

2019
**ANNUAL
REPORT**



Together, we grow.

 **Farm Credit**
SOUTHWEST GEORGIA

Southwest Georgia Farm Credit, ACA

2019 ANNUAL REPORT

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Management

Paxton W. Poitevint.....	Chief Executive Officer
Patrick Deen	Chief Credit Officer
Tarrell Bennett.....	Chief Lending Officer
Ryan G. Burt.....	Chief Financial Officer
Liz Nogowski.....	Chief Marketing Officer
Allison H. Godwin.....	Human Resources Manager-Corporate Secretary

Board of Directors

Kimberly D. Rentz.....	Chairman
James H. Dixon, Jr.	Vice Chairman
John M. Bridges, Jr.....	Director
Jeffrey A. Clark	Director
Rex LaDon Durham	Director
George T. Harrison, Jr.....	Director
Robert L. Holden, Sr.	Director
Edward D. Milliron	Director

President's Message

From Paxton W. Poitevint

Reflecting on my first full year as CEO, there are three things that consistently come to mind that played a significant role in making this year successful—serving our community, a solid team of employees, and you, our loyal customers. Despite all of the challenges exiting 2018 due to the devastation of Hurricane Michael, and a tough Ag economy, we continue to serve and meet the needs of our members and identify opportunities for growth.

Community

We take great pride in helping enhance the lives of those in our communities, and with that, our team unveiled a “Community Support Team.” Team members of the Association voluntarily dedicated their time to this team, and are prepared and ready to take action when there is a need in our community.

Employees

It will always be my goal to create an engaging work environment for our employees. Without highly skilled and engaged employees it is impossible to serve our members, especially during the adverse conditions we've had to overcome—tariffs, low commodity prices—it's only because of our dedicated team members that we've remained in a position to serve our customers.

Members

We look to you, our members, every day for your hard work and dedication to providing the world with food, fuel and fiber. It is because of you the Farm Credit System exists, and because of your loyalty, and success—we're successful.

I'm optimistic about what the future holds and watching this Association grow in 2020, as we continue to serve our members and deliver an exceptional customer experience. Thank you for your trust in Southwest Georgia Farm Credit. We appreciate your business, and look forward to serving you for generations to come.

Together, we grow.



Paxton Poitevint
President and Chief Executive Officer

March 12, 2020

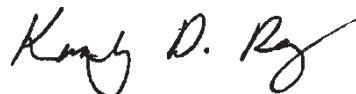
Report of Management

The accompanying Consolidated Financial Statements and related financial information appearing throughout this Annual Report have been prepared by management of Southwest Georgia 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, the financial records are reliable as the basis for the preparation of all financial statements, and the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The Consolidated Financial Statements have been audited by Independent Auditors, whose report appears elsewhere in this Annual Report. The Association is also subject to examination by the Farm Credit Administration.

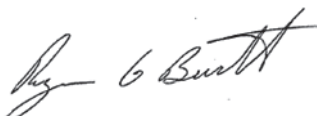
The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2019 Annual Report of Southwest Georgia Farm Credit, ACA, that the report has been prepared under the oversight of the Audit 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.



Kimberly D. Rentz
Chairman of the Board



Paxton Poitevint
President and Chief Executive Officer



Ryan G. Burt
Chief Financial Officer

March 12, 2020

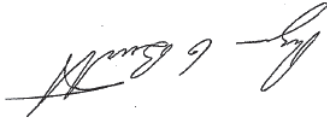
Report on Internal Control Over Financial Reporting

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 effectively 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.



Paxton Poitevin
President and Chief Executive Officer



Ryan Burt
Chief Financial Officer

March 12, 2020

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	December 31,				
	2019	2018	2017	2016	2015
Balance Sheet Data					
Cash	\$ 1,348	\$ 2,220	\$ 4,617	\$ 2,041	\$ 3,250
Investments in debt securities	5,819	5,956	6,078	6,684	14,276
Loans	499,432	454,983	414,337	377,128	399,296
Allowance for loan losses	(4,412)	(4,025)	(4,057)	(4,031)	(4,201)
Net loans	495,020	450,958	410,280	373,097	395,095
Equity investments in other Farm Credit institutions	14,370	14,846	15,761	15,103	12,713
Other property owned	765	222	129	823	1,449
Other assets	21,127	21,618	20,696	20,005	19,414
Total assets	\$ 538,449	\$ 495,820	\$ 457,561	\$ 417,753	\$ 446,197
Notes payable to AgFirst Farm Credit Bank*	\$ 433,972	\$ 393,455	\$ 361,645	\$ 327,863	\$ 361,669
Accrued interest payable and other liabilities with maturities of less than one year	14,216	15,686	12,902	13,404	11,603
Total liabilities	448,188	409,141	374,547	341,267	373,272
Protected borrower stock	—	—	—	1	7
Capital stock and participation certificates	1,464	1,370	1,271	1,174	1,147
Retained earnings					
Allocated	9,707	12,452	16,037	17,434	19,124
Unallocated	79,090	72,857	65,706	57,877	52,647
Total members' equity	90,261	86,679	83,014	76,486	72,925
Total liabilities and members' equity	\$ 538,449	\$ 495,820	\$ 457,561	\$ 417,753	\$ 446,197
Statement of Income Data					
Net interest income	\$ 11,587	\$ 10,531	\$ 9,774	\$ 9,763	\$ 10,048
Provision for (reversal of allowance for) loan losses	571	171	14	(183)	(166)
Noninterest income (expense), net	729	1,818	3,069	27	(1,366)
Net income	\$ 11,745	\$ 12,178	\$ 12,829	\$ 9,973	\$ 8,848
Key Financial Ratios					
Rate of return on average:					
Total assets	2.25%	2.62%	2.90%	2.28%	1.99%
Total members' equity	13.26%	14.15%	16.16%	13.26%	12.31%
Net interest income as a percentage of					
average earning assets	2.34%	2.39%	2.34%	2.37%	2.38%
Net (chargeoffs) recoveries to average loans	(0.038)%	(0.047)%	0.003%	0.003%	(0.005)%
Total members' equity to total assets	16.76%	17.48%	18.14%	18.31%	16.34%
Debt to members' equity (:1)	4.97	4.72	4.51	4.46	5.12
Allowance for loan losses to loans	0.88%	0.88%	0.98%	1.07%	1.05%
Permanent capital ratio	14.43%	14.89%	14.70%	16.47%	15.64%
Total surplus ratio	**	**	**	16.14%	15.34%
Core surplus ratio	**	**	**	14.75%	14.22%
Common equity tier 1 capital ratio	14.31%	13.98%	13.04%	**	**
Tier 1 capital ratio	14.31%	13.98%	13.04%	**	**
Total regulatory capital ratio	15.13%	15.65%	15.53%	**	**
Tier 1 leverage ratio	13.48%	13.44%	12.26%	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	15.24%	15.60%	14.45%	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ 5,371	\$ 5,027	\$ 5,000	\$ 4,743	\$ 3,955

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

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

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and unaudited 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 unaudited Quarterly reports are also available upon request free of charge on the Association's website, www.swgafarmcredit.com, or by calling 1-866-304-3276, extension 1150, or writing Belinda Ott, Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817. The Association prepares an electronic version of the Annual Report, which is available on the website, within

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

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

agricultural market data and are not limited to information/data for the Association.

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

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

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

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

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

Expected agricultural commodity prices can influence production decisions of farmers and ranchers on planted/harvested acreage of

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

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

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

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

in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

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

ECONOMIC CONDITIONS

The economy in Southwest Georgia is made up of a multitude of varying industries – ranging from large industrial companies to farms and farm businesses, to small, family-owned operations. The Association's portfolio is impacted by two key economic factors: the local unemployment rate and the strength of the agricultural industry.

Unemployment rates have the greatest impact on the small and part-time farming sectors of the Association's portfolio. Essentially, these sectors of the portfolio have a larger dependence on non-farm income and are influenced to a greater extent by the general economy.

Georgia's economy is expected to remain stable. The unemployment rate for Georgia is estimated to be 4.4%, while, the U.S. unemployment rate is expected to drop to 4.1%. Unemployment rates for both Georgia and the U.S. are projected to remain stable in 2020. The improvements in the employment rates for our Local Service Area (LSA) over the last several years could lead to growth in the demand for rural real estate.

Agriculture and Agri-business are the single largest industries in Georgia, which is indicative to our LSA. According to the 2019 farm income and expense, estimates released by the USDA's Economic Research Service, the U.S. and Georgia farm sectors have had an increase in net farm income. The increase in net farm income is due to stable commodity prices and improved weather conditions during harvest. Low commodity prices continue to put pressure on yield in order to generate profitability. Farm asset values continue to show little to no change. A significant amount of the loan demand in agriculture will come from the utilization of existing operating lines of credit and increases in operating needs.

Planted acreage for Georgia will remain primarily in peanuts and cotton. The overall strength of the 2020 agricultural industry will depend greatly on production yield and production cost management as market prices will be relatively unchanged from previous years.

Corn

Planted acreage for Georgia corn increased 20% in 2019, which is the largest increase since 2016. The planted acreage is expected to increase again in 2020. Market fundamentals for corn point to slight improvement for the Georgia crop. Price estimates for the 2020 crop are at \$4.48-4.52 per bushel after positive basis. The biggest drivers of continued corn production in Georgia at lower prices is the yield improvements over the last several years and positive basis.

Peanuts

The level of carryover put significant amount of pressure on prices and planted acreage for 2019. Georgia's planted acreage of peanuts remained flat in 2019 compared to a drop by over 20% in 2018. Estimates for peanut prices are \$400 per ton, which is similar to 2019. To realize higher peanut prices, two things must occur: Additional demand must be created and/or

supply must be constrained. Price estimates are \$400 for the 2020 crop.

Cotton

In 2019, Georgia farmers planted 1.4 million acres of cotton down 30 thousand acres from 2018. The average cotton yield is forecast at 932 pounds per acre. Production is forecast at 2.7 million bales, which would be the second highest on record after 2012. Looking forward to 2020, U.S. cotton acreage and production are more likely to be down. Uncertainties in the cotton market are expected as a result of the ongoing trade negotiation and the slowdown of the global economy. Price estimates for the 2020 crop are 67 to 72 cents per pound.

Timber

Demand for pine timber in Georgia is expected to be flat for 2020. Prices are down significantly from 2018 highs. Additional drivers of demand will be increased housing starts, further declines in unemployment, and improvements in consumer spending. Unfortunately, timber inventory on the stump that is conserved and growing in the forest will likely dampen any significant movements in price.

