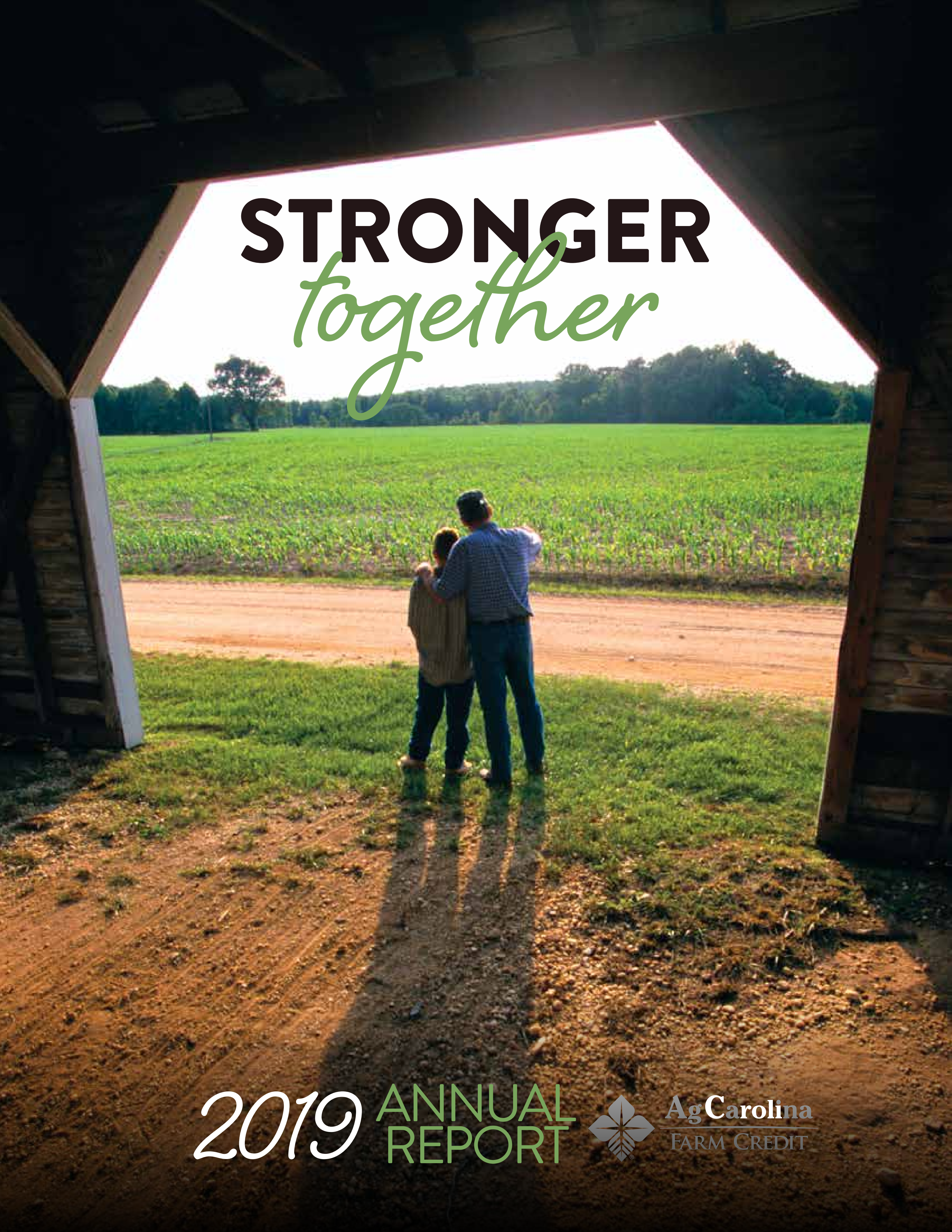
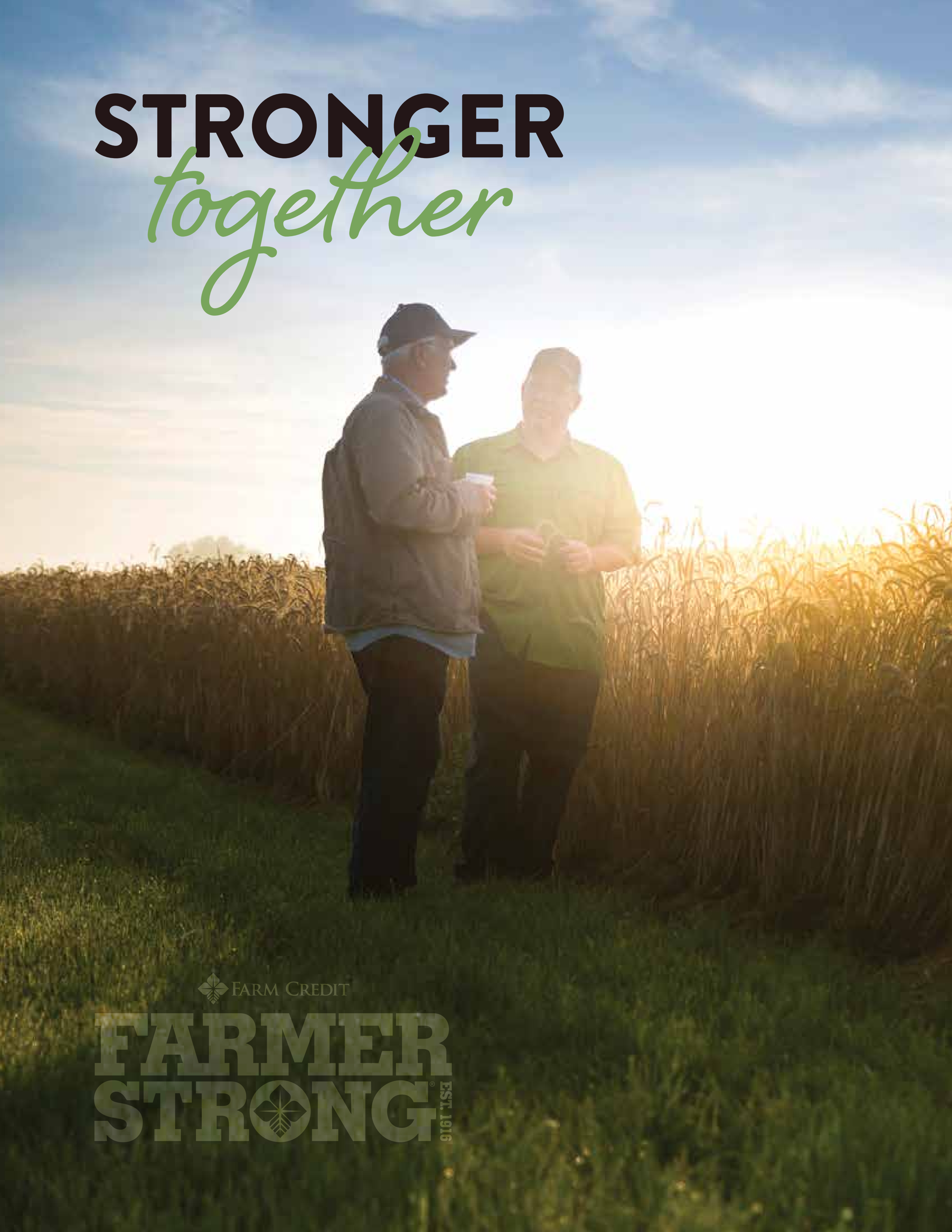
STRONGER *together*



2019 ANNUAL REPORT

AgCarolina Farm Credit

STRONGER *together*



MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

David W. Corum

Much of 2019 continued to bring stress to our agricultural communities. Fortunately, for much of our 34-county territory in eastern NC, the weather was favorable, and we escaped major weather events. It was another year of farmers and the agricultural industry pulling together to support agriculture, our livelihoods and our rural communities and families.

Your cooperative finished a strong year with over $25 million in net earnings and over $1.1 billion in net loan volume. One of the highest patronage payments in history is being returned to you, the members of AgCarolina Farm Credit. Over $18 million was returned to members in February. For two years in a row, we have worked hard to get patronage payments back in your hands much earlier than usual. 2019 was another year where the patronage money will be extremely impactful for many of our members and our goal was to get it in your hands as quickly as possible.

We are stronger together. As a cooperative, we are grateful to be your financial partner and help provide the loans you need to be successful. We strive to create a much deeper connection where we provide many value-added resources to help you become as successful and strong as possible. Whether you take advantage of our weekly weather and commodity marketing updates or one of our many educational opportunities, such as our Measuring Success Workshop, the Ag Biz programs or Ag Leadership Institute, there's something for everyone. Let's not forget the longstanding relationships fostered between our members and AgCarolina. As a member of the cooperative, you are helping to make YOUR cooperative stronger by conducting business with us and sharing AgCarolina Farm Credit with others who might need our products and services.

You, in turn, make your local community stronger by choosing to work, live and play there. We're all committed to seeing our local communities thrive, and we're each doing our part whether through local sponsorships, volunteering our time or supporting the local businesses. As we all work together, we are making your cooperative stronger, your business stronger, and your local community stronger.

Thank you for allowing the employees of AgCarolina Farm Credit to support your financial needs and become an extension of your network. Farm families and rural communities are what make us succeed. Our commitment is to share that success with each of you, the member-owners of this cooperative. In doing so, we'll remain <u>stronger together</u>.

David W. Corum

Eure Seed Farms, Inc.

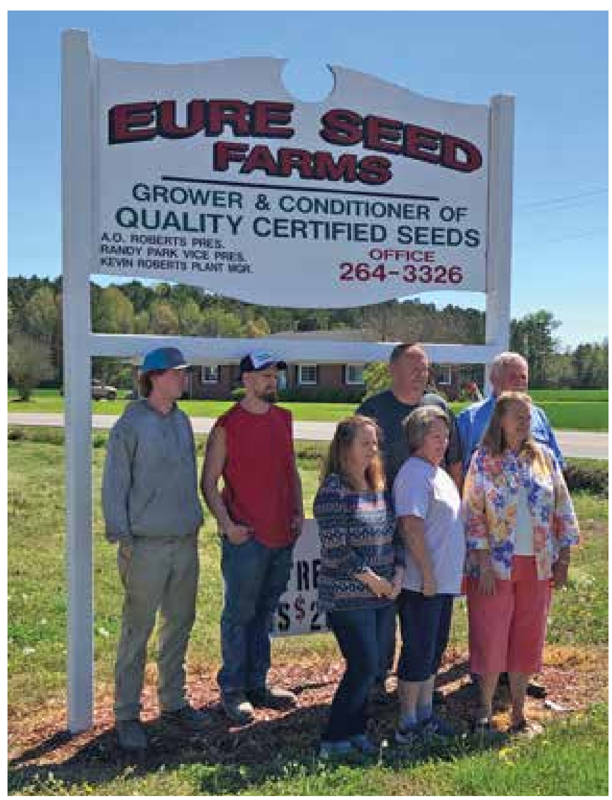
Hertford, N.C. has been the home to Eure Seed Farms, Inc. since 1963, when Carole Eure Roberts' grandfather, father and uncle operated the business under the name of F.T. Eure & Sons. Many years later, the business is a fourth-generation family farming operation and seed production plant offering a variety of soybean and wheat seed that can be treated and packaged in a customized way for their customers.

A.O. Roberts III, president of the operation, reminisced about being welcomed into the Eure family, working for the family business in the 1970s, and later marrying Carole Eure Roberts. When Carole's father passed away in 1985, A.O. and his brother-in-law, Randy Park, purchased the business. In 1999, the business expanded to grow a variety of seed brands. "We had the vision for how to design the plant, and then we built the new building around it," stated A.O. "We've held true to our roots while being innovative and remembering that service sells," A.O. went on to say.

Kevin Roberts, son of A.O. and Carole Roberts, runs the seed plant and warehouse operations. His father praised him for the good ideas he's had since he joined the business full-time in 1994. "Kevin has focused on staying ahead of the game and solving problems before they become issues," A.O. shared.

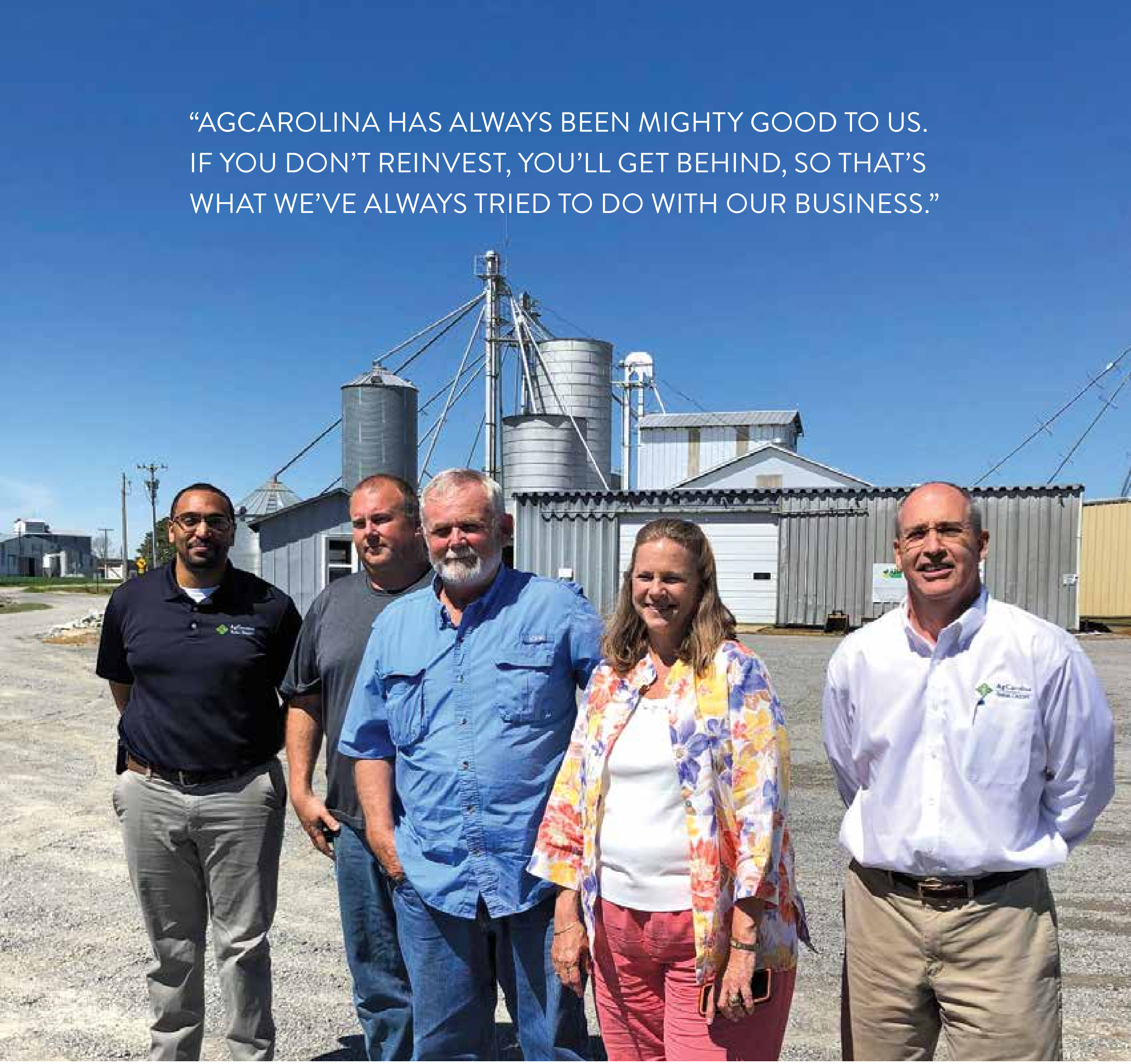
When asked about being involved with a family business, A.O. quickly responded with a genuine smile. "A family business never stops, but there ain't nothing like it." Carole leads the office activities while Randy heads up the trucking side of the business. "It's not about what's on the outside, it's about what's on the inside that matters," he said. The family is fortunate to have a great group of employees that share in a common mission. They conduct many tours of their operation to expose individuals to their business but also as a way to promote agriculture and its importance.

