.47%
Beginning	1,837	645	35.11%
Small	7,148	1,021	14.28%

The 2012 USDA Ag Census data has been used as a benchmark to measure penetration of the Association’s YBS Program efforts. For purposes of the census, a farm is any place from which \$1,000 or more of agricultural products were produced or sold, or normally would have been sold during the census year. This is similar to how the Association defines an agricultural borrower. The Association’s designation as being “in territory” is tied to the borrower having a farm operation headquartered or some agricultural involvement in one of the

eighteen counties that comprises the Association's chartered territory. For purposes of the comparison above, the Ag Census data and the Association's numbers are not determined using exactly the same methodology. Market share percentages may be distorted due to a farm (that would be counted once in the census) potentially having more than one loan with the Association.

YBS Program Summary

In summary, the Association is committed to implementing an effective program, helping YBS farmers and ranchers receive sound and constructive credit, and working diligently to achieve our YBS mission of: *"Helping Rural America Grow by supporting diversity and inclusion in agriculture"*.

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.

LIBOR TRANSITION

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

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

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

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

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

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

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

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

<i>(dollars in millions)</i>	Due in 2020	Due in 2021	Due in 2022 and Thereafter
Loans	\$ 2,160	\$ 4,448	\$ 17,019
Total Assets	<u>\$ 2,160</u>	<u>\$ 4,448</u>	<u>\$ 17,019</u>
Note Payable to AgFirst Farm Credit Bank	\$ 1,511	\$ 3,113	\$ 11,911
Total Liabilities	<u>\$ 1,511</u>	<u>\$ 3,113</u>	<u>\$ 11,911</u>

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> • Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted. 	<ul style="list-style-type: none"> • Implementation efforts began with establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2023.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations*, of the Consolidated Financial Statements included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this Annual Report.

The Association wholly owns one unincorporated business entity (UBE), as follows: East Wing Ranch, LLC is a Florida limited liability company which was organized for the purpose of holding net acquired property owned by the Association.

Description of Property

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

Location	Description	Form of Ownership
5052 Hwy. 90 East Marianna	Administrative/ Branch	Owned
5336 Stewart Street, SE Milton	Branch	Owned
925 W. Washington Monticello	Branch	Owned
3323 Thomasville Road Tallahassee	Branch	Owned
3927 Highway 4, Suite 103 Jay	Branch	Leased

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 and Note 14, *Regulatory Enforcement Matters*, 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 executive officers of the Association:

Senior Officers	Position & Other Business Interests
Ricky Bitner	<i>President & Chief Executive Officer</i> since January 1, 2009. Mr. Bitner serves as a director of Florida’s Great Northwest, a regional economic development organization.
John Mottice	<i>Chief Financial Officer</i> since April 2011 thru March 2014. Mr. Mottice serves as President and Director of Centre Pointe Office Condominium Association, Inc., an owners’ association for an office condominium project.
Chuck Thiele	<i>Chief Credit Officer</i> since March 2013. <i>Credit Administrator</i> from January 2010 thru February 2013.
DeAndrea Barber	<i>Chief Operations Officer</i> since March 2013. <i>Policy and Operations Manager</i> from January 2010 thru February 2013. <i>Loan Operations Manager</i> from December 2005 thru December 2009.
Dorislynn White-Padgett	<i>Manager of Human Capital</i> since March 2014. <i>Senior Human Resource Administrator</i> from January 2012 thru February 2014. <i>Regional Loan Operations Supervisor</i> from June 2007 thru December 2012.
Jesse Dumas	<i>Regional Lending Manager (Eastern Region)</i> since August 2017. <i>Regional Lending Manager for Tallahassee and Monticello</i> from April 2011 thru July 2017.
Michael Digmon	<i>Regional Lending Manager (Western Region)</i> since August 2017. <i>Principal Loan Officer</i> from April 2013 thru July 2017.

The business experience for the past five years for executive officers is with the Farm Credit System.

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	Deferred Comp.	Change in Pension Value*	Perq./ Other**	Total
Ricky Bitner	2019	\$ 265,010	\$ 31,801	\$ 2,107	\$ -	\$ 8,552	\$ 307,470
Ricky Bitner	2018	\$ 256,001	\$ 38,400	\$ 973	\$ -	\$ 7,573	\$ 302,947
Ricky Bitner	2017	\$ 244,691	\$ 29,815	\$ 1,110	\$ -	\$ 9,287	\$ 284,903
6	2019	\$ 697,949	\$ 87,343	\$ -	\$ 198,386	\$ 14,652	\$ 998,330
7	2018	\$ 772,533	\$ 157,386	\$ -	\$ (9,344)	\$ 19,985	\$ 940,560
6	2017	\$ 662,146	\$ 91,670	\$ -	\$ 99,579	\$ 14,957	\$ 868,352

* The changes in pension values as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion under Retirement and Deferred Compensation Plans below and in Note 9, Employee Benefit Plans, of the Consolidated Financial Statements included in this Annual Report.

** The Perquisites/Other amounts disclosed in the above table includes group life insurance premiums, automobile compensation, and spousal travel.

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.

On February 4, 2015, the FCA Board approved the final rule, “Disclosure to Shareholders; Pension Benefit Disclosures.” The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a “highly compensated employee” solely because of payments related to or change(s) in value of the employee’s qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. System banks and associations were required to comply with the rule for compensation reported in the table for the fiscal year ending 2015 and subsequent years.

In addition to base salary, all employees have the ability to earn additional compensation under an incentive plan. The Association incentive plan is designed to motivate employees to complete actions needed to achieve business plan goals during the fiscal year.

The incentive plan includes three components – the primary incentive plan (referred to hereafter as the “General Incentive Plan”) that is available for all qualifying staff members; a component available to agribusiness and capital markets loan officers to incent business development activity (referred to hereafter as the “Agribusiness/Capital Markets Plan”); and a component available to home lending loan officers to incent business development activity (referred to hereafter as the “Home Lending Plan”).

The General Incentive Plan is measured annually and is based on one performance cycle from January through December. To participate in the General Incentive Plan an employee must not have terminated employment prior to nor be on probation at the end of the performance cycle, and the employee must have satisfactory performance as measured by their most recent performance appraisal.

The General Incentive Plan is measured utilizing credit quality, delinquency rate, loan volume and return on assets. Under the plan, points are awarded for meeting various benchmarks such as the percentage of loans that carry a credit quality grade of

“Acceptable”, the percentage of past due loans to accruing loan volume, the amount of loan volume, and the return on assets ratio. The performance against the established benchmarks translates to a certain number of awarded points. Based upon how many points were achieved for the performance cycle, qualifying staff members are awarded a percentage of their total compensation. The percentage awarded is based upon the total points earned during the performance cycle as well as the employee’s salary grade.

Under the General Incentive Plan, the percentage of compensation that could be awarded ranges from 3 percent to 15 percent of the employee’s total compensation during the performance cycle. Senior officers do not specifically earn higher awards under the plan by virtue of their position; however, generally speaking, a senior officer would be expected to have a higher salary grade based upon their increased level of responsibility and accountability for Association performance. For 2019, awards under the General Incentive Plan ranged from 4 percent to 12 percent for the performance cycle (January through December). Payment to employees covered under this plan is made as soon as practicable following the performance cycle.