LOAN PORTFOLIO

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

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

Loan Type	December 31,					
	2019		2018		2017	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 282,958	55.82 %	\$ 263,343	57.00 %	\$ 230,267	55.57 %
Production and intermediate-term	154,106	30.40	133,631	28.92	116,018	28.00
Loans to cooperatives	2,634	.52	2,249	0.49	583	.14
Processing and marketing	34,088	6.72	31,559	6.83	31,476	7.60
Farm-related business	19,625	3.87	15,963	3.45	19,123	4.62
Communication	4,191	.83	5,476	1.18	8,649	2.09
Power and water/ waste disposal	3,055	.60	3,720	0.80	3,940	.95
Rural residential real estate	2,831	.56	2,746	0.59	1,793	.43
International	1,935	.38	1,755	0.38	1,752	.42
Lease Receivables	1,480	.30	1,683	0.36	736	.18
Total	\$ 506,903	100.00 %	\$ 462,125	100.00 %	\$ 414,337	100.00 %

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

County/Branch	December 31,		
	2019	2018	2017
Baker	1.22%	1.60%	1.24%
Calhoun	.28	.29	.27
Chattahoochee	.07	.08	.07
Clay	.40	.19	.07
Decatur*	11.49	12.07	12.40
Dougherty	2.76	3.43	4.26
Early	3.34	3.02	2.92
Grady	2.93	2.60	2.01
Lee	4.51	4.19	5.12
Marion	.90	1.03	1.63
Miller	2.91	2.82	2.13
Mitchell*	9.65	8.36	8.70
Quitman	.19	.28	.21
Randolph	3.25	3.51	3.64
Schley	.28	.29	.25
Seminole	4.38	5.26	4.85
Stewart	.96	1.17	.71
Sumter*	5.31	5.14	6.59
Terrell*	3.46	2.29	2.66
Thomas*	4.35	3.52	2.17
Webster	1.07	1.27	1.09
Other**	36.29	37.59	37.01
	100.00%	100.00%	100.00%

*Branch Locations

**The Other category above consists of loans originated and participated outside our territory.

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer. The major commodities in the Association's loan portfolio are shown below. The predominant commodities are timber, cotton, landlords, peanuts, fruit and nuts, row crops, farm supply and services, and livestock which constitute over 87 percent of the entire portfolio. The commodity group landlords is primarily on real estate purchased and leased for agriculture production.

Commodity Group	December 31,					
	2019		2018		2017	
	<i>(dollars in thousands)</i>					
Timber	\$ 130,461	26%	\$ 114,420	25%	\$ 106,677	26%
Cotton	85,097	17	77,805	17	56,906	14
Landlords	71,022	14	57,823	12	52,069	12
Peanuts	35,143	7	33,493	7	29,856	7
Fruit & Nut	45,700	9	43,031	9	38,931	9
Poultry	13,097	2	13,028	3	14,909	4
Farm Supply & Services	15,351	3	16,163	4	20,519	5
Livestock	25,368	5	23,536	5	19,432	5
Dairy	17,178	3	16,373	3	13,177	3
Vegetables	16,247	3	13,655	3	9,885	2
Row Crops	29,432	6	33,283	7	26,520	6
Rural Home	3,081	1	2,883	1	1,923	1
Horticulture	3,608	1	2,813	1	2,625	1
Other	16,118	3	13,819	3	20,908	5
Total	\$ 506,903	100%	\$ 462,125	100%	\$ 414,337	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains

a concentration of timber, cotton, landlords, poultry, peanut, and livestock producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Within the timber commodity group there are significant numbers of less than full time timber producers. As such, the risk in this group is more diversified than appears from the nominal percentage. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

In 2019 the Association continued to focus on leveraging capital and strengthening the earning position.

For the past few years, the Association has experienced a shift in loan assets. The long-term volume trend has been downward while the short and intermediate-term loan volume trend is upward. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance in August and rapidly declines in the fall months as our primary agriculture commodities are converted to cash which is used to repay the debt.

During 2019, the Association continued activity in the buying and selling of loan participations within and outside of the System in order to leverage the balance sheet and improve the income producing potential.

Loan Participations:	December 31,		
	2019	2018	2017
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 118,259	\$ 121,104	\$ 72,195
Participations Purchased			
– Non-FCS Institutions	–	1,784	1,869
Participations Sold	(262,023)	(277,559)	(292,946)
Total	\$ (143,764)	\$ (154,671)	\$ (218,882)

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

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2019, the Association originated loans for resale totaling \$4.8 million, which were subsequently sold into the secondary market. The Association also utilizes the Farmer Mac Long Term Stand-By repurchase agreements. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2019, the Association had loans amounting to \$37.6 million which were 100 percent guaranteed by Farmer Mac. The Association additionally has purchased portions of loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. At December 31, 2019, the balance of these loans, including the unamortized premium, was \$96, compared to \$101 at December 31, 2018 and \$112 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 program under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Association to make investments in Rural America Bonds. 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 are classified as Loans or Investment Securities on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2019, December 31, 2018, and December 31, 2017, the Association had \$11,010, \$11,314, and \$11,596, respectively, in Rural America Bonds.

Mission Related Investments	December 31,		
	2019	2018	2017
	<i>(dollars in thousands)</i>		
Loans	\$ 5,191	\$ 5,358	5,518
Investment Securities	5,819	5,956	6,078
Total	\$ 11,010	\$ 11,314	\$ 11,596

Effective December 31, 2017, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs 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. The Bank annually reviews the investment portfolio of every Association that it funds. Currently the Association holds no asset backed securities on its balance sheet.

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be advanced in amounts up to 85 percent of the appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loan originations of more than \$250 thousand. 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 overall risk level in a particular relationship.

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

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

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

Credit Quality	2019	2018	2017
Acceptable & OAEM	99.21%	98.98%	98.81%
Substandard	.79%	1.02%	1.19%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100%	100%	100%

Nonperforming Assets

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

High-risk Assets	December 31,		
	2019	2018	2017
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 2,080	\$ 1,415	\$ 1,071
Restructured loans	1,965	2,078	1,407
Accruing loans 90 days past due	–	–	–
Total Non-Performing Loans	4,045	3,493	2,478
Total high-risk loans	4,045	3,493	2,478
Other property owned	765	222	129
Total high-risk assets	\$ 4,810	\$ 3,715	\$ 2,607
Ratios			
Nonaccrual loans to total loans	.42%	.31%	.26%
High-risk assets to total assets	.89%	.75%	.57%

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. Over the last several years the Association made concentrated efforts to reduce the high risk assets by setting attainable goals and timelines. Non-Performing loans increased \$665 or 47 percent in 2019. Of the \$2,080 in nonaccrual volume at December 31, 2019, \$959 or 46 percent was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status. This compares to 70.4 percent and 4.95 percent at December 31, 2018 and 2017, respectively.

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 its stockholders.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb expected losses inherent to its loan portfolio for the next twelve month period.

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

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2019	2018	2017
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 4,025	\$ 4,057	\$ 4,031
Charge-offs:			
Agribusiness	(160)	(201)	–
Production and intermediate term	(51)	–	(19)
Real estate mortgage	(30)	(41)	(3)
Total charge-offs	(241)	(242)	(22)
Recoveries:			
Energy	–	2	–
Real estate mortgage	19	1	7
Production and intermediate term	38	36	27
Total recoveries	57	39	34
Net (charge-offs) recoveries	(184)	(203)	12
Provision for (reversal of allowance for) loan losses	571	171	14
Balance at end of year	\$ 4,412	\$ 4,025	\$ 4,057
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(.038)%	(.047)%	.003%

The net loan recoveries were primarily associated with several bankruptcy payments and settlements during the year. Provisions to the allowance for loan losses were made to the general reserve after the allowance analysis and review of economic indicators.

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

Allowance for Loan Losses by Type	December 31,		
	2019	2018	2017
	<i>(dollars in thousands)</i>		
Real estate mortgage	\$ 2,197	\$ 2,284	\$ 2,239
Production and intermediate-term	1,675	1,180	1,176
Agribusiness	416	430	484
Power and Waste	24	32	37
Rural residential real estate	21	23	17
Communication	32	47	81
International	15	15	16
Loans to Cooperatives	20	–	–
Lease Receivables	12	14	7
Total allowance	\$ 4,412	\$ 4,025	\$ 4,057

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

Allowance for Loan Losses as a Percentage of:	December 31,		
	2019	2018	2017
Total loans	.88%	.88%	.98%
Nonperforming loans	109.07%	115.23%	163.72%
Nonaccrual loans	212.12%	284.45%	378.80%

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was \$11.59 million, \$10.53 million and \$9.77 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	Nonaccrual Income	Total
12/31/19 - 12/31/18				
Interest income	\$ 2,822	\$ 799	\$ -	\$ 3,621
Interest expense	1,689	876	-	2,565
Change in net interest income	\$ 1,133	\$ (77)	\$ -	\$ 1,056
12/31/18 - 12/31/17				
Interest income	\$ 1,041	\$ 1,811	\$ -	\$ 2,852
Interest expense	473	1,622	-	2,095
Change in net interest income	\$ 568	\$ 189	\$ -	\$ 757

* 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:

	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2019/	2018/
	2019	2018	2017	2018	2017
	<i>(dollars in thousands)</i>				
Loan fees	\$ 620	\$ 632	\$ 609	(1.90)%	3.78 %
Fees for financially related services	8	28	8	(71.43)	250
Patronage refund from other Farm Credit Institutions	10,413	11,296	11,815	(7.82)	(4.39)
Gains (losses) on sales of rural home loans, net	-	-	-	-	-
Gains (losses) on sales of premises and equipment, net	(10)	14	21	(171)	(33.33)
Gains (losses) on sales of investment securities	-	-	-	-	-
Other than temporary impairment	-	-	-	-	-
Insurance Fund refund	99	235	-	(57.87)	-
Other noninterest income	49	42	70	16.67	(40)
Total noninterest income	\$ 11,179	\$ 12,247	\$ 12,523	(8.72)%	(2.20)%

Patronage refund from other Farm Credit Institutions experienced a decrease in 2019 due to a reduced special Patronage distribution from AgFirst Farm Credit Bank as compared to prior year. Fees for financially related services decreased in 2019 due to the outsourcing of appraisal services. The Insurance refund of \$99 in 2019 and \$235 in 2018 was an extraordinary distribution due to the overage above the 2% secure base amount.

Noninterest Expense

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

Noninterest Expense	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2019/	2018/
	2019	2018	2017	2018	2017
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 6,679	\$ 6,647	\$ 5,104	.48 %	30.23 %
Postretirement benefits (Note 2 and 9)	-	-	157	-	(100.00)
Occupancy and equipment	583	637	598	(8.48)	6.52
Insurance Fund premiums	369	318	494	16.04	(35.63)
(Gains) Losses on other property owned, net	139	(54)	319	(357.41)	(116.93)
Other operating expenses	2,687	2,881	2,767	(6.73)	4.12
Total noninterest expense	\$ 10,457	\$ 10,429	\$ 9,439	.27 %	10.49 %

In 2018 Postretirement benefits increased by \$1,161 or 737.6 percent. During 2017, the method of recording expenses for the Association's defined benefit pension plan and other postretirement benefit plan was modified. This change resulted in the reduction of Other Assets by \$1,648 and the reduction of Other Liabilities by \$2,604 on the Association's 2017 Balance Sheets, and a corresponding reduction of postretirement benefit costs on the Association's 2017 Statements of Income of \$956. Refer to Note 9, Employee Benefit Plans, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses. Postretirement benefits decreased by \$1,306 thousand for the year ended December 31, 2018 compared to the prior year.

Insurance Fund premiums increased slightly in 2019 due to an increase in premium rates. The FCSIC set premiums to 9 basis points on adjusted insured debt outstanding for 2019. In addition there is a continued 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments.

