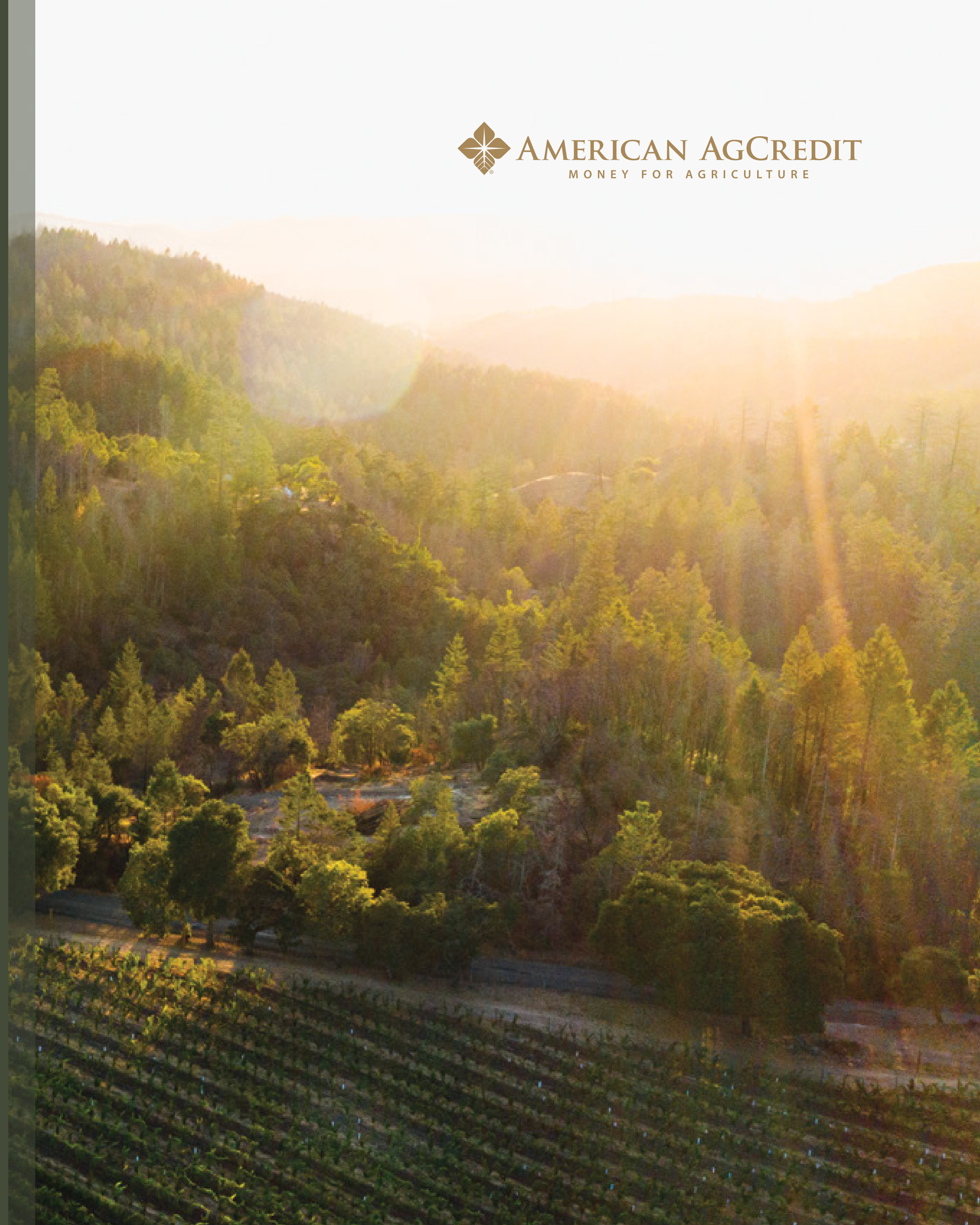
STRONGER TOGETHER

2019 ANNUAL REPORT

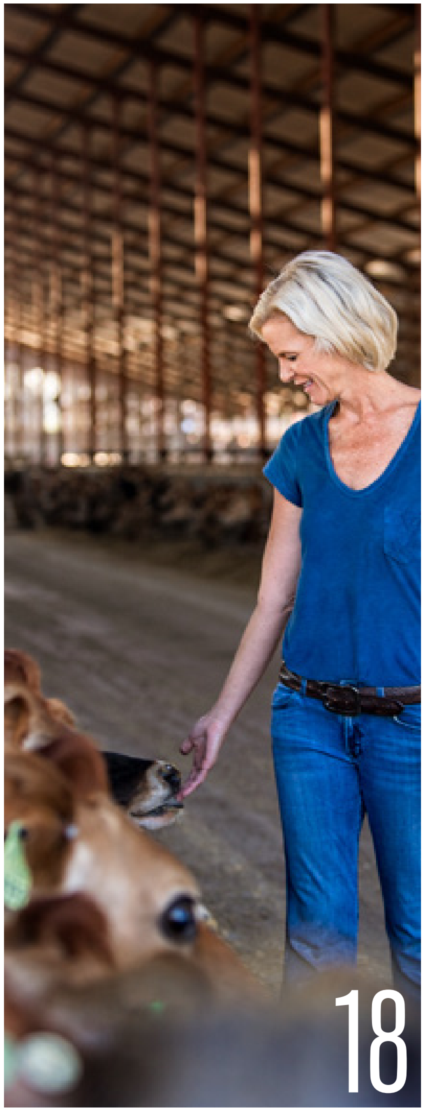


2019 ANNUAL REPORT

STRONGER TOGETHER


12


15


18


21

TABLE OF CONTENTS

TO OUR SHAREHOLDERS

When challenges abound, agricultural producers have always found a way to be strong together. Whether it's sharing resources, ideas, or simply offering a helping hand, we have a rich tradition in agriculture that sets us apart from most other industries. This is certainly the case with your joint ownership in American AgCredit. We have banded together to create one of the strongest financial cooperatives in the nation. Stronger together!

And we are not only strong, but innovative and proactive in finding financial solutions to fit your ever-changing needs. In 2019, we continued to invest in technology and tools to better meet your expectations as a customer. While there is still some way to go to complete our journey toward better digital capabilities, these investments are already starting to pay off. For example, we slashed our loan processing time by over half from just two years ago. We know your time is valuable, so we found ways to improve for your advantage. Our vision for the future is to continue to modernize our tools and digital processes to continue to make your interactions with your lender easier and more convenient. We understand and take seriously our responsibility to better serve agricultural producers today, tomorrow, and for generations to come.

Strength means financial performance as well. We are certainly proud to realize another successful year of financial performance, and we are pleased to once again return 1% cash patronage distribution to our members. That translates to $115 million in cash back to our customers this year. We did this by finding efficiency gains in the business, not by charging you more.

Once again, we were challenged by natural disasters in our territory including another devastating fire in Northern California. This event closed several of our Northern California offices, including our headquarters in Santa Rosa, for over a week. We again worked to respond responsibly to community need, and we are most proud that we managed the week-long shut down with absolutely zero minutes of disruption to our customers. This was a testament to our staff's dedication to serving our customers and agriculture even through intense challenges. Our employees stood strong together for those directly impacted as well as those who were not in harm's way.

We also successfully completed our Plan of Combination to welcome our new customers and staff from Hawaii in 2019. In these pages, you can read about Greenwell Farms and their farming and coffee operations in Kona, Hawaii. We also share feature stories about customers in Kansas who utilize operating loans to manage their farm and ranch, a customer in the famed Napa Valley whose family winery operation takes advantage of multiple lines of service to accomplish their goals, and about Board Member Kimberly Clauss Jorritsma and her family's long-standing dairy businesses in Central California.

We acknowledge farmers and ranchers face issues impacting agriculture every day, including new challenges and opportunities — from feeding a growing global population to producing more food on fewer acres and from issues out of your control, including trade, natural disasters, and more. At American AgCredit, we remain ever committed to agriculture and to the farmers and ranchers we are privileged to serve. It is our honor and privilege to partner with you, and we look forward to a strong partnership through 2020 and for decades to come, guided by our mission to be the best lender to agriculture. Our future is bright and strong together.

George Fontes
Board Chair

Byron E. Enix
Chief Executive Officer

MARCH 6, 2020

"Our vision for the future is to continue to modernize our tools and digital processes to continue to make your interactions with your lender easier and more convenient.

We understand and take seriously our responsibility to better serve agricultural producers today, tomorrow, and for generations to come."

KEY FINANCIAL DATA

YEAR ENDED DECEMBER 31, (In thousands)	2019	2018	2017	2016	2015
NET INCOME	$200,718	$188,221	$174,176	$115,945	$107,296
PATRONAGE DECLARED	$115,410	$105,069	$74,842	$61,610	$51,042
PATRONAGE AS % OF NET INCOME	57.50%	55.82%	42.97%	53.14%	47.57%
LOAN VOLUME	$11,844,790	$10,214,774	$9,306,922	$8,008,875	$7,291,557
RETURN ON AVERAGE ASSETS	1.75%	1.68%	1.70%	1.31%	1.41%
MEMBERS' EQUITY AS % OF TOTAL ASSETS	17.59%	19.39%	20.38%	20.75%	22.88%

Annual Patronage since 2015 is reflective of a change in calculation methodology. See Note 2 in the Notes to the Consolidated Financial Statements for additional information.

FINANCIAL HIGHLIGHTS

(In millions)	2019	2018	2017
CALIFORNIA	$6,029.3	$5,307.8	$4,735.6
KANSAS	1,568.4	1,401.5	1,307.4
COLORADO	1,106.1	950.6	889.3
NEVADA	197.4	183.5	170.8
HAWAII	83.7	–	–
OTHER	2,859.9	2,371.4	2,203.8
TOTAL	**$11,844.8**	**$10,214.8**	**$9,306.9**

LOAN VOLUME BY STATE

We manage our loan portfolio and related risks based on the unique characteristics of the agricultural market within each state. Issues related to geography — such as weather, land pricing, or market commodity — may be offset by overall strength within other regions, thereby reducing pressure on the overall portfolio.

COMMODITIES FINANCED

Through the diversification of our portfolio, we are able to reduce risks associated with a measurable downturn in any one commodity. By diversifying our commodity mix, we can ensure that any material stress on the entire portfolio is minimized.