Under the Agribusiness/Capital Markets Plan, loan officers earn points for developing new business by originating loans to new and existing borrowers, as well as by increasing portfolio growth. There are two performance cycles, January through June and July through December, for measuring new business development. There is one performance cycle, January through December, for measuring portfolio growth. Eligible new loans must satisfy established standards, including meeting regulatory requirements for borrower eligibility, receiving a satisfactory loan review grade to show acceptable credit administration standards, and maintaining an “Acceptable” credit classification during the plan year. Loan officers are awarded points based on their performance against a pre-determined business development quota and growth benchmarks for their individual loan portfolios. Loan officers are eligible to earn an incentive award of up to 36 percent of their total compensation. For 2019, incentive awards for developing new business development ranged from 0 percent to 24 percent for the first performance cycle and 0 percent to 30 percent for the second performance cycle. For 2019, incentive awards for measuring portfolio growth ranged from 0 percent to 6 percent. If a loan officer failed to achieve a certain percentage of their predetermined quota and failed to meet

their portfolio growth benchmarks, no points were awarded and that loan officer received no incentive under the plan. The Association’s Regional Lending Managers, which are senior officers, are eligible to participate in the Agribusiness/Capital Markets Plan based upon the cumulative results of loan officers under their direction. Payment to employees covered under this plan is made as soon as practicable following each performance cycle.

Under the Home Lending Plan, loan officers earn points for developing new business by originating loans to new and existing borrowers. The plan includes loans originated and held in the Association’s portfolio and loans originated and sold on the secondary mortgage market. There are two performance cycles, January through June and July through December. Eligible secondary mortgage market loans must satisfy established standards. Portfolio loans must meet regulatory requirements for borrower eligibility, receive a satisfactory loan review grade to show acceptable credit administration standards, and maintain an “Acceptable” credit classification during the plan year. Loan officers are awarded points based on their performance against a pre-determined business development quota and are eligible to earn an incentive award of up to 12 percent of their total compensation. For 2019, incentive awards ranged from 0 percent to 6 percent for the first performance cycle and 0 percent to 12 percent for the second performance cycle. If a loan officer failed to achieve a certain percentage of their predetermined quota, no points were awarded and that loan officer received no incentive under the plan. The Association’s Regional Lending Managers, which are senior officers, are eligible to participate in the Home Lending Plan based upon the cumulative results of loan officers under their direction. Payment to employees covered under this plan is made as soon as practicable following each performance cycle.

During 2019, under the General Incentive Plan and related components as described above, the CEO earned \$31,801 and

senior officers earned \$87,343. Those amounts are presented as a bonus in the table above. Bonuses are shown in the year earned, which may be different than the year of payment.

In addition to the Association incentive plan(s) described above, mortgage loan officers are eligible for compensation under a commission plan based on loan volume production (referred to hereafter as the “MLO Compensation Plan”). Commissions are calculated at rates ranging from 0.25% to 1.00% of monthly loans closed. Payment to employees covered under this plan is made monthly. For 2019, commissions paid ranged from .25% to .50%. Mortgage loan officers are not eligible under the General Incentive Plan and related components as described above. The CEO and senior officers are not eligible for the MLO Compensation Plan.

Senior officers and other Association employees are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking, registration fees and other expenses associated with travel on official business. Some senior officers and other Association employees are assigned an automobile to be utilized in the performance of Association duties. Personal usage of the assigned automobile is allowed on a limited basis. Any personal usage is considered a benefit to the officer or employee and is included as income to the individual in accordance with IRS regulations. Total benefit to senior officers for the personal usage of Association automobiles during 2019 was \$14,357.

A copy of the Association’s expense and incentive plan policies is available to shareholders upon request. Disclosure of information on the total compensation earned in 2019 by any senior officer, or by any individual included in the total, is available to shareholders 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
CEO:					
Ricky Bitner	2019	AgFirst Retirement Plan		\$ -	\$ -
Ricky Bitner	2019	Supplemental Executive Retirement Plan		-	-
				<u>\$ -</u>	<u>\$ -</u>
Senior Officers and Highly Compensated Employees:					
6 employees, excluding CEO	2019	AgFirst Retirement Plan	24.58*	\$ 782,354	\$ -
				<u>\$ 782,354</u>	<u>\$ -</u>

*Represents the average years of credited service for the group. Only one employee participates in the AgFirst Retirement Plan.

Retirement and Deferred Compensation Plans

The Association’s compensation programs include retirement and deferred compensation plans designed to provide income following an employee’s retirement. Although retirement benefits are paid following an employee’s retirement, the benefits are earned while employed. The objective of the Association is to offer benefit plans that are market competitive and aligned with the Association’s strategic objectives. The

plans are designed to enable the Association to proactively attract, retain, recognize and reward a highly skilled, motivated and diverse staff that supports the Association’s mission and that allows the Association to align the human capital needs with the Association’s overall strategic plan.

Employees participate in one of two qualified defined benefit retirement plans. Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan.

Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Upon retirement, annual payout is equal to 2 percent of the highest three years average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees hired on or after January 1, 2003 participate in the AgFirst Farm Credit Cash Balance Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 with a minimum of 5 years of credited service or at age 55 with a minimum of 10 years of credited service. Upon retirement, payout is determined using a percent of eligible compensation formula, subject to the Internal Revenue Code limitation on compensation, and regular interest credits. For purposes of determining the payout, "compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security. The Cash Balance Plan was terminated effective as of December 31, 2018. Beginning on January 1, 2015, for participants in the plan and eligible employees hired on or after November 4, 2014, additional employer contributions are made to the 401(k) Plan equal to 3.00 percent of the participants' eligible compensation.

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.

Employees participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan which has an employer matching contribution determined by the employee's date of hire. Employees hired prior to January 1, 2003 receive a maximum employer matching contribution equal to \$0.50 for each \$1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003 receive a maximum employer matching contribution equal to \$1.00 for each \$1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Beginning in 2015, contributions include additional amounts related to the discontinuation of the Cash Balance Plan as discussed above.

The CEO, Mr. Bitner, participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows certain key employees to defer compensation and which restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions to be made by the Association. The Association accrued a contribution of \$2,107 to this plan for Mr. Bitner during 2019. No other employees participated in this plan during 2019.

Please see Note 9, *Employee Benefit Plans*, for further information on benefit plans.

Directors

The following chart details the directors serving in 2019, their current term of service and total cash compensation paid:

Name of Director	Current Term	Total Compensation
Cindy Eade, <i>Chairperson</i>	2017-2020	\$ 8,850
D. Mark Fletcher, <i>Vice Chairman, Outside Director</i>	2017-2020	11,400
Melvin Adams	2018-2021	5,950
Damon Boutwell	2019-2022	11,650
James R. Dean, <i>Outside Director</i>	2017-2020	7,350
Joseph M. Diamond	2018-2021	10,350
Desmond Dodd	2016-2019	8,700
Ernest C. Fulford	2019-2022	1,000
Glen Strange	2017-2020	9,150
Richard Terry	2017-2020	14,500
Michael Thompson	2019-2022	10,600
R. Douglas Walker	2018-2021	9,100
Total		\$ 108,600

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years.

Cindy S. Eade, Chairperson, has been in dairy production for over twenty years and this has been her principal occupation for the past five years. She is the co-owner and manager of Cindale Farms LLC and Southern Craft Creamery. She is past Chairperson of the board of directors of the Jackson County Chamber of Commerce (business and community development) and a past appointed member/secretary of the Florida Soil and Water Conservation Council. Ms. Eade is a member of Southeastern Milk, Inc. (a milk marketing cooperative). Ms. Eade serves as the Chairperson of the Board of Farm Credit of Northwest Florida and as Chairperson of the Executive Committee. She is Farm Credit of Northwest Florida's appointed representative to the AgFirst Nominating Committee.