Income Taxes

The Association recorded a benefit for income taxes of \$(7) for the year ended December 31, 2019, as compared to a provision of \$0 for 2018 and \$15 for 2017. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve 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	2.25 %	2.62 %	2.90%
Return on average members' equity	13.26 %	14.15 %	16.16%
Net interest income as a percentage of average earning assets	2.34 %	2.39 %	2.34%
Net (charge-offs) recoveries to average loans	(.038)%	(.047)%	.003%

A key factor in the growth of net interest 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 Association must attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw

funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2019, was \$433,972 as compared to \$393,455 at December 31, 2018 and \$361,645 at December 31, 2017. The increase of 10.3 percent compared to December 31, 2018 was attributable to the growth in loan volume during the year. The increase of 8.8 percent in 2018 when compared to December 31, 2017, was also attributable to loan volume growth. The average volume of outstanding notes payable to the Bank was \$427,293, \$373,738, and \$356,348 for the years ended December 31, 2019, 2018, and 2017 respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in the Farmer Mac, stand by purchase program, investments, and other secondary market programs provides additional liquidity.

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving line of credit are governed by the General Financing Agreement (GFA). The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings, and capital covenants.

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

Funds Management

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

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

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

Future of LIBOR

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

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

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

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

- a governance structure to manage the transition,
- an assessment of exposures to LIBOR,
- an assessment of the fallback provisions in contracts and the impact of a LIBOR phase-out under those provisions,
- the establishment of strategies for reducing each type of LIBOR exposure,

- an assessment of the operational processes that need to be changed,
- a communication strategy for customers and shareholders,
- the establishment of a process to stay abreast of industry developments and best practices,
- the establishment of a process to ensure a coordinated approach, to the extent possible, across the District, and
- a timeframe and action steps for completing key objectives.

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

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

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

<i>(dollars in millions)</i>	Due in 2020	Due in 2021	Due in 2022 and Thereafter
Loans	\$ 10,747	\$ 10,452	\$ 34,359
Total Assets	<u>\$ 10,747</u>	<u>\$ 10,452</u>	<u>\$ 34,359</u>
Note Payable to AgFirst Farm Credit Bank	-	-	
Total Liabilities	<u>\$ 9,200</u>	<u>\$ 8,948</u>	<u>\$ 29,414</u>

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

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

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding Sources" section of this Management's Discussion & 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.

Total members' equity at December 31, 2019, increased 4.13 percent to \$90,261 from the December 31, 2018, total of \$86,679. At December 31, 2018, total members' equity increased 4.41 percent from the December 31, 2017 total of \$83,014. During 2019 and 2018 the Association experienced an increase in net income from the increase in average loan volume and the large special patronage distributions from AgFirst both events had a direct impact on the increase in member's equity.

Total capital stock and participation certificates were \$1,464 on December 31, 2019, compared to \$1,370 on December 31, 2018 and \$1,271 on December 31, 2017. The increase is attributed to the purchase of protected stock and participation certificates on new loans in the normal course of business.

Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based capital ratios. The

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

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

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

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

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31,		
				2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	0.625%	5.125%	14.31%	13.98%	13.04%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	14.31%	13.98%	13.04%
Total Capital Ratio	8.0%	0.625%	8.625%	15.13%	15.65%	15.53%
Permanent Capital Ratio	7.0%	0.0%	7.0%	14.43%	14.89%	14.70%
Non-risk-adjusted:						
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	13.48%	13.44%	12.26%
UREE Leverage Ratio	1.5%	0.0%	1.5%	15.24%	15.60%	14.45%

* 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%	16.47%	15.64%	17.68%	17.23%	21.35%
Total Surplus Ratio	7.00%	16.14%	15.34%	17.38%	16.95%	21.00%
Core Surplus Ratio	3.50%	14.75%	14.22%	15.52%	14.57%	17.39%

The Association applied several tools during 2019 to help manage capital levels. The capital levels have stabilized between 2018 and 2019. The Association's analysis and business plan forecast does not indicate any 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 will continue to use several tools if

necessary to manage capital levels such as guarantees for loans, participating with other institutions, and selling to the AgFirst Capital Participation Pool (CPP).

These tools allow the Association to better leverage capital. When a loan is guaranteed the Association only capitalizes the nonguaranteed portion. Loans or portions of loans sold into the

AgFirst CPP program are capitalized by AgFirst and not the Association. Any loans sold into the CPP program require a stock investment in AgFirst (currently 8 percent) based on the sold balance outstanding. This benefits the Association's capital levels as the stock investment in AgFirst is only a percentage of the loan balance sold, which positively impacts regulatory capital ratios due to the average total asset and risk-weighted asset reductions. In addition, the program's pool patronage distribution targets to provide for the same net impact to the Association's net income as if the loan remained on the Association's books. Annual declaration of this patronage is at the sole discretion of AgFirst's Board of Directors. See Note 7, Members' Equity, of the Consolidated Financial Statements, for further information concerning capital resources.

The Farm Credit Administration (the "FCA") approved new rules (the "New Capital Regulations") relating to regulatory capital requirements for Farm Credit System banks and associations, including Southwest Georgia Farm Credit (the "Association"), that were published in the Federal Register on July 28, 2016, with an effective date of January 1, 2017. The FCA required the Association to take a number of actions in preparation for this change.

The Association Board of Directors adopted a resolution in accordance to the provisions of the FCA New Capital Regulation. The board determined that the new regulations are consistent with the Association's capital management strategy and are in the Association's best interest.

DIVIDEND PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Dividend Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the dividend distributions. The Association distributed \$5,027 of dividends in 2019 based on 2018 earnings, \$5,000 of dividends in 2018 based on 2017 earnings and an estimated \$5,371 in dividends based on 2019 earnings is expected to be distributed in 2020.

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

Southwest Georgia Farm Credit focuses on offering education, training, mentoring and sponsorship of young, beginning and small-scale producers in order to serve their credit and related needs. The definitions of young, beginning and small farmers and ranchers follow:

- **Young:** A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- **Beginning:** A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- **Small:** A farmer, rancher or producer or harvester of aquatic products who normally generates less than \$250,000 in annual gross sales of agricultural or aquatic products.

Mission Statement

To be the preeminent young, beginning and small farmer lender throughout Southwest Georgia by providing a competitive source of financing and offering programs designed to meet the needs of such applicants to the fullest extent of their credit worthiness.

Board Policy to Complete Mission Statement

The Southwest Georgia Farm Credit Board of Directors understands the importance of the development, education and financial success of young, beginning and small farmers, ranchers or harvesters of aquatic products is essential to the future of the Association, as well as the future of agriculture and the local economies in our territory. Therefore, in order to accomplish our YBS mission, it is imperative that we develop, execute, and evaluate a program that targets this specific group of borrowers.

There are several components to this plan, which include advertising, educational opportunities, scholarships and community events, as well as outreach via social media.

The following table outlines the Association's 2019 goals, loan volume and number of YBS loans in the loan portfolio for the Association:

	As of December 31, 2019*			
	Number of Loans		\$ Amount of Loans	
	2019 Goal	2019 Actual	2019 Goal	2019 Actual
Young	333	389	\$55,924	\$71,930
Beginning	717	784	\$108,087	\$115,800
Small	926	1,074	\$92,425	\$128,214

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

Each year, the Association establishes goals for the portfolio and for new loans to YBS borrowers. 2019 goals and accomplishments follow:

	As of December 31, 2019*			
	Number of New Loans		\$ Amount of New Loans	
	2019 Goal	2019 Actual	2019 Goal	2019 Actual
Young	119	144	\$24,265	\$41,996
Beginning	178	207	\$32,222	\$52,976
Small	273	278	\$35,467	\$41,481

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

The 2012 USDA Ag Census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties), there were 4,382 reported number of farms, with 1,750 having debt. Census data suggests that the total number of young and small farmers has seen modest gains since 2012, while the number of beginning farmers has risen as a percentage of the total Census. Since 2002, the percentage of small and young farmers has dropped significantly, perhaps signaling the increase in the number of larger farms.

In 2019, the Association planned, executed, and evaluated the following tactics put in place to accomplish YBS goals:

Marketing/Business Development

- Relationship Building and Networking – Through the Association's territory, the organization focuses on developing personal relationships with producers, as well as with organizations that support opportunities for young, beginning, and small scale producers. The Association sponsors, and advocates for, agricultural education and training, through programs like FFA and 4-H.
- The Association's website serves as a source of information for YBS farmers to find informational resources for YBS farmers related to educational opportunities, programs and services.
- The Association's quarterly magazines provides regular updates on training and education offered by the Association and other local resources. It also serves as a source of information for the Association, and the Farm Credit System, and its commitment to serve young, beginning, and small scale farmers.

Credit/Underwriting/Guarantees

- Southwest Georgia Farm Credit does have a Beginning Farmer Program in conjunction with USDA (Farm Service Agency, "FSA"). This program allows for as little as 5% down payment and financing from FSA and Farm Credit of 45% and 50% respectively. FSA financing is for 20 years with fixed interest rates as low as 1.5% and Farm Credit provides financing for 30 years (FSA requirement) with fixed rates at 1.50% over Cost of Funds supported by a 95% FSA Guarantee (FSA fees waived). The FSA FO loan is subordinate to the Farm Credit loan. While this program is available to all Beginning Farmers (less than 10 years experience), the majority of applicants will also meet the "Young" and "Small" definition. The Association understands and embraces the importance of these farmers to the longevity, and continued success, of the Association.
- Loan Guarantees – Risk within the Young, Beginning and Small Farms is mitigated through the use of FSA Guarantees. The Association encourages the use of FSA Guarantees in all categories of its portfolio but most particularly within its Young, Beginning and Small Farmer portfolio as evidenced by the level of guarantees overall and the new guarantees issued each year. In addition to the standard FSA guarantee and the Beginning Farmer guarantee (referenced above),

the Association also promotes the 50/50 FSA Guarantee, a financing option in which FSA provides 50% of the financing through a Farm Ownership loan and Farm Credit provides the other 50% of financing, with an FSA 90% guarantee. The FSA FO loan is subordinate to the Farm Credit loan.

Education/Outreach

- Young Farmers Association Chapters – Within the Association's territory and statewide, the Association supports young farmer education and events, as well as the statewide convention.
- Fresh from the Farm – The Association offers a migrant program for ag producers and farmers' markets in the Association's territory, providing funding for marketing and advertising of their operations.
- Bi-Annual Training – Partnering with The Corporation for Community and Economic Development United, Inc., the Association offered a free seminar for ag producers focused on risk management tools they could utilize to enhance their farming operations. The course was designed to help producers who wanted to learn more about financial management, crop insurance, marketing contracts, farm financial benchmarking, whole farm revenue protection and other emerging risk management tools.
- The Association, on an annual basis, sponsors a farm family to attend TEPAP, The Executive Program for Agricultural Producers. The focus of this education is on managing personnel, evaluating new market opportunities, negotiating mergers and acquisitions and adapting to regulatory and technology changes.
- Sponsorship of FFA and 4-H events throughout the Association's territory and statewide continues to be a priority.
- Scholarships to colleges and universities - The Association, in conjunction with the other Farm Credit associations in the state, are committed to supporting ag education at the college level. The Association also offered five scholarships to deserving high school seniors in the Association's territory, who are interested in pursuing a career in agriculture or who want to return to support the quality of life in our rural communities.
- Sunbelt Ag Expo – The Association works with other Farm Credit associations to sponsor a special dinner for young farmers and provide educational opportunities at this event, which is the premier farm show in the southeast.

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Unincorporated Business Entities

The Association holds an equity investment in the following Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC). The LLCs were organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of the Operating Agreements of the respective LLCs.