PETERSON FARM & LIVESTOCK
David Peterson
ASSARIA, KANSAS

GAMBLE FAMILY VINEYARDS
Tom Gamble
OAKVILLE, CALIFORNIA

CLAUSS DAIRY FARMS
Kimberly Clauss Jorritsma
HILMAR, CALIFORNIA

GREENWELL FARMS
Tom Greenwell
KONA, HAWAII


GREENWELL FARMS
KONA, HAWAII

IT ALL STARTS IN THE GROUND

KONA, HAWAII

"The best part of my day is waking up to a fresh cup of Kona coffee," says Tom Greenwell, co-owner of Greenwell Farms. That cup of coffee is about as fresh as it gets, as Greenwell Farms is located in Kona, Hawaii, and Tom starts the day sipping his own premium product.

> We are a seed-to-cup organization. It's a family affair; my sister is co-owner, and my wife and brother-in-law are involved in the business. Having a successful family business on land that has been handed down in our family since 1850 is very special to me. **—TOM GREENWELL**

It all started in 1985 when Tom's dad, a rancher, decided to become a coffee farmer. After his father passed away in 1992, Tom took over the farm and grew the company to become one of the largest farming and coffee operations in Kona, a region that produces some of the most expensive coffee in the world.

"It all starts in the ground," says Tom, "We are a seed-to-cup organization. It's a family affair; my sister is co-owner, and my wife and brother-in-law are involved in the business. Having a successful family business on land that has been handed down in our family since 1850 is very special to me."

And it's not just the farming tradition that matters. "Science is important too," Tom says. "We work with the University of Hawaii and the Hawaii Agricultural Research Center. We've created a variety of coffee that's unique to Hawaii, unique to Greenwell Farms. We're the only place in the world with this variety."

The Farm Credit System has been there for Greenwell Farms from the beginning. "We've been with Farm Credit since the 1990s," Tom says. "Our American AgCredit relationship manager, Linus Tavares, is great. He's helped us with loans for processing plants and warehouses, plus lines of credit to pay the farmers, which is critical. Quality labor is at a premium here on the island."

"I have to be honest," he adds, "the cash patronage distribution program is pretty great as well!"

Tom was born and raised in paradise, yet he appreciates each and every day.

"It's a beautiful place, and I feel fortunate to be able to work our family's land, knowing that every day is guaranteed to start with a great cup of coffee and just get better from there!" ■

GAMBLE FAMILY VINEYARDS

OAKVILLE, CALIFORNIA

YOU NURTURE THE LAND, AND THE LAND GIVES BACK

OAKVILLE, CALIFORNIA

Third generation farmer and first-generation vintner, Tom Gamble believes in a sustainable future. "Sustainability — people, plants, and profits — that's what it's all about," he says. As owner of Gamble Family Vineyards in Oakville, Napa Valley, California, Tom has a natural love of — and respect for — the land.

> I'm a steward for another generation, and I hope that those who have gone before me in my family may be looking down and saying, 'Good job, Tom'.
>
> **–TOM GAMBLE**

"You nurture the land, and the land gives back," Tom says. The Gamble land includes property that was handed down from his grandfather. Today, with his wife, Colette, a fifth-generation Napa Valley resident, Tom runs an operation that includes 600 acres leased out and another 200 acres of grapes they sell to about 20 clients.

"The area means so much to me. My mom worked to help create the Ag Preserve, the first time land was zoned for agriculture, and that happened back in 1968. I can honestly say we wouldn't be here doing what we're doing today without that, and my mom was a big part of making that happen."

"Another big part of our success is American AgCredit. They took a chance on me when I was in my 20s. I took out a loan to convert a hops field into a vineyard."

"I love working with American AgCredit," Tom continues. "So many great services. I have real estate acquisition loans, construction loans, and my equipment comes from lines of credit. I also use the crop insurance. And there have been times that I have actually had to collect on that insurance. It's great to have all those product lines from a convenience standpoint. But American AgCredit is putting a lot of faith in me as well."

There's another partnership that has been critical to the vineyard's success, "I would not be here without my wife, Colette," says Tom, "It's a true partnership. It's great to marry a local gal who has the same outlook on life that you do. She understands the early mornings and sometimes the late nights. She understands the trials and tribulations and sometimes having to invest in the business versus a new kitchen. Without her, I don't think Gamble Family Vineyards would exist."

In the end, everything comes back to the land, the family, and the future for Tom.

"I'm a steward for another generation, and I hope that those who have gone before me in my family may be looking down and saying, 'Good job, Tom.' That means a lot to me." ■

CLAUSS DAIRY FARMS

HILMAR, CALIFORNIA

IT ALL COMES BACK TO FAMILY AND THE LAND

HILMAR, CALIFORNIA

What do you do if you're a dairy farmer with dreams of passing along the business to your sons, but instead you are blessed with three daughters? If you're Richard Clauss, who started Clauss Dairy Farms in the 1950s with 25 cows, you find a way to instill your love of the Jersey cow in your daughters and help each of them start their own dairy.

> I'm just so thankful that I'm able to work in agriculture and able to work with my family in this environment.
>
> **—KIMBERLY CLAUSS JORRITSMA**

Kimberly Clauss Jorritsma and her sister, Karen Tate, are partners in Jersey Generations, which oversees the management of Clauss Dairy Farms and Sunwest Jersey Dairy, milking over 3,300 registered Jersey cows and providing milk for Hilmar Cheese Company. The operations are based in California's Central Valley.

Hilmar Cheese Company was founded in 1984 with 12 Jersey families. "We were seeking to maximize the value of our high solids Jersey milk," says Kimberly. "Today, we have more than 200 dairies in California and Texas providing high quality milk to produce cheese, whey protein, and lactose. Hilmar ships those products to more than 50 countries around the world."

Kimberly and her family operations are new to American AgCredit, but already she is a satisfied customer-owner. "So far it has been a fantastic experience. We were impressed with the scale and portfolio. We liked the people and we see a long future with American AgCredit because of what they're doing with technology. We enjoy working with our relationship manager, Art Moessner. He takes the extra step and is always there with solutions. And we really appreciated the 1% cash patronage distribution last year; it makes a huge difference to operations."

Not only is Kimberly a customer, she is also a new board member.

"One of the things I noticed when I first joined the American AgCredit Board was the diversity of people within the team," she says. "Each member's story is different and with those diverse perspectives, we're able to help our organization toward continued success in serving customers like me into the future."

At the end of the day, it all comes back to family and the land for this lifelong farm girl.

"I'm just so thankful that I'm able to work in agriculture and able to work with my family in this environment," Kimberly says.

"I have two small sons that I hope will be part of this ag operation. So for me, it's what life's all about." ■

PETERSON FARM & LIVESTOCK

ASSARIA, KANSAS

CARRYING ON A SUCCESSFUL FAMILY BUSINESS

ASSARIA, KANSAS

Since he was a kid growing up on a farm in central Kansas, David Peterson knew he would spend his life on a farm. “It’s all I wanted to do,” he says. “I helped my dad when I was little and I love being outdoors, working with my hands.”

> For me, the most rewarding thing about farming is working outdoors and working with my family.
>
> **—DAVID PETERSON**

A fifth-generation farmer, David is president of Peterson Farm and Livestock in Assaria, Kansas. “We have a backgrounding operation with cattle, but we run a diversified operation, growing corn, wheat, milo, alfalfa, soybeans, and sunflowers.”

And it’s all in the family for David, with his wife and three sons an integral part of the business.

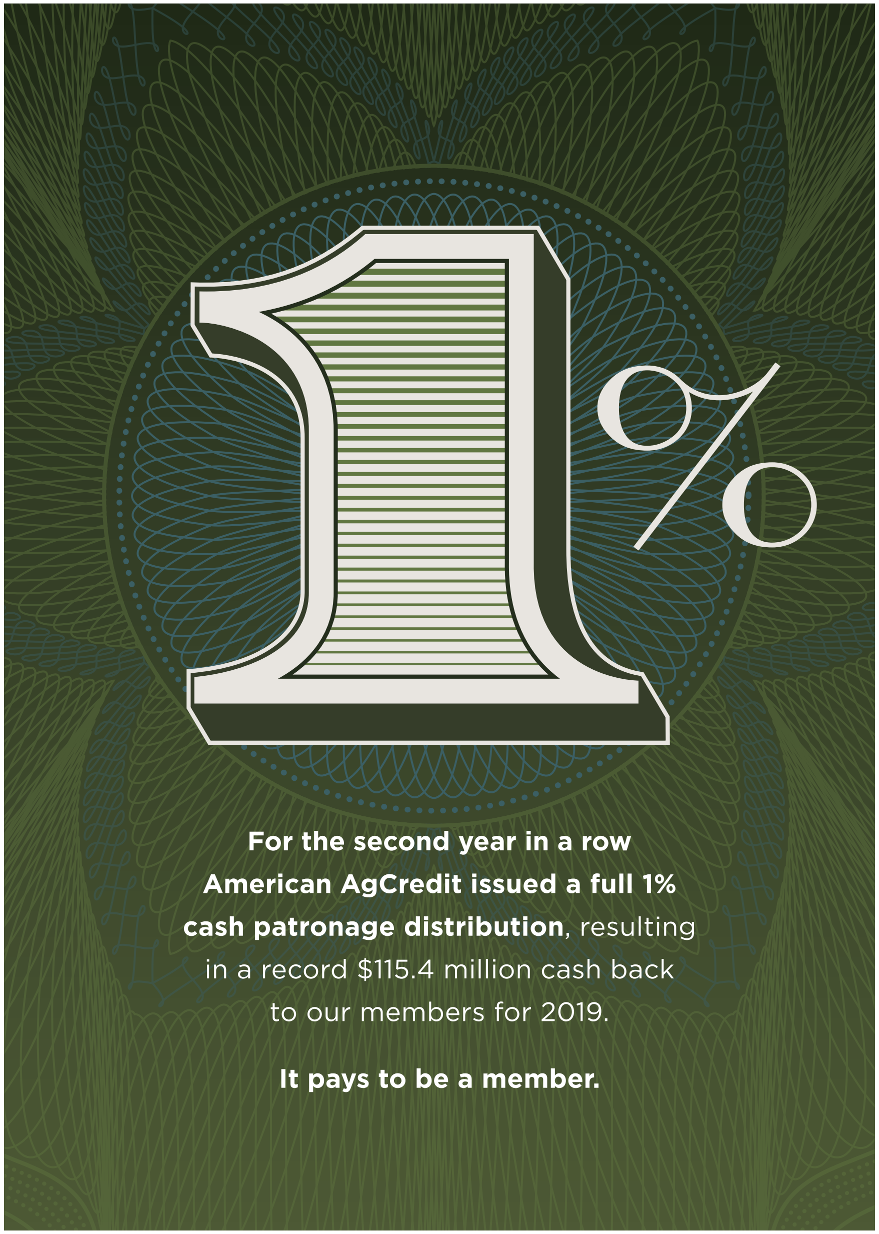
“For me, the most rewarding thing about farming is working outdoors and working with my family,” he says. “Ever since the boys were little, they’ve been helping on the farm, and it’s a privilege to have all three of them involved with the farm. My youngest, Kendal, is working in the cattle operation. Nathan, the middle son, is in charge of more in the farming areas and technology. And then Greg, the oldest son, helps with expanding our operation. He majored in ag communications, so he works with helping the communication between all of us. I’m trying to turn over more areas to them. We’re transitioning.”