Over the years, the Roberts, the Parks and AgCarolina Farm Credit have shared a strong relationship. "AgCarolina has always been mighty good to us," stated A.O. He went on to say, "if you don't reinvest, you'll get behind, so that's what we've always tried to do with our business." When asked about patronage refunds and what that meant to the operation, he stated without hesitation. "Ain't nothing like payday." That actually sounds like a good marketing slogan for patronage!



Some of the great employees that work for Eure Seed Farms Inc.

“AGCAROLINA HAS ALWAYS BEEN MIGHTY GOOD TO US. IF YOU DON’T REINVEST, YOU’LL GET BEHIND, SO THAT’S WHAT WE’VE ALWAYS TRIED TO DO WITH OUR BUSINESS.”



From the left: A.J. Moore, AgCarolina loan officer, Kevin Roberts, A.O. Roberts, and Carole Roberts of Eure Seed Farms, and Eddie Jennings, Elizabeth City branch manager

Over the years, the Roberts and Parks have participated in value-added programs offered by AgCarolina Farm Credit. Most recently they attended Ag Leadership Institute, where they spent a few days focusing on business planning and farm transition as they plan for the next generation and future of their business down the road. It’s a win-win for everyone. **Stronger** members and farm families make for a **stronger** cooperative to serve the next generation of farmers and rural communities.

Rory Wood Jr.

Rory Wood Jr. believes what makes farming great is the commitment to being a part of something bigger than any one individual. "As a farmer, I am able to make a contribution to my fellow man in producing the food and fiber they need," stated the farmer from Maury, N.C.

Rory grows tobacco, cotton, soybeans, corn, and wheat, and he will add peanuts to his crop mix for 2020. He also has 16 Sanderson broiler houses.

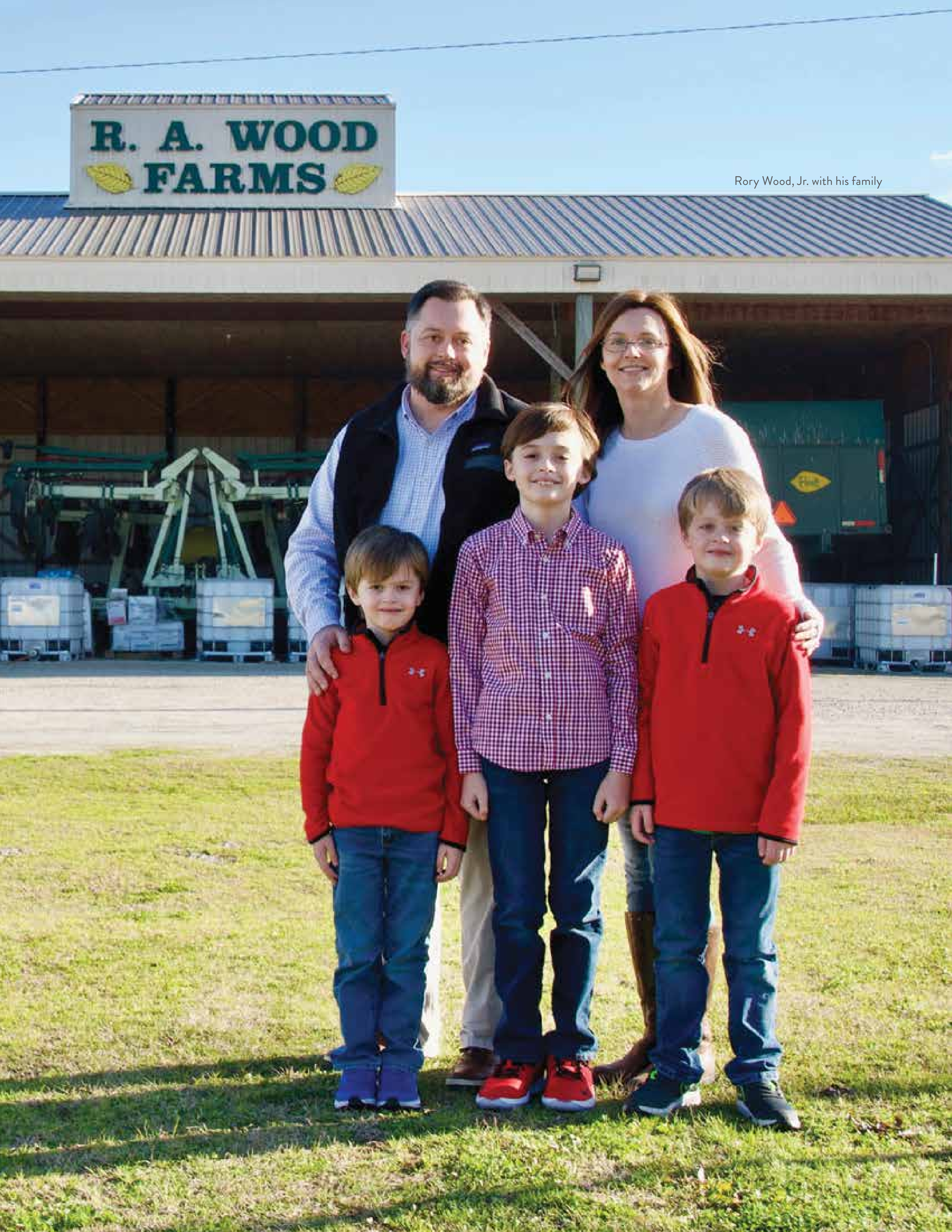
The Greene County native is husband of Misty, and father to 10-year-old, Trey, and 7-year-old twins, Lucas and Joseph. He is quick to point out what farm life means to his family. "It is a great joy to raise my family here in Greene County. We are trying to teach these boys work ethic, responsibility, and a sense of pride in who they are and what they do."

Rory Wood Jr. has been on this farm his entire life. He began farming on his own through financial backing from FSA's young, beginning and small farmer programs. In 2006, Rory began working in earnest with AgCarolina Farm Credit loan officers to find solutions for his lending needs. "That first year I went to a leadership conference for young farmers featuring Dr. Dave Kohl," said Wood. "The information shared in that course was instrumental to the success of our farm. We still directly apply principles of farm management and business planning we learned from that weekend in Raleigh. It was one of the most valuable experiences of our lives."

AgCarolina Farm Credit believes in the relationships cultivated with our members. The relationship with Rory Wood Jr. goes back for the majority of his life. "I remember being 16 years old and driving a tobacco truck with an AgCarolina loan officer riding shotgun while they were talking to my father," he noted. "Any time I am making a business decision, I contact my loan officer. AgCarolina has been there for me and has helped me weigh the pros and cons of the various choices I've had to make. It truly does feel like a partnership to me."

AgCarolina Farm Credit is proud to serve farmers just like Rory Wood Jr. throughout eastern North Carolina. We will not cease in our mission to provide a sound source of credit to farmers and rural residents. The mission also extends to being a relationship lender and providing opportunities for member education workshops and development to ensure we are **stronger together**.

"I REMEMBER BEING 16 YEARS OLD AND DRIVING A TOBACCO TRUCK WITH AN AGCAROLINA LOAN OFFICER RIDING SHOTGUN WHILE THEY WERE TALKING TO MY FATHER. ANY TIME I AM MAKING A BUSINESS DECISION, I CONTACT MY LOAN OFFICER. AGCAROLINA HAS BEEN THERE FOR ME AND HAS HELPED ME WEIGH THE PROS AND CONS OF THE VARIOUS CHOICES I'VE HAD TO MAKE. IT TRULY DOES FEEL LIKE A PARTNERSHIP TO ME."



Rory Wood, Jr. with his family

Cash Patronage Refund
dollars in millions

2019	$17.9
2018	$19.0
2017	$20.4
2016	$11.2
2015	$10.6

Return on Assets

2019	2.16%
2018	2.43%
2017	2.64%
2016	2.17%
2015	2.20%

Net Loans
dollars in millions

2019	$1,134.6
2018	$1,145.4
2017	$1,120.5
2016	$1,079.9
2015	$1,009.1

Return on Equity

2019	9.18%
2018	10.45%
2017	11.49%
2016	9.37%
2015	9.26%

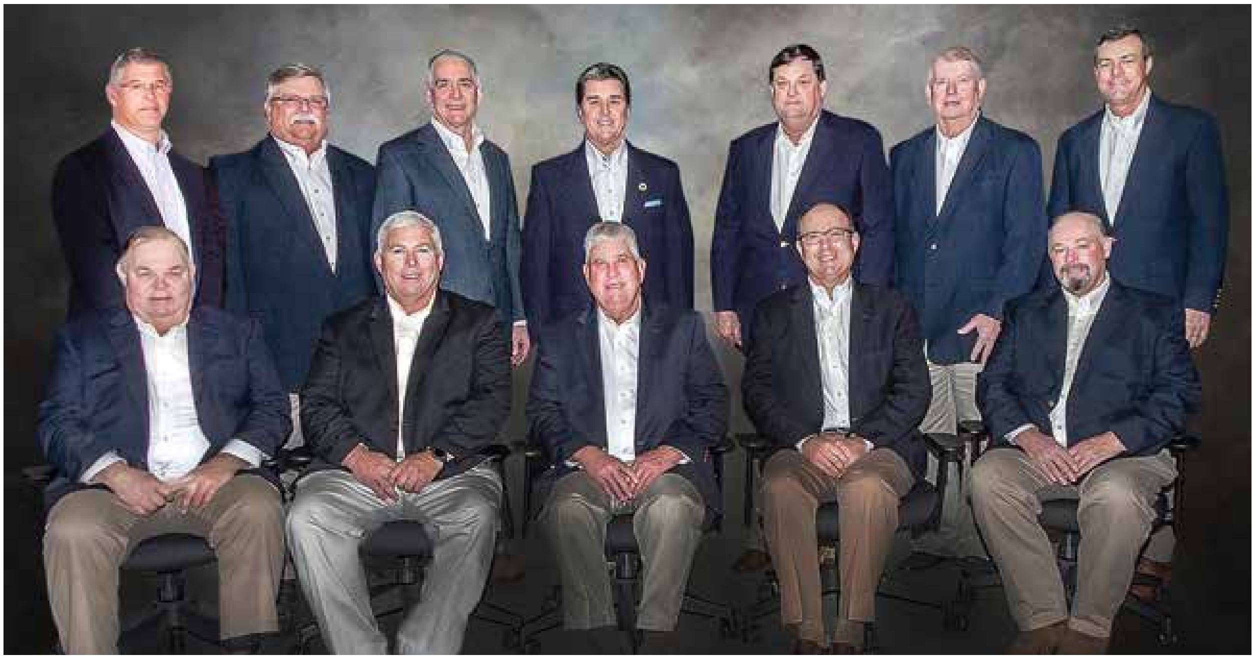
Net Income
dollars in millions

2019	$25.6
2018	$28.7
2017	$30.5
2016	$24.2
2015	$22.6

Permanent Capital Ratio

2019	23.03%
2018	21.70%
2017	21.99%
2016	23.22%
2015	23.00%

2019 BOARD OF DIRECTORS



Front row, From left: S. Stuart Pierce, Jr. (vice chairman - Herford County), Audie M. Murphy (Greene County), Paul A. Drake (Edgecombe County), Ellis W. Taylor (Halifax County), Rodney D. Smith (Lenoir County).

Back row, From left: Derek Potter (board chairman – Pamlico County), Jackie E. Thompson, Sr. (Wake County), Robert H. Bazemore, Jr. (outside director), Duane E. Barrett (outside director), Robert E. Turner, Jr. (Martin County), Eldridge T. Westbrook (Johnston County), Bundy H. Lane (Gates County).

SENIOR MANAGEMENT

From left: Senior Vice President Branch Lending – East Region Arthur R. Spruill, Senior Vice President – Corporate Lending Roy P. Robertson, Jr., Senior Vice President and Chief Financial Officer Matthew J. Currin, President and Chief Executive Officer David W. Corum, Senior Vice President – Marketing and Communications Laura S. Jones, Senior Vice President and Chief Credit Officer David C. Morris, and Senior Vice President Branch Lending – West Region Timothy M. Pace.

Not pictured: Senior Vice President Chief Risk Officer Scott Jackson joined the senior management team on February 1, 2020.