Entity Name	Entity Type	Equity Purpose
A-1 Sequatchie Point	LLC	Manage Acquired Property
Pickens County Properties	LLC	Manage Acquired Property

Description of Property

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

Location	Description	Form of Ownership
305 Colquitt Highway Bainbridge	Administrative Office	Owned
40 E. Broad Street Camilla	Office	Owned
1037 E. Forsyth Street Americus	Office	Owned
937 Forrester Drive, SE Dawson	Office	Owned
137 E. Jackson Street Thomasville	Office	Leased*

**The Thomasville facility is leased by the Association. Lease payments were \$1,455 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:

Senior Officer	Position
Paxton W. Poitevint	President/Chief Executive Officer
Patrick Deen	Chief Credit Officer
Ryan G. Burt	Chief Financial Officer
Tarrell Bennett	Chief Lending Officer
Liz Nogowski	Chief Marketing Officer
Allison H. Godwin	Human Resources Manager-Corporate Secretary

Paxton W. Poitevint, President/Chief Executive Officer:

Paxton W. Poitevint was appointed President/Chief Executive Officer of Southwest Georgia Farm Credit on August 1, 2018. He is a 15 year veteran of the Farm Credit System. During that time, Mr. Poitevint has served in several different capacities including Chief Operating Officer, Chief Relationship Manager, Director of Capital Markets, Director of Special Assets and Director of Marketing. Prior to joining Farm Credit, Mr. Poitevint worked as a financial analyst in the textile industry. Mr. Poitevint earned a bachelor’s degree in finance from the University of Georgia and a MBA from Georgia State University. He is also a graduate of the Graduate School of Banking of Louisiana State University.

Patrick Deen, Chief Credit Officer:

Patrick Deen was appointed Chief Credit Officer of Southwest Georgia Farm Credit on May 15, 2018. A 15 year veteran of the Farm Credit System, Mr. Deen most recently served as Director of Credit Administration & Capital Markets and was responsible for the day-to-day management of the Association's Capital Markets portfolio, including both purchased and sold loan participations, as well as overall leadership, vision and direction for the Association's enterprise-wide risk management framework. Mr. Deen began his career with Farm Credit in 2004 as a loan officer and has also served Southwest Georgia Farm Credit in various Analyst roles, including Special Assets Senior Analyst. Mr. Deen holds a bachelor's degree with a major in accounting from Valdosta State University.

Ryan G. Burt, Chief Financial Officer:

Mr. Burt has served Southwest Georgia Farm Credit for 15 years. As CFO, he is responsible for financial accounting, reporting, technology infrastructures, internal controls, and operations for the organization. He also serves as the Association's Standards of Conduct Officer. Previously, he served as the Association's Director of Credit Administration. Mr. Burt received a Masters of Business Administration from Troy University in 2008 and graduated from the ABA Stonier Graduate School of Banking in partnership with Wharton in 2015. Mr. Burt serves on the Board of Directors for the Decatur County United Way and the Institute for Georgia Environmental Leadership.

Tarrell Bennett, Chief Lending Officer:

Mr. Bennett has served Southwest Georgia Farm Credit for 47 years. During that time, he has served as the Association's Credit Manager and worked in the Special Assets Management Department. Mr. Bennett is a 1971 graduate of Valdosta State College with a double major in business management and marketing.

Liz Nogowski, Chief Marketing Officer:

Ms. Nogowski joined the Association in 2007, and currently manages the Association's Business Development and Marketing. Ms. Nogowski earned a bachelor's degree in journalism, with a minor in political science, from Southern Connecticut State University, New Haven, CT. Prior to joining Southwest Georgia Farm Credit, Ms. Nogowski served as the Director of Marketing for the St. Joe Land Company, Florida's largest private land owner at the time, and Director of Public Relations and hospital spokesperson for Tallahassee Memorial HealthCare.

Allison H. Godwin, Human Resources Manager-Corporate Secretary:

Ms. Godwin has served Southwest Georgia Farm Credit for 21 years. She is responsible for day-to-day management of the Association's human resources function and duties, including, but not limited to, departmental development, employee relations, payroll and benefits administration, compensation, training, diversity and inclusion, recruitment and on-boarding, performance management, annual staff meetings, and employee assistance programs. In addition, Ms. Godwin serves as the Corporate Secretary. Previously, she spent time as Assistant Controller in the Finance and Operations Department. Ms. Godwin holds a Bachelor of Business Administration in accounting from the University of Georgia.

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

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	*Change in Pension Value	Per/Other*	Total*
Paxton W. Poitevint	2019	\$ 263,245	\$ 94,768	\$ -	\$ -	\$ 8,565	\$ 366,578
Paxton W. Poitevint	2018	\$ 206,550	\$ 70,227	\$ -	\$ -	\$ -	\$ 276,777
Richard S. Monson	2018	\$ 183,499	\$ -	\$ -	\$ 175,667	\$ 101,414	\$ 460,580
Richard S. Monson	2017	\$ 299,591	\$ 107,853	\$ -	\$ 113,908	\$ 8,892	\$ 530,244
6	2019	\$ 850,657	\$ 348,596	\$ -	\$ 1,030,178	\$ 19,631	\$ 2,249,062
6	2018	\$ 824,973	\$ 299,010	\$ -	\$ -189,844	\$ 78,578	\$ 1,012,717
6	2017	\$ 1,002,912	\$ 417,053	\$ -	\$ 412,391	\$ 16,104	\$ 1,848,460

*The changes in pension values as reflected in the table above resulted primarily from an additional year of benefit accrual, changes in the actuarial assumptions for mortality, discount rate, and the present value adjustment for any withdrawals from the plan.

*Amounts in the above table classified as Perquisites/Other include group life insurance premiums, payments of accrued annual leave, and automobile compensation. Upon retirement, Mr. Monson received a payment of accrued annual leave of \$71,822 and ownership of his company automobile at \$24,462. Other changes include the payment of accrued annual leave upon retirement of one senior officer of \$65,714.

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

See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

The table below provides information on Pension Benefits provided to the CEO, senior officers, and other highly compensated employees as a group.

**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
Senior Officers and Highly Compensated Employees:					
3 Officers, excluding the CEO	2019	AgFirst Retirement Plan	32.06	\$ 1,577,276	\$ -
				\$ 1,577,276	\$ -

Current CEO, Paxton Poitevint, does not participate in the AgFirst Retirement Plan. Additional information can be found in Note 9 of the Notes to the Combined Financial Statements of Southwest Georgia Farm Credit, ACA and District Associations' Annual Reports.

Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85" once age 55 is reached. Upon retirement, annual payout is equal to 2 percent of the highest three years average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees hired on or after January 1, 2003, but prior to November 4, 2014, previously participated in the AgFirst Farm Credit Cash Balance Retirement Plan. Benefit accruals in the plan were frozen as of December 31, 2014, at which time active participants were fully vested regardless of years of credited service. The plan was terminated effective as of December 31, 2015, was submitted to the Internal Revenue Service for review and received a favorable determination letter from the Internal Revenue Service. Benefits in the plan were distributed to plan participants during March 2017.

Employees participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan which has an employer matching contribution determined by the employee's date of hire. Employees hired prior to January 1, 2003 receive a maximum employer matching contribution equal to \$0.50 for each \$1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003 receive a maximum employer matching contribution equal to \$1.00 for each \$1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. As a result of the termination of the Credit Cash Balance Retirement Plan, beginning January 1, 2015, employees hired on or after January 1, 2003 also receive an employer nonelective contribution equal to 3 percent of employee compensation, subject to the Internal Revenue Code limitation on compensation.

Senior officers and other highly compensated employees participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred

compensation plan that allows certain key employees to defer compensation and which restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code.

In addition to a base salary, certain employees may earn additional compensation under employee performance and profit sharing plans. Credit quality goals, the payment of dividend distributions to the Association's membership, and Association profit goals established in the incentive plan must be met before any incentive is paid. Employee profit sharing and incentives are shown in the year earned, which may be different than the year paid. Profits distributed under the Employee Performance and the Employee Profit Sharing Plans are paid in the first quarter of the year following the fiscal year in which they are earned. The Association's compensation plans are designed to motivate employees and to help the Association meet and exceed the organizational objectives and financial goals, without taking undue risk.

Distributions under the Employee Profit Sharing Plan are awarded when the profits generated meet or exceed the targets, set by management and have been approved by the Board.

Incentives earned under the Discretionary Incentive Plan will be paid the first pay period following approval. Discretionary incentives may be recommended at any time by any member of the management team, including supervisors of one or more employees, on the behalf of any employee who has demonstrated meritorious performance. Payment under the Discretionary Incentive Plan cannot exceed \$250 for any single instance and no more than two within a twelve month period. The plan operates on a calendar year and includes all supervised employees below a specific grade.

The Association's Relationship Manager Performance Plan is designed to focus on sales and marketing and recognizes each relationship manager on his or her individual sales goals as set by management. The goals set by management are designed to appropriately emphasize and recognize both quality and profitability of the business development effort. The primary goals include new customer volume, new volume and the quality and profitability of the transactions. The volume goals are set at the level necessary to meet projected financial performance. The four additional goals are: (1) Young, Beginning, and Small Farmer, (2) Guarantees, (3) Auto Draft/Online Payments, and (4) Loans to New Members. Each

goal is assigned a separate rate of compensation and is aggregated for a total payment. The Relationship Manager Performance Plan is paid quarterly following the quarter in which they are earned.

Annually, the Compensation Committee (board representation) reviews the compensation plans for approval and funding. All Board Compensation Committee minutes are reviewed by the Board of Directors.

The Board Compensation Committee approved the Employee Performance and Profit Sharing Plans, Relationship Manager Performance Plan and Discretionary Incentive Plan on December 19, 2018.

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

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

Directors

Directors and senior officers are reimbursed on an actual cost basis for all reasonable and necessary expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars,

laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request. The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$81,893 for 2019, \$85,603 for 2018 and \$75,738 for 2017.

Subject to approval by the board, directors are compensated for board meeting attendance and special assignments. Board Members are paid \$700 for attendance at board meetings. The Chairman of the Board receives an additional \$100 per board meeting. Stockholder-elected Directors are paid a retainer fee of \$875 per quarter. Outside Directors are paid a retainer fee of \$1,250 per quarter. Board Members are paid \$400 for attendance at committee meetings and special assignments, with the exception of Audit Committee. Board Members are paid \$800 for attendance at Audit Committee meetings. The Chairman of the Audit Committee receives an additional \$200 per Audit Committee meeting. In addition, Directors on the Executive Committee (Chairman and Vice Chairman of the Board) receive a quarterly fee of \$150 for incidental services. Board Members are paid \$200 for officially called board and committee meeting telephone conferences, not requiring travel. Expenses incurred in connection with the attendance of the spouse of a director at a compensable function may be reimbursable upon a determination by the board chairman that the attendance of the spouse was or will be beneficial to the purpose of the meeting, and such reimbursement will not be reported as compensation. Total compensation paid to directors, as a group was \$155,700 in 2019. No Directors received any noncash compensation during 2019.