David found American AgCredit a refreshing change from his experience with his previous lender.

“We were running a background cattle operation, and with our bank we were stuck with constant overdrafts,” he says. “Once we switched to American AgCredit, that stopped. Our drafts were covered immediately. American AgCredit and our loan officer, Mark Slaughter, are great to work with. No surprises. Fair treatment. They’ve helped us with operating loans as we expand the business and acquire more land.”

Five generations of Petersons have farmed the same land. We look forward to working with the generations to come. ■

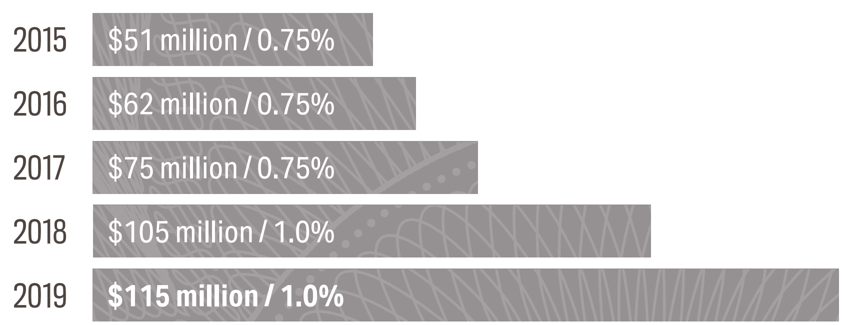
PATRONAGE REPORT



This year, our Board voted to approve our cash patronage distribution at a **full 1%**, resulting in a record $115.4 million cash back to you, our loyal customers.

Our efforts to maintain a diversified loan portfolio, balanced across commodities and geographies, help minimize the impacts of stress in any sector. Additionally, we work hard to constantly look for improvement in our operations, bringing efficiencies to our business. Because of these efforts, we are able to share more profits than ever before. Again, we did this by finding efficiency gains in the business, not by charging you more.

This year marks the 15th consecutive year the Association has paid cash patronage.



Annual Patronage since 2015 is reflective of a change in calculation methodology.
See Note 2 in the Notes to the Consolidated Financial Statements for additional information.

REPORT OF MANAGEMENT

The Association's consolidated financial statements are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates.

In the opinion of management, the accompanying consolidated financial statements fairly present the financial condition and results of operations of the Association, in conformity with generally accepted accounting principles in the United States of America. Other financial information included in this Annual Report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, the Association's internal auditors and review staff perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as needed. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent auditors. Their report is located on page 44. The Association is also examined by the Farm Credit Administration (FCA), regulator of the Farm Credit System.

The Association's Audit Committee of the Board of Directors, which is composed of directors who are not employees, has overall responsibility for the Association's system of internal control over financial reporting. The Audit Committee of the Board of Directors meets periodically with management, FCA, outside consulting firms, and the internal auditors and independent external auditors to review the manner in which each of these groups perform their responsibilities and to carry out the Board's oversight role with respect to auditing, internal controls, and financial reporting matters. These internal auditors, independent external auditors, and regulators also have access to the Audit Committee of the Board of Directors and its individual members at any time.

The undersigned certify that they have reviewed the 2019 Annual Report and that it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of their knowledge and belief.

MARCH 6, 2020

Byron E. Enix
Chief Executive Officer

Vern Zander
Chief Financial Officer

George Fontes
Board Chair

AUDIT COMMITTEE REPORT

The Audit Committee ("Committee") is composed of six members of the Board of Directors. In 2019, eight Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities.

The Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as the Association's independent auditors for 2019. The Committee's responsibilities are described more fully in the Association's Internal Control Policy and the Audit Committee Charter.

The fees paid for professional services rendered for the Association by its independent auditors, PwC, during 2019 were $339,884 for audit services and $29,447 for tax services.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and Audited Financial Statements for the year ended December 31, 2019 (the "Audited Financial Statements"), with management. The Committee also reviewed with PwC the matters required to be discussed by the Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provided reports on significant matters to the Committee.

The Committee discussed with PwC its independence from the Association. The Committee also reviewed the non-audit services provided by PwC and concluded these services to be compatible with maintaining the independent auditors' independence. The Committee has discussed with management and PwC such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Audited Financial Statements in the Association's 2019 Annual Report and for filing with the FCA.

MARCH 6, 2020

Thomas G. Stegman
Audit Committee Chair

2019 AUDIT COMMITTEE MEMBERS

John Caldwell	Larry Solari
Derek Davis	Thomas G. Stegman
Brian Maloney	Thomas Teixeira

MANAGEMENT'S REPORT ON

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements.

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2019. In making the assessment, management used the framework in Internal Control — Integrated Framework (2013), promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the COSO criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2019.

MARCH 6, 2020

Byron E. Enix
Chief Executive Officer

Vern Zander
Chief Financial Officer

FIVE-YEAR SUMMARY OF
SELECTED FINANCIAL DATA

December 31, (In thousands)	2019	2018*	2017*	2016*	2015*
Consolidated Statements of Condition Data					
Loans	$11,844,790	$10,214,774	$9,306,922	$8,008,875	$7,291,557
Less: allowance for loan losses	(25,807)	(21,359)	(19,588)	(19,241)	(8,754)
Net loans	**11,818,983**	**10,193,415**	**9,287,334**	**7,989,634**	**7,282,803**
Investment in and receivable from CoBank	440,264	384,306	354,876	298,189	286,497
Accrued interest receivable	111,419	98,197	80,155	61,707	51,212
Other property owned	4,779	–	–	–	2,521
Other assets	287,977	252,673	252,707	208,014	180,477
Total assets	**$12,663,422**	**$10,928,591**	**$9,975,072**	**$8,557,544**	**$7,803,510**
Obligations with maturities of one year or less	$5,914,753	$5,331,253	$3,944,170	$6,783,899	$6,019,248
Obligations with maturities greater than one year	4,521,088	3,481,418	3,999,899	–	–
Total liabilities	**10,435,841**	**8,812,671**	**7,944,069**	**6,783,899**	**6,019,248**
Preferred stock	127,955	125,766	126,910	128,620	196,515
Common capital stock and participation certificates	9,545	8,791	8,714	7,805	7,680
Unallocated retained surplus	1,420,692	1,336,892	1,254,530	1,154,462	1,099,399
Additional paid in capital	683,656	656,723	656,723	490,564	490,564
Accumulated other comprehensive loss	(14,267)	(12,252)	(15,874)	(7,806)	(9,896)
Total members' equity	**2,227,581**	**2,115,920**	**2,031,003**	**1,773,645**	**1,784,262**
Total liabilities and members' equity	**$12,663,422**	**$10,928,591**	**$9,975,072**	**$8,557,544**	**$7,803,510**

Year Ended December 31, (In thousands)	2019	2018**	2017**	2016**	2015**
Consolidated Statements of Income Data					
Net interest income	$307,483	$267,660	$255,083	$212,452	$185,618
Provision for credit losses	(5,312)	(2,477)	(2,634)	(12,812)	(1,382)
Patronage distributions from Farm Credit institutions	63,275	66,336	52,160	45,460	36,227
Non-interest expense, net	(164,710)	(143,283)	(130,429)	(129,148)	(113,151)
Provision for income taxes	(18)	(15)	(4)	(7)	(16)
Net income	**$200,718**	**$188,221**	**$174,176**	**$115,945**	**$107,296**

*Certain December 31, 2018, 2017, 2016 and 2015 amounts have been revised to reflect the change in accounting methodology for patronage received and paid, as described in Note 2 to the consolidated financial statements.

**Certain amounts for the years ended December 31, 2018, 2017, 2016, and 2015 have been revised to reflect the change in accounting methodology for patronage received and paid, as described in Note 2 to the consolidated financial statements.

CONSOLIDATED KEY FINANCIAL RATIOS

Year Ended December 31,	2019	2018*	2017*	2016*	2015*
Return on average assets	1.75%	1.68%	1.70%	1.31%	1.41%
Return on average members' equity	8.93%	7.86%	7.78%	5.67%	5.55%
Net interest income as a percentage of average earning assets	2.86%	2.83%	2.90%	2.84%	2.81%
Net charge-offs as a percentage of average loans	0.01%	0.00%	0.03%	0.04%	0.00%
As of December 31,					
Members' common equity as a percentage of total assets	16.58%	18.23%	19.11%	19.24%	20.36%
Members' total equity as a percentage of total assets	17.59%	19.39%	20.38%	20.75%	22.88%
Debt as a ratio to members' equity	4.68:1	4.16:1	3.91:1	3.82:1	3.37:1
Allowance for credit losses as a percentage of loans	0.25%	0.24%	0.24%	0.28%	0.17%
Common Equity Tier 1 (CET1) Capital	13.40%	14.75%	15.37%	n/a	n/a
Tier 1 capital	13.40%	14.75%	15.37%	n/a	n/a
Total capital	13.60%	14.94%	15.57%	n/a	n/a
Tier 1 leverage	15.33%	16.86%	17.61%	n/a	n/a
Unallocated Retained Earnings and URE Equivalents (UREE) leverage	15.67%	17.24%	19.08%	n/a	n/a
Permanent capital ratio	14.58%	15.99%	16.65%	17.94%	19.70%
Other Information					
Cash patronage distributions declared (in thousands)	$115,410	$105,069	$74,842	$61,610	$51,042
Loans serviced for others (in millions)	$5,159	$4,162	$4,783	$4,200	$4,036

*Certain December 31, 2018, 2017, 2016 and 2015 amounts have been revised to reflect the change in accounting methodology for patronage received and paid, as described in Note 2 to the consolidated financial statements.