D. Mark Fletcher, CPA, Vice Chairman, is an outside director. Mr. Fletcher has twenty-eight years of experience in public accounting and is the senior partner in charge of the Tallahassee, Florida office of Lanigan and Associates, P.C. This has been his principal occupation for the past five years. Mr. Fletcher serves as Chairman of the Audit Committee and is designated as the Association's financial expert.

Melvin T. Adams owns and operates a cattle operation and row crop farm in Jackson and Holmes Counties. This has been his principal occupation for the past five years. He is co-owner of 2WO A Farms LLC and Gum Creek Cattle LLC, both farming and ranching entities. Mr. Adams is on the board of directors of SOWEGA Gin (a cotton gin).

Damon Boutwell is the General Manager of the Pace Water System, Inc. This has been his principal occupation for the past five years. He also served as Assistant Manager and previously as Utility Engineer from 2002 until 2012. Mr. Boutwell owns and manages a 225 acre farm consisting of a 50 brood cow cattle operation on 95 acres of pastureland, 90 acres of timberland and wildlife habitat, and 40 acres of hay that is leased to a hay contractor/producer. He is also the Managing Partner for some 600 acres of family trust lands. He currently serves on the Executive Board of Leadership Santa Rosa and

Leadership Santa Rosa Alumni and is a past member of the advisory board of United Bank.

James R. Dean is an outside director and has over twenty years of experience in the field of Economic and Community Development. He is currently the City Manager of Marianna, Florida. This has been his principal occupation for the past five years. He has served in that position since March of 2008. From July 2006 until March 2008 he was a District Director with the USDA, Rural Development. He is a former employee of Farm Credit of Northwest Florida. Mr. Dean serves as the Chairman of the Compensation Committee. He currently serves as a member of the Board of Trustees for Chipola College.

Joseph M. "Mickey" Diamond is the owner/operator of a row crop farming operation located near Jay, Florida. He has farmed for 34 years, and farming has been his principal occupation for the past five years. His farm operation consists of 1,600 acres of cotton and peanuts. He also provides custom farming applications for other local farmers. Mr. Diamond serves on the boards of the Escambia River Electric Co-op (rural electric service), the Santa Rosa County Farm Bureau (agricultural federation), Blackwater Soil and Water Conservation District (conservation), Autauga Cotton Association (cotton marketing), and the American Cotton Council (cotton promotion). He also serves on the Advisory Committees of the Santa Rosa County Extension Service and the University of Florida Research Station at Jay.

Desmond Dodd is a builder of custom homes and is the owner/operator of Dodd Design & Construction, Inc. in Tallahassee, Florida. He is also the President of Dodd Carpentry Services, Inc. This has been his principal occupation for the past five years. His current farm operation consists of an 80 brood cow beef cattle herd. Mr. Dodd is on the board of the Gadsden County Cattlemen's Association. Mr. Dodd's term ended in November 2019 and he is no longer serving on the Board of Directors of Farm Credit of Northwest Florida.

Ernest C. Fulford is the owner/operator of a row crop farming operation located near Monticello, Florida. He has farmed in the Monticello area for 32 years, and farming has been his principal occupation for the past five years. His farming operation consists of 1,200 acres of cotton, peanuts, and green peanuts. Mr. Fulford is a member of the Board of the Jefferson County Farm Bureau where he currently serves as president. He is also a member of the Jefferson County Farm Services Agency County Committee, and he serves on the Peanut/Cotton Advisory Committee of Florida Farm Bureau. He is a partner in Boston Peanut Company located in Boston, Georgia. Mr. Fulford is a member of the Florida Peanut Producers Association, the Florida Peanut Federation and Florida Farm Bureau.

Glen Strange is the owner/operator of Panhandle Growers, Inc., a 300 acre nursery operation serving landscapers and developers in southeastern states. This has been his principal occupation for the past five years. He is also the owner of North Florida Palms, a 100 acre family-operated palm tree farm, and prior owner of Coldwater Transport, a trucking company that delivered landscaping materials for Panhandle Growers, Inc. Mr. Strange is a member of the Florida Nursery, Growers and Landscape Association and the Alabama Nursery and Landscape Association.

Richard Terry owns and operates a row crop farm in Madison County. This has been his principal occupation for the past five years. He serves on the board for Madison County Farm Bureau (agricultural services). He previously served on the board of the Florida and Madison County Tobacco Warehouse (tobacco warehouse) and on the board of Farmers' Co-op, Inc. (farm and supply cooperative). Mr. Terry is past Chairman of the Board of Farm Credit of Northwest Florida.

Michael Thompson currently serves as President of Thompson Brothers Angus Farm, Inc. This has been his principal occupation for the past five years. His farm operation includes 2,000 acres where he produces registered Angus cattle breeding stock as well as 1,000 acres of hay and 900 acres of soybeans, peanuts and oats. He also provides custom farm-made feed to the livestock industry. Mr. Thompson serves as a director on the board of the Jackson County Farm Bureau.

R. Douglas Walker has been a self-employed farmer and President of Walker and Sons Farms, Inc. for over thirty years. This has been his principal occupation for the past five years. His farm operation consists of two family-owned dairy farms. The operation also produces corn, oats and rye grass for feed. He also has a pecan grove and a beef cattle cow/calf operation. Mr. Walker is also the manager for Walker and Sons Land Company and serves on the board of Southeast Milk, Inc. (dairy cooperative). Mr. Walker is Chairman of the Loan Committee.

Subject to approval by the Board, the Association currently may allow directors \$500 honoraria for attendance at meetings or special assignments with the exception of the Chairperson, who is allowed \$600 honoraria for board meetings. Total compensation paid to directors as a group was \$108,600 for 2019. Directors are paid \$100 for an Association related telephone conference. No director received more than \$5,000 in non-cash compensation during the year.

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

DIRECTOR	Regular Board Meeting	
	Days Served	Compensation
Cindy Eade, <i>Chairperson</i>	10	\$ 5,100
D. Mark Fletcher, <i>Vice Chairman</i>	11	5,500
<i>Outside Director</i>		
Melvin Adams	10	5,000
Damon Boutwell	11	5,500
James R. Dean, <i>Outside Director</i>	9	4,500
Joseph M. Diamond	11	5,500
Desmond Dodd	10	5,000
Ernest C. Fulford	1	500
Glen Strange	11	5,500
Richard Terry	11	6,500
Michael Thompson	11	5,500
R. Douglas Walker	11	5,500
Total		\$ 59,600

DIRECTOR	Other Official Activities	
	Days Served	Compensation
Cindy Eade, <i>Chairperson</i>	20	\$ 3,750
D. Mark Fletcher, <i>Vice Chairman, Outside Director</i>	26	5,900
Melvin Adams	5	950
Damon Boutwell	26	6,150
James R. Dean, <i>Outside Director</i>	10	2,850
Joseph M. Diamond	20	4,850
Desmond Dodd	17	3,700
Ernest C. Fulford	1	500
Glen Strange	12	3,650
Richard Terry	30	8,000
Michael Thompson	21	5,100
R. Douglas Walker	18	3,600
Total		\$ 49,000

The following tables report the compensation that directors received for serving on committees. These amounts are included in the table above reporting Other Official Activities.