AgCarolina Farm Credit, ACA

2019 ANNUAL REPORT

Contents

Report of Management

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

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the cost 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 and the results of operations of the Association. The undersigned certify that we have reviewed the 2019 Annual Report of AgCarolina Farm Credit, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

B. Derek Potter
Chairman of the Board

David W. Corum
President and Chief Executive Officer

Matthew J. Currin
Senior Vice President and 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 disposition 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. This annual report does not include an attestation report of the Association's external accounting firm regarding internal control over financial reporting as none was required.

David W. Corum
President and Chief Executive Officer

Matthew J. Currin
Senior Vice President and Chief Financial Officer

March 12, 2020

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2019	2018	2017	2016	2015
Balance Sheet Data					
Cash	**$ 3,325**	$ 3,029	$ 5,853	$ 3,465	$ 2,066
Loans	**1,149,313**	1,159,962	1,132,771	1,092,080	1,021,011
Allowance for loan losses	**(14,678)**	(14,516)	(12,271)	(12,143)	(11,913)
Net loans	**1,134,635**	1,145,446	1,120,500	1,079,937	1,009,098
Equity investments in other Farm Credit institutions	**13,481**	13,118	12,950	12,248	11,549
Other property owned	**966**	986	108	—	—
Other assets	**44,419**	48,057	46,201	46,180	44,917
Total assets	**$ 1,196,826**	$1,210,636	$1,185,612	$1,141,830	$1,067,630
Notes payable to AgFirst Farm Credit Bank*	**$ 893,705**	$ 917,038	$ 885,588	$ 846,527	$ 798,928
Accrued interest payable and other liabilities with maturities of less than one year	**29,529**	29,980	37,475	31,151	28,380
Total liabilities	**923,234**	947,018	923,063	877,678	827,308
Capital stock and participation certificates	**30,162**	27,306	35,474	46,646	35,171
Retained earnings					
Allocated	**174,551**	167,917	159,279	150,444	138,340
Unallocated	**68,879**	68,395	67,796	67,062	66,811
Total members' equity	**273,592**	263,618	262,549	264,152	240,322
Total liabilities and members' equity	**$ 1,196,826**	$1,210,636	$1,185,612	$1,141,830	$1,067,630
Statement of Income Data					
Net interest income	**$ 32,134**	$ 33,449	$ 29,534	$ 28,971	$ 26,996
Provision for loan losses	**339**	1,759	654	668	—
Noninterest income (expense), net	**(6,230)**	(3,020)	1,606	(4,124)	(4,348)
Net income	**$ 25,565**	$ 28,670	$ 30,486	$ 24,179	$ 22,648
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.16%**	2.43%	2.64%	2.17%	2.20%
Total members' equity	**9.18%**	10.45%	11.49%	9.37%	9.26%
Net interest income as a percentage of average earning assets	**2.80%**	2.92%	2.64%	2.70%	2.71%
Net (chargeoffs) recoveries to average loans	**(0.015)%**	0.042%	(0.047)%	(0.041)%	0.031%
Total members' equity to total assets	**22.86%**	21.78%	22.14%	23.13%	22.51%
Debt to members' equity (:1)	**3.37**	3.59	3.52	3.32	3.44
Allowance for loan losses to loans	**1.28%**	1.25%	1.08%	1.11%	1.17%
Permanent capital ratio	**23.03%**	21.70%	21.99%	23.22%	23.00%
Total surplus ratio	**	**	**	19.00%	19.22%
Core surplus ratio	**	**	**	19.00%	19.22%
Common equity tier 1 capital ratio	**20.08%**	19.20%	18.92%	**	**
Tier 1 capital ratio	**20.08%**	19.20%	18.92%	**	**
Total regulatory capital ratio	**21.33%**	20.32%	20.03%	**	**
Tier 1 leverage ratio	**20.23%**	19.35%	19.08%	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**20.40%**	19.50%	19.18%	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 17,916**	$ 19,000	$ 20,376	$ 11,183	$ 10,643
Nonqualified retained earnings	**5,972**	8,487	8,726	11,875	11,024

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2020.*
*** Not applicable due to changes in regulatory capital requirements effective January 1, 2017.*

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

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

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System's mission is to 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 North Carolina. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our extensive agricultural experience and knowledge of the market has been a contributing factor to our success.

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, *www.AgCarolina.com*, or by calling 1-800-951-3276, or writing Matt Currin, AgCarolina Farm Credit, P.O. Box 14789, Raleigh, NC 27620. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report is prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

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

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations, and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and 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.

LOAN PORTFOLIO

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

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

	December 31,		
Loan Type	**2019**	**2018**	**2017**
Real estate mortgage	55.56%	55.21%	55.97%
Production and intermediate term	36.54	36.90	36.58
Loans to cooperatives	.33	.20	.23
Processing and marketing	3.56	3.60	3.27
Farm-related business	.85	.96	.78
Communication	.15	.16	.17
Power and water/waste disposal	–	.01	.01
Rural residential real estate	3.01	2.96	2.99
Total	100.00%	100.00%	100.00%

See Note 3, *Loans and Allowance for Loan Losses*, of the Consolidated Financial Statements, for further information concerning reclassification of loan types for all years presented.

While loans and financially related services are provided to qualified borrowers in the agricultural and rural sectors and to certain related entities, the loan portfolio is diversified.

The geographic distribution of the loan volume by branch in the 34 county territory for the past three years is as follows:

Region	12/31/19	12/31/18	12/31/17
Greenville	13.1%	13.8%	15.1%
Smithfield	11.8	11.7	12.3
Elizabeth City	10.5	10.1	9.5
Rocky Mount	10.3	10.3	9.9
La Grange	9.0	8.5	7.3
Williamston	9.0	8.3	6.6
Louisburg	7.5	8.2	7.9
Swan Quarter	5.8	6.1	6.5
New Bern	5.1	5.2	4.8
Raleigh	4.7	4.5	4.6
Halifax	4.1	4.2	5.0
Ahoskie	3.6	3.5	3.3
Other	5.5	5.6	7.2
Total	100.0%	100.0%	100.0%

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

The major commodities in the Association loan portfolio are shown below. The five predominant commodities are tobacco, forestry, corn, cotton, and poultry, which constitute 50 percent of the entire 2019 portfolio.

	Percent of Portfolio		
Commodity Group	**2019**	**2018**	**2017**
Tobacco	13%	17%	17%
Forestry	10	9	10
Corn	10	9	9
Cotton	9	8	7
Poultry	8	9	9
Soybeans	8	9	8
Rural Rental Real Estate	8	7	7
Sweet Potatoes	7	6	7
Swine	7	6	6
Farm Services	4	4	5
Home Loans	4	4	4
Livestock	4	4	4
Horticulture	2	2	2
Vegetables/Fruits	2	2	2
Peanuts	1	1	1
Other	3	3	2
Total	100%	100%	100%

Repayment ability is closely related to the profitability of commodities produced by borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a relatively large concentration of tobacco, forestry, corn, poultry, and soybean producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified beyond a single crop or enterprise, which reduces overall risk exposure. Consumer demand, expected production, and international trade are some of the factors affecting the price of these commodities.

The Association has experienced an increase in the concentration of large loans over the past several years; however the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

Gross loan volume as of December 31, 2019 was $1,149,313, a 0.92 percent decrease from the same period in 2018. Net loan volume was $1,134,635 as of December 31, 2019, for a 0.92 percent decrease from the previous year. The decrease in gross and net loan volume during the reporting period is primarily attributed to a decline in the tobacco industry and pay downs from members who sold property due to the strong general economy. During 2019, the Association targeted certain segments of our business with hopes of increasing market share. Continued efforts are being made to expand services, increase public knowledge of our services, and streamline current delivery of products to enhance and grow the loan portfolio.

The Association loan portfolio is significantly impacted by loan seasonality. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and declines in the fall months as commodities are marketed and proceeds are applied to repay operating loans.

Participation loans provide a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which can strengthen the capital position.

Loan Participations	**2019**	**2018**	**2017**
Participations Purchased – FCS Institutions	$ 53,273	$ 46,264	$ 46,384
Participations Purchased – Non-FCS Institutions	–	–	–
Participations Sold	(274,141)	(315,497)	(305,541)
Total	$ (220,868)	$ (269,233)	$ (259,157)

The Association did not have any loans that were sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2019.

The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2019, the Association had loans amounting to $203, which were 100 percent guaranteed by Farmer Mac. The Association additionally has portions of loans that are guaranteed by the Farm Service Agency. These guarantees are made for the purpose of reducing credit risk. At December 31, 2019, the balance of these guarantees was $22,016, compared to $16,942 at December 31, 2018 and $16,839 at December 31, 2017.

MISSION RELATED INVESTMENTS

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

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. The Association had no Rural America Bonds as of December 31, 2019. As of December 31, 2018, and December 31, 2017, the Association had $200 and $236, respectively, in Rural America Bonds, and they are classified as Loans on the Consolidated Balance Sheets.

Effective December 31, 2019, the FCA will conclude each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs are concluding, the FCA can consider future requests on a case-by-case basis.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association, and annually reviews the investment portfolio of every Association that it funds. A typical investment securities portfolio held by a Farm Credit Association would consist of asset-backed securities and mortgage-backed securities. Due to the potential risks involved in holding such investments, the Association does not hold a portfolio of investment securities. Refer to Note 2, *Summary of Significant Accounting Policies,* item F, *Investments*, for further information concerning investment securities.

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $1 million. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Farm Credit Administration 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	94.20%	93.08%	93.33%
Substandard	5.80%	6.92%	6.67%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

	December 31,		
Nonperforming Assets	**2019**	**2018**	**2017**
Nonaccrual loans	$ 26,771	$ 28,800	$ 27,300
Restructured loans	2,288	2,573	2,102
Accruing loans 90 days or more past due	–	–	–
Total nonperforming loans	29,059	31,373	29,402
Other property owned	966	986	108
Total nonperforming assets	$ 30,025	$ 32,359	$ 29,510
Ratios			
Nonaccrual loans to total loans	2.33%	2.48%	2.41%
Nonperforming assets to total loans and other property owned	2.61%	2.79%	2.60%
Nonperforming assets to capital	10.97%	12.27%	11.24%

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 $2,029 or 7.05 percent in 2019 and the ratio of nonaccrual loans to total loans was 2.33 percent as of December 31, 2019. The decrease in nonaccrual loans during the year is primarily due to liquidations and payments collected on nonaccrual loans in excess of new transfers to nonaccrual. The number of nonaccrual loans has increased in 2019 due to the declining agriculture economy.

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

Allowance for Loan Losses

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

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

	Year Ended December 31,		
Allowance for Loan Losses Activity:	**2019**	**2018**	**2017**
Balance at beginning of year	$ 14,516	$ 12,271	$ 12,143
Charge-offs			
Rural Residential Real Estate	–	–	(27)
Real estate mortgage	(44)	(29)	(52)
Production and intermediate term	(329)	(50)	(618)
Total charge-offs	(373)	(79)	(697)
Recoveries			
Real estate mortgage	54	110	18
Production and intermediate term	142	455	153
Total recoveries	196	565	171
Net (charge-offs) recoveries	(177)	485	(526)
Provision for loan losses	339	1,759	654
Balance at end of year	$ 14,678	$ 14,516	$ 12,271
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.015)%	0.042%	(0.047)%

The net loan charge-offs were associated with various crops and industries. The allowance for loan losses by loan type for the most recent three years is as follows:

	December 31,		
Allowance for Loan Losses by Type	**2019**	**2018**	**2017**
Real estate mortgage	$ 6,504	$ 7,347	$ 7,271
Production and intermediate term	7,297	6,262	4,217
Agribusiness	527	549	450
Communication	17	18	18
Power and water/waste disposal	–	–	1
Rural residential real estate	333	340	314
Total loans	$ 14,678	$ 14,516	$ 12,271

See Note 3, *Loans and Allowance for Loan Losses*, of the Consolidated Financial Statements, for further information concerning reclassification of loan types for all years presented.

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

Allowance for Loan Losses	December 31,		
as a Percentage of:	**2019**	**2018**	**2017**
Total loans	1.28%	1.25%	1.08%
Nonperforming loans	48.89%	46.27%	41.74%
Nonaccrual loans	54.83%	50.40%	44.95%

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

Net income for the year ended December 31, 2019, totaled $25,565, a decrease of $3,105 or 10.83 percent, as compared to $28,670 for the same period of 2018. The decrease in net income during 2019 when compared to 2018 resulted primarily from a $1,664 increase in noninterest expense, $2,142 decrease in special patronage, and a $1,315 decrease in net interest income, offset by a decrease of $1,420 in the provision for losses. The decrease in net interest income was mainly due to non-recurring income recognized on nonaccrual liquidations in the prior year.