MANAGEMENT'S DISCUSSION & ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion summarizes the financial position and results of operations of American AgCredit, ACA and its subsidiaries American AgCredit, FLCA and American AgCredit, PCA (collectively "the Association" or "American AgCredit") as of December 31, 2019, with comparisons to prior years. This discussion includes significant known trends, commitments, events, or uncertainties that have impacted or are reasonably likely to impact our financial condition and results of operations. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of our Board of Directors. This commentary should be read with the accompanying consolidated financial statements and the related notes appearing in this report.

Our annual and quarterly reports to shareholders are available on our website, www.AgLoan.com, or can be obtained free of charge by calling our corporate headquarters at (707)545-1200. Annual reports are mailed to all stockholders within 90 days after year-end and are available on our website within 75 days after year-end; quarterly reports are available on our website within 40 days after each calendar quarter-end.

See Note 2 to the Consolidated Financial Statements for a description of a change in accounting methodology, which occurred on January 1, 2019, with respect to certain patronage income received and paid. The results of this change have been applied retrospectively to all prior periods presented within this discussion.

FORWARD-LOOKING INFORMATION

Certain information included in this discussion constitutes forward-looking statements and information that is based on management's belief, as well as certain assumptions made by and with information currently available to management. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. When used in this discussion, words such as "anticipates," "projects," "expects," "believes," "estimates," "could," "should," and similar expressions are intended to identify forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations and projections will prove to be correct. Such forward-looking statements are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks materialize, or should such underlying assumptions prove to be incorrect, actual results may vary materially from those anticipated, projected, or expected. Among key factors that may have a direct bearing on operating results are fluctuations in the economy; the relative strengths and weaknesses in the agricultural credit sectors and in the real estate market; regional weather conditions and trends; the actions taken by the Federal Reserve for the purpose of managing the economy;

the continued growth of the agricultural market consistent with recent historical experience; the continued influx of government payments to borrowers; and Farm Credit Administration (FCA) mandates and rulings.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

American AgCredit is one of 68 associations in the Farm Credit System ("the System"), which was created by Congress in 1916 and has served rural communities and agricultural producers for over 100 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, producers or harvesters of aquatic products, and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The FCA is the System's independent safety and soundness federal regulator and was established to supervise, examine, and regulate System institutions.

Our Structure and Focus

As a cooperative, American AgCredit is owned by the members we serve. Our territory extends across a diverse agricultural region that includes parts of California, Kansas, Oklahoma, Colorado, and New Mexico, as well as the state of Nevada and the state of Hawaii as of July 1, 2019. The Association makes short- and intermediate-term loans for agricultural production or operating purposes and long-term real estate mortgage loans. To meet the diverse needs of its borrowers, the Association is structured along geographical and business industry lines that allow for specialized transactions that are unique to various types of customers. The Association's success is highly dependent upon the customer experience it can provide to its borrowers. Business priorities are to serve the needs of all eligible customers, increase loan volume, improve operating efficiencies, build capital, increase profitability, and invest in the people and technological resources that will ensure future success.

As part of the System, the Association obtains funding from CoBank, ACB (CoBank). CoBank is a cooperative of which the Association is a member. CoBank and its affiliated associations and AgVantis, Inc. (AgVantis) are collectively referred to as "the District."

The Association, along with our borrowers' investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.CoBank.com, or may be obtained at no charge by calling (800)542-8072 or mailing CoBank at 6340 S. Fiddlers Green Circle, Greenwood Village, CO 80111. Annual reports are available within 75 days after year-end and quarterly reports are available within 40 days after the calendar quarter-end.

ECONOMIC OVERVIEW

Given the Association's significant commodity and geographical diversity, economic conditions in our territory during 2019 generally followed those of the national economy. Tariffs shaved roughly 50 basis points off of U.S. GDP, or $97 billion of economic activity. Despite this, the U.S. economy is experiencing the longest economic growth period in history and unemployment is at a record low. Domestic stock and bond markets produced historically high returns

in 2019. However, this expansion has included the increase in the value of the U.S. dollar relative to most other currencies, which has made U.S. goods more expensive to foreign buyers and exacerbated the effects of tariffs where applicable. From May to October 2019, the yield on the 10-year Treasury note was below the yield on the three-month Treasury bill, which resulted in an inverted yield curve with respect to these two securities. Some economists have pointed historically to inverted yield curves as leading indicators of future economic contraction. During 2019, the Federal Reserve cut interest rates three times and indicated at its December 2019 meeting that no action is likely during 2020 amid persistently low inflation. However, farmers and ranchers, especially smaller producers, may struggle against rising production and living expenses, which often outpace the rate of inflation. Among these are rising health insurance costs, which continue to eat into farm income.

The potential for ongoing and escalating trade disputes is a significant concern in the near term and fluid trade negotiations continue to create uncertainty for agriculture. The U.S. imposition of tariffs, and the retaliatory actions by trading partners such as China and the European Union, raise concerns for both short- and long-term supply chain structures. The United States-Mexico-Canada Agreement (USMCA), which will replace NAFTA, was signed in November 2018. However, the agreement remains to be ratified by all three parties.

The United States also signed a “phase one” trade agreement with China on January 15, 2020. Included in the provisions are agreements for China to increase the purchase of U.S. goods and services by $200 billion over the next two years, including $32 billion worth of agricultural products. The agreement is expected to make up for two years of declining agricultural exports since retaliatory tariffs were first introduced. Although the trade agreement is widely seen as an important first step creating access to U.S. agricultural products, significant speculation remains regarding the agreement’s economic impact or whether future trade activity will align with the agreement’s provisions. Additionally, a high degree of uncertainty still remains with respect to trade negotiations with other countries, especially within the European Union.

Land values continued to face some negative pressures in our Midwest regions, while remaining relatively stable in the West. Values in the Midwest continued to slightly decline or stagnate depending on the specific region but have also shown early signs of stabilization. Nearly all of California and Nevada are drought-free as of the end of 2019. However, areas of southern and western Colorado, western Kansas, and Hawaii remain in drought conditions. Northern California again experienced wildfires, which created small pockets of economic disruption but did not have a material impact on our customer base or the Association.

The Agricultural Improvement Act of 2018 (“Farm Bill”) was signed into law on December 20, 2018. This Farm Bill governs an array of federal farm and food programs, including commodity price and support payments, farm credit, conservation programs, research, rural development, and foreign and domestic food programs for five years through 2023. The Farm Bill continues to provide support for crop insurance programs and commodity support programs, strengthen livestock disaster programs, and provide dairy producers with an updated voluntary margin protection program that provides more flexibility to dairy operations. The Farm Bill also authorizes the production and marketing of industrial hemp in accordance with state or federal regulations. Many provisions of the Farm Bill will require the United States Department of Agriculture to develop rules and procedures to fully implement these authorities. The timing for the issuance of the rules is uncertain. Payments from the Market Facilitation Program (MFP) were not part of the Farm Bill. MFP is part of a broader USDA effort for producers whose commodities have been directly impacted by tariffs through direct monetary aid. MFP payments were directed by the Secretary of Agriculture to certain agricultural producers in response to trade disruptions. For many farmers and ranchers, the MFP provided meaningful income to their cash flow, however, these payments are unlikely in the future as trade negotiations continue in 2020.

COMMODITY REVIEW AND OUTLOOK

The following highlights the general health of agricultural commodities with the greatest concentrations in the Association’s loan portfolio. Loan volume may fluctuate based upon the seasonal nature of agriculture, especially with respect to commodities that have a single harvest cycle per year. Major commodities financed by the Association are shown in the table in Note 3 to the consolidated financial statements.

Vineyards and Wineries:

The sentiment in the wine industry remains downcast as the industry continues to work through an oversupply of wine. The difficulties for wine grape growers in 2019 were mostly related to selling their grapes. Many growers reported an inability to sell uncontracted grapes while growers with contracted grapes mostly reported flat prices. Unlike previous years, wineries were mostly unwilling to take any tonnage in excess of contracted amounts. As such, grapes grown in excess of contracted amounts, or grown without a contract, have generally been unsold. Wineries continue to report large inventory levels and slower movement through traditional distributor channels. Despite excess inventories, 2019 wine sales outpaced 2018 sales. Direct-to-consumer sales also continued to gain momentum and finished 2019 well above the previous year’s sales. However, most wineries have also reported that sales into traditional distributor channels have been slow and somewhat more difficult than previous years. Likewise, direct-to-consumer marketing strategies have shifted to focus more heavily on value-related deals. Wine export sales in 2019 significantly trailed the previous years. Trade tensions and a strong U.S. dollar, have decreased exports. It remains unclear what, if any, effect the passing of USMCA or the recently signed trade agreement with China will have on the wine industry. Despite the aforementioned difficulties, both grape growers and wineries are coming off several years of very solid profit margins, which should allow for resilience in the current market.

Dairies:

After a prolonged struggle in the early portions of 2019, milk prices ended the year strong. Class III milk prices have been among the highest since 2014. Feed costs have been relatively stable, and most producers were able to lock in profits in the fourth quarter of 2019. Some milk classes have seen a 20% increase in price. The outlook for 2020 milk prices has cooled somewhat but remains on decent footing. Futures prices for Class III milk remain above the 2014–2018 average for all of 2020. Futures for nonfat dried milk also remain on an upward trend and well above the 2014–2018 average. Cash prices for cheese, which closely follows

Class III, also improved steadily and ended the year at recent highs. Despite the declines in butter prices, Class IV milk prices also increased throughout 2019 due to nonfat dried milk price increases. A petition to terminate the California Milk Quota program failed to reach the required signature count needed; however, the petition has spurred the debate further. Currently, several dairy economists are working with industry groups to provide several proposals on a method of phaseout/buyout of the existing California dairy quotas. As the debate has continued, the price being paid to buy and sell quota amounts among producers has significantly dropped.