DIRECTOR	Loan Committee	
	Compensation	
R. Douglas Walker	\$	1,850
Joseph M. Diamond		1,850
Desmond Dodd		1,700
Richard Terry		1,850
Michael Thompson		1,850
Total	\$	9,100

DIRECTOR	Compensation Committee	
	Compensation	
James R. Dean	\$	600
Melvin Adams		450
Glen Strange		600
Total	\$	1,650

DIRECTOR	Audit Committee	
	Compensation	
D. Mark Fletcher	\$	2,150
Damon Boutwell		2,150
Cindy Eade		2,000
Glen Strange		300
Richard Terry		400
Total	\$	7,000

Name of Director	Committee Assignments
Cindy Eade, <i>Chairperson</i>	Executive
D. Mark Fletcher, <i>Vice Chairman, Outside Director</i>	Audit, Executive
Melvin Adams	Compensation
Damon Boutwell	Audit
James R. Dean, <i>Outside Director</i>	Compensation, Executive
Joseph M. Diamond	Loan
Desmond Dodd	Loan
Ernest Fulford	Loan
Glen Strange	Compensation
Richard Terry	Audit
Michael Thompson	Loan
R. Douglas Walker	Loan, Executive

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 \$48,896 for 2019, \$50,688 for 2018, and \$43,851 for 2017.

Transactions with Senior Officers and Directors

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

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	\$ 61,416
Total	\$ 61,416

Audit fees were for the annual audit of the consolidated financial statements.

Consolidated Financial Statements

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

Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-850-526-4910 or writing John Mottice, Chief Financial Officer, Farm Credit of Northwest Florida, P.O. Box 7000, Marianna, Florida 32447, or accessing the website, www.farmcredit-fl.com. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report 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 shareholders.

Shareholder Investment

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of Northwest Florida, ACA (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

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

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

The Committee discussed with PwC its independence from the Association. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

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



D. Mark Fletcher, CPA
Chairman of the Audit Committee

Members of Audit Committee

Damon Boutwell
Richard Terry

March 12, 2020



Report of Independent Auditors

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 12, 2020

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31,		
	2019	2018	2017
Assets			
Loans	\$ 284,180	\$ 288,415	\$ 275,112
Allowance for loan losses	(4,529)	(4,529)	(4,602)
Net loans	<u>279,651</u>	283,886	270,510
Loans held for sale	614	488	151
Accrued interest receivable	2,719	2,734	2,277
Equity investments in other Farm Credit institutions	3,370	3,346	3,377
Premises and equipment, net	1,828	1,921	1,876
Other property owned	4	118	2,968
Accounts receivable	3,088	3,507	3,705
Other assets	115	140	113
Total assets	<u>\$ 291,389</u>	\$ 296,140	\$ 284,977
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 200,279	\$ 204,857	\$ 193,164
Accrued interest payable	571	604	467
Patronage refunds payable	4,523	4,807	6,238
Accounts payable	270	344	374
Other liabilities	1,771	1,722	1,259
Total liabilities	<u>207,414</u>	212,334	201,502
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	1,132	1,050	951
Retained earnings			
Allocated	37,244	40,321	43,942
Unallocated	45,599	42,435	38,582
Total members' equity	<u>83,975</u>	83,806	83,475
Total liabilities and members' equity	<u>\$ 291,389</u>	\$ 296,140	\$ 284,977

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
Interest Income			
Loans	\$ 15,438	\$ 15,055	\$ 13,648
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	6,568	6,209	5,127
Other	19	17	7
Total interest expense	6,587	6,226	5,134
Net interest income	8,851	8,829	8,514
Provision for (reversal of allowance for) loan losses	(207)	(142)	(318)
Net interest income after provision for (reversal of allowance for) loan losses	9,058	8,971	8,832
Noninterest Income			
Loan fees	53	57	72
Patronage refunds from other Farm Credit institutions	3,030	3,494	3,708
Gains (losses) on sales of rural home loans, net	303	270	285
Gains (losses) on sales of premises and equipment, net	—	—	(3)
Gains (losses) on other transactions	(7)	17	(13)
Insurance Fund refunds	56	137	—
Other noninterest income	61	30	20
Total noninterest income	3,496	4,005	4,069
Noninterest Expense			
Salaries and employee benefits	4,144	4,014	3,730
Occupancy and equipment	327	290	270
Insurance Fund premiums	173	178	286
(Gains) losses on other property owned, net	(14)	274	61
Other operating expenses	1,510	1,367	513
Total noninterest expense	6,140	6,123	4,860
Net income	6,414	6,853	8,041
Other comprehensive income	—	—	—
Comprehensive income	\$ 6,414	\$ 6,853	\$ 8,041

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

Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2016	\$ 884	\$ 47,644	\$ 34,541	\$ 83,069
Comprehensive income			8,041	8,041
Capital stock/participation certificates issued/(retired), net	67			67
Patronage distribution				
Cash			(4,000)	(4,000)
Retained earnings retired		(3,702)		(3,702)
Balance at December 31, 2017	\$ 951	\$ 43,942	\$ 38,582	\$ 83,475
Comprehensive income			6,853	6,853
Capital stock/participation certificates issued/(retired), net	99			99
Patronage distribution				
Cash			(3,000)	(3,000)
Retained earnings retired		(3,621)		(3,621)
Balance at December 31, 2018	\$ 1,050	\$ 40,321	\$ 42,435	\$ 83,806
Comprehensive income			6,414	6,414
Capital stock/participation certificates issued/(retired), net	82			82
Patronage distribution				
Cash			(3,250)	(3,250)
Retained earnings retired		(3,077)		(3,077)
Balance at December 31, 2019	\$ 1,132	\$ 37,244	\$ 45,599	\$ 83,975

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

Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 6,414	\$ 6,853	\$ 8,041
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	138	148	165
Amortization (accretion) of net deferred loan costs (fees)	25	(50)	(61)
Provision for (reversal of allowance for) loan losses	(207)	(142)	(318)
(Gains) losses on other property owned	(26)	229	8
(Gains) losses on sales of premises and equipment, net	—	—	3
(Gains) losses on sales of rural home loans, net	(303)	(270)	(285)
(Gains) losses on other transactions	7	(17)	13
Changes in operating assets and liabilities:			
Origination of loans held for sale	(12,256)	(10,572)	(10,482)
Proceeds from sales of loans held for sale, net	12,433	10,505	10,867
(Increase) decrease in accrued interest receivable	15	(457)	(325)
(Increase) decrease in accounts receivable	419	198	(136)
(Increase) decrease in other assets	25	(27)	628
Increase (decrease) in accrued interest payable	(33)	137	63
Increase (decrease) in accounts payable	(74)	(30)	(34)
Increase (decrease) in other liabilities	45	484	(1,197)
Total adjustments	208	136	(1,091)
Net cash provided by (used in) operating activities	6,622	6,989	6,950
Cash flows from investing activities:			
Net (increase) decrease in loans	3,826	(13,302)	2,607
(Increase) decrease in equity investments in other Farm Credit institutions	(24)	31	(41)
Purchases of premises and equipment	(45)	(193)	(34)
Proceeds from sales of other property owned	728	2,735	24
Net cash provided by (used in) investing activities	4,485	(10,729)	2,556
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(4,578)	11,693	(5,063)
Capital stock and participation certificates issued/(retired), net	82	99	67
Patronage refunds and dividends paid	(3,534)	(4,431)	(808)
Retained earnings retired	(3,077)	(3,621)	(3,702)
Net cash provided by (used in) financing activities	(11,107)	3,740	(9,506)
Net increase (decrease) in cash	—	—	—
Cash, beginning of period	—	—	—
Cash, end of period	\$ —	\$ —	\$ —
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	\$ —	\$ —	\$ 160
Receipt of property in settlement of loans	591	118	223
Estimated cash dividends or patronage distributions declared or payable	3,250	3,000	4,000
Supplemental information:			
Interest paid	\$ 6,620	\$ 6,089	\$ 5,071

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of Northwest Florida, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Bay, Calhoun, Escambia, Franklin, Gadsden, Gulf, Holmes, Jackson, Jefferson, Leon, Liberty, Madison, Okaloosa, Santa Rosa, Taylor, Wakulla, Walton, and Washington in the state of Florida.