Noninterest expense increased $1,664 mainly due to increased employee benefit costs in 2019. Major components of the changes in net income for the past two years are outlined in the following table:

Changes in Net Income:	**2019-2018**	**2018-2017**
Net income (prior year)	$ 28,670	$ 30,486
Increase (decrease) in net income due to:		
Interest income	254	7,873
Interest expense	1,569	(3,958)
Net interest income	(1,315)	3,915
Provision for loan losses	1,420	(1,105)
Noninterest income	(1,549)	(1,245)
Noninterest expense	(1,664)	(3,377)
Provision for income taxes	3	(4)
Total changes in income	(3,105)	(1,816)
Net income	$ 25,565	$ 28,670

Net Interest Income

Net interest income was $32.1 million, $33.4 million, and $29.5 million in 2019, 2018, and 2017, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets, and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past two years are presented in the following table:

Change in Net Interest Income:

	Volume*	**Rate**	**Total**
12/31/18 - 12/31/19			
Interest income	$ 245	$ 9	$ 254
Interest expense	(1,045)	2,614	1,569
Change in net interest income	$ 1,290	$ (2,605)	$ (1,315)
12/31/17 - 12/31/18			
Interest income	$ 1,482	$ 6,391	$ 7,873
Interest expense	1,626	2,332	3,958
Change in net interest income	$ (144)	$ 4,059	$ 3,915

* *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 December 31, 2019	2018	2017	Percentage Increase/(Decrease) 2019/ 2018	2018/ 2017
Loan fees	$ 2,495	$ 2,490	$ 2,785	0.20 %	(10.59)%
Fees for financially related services	284	223	373	27.35	(40.21)
Patronage refund from other Farm Credit Institutions	12,946	14,970	15,902	(13.52)	(5.86)
Gains (losses) from sales of premises and equipment, net	141	159	72	(11.32)	120.83
Gains (losses) on other Transactions	717	(190)	503	477.37	(137.77)
Other noninterest income	258	738	–	(65.04)	–
Total noninterest income	$ 16,841	$ 18,390	$ 19,635	(8.42)%	(6.34)%

The Patronage refund from other Farm Credit Institutions decreased. The Bank distributed $5,227 in special patronage in 2019. This distribution was due to a reduced refund at the Bank level that was distributed to all Associations in the district. The amount distributed to each Association was based on each institution's level of borrowing from the Bank. While significant special patronage has been provided in the past three years, the Association recognizes that special patronage is subject to the financial performance and condition of the Bank and, if provided in future years, will fluctuate based on current conditions.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2019	2018	2017	Percentage Increase/(Decrease) 2019/ 2018	2018/ 2017
Salaries and employee benefits	$ 13,583	$ 12,020	$ 11,231	13.00 %	7.03 %
Postretirement benefits	2,835	3,177	248	(10.76)	1,181.05
Occupancy and equipment expense	1,170	1,118	1,204	4.65	(7.14)
Insurance Fund premium	817	818	1,316	(0.12)	(37.84)
(Gains) losses on other property owned, net	10	(24)	13	(141.67)	(284.62)
Other operating expense	4,655	4,297	4,017	8.33	6.97
Total noninterest expense	$ 23,070	$ 21,406	$ 18,029	7.77 %	18.73 %

Salaries and employee benefits increased $1,563 in 2019, as compared with 2018, resulting in an increase of 13.00 percent. The increase is related to additional salary expense due to additional hiring and increased incentive payments in 2019. Postretirement benefits decreased by $342, as a result of reduced pension expenses.

Insurance Fund premiums decreased by 0.12 percent for the twelve months ended December 31, 2019, compared to the same period of 2018. The FCSIC set premiums at an average of 9 basis points on adjusted insured debt outstanding in 2019, the same amount charged during 2018. The decrease in premiums was mainly attributable to a decrease in loan volume. For 2020, the FCSIC has indicated that the premium will stay at approximately 9 basis points based on expected System loan growth in 2019.

Occupancy and equipment expense increased by 4.65 percent while other operating expense increased by 8.33 percent for the twelve months ended December 31, 2019. The increase in occupancy and equipment expense is due to increases in general repairs and maintenance on buildings. The increase in other operating expense is primarily due to increases in expenses related to regulatory oversight, public and member relations expense, and additional training expenses in 2019.

Income Taxes

The Association recorded $1 provision for income tax for the year ended December 31, 2019, as compared to a provision of $4 for 2018 and none for 2017. Refer to Note 2, *Summary of Significant Accounting Policies,(item K - Income Taxes)*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/19	12/31/18	12/31/17
Return on average assets	2.16%	2.43%	2.64%
Return on average members' equity	9.18%	10.45%	11.49%
Net interest income as a percentage of average earning assets	2.80%	2.92%	2.64%
Net (charge-offs) recoveries to average loans	(0.016)%	0.042%	(0.047)%

The 2019 return on average assets (ROA) decreased from 2019 by 27 basis points and return on average member's equity (ROE) decreased by 21 basis points from 2018. The primary reason for the decrease in ROA was the fact that there was a decrease in net earnings in 2019. ROE also decreased due to decreased earnings. Net interest income as a percentage of average earning assets, or net interest margin, decreased by 12 basis points from 2018 to 2019. The decrease was primarily a result of a large nonaccrual loan recovery in the prior year, which resulted in a decrease in interest income in 2019.

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must be strong and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term and is renewable each year. The current agreement expires on December 31, 2019, and the Association has no reason to believe the GFA will not be renewed upon expiration. 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."

As of December 31, 2019 the Association had $276,963 in loanable funds outstanding. The Association is able to effectively deploy these funds as working capital to boost profitability and patronage refunds. Through AgFirst's direct note pricing accounting for the calculation of interest expense the Association is given an interest rate credit for loanable funds based on the prevailing average direct note rate of the Association's entire portfolio.

Total notes payable to the Bank at December 31, 2019, was $893,705 as compared to $917,038 at December 31, 2018 and $885,588 at December 31, 2017. The decrease in 2019 of 2.54 percent as compared to December 31, 2018 was attributable to a decrease in Association loan volume. The average volume of outstanding notes payable to the Bank was $891,205 and $891,125 for the years ended December 31, 2019 and 2018, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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

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

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable, and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate, 90-day London Interbank Offered Rate (LIBOR), or the 30-day LIBOR rate. Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Relationship with the Bank

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

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

CAPITAL RESOURCES

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

The Association's Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. 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. During 2010, the Association's Board approved use of financial parameters or guidelines to assist in capital planning and in determining the appropriate level of patronage to distribute. These patronage parameters were also included in the 2019 capital adequacy plan.

Total members' equity at December 31, 2019, increased 3.78 percent to $273,592 from the December 31, 2018, total of $263,618. At December 31, 2018, total members' equity decreased 0.41 percent from the December 31, 2017 total of $262,549. The increase in 2019 was mainly due net income earned during the year, offset by patronage refunds to customers. The increase in 2018 was mainly due to net income earned during the year, offset by patronage refunds to customers and a decrease in preferred stock.

Preferred stock was $26,568 as of December 31, 2019, an increase of 11.65 percent over the December 31, 2018 level of $23,795. The majority of this increase was related to increased purchases of preferred stock. This preferred stock is a non-voting, at-risk class of stock that is only available to Association stockholders. Dividends are paid quarterly on outstanding shares of preferred stock, and for the year ended December 31, 2019, $531 in dividends were declared and paid in shares of stock, as compared to $433 for the same period in 2018. The average dividend rate paid on shares of preferred stock during 2019 was 1.84 percent, which was 46 basis points greater than 2018. Member stock and participation certificates were $3,594 on December 31, 2019, compared to $3,511 on December 31, 2018. The increase is attributed to a growth in the number of loans outstanding.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum capital ratios, and as of December 31, 2019, all capital ratios were well above the minimum regulatory requirements as illustrated in the chart shown below. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements. The Association is currently not prohibited from retiring stock or distributing earnings by statutory and regulatory restrictions, nor knows of any reason such prohibitions may apply for the foreseeable future.

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

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 2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	1.875%	6.375%	20.08%	19.20%	18.92%
Tier 1 Capital Ratio	6.0%	1.875%	7.875%	20.08%	19.20%	18.92%
Total Capital Ratio	8.0%	1.875%	9.875%	21.33%	20.32%	20.03%
Permanent Capital Ratio	7.0%	0.0%	7.0%	23.03%	21.70%	21.99%
Non-risk-adjusted:						
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	20.23%	19.35%	19.08%
UREE Leverage Ratio	1.5%	0.0%	1.5%	20.40%	19.50%	19.18%

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

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

The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	23.22%	23.00%	22.35%	22.96%	19.85%
Total Surplus Ratio	7.00%	19.00%	19.22%	18.58%	18.58%	16.21%
Core Surplus Ratio	3.50%	19.00%	19.22%	18.58%	18.58%	16.21%

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to non-patronage sourced business the remaining consolidated net earnings are eligible for allocation to borrower\patrons. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $17,916 in 2019, $19,000 in 2018, and $20,376 in 2017.

REGULATORY MATTERS

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2023.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Unincorporated Business Entities

The Association is the sole shareholder/owner of an Unincorporated Business Entity (UBE) as defined by FCA regulations. The UBE, ACF Acquisitions, LLC (ACF), is a wholly owned limited liability company organized in the state of North Carolina. ACF was organized to acquire real estate subsequent to Association foreclosure proceedings and ACF acquires and holds the Association's real estate acquired property.

Description of Property

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

Location	Description	Form of Ownership
408 NC Hwy 561 W Ahoskie	Branch	Owned
101 Impact Boulevard Elizabeth City	Branch	Owned
100 E. First Street Greenville	Branch/ Administrative	Owned
Hwy 43/Rock Springs Road Greenville	Vacant Lot	Owned
419 S. King Street Halifax	Branch	Owned
7900 Hwy 70 West La Grange	Branch	Owned
1654 NC Hwy 39 N Louisburg	Branch	Owned
1309 S. Glenburnie Road New Bern	Branch	Owned
2472 Woodruff Road Rocky Mount	Branch	Owned
2850 US Hwy 70 Business East Smithfield	Branch	Owned
13191 U.S. Hwy 264 Swan Quarter	Branch	Owned
1105 Garrett Road Williamston	Branch	Owned
4000 Poole Road Raleigh	Branch/ Administrative	Owned
4109 Old Poole Road Raleigh	Vacant lot	Owned
5201 Old Poole Road, Ste. 114 Raleigh	Agribusiness	Leased*

**Lease term is through October 2020. Lease payments are $2,822 per month.*

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 11, *Commitments and Contingencies*, of the Consolidated Financial Statements included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 7, *Members' Equity*,of the Consolidated Financial Statements included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities, and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 11 of the Consolidated Financial Statements included in this Annual Report.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association. The president and CEO and all other senior officers of the Association, together with their length of service at their present position, as well as positions held during the last five years, are as follows:

Name and Title	Time in Position	Prior Experience	Other Business Interests
David W. Corum, *President and CEO*	8 years	Director of Financial Analysis and Systems at Farm Credit Services of Mid America from 1986 to 1993. Executive Vice President and Chief Financial Officer with AgCarolina Farm Credit from 1993 to March 2012. Total of 38 years of employment in the Farm Credit System, including 26 years with AgCarolina Farm Credit.	He serves on the AgFirst/FCBT Plan Fiduciary Committee and is a member of the North Carolina State University Ag Foundation Board, the North Carolina State University Agricultural Institute Advisory Board, the board of the North Carolina Foundation for Soil and Water Conservation, the board of the North Carolina Agribusiness Council, and the University of Mount Olive Agricultural Advisory Board.
Matthew J. Currin *Senior Vice President and Chief Financial Officer*	8 years	Senior Vice President and Chief Financial Officer with Cape Fear Farm Credit from 2006 until 2011 and Associate with a local accounting firm from November 2011 to April 2012. A total of 15 years of employment in the Farm Credit System including seven years with AgCarolina Farm Credit.	
David C. Morris, *Senior Vice President and Chief Credit Officer*	9 years	Senior Vice President of Credit Services from 2008 until 2011. Total of 41 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	
Roy P. Robertson, Jr., *Senior Vice President - Corporate Lending*	8 years	Senior Vice President Financial Services from 2008 until 2011 and Executive Vice President and Chief Lending Officer from 2011 to March 2012. Total of 20 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	
Arthur R. (Buck) Spruill, III, *Senior Vice President –Branch Lending East*	5 years	Loan officer with AgCarolina Farm Credit from 1989 to 1993. Agribusiness Executive with two commercial banks from 1993 to 2013. Agribusiness Loan Officer from 2013 to 2015. Total of 10 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	He is a co-owner of a closely held family farming operation and also serves as a board member of Coastal Carolina Cotton Gin, a cotton processing facility.
Timothy M. Pace, *Senior Vice President –Branch Lending West*	8 years	Financial Services Officer from 1999 to 2008 and Senior Vice President Financial Services from 2008 to March 2012. Total of 21 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	
Laura S. (Skipper) Jones *Senior Vice President – Marketing and Communications*	3 years	Marketing Manager from 2008 to 2014 and Senior Vice President – Administrative Officer from 2014 to 2017 with Cape Fear Farm Credit. Total of 12 years of employment in the Farm Credit System, including two years with AgCarolina Farm Credit.	She serves as an advisory board member of the North Carolina Agricultural and Technical University College of Agricultural and Environmental Sciences.
Anthony S. (Scott) Jackson *Senior Vice President and Chief Risk Officer*	<1 year	Capital Markets Manager from 2011 to 2012 and Vice President – Credit Risk Management from 2013 to January 2020. Total of 9 years of employment with the Farm Credit System, all with AgCarolina Farm Credit. Mr. Jackson began his tenure in this role on February 1, 2020.	

The total amount of compensation (in whole dollars) earned by the CEO and other officers (excluding the CEO) as a group during the years ended December 31, 2019, 2018, and 2017, is presented in the following tables. The first table presented illustrates actual compensation received in cash in the form of salary and bonus:

		Received Compensation		
Name of Individual or Number in Group	Year	Salary	Bonus	Total Received Compensation (a)
David W. Corum	2019	$ 311,679	$ 99,712	$ 411,391
David W. Corum	2018	$ 294,345	$ 101,091	$ 395,436
David W. Corum	2017	$ 281,878	$ 83,312	$ 365,190
7 Officers	2019	$ 1,111,230	$ 308,948	$ 1,420,178
6 Officers	2018	$ 920,093	$ 289,381	$ 1,209,474
6 Officers	2017	$ 854,408	$ 238,172	$ 1,092,580

The table below discloses forms of perquisites and other noncash compensation and these items are described in detail in the subsequent paragraphs, which do not reflect actual cash compensation received by the CEO or officers presented. The total of all cash (a) and noncash (b) compensation for the CEO and officers is also presented here.

Perquisites and Noncash Compensation

Name of Individual or Number in Group	Year	Change in Pension*	Perquisites	Other	Total Perquisites and Noncash (b)	Total Received and Noncash Compensation (a+b)
David W. Corum	2019	$ 512,815	$ 10,230	$ 47,500	$ 570,545	$ 981,936
David W. Corum	2018	$ 55,454	$ 8,682	$ 42,000	$ 106,136	$ 501,572
David W. Corum	2017	$ 50,575	$ 7,343	$ 42,000	$ 99,918	$ 465,108
7 Officers**	2019	$ 1,264,628	$ 81,606	$ 120,000	$ 1,466,234	$ 2,886,412
6 Officers	2018	$ (98,594)	$ 31,299	$ 120,000	$ 52,705	$ 1,262,179
6 Officers	2017	$ 421,481	$ 27,034	$ 120,000	$ 568,515	$ 1,661,095

** This figure is a third party actuarial determination of the change in the present value of the estimated pension cash flows for employees as of December 31, 2019. This does not represent any actual cash compensation provided to any employee but is simply a change in the calculation that is affected by a number of assumptions and inputs.*

***Perquisites for 2019 includes payment of accrued annual leave in the amount of $40,385 upon the retirement of one officer. Due to this payout, this officer was included in the totals, whereas they were not in the preceeding years shown.*

The table below illustrates the present value of pension benefits for the CEO and other officers presented. This value represents the third party actuarial determination of the present value of the estimated pension cash flows for employees as of December 31, 2019. This does not represent any actual cash compensation provided to any employee but is simply a calculation that is affected by a number of assumptions and inputs. Actual funds received can differ based on how actual events compare to assumptions used in the calculation.