Beef:

The beef industry gained some positive momentum late in 2019 and the 2020 outlook is bullish. Prices for live cattle and calves have improved from previous levels. Beef consumption ended the year 1% above 2018 levels. The USDA expects consumption in 2020 to increase again from 2019 levels. On August 9, 2019, a fire significantly disrupted operations at the Tyson Foods Holcomb, Kansas, beef complex. The closure caused a sharp drop in live cattle prices due to fewer buyers. The complex reopened in November 2019 and will resume full operations in early 2020. The feeding cost of grain is expected to decline from recent highs, which would give feeders more margin to market their cattle at profitable levels. However, should drought conditions persist into spring 2020, it is likely that feeding costs will jump as prices for hay, silage, grazing forage, pasture rent, and other related items are expected to increase while stocking rates are expected to decrease.

Vegetables and Field Crops:

The vegetable industry is subject to commodity price fluctuation on a daily basis, dependent upon current supply and consumer demand. A shortage of labor continues to be one of the biggest struggles for the industry. However, the industry continues to mechanize processes, reducing some of the need for labor.

The Association's field crops consist primarily of wheat, corn, soybeans, alfalfa, sorghum, cotton, and other grains. Cash corn prices for most of 2019 steadily improved over 2018. However, demand for corn will need to improve in 2020 to avoid future price deterioration. The 2019 floods in the Corn Belt and Delta states significantly decreased total corn production, as both total production and yields dropped below historical growth levels. The decline in total production was mostly offset by declines in domestic consumption and exports. Lower consumption levels kept prices mostly subdued, but MFP payments allowed many farmers to move from slight losses to breakeven or better levels. The outlook for wheat is mostly favorable. Feed and residual use increased 7% on reports of strong livestock feeding numbers, which bumped total domestic use 0.8% or 0.25 million metric tons. Improved stocks-to-use ratios along with suspected less wheat production in 2020 (both fewer planted acres and poor yield potential) have aided a price rally since mid-summer. In early 2019, cotton appeared to be a favorable alternative growing option and many producers considered planting more acres to cotton. As the year unfolded, profit potential slowly eroded, and many producers were unable to get their crop planted due to spring rains. It remains to be seen if renewed interest in planting cotton continues in 2020, but current prices may dim the outlook for many. Soybean production is expected to increase marginally, largely due to increased yield estimates. China's production-to-consumption ratio also has a significant impact on U.S. soybean prices.

Soybeans stand to gain with additional Chinese purchases, especially in light of the recently signed "phase one" trade agreement. However, due to the significant reduction in the Chinese hog herd, China's demand potential remains somewhat unclear.

Forest Products:

Improved construction spending and housing starts have helped to increase demand for lumber. Domestic log prices have also stabilized heading into 2020. Most in the forest product industry expect flat to slightly higher growth in 2020 as the industry closely follows the macroeconomic backdrop. Economic drivers for the forest product industry also stabilized or turned slightly more positive. Most notably, housing starts added an extra boost to the forest products industry. Housing starts through November 2019 topped 1.365 million, a 13.5% increase from 2018 and the highest November reading since 2006. Lower prevailing home mortgage interest rates continue to spur both building and buying activity and drive activity to pre-recession levels. Economists currently expect the housing market to strengthen in 2020. A more stable economic environment allowed forest product prices to stabilize in the last stages of 2019. New lumber orders have logged increases from the previous year. As new order volume stabilized so did framing lumber prices, which had fallen sharply from 2018 prices.

Tree Fruits and Nuts:

Strong demand for fruit and nuts helped growers to maintain mostly profitable prices and kept inventory levels from rising too rapidly. The industry at large continues to benefit from the prolonged efforts of highlighting the health benefits of fresh fruit and nuts. Additionally, the industry has been able to find new markets for products both domestically as well as internationally, helping to mostly offset tariff issues. Most tree fruit and nut growers were also eligible

for strong MFP payments, which should aid profitability. Overall, gross cash receipts for tree fruits and nuts are expected to be flat from 2018 levels, but near the 10-year average.

Almond shipments continue to be strong. As of December 2019, year-to-date shipments were about 4.4% above the previous year. Prices are expected to increase slightly above 2018 prices. Walnut prices have significantly improved from 2018 crop prices, declining U.S. and Chilean inventories being the key driver. The Hawaiian permanent planting/fruit industry has steadily moved away from sugar cane and pineapples to coffee, macadamia nuts, papaya, mangos, and lychee. Coffee has specifically moved from a regional crop of Kona to a statewide crop. The coffee industry has also adopted the "Napa Model," focusing on boutique coffee and tasting room experiences that capitalize on local tourism and invite other forms of revenue. Macadamia nut prices have recently broken above the long-term historical range.

FINANCIAL CONDITION

Loan Portfolio

The Association's loan portfolio consists of accrual loans, nonaccrual loans on which the accrual of interest has been suspended, and other loans such as sales contracts arising from the sale of property acquired through foreclosure. Loans were $11.8 billion as of December 31, 2019, compared to $10.2 billion and $9.3 billion for 2018 and 2017, respectively. The 2019 increase of $1.6 billion resulted in a 16.0% year-over-year growth rate and was due to strong organic loan growth. The following table illustrates the major loan volume categories from December 31, 2017 to December 31, 2019.

December 31,						
(In millions)	2019	Percent of Total	2018	Percent of Total	2017	Percent of Total
Real estate mortgage	$6,564.1	55.4%	$5,833.5	57.1%	$5,281.0	56.7%
Production and intermediate-term	2,692.1	22.7%	2,227.9	21.8%	2,001.1	21.5%
Agribusiness	2,236.6	18.9%	1,823.9	17.9%	1,718.3	18.5%
Rural infrastructure	308.0	2.6%	288.6	2.8%	279.4	3.0%
Other	44.0	0.4%	40.9	0.4%	27.1	0.3%
Total loans	**$11,844.8**	**100.0%**	**$10,214.8**	**100.0%**	**$9,306.9**	**100.0%**

Factors affecting the changes in loan volume categories are discussed below.

Real Estate Mortgage Loans: Real estate mortgage loan volume was $6.6 billion at December 31, 2019, compared to $5.8 billion and $5.3 billion at year-end 2018 and 2017, respectively. The 2019 increase of $730.6 million resulted in a 12.5% year-over-year growth rate. The increase was due to strong organic growth. Real estate mortgage loans increased by $552.5 million in 2018.

Production and Intermediate-Term Loans: Production and intermediate-term loan volume increased to $2.7 billion in 2019, compared to $2.2 billion and $2.0 billion at year-end 2018 and 2017, respectively. The $464.2 million increase resulted in a 20.9% annual growth rate. The portfolio grew by $226.8 million in 2018.

Agribusiness Loans: Agribusiness loans are primarily made to finance the throughput of agricultural goods to the marketplace. Such loans consist of long-term mortgages on processing facilities and equipment as well as short- and intermediate-term operating lines of credit. The agribusiness portfolio totaled $2.2 billion at year-end 2019, compared to $1.8 billion for 2018 and $1.7 billion for 2017. This loan portfolio increased by $412.7 million, or 22.6%, during 2019, compared to a $105.6 million increase in 2018.

Other Loans: This loan portfolio consists of rural infrastructure, agricultural export finance, and loans made for sales contracts and for homes located in rural areas. This portion of the portfolio accounted for less than 4.0% of the total loan portfolio in each of the years reported.

Small loans (less than $250 thousand) accounted for 64.2% of the total number of loans and 7.3% of loan volume at December 31, 2019. Credit risk on small loans, in many instances, is reduced by non-farm income sources. Loans greater than $5.0 million account for 2.3% of the total number of loans and 39.2% of the total loan volume.

Geographic Concentrations

The Association's territory covers 38 California counties from the Oregon border to the Mexican border, the entire state of Nevada, the state of Hawaii as of July 1, 2019, and parts of central and southwest Kansas, northern Oklahoma, western Colorado, and northwest New Mexico. The geographical distribution of loan volume as of December 31, 2019, 2018, and 2017, is shown in the following table. The Association originates and services loans in areas outside of its chartered territory with the concurrence of the Farm Credit associations where those loans are physically located.

December 31,	2019		2018		2017	
(In millions)	Loan Volume	Percent of Total	Loan Volume	Percent of Total	Loan Volume	Percent of Total
California	$6,029.3	50.9%	$5,307.8	52.0%	$4,735.6	50.9%
Kansas	1,568.4	13.2%	1,401.5	13.7%	1,307.4	14.0%
Colorado	1,106.1	9.3%	950.6	9.3%	889.3	9.6%
Nevada	197.4	1.7%	183.5	1.8%	170.8	1.8%
Hawaii	83.7	0.7%	–	–	–	–
Other	2,859.9	24.2%	2,371.4	23.2%	2,203.8	23.7%
Total	**$11,844.8**	**100.0%**	**$10,214.8**	**100.0%**	**$9,306.9**	**100.0%**

We are party to a Territorial Approval Agreement ("Agreement") with other associations in the states of Oklahoma, Colorado, Kansas, and New Mexico. The Agreement eliminates territorial restrictions and allows associations that are a party to the Agreement to make loans in any other association's territory regardless of a borrower's place of residence, location of operations, location of loan security, or location of headquarters. This Agreement can be terminated upon the earlier to occur of the following:

1) The time when all but one association has withdrawn as a party to the Agreement; or
2) December 31, 2025; or
3) When requested by FCA.

The Association routinely sells portions of large loans to other financial institutions to manage portfolio risk. These institutions are geographically dispersed and come from within the Farm Credit System, and from the commercial banking and life insurance industries. In addition, the Association has entered into participation agreements with these institutions in which the Association services the entire loan but retains ownership of only a small portion. Participating in or selling loans allows the Association to manage its lending limits and its internal capital requirements, as well as to diversify credit, commodity, geographic, and other risks. Neither the principal nor any unused commitments related to the participated or sold portion of these loans are included on the Association's Consolidated Statements of Condition. Participation and other multi-lender activity is summarized in the following table.