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

Name of Director	Days served		Committee Meetings Attended	Committee Assignments	Comp. Paid
	Regular Board Meetings	*Other Official Activities			
Kimbley D. Rentz, Chairman	9	10	10	Credit Review, Executive, RIMCO (Risk Management)	\$17,700
James H. Dixon, Jr., Vice-Chairman	9	21	20	Compensation, Executive, RIMCO (Risk Management)	24,600
John M. Bridges, Jr.	9	8	14	Audit, Governance	17,400
Jeffrey A. Clark	4	0	9	Audit, Governance, RIMCO (Risk Management)	10,800
Rex LaDon Durham	9	14	13	Governance, RIMCO (Risk Management)	18,600
George T. Harrison, Jr.	9	12	15	Audit, Compensation,	20,700
Robert L. Holden, Sr.	9	27	21	Audit, Compensation, Credit Review, Governance	27,800
Edward D. Milliron	8	14	14	Compensation, Ethics, RIMCO (Risk Management)	18,100
			Total		\$155,700

* Other Official Activities include Miscellaneous Committee Meetings, Director Training, AgFirst Annual Meeting, FCC Annual Meeting, ACA Annual Meeting.

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

Kimbley D. Rentz, Chairman, has farmed for 45 years. He joined the Board in 2013 and is presently serving a three-year term, which will expire in 2022. His farming operation includes approximately 3,000 acres, and he primarily produces cotton, and peanuts. He also owns a small cattle operation. A native of Miller County who currently resides in Colquitt, Mr. Rentz attended the University of Georgia for three years, where he majored in accounting. He currently serves on the

boards of the Decatur County Farm Bureau, Three Notch EMC, and Decatur Gin.

James H. Dixon, Jr., Vice-Chairman, is a resident of Camilla in Mitchell County. He is a graduate of the University of Georgia with a bachelor's degree in agricultural economics. Mr. Dixon, who joined the Board in 2011, is a poultry producer and is presently serving a three-year term, which will expire in 2020.

John M. Bridges, Jr., has farmed for more than 39 years. He currently produces cotton, peanuts, green beans and other

vegetables. Mr. Bridges is a graduate of the University of Georgia with a degree in animal science. He serves on the boards of the Decatur County Farm Bureau, and AFG Feeds. Mr. Bridges resides in Brinson, Georgia. His term expires in 2021.

Jeffrey A. Clark, Ph.D., is a Professor of Finance at Florida State University, where he teaches Financial Institutions Management and Financial Risk Management. He was appointed as an Association Outside Director in 2005. His term will expire in 2020. Mr. Clark serves as Vice-Chairman of the Audit Committee, and Chairman of the Governance Committee and is a member of the Risk Management Committee (RIMCO). He resides in Tallahassee, Florida.

Rex LaDon Durham, is a native of Early County. He joined the Board in 2018 and is presently serving a three year term, which will expire in 2021. Mr. Durham is a graduate of Mercer University with a bachelor's degree in accounting. He owns and manages Bluffton Peanut, LLC, a peanut buying point. Mr. Durham also operates a trucking company, Bluffton Freight Company, which primarily provides trucking services to the peanut buying point. He is a licensed grain/seed dealer, and he maintains a beef cattle herd and rents his row crop land to his brother. Mr. Durham serves as a County Commissioner for Early County and also serves as a board member and president of the Early County Farm Bureau.

George Thomas Harrison, Jr., is a resident of Thomasville in Thomas County. He is a graduate of Florida State University, with degrees in accounting and finance. He is a Certified Public Accountant and Certified Financial Planner. Mr. Harrison, is a partner in the CPA Firm, Lanigan & Associates P.C., where he practices as a tax partner specializing in taxation with special interest in timber, real estate investment and development, and pass through entities. Mr. Harrison's experience includes working with the accounting and agricultural sectors, specifically pertaining to forest products, farm machinery dealerships, financial planning, and accounting for timber, row crops, peanut and vegetable operations. Mr. Harrison joined the Board as an Outside Director in 2017. His term will expire in 2020. Mr. Harrison also serves on the Board of Directors of the Georgia Society of CPAs.

Robert L. Holden, Sr. is a beef, poultry and row crop producer who lives near Whigham in Grady County and joined the board in 1987. His current term will expire in 2022. Mr. Holden, previously served as Director and Chairman of the Board of AgFirst Farm Credit Bank, the funding bank and service provider for associations in 15 states and the Commonwealth of Puerto Rico; Georgia Milk Producers as Director and Chairman of the Board of this organization, tasked with awareness and education for the dairy industry; Director and Chairman of the Board of the American Dairy Association of Georgia, an organization which educates consumers on the importance of consumption, nutrition, and marketing of milk and milk products; the board of the Grady County Farm Bureau; and as Director for the Sunshine State's Dairymen's Cooperative.

Ted Milliron, is a resident of Randolph County and fifth generation crop and pecan farmer. He graduated from the

University of Georgia with a degree in agricultural economics. His farm operation includes cotton, peanuts, corn, soybeans, oats, wheat, and pecans. Mr. Milliron currently serves on the boards of the Randolph County Farm Bureau, Randolph County Board of Assessors, and Milliron Farms. Mr. Milliron's term expires in 2021.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

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

Aggregate fees incurred by the Association for services rendered by its Independent Auditors for the year ended December 31, 2019 were as follows:

	<u>2019</u>
<i>Independent Auditors</i>	
PricewaterhouseCoopers LLP -	\$ 70,978
Audit services	<u>\$ 70,978</u>

Audit service fees were for the annual audit of the Consolidated Financial Statements.

Relationship with Third Party Service Provider

	<u>2019</u>
<i>3rd Party Service Provider</i>	
Harper, Rains, Knight & Company	
Nonaudit services	\$ 147,674
Tax services	<u>21,660</u>
Total	<u>\$ 169,334</u>

Nonaudit services included internal credit reviews, internal operation review, Sarbanes Oxley compliance review and other miscellaneous reviews as needed.

Consolidated Financial Statements

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

Copies of the Association's Annual and unaudited Quarterly Reports are available upon request free of charge by calling 1-229-246-0384 or toll free 1-866-304-3276, or writing Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817, Attention: Chief Financial Officer, or accessing the web site, www.swgafarmcredit.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. Should you have questions concerning the financial reports or any other information contained within this Annual Report please contact the Stockholder Relations Department by calling 1-866-304-3276, extension 1142.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

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

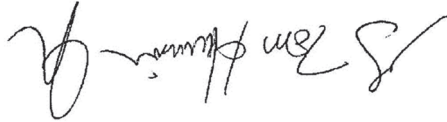
Report of the Audit Committee

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

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

PricewaterhouseCoopers LLP (PwC), the Association's Independent Auditors for 2019, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 (*The Auditor's Communication With Those Charged With Governance*). The Committee discussed with PwC its independence from the Association. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

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



G. Tom Harrison, Jr.

Chairman of the Audit Committee

Members of Audit Committee

Jeffrey A. Clark

Robert L. Holden, Sr.

John M. Bridges

March 12, 2020



Report of Independent Auditors

To the Board of Directors and Management of Southwest Georgia Farm Credit, ACA

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 12, 2020

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31,		
	2019	2018	2017
Assets			
Cash	\$ 1,348	\$ 2,220	\$ 4,617
Investments in debt securities:			
Held to maturity (fair value of \$6,589, \$6,544, and \$6,425, respectively)	5,819	5,956	6,078
Loans	499,432	454,983	414,337
Allowance for loan losses	(4,412)	(4,025)	(4,057)
Net loans	495,020	450,958	410,280
Accrued interest receivable	7,514	7,185	5,814
Equity investments in other Farm Credit institutions	14,370	14,846	15,761
Premises and equipment, net	3,201	3,215	3,078
Other property owned	765	222	129
Accounts receivable	10,361	11,178	11,757
Other assets	51	40	47
Total assets	\$ 538,449	\$ 495,820	\$ 457,561
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 433,972	\$ 393,455	\$ 361,645
Accrued interest payable	1,184	1,122	861
Patronage refunds payable	5,433	5,076	5,044
Accounts payable	452	3,349	588
Advanced conditional payments	734	—	—
Other liabilities	6,413	6,139	6,409
Total liabilities	448,188	409,141	374,547
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	1,464	1,370	1,271
Retained earnings			
Allocated	9,707	12,452	16,037
Unallocated	79,090	72,857	65,706
Total members' equity	90,261	86,679	83,014
Total liabilities and members' equity	\$ 538,449	\$ 495,820	\$ 457,561

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

Consolidated Statements of Comprehensive Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2019	2018	2017
Interest Income			
Loans	\$ 25,562	\$ 21,943	\$ 19,091
Investments	377	376	376
Total interest income	25,939	22,319	19,467
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	14,352	11,788	9,693
Net interest income	11,587	10,531	9,774
Provision for loan losses	571	171	14
Net interest income after provision for loan losses	11,016	10,360	9,760
Noninterest Income			
Loan fees	620	632	609
Fees for financially related services	8	28	8
Patronage refunds from other Farm Credit institutions	10,413	11,296	11,815
Gains (losses) on sales of premises and equipment, net	(10)	14	21
Insurance Fund refunds	99	235	—
Other noninterest income	49	42	70
Total noninterest income	11,179	12,247	12,523
Noninterest Expense			
Salaries and employee benefits	6,679	6,647	6,217
Occupancy and equipment	583	637	598
Insurance Fund premiums	369	318	494
(Gains) losses on other property owned, net	139	(54)	319
Other operating expenses	2,687	2,881	1,811
Total noninterest expense	10,457	10,429	9,439
Income before income taxes	11,738	12,178	12,844
Provision (benefit) for income taxes	(7)	—	15
Net income	11,745	12,178	12,829
Other comprehensive income	—	—	—
Comprehensive income	\$ 11,745	\$ 12,178	\$ 12,829

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

Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2016	\$ 1	\$ 1,174	\$ 17,434	\$ 57,877	\$ 76,486
Comprehensive income				12,829	12,829
Protected borrower stock issued/(retired), net	(1)				(1)
Capital stock/participation certificates issued/(retired), net		97			97
Patronage distribution Cash				(5,000)	(5,000)
Retained earnings retired			(1,397)		(1,397)
Balance at December 31, 2017	\$ —	\$ 1,271	\$ 16,037	\$ 65,706	\$ 83,014
Comprehensive income				12,178	12,178
Capital stock/participation certificates issued/(retired), net		99			99
Patronage distribution Cash				(5,027)	(5,027)
Retained earnings retired			(3,585)		(3,585)
Balance at December 31, 2018	\$ —	\$ 1,370	\$ 12,452	\$ 72,857	\$ 86,679
Cumulative effect of change in accounting principle				1	1
Comprehensive income				11,745	11,745
Capital stock/participation certificates issued/(retired), net		94			94
Patronage distribution Cash				(5,371)	(5,371)
Retained earnings retired			(2,745)		(2,745)
Patronage distribution adjustment				(142)	(142)
Balance at December 31, 2019	\$ —	\$ 1,464	\$ 9,707	\$ 79,090	\$ 90,261