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

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

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate and service short-, intermediate- and long-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 System wide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated

value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank 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 Comprehensive Income.

- E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized. 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 Comprehensive 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 a 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.

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

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

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

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

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

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

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

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

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

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity.

Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing.

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

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

Additional information may be found in Note 8.

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

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

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

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

Financial Instruments

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

Contracts with Customers

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

Gains and Losses from Nonfinancial Assets

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

N. **Leases:**

Lessee

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

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

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

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

Lessor

The Association 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 Comprehensive Income. Any initial direct costs are deferred and recognized as an expense over the lease term on the same basis as lease income. Any taxes assessed by a governmental authority are excluded from consideration as variable payments.

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

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

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

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

when a year-to-date loss exceeds the anticipated loss for the year.

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

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

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

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

In May 2019, the FASB issued ASU 2019-05 Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. The amendments in this Update provide entities with an option to irrevocably elect the fair value

option applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in that update. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

In April 2019, the FASB issued ASU 2019-04 Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825 Financial Instruments. The amendments in this Update clarify, correct, and improve various aspects of the guidance in the following Updates related to financial instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The items addressed generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in ASU 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of the amendments in this Update for determining when accrued interest receivables are deemed uncollectible and written off. For entities that have adopted the amendments in ASU 2017-12 as of the issuance date of this Update, the effective date is as of the beginning of the first annual period beginning after the issuance date of this Update. For those entities, early adoption is permitted, including adoption on any date on or after the issuance of this Update. The amendments in this Update related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of this Update as long as the entity has adopted all of the amendments in ASU 2016-01. The amendments in this Update should be applied on a modified-retrospective transition basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted all of the amendments in ASU 2016-01. Adoption of the guidance related to ASU 2016-01 and ASU 2017-12 is not expected to have an impact on the statements of financial condition or results of operations. Evaluation of any possible effects the ASU 2016-13 guidance may have on the statements of financial condition and results of operations is in progress.

In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs

incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The guidance will be adopted on a prospective basis in 2020 and is not expected to have a material impact on the statements of financial condition or results of operations.

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

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

impact on the statements of financial condition and results of operations.

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

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

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

Transition Information

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
- The package of practical expedients related to initial application of the guidance was elected, which allowed existing leases to be largely

accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.

- There will not be a material change to the timing of future expense recognition.
- Upon adoption, a cumulative-effect adjustment to equity of less than \$1 was recorded. In addition, a Right of Use Asset in the amount of \$6 and Lease Liability in the amount of \$6 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	\$ 200,755	\$ 202,015	\$ 185,083
Production and intermediate-term	62,040	66,787	68,978
Loans to cooperatives	786	1,463	555
Processing and marketing	7,280	5,184	9,307
Farm-related business	3,907	3,814	3,305
Communication	1,337	1,411	1,485
Power and water/waste disposal	1,205	1,450	1,487
Rural residential real estate	5,827	5,345	3,966
International	1,043	946	946
Total loans	<u>\$ 284,180</u>	<u>\$ 288,415</u>	<u>\$ 275,112</u>

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

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

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

	December 31, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 18,906	\$ 49,165	\$ —	\$ 393	\$ 195	\$ —	\$ 19,101	\$ 49,558
Production and intermediate-term	3,457	6,307	—	—	—	—	3,457	6,307
Loans to cooperatives	790	—	—	—	—	—	790	—
Processing and marketing	7,121	—	—	—	—	—	7,121	—
Farm-related business	264	—	—	—	—	—	264	—
Communication	1,340	—	—	—	—	—	1,340	—
Power and water/waste disposal	1,211	—	—	—	—	—	1,211	—
International	1,045	—	—	—	—	—	1,045	—
Total	\$ 34,134	\$ 55,472	\$ —	\$ 393	\$ 195	\$ —	\$ 34,329	\$ 55,865

	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	\$ 11,931	\$ 45,422	\$ —	\$ 563	\$ 207	\$ —	\$ 12,138	\$ 45,985
Production and intermediate-term	2,746	5,197	—	—	2,140	—	4,886	5,197
Loans to cooperatives	1,468	—	—	—	—	—	1,468	—
Processing and marketing	4,998	—	—	—	—	—	4,998	—
Communication	1,414	—	—	—	—	—	1,414	—
Power and water/waste disposal	1,454	—	—	—	—	—	1,454	—
International	947	—	—	—	—	—	947	—
Total	\$ 24,958	\$ 50,619	\$ —	\$ 563	\$ 2,347	\$ —	\$ 27,305	\$ 51,182

	December 31, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 6,992	\$ 30,234	\$ —	\$ 653	\$ 217	\$ —	\$ 7,209	\$ 30,887
Production and intermediate-term	4,674	10,346	—	—	2,250	1,165	6,924	11,511
Loans to cooperatives	557	—	—	—	—	—	557	—
Processing and marketing	9,103	—	—	—	—	—	9,103	—
Farm-related business	—	30	—	—	—	—	—	30
Communication	1,488	—	—	—	—	—	1,488	—
Power and water/waste disposal	1,491	—	—	—	—	—	1,491	—
International	947	—	—	—	—	—	947	—
Total	\$ 25,252	\$ 40,610	\$ —	\$ 653	\$ 2,467	\$ 1,165	\$ 27,719	\$ 42,428

A significant source of liquidity for the Association is the repayment 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	\$ 15,051	\$ 28,866	\$ 156,838	\$ 200,755
Production and intermediate-term	8,735	35,674	17,631	62,040
Loans to cooperatives	—	786	—	786
Processing and marketing	15	2,092	5,173	7,280
Farm-related business	31	3,181	695	3,907
Communication	—	1,337	—	1,337
Power and water/waste disposal	—	1,205	—	1,205
Rural residential real estate	117	168	5,542	5,827
International	—	98	945	1,043
Total loans	\$ 23,949	\$ 73,407	\$ 186,824	\$ 284,180
Percentage	8.43%	25.83%	65.74%	100.00%