December 31, (In millions)	2019	2018	2017
Loans sold to others	$4,272.6	$3,393.4	$3,537.4
Retained interest in sold loans	$1,590.5	$1,292.4	$1,329.1
Loans purchased from others	$2,414.7	$2,000.8	$1,756.9
Syndications serviced for others	$886.6	$769.0	$1,246.0

To further manage portfolio credit risk, the Association participates in a Federal Agricultural Mortgage Corporation (Farmer Mac) guarantee program. Under this program, the Association pays a guarantee fee to Farmer Mac to assume the balance of pre-designated loans if they become delinquent. Management considers these fees to be intrinsic credit enhancement costs that affect the yield on the pool of guaranteed loans. The Association paid $304 thousand, $182 thousand, and $49 thousand in guarantee fees during 2019, 2018, and 2017, respectively. These fees are included in interest expense in the Consolidated Statements of Comprehensive Income. Farmer Mac guaranteed loans at December 31, 2019, 2018, and 2017, were $66.4 million, $61.9 million, and $8.6 million, respectively.

High-Risk Assets

FCA regulations specify three high-risk loan performance categories: nonaccrual, restructured, and loans 90 days past due still accruing interest. These are referred to as impaired loans. Loans outstanding, including accrued interest, for each loan performance category as of December 31 follows.

(In thousands)	2019	2018	2017
Nonaccrual	$42,232	$38,544	$29,849
Accruing restructured	13,408	10,903	11,421
Accrual > 90 days past due	–	348	–
Total impaired loans	55,640	49,795	41,270
Other property owned	4,779	–	–
Total high-risk assets	**$60,419**	**$49,795**	**$41,270**
Nonaccrual loans/total loans	0.36%	0.38%	0.32%
Nonaccrual loans current as to principal and interest	$20,629	$24,639	$15,823

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of principal and/or interest. Nonaccrual loan volume increased by $3.7 million in 2019, from $38.5 million at December 31, 2018, to $42.2 million at December 31, 2019. While the Association does not accrue interest on loans classified as nonaccrual, 48.9% of the nonaccrual loan volume at December 31, 2019, was current as to principal and interest compared to 63.9% at December 31, 2018, and 53.0% at year-end 2017. Nonaccrual loan volume measured as a percentage of total loans was 0.36% at December 31, 2019, compared to 0.38% as of year-end 2018 and 0.32% as of year-end 2017.

High-risk asset volume could increase in the future. The Association continues experiencing high credit quality, which was 98.6% at December 31, 2019. See the "Credit Risk Management" section of this discussion for further information on the Association's credit quality. Given the cyclical nature of agriculture, management anticipates that factors such as product oversupply, declining commodity prices, water issues, regulatory demands, changing interest rates, and public demand for commodities could adversely impact high-risk volume over time. The state of U.S. economic growth remains fluid, while the global economy and supply and demand dynamics, including the threat or existence of trade tariffs, may negatively impact a number of U.S. agricultural segments. Although drought conditions have improved over recent years, the potential for future drought conditions throughout our territory could have a negative impact on our borrowers and the credit quality of our loan portfolio. The Association maintains a Risk Management Department to proactively monitor and address portfolio risk.

Allowance for Credit Losses

The allowance for credit losses is composed of the allowance for loan losses (ALL) and the reserve for unfunded lending commitments. The allowance for credit losses is our best estimate of the amount of probable losses inherent in our loan portfolio as of the balance sheet date. The allowance for credit losses is determined based on a periodic evaluation of the loan portfolio and unfunded lending commitments, which generally considers types of loans, credit quality, specific industry conditions, general economic conditions, weather-related conditions, and changes in the character, composition, and performance of the portfolio, among other factors. The allowance for credit losses is calculated based on a historical loss model that takes into consideration various risk characteristics of our loan portfolio. We evaluate the reasonableness of this model and determine whether adjustments to the allowance are appropriate to reflect the risk inherent in the portfolio.

We maintain a reserve for unfunded lending commitments that reflects our best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as the likelihood of disbursements and the likelihood of losses given disbursement are utilized in determining the reserve. This reserve is reported with Other Liabilities on the Consolidated Statements of Condition and totaled $3.7 million, $2.9 million, and $2.4 million at December 31, 2019, 2018, and 2017, respectively.

The ALL increased $4.4 million to $25.8 million in 2019, from $21.4 million in 2018. The increase was primarily the result of $5.3 million of provision for loan loss, partially offset by $1.4 million of net charge offs. The additional provision was due to incremental loan growth. Overall, charge-off activity remains low relative to the size of our loan portfolio. Comparative ALL coverage as a percentage of loans and certain other credit quality indicators as of December 31 is shown in the following table.

	2019	2018	2017
Allowance for loan losses as a percentage of:			
Average loans	0.22%	0.21%	0.21%
Impaired loans	46.38%	42.89%	47.46%

Further discussion of the allowance can be found in Note 3 to the consolidated financial statements.

Other Assets

Other assets were $146.5 million at December 31, 2019, an increase of $22.3 million when compared to year-end 2018. Other assets consisted of $61.6 million of patronage receivable from Farm Credit Institutions, $54.8 million of pension assets, $14.2 million of investments in other Farm Credit Institutions, and $15.9 million of other receivables and assets. The change was primarily due to an increase in pension assets of $11.1 million, a $2.1 million increase in patronage receivables, and a $3.3 million increase in investments. Other assets were $124.2 million at December 31, 2018, an increase of $9.6 million compared to year-end 2017.

Other Liabilities

Other liabilities were $120.1 million at December 31, 2019, an increase of $15.1 million when compared to year-end 2018. Other liabilities consisted of $50.0 million of pension liabilities, $34.4 million of short- and long-term incentive compensation payable, $7.7 million of other accounts payable, $7.7 million of Farm Credit System Insurance Corporation (FCSIC) payable, and $20.3 million of other liabilities. The year-over-year change was primarily due to a $3.2 million increase in incentive compensation, a $3.8 million increase in pension liabilities due to increased service of employees within the nonqualified defined benefit plans, a $1.1 million increase in FCSIC premium payable caused by increased direct note borrowings, and $6.5 million of lease liabilities recorded with the adoption of the new lease accounting standards. These increases were partially offset by a $3.5 million decrease in other accounts payable. Other liabilities totaled $105.0 million at December 31, 2018, an increase of $800 thousand when compared to year-end 2017.

RESULTS OF OPERATIONS

Earnings:

The Association produced after-tax net income of $200.7 million in 2019, compared to $188.2 million in 2018 and $174.2 million in 2017. The $12.5 million increase in net income from 2018 was primarily due to a $39.8 million increase in net interest income as a result of strong organic loan growth, offset by a $7.5 million decrease in non-interest income attributable to a decrease in fee income and FCSIC premium refund and a $2.8 million increase in the provision for credit losses. Non-interest expense increased by $17.0 million, largely driven by an increase in salaries and benefits and technology expense.

The Association's 2018 net income of $188.2 million was $14.0 million higher than 2017's net income of $174.2 million. The increase was driven by a $12.6 million increase in net interest income as a result of strong organic loan growth. Other factors impacting 2018 net income consisted of a $21.2 million increase in non-interest income, offset by a $19.9 million increase in non-interest expense.

The major components of change in net income over the past two years are summarized as follows.

(In thousands)	2019 vs. 2018	2018 vs. 2017
Net income, prior year	$188,221	$174,176
Increase in interest income	89,517	78,077
Increase in interest expense	(49,694)	(65,499)
Increase in net interest income	39,823	12,578
(Increase)/decrease in provision for credit losses	(2,835)	157
(Decrease)/increase in non-interest income	(7,517)	21,176
Increase in non-interest expense	(16,971)	(19,854)
Increase in income tax benefit/provision	(3)	(12)
Increase in net income	**12,497**	**14,045**
Net income, current year	**$200,718**	**$188,221**

Net Interest Income:

The table below provides an analysis of the individual components of the change in net interest income for 2019 and 2018.

(In thousands)	2019 vs. 2018	2018 vs. 2017
Net interest income, prior year	$267,660	$255,083
Increase in net interest income due to changes in:		
Net interest margin	2,844	(7,100)
Volume of average earning assets	36,596	19,927
Margin/volume combination	383	(250)
Increase in net interest income	**39,823**	**12,577**
Net interest income, current year	**$307,483**	**$267,660**

2019 net interest income was $307.5 million, compared to $267.7 million in 2018 and $255.1 million in 2017. The 2019 increase of $39.8 million represents a 14.9% increase over 2018 and was primarily due to strong growth in loan volume. Average earning assets grew by $1.3 billion during 2019, representing an annual growth rate of 13.8%.

Net interest income in 2018 increased 4.9% from $255.1 million in 2017 to $267.7 million. The $12.6 million increase was driven by strong organic accrual loan volume growth. Average earning assets increased in 2018 by $663.0 million, representing an annual growth rate of 7.5%.

	2019	2018	2017
Average rate on earning assets	5.17%	4.93%	4.43%
Average rate on interest-bearing liabilities	2.75%	2.56%	1.86%
Net interest margin	2.85%	2.82%	2.90%

The Association administers its variable-rate loans based on its cost of funds. Although adjustments to borrower variable rates have generally followed changes in the Prime Rate, that rate has become increasingly less relevant as an indicator of credit demand. The Association's variable cost of funds is indexed to a blend of two rates: the Farm Credit Discount Note Rate and the one-month London Interbank Offered Rate (LIBOR). Management closely monitors interest rate movements and will adjust variable rates to customers to preserve adequate net interest income to sustain the growth of the Association.

The Association has a differential pricing policy for interest rates, which is based on loan size, servicing requirements, and credit risk of a loan. Management's objective is to maintain interest rates that are competitive with other lenders providing similar-type loans. The Association's competitiveness is evaluated by periodic surveys of other lending institutions in its lending territory.