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:					
David W. Corum	2019	AgFirst Retirement Plan	40.58	$ 3,342,485	$ –
			Total	$ 3,342,485	$ –
Officers					
4 Officers, excluding the CEO	2019	AgFirst Retirement Plan	32.73*	$ 6,465,377	$ –
			Total	$ 6,465,377	$ –

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

In addition to a base salary, employees earn additional compensation under a bonus or incentive plan. The Association incentive plan is designed to motivate employees to exceed business goals during the fiscal year. Each region or business unit's incentive plan is tailored to meet the specific goals of that unit. These goals typically include loan volume, financially related services income, fee income, credit quality, credit administration, net earnings, and other key measurements. All employees in good standing are included for incentive plan eligibility. The incentive bonus is earned over the twelve-month calendar year period and is normally paid in the first quarter of the following year. In addition to the year-end incentive bonus plan described above, certain employees involved in the direct lending function are eligible for a quarterly sales incentive bonus. The sales incentive bonus is paid on new loan volume generated each quarter after a threshold amount of new loan volume is met. The President and Senior Vice Presidents do not participate in the sales incentive bonus.

The amounts included under the column heading "Change in Pension" represents the amount of year over year change in the present value of senior officers' *Actuarial Value of Accumulated Benefits,* also known as the pension accumulated benefit obligation (ABO). The ABO is an estimate of the present value of the employee's future cash flows associated with their pension, which assumes that the employee ceases to work for the company at the time the estimation is made. The ABO is unique to each participant in the plan and is calculated using a number of factors and assumptions including, but not limited to, the number of years of service in the plan, the discount rate used in the present value calculation, retirement eligibility, life expectancy of the participant, the participant's compensation basis and changes in beneficiary elections by the participant. These assumptions will almost certainly change from year to year depending on the information present at a given measurement date. The amount of the change in pension for Mr. Corum was $512,815 and the amount of the change in pension value for the remaining officers presented above is $1,264,628. The main reason for the increase in Mr. Corum's ABO amount was the decrease in the discount rate for calculating the present value of benefits, which was slightly offset by the increase in the future benefits calculation. For other senior officers, the overall ABO amount increased as a result of the decrease in the discount rate from 4.45% in 2018 to 3.30% in 2019. The decrease in this interest rate assumption inherently increases the ABO present value calculation for all participants in the plan.

The amounts included under the column "Perquisites" include group life insurance, spousal travel, service awards, and the unreimbursed portion of the value of the personal use of an Association provided vehicle.

The amounts included under the column heading "Other" are funds that have been invested in a nonqualified long-term deferred compensation program for certain Association employees. The program provides deferred compensation benefits to encourage focus on strategies that are in the long-term best interest of the Association and its shareholders. Under the program the funds are placed in a Trust owned by the Association. Compensation is deferred until a later date upon which the employee meets certain vesting guidelines and employment is terminated. All current and future assets used by the Association to fund this program will remain general assets of the Association until payment or distribution is made.

Amounts disclosed in the *Pension Benefits Table* represent the retirement plan(s) which CEO and other senior officers participate in and details about certain aspects of the plan(s). As illustrated, the CEO and four senior officers participate in the AgFirst Retirement Plan and three senior officers do not participate in a defined benefit pension plan. See *Note 9, Employee Benefit Plans* for further information. The number of years of credited service for the Association's CEO is 40.58 years. The average of the four officers in the AgFirst Retirement Plan, exclusive of the CEO, is shown at 32.73 years, with a range of credited service within the plan from 20 to 45 years.

The "Actuarial Present Value of Accumulated Benefits" column in the *Pension Benefits Table* represents the present value of the future cash flows related to the pension plans for the CEO and other senior officers as a group (exclusive of the CEO), also known as the ABO. The ABO is affected by a number of factors and assumptions, as described earlier. The ABO amount represents a point-in-time valuation and the actual amounts paid in retirement could be considerably less if all assumptions made in the calculation are not realized.

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

Additional Compensation Information

On March 31, 2014, the FCA published an interim final rule rescinding all requirements for nonbinding advisory votes on senior officer compensation at System banks and associations. The comment period for the interim rule ended on April 30, 2014 and the final rule became effective on June 18, 2014.

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. The rule will be effective 30 days after publication in the Federal Register during which time either one or both Houses of Congress are in session. System banks and associations were to comply with the rule for compensation reported in the table for the fiscal year ending 2016, and may implement the rule retroactively for the fiscal year ended 2015. The Association applied the rule retroactively to 2015 but this application had no effect on the 2015 amounts as previously reported in the 2015 Annual Report. All amounts reported subsequent to 2016 were applied using the aforementioned approach to this rule.

Directors

The following chart details the number of meetings, other activities, current committee assignments, the current term, additional compensation paid for other activities (if applicable), and total cash compensation paid for each director (all amounts are in whole dollars):

		Days Served					
Name of Director	Year of Original Election/ Appointment	Regular Board Meetings	Other Official Activities	2019 Committee Assignments	Current Term (a)	Comp. Paid for other Activities (b)	Total Comp. Paid During 2019
B. Derek Potter, *Chairman*	2009	6	20	Executive, Governance, Credit	2018-2021	$10,000	$ 18,000
S. Stuart Pierce, *Vice Chairman*	2005	7	23	Audit, Compensation, Governance	2017-2020	11,500	20,000
Duane E. Barrett (c)	2018	7	23	Audit, Compensation	2018-2021	11,500	20,000
Robert H. Bazemore, Jr. (d)	2011	5	17	Audit, Governance	2016-2019	8,500	16,000
Paul A. Drake	2007	7	16	Executive, Governance	2019-2022	8,000	16,500
Bundy H. Lane	2008	7	3	Audit	2020-2023	1,500	10,000
Audie M. Murphy	2006	7	26	Credit, Compensation, Governance	2018-2021	13,000	21,500
Rodney D. Smith	2012	6	9	Compensation	2017-2020	4,500	12,500
Ellis W. Taylor	2007	7	19	Audit, Credit, Executive	2019-2022	9,500	18,000
Jackie E. Thompson, Sr.	2016	7	9	Credit	2020-2023	4,500	13,000
Robert E. Turner, Jr.	2019	7	14	Credit	2019-2022	7,000	15,500
Eldridge T. Westbrook	2002	7	16	Compensation	2017-2020	8,000	16,500
TOTAL						$97,500	$197,500

(a) *All directors elected in 2019 officially began their current term January 1, 2020 and will complete their current term on December 31, 2023.*
(b) *Includes board committee meetings and other board activities other than regular board meetings, including Director training and participation in conferences.*
(c) *Resigned his position effective March 6, 2020 to pursue full time employment elsewhere.*
(d) Retired effective December 31, 2019

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

The aggregate amount (in whole dollars) of reimbursement for travel, subsistence and other related expenses for all directors as a group was $129,793 for 2019, $119,526 for 2018 and $109,371 for 2017. Subject to approval by the board, the Association may provide payment to directors of $500 per day for attendance at meetings, committee meetings, or special assignments. In addition to the per day payment, directors are paid a quarterly retainer fee of $1,250. Total compensation paid to directors as a group was $197,000. Association directors also benefited from non-cash compensation related to premiums that were paid on their behalf for accidental death and dismemberment insurance for Association related travel and business. Total non-cash compensation for directors as a group was $831 during 2019.

The following sets forth certain information regarding the directors of the Association who served during 2019 and their principal occupation for the past five years:

B. Derek Potter, *Chairman,* is a row crop farmer in Pamlico County who also serves on the board of a closely held farming corporation, the United Soybean Board, the North Carolina Soybean Board, the Pamlico County Soil & Water Board, the NC Soil and Water Commission, the Pamlico County Voluntary Ag District and the Pamlico County Extension Advisory Committee.

S. Stuart Pierce, *Vice Chairman,* is a row crop farmer in Hertford County who also serves on the board of Producers Gin of Murfreesboro, manages Ahoskie Fertilizer Co, Inc., is currently serving as President of the Hertford County Farm Bureau and serves on the North Carolina Farm Bureau Board and the board of the North Carolina Farmland Preservation Trust Fund, a land preservation trust.

Duane E. Barrett, Outside Director, is a North Carolina Certified Public Accountant and former Firm Director and National Controller with the public accounting firm Deloitte who also serves on the board of the Triangle Chapter of the American Red Cross. *Mr. Barrett resigned his position effective March 6, 2020 to pursue full-time employment elsewhere.*

Robert H. Bazemore, Jr., Outside Director, is the former Vice President of Audit Services, and previously served as the Controller and Chief Accounting Officer of Progress Energy, Inc. *Mr. Bazemore completed his term as a director on December 31, 2019.*

Dr. Alvin B. (Blake) Brown, Outside Director, is the Hugh C. Kiger Professor of Agricultural and Resource Economics at North Carolina State University. Dr. Brown previously served as the senior economist for the Council of Economic Advisers in the Executive Office of the President of the United States, where he focused on national agricultural policy. *Mr. Brown began his term as a director on January 1, 2020.*

Paul A. Drake is a row crop and livestock farmer in Edgecombe County who also serves on the boards of Edgecombe Volunteer Ag District and the board of several closely held family farming entities. He also serves as a director and as treasurer of the East Carolina Livestock Arena, Inc.

Bundy H. Lane is a row crop and livestock farmer in Gates County who serves on the board of Gates Cotton Gin and is a Board member and officer of several closely held family farming entities.

Audie M. Murphy is a row crop and poultry farmer in Greene County who also serves as secretary of the Greene Gin and Cotton Company, the Greene County Farm Bureau Board, and serves as an officer and director on several closely held family farming entities.

Rodney D. Smith is a row crop and livestock farmer in Lenoir County who serves on the board of the Lenoir County Farm Bureau and the Lenoir County Voluntary Agricultural District. Mr. Smith also manages and serves as a board member for multiple closely held family farming entities.

Ellis W. Taylor is a row crop farmer in Halifax County who also serves on the boards of the Federal Farm Credit Banks Funding Corporation, the funding agent for the Farm Credit System, AgFirst Farm Credit Bank, the district Farm Credit Bank, Northampton County Farm Bureau and Roanoke Cotton Company LLC.

Jackie E. Thompson, Sr. is a row crop and produce farmer in Wake County who also serves on the boards of Wake County Farm Bureau, North Carolina Farm Bureau, and the North Carolina Tobacco Growers Association.

Robert E. Turner, Jr. is a row crop and livestock farmer in Martin County who serves as a board member for multiple closely held farming entities.

Eldridge T. Westbrook is a row crop and livestock farmer in Johnston County.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditor

There were no changes in or material disagreements with the independent auditor 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 auditor for the year ended December 31, 2019 were as follows (in whole dollars):

		2019
Independent Auditor		
Dixon Hughes Goodman LLP		
Audit services	$	70,000
Nonaudit services		3,288
Total	$	73,288

Dixon Hughes Goodman LLP audit fees were for the annual audit of the consolidated financial statements. The Association also paid Dixon Hughes Goodman LLP $3,288 for nonaudit services during 2019 for assistance with the tabulation of ballots for the Association's annual director election.

All nonaudit service fees incurred by the Association were approved by the Board Audit Committee.

Preferred Stock Insider Transactions

The following describes transactions related to the purchase/sale of Association preferred stock by senior officers or directors who are considered Insiders which occurred during the 12-month period ended December 31, 2019. An Insider is defined to include any one or more of the following: (1) the Association's directors, officers, employees and agents; (2) any corporation, partnership, limited liability company or other entity of which any of the Association's directors, officers, employees or agents, or nominees of any of the foregoing, are a director, officer, partner or the holder of a majority of the equity ownership of the entity; and (3) the spouse and any other person who regularly resides in the same household of any officer, director, employee or agent.

There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2019 and the average dividend rate paid on shares of preferred stock during 2019 was 1.84 percent.

Consolidated Financial Statements

The consolidated financial statements, together with the report of Dixon Hughes Goodman LLP dated March 12, 2020 and the report of management, which appear in this Annual Report, are included herein.

Copies of the Association's quarterly reports are available upon request free of charge by calling 1-800-951-3276 or writing Matt Currin, AgCarolina Farm Credit, P.O. Box 14789, Raleigh, NC 27620, or accessing the website, *www.AgCarolina.com.* The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

Shareholder Investment

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

Young, Beginning, and Small Farmers and Ranchers Program

The Association's mission includes providing sound and constructive credit and related services to young, beginning, and small (YBS) farmers and ranchers. Annual marketing goals are established to increase market share of loans to YBS farmers and ranchers. To facilitate our lending programs, financing programs and use of government guaranteed loan programs have been adopted and implemented. Educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers have been developed or sponsored.

YBS farmers and ranchers are defined as:

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

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

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

The following tables outline the loan volume (in thousands) and number of outstanding YBS loans as of December 31, 2019 and new YBS loans made in 2019 as compared to the annual marketing goals set forth in the Association's annual business plan.

Total Portfolio Goals and Progress
As of December 31, 2019

	Number of Loans		Amount of Loans	
	2019 Goal	2019 Actual	2019 Goal	2019 Actual
Young	947	1,014	$140,279	$134,861
Beginning	1,278	1,383	175,769	176,511
Small	2,219	2,324	187,211	194,451

New Loan Goals and Progress
December 31, 2019

	Number of Loans		Amount of Loans	
	2019 Goal	2019 Actual	2019 Goal	2019 Actual
Young	276	330	$39,916	$63,364
Beginning	345	414	52,970	77,528
Small	601	695	48,912	57,893

	Association 12/31/19 Number of Loans	2012 Ag Census Number of Farmers
Young	14.73%	4.54%
Beginning	20.09%	18.14%
Small	33.75%	77.13%

The following table shows the Association's YBS loans as a percent of the total number of loans as of December 31, 2019, and comparable demographics from the 2012 Agricultural Census. The Association's percentages vary from the Census percentages because the Association's methodology uses number of loans and the Census uses number of farmers.