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

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

	December 31,				December 31,		
	2019	2018	2017		2019	2018	2017
Real estate mortgage:				Communication:			
Acceptable	96.40%	96.68%	94.70%	Acceptable	100.00%	100.00%	100.00%
OAEM	1.58	1.44	2.96	OAEM	—	—	—
Substandard/doubtful/loss	2.02	1.88	2.34	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Production and intermediate-term:				Power and water/waste disposal:			
Acceptable	93.30%	91.24%	90.03%	Acceptable	—%	100.00%	100.00%
OAEM	0.82	0.40	4.38	OAEM	100.00	—	—
Substandard/doubtful/loss	5.88	8.36	5.59	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Loans to cooperatives:				Rural residential real estate:			
Acceptable	100.00%	100.00%	100.00%	Acceptable	98.31%	97.88%	95.79%
OAEM	—	—	—	OAEM	0.12	0.17	0.27
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss	1.57	1.95	3.94
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Processing and marketing:				International:			
Acceptable	100.00%	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%	100.00%
Farm-related business:				Total loans:			
Acceptable	70.89%	67.22%	59.19%	Acceptable	95.15%	95.17%	93.38%
OAEM	—	1.27	40.81	OAEM	1.71	1.12	3.59
Substandard/doubtful/loss	29.11	31.51	—	Substandard/doubtful/loss	3.14	3.71	3.03
	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	\$ 570	\$ 582	\$ 1,152	\$ 201,659	\$ 202,811
Production and intermediate-term	65	288	353	62,287	62,640
Loans to cooperatives	—	—	—	786	786
Processing and marketing	—	—	—	7,310	7,310
Farm-related business	222	—	222	3,698	3,920
Communication	—	—	—	1,338	1,338
Power and water/waste disposal	—	—	—	1,206	1,206
Rural residential real estate	—	—	—	5,844	5,844
International	—	—	—	1,044	1,044
Total	\$ 857	\$ 870	\$ 1,727	\$ 285,172	\$ 286,899

	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	\$ 837	\$ 321	\$ 1,158	\$ 202,820	\$ 203,978
Production and intermediate-term	308	1,033	1,341	66,142	67,483
Loans to cooperatives	—	—	—	1,469	1,469
Processing and marketing	—	—	—	5,205	5,205
Farm-related business	1,154	—	1,154	2,687	3,841
Communication	—	—	—	1,411	1,411
Power and water/waste disposal	—	—	—	1,452	1,452
Rural residential real estate	9	—	9	5,353	5,362
International	—	—	—	948	948
Total	\$ 2,308	\$ 1,354	\$ 3,662	\$ 287,487	\$ 291,149

	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	\$ 610	\$ 305	\$ 915	\$ 185,519	\$ 186,434	
Production and intermediate-term	732	1,555	2,287	67,543	69,830	
Loans to cooperatives	–	–	–	558	558	
Processing and marketing	–	–	–	9,340	9,340	
Farm-related business	1,184	–	1,184	2,139	3,323	
Communication	–	–	–	1,491	1,491	
Power and water/waste disposal	–	–	–	1,487	1,487	
Rural residential real estate	–	39	39	3,940	3,979	
International	–	–	–	947	947	
Total	\$ 2,526	\$ 1,899	\$ 4,425	\$ 272,964	\$ 277,389	

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

	December 31,		
	2019	2018	2017
Nonaccrual loans:			
Real estate mortgage	\$ 786	\$ 708	\$ 1,441
Production and intermediate-term	1,005	1,855	2,432
Rural residential real estate	42	49	96
Total	\$ 1,833	\$ 2,612	\$ 3,969
Accruing restructured loans:			
Real estate mortgage	\$ 1,659	\$ 1,815	\$ 1,795
Production and intermediate-term	168	172	177
Total	\$ 1,827	\$ 1,987	\$ 1,972
Accruing loans 90 days or more past due:			
Total	\$ –	\$ –	\$ –
Total nonperforming loans	\$ 3,660	\$ 4,599	\$ 5,941
Other property owned	4	118	2,968
Total nonperforming assets	\$ 3,664	\$ 4,717	\$ 8,909
Nonaccrual loans as a percentage of total loans	0.64%	0.91%	1.44%
Nonperforming assets as a percentage of total loans and other property owned	1.29%	1.63%	3.20%
Nonperforming assets as a percentage of capital	4.36%	5.63%	10.67%

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

	December 31,		
	2019	2018	2017
Impaired nonaccrual loans:			
Current as to principal and interest	\$ 922	\$ 978	\$ 1,551
Past due	911	1,634	2,418
Total	\$ 1,833	\$ 2,612	\$ 3,969
Impaired accrual loans:			
Restructured	\$ 1,827	\$ 1,987	\$ 1,972
90 days or more past due	–	–	–
Total	\$ 1,827	\$ 1,987	\$ 1,972
Total impaired loans	\$ 3,660	\$ 4,599	\$ 5,941
Additional commitments to lend	\$ –	\$ –	\$ –

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

	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 263	\$ 252	\$ 2	\$ 269	\$ 13
Production and intermediate-term	591	594	83	603	28
Total	\$ 854	\$ 846	\$ 85	\$ 872	\$ 41
With no related allowance for credit losses:					
Real estate mortgage	\$ 2,182	\$ 2,188	\$ –	\$ 2,228	\$ 104
Production and intermediate-term	582	724	–	594	28
Rural residential real estate	42	74	–	43	2
Total	\$ 2,806	\$ 2,986	\$ –	\$ 2,865	\$ 134
Total impaired loans:					
Real estate mortgage	\$ 2,445	\$ 2,440	\$ 2	\$ 2,497	\$ 117
Production and intermediate-term	1,173	1,318	83	1,197	56
Rural residential real estate	42	74	–	43	2
Total	\$ 3,660	\$ 3,832	\$ 85	\$ 3,737	\$ 175

	December 31, 2018			Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Production and intermediate-term	\$ 1,084	\$ 1,203	\$ 47	\$ 1,212	\$ 56
Rural residential real estate	49	76	5	55	3
Total	\$ 1,133	\$ 1,279	\$ 52	\$ 1,267	\$ 59
With no related allowance for credit losses:					
Real estate mortgage	\$ 2,523	\$ 2,524	\$ –	\$ 2,820	\$ 131
Production and intermediate-term	943	983	–	1,054	49
Total	\$ 3,466	\$ 3,507	\$ –	\$ 3,874	\$ 180
Total impaired loans:					
Real estate mortgage	\$ 2,523	\$ 2,524	\$ –	\$ 2,820	\$ 131
Production and intermediate-term	2,027	2,186	47	2,266	105
Rural residential real estate	49	76	5	55	3
Total	\$ 4,599	\$ 4,786	\$ 52	\$ 5,141	\$ 239

	December 31, 2017			Year Ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 214	\$ 213	\$ 9	\$ 137	\$ 5
Production and intermediate-term	1,883	1,845	65	1,203	45
Rural residential real estate	96	116	15	61	2
Total	\$ 2,193	\$ 2,174	\$ 89	\$ 1,401	\$ 52
With no related allowance for credit losses:					
Real estate mortgage	\$ 3,022	\$ 2,996	\$ –	\$ 1,930	\$ 72
Production and intermediate-term	726	732	–	463	17
Total	\$ 3,748	\$ 3,728	\$ –	\$ 2,393	\$ 89
Total impaired loans:					
Real estate mortgage	\$ 3,236	\$ 3,209	\$ 9	\$ 2,067	\$ 77
Production and intermediate-term	2,609	2,577	65	1,666	62
Rural residential real estate	96	116	15	61	2
Total	\$ 5,941	\$ 5,902	\$ 89	\$ 3,794	\$ 141