Provision for Credit Losses:

Management reviews the allowance for loan losses and the reserve for unfunded lending commitments on a quarterly basis and makes adjustments that reflect the changing risks in the portfolio. Generally speaking, increased loan volume and unfunded commitments will require additional allowance for credit losses. The Association's strong 2019 loan volume growth resulted in a $5.3 million provision for credit loss, compared to a $2.6 million provision for credit loss in 2018. The 2018 provision was largely driven by strong loan growth. The Association recorded a provision for credit loss in 2017 in the amount of $2.5 million.

Non-Interest Income:

Non-interest income consists primarily of patronage from Farm Credit Institutions, loan origination and servicing fees, insurance income, and other gains and losses. Total non-interest income was $89.3 million in 2019, compared to $96.8 million in 2018 and $75.6 million in 2017. The $7.5 million decrease in non-interest income during 2019 was primarily due to a $3.4 million decrease in CoBank direct note patronage caused by CoBank's revised target patronage levels, a $3.1 million FCSIC premium refund decrease, and a $2.5 million decrease in loan origination and servicing fees due to the change in the mix of loans with fees recognized at origination.

Non-interest income increased by $21.2 million in 2018 primarily due to a $10.1 million increase in CoBank direct note patronage, which included a $6.5 million special patronage distribution, a $5.6 million increase in the FCSIC premium refund, and a $2.0 million increase in loan origination and servicing fees due to an increase in overall loan originations.

During August 2017, CoBank announced changes to its capital plans and patronage programs for eligible customer-owners designed to address a number of marketplace challenges. The changes are intended to strengthen CoBank's long-term capacity to serve customers' borrowing needs, enhance CoBank's ability to capitalize future customer growth, and ensure equitability among different customer segments. The new target patronage levels took effect in 2018 calendar year and were reflected in patronage distributions made in March 2019. Affiliated associations are transitioning to their new target patronage levels over a multi-year period ending in 2020.

Non-Interest Expenses:

Non-interest expenses consist of salaries and benefits, occupancy costs, insurance fund premiums, supervisory expenses, and other operating costs. Non-interest expenses were $190.7 million in 2019, compared to $173.7 million in 2018 and $153.9 million in 2017. The $17.0 million increase in non-interest expense in 2019 was primarily driven by a $5.8 million increase in salaries and benefits, a $9.3 million increase in purchased services, offset by a $2.2 million decrease in technology expense. The $19.9 million increase in non-interest expense in 2018 was primarily driven by an $11.0 million increase in salaries and benefits and a $6.5 million increase in technology expense.

Provision for Income Taxes:

The Association's effective tax rate is primarily affected by the mix of taxable and tax-exempt lending activities. The provision remains an insignificant component of the Association's net earnings.

Accumulated Other Comprehensive Loss:

Accumulated other comprehensive loss (AOCL) arises from the recognition of an unfunded pension liability. AOCL is included in the Association's equity portion of the Consolidated Statements of Condition. The liability and the associated other comprehensive loss may fluctuate from year to year depending on the pension plan's performance and underlying actuarial assumptions and obligations. The actual loss or income to be realized as pension liabilities are paid will not be determinable until the liabilities expire. See Note 11 to the consolidated financial statements for further discussion.

Liquidity and Funding:

Liquidity is necessary to meet our financial obligations, such as paying our note with CoBank, funding loans and other commitments, and funding operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction, and liquidate nonearning assets. Our direct loan with CoBank, cash on hand, and borrower loan repayments provide adequate liquidity to fund our ongoing operations and other commitments. The Association also has the ability to sell qualified loans to Farmer Mac secondary market programs to generate additional liquidity as needed.

The Association's primary source of funds (excluding capital) and largest liability is its direct loan from CoBank. As further described in Note 7 to the consolidated financial statements, this direct loan is governed by a General Financing Agreement (GFA), is collateralized by a pledge of substantially all of the Association's assets, and is also subject to regulatory borrowing limits. The GFA includes financial and credit metrics that, if not maintained, can result in increases to our funding costs. The GFA also requires compliance with FCA regulations regarding liquidity. To meet this requirement, the Association is allocated a share of CoBank's liquid assets for calculation purposes. The Association is currently in compliance with the GFA and does not foresee any issues with obtaining funding or maintaining liquidity. The Association applies substantially all cash received to the direct loan and draws all cash disbursements from it. The Association's ability to incur debt from other sources is subject to statutory and regulatory restrictions.

CoBank's primary source of funds is the issuance of Farm Credit System debt securities through the Federal Farm Credit Banks Funding Corporation. The continued liquidity of the Association is therefore directly dependent upon the ability of the Farm Credit System to continue to sell debt securities at competitive rates. Historically, this access has provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets continue to experience significant volatility, the Association anticipates continued access to the funding necessary to support its lending and business operations.

The Association adopted a block-funding methodology for debt issuance in the third quarter of 2017. Effective August 1, 2017, all of the Association's debt is block-funded through a direct note with CoBank. The interest rate on the debt may periodically be adjusted by CoBank based on the terms and conditions of the borrowing.

The Association also obtains a measurable amount of funding from customer Funds Held accounts and Class H Preferred Stock (H stock), both of which currently pay an interest rate that is comparable to the short-term interest rate component that is paid on the direct loan with CoBank. The Funds Held accounts are uninsured and the rate is variable. Customer investments in H stock are uninsured, and the dividend rate on H stock is variable. From a funding perspective, in combination, Funds Held and H stock provide a cost-effective alternative to borrowing on our direct loan with CoBank. Both are offered to customers of the Association as investment vehicles for excess operating funds. Restrictions apply to the purpose for which the Funds Held may be withdrawn, the maximum dollar amount a customer may maintain in Funds Held, and the maximum amount a customer may invest in H stock.

The United Kingdom's Financial Conduct Authority, which is the regulatory agency that supervises LIBOR, announced in July 2017 that it will phase out its support of LIBOR by the end of 2021, and it could not guarantee the stability of this benchmark rate beyond that date. Since that announcement, various industry work groups have begun preparing for an anticipated phaseout. The Federal Reserve Bank of New York began publishing the Secured Overnight Financing Rate (SOFR) in April 2018 as a new alternative benchmark rate for U.S. dollar-denominated derivatives and loans. SOFR is currently a measure of overnight secured borrowing, but the financial industry plans to create term reference rates based on SOFR derivatives and futures markets. If this market develops as planned, SOFR (or a SOFR average) could become the predominant new reference rate used by U.S. financial institutions. The Association has developed a multi-year LIBOR phaseout transition plan, which is defining an orderly road map of actions. The transition plan will reduce LIBOR exposures over time and prepare for a phaseout of the rate altogether.

ASSET/LIABILITY MANAGEMENT

In the normal course of lending activities, the Association is subject to interest rate risk. The asset/liability management objective is monitored and managed within interest rate risk limits designed to target reasonable stability in net interest income over an intermediate planning horizon and to preserve a relatively stable market value of equity over the long term. Mismatches and exposure in interest rate re-pricing and indices of assets and liabilities can arise from product structures, customer activity, capital reinvestment, and liability management. While the Association actively manages interest rate risk within the policy limits approved by the Association's Board of Directors through the strategies established by the Market Risk Committee (MRC) and Market Strategies Committee (MSC), there is no assurance that these mismatches and exposures will not adversely impact earnings and capital. The overall objective is to develop competitively priced and structured loan products for the customers' benefit and fund these products with an appropriate blend of equity and debt obligations.

The interest rate gap analysis shown in the table below presents a comparison of interest-earning assets and interest-bearing liabilities in defined time segments at December 31, 2019. The interest rate gap analysis is a static indicator for how the Association is positioned by comparing the amount of assets and liabilities that re-price at various time periods in the future. The value of this analysis can be limited given other factors, such as the differences between interest rate indices on loans and the underlying funding, the relative changes in the levels of interest rates over time, and optionality included in loans and the respective funding that can impact future earnings and market value.

The Association's re-pricing gap as of December 31, 2019, can be characterized as asset sensitive. An asset-sensitive position would indicate that the Association has more interest-rate-sensitive assets than interest-rate-sensitive liabilities for particular time periods into the future. In general, when interest rates rise, net interest income would be expected to increase with an asset-sensitive position.

Given some of the inherent weaknesses with interest rate gap analysis, simulation models are used to develop additional interest-rate-sensitivity measures and estimates. The assumptions used to produce anticipated results are periodically reviewed and models are tested to help ensure reasonable performance. Various simulations are produced for net interest income and the market value of equity. These simulations help to assess interest rate risk and make adjustments as needed to the products and related funding strategies.

The Association's Asset/Liability Management Board policy establishes limits for changes in net interest income and market value of equity sensitivities. These limits are measured and reviewed by MRC monthly and reported to the Board at least quarterly. The Board policy limit for net interest income is a negative 10% change, and the market value of equity policy limit is a negative 15% change, given parallel and instantaneous shocks of interest rates up and down 200 basis points. In instances when

December 31, 2019 (In thousands)	**1 Month or Less**	**Over 1 Month to 6 Months**	**Over 6 Months to 1 Year**	**Over 1 Year to 5 Years**	**Over 5 Years**	**Total**
Interest-earning assets:						
Floating rate loans	$5,577,096	$1,379,968	$–	$–	$–	$6,957,064
Adjustable rate loans	6,408	11,417	7,710	11,667	–	37,202
Fixed rate loans, prepayable	101,343	199,696	236,189	1,801,205	1,186,696	3,525,129
Fixed rate loans	26,163	77,292	129,866	695,114	354,728	1,283,163
Nonaccrual loans	24,890	2,938	1,126	13,278	–	42,232
Total interest-earnings assets	**$5,735,900**	**$1,671,311**	**$374,891**	**$2,521,264**	**$1,541,424**	**$11,844,790**
Interest-bearing liabilities:						
Floating rate debt	$3,648,346	$100,000	$–	$–	$–	$3,748,346
Adjustable rate debt	17,347	1,417	1,829	18,365	–	38,958
Discount notes	346,464	1,440,327	649,369	–	–	2,436,160
Fixed rate debt, callable	51,533	468,075	496,014	29,874	54,919	1,100,415
Fixed rate debt	13,955	94,782	164,753	1,668,305	809,024	2,750,819
Funds held	97,211	–	–	–	–	97,211
Total interest-bearing liabilities	**$4,174,856**	**$2,104,601**	**$1,311,965**	**$1,716,544**	**$863,943**	**$10,171,909**
Interest-rate-sensitivity gap	**$1,561,044**	**($433,290)**	**($937,074)**	**$804,720**	**$677,481**	**$1,672,881**
Cumulative gap	**$1,561,044**	**$1,127,754**	**$190,680**	**$995,400**	**$1,672,881**	
Cumulative gap/total interest-earning assets	13.18%	9.52%	1.61%	8.40%	14.12%	

the rate on the three-month U.S. Treasury bill is less than 4%, FCA guidelines provide the Regulatory Down Policy shock measure should be used in lieu of the down 200 basis point measure, with that measure equal to one-half of the three-month U.S. Treasury bill rate. This was the case as of December 31, 2019, with the Regulatory Down Policy shock measure being at 0.77%. The GFA also uses these simulation results to assess the interest rate risk position and whether corrective action is necessary. The following table shows the percentage impacts to net interest income and market value of equity using parallel and instantaneous interest rate increases of 100 basis points and 200 basis points. Due to the current low short-term interest rate environment, the Regulatory Down Policy interest rate shock measure was used. As of December 31, 2019, all interest rate risk-related measures were within the Board policy limits, GFA requirements, and management guidelines.