As part of the Association's YBS program, the Association has established the following mission statement, qualitative goals, and methods to ensure credit and services are provided in a safe and sound manner. These program components are described below along with a status report of each component.

YBS Program Component	Status
Mission Statement: AgCarolina Farm Credit recognizes that young, beginning, and small farmers and ranchers face many challenges and obstacles. Our organization is dedicated to improving the future of agriculture and rural America by supporting young, beginning, and small farmers and ranchers through educational and leadership opportunities as well as providing competitive lending.	The Association is meeting its mission statement by fulfilling the credit needs of YBS farmers in the Association's territory.
Qualitative Goals: The following qualitative goals were set for 2019: • Broaden YBS and marketing outreach programs • Broaden partnering opportunities with other organizations. • Increase educational opportunities for YBS farmers. • Broaden participation and involvement in youth programs and outreach activities. • Ensure sound YBS controls through expanded reporting.	The Association participated in the following YBS activities during 2019 in meeting its qualitative goals: • Supported the commodity groups including those that benefit the diverse segments of the ag community: NC Junior Beef Roundup, NC Dairy Association, NC Minority Landowners Conference, NC Junior Hereford Association, Carolina Organic Commodities and Livestock Conference, and the Center for Environmental Farming Systems. • Sponsorship of livestock shows throughout the territory • Supported the North Carolina FFA and 4-H groups by providing financial assistance, sponsorships, speakers, grants and volunteers. • Sponsor of 4-H Public Speaking program. • Session sponsor at annual FFA State Convention. • Partnered with the Tobacco Farm Life Museum in recognizing a young producer with the "Innovative Young Farmer" award. • Provided scholarships to North Carolina State University (NCSU), NC A&T University (NC A&T), and other North Carolina colleges and universities, including the NCSU Ag Institute as well as community colleges. • Grants presented to organizations across eastern North Carolina for programs that included FFA projects, 4-H projects, and projects for non-profit organizations. • Provided two online educational programs, Ag Biz Planner and Ag Biz Basics, for young, beginning, small, and minority producers. • Sponsor of NC Choices Carolina Meat Conference. • Ag Leadership Institute, with Dr. Dave Kohl, providing financial training, as well as information for better farm management for young couples. • Supported the NC Ag Leadership Program • Sponsor of NCSU's CALS Tailgate • Sponsor of University of Mount Olive's AgFest • Sponsor of the Northeast Regional Ag Expo • Conducted Measuring Success financial workshops for members • Hosted 3rd annual Pull for Youth sporting clays event, a fundraiser for NC 4-H and FFA • Conducted member Agricultural Economic Forums • Offered weather and commodity marketing email subscriptions. • Sponsored NCSU's Executive Farm Management Program • Provided job shadowing opportunities for NCSU ag students
Credit & Service Methods: Ensure methods are in place to make sure that credit and services offered to YBS farmers are provided in a safe and sound manner, and within the Association's risk-bearing capacity.	The Association's YBS program includes customized loan underwriting standards, loan guarantees, additional co-makers, and other credit enhancements to ensure that credit and services are provided in a safe and sound manner, and within the Association's risk-bearing capacity.

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 AgCarolina Farm Credit, ACA (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

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

Dixon Hughes Goodman LLP (DHG), the Association's independent auditor 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 DHG the matters that are required to be discussed by Statement on Auditing Standards AU-C 260 and 265 *(The Auditor's Communication With Those Charged With Governance)*. DHG has provided to the Committee the written disclosures required by professional standards.

The Committee discussed with DHG its independence from AgCarolina Farm Credit, ACA. The Committee also reviewed the non-audit services provided by DHG and concluded that these services were not incompatible with maintaining DHG'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:

Ellis W. Taylor

Ellis W. Taylor
Chairman of the Audit Committee

Members of Audit Committee

A. Blake Brown
Bundy H. Lane
Audie M. Murphy
Ellis W. Taylor

March 12, 2020

DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
AgCarolina Farm Credit, ACA
Raleigh, North Carolina

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

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 these 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 the auditors' 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, the auditor considers internal control relevant to the entity'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 entity'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 AgCarolina Farm Credit, ACA as of December 31, 2019, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Raleigh, North Carolina
March 12, 2020

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2019	2018	2017
Assets			
Cash	**$ 3,325**	$ 3,029	$ 5,853
Loans	**1,149,313**	1,159,962	1,132,771
Allowance for loan losses	**(14,678)**	(14,516)	(12,271)
Net loans	**1,134,635**	1,145,446	1,120,500
Accrued interest receivable	**17,215**	18,361	15,808
Equity investments in other Farm Credit institutions	**13,481**	13,118	12,950
Premises and equipment, net	**10,774**	10,503	10,158
Other property owned	**966**	986	108
Accounts receivable	**12,941**	15,019	15,919
Other assets	**3,489**	4,174	4,316
Total assets	**$ 1,196,826**	$ 1,210,636	$ 1,185,612
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 893,705**	$ 917,038	$ 885,588
Accrued interest payable	**2,272**	2,500	2,061
Patronage refunds payable	**17,930**	19,053	20,435
Accounts payable	**1,619**	1,625	2,084
Advanced conditional payments	**1**	—	—
Other liabilities	**7,707**	6,802	12,895
Total liabilities	**923,234**	947,018	923,063
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**30,162**	27,306	35,474
Retained earnings			
Allocated	**174,551**	167,917	159,279
Unallocated	**68,879**	68,395	67,796
Total members' equity	**273,592**	263,618	262,549
Total liabilities and members' equity	**$ 1,196,826**	$ 1,210,636	$ 1,185,612

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Interest Income			
Loans	**$ 60,797**	$ 60,543	$ 52,670
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**28,663**	27,094	23,136
Net interest income	**32,134**	33,449	29,534
Provision for loan losses	**339**	1,759	654
Net interest income after provision for loan losses	**31,795**	31,690	28,880
Noninterest Income			
Loan fees	**2,495**	2,490	2,785
Fees for financially related services	**284**	223	373
Patronage refunds from other Farm Credit institutions	**12,946**	14,970	15,902
Gains (losses) on sales of premises and equipment, net	**141**	159	72
Gains (losses) on other transactions	**718**	(190)	503
Insurance Fund refunds	**255**	736	—
Other noninterest income	**2**	2	—
Total noninterest income	**16,841**	18,390	19,635
Noninterest Expense			
Salaries and employee benefits	**16,418**	15,197	14,235
Occupancy and equipment	**1,170**	1,118	1,204
Insurance Fund premiums	**817**	818	1,316
(Gains) losses on other property owned, net	**10**	(24)	13
Other operating expenses	**4,655**	4,297	1,261
Total noninterest expense	**23,070**	21,406	18,029
Income before income taxes	**25,566**	28,674	30,486
Provision for income taxes	**1**	4	—
Net income	**25,565**	28,670	30,486
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 25,565**	$ 28,670	$ 30,486

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2016	$ 46,646	$ 150,444	$ 67,062	$ 264,152
Comprehensive income			30,486	30,486
Capital stock/participation certificates issued/(retired), net	(11,607)			(11,607)
Dividends declared/paid	435		(435)	—
Patronage distribution				
Cash			(20,376)	(20,376)
Nonqualified retained earnings		8,726	(8,726)	—
Patronage distribution adjustment		109	(215)	(106)
Balance at December 31, 2017	$ 35,474	$ 159,279	$ 67,796	$ 262,549
Comprehensive income			28,670	28,670
Capital stock/participation certificates issued/(retired), net	(8,601)			(8,601)
Dividends declared/paid	433		(433)	—
Patronage distribution				
Cash			(19,000)	(19,000)
Nonqualified retained earnings		8,487	(8,487)	—
Patronage distribution adjustment		151	(151)	—
Balance at December 31, 2018	$ 27,306	$ 167,917	$ 68,395	$ 263,618
Comprehensive income			**25,565**	**25,565**
Capital stock/participation certificates issued/(retired), net	**2,325**			**2,325**
Dividends declared/paid	**531**		**(531)**	**—**
Patronage distribution				
Cash			**(17,916)**	**(17,916)**
Nonqualified retained earnings		**5,972**	**(5,972)**	**—**
Patronage distribution adjustment		**662**	**(662)**	**—**
Balance at December 31, 2019	**$ 30,162**	**$ 174,551**	**$ 68,879**	**$ 273,592**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Cash flows from operating activities:			
Net income	$ **25,565**	$ 28,670	$ 30,486
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**991**	919	911
Provision for loan losses	**339**	1,759	654
(Gains) losses on other property owned	**3**	(27)	13
(Gains) losses on sales of premises and equipment, net	**(141)**	(159)	(72)
(Gains) losses on other transactions	**(718)**	190	(503)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**1,146**	(2,553)	(895)
(Increase) decrease in accounts receivable	**2,078**	900	(3,485)
(Increase) decrease in other assets	**685**	142	4,506
Increase (decrease) in accrued interest payable	**(228)**	439	333
Increase (decrease) in accounts payable	**(6)**	(459)	(543)
Increase (decrease) in other liabilities	**1,623**	(6,283)	(2,173)
Total adjustments	**5,772**	(5,132)	(1,254)
Net cash provided by (used in) operating activities	**31,337**	23,538	29,232
Cash flows from investing activities:			
Net (increase) decrease in loans	**10,472**	(27,591)	(41,338)
(Increase) decrease in equity investments in other Farm Credit institutions	**(363)**	(168)	(702)
Purchases of premises and equipment	**(1,344)**	(1,578)	(1,139)
Proceeds from sales of premises and equipment	**223**	473	153
Proceeds from sales of other property owned	**17**	35	—
Net cash provided by (used in) investing activities	**9,005**	(28,829)	(43,026)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**(23,333)**	31,450	39,061
Net increase (decrease) in advanced conditional payments	**1**	—	—
Capital stock and participation certificates issued/(retired), net	**2,325**	(8,601)	(11,607)
Patronage refunds and dividends paid	**(19,039)**	(20,382)	(11,272)
Net cash provided by (used in) financing activities	**(40,046)**	2,467	16,182
Net increase (decrease) in cash	**296**	(2,824)	2,388
Cash, beginning of period	**3,029**	5,853	3,465
Cash, end of period	$ **3,325**	$ 3,029	$ 5,853
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	$ **—**	$ 80	$ —
Receipt of property in settlement of loans	**—**	966	121
Estimated cash dividends or patronage distributions declared or payable	**17,916**	19,000	20,376
Dividends declared or payable in shares of preferred stock	**531**	433	435
Supplemental information:			
Interest paid	$ **28,891**	$ 26,655	$ 22,803
Taxes (refunded) paid, net	**6**	—	—

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:** AgCarolina Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Beaufort, Bertie, Camden, Carteret, Chowan, Craven, Currituck, Dare, Edgecombe, Franklin, Gates, Granville, Greene, Halifax, Hertford, Hyde, Johnston, Jones, Lenoir, Martin, Nash, Northampton, Onslow, Pamlico, Pasquotank, Perquimans, Pitt, Tyrrell, Vance, Wake, Warren, Washington, Wayne, and Wilson in the state of North Carolina.

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

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

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

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

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held $3,075 in cash in excess of insured amounts.

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

Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

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 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.

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.

Deferred Compensation Plan
The Association also sponsors a long-term deferred compensation program for certain key employees. This plan is nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

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. **Accounts Receivable:** The Association records patronage refunds from the Bank on an accrual basis. Patronage refunds due from the Bank for the years ended December 31, 2019, 2018, and 2017 of $12,741, $14,852, and $15,756, respectively, are reflected in Accounts Receivable on the Consolidated Balance Sheets.

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. The methods used approximate the exit price notion in current guidance at a materially acceptable level. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing.

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

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

Additional information may be found in Note 8.

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

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

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

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

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

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

Gains and Losses from Nonfinancial Assets
Any gains or losses on sales of Premises and Equipment and OPO are included as part of Noninterest Expense. 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 $43 and Lease Liability in the amount of $42 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	December 31, 2018	December 31, 2017
Real estate mortgage	$ 638,604	$ 640,447	$ 634,025
Production and intermediate-term	419,981	427,991	414,378
Loans to cooperatives	3,762	2,360	2,659
Processing and marketing	40,887	41,784	37,056
Farm-related business	9,757	11,161	8,796
Communication	1,755	1,846	1,946
Power and water/waste disposal	15	7	66
Rural residential real estate	34,552	34,366	33,845
Total loans	$ 1,149,313	$ 1,159,962	$ 1,132,771

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	$ 11,007	$ 31,700	$ –	$ 3,343	$ –	$ –	$ 11,007	$ 35,043
Production and intermediate-term	19,557	53,218	3,389	176,229	–	–	22,946	229,447
Loans to cooperatives	3,767	–	–	–	–	–	3,767	–
Processing and marketing	12,446	9,651	767	–	–	–	13,213	9,651
Farm-related business	364	–	201	–	–	–	565	–
Communication	1,759	–	–	–	–	–	1,759	–
Power and water/waste disposal	16	–	–	–	–	–	16	–
Total	$ 48,916	$ 94,569	$ 4,357	$ 179,572	$ –	$ –	$ 53,273	$ 274,141

	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	$ 10,482	$ 52,543	$ –	$ 3,834	$ –	$ –	$ 10,482	$ 56,377
Production and intermediate-term	14,319	58,857	3,134	184,470	–	–	17,453	243,327
Loans to cooperatives	2,363	–	–	–	–	–	2,363	–
Processing and marketing	12,674	15,793	533	–	–	–	13,207	15,793
Farm-related business	766	–	137	–	–	–	903	–
Communication	1,848	–	–	–	–	–	1,848	–
Power and water/waste disposal	8	–	–	–	–	–	8	–
Total	$ 42,460	$ 127,193	$ 3,804	$ 188,304	$ –	$ –	$ 46,264	$ 315,497