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2018	\$ 3,184	\$ 1,035	\$ 166	\$ 22	\$ 23	\$ 84	\$ 15	\$ 4,529
Charge-offs	(199)	(319)	–	–	–	–	–	(518)
Recoveries	247	394	44	–	–	40	–	725
Provision for loan losses	(28)	(127)	(18)	(1)	(4)	(31)	2	(207)
Balance at December 31, 2019	\$ 3,204	\$ 983	\$ 192	\$ 21	\$ 19	\$ 93	\$ 17	\$ 4,529
Balance at December 31, 2017	\$ 3,106	\$ 1,140	\$ 224	\$ 25	\$ 25	\$ 66	\$ 16	\$ 4,602
Charge-offs	(13)	(173)	–	–	–	–	–	(186)
Recoveries	20	95	49	–	–	91	–	255
Provision for loan losses	71	(27)	(107)	(3)	(2)	(73)	(1)	(142)
Balance at December 31, 2018	\$ 3,184	\$ 1,035	\$ 166	\$ 22	\$ 23	\$ 84	\$ 15	\$ 4,529
Balance at December 31, 2016	\$ 3,074	\$ 1,135	\$ 280	\$ 19	\$ –	\$ 50	\$ 16	\$ 4,574
Charge-offs	–	(19)	–	–	–	–	–	(19)
Recoveries	111	160	3	–	–	91	–	365
Provision for loan losses	(79)	(136)	(59)	6	25	(75)	–	(318)
Balance at December 31, 2017	\$ 3,106	\$ 1,140	\$ 224	\$ 25	\$ 25	\$ 66	\$ 16	\$ 4,602
Allowance on loans evaluated for impairment:								
Individually	\$ 2	\$ 83	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 85
Collectively	3,202	900	192	21	19	93	17	4,444
Balance at December 31, 2019	\$ 3,204	\$ 983	\$ 192	\$ 21	\$ 19	\$ 93	\$ 17	\$ 4,529
Individually	\$ –	\$ 47	\$ –	\$ –	\$ –	\$ 5	\$ –	\$ 52
Collectively	3,184	988	166	22	23	79	15	4,477
Balance at December 31, 2018	\$ 3,184	\$ 1,035	\$ 166	\$ 22	\$ 23	\$ 84	\$ 15	\$ 4,529
Individually	\$ 9	\$ 65	\$ –	\$ –	\$ –	\$ 15	\$ –	\$ 89
Collectively	3,097	1,075	224	25	25	51	16	4,513
Balance at December 31, 2017	\$ 3,106	\$ 1,140	\$ 224	\$ 25	\$ 25	\$ 66	\$ 16	\$ 4,602
Recorded investment in loans evaluated for impairment:								
Individually	\$ 2,445	\$ 1,173	\$ –	\$ –	\$ –	\$ 42	\$ –	\$ 3,660
Collectively	200,366	61,467	12,016	1,338	1,206	5,802	1,044	283,239
Balance at December 31, 2019	\$ 202,811	\$ 62,640	\$ 12,016	\$ 1,338	\$ 1,206	\$ 5,844	\$ 1,044	\$ 286,899
Individually	\$ 2,523	\$ 2,027	\$ –	\$ –	\$ –	\$ 49	\$ –	\$ 4,599
Collectively	201,455	65,456	10,515	1,411	1,452	5,313	948	286,550
Balance at December 31, 2018	\$ 203,978	\$ 67,483	\$ 10,515	\$ 1,411	\$ 1,452	\$ 5,362	\$ 948	\$ 291,149
Individually	\$ 3,236	\$ 2,609	\$ –	\$ –	\$ –	\$ 96	\$ –	\$ 5,941
Collectively	183,198	67,221	13,221	1,491	1,487	3,883	947	271,448
Balance at December 31, 2017	\$ 186,434	\$ 69,830	\$ 13,221	\$ 1,491	\$ 1,487	\$ 3,979	\$ 947	\$ 277,389

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was \$7,539, \$6,528, and \$6,305 at December 31, 2019, 2018, and 2017, respectively. Fees paid for such guarantee commitments totaled \$0, \$1, and \$1 for 2019, 2018, and 2017, respectively. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs that occurred during the years ended December 31, 2019 and December 31, 2017, therefore no tables are presented for those periods.

Outstanding Recorded Investment	Year Ended December 31, 2018					Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
Pre-modification:						
Real estate mortgage	\$ 133	\$ —	\$ —	\$ 133		
Production and intermediate-term	—	717	—	717		
Total	\$ 133	\$ 717	\$ —	\$ 850		
Post-modification:						
Real estate mortgage	\$ 133	\$ —	\$ —	\$ 133	\$ —	\$ —
Production and intermediate-term	—	708	—	708	—	—
Total	\$ 133	\$ 708	\$ —	\$ 841	\$ —	\$ —

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

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

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2019	2018	2017	2019	2018	2017
Real estate mortgage	\$ 1,659	\$ 1,815	\$ 1,795	\$ —	\$ —	\$ —
Production and intermediate-term	750	915	266	582	743	89
Total loans	\$ 2,409	\$ 2,730	\$ 2,061	\$ 582	\$ 743	\$ 89
Additional commitments to lend	\$ —	\$ —	\$ —			

At December 31, 2019, there were no foreclosed residential real estate properties held as a result of obtaining physical possession. At December 31, 2019, there were also no consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings were in progress.

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 required by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled \$2,792 for 2019, \$2,738 for 2018 and \$2,733 for 2017. The Association owned 0.99 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 \$578 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	\$ 562	\$ 562	\$ 562
Buildings and improvements	2,785	2,774	2,665
Furniture and equipment	1,365	1,326	1,275
	4,712	4,662	4,502
Less: accumulated depreciation	2,884	2,741	2,626
Total	\$ 1,828	\$ 1,921	\$ 1,876

Other Property Owned

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

	December 31,		
	2019	2018	2017
(Gains) losses on sale, net	\$ (30)	\$ (74)	\$ 8
Carrying value unrealized (gains) losses	4	303	—
Operating (income) expense, net	12	45	53
(Gains) losses on other property owned, net	\$ (14)	\$ 274	\$ 61

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. Deferred gains totaled \$48, \$51, and \$54 at December 31, 2019, 2018, and 2017, respectively.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

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

The weighted average interest rates on the variable rate advances were 2.78 percent for LIBOR-based loans and 2.91 percent for Prime-based loans, and the weighted average remaining maturities were 4.0 years and 4.0 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 3.28 percent, and the weighted average remaining maturity was 10.3 years at December 31, 2019. The weighted-average interest rate on all interest-bearing notes payable was 3.21 percent and the weighted-average remaining maturity was 9.4 years at December 31, 2019. Variable rate and fixed rate notes payable represent approximately -21.19 percent and 121.19 percent, respectively, of total notes payable at December 31, 2019. The variable rate percentage was negative due to variable rate credits that exceeded variable rate borrowings. Even though loans to borrowers are match funded by the notes payable to the Bank, they are not funded dollar for dollar. 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" and is recorded on the Association's general ledger as a debit, offsetting the notes payable to the Bank. At December 31, 2019, this resulted in a net variable rate notes payable debit and the -21.19 percent measure.

The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

- A. **Protected Borrower Stock:** Protection of certain borrower stock is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower stock, to retire such stock at par or stated value regardless of its book value. Protected borrower stock includes capital stock and participation certificates, which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.
- B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's Bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of \$1 thousand or two percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the secondary market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

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

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

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

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

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, and paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.