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

Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 11,745	\$ 12,178	\$ 12,829
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	293	309	278
Amortization (accretion) of net deferred loan costs (fees)	29	(10)	36
Premium amortization (discount accretion) on investments in debt securities	(2)	(9)	(1)
Provision for loan losses	571	171	14
(Gains) losses on other property owned	100	(122)	244
(Gains) losses on sales of premises and equipment, net	10	(14)	(21)
Changes in operating assets and liabilities:			
Origination of loans held for sale	(4,819)	—	(8,858)
Proceeds from sales of loans held for sale, net	4,819	—	9,058
(Increase) decrease in accrued interest receivable	(329)	(1,371)	(377)
(Increase) decrease in accounts receivable	817	579	(2,197)
(Increase) decrease in other assets	(10)	7	1,645
Increase (decrease) in accrued interest payable	62	261	172
Increase (decrease) in accounts payable	(2,897)	2,761	(72)
Increase (decrease) in other liabilities	274	(270)	(850)
Total adjustments	(1,082)	2,292	(929)
Net cash provided by (used in) operating activities	10,663	14,470	11,900
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	139	131	607
Net (increase) decrease in loans	(45,480)	(40,940)	(37,233)
(Increase) decrease in equity investments in other Farm Credit institutions	476	915	(658)
Purchases of premises and equipment	(296)	(446)	(240)
Proceeds from sales of premises and equipment	7	14	21
Proceeds from sales of other property owned	175	130	450
Net cash provided by (used in) investing activities	(44,979)	(40,196)	(37,053)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	40,517	31,810	33,782
Net increase (decrease) in advanced conditional payments	734	—	—
Protected borrower stock retired	—	—	(1)
Capital stock and participation certificates issued/(retired), net	94	99	97
Patronage refunds and dividends paid	(5,156)	(4,995)	(4,752)
Retained earnings retired	(2,745)	(3,585)	(1,397)
Net cash provided by (used in) financing activities	33,444	23,329	27,729
Net increase (decrease) in cash	(872)	(2,397)	2,576
Cash, beginning of period	2,220	4,617	2,041
Cash, end of period	\$ 1,348	\$ 2,220	\$ 4,617
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	\$ 9	\$ —	\$ —
Receipt of property in settlement of loans	827	101	—
Estimated cash dividends or patronage distributions declared or payable	5,371	5,027	5,000
Supplemental information:			
Interest paid	\$ 14,290	\$ 11,527	\$ 9,521
Taxes (refunded) paid, net	—	—	11

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:** Southwest Georgia Farm Credit, ACA (the Association or ACA) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Baker, Calhoun, Chattahoochee, Clay, Decatur, Dougherty, Early, Grady, Lee, Marion, Miller, Mitchell, Quitman, Randolph, Schley, Seminole, Stewart, Sumter, Terrell, Thomas, and Webster in the state of Georgia.

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

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

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

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

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure

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

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

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

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

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

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

Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held \$1,096 in cash in excess of insured amounts.

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

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

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans

include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full. A formal restructuring may also cure a past due status.

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

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

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

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

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

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

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

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

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

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

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.

Investments in Debt Securities

The Association holds certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded in the Consolidated Balance Sheets as securities on the trade date.

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity

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

Other Equity Investments

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

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

Impairment

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

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

Investment Income

Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of

investment securities are recognized in current earnings using the specific identification method.

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

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

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

Defined Contribution Plans

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

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans

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

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

Since the foregoing plans are multiemployer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone

financial statements. Rather, the effects of this guidance are reflected in the Annual Information Statement of the Farm Credit System.

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

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

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

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified dividend 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 dividend refunds. The Association distributes dividends 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 dividend program, which reduces taxable earnings.

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

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

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

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

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

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

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

Additional information may be found in Note 8.

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

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

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

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

Financial Instruments

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

Contracts with Customers

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

Gains and Losses from Nonfinancial Assets

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

- N. **Leases:**

Lessee

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

In the course of normal operations, the Association may enter into leases for various business purposes. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement. Any options

are assessed individually to determine if it is reasonably certain they will be exercised.

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

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

Lessor

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

Lease income is recognized on a straight-line basis over the lease term. Lease and nonlease components are accounted for separately in the Consolidated Statements of 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 approximately \$1 was recorded. In addition, a Right of Use Asset in the amount of \$28 and Lease Liability in the amount of \$27 were recognized.
- Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower’s normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or

to refinance existing debt. These loans are generally secured by a first lien on the property.

- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S.

agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans. Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.

- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31,		
	2019	2018	2017
Real estate mortgage	\$ 279,033	\$ 259,413	\$ 230,267
Production and intermediate-term	151,153	131,022	116,018
Loans to cooperatives	2,633	2,243	583
Processing and marketing	33,666	31,125	31,476
Farm-related business	19,477	15,826	19,123
Communication	4,190	5,475	8,649
Power and water/waste disposal	3,052	3,716	3,940
Rural residential real estate	2,822	2,735	1,793
International	1,932	1,752	1,752
Lease receivables	1,474	1,676	736
Total loans	<u>\$ 499,432</u>	<u>\$ 454,983</u>	<u>\$ 414,337</u>

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

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

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

	December 31, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 26,356	\$ 129,416	\$ —	\$ —	\$ —	\$ —	\$ 26,356	\$ 129,416
Production and intermediate-term	10,694	71,014	—	—	—	—	10,694	71,014
Loans to cooperatives	2,640	—	—	—	—	—	2,640	—
Processing and marketing	18,573	58,293	49,320	263	—	—	67,893	58,556
Farm-related business	—	1,591	—	225	—	—	—	1,816
Communication	4,197	—	—	—	—	—	4,197	—
Power and water/waste disposal	3,069	—	—	—	—	—	3,069	—
Rural residential real estate	—	1,221	—	—	—	—	—	1,221
International	1,936	—	—	—	—	—	1,936	—
Lease receivables	—	—	1,474	—	—	—	1,474	—
Total	<u>\$ 67,465</u>	<u>\$ 261,535</u>	<u>\$ 50,794</u>	<u>\$ 488</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 118,259</u>	<u>\$ 262,023</u>

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	\$ 24,369	\$ 144,497	\$ 3,180	\$ -	\$ 1,784	\$ -	\$ 29,333
Production and intermediate-term	10,493	72,976	1,573	-	-	-	12,066	72,976
Loans to cooperatives	2,250	-	-	-	-	-	2,250	-
Processing and marketing	16,789	56,120	49,799	341	-	-	66,588	56,461
Farm-related business	-	2,799	-	826	-	-	-	3,625
Communication	5,493	-	-	-	-	-	5,493	-
Power and water/waste disposal	3,728	-	-	-	-	-	3,728	-
International	1,754	-	-	-	-	-	1,754	-
Lease receivables	-	-	1,676	-	-	-	1,676	-
Total	\$ 64,876	\$ 276,392	\$ 56,228	\$ 1,167	\$ 1,784	\$ -	\$ 122,888	\$ 277,559

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	\$ 18,193	\$ 145,983	\$ 3,362	\$ -	\$ 1,869	\$ -	\$ 23,424
Production and intermediate-term	14,549	81,402	1,046	-	-	-	15,595	81,402
Loans to cooperatives	586	-	-	-	-	-	586	-
Processing and marketing	19,340	52,446	-	405	-	-	19,340	52,851
Farm-related business	-	12,376	-	334	-	-	-	12,710
Communication	8,676	-	-	-	-	-	8,676	-
Power and water/waste disposal	3,953	-	-	-	-	-	3,953	-
International	1,754	-	-	-	-	-	1,754	-
Lease receivables	-	-	736	-	-	-	736	-
Total	\$ 67,051	\$ 292,207	\$ 5,144	\$ 739	\$ 1,869	\$ -	\$ 74,064	\$ 292,946

A significant source of liquidity for the Association is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

December 31, 2019

	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
	Real estate mortgage	\$ 2,119	\$ 42,297	\$ 234,617
Production and intermediate-term	40,598	74,869	35,686	151,153
Loans to cooperatives	-	535	2,098	2,633
Processing and marketing	2,355	22,150	9,161	33,666
Farm-related business	1,218	14,190	4,069	19,477
Communication	1,030	1,406	1,754	4,190
Power and water/waste disposal	-	3,052	-	3,052
Rural residential real estate	75	149	2,598	2,822
International	-	181	1,751	1,932
Lease receivables	-	497	977	1,474
Total loans	\$ 47,395	\$ 159,326	\$ 292,711	\$ 499,432
Percentage	9.49%	31.90%	58.61%	100.00%

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

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

	December 31,				December 31,		
	2019	2018	2017		2019	2018	2017
Real estate mortgage:				Communication:			
Acceptable	98.29%	96.91%	98.27%	Acceptable	100.00%	100.00%	100.00%
OAEM	1.15	2.14	1.25	OAEM	-	-	-
Substandard/doubtful/loss	0.56	0.95	0.48	Substandard/doubtful/loss	-	-	-
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Production and intermediate-term:				Power and water/waste disposal:			
Acceptable	97.71%	97.93%	97.86%	Acceptable	-%	100.00%	100.00%
OAEM	1.23	0.92	1.02	OAEM	81.80	-	-
Substandard/doubtful/loss	1.06	1.15	1.12	Substandard/doubtful/loss	18.20	-	-
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Loans to cooperatives:				Rural residential real estate:			
Acceptable	100.00%	100.00%	100.00%	Acceptable	91.30%	90.71%	90.70%
OAEM	-	-	-	OAEM	-	-	-
Substandard/doubtful/loss	-	-	-	Substandard/doubtful/loss	8.70	9.29	9.30
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Processing and marketing:				International:			
Acceptable	95.19%	100.00%	100.00%	Acceptable	100.00%	100.00%	100.00%
OAEM	4.81	-	-	OAEM	-	-	-
Substandard/doubtful/loss	-	-	-	Substandard/doubtful/loss	-	-	-
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Farm-related business:				Lease receivables:			
Acceptable	100.00%	96.85%	87.72%	Acceptable	100.00%	100.00%	100.00%
OAEM	-	0.61	-	OAEM	-	-	-
Substandard/doubtful/loss	-	2.54	12.28	Substandard/doubtful/loss	-	-	-
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
				Total loans:			
				Acceptable	97.38%	97.47%	97.83%
				OAEM	1.83	1.51	0.98
				Substandard/doubtful/loss	0.79	1.02	1.19
					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	\$ 707	\$ 73	\$ 780	\$ 282,178	\$ 282,958
Production and intermediate-term	229	748	977	153,129	154,106	
Loans to cooperatives	-	-	-	2,634	2,634	
Processing and marketing	-	-	-	34,088	34,088	
Farm-related business	-	-	-	19,625	19,625	
Communication	-	-	-	4,191	4,191	
Power and water/waste disposal	-	-	-	3,055	3,055	
Rural residential real estate	246	-	246	2,585	2,831	
International	-	-	-	1,935	1,935	
Lease receivables	-	-	-	1,480	1,480	
Total	\$ 1,182	\$ 821	\$ 2,003	\$ 504,900	\$ 506,903	

	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	\$ 1,131	\$ 241	\$ 1,372	\$ 261,971	\$ 263,343
Production and intermediate-term	157	80	237	133,394	133,631	
Loans to cooperatives	-	-	-	2,249	2,249	
Processing and marketing	-	-	-	31,559	31,559	
Farm-related business	418	-	418	15,544	15,962	
Communication	-	-	-	5,476	5,476	
Power and water/waste disposal	-	-	-	3,720	3,720	
Rural residential real estate	255	-	255	2,491	2,746	
International	-	-	-	1,756	1,756	
Lease receivables	-	-	-	1,683	1,683	
Total	\$ 1,961	\$ 321	\$ 2,282	\$ 459,843	\$ 462,125	