	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	$ 6,722	$ 45,545	$ –	$ 1,041	$ –	$ –	$ 6,722	$ 46,586
Production and intermediate-term	17,838	61,315	3,173	183,569	–	–	21,011	244,884
Loans to cooperatives	2,661	–	–	–	–	–	2,661	–
Processing and marketing	12,686	13,967	427	–	–	–	13,113	13,967
Farm-related business	568	104	290	–	–	–	858	104
Communication	1,951	–	–	–	–	–	1,951	–
Power and water/waste disposal	68	–	–	–	–	–	68	–
Total	$ 42,494	$ 120,931	$ 3,890	$ 184,610	$ –	$ –	$ 46,384	$ 305,541

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	$ 11,818	$ 96,762	$ 530,024	$ 638,604
Production and intermediate term	196,760	177,526	45,695	419,981
Loans to cooperatives	–	565	3,197	3,762
Processing and marketing	10,885	17,022	12,980	40,887
Farm-related business	1,403	5,296	3,058	9,757
Communication	–	–	1,755	1,755
Power and water/waste disposal	–	15	–	15
Rural residential real estate	890	1,891	31,771	34,552
Total loans	$ 221,756	$ 299,077	$ 628,480	$ 1,149,313
Percentage	19.30%	26.02%	54.68%	100.00%

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

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

	December 31, 2019	2018	2017
Real estate mortgage:			
Acceptable	87.71%	87.20%	85.88%
OAEM	6.05	6.17	6.98
Substandard/doubtful/loss	6.24	6.63	7.14
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	88.05%	85.67%	84.64%
OAEM	5.85	5.91	8.38
Substandard/doubtful/loss	6.10	8.42	6.98
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	96.15%	97.40%	96.17%
OAEM	3.34	–	1.77
Substandard/doubtful/loss	0.51	2.60	2.06
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	92.91%	96.90%	97.96%
OAEM	1.92	1.87	1.01
Substandard/doubtful/loss	5.17	1.23	1.03
	100.00%	100.00%	100.00%

	December 31, 2019	2018	2017
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	96.63%	97.30%	97.46%
OAEM	2.18	1.43	1.12
Substandard/doubtful/loss	1.19	1.27	1.42
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	88.50%	87.43%	86.25%
OAEM	5.70	5.65	7.08
Substandard/doubtful/loss	5.80	6.92	6.67
	100.00%	100.00%	100.00%

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

December 31, 2019

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 3,346	$ 7,467	$ 10,813	$ 637,301	$ 648,114
Production and intermediate-term	3,130	9,378	12,508	414,689	427,197
Loans to cooperatives	–	–	–	3,763	3,763
Processing and marketing	–	–	–	41,167	41,167
Farm-related business	575	–	575	9,286	9,861
Communication	–	–	–	1,755	1,755
Power and water/waste disposal	–	–	–	15	15
Rural residential real estate	79	115	194	34,462	34,656
Total	$ 7,130	$ 16,960	$ 24,090	$ 1,142,438	$ 1,166,528

December 31, 2018

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 5,094	$ 7,697	$ 12,791	$ 637,563	$ 650,354
Production and intermediate-term	3,609	4,928	8,537	427,372	435,909
Loans to cooperatives	–	–	–	2,362	2,362
Processing and marketing	–	723	723	41,336	42,059
Farm-related business	–	58	58	11,253	11,311
Communication	–	–	–	1,846	1,846
Power and water/waste disposal	–	–	–	7	7
Rural residential real estate	204	106	310	34,165	34,475
Total	$ 8,907	$ 13,512	$ 22,419	$ 1,155,904	$ 1,178,323

December 31, 2017

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 1,700	$ 4,332	$ 6,032	$ 636,850	$ 642,882
Production and intermediate-term	1,763	6,118	7,881	413,142	421,023
Loans to cooperatives	–	–	–	2,662	2,662
Processing and marketing	–	767	767	36,417	37,184
Farm-related business	–	–	–	8,863	8,863
Communication	–	–	–	1,947	1,947
Power and water/waste disposal	–	–	–	66	66
Rural residential real estate	70	38	108	33,844	33,952
Total	$ 3,533	$ 11,255	$ 14,788	$ 1,133,791	$ 1,148,579

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

	December 31, 2019	2018	2017
Nonaccrual loans:			
Real estate mortgage	$ 13,735	$ 15,365	$ 16,500
Production and intermediate-term	12,832	12,433	9,854
Processing and marketing	–	723	767
Farm-related business	–	58	–
Rural residential real estate	204	221	179
Total	$ 26,771	$ 28,800	$ 27,300
Accruing restructured loans:			
Real estate mortgage	$ 1,985	$ 2,246	$ 2,087
Production and intermediate-term	303	327	15
Total	$ 2,288	$ 2,573	$ 2,102
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 29,059	$ 31,373	$ 29,402
Other property owned	966	986	108
Total nonperforming assets	$ 30,025	$ 32,359	$ 29,510
Nonaccrual loans as a percentage of total loans	2.33%	2.48%	2.41%
Nonperforming assets as a percentage of total loans and other property owned	2.61%	2.79%	2.60%
Nonperforming assets as a percentage of capital	10.97%	12.27%	11.24%

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	$ 8,302	$ 10,868	$ 14,628
Past due	18,469	17,932	12,672
Total	$ 26,771	$ 28,800	$ 27,300
Impaired accrual loans:			
Restructured	$ 2,288	$ 2,573	$ 2,102
90 days or more past due	–	–	–
Total	$ 2,288	$ 2,573	$ 2,102
Total impaired loans	$ 29,059	$ 31,373	$ 29,402
Additional commitments to lend	$ –	$ –	$ –

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

	December 31, 2019			Year Ended December 31, 2019	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 2,027	$ 2,678	$ 276	$ 2,192	$ 91
Production and intermediate-term	6,838	8,189	3,192	7,396	307
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 8,865	$ 10,867	$ 3,468	$ 9,588	$ 398
With no related allowance for credit losses:					
Real estate mortgage	13,693	$ 15,842	$ –	$ 14,810	$ 615
Production and intermediate-term	6,297	7,758	–	6,808	283
Processing and marketing	–	–	–	–	–
Farm-related business	–	3	–	–	–
Rural residential real estate	204	424	–	221	9
Total	$ 20,194	$ 24,027	$ –	$ 21,839	$ 907
Total:					
Real estate mortgage	$ 15,720	$ 18,520	$ 276	$ 17,002	$ 706
Production and intermediate-term	13,135	15,947	3,192	14,204	590
Processing and marketing	–	–	–	–	–
Farm-related business	–	3	–	–	–
Rural residential real estate	204	424	–	221	9
Total	$ 29,059	$ 34,894	$ 3,468	$ 31,427	$ 1,305

Impaired loans:	December 31, 2018 Recorded Investment	December 31, 2018 Unpaid Principal Balance	December 31, 2018 Related Allowance	Year Ended December 31, 2018 Average Impaired Loans	Year Ended December 31, 2018 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 1,841	$ 1,844	$ 940	$ 3,905	$ 1,933*
Production and intermediate-term	4,801	5,364	1,967	3,912	101
Processing and marketing	–	–	–	–	–
Farm-related business	58	60	–	47	1
Rural residential real estate	–	–	–	–	–
Total	$ 6,700	$ 7,268	$ 2,907	$ 7,864	$ 2,035
With no related allowance for credit losses:					
Real estate mortgage	$ 15,770	$ 18,095	$ –	$ 14,218	$ 1,025*
Production and intermediate-term	7,959	9,500	–	6,486	167
Processing and marketing	723	832	–	589	15
Farm-related business	–	–	–	–	–
Rural residential real estate	221	411	–	180	5
Total	$ 24,673	$ 28,838	$ –	$ 21,473	$ 1,212
Total:					
Real estate mortgage	$ 17,611	$ 19,939	$ 940	$ 18,123	$ 2,958
Production and intermediate-term	12,760	14,864	1,967	10,398	268
Processing and marketing	723	832	–	589	15
Farm-related business	58	60	–	47	1
Rural residential real estate	221	411	–	180	5
Total	$ 31,373	$ 36,106	$ 2,907	$ 29,337	$ 3,247

*Large portion of amounts related to two large impaired loan liquidations.

Impaired loans:	December 31, 2017 Recorded Investment	December 31, 2017 Unpaid Principal Balance	December 31, 2017 Related Allowance	Year Ended December 31, 2017 Average Impaired Loans	Year Ended December 31, 2017 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 4,326	$ 5,859	$ 1,330	$ 4,047	$ 136
Production and intermediate-term	1,147	1,704	326	1,073	36
Processing and marketing	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 5,473	$ 7,563	$ 1,656	$ 5,120	$ 172
With no related allowance for credit losses:					
Real estate mortgage	$ 14,261	$ 17,268	$ –	$ 13,341	$ 447
Production and intermediate-term	8,722	10,200	–	8,159	274
Processing and marketing	767	810	–	718	24
Rural residential real estate	179	355	–	167	6
Total	$ 23,929	$ 28,633	$ –	$ 22,385	$ 751
Total:					
Real estate mortgage	$ 18,587	$ 23,127	$ 1,330	$ 17,388	$ 583
Production and intermediate-term	9,869	11,904	326	9,232	310
Processing and marketing	767	810	–	718	24
Rural residential real estate	179	355	–	167	6
Total	$ 29,402	$ 36,196	$ 1,656	$ 27,505	$ 923

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	Total
Activity related to the allowance for credit losses:							
Balance at December 31, 2018	$ 7,347	$ 6,262	$ 549	$ 18	$ –	$ 340	$ 14,516
Charge-offs	(44)	(329)	–	–	–	–	(373)
Recoveries	54	142	–	–	–	–	196
Provision for loan losses	(853)	1,222	(22)	(1)	–	(7)	339
Balance at December 31, 2019	$ 6,504	$ 7,297	$ 527	$ 17	$ –	$ 333	$ 14,678
Balance at December 31, 2017	$ 7,271	$ 4,217	$ 450	$ 18	$ 1	$ 314	$ 12,271
Charge-offs	(29)	(50)	–	–	–	–	(79)
Recoveries	110	455	–	–	–	–	565
Provision for loan losses	(5)	1,640	99	–	(1)	26	1,759
Balance at December 31, 2018	$ 7,347	$ 6,262	$ 549	$ 18	$ –	$ 340	$ 14,516
Balance at December 31, 2016	$ 7,345	$ 4,136	$ 307	$ 17	$ –	$ 338	$ 12,143
Charge-offs	(52)	(618)	–	–	–	(27)	(697)
Recoveries	18	153	–	–	–	–	171
Provision for loan losses	(40)	546	143	1	1	3	654
Balance at December 31, 2017	$ 7,271	$ 4,217	$ 450	$ 18	$ 1	$ 314	$ 12,271
Allowance on loans evaluated for impairment:							
Individually	$ 276	$ 3,192	$ –	$ –	$ –	$ –	$ 3,468
Collectively	6,228	4,105	527	17	–	333	11,210
Balance at December 31, 2019	$ 6,504	$ 7,297	$ 527	$ 17	$ –	$ 333	$ 14,678
Individually	$ 940	$ 1,967	$ –	$ –	$ –	$ –	$ 2,907
Collectively	6,407	4,295	549	18	–	340	11,609
Balance at December 31, 2018	$ 7,347	$ 6,262	$ 549	$ 18	$ –	$ 340	$ 14,516
Individually	$ 1,330	$ 326	$ –	$ –	$ –	$ –	$ 1,656
Collectively	5,941	3,891	450	18	1	314	10,615
Balance at December 31, 2017	$ 7,271	$ 4,217	$ 450	$ 18	$ 1	$ 314	$ 12,271
Recorded investment in loans evaluated for impairment:							
Individually	$ 15,720	$ 13,135	$ –	$ –	$ –	$ 204	$ 29,059
Collectively	632,394	414,062	54,791	1,755	15	34,452	1,137,469
Balance at December 31, 2019	$ 648,114	$ 427,197	$ 54,791	$ 1,755	$ 15	$ 34,656	$ 1,166,528
Individually	$ 17,611	$ 12,760	$ 781	$ –	$ –	$ 221	$ 31,373
Collectively	632,743	423,149	54,951	1,846	7	34,254	1,146,950
Balance at December 31, 2018	$ 650,354	$ 435,909	$ 55,732	$ 1,846	$ 7	$ 34,475	$ 1,178,323
Individually	$ 18,587	$ 9,869	$ 767	$ –	$ –	$ 179	$ 29,402
Collectively	624,295	411,154	47,942	1,947	66	33,773	1,119,177
Balance at December 31, 2017	$ 642,882	$ 421,023	$ 48,709	$ 1,947	$ 66	$ 33,952	$ 1,148,579

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 $20,078, $15,307 and $15,417 at December 31, 2019, 2018, and 2017, respectively. Fees paid for such guarantee commitments totaled $1, $1, and $2 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 table presents additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

	Year Ended December 31, 2019				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 679	$ 387	$ –	$ 1,066	
Production and intermediate-term	1,712	1,336	–	3,048	
Total	$ 2,391	$ 1,723	$ –	$ 4,114	
Post-modification:					
Real estate mortgage	$ 679	$ 387	$ –	$ 1,066	$ –
Production and intermediate-term	1,712	1,336	–	3,048	(6)
Total	$ 2,391	$ 1,723	$ –	$ 4,114	$ (6)

	Year Ended December 31, 2018				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 299	$ 469	$ –	$ 768	
Production and intermediate-term	91	265	–	356	
Total	$ 390	$ 734	$ –	$ 1,124	
Post-modification:					
Real estate mortgage	$ 299	$ 441	$ –	$ 740	$ –
Production and intermediate-term	341	265	–	606	(4)
Total	$ 640	$ 706	$ –	$ 1,346	$ (4)

	Year Ended December 31, 2017				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 2,476	$ –	$ 2,476	
Production and intermediate-term	–	2,301	198	2,499	
Processing and marketing	–	786	–	786	
Total	$ –	$ 5,563	$ 198	$ 5,761	
Post-modification:					
Real estate mortgage	$ –	$ 2,354	$ –	$ 2,354	$ –
Production and intermediate-term	–	2,123	198	2,321	(281)
Processing and marketing	–	786	–	786	–
Total	$ –	$ 5,263	$ 198	$ 5,461	$ (281)

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	$ 3,276	$ 4,036	$ 10,353	$ 1,291	$ 1,790	$ 8,266
Production and intermediate-term	2,906	1,848	1,767	2,603	1,521	1,752
Processing and marketing	–	723	767	–	723	767
Total loans	$ 6,182	$ 6,607	$ 12,887	$ 3,894	$ 4,034	$ 10,785
Additional commitments to lend	$ –	$ –	$ –			

The following table presents information as of period end:

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

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions
Equity investments in other Farm Credit 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.