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

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31,		
				2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital	4.5%	1.875%	6.375%	28.20%	27.07%	27.91%
Tier 1 Capital	6.0%	1.875%	7.875%	28.20%	27.07%	27.91%
Total Capital	8.0%	1.875%	9.875%	29.46%	28.32%	29.16%
Permanent Capital	7.0%	0.0%	7.0%	28.56%	27.41%	28.26%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	29.20%	27.95%	28.81%
URE and UREE Leverage	1.5%	0.0%	1.5%	28.32%	25.90%	25.32%

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

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

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

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
C Common/Voting	No	204,910	\$ 1,025
C Participation Certificates/Nonvoting	No	21,408	107
Total Capital Stock and Participation Certificates		226,318	\$ 1,132

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, however, that minimum capital standards established by the FCA and the Board are met.

At December 31, 2019, allocated members' equity consisted of \$824 of nonqualified allocated surplus and \$36,420 of nonqualified retained surplus.

Dividends

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

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

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

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

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

Impairment

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

1. Class C Common Stock and Class C Participation Certificates
2. Classes A and B Common Stock and Class B Participation Certificates
3. Classes A and D Preferred Stock

Liquidation

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

1. Classes A and D Preferred Stock
2. Classes A, B and C Common Stock, and Classes B and C Participation Certificates
3. Holders of allocated surplus evidenced by qualified written notices of allocation
4. Holders of allocated surplus evidenced by nonqualified written notices of allocation
5. All unallocated surplus issued after January 1, 1995, shall be distributed to past and present Patrons on a patronage basis

6. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates

Note 8 — Fair Value Measurement

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

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

Estimating the fair value of the Association's equity investments in the Bank and other Farm Credit institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost.

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

Level 1

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

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

Level 2

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

Level 3

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

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair

value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

Notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) 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
Recurring Measurements						
Assets:						
Assets held in trust funds	\$	3	\$	3	\$	–
Recurring Assets	\$	3	\$	3	\$	–
Liabilities:						
Recurring Liabilities	\$	–	\$	–	\$	–
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	769	\$	–	\$	769
Other property owned	\$	4	\$	–	\$	4
Nonrecurring Assets	\$	773	\$	–	\$	773
Other Financial Instruments						
Assets:						
Cash	\$	–	\$	–	\$	–
Loans	\$	279,496	\$	–	\$	279,346
Other Financial Assets	\$	279,496	\$	–	\$	279,346
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	200,279	\$	–	\$	200,480
Other Financial Liabilities	\$	200,279	\$	–	\$	200,480
		December 31, 2018				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Assets held in trust funds	\$	2	\$	2	\$	–
Recurring Assets	\$	2	\$	2	\$	–
Liabilities:						
Recurring Liabilities	\$	–	\$	–	\$	–
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	1,081	\$	–	\$	1,081
Other property owned	\$	118	\$	–	\$	131
Nonrecurring Assets	\$	1,199	\$	–	\$	1,212
Other Financial Instruments						
Assets:						
Cash	\$	–	\$	–	\$	–
Loans	\$	283,293	\$	–	\$	278,609
Other Financial Assets	\$	283,293	\$	–	\$	278,609
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	204,857	\$	–	\$	202,990
Other Financial Liabilities	\$	204,857	\$	–	\$	202,990

December 31, 2017

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 1	\$ 1	\$ -	\$ -	\$ 1
Recurring Assets	\$ 1	\$ 1	\$ -	\$ -	\$ 1
Liabilities:					
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 2,104	\$ -	\$ -	\$ 2,104	\$ 2,104
Other property owned	2,968	-	-	3,197	3,197
Nonrecurring Assets	\$ 5,072	\$ -	\$ -	\$ 5,301	\$ 5,301
Other Financial Instruments					
Assets:					
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Loans	268,557	-	-	265,479	265,479
Other Financial Assets	\$ 268,557	\$ -	\$ -	\$ 265,479	\$ 265,479
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 193,164	\$ -	\$ -	\$ 191,570	\$ 191,570
Other Financial Liabilities	\$ 193,164	\$ -	\$ -	\$ 191,570	\$ 191,570

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	\$ 773	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 \$233 for 2019, \$314 for 2018, and \$279 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 \$103 for 2019, \$98 for 2018, and \$98 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 \$629 and the reduction of Other Liabilities by \$1,401 on the Association's Balance Sheets, and a total reduction of noninterest expenses on the Association's Statements of Income of \$772 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 \$246, \$232, and \$220 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.

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

In addition to the multiemployer plans described above, the Association sponsors a nonqualified supplemental 401(k) plan. Expenses of this nonqualified plan included in noninterest expenses were \$2, \$1, and \$1 for 2019, 2018, and 2017, respectively.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2019 amounted to \$10,120. During 2019, \$8,600 of new loans and advances were made and repayments totaled \$6,616. In the opinion of management, none of these loans outstanding at December 31, 2019 involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2019, \$30,067 of commitments to

extend credit and no commercial letters of credit were outstanding with a related reserve for unfunded commitments of \$30 which is included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2019, standby letters of credit outstanding totaled \$201 with expiration dates ranging from January 19, 2020 to December 12, 2023. The maximum potential amount of future payments that may be required under these guarantees was \$201.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

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

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

	December 31,		
	2019	2018	2017
Federal tax at statutory rate	\$ 1,347	\$ 1,439	\$ 2,814
State tax, net	—	—	—
Patronage distributions	(1,139)	(1,013)	(1,400)
Tax-exempt FLCA earnings	(163)	(337)	(715)
Change in valuation allowance	(66)	(140)	(1,214)
Deferred tax rate change	—	—	552
Other	21	51	(37)
Provision (benefit) for income taxes	\$ —	\$ —	\$ —

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	\$ 256	\$ 274	\$ 295
Net operating loss – carryforward	593	630	721
Loan origination fees	—	—	—
Nonaccrual loan interest	50	51	67
Valuation allowance on other property owned	—	—	—
Gross deferred tax assets	899	955	1,083
Less: valuation allowance	(850)	(916)	(1,057)
Gross deferred tax assets, net of valuation allowance	49	39	26
Deferred income tax liabilities:	(49)	(39)	(26)
Gross deferred tax liability	—	—	—
Net deferred tax asset (liability)	\$ —	\$ —	\$ —

At December 31, 2019, deferred income taxes have not been provided by the Association on approximately \$56 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 \$850, \$916 and \$1,057 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	\$ 2,243	\$ 2,186	\$ 2,225	\$ 2,197	\$ 8,851
Provision for (reversal of allowance for) loan losses	(36)	(115)	(44)	(12)	(207)
Noninterest income (expense), net	(982)	(954)	(954)	246	(2,644)
Net income	\$ 1,297	\$ 1,347	\$ 1,315	\$ 2,455	\$ 6,414

	2018				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,099	\$ 2,207	\$ 2,240	\$ 2,283	\$ 8,829
Provision for (reversal of allowance for) loan losses	(65)	—	(26)	(51)	(142)
Noninterest income (expense), net	(796)	(800)	(962)	440	(2,118)
Net income	\$ 1,368	\$ 1,407	\$ 1,304	\$ 2,774	\$ 6,853

	2017				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,084	\$ 2,113	\$ 2,185	\$ 2,132	\$ 8,514
Provision for (reversal of allowance for) loan losses	(42)	(76)	(136)	(64)	(318)
Noninterest income (expense), net	(932)	(961)	(978)	2,080	(791)
Net income	\$ 1,194	\$ 1,228	\$ 1,343	\$ 4,276	\$ 8,041

Note 14 — Subsequent Events

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



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