	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	\$ 1,474	\$ 119	\$ 1,593	\$ 231,935	\$ 233,528
Production and intermediate-term	314	899	1,213	116,720	117,933
Loans to cooperatives	—	—	—	586	586
Processing and marketing	—	—	—	31,865	31,865
Farm-related business	267	—	267	19,015	19,282
Communication	—	—	—	8,679	8,679
Power and water/waste disposal	—	—	—	3,942	3,942
Rural residential real estate	—	—	—	1,800	1,800
International	—	—	—	1,754	1,754
Lease receivables	—	—	—	739	739
Total	\$ 2,055	\$ 1,018	\$ 3,073	\$ 417,035	\$ 420,108

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

	December 31,		
	2019	2018	2017
Nonaccrual loans:			
Real estate mortgage	\$ 662	\$ 591	\$ 117
Production and intermediate-term	1,333	733	954
Rural residential real estate	85	91	—
Total	\$ 2,080	\$ 1,415	\$ 1,071
Accruing restructured loans:			
Real estate mortgage	\$ 1,958	\$ 2,068	\$ 1,394
Production and intermediate-term	7	10	13
Total	\$ 1,965	\$ 2,078	\$ 1,407
Accruing loans 90 days or more past due:			
Total	\$ —	\$ —	\$ —
Total nonperforming loans	\$ 4,045	\$ 3,493	\$ 2,478
Other property owned	765	222	129
Total nonperforming assets	\$ 4,810	\$ 3,715	\$ 2,607
Nonaccrual loans as a percentage of total loans	0.42%	0.31%	0.26%
Nonperforming assets as a percentage of total loans and other property owned	0.96%	0.82%	0.63%
Nonperforming assets as a percentage of capital	5.33%	4.29%	3.14%

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

	December 31,		
	2019	2018	2017
Impaired loans:			
Nonaccrual loans:			
Current as to principal and interest	\$ 959	\$ 996	\$ 53
Past due	1,121	419	1,018
Total	\$ 2,080	\$ 1,415	\$ 1,071
Accrual loans:			
Restructured	\$ 1,965	\$ 2,078	\$ 1,407
90 days or more past due	—	—	—
Total	\$ 1,965	\$ 2,078	\$ 1,407
Total impaired loans	\$ 4,045	\$ 3,493	\$ 2,478
Additional commitments to lend	\$ —	\$ —	\$ —

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

Impaired loans:	December 31, 2019			Year Ended December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
With a related allowance for credit losses:						
Real estate mortgage	\$ 1,216	\$ 1,204	\$ 25	\$ 1,363	\$	15
Production and intermediate-term	1,126	1,194	494	1,262		15
Rural residential real estate	—	—	—	—		—
Total	\$ 2,342	\$ 2,398	\$ 519	\$ 2,625	\$	30
With no related allowance for credit losses:						
Real estate mortgage	\$ 1,404	\$ 1,556	\$ —	\$ 1,574	\$	19
Production and intermediate-term	214	430	—	239		2
Rural residential real estate	85	92	—	96		1
Total	\$ 1,703	\$ 2,078	\$ —	\$ 1,909	\$	22
Total impaired loans:						
Real estate mortgage	\$ 2,620	\$ 2,760	\$ 25	\$ 2,937	\$	34
Production and intermediate-term	1,340	1,624	494	1,501		17
Rural residential real estate	85	92	—	96		1
Total	\$ 4,045	\$ 4,476	\$ 519	\$ 4,534	\$	52

Impaired loans:	December 31, 2018			Year Ended December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
With a related allowance for credit losses:						
Real estate mortgage	\$ 1,971	\$ 1,954	\$ 34	\$ 1,536	\$	31
Production and intermediate-term	423	422	33	330		7
Rural residential real estate	—	—	—	—		—
Total	\$ 2,394	\$ 2,376	\$ 67	\$ 1,866	\$	38
With no related allowance for credit losses:						
Real estate mortgage	\$ 688	\$ 778	\$ —	\$ 536	\$	11
Production and intermediate-term	320	525	—	249		5
Rural residential real estate	91	93	—	71		2
Total	\$ 1,099	\$ 1,396	\$ —	\$ 856	\$	18
Total impaired loans:						
Real estate mortgage	\$ 2,659	\$ 2,732	\$ 34	\$ 2,072	\$	42
Production and intermediate-term	743	947	33	579		12
Rural residential real estate	91	93	—	71		2
Total	\$ 3,493	\$ 3,772	\$ 67	\$ 2,722	\$	56

Impaired loans:	December 31, 2017			Year Ended December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
With a related allowance for credit losses:						
Real estate mortgage	\$ 1,287	\$ 1,273	\$ 53	\$ 1,276	\$	27
Production and intermediate-term	709	732	73	704		15
Total	\$ 1,996	\$ 2,005	\$ 126	\$ 1,980	\$	42
With no related allowance for credit losses:						
Real estate mortgage	\$ 224	\$ 271	\$ —	\$ 222	\$	5
Production and intermediate-term	258	324	—	256		5
Total	\$ 482	\$ 595	\$ —	\$ 478	\$	10
Total impaired loans:						
Real estate mortgage	\$ 1,511	\$ 1,544	\$ 53	\$ 1,498	\$	32
Production and intermediate-term	967	1,056	73	960		20
Total	\$ 2,478	\$ 2,600	\$ 126	\$ 2,458	\$	52

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
Activity related to the allowance for credit losses:									
Balance at December 31, 2018	\$ 2,284	\$ 1,180	\$ 429	\$ 47	\$ 32	\$ 23	\$ 15	\$ 15	\$ 4,025
Charge-offs	(30)	(51)	(160)	—	—	—	—	—	(241)
Recoveries	19	38	—	—	—	—	—	—	57
Provision for loan losses	(76)	508	168	(15)	(8)	(2)	—	(4)	571
Balance at December 31, 2019	\$ 2,197	\$ 1,675	\$ 437	\$ 32	\$ 24	\$ 21	\$ 15	\$ 11	\$ 4,412
Balance at December 31, 2017	\$ 2,239	\$ 1,176	\$ 484	\$ 81	\$ 37	\$ 17	\$ 16	\$ 7	\$ 4,057
Charge-offs	(41)	(201)	—	—	—	—	—	—	(242)
Recoveries	1	36	—	—	2	—	—	—	39
Provision for loan losses	85	169	(55)	(34)	(7)	6	(1)	8	171
Balance at December 31, 2018	\$ 2,284	\$ 1,180	\$ 429	\$ 47	\$ 32	\$ 23	\$ 15	\$ 15	\$ 4,025
Balance at December 31, 2016	\$ 2,305	\$ 1,014	\$ 616	\$ 50	\$ 10	\$ 15	\$ 18	\$ 3	\$ 4,031
Charge-offs	(3)	(19)	—	—	—	—	—	—	(22)
Recoveries	7	27	—	—	—	—	—	—	34
Provision for loan losses	(70)	154	(132)	31	27	2	(2)	4	14
Balance at December 31, 2017	\$ 2,239	\$ 1,176	\$ 484	\$ 81	\$ 37	\$ 17	\$ 16	\$ 7	\$ 4,057
Allowance on loans evaluated for impairment:									
Individually	\$ 25	\$ 494	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 519
Collectively	2,172	1,181	437	32	24	21	15	11	3,893
Balance at December 31, 2019	\$ 2,197	\$ 1,675	\$ 437	\$ 32	\$ 24	\$ 21	\$ 15	\$ 11	\$ 4,412
Individually	\$ 34	\$ 33	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 67
Collectively	2,250	1,147	429	47	32	23	15	15	3,958
Balance at December 31, 2018	\$ 2,284	\$ 1,180	\$ 429	\$ 47	\$ 32	\$ 23	\$ 15	\$ 15	\$ 4,025
Individually	\$ 53	\$ 73	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 126
Collectively	2,186	1,103	484	81	37	17	16	7	3,931
Balance at December 31, 2017	\$ 2,239	\$ 1,176	\$ 484	\$ 81	\$ 37	\$ 17	\$ 16	\$ 7	\$ 4,057
Recorded investment in loans evaluated for impairment:									
Individually	\$ 2,620	\$ 1,340	\$ —	\$ —	\$ —	\$ 85	\$ —	\$ —	\$ 4,045
Collectively	280,338	152,766	56,347	4,191	3,055	2,746	1,935	1,480	502,858
Balance at December 31, 2019	\$ 282,958	\$ 154,106	\$ 56,347	\$ 4,191	\$ 3,055	\$ 2,831	\$ 1,935	\$ 1,480	\$ 506,903
Individually	\$ 2,659	\$ 743	\$ —	\$ —	\$ —	\$ 91	\$ —	\$ —	\$ 3,493
Collectively	260,684	132,888	49,770	5,476	3,720	2,655	1,756	1,683	458,632
Balance at December 31, 2018	\$ 263,343	\$ 133,631	\$ 49,770	\$ 5,476	\$ 3,720	\$ 2,746	\$ 1,756	\$ 1,683	\$ 462,125
Individually	\$ 1,511	\$ 967	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,478
Collectively	232,017	116,966	51,733	8,679	3,942	1,800	1,754	739	417,630
Balance at December 31, 2017	\$ 233,528	\$ 117,933	\$ 51,733	\$ 8,679	\$ 3,942	\$ 1,800	\$ 1,754	\$ 739	\$ 420,108

*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 \$53,273, \$39,062, and \$47,723 at December 31, 2019, 2018, and 2017, respectively. Fees paid for such guarantee commitments totaled \$102, \$106, and \$124 for 2019, 2018, and 2017, respectively. These amounts are classified as noninterest expense.

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

Outstanding Recorded Investment	Year Ended December 31, 2019				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Farm-related business	\$ —	\$ 398	\$ —	\$ 398	
Total	\$ —	\$ 398	\$ —	\$ 398	
Post-modification:					
Farm-related business	\$ —	\$ 398	\$ —	\$ 398	\$ —
Total	\$ —	\$ 398	\$ —	\$ 398	\$ —

Year Ended December 31, 2018					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ -	\$ 1,249	\$ -	\$ 1,249	
Production and intermediate-term	-	163	-	163	
Total	\$ -	\$ 1,412	\$ -	\$ 1,412	
Post-modification:					
Real estate mortgage	\$ -	\$ 1,173	\$ -	\$ 1,173	\$ (37)
Production and intermediate-term	-	113	-	113	-
Total	\$ -	\$ 1,286	\$ -	\$ 1,286	\$ (37)

Year Ended December 31, 2017					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ -	\$ 22	\$ -	\$ 22	
Total	\$ -	\$ 22	\$ -	\$ 22	
Post-modification:					
Production and intermediate-term	\$ -	\$ 13	\$ -	\$ 13	\$ -
Total	\$ -	\$ 13	\$ -	\$ 13	\$ -

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 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	\$ 2,160	\$ 2,292	\$ 1,394	\$ 202	\$ 224	\$ -
Production and intermediate-term	103	133	149	96	123	136
Total loans	\$ 2,263	\$ 2,425	\$ 1,543	\$ 298	\$ 347	\$ 136
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	\$ 345
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ -

Note 4 — Investments

Investments in Debt Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have

different eligibility requirements. At December 31, 2019, the Association held one RAB with a fair value of \$864 whose credit quality has deteriorated beyond the program limits.