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $12,830, $12,474, and $12,259 at December 31, 2019, 2018, and 2017, respectively. The Association owned 4.54 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 (audited by another firm) and shareholders' equity totaled $2.3 billion (audited by another firm). The Bank's earnings were $272 million (audited by another firm) for 2019, $306 million (audited by another firm) for 2018, and $345 million (audited by another firm) for 2017. In addition, the Association had investments of $651 related to other Farm Credit institutions at December 31, 2019.

Note 5 — Premises and Equipment and Other Property Owned

Premises and Equipment
Premises and equipment consists of the following:

	December 31,		
	2019	2018	2017
Land	$ 2,883	$ 2,878	$ 2,331
Buildings and improvements	9,641	9,248	9,744
Furniture and equipment	5,248	4,953	4,699
	17,772	17,079	16,774
Less: accumulated depreciation	6,998	6,576	6,616
Total	$ 10,774	$ 10,503	$ 10,158

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

	Year Ended December 31,		
	2019	2018	2017
(Gains) losses on sale, net	$ –	$ (35)	$ –
Carrying value unrealized (gains) losses	3	8	13
Operating (income) expense, net	7	3	–
(Gains) losses on other property owned, net	$ 10	$ (24)	$ 13

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. There were no deferred gains at December 31, 2019, 2018, and 2017.

Note 6 — Debt

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

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

The weighted average interest rates on the variable rate advances were 2.80 percent for LIBOR-based loans and 2.91 percent for Prime-based loans, and the weighted average remaining maturities were 2.0 years and 1.0 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 3.08 percent, and the weighted average remaining maturity was 10.1 years at December 31, 2019. The weighted-average interest rate on all interest-bearing notes payable was 3.02 percent and the weighted-average remaining maturity was 7.8 years at December 31, 2019. Variable rate and fixed rate notes payable represent approximately 4.57 percent and 95.43 percent, respectively, of total notes payable at December 31, 2019. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to 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 does not always make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation, the total balance of which would not exceed $3,594, representing the total outstanding value of capital stock and participation certificates at December 31, 2019.

   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.

   The Association provides customers, through its Preferred Stock Program, the ability to purchase Class A Preferred Stock (Preferred Stock) at the Preferred Stock's par value of five dollars per share to holders of any class of Association common stock or participation certificates. The minimum initial subscription of Preferred Stock is one hundred shares for a total of five hundred dollars. Preferred Stock is a non-voting class of stock that pays a quarterly dividend based on dividend rates set in advance by the Board of Directors. All dividends are paid in shares of stock at par value at the end of the record date, normally each quarter end, provided that holders have a Preferred Stock outstanding balance at the time of the record date. Holders of Preferred Stock must also have an outstanding loan with the Association, and upon loan payoff must retire all shares of Preferred Stock within 90 days.

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

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

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

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

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

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital	4.5%	1.875%	6.375%	20.08%	19.20%	18.92%
Tier 1 Capital	6.0%	1.875%	7.875%	20.08%	19.20%	18.92%
Total Capital	8.0%	1.875%	9.875%	21.33%	20.32%	20.03%
Permanent Capital	7.0%	0.0%	7.0%	23.03%	21.70%	21.99%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	20.23%	19.35%	19.08%
URE and UREE Leverage	1.5%	0.0%	1.5%	20.40%	19.50%	19.18%

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

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

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

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

Class	Protected	Shares Outstanding Number	Aggregate Par Value
A Preferred/Nonvoting	No	5,313,679	$ 26,568
C Common/Voting	No	652,629	3,263
C Participation Certificates/Nonvoting	No	66,110	331
Total Capital Stock and Participation Certificates		6,032,418	$ 30,162

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 may 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.

Qualified allocated equities shall be retired for a cash distribution solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2019, allocated members' equity consisted of no qualified surplus and $174,551 of nonqualified retained surplus.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available patronage-sourced 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 and leases 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. In February 2020, the Association distributed $17,916 for the 2019 fiscal year patronage to all eligible patrons.

Dividends

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

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividend paid on Classes E and C Common Stock or participation certificates for such year. The rate of dividends on Classes E and 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. During 2019 stock dividends of $531 were declared and distributed on Class A Preferred Stock.

All qualified and nonqualified surplus may only be retired at the discretion of the Board. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

Transfer

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

Impairment

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

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

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:

a) ***First,*** to the holders of Class A Preferred Stock, if any, pro rata, until an amount equal to the aggregate par value of all shares then issued and outstanding, plus declared but unpaid dividends, has been distributed to such holders;
b) ***Second,*** to the holders of Class D Preferred Stock, if any, pro rata, until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders;
c) ***Third,*** to the holders of Class C Common Stock, Class E Common Stock, and Class C Participation Certificates pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
d) ***Fourth,*** to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
e) ***Fifth,*** to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed; and
f) ***Sixth,*** insofar as is practicable, all unallocated surplus issued after January 1, 1995, shall be distributed to patrons of the Association from the period beginning January 1, 1995 through the date of liquidation.

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 and in mutual funds 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 and accounts receivable, the carrying value is primarily utilized as a reasonable estimate of fair value.

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

Level 3
Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool. The methods used approximate the exit price notion in current guidance at a materially acceptable level.

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	$ 3,390	$ 3,390	$ –	$ –	$ 3,390
Recurring Assets	$ 3,390	$ 3,390	$ –	$ –	$ 3,390
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans*	$ 6,879	$ –	$ –	$ 6,879	$ 6,879
Other property owned	966	–	–	1,089	1,089
Nonrecurring Assets	$ 7,845	$ –	$ –	$ 7,968	$ 7,968
Other Financial Instruments					
Assets:					
Cash	$ 3,325	$ 3,325	$ –	$ –	$ 3,325
Loans	1,127,598	–	–	1,122,701	1,122,701
Accounts receivable	12,941	12,941	–	–	12,941
Other Financial Assets	$ 1,143,864	$ 16,266	$ –	$ 1,122,701	$ 1,138,967
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 893,705	$ –	$ –	$ 891,741	$ 891,741
Other Financial Liabilities	$ 893,705	$ –	$ –	$ 891,741	$ 891,741

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 2,616	$ 2,616	$ –	$ –	$ 2,616
Assets held in mutual funds	1,480	1,480	–	–	1,480
Recurring Assets	$ 4,096	$ 4,096	$ –	$ –	$ 4,096
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans**	$ 6,308	$ –	$ –	$ 6,308	$ 6,308
Other property owned	986	–	–	989	989
Nonrecurring Assets	$ 7,294	$ –	$ –	$ 7,297	$ 7,297
Other Financial Instruments					
Assets:					
Cash	$ 3,029	$ 3,029	$ –	$ –	$ 3,029
Loans	1,139,138	–	–	1,111,674	1,111,674
Accounts receivable	15,019	15,019	–	–	15,019
Other Financial Assets	$ 1,157,186	$ 18,048	$ –	$ 1,111,674	$ 1,129,722
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 917,038	$ –	$ –	$ 901,797	$ 901,797
Other Financial Liabilities	$ 917,038	$ –	$ –	$ 901,797	$ 901,797

	December 31, 2017									
		Total Carrying Amount		Level 1		Level 2		Level 3		Total Fair Value
Recurring Measurements										
Assets:										
Assets held in trust funds	$	2,562	$	2,562	$	–	$	–	$	2,562
Assets held in mutual funds		1,677		1,677		–		–		1,677
Recurring Assets	$	4,239	$	4,239	$	–	$	–	$	4,239
Liabilities:										
Recurring Liabilities	$	–	$	–	$	–	$	–	$	–
Nonrecurring Measurements										
Assets:										
Impaired loans***	$	9,173	$	–	$	–	$	9,173	$	9,173
Other property owned		108		–		–		108		108
Nonrecurring Assets	$	9,281	$	–	$	–	$	9,281	$	9,281
Other Financial Instruments										
Assets:										
Cash	$	5,853	$	5,853	$	–	$	–	$	5,853
Loans		1,111,327		–		–		1,088,950		1,088,950
Accounts receivable		15,919		15,919		–		–		15,919
Other Financial Assets	$	1,133,099	$	21,772	$	–	$	1,088,950	$	1,110,722
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	$	885,588	$	–	$	–	$	874,272	$	874,272
Other Financial Liabilities	$	885,588	$	–	$	–	$	874,272	$	874,272

**Carrying value of impaired loans is the balance of loans with a related specific reserve ($8,865) less related specific reserves ($3,468) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($1,482).*

***Carrying value of impaired loans is the balance of loans with a related specific reserve ($6,700) less related specific reserves ($2,907) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($2,515).*

****Carrying value of impaired loans is the balance of loans with a related specific reserve ($5,473) less related specific reserves ($1,656) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($5,356).*

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
December 31, 2019

		Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$	8,126	Appraisal	Income and expense	*
				Comparable sales	*
				Replacement costs	*
				Comparability adjustments	*
				Collateral discounts	10-50%

** 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 forecast Probability of default Loss severity
Accounts receivable	Carrying value	Par/principal
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 to be filed. As such, the following information is not available for the plans:

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

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Income were $1,642 for 2019, $2,066 for 2018, and $1,975 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 $386 for 2019, $389 for 2018, and $377 for 2017. At December 31, 2019, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $209,531.

During 2017, the method of recording expenses at participating District entities for the FAP and OPEB Plans was modified. Prior to 2017, expense was recorded based on allocations of actuarially-determined costs and any differences between recorded expense and actual contributions were recorded in Other Assets or Other Liabilities on the Consolidated Balance Sheets. For 2017 and future years, participating entities will record employee benefit costs based on the actual contributions to the Plans. This change caused the Association to modify its accounting estimates recorded in Other Assets and Other Liabilities since the assets and liabilities do not impact future contributions to the Plans. The change in estimate resulted in the reduction of Other Assets by $4,929 and the reduction of Other Liabilities by $7,686 on the Association's Balance Sheets, and a total reduction of noninterest expenses on the Association's Statements of Income of $2,757 during 2017.

The Association also participates in a defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. This 401(k) plan requires the Association to match 100 percent of employee optional contributions up to a maximum employee contribution of 6.00 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 $802, $720, and $653 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.

The Association sponsors a nonqualified long-term deferred compensation program for certain Association employees and a nonqualified supplemental 401(k) plan. The deferred compensation program provides deferred compensation benefits to encourage focus on strategies that are in the long-term best interest of the Association and its shareholders. Under the program the funds are set up in a Trust owned by the Association. Compensation is deferred until a later date upon which the employee meets certain vesting guidelines, employment is terminated, or by Board approval. All current and future assets used by the Association to fund this program will remain general assets of the Association until payment or distribution is made. Employer contributions to this plan were $202, $182, and $182 for the years ended December 31, 2019, 2018, and 2017, respectively. At December 31, 2019, 2018, and 2017, the Association had a deferred compensation liability related to this plan of $3,299, $2,594 and $2,374 included within Other Liabilities on the Consolidated Balance Sheets. Expenses of the nonqualified 401(k) plan included in noninterest expenses were $5, $2, and $0 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 $23,399. During 2019, $13,206 of new loans were made and repayments totaled $10,712. In addition, net loans of $2,411 were no longer classified as related party loans. In the opinion of management, none of these loans outstanding at December 31, 2019 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2019, $201,188 of commitments to extend credit and $33 of commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2019, standby letters of credit outstanding totaled $1,756 with expiration dates ranging from January 1, 2020 to December 12, 2023. The maximum potential amount of future payments that may be required under these guarantees was $1,756.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	$ 1	$ 3	$ –
State	–	1	–
Total Current	1	4	–
Deferred:			
Federal	–	–	–
State	–	–	–
Total Deferred	–	–	–
Total provision (benefit) for income taxes	$ 1	$ 4	$ –

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

	December 31,		
	2019	2018	2017
Federal tax at statutory rate	$ 5,369	$ 6,022	$ 10,670
State tax, net	–	1	–
Effect of non-taxable FLCA subsidiary	(1,705)	(1,950)	(3,210)
Patronage distributions	(3,762)	(3,990)	(7,132)
Change in deferred tax asset valuation allowance	141	(87)	(1,459)
Deferred tax rate change	(33)	–	1,104
Other	(9)	8	27
Provision (benefit) for income taxes	$ 1	$ 4	$ –

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

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

	December 31,		
	2019	2018	2017
Deferred income tax assets:			
Allowance for loan losses	$ 1,455	$ 1,450	$ 1,328
Nonaccrual loan interest	490	354	656
Gross deferred tax assets	1,945	1,804	1,984
Less: valuation allowance	(1,945)	(1,804)	(1,984)
Gross deferred tax assets, net of valuation allowance	–	–	–
Deferred income tax liabilities:			
Other	–	–	–
Gross deferred tax asset (liability)	–	–	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2019, deferred income taxes have not been provided by the Association on approximately $5.5 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $1,945, $1,804, and $1,984 as of December 31, 2019, 2018 and 2017, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

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

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

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2019				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 7,580	$ 8,172	$ 8,048	$ 8,334	$ 32,134
Provision for loan losses	–	1,721	–	(1,382)	339
Noninterest income (expense), net and taxes	(2,438)	(2,422)	(3,002)	1,632	(6,230)
Net income	$ 5,142	$ 4,029	$ 5,046	$ 11,348	$ 25,565

	2018				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 7,420	$ 9,382	$ 8,180	$ 8,467	$ 33,449
Provision for loan losses	–	545	234	980	1,759
Noninterest income (expense), net and taxes	(1,848)	(2,357)	(2,475)	3,660	(3,020)
Net income	$ 5,572	$ 6,480	$ 5,471	$ 11,147	$ 28,670

	2017				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 6,963	$ 7,582	$ 7,576	$ 7,413	$ 29,534
Provision for loan losses	724	544	–	(614)	654
Noninterest income (expense), net and taxes	(2,270)	(1,993)	(2,212)	8,081	1,606
Net income	$ 3,969	$ 5,045	$ 5,364	$ 16,108	$ 30,486

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.

AgCarolina Farm Credit
PO Box 14789
Raleigh, NC 27620