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

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 5,819	\$ 770	\$ -	\$ 6,589	6.34%

December 31, 2018					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 5,956	\$ 588	\$ -	\$ 6,544	6.38%

December 31, 2017					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 6,078	\$ 452	\$ (105)	\$ 6,425	6.03%

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

December 31, 2019				
	Amortized Cost	Fair Value	Weighted Average Yield	
In one year or less	\$ -	\$ -	-	%
After one year through five years	1,240	1,318	7.15	
After five years through ten years	-	-	-	
After ten years	4,579	5,271	6.12	
Total	\$ 5,819	\$ 6,589	6.34%	

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

An investment is considered impaired if its fair value is less than its cost. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. There were no investments in a continuous unrealized loss position at December 31, 2019 or December 31, 2018.

December 31, 2017				
Less than 12 Months			12 Months or Greater	
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
RABs	\$ -	\$ -	\$ 660	\$ (105)

The recording of an impairment loss is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment (OTTI) loss is separated into credit loss and non-credit loss. Credit loss is defined as the

shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

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

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

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

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

Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled \$13,292 for 2019, \$13,761 for 2018 and \$14,655 for 2017. The Association owned 4.70 percent of the issued stock of the Bank as of December 31, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled \$34.5 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$272 million for

2019. In addition, the Association had investments of \$1,078 related to other Farm Credit institutions at December 31, 2019.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2019	2018	2017
Land	\$ 653	\$ 653	\$ 655
Buildings and improvements	3,744	3,711	3,583
Furniture and equipment	1,738	1,592	1,460
	6,135	5,956	5,698
Less: accumulated depreciation	2,934	2,741	2,620
Total	\$ 3,201	\$ 3,215	\$ 3,078

Other Property Owned

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

	December 31,		
	2019	2018	2017
(Gains) losses on sale, net	\$ —	\$ —	\$ (4)
Carrying value unrealized (gains) losses	100	(122)	248
Operating (income) expense, net	39	68	75
(Gains) losses on other property owned, net	\$ 139	\$ (54)	\$ 319

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 an agreement between the Bank and the Association.

The weighted average interest rates on the variable rate notes were 2.78 percent for LIBOR-based loans and 2.91 percent for Prime-based loans, and the weighted average remaining maturities were 3.5 years and 1.3 years, respectively, at December 31, 2019. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.24 percent and the weighted average remaining maturity was 10.4 years at December 31, 2019. The weighted average interest rate on all interest-bearing notes payable was 3.15 percent and the weighted average remaining maturity was 8.6 years at December 31, 2019. Variable rate and fixed rate notes payable represent approximately 8.83 percent and 91.17 percent, respectively, of total notes payable at December 31, 2019. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

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

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

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

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

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

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

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

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31,		
				2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital	4.5%	1.875%	6.375%	14.31%	13.98%	13.04%
Tier 1 Capital	6.0%	1.875%	7.875%	14.31%	13.98%	13.04%
Total Capital	8.0%	1.875%	9.875%	15.13%	15.65%	15.53%
Permanent Capital	7.0%	0.0%	7.0%	14.43%	14.89%	14.70%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	13.48%	13.44%	12.26%
URE and UREE Leverage	1.5%	0.0%	1.5%	15.24%	15.60%	14.45%

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

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

D. Description of Equities: The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association’s

business. All stock and participation certificates have a par or face value of five dollars per share.

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
A Common/Nonvoting	Yes	76	\$ —
C Common	No	275,077	1,375
C Participation Certificates/Nonvoting	No	17,726	89
Total Capital Stock and Participation Certificates		292,879	\$ 1,464

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board of Directors 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.

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

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

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met. 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 \$9,707 of nonqualified retained surplus.

Dividend 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 dividend basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Dividend distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate dividend basis is approved by the Board.

If the Association meets its capital adequacy standards after making the dividend distributions, the dividend 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. Dividend 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 dividend distribution to any borrower for any fiscal year shall always be paid in cash. Amounts not distributed are retained as unallocated members' equity.

Dividends

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

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B 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. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Transfer

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

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members'

equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Assistance Preferred Stock
2. Allocated Retained Earnings in its entirety
3. Class C Common Stock and Class C Participation Certificates
4. Classes A and B Common Stock and Class B Participation Certificates
5. Classes A and D Preferred Stock

Liquidation

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

1. Classes A and D Preferred Stock
2. Classes A and B Common Stock and Class B Participation Certificates
3. Class C Common Stock and Class C Participation Certificates
4. Allocated surplus evidenced by qualified written notices of allocation on the basis of oldest allocations first
5. Allocated surplus evidenced by nonqualified notices of allocation on the basis of oldest allocations first
6. All Unallocated Retained Earnings issued after January 1, 1995 shall be distributed to the holders of Class C Stock and Class C Participation Certificates from January 1, 1995 through the date of liquidation on a dividend basis; and
7. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

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

The Association had no Level 1 assets or liabilities measured at fair value on a recurring basis at December 31, 2019. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

The Association had no Level 2 assets or liabilities measured at fair value.

Level 3

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

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

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

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition,

FCA regulations require that these types of property be disposed of within a reasonable period of time.

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

The fair value of investments in debt securities is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

There were no Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

		December 31, 2019				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Recurring Assets	\$	-	\$	-	\$	-
Liabilities:						
Recurring Liabilities	\$	-	\$	-	\$	-
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	1,823	\$	-	\$	1,823
Other property owned		765		-		807
Nonrecurring Assets	\$	2,588	\$	-	\$	2,630
Other Financial Instruments						
Assets:						
Cash	\$	1,348	\$	1,348	\$	-
Investments in debt securities, held-to-maturity		5,819		-		6,589
Loans		493,197		-		490,390
Other Financial Assets	\$	500,364	\$	1,348	\$	496,979
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	433,972	\$	-	\$	435,386
Other Financial Liabilities	\$	433,972	\$	-	\$	435,386
		December 31, 2018				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Recurring Assets	\$	-	\$	-	\$	-
Liabilities:						
Recurring Liabilities	\$	-	\$	-	\$	-
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	2,327	\$	-	\$	2,327
Other property owned		222		-		237
Nonrecurring Assets	\$	2,549	\$	-	\$	2,564
Other Financial Instruments						
Assets:						
Cash	\$	2,220	\$	2,220	\$	-
Investments in debt securities, held-to-maturity		5,956		-		6,544
Loans		448,631		-		436,822
Other Financial Assets	\$	456,807	\$	2,220	\$	443,366
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	393,455	\$	-	\$	388,429
Other Financial Liabilities	\$	393,455	\$	-	\$	388,429

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Liabilities:					
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 1,870	\$ -	\$ -	\$ 1,870	\$ 1,870
Other property owned	129	-	-	142	142
Nonrecurring Assets	\$ 1,999	\$ -	\$ -	\$ 2,012	\$ 2,012
Other Financial Instruments					
Assets:					
Cash	\$ 4,617	\$ 4,617	\$ -	\$ -	\$ 4,617
Investments in debt securities, held-to-maturity	6,078	-	-	6,425	6,425
Loans	408,410	-	-	399,660	399,660
Other Financial Assets	\$ 419,105	\$ 4,617	\$ -	\$ 406,085	\$ 410,702
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 361,645	\$ -	\$ -	\$ 358,408	\$ 358,408
Other Financial Liabilities	\$ 361,645	\$ -	\$ -	\$ 358,408	\$ 358,408

Uncertainty in Measurements of Fair Value

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

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

Investments in Debt Securities

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

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 2,630	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 9 — Employee Benefit Plans

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

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

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

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

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer

plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Income were \$460 for 2019, \$907 for 2018, and \$776 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 \$116 for 2019, \$118 for 2018, and \$89 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 \$1,648 and the reduction of Other Liabilities by \$2,604 on the Association's Balance Sheets, and a total reduction of noninterest expenses on the Association's Statements of Income of \$956 during 2017.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes \$0.50 for each \$1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes \$1.00 for each \$1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were \$306, \$292, and \$247 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 also sponsors a nonqualified supplemental 401(k) plan. Expenses of this plan included in noninterest expense were \$5, \$0, 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 \$6,220. During 2019, \$4,835 of new loans were made and repayments totaled \$5,952. 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, \$105,908 of commitments to extend credit and no commercial letters of credit were outstanding. There were no reserves for unfunded commitments included in Other Liabilities in the Consolidated Balance Sheets at December 31, 2019.

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 \$1,692 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 1,692.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	\$ (7)	\$ —	\$ 15
State	—	—	—
	<u>(7)</u>	<u>—</u>	<u>15</u>
Deferred:			
Federal	—	—	—
State	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Total provision (benefit) for income taxes	<u>\$ (7)</u>	<u>\$ —</u>	<u>\$ 15</u>

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

	December 31,		
	2019	2018	2017
Federal tax at statutory rate	\$ 2,465	\$ 2,557	\$ 4,495
State tax, net	(7)	—	—
Dividend distributions	(1,128)	(1,056)	(1,750)
Tax-exempt FLCA earnings	(1,464)	(1,759)	(2,640)
Change in valuation allowance	137	(32)	(1,928)
Future tax rate change	—	—	1,832
Other	(10)	290	6
Provision (benefit) for income taxes	<u>\$ (7)</u>	<u>\$ —</u>	<u>\$ 15</u>

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

	December 31,		
	2019	2018	2017
Deferred income tax assets:			
Allowance for loan losses	\$ 720	\$ 585	\$ 599
Pensions and other postretirement benefits	52	89	108
Nonaccrual loan interest	42	—	—
Acquired property write-downs	22	—	—
Loss carryforwards	2,857	2,877	2,876
Gross deferred tax assets	<u>3,693</u>	<u>3,551</u>	<u>3,583</u>
Less: valuation allowance	<u>(3,688)</u>	<u>(3,551)</u>	<u>(3,583)</u>
Gross deferred tax assets, net of valuation allowance	<u>5</u>	<u>—</u>	<u>—</u>
Deferred income tax liabilities:			
Loan fees	—	—	—
Depreciation	(5)	—	—
Pensions and other postretirement benefits	—	—	—
Gross deferred tax liability	<u>(5)</u>	<u>—</u>	<u>—</u>
Net deferred tax asset (liability)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At December 31, 2019, deferred income taxes have not been provided by the Association on approximately \$2 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 \$3,688, \$3,551, and \$3,583 as of December 31, 2019, 2018 and 2017, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

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

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

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,713	\$ 2,843	\$ 3,032	\$ 2,999	\$ 11,587
Provision for (reversal of allowance for) loan losses	-	192	10	369	571
Noninterest income (expense), net	(523)	(462)	(605)	2,319	729
Net income	\$ 2,190	\$ 2,189	\$ 2,417	\$ 4,949	\$ 11,745

	2018				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,403	\$ 2,616	\$ 2,728	\$ 2,784	\$ 10,531
Provision for (reversal of allowance for) loan losses	-	-	-	171	171
Noninterest income (expense), net	(235)	(610)	(717)	3,380	1,818
Net income	\$ 2,168	\$ 2,006	\$ 2,011	\$ 5,993	\$ 12,178

	2017				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,206	\$ 2,421	\$ 2,582	\$ 2,565	\$ 9,774
Provision for (reversal of allowance for) loan losses	-	-	19	(5)	14
Noninterest income (expense), net	(288)	(371)	(343)	4,071	3,069
Net income	\$ 1,918	\$ 2,050	\$ 2,220	\$ 6,641	\$ 12,829

Note 14 — Subsequent Events

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



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