December 31, 2019	Regulatory Down Policy Shock	+ 1% Shock	+ 2% Shock
Change in net interest income	(2.49)%	4.41%	9.58%
Change in market value of equity	0.71%	(0.83)%	(1.16)%

CREDIT RISK MANAGEMENT

The Association utilizes a portfolio risk management process to evaluate and monitor the risk associated with major commodity groups, credit classifications, unsecured loans, and purchased loans. This process employs the use of shock analysis to determine the impact of significant credit deterioration in any one group on the portfolio as a whole. Credit classification trends are identified and monitored as an early warning sign of potential non-performing assets. The Association employs management personnel to perform the risk management process that the Board of Directors oversees. In addition, the Association conducts internal credit reviews to evaluate the effectiveness of the process.

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in the Association's loan portfolio (including letters of credit and unfunded loan commitments) and is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies, and procedures. Underwriting standards are developed and utilized to determine an applicant's operational, financial, and management resources available for repaying debt within the terms of the note or loan agreement. Underwriting standards include, among other things, an evaluation of the following:

- **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 of the lender in the event of default and a secondary source of loan repayment;
- **Capital:** ability of the operation to survive unanticipated risks; and
- **Conditions:** intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds, and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, the Association cannot have loan commitments to one borrower for more than 15% of regulatory capital. Additionally, the Association has set lending limits to manage loan concentration. Lending limits are established for individual loan size, commodity, special lending programs, and geographic concentrations. The Association has established internal lending delegations to properly control the loan approval process. Delegations to staff are based on the Association's risk-bearing ability, loan size, complexity, type, and risk, as well as the expertise of the credit staff member. Larger and more complex loans are typically approved by a loan committee with the most experienced and knowledgeable credit staff serving as members.

One method for managing concentration is through the use of participation programs with other System and non-System institutions. Buying and selling loan volume, within and outside the

System, can help reduce concentrations and manage growth and capital positions while allowing for a sharing of credit expertise. Concentrations and credit risk are also managed through the utilization of government guarantee programs and Farmer Mac guarantee programs. The Association has further diversified concentrations in agricultural production by developing rural residence, part-time farmer, and agribusiness portfolios. Rural residents and part-time farmers often derive a significant portion of earnings from nonagricultural sources, thus helping diversify repayment risk to sources other than agricultural production income.

The majority of Association lending is first-mortgage real estate lending. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured. Collateral evaluations are made within FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. Certain appraisals must be performed by individuals with a state certification or license.

The Association utilizes a Combined System Risk Model ("Model") in its loan and portfolio management processes. The Model is a two-dimensional risk rating system that estimates each loan's probability of default and loss given default. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. The Model estimates loan losses with levels of risk granularity, particularly related to acceptable loans. The Model's 14-point scale provides for nine acceptable categories, one other assets especially mentioned (OAEM) category, two substandard categories, one doubtful category, and one loss category. This Model also serves as the basis for future economic capital modeling.

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

	2019	2018	2017
Acceptable and OAEM	98.6%	98.4%	98.2%
Substandard	1.4%	1.6%	1.8%
Total	**100.0%**	**100.0%**	**100.0%**

The Association's credit quality remained strong during 2019 as Acceptable and OAEM as a percentage of total loans was 98.6%, a slight increase from 98.4% during 2018. Credit quality was positively impacted by the continued strength in the U.S. economy but was partially offset by the global economic conditions and other challenges facing agriculture. The Association's Acceptable and OAEM credit quality increased from 98.2% in 2017 to 98.4% at year-end 2018. The agricultural sector most impacted by global economic conditions in 2019 was field crops. Low commodity prices continue to negatively impact profitability. Even with the industry pressures in 2019, the Association had no loans classified as doubtful or loss. The credit quality of the Association's loan portfolio remains strong due to our geographical and commodity diversification and our continued emphasis on sound underwriting standards. Agriculture remains a cyclical business that is heavily influenced by production, operating costs, commodity prices, and global economic conditions. Each of these can be significantly impacted by uncontrollable events. Credit quality is expected to face continued pressure in 2020 due to weak commodity prices, fluid trade negotiations, and potentially adverse global conditions. In addition, potential droughts could negatively impact water conditions in our lending territory.

CREDIT COMMITMENTS

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments include commitments to extend 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. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2019.

(In thousands)	Less Than 1 Year	1–3 Years	4–5 Years	Over 5 Years	Total
Commitments to extend credit	$645,374	$1,015,698	$1,079,963	$703,613	$3,444,648
Standby letters of credit	45,591	5,915	808	5,760	58,074
Total commitments	**$690,965**	**$1,021,613**	**$1,080,771**	**$709,373**	**$3,502,722**

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 contractual amounts are not reflected on the Consolidated Statements of Condition 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 the Association applies the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success and our ability to serve our mission. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Members' equity at December 31, 2019, totaled $2,228 million, compared with $2,116 million at December 31, 2018, and $2,031 million at December 31, 2017. The $112 million increase in 2019 was primarily due to net income of $200.7 million, partially offset by $115.4 million of cash patronage distributions declared to our customers. Our capital position is reflected in the following ratio comparisons.

	2019	2018	2017
Total capital (in millions)	$2,227.6	$2,115.9	$2,031.0
Debt to capital	4.68:1	4.16:1	3.91:1
Capital to net loans	18.8%	20.8%	21.9%
Capital to total assets	17.6%	19.4%	20.4%
Capital to total liabilities	21.3%	24.0%	25.6%

As a prudent business practice, the Association has established a capital adequacy plan that outlines objectives relating to maintaining a stable, secure capital base. Permanent capital, as defined by FCA regulations, is generated from two sources: retained earnings and at-risk stock. Retained earnings (including additional paid in capital) represented 94.5%, 94.2%, and 94.1% of total capital at December 31, 2019, 2018, and 2017, respectively. For a description of classes of stock and regulatory capital requirements, as well as a description of the Association's Capital Adequacy Plan, please see Note 8 to the consolidated financial statements. The Board and management consider current capital ratios to be adequate in view of anticipated loan growth, operating performance, and identified risks.

Association bylaws require each borrower to invest in the capital stock of the Association. The Association may require additional capital contributions in accordance with federal regulations. Equities purchased by members and surplus accumulated from earnings provide the capital resources used in the Association's operations.

The Board of Directors has adopted an Obligating Resolution to distribute 2020 patronage-sourced earnings to patrons of the Association, contingent upon the Association achieving certain capital criteria.

CAPITAL PLAN AND REGULATORY REQUIREMENTS

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance-sheet liabilities, and other conditions warranting additional capital.

As shown in the following table, at December 31, 2019, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions, retire equities, and pay preferred stock dividends.

	Regulatory Minimums	Capital Conservation Buffer	Total	As of December 31, 2019
Common Equity Tier 1 ratio	4.5%	2.5%	7.0%	13.40%
Tier 1 capital ratio	6.0%	2.5%	8.5%	13.40%
Total capital ratio	8.0%	2.5%	10.5%	13.60%
Permanent capital ratio	7.0%	0.0%	7.0%	14.58%
Tier 1 leverage ratio	4.0%	1.0%	5.0%	15.33%
URE and UREE leverage ratio	1.5%	0.0%	1.5%	15.67%

REGULATORY MATTERS

As of December 31, 2019, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

MERGERS AND ACQUISITIONS

Effective January 1, 2017, American AgCredit, ACA acquired Southwest Kansas, ACA in a stock-for-stock exchange. The combined Association is headquartered in Santa Rosa, California. The primary reason for the stock exchange/merger was to ensure long-term stability by increasing the capital base and increasing portfolio and geographical diversification, thus allowing the combined Association to withstand fluctuations in the agriculture markets. The Association also expects to realize operating efficiencies and cost savings. The effects of the stock exchange/merger are included in American AgCredit's results of operations, balance sheet, average balances, and related metrics beginning January 1, 2017.

On July 1, 2019, the Association acquired the assets and assumed the liabilities of Farm Credit Services of Hawaii, ACA (FCS Hawaii) for consideration of shares of the Association's voting common stock for an equal number of shares of FCS Hawaii's Class C voting common stock issued and outstanding, both of which are par value of $5. Assets acquired totaled $85.2 million, of which $75.1 million was outstanding loans. Liabilities assumed totaled $58.0 million.

pwc

REPORT OF

INDEPENDENT AUDITORS

TO THE BOARD OF DIRECTORS OF AMERICAN AGCREDIT, ACA

We have audited the accompanying consolidated financial statements of American AgCredit, ACA and its subsidiaries (the "Association"), which comprise the consolidated statements of condition as of December 31, 2019, 2018, and 2017, and the related consolidated statements 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 American AgCredit, 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

FLORHAM PARK, NEW JERSEY

MARCH 6, 2020

CONSOLIDATED STATEMENTS OF CONDITION

December 31, (In thousands)	2019	2018	2017
ASSETS			
Loans	$11,844,790	$10,214,774	$9,306,922
Less: allowance for loan losses	(25,807)	(21,359)	(19,588)
Net loans	**11,818,983**	**10,193,415**	**9,287,334**
Cash	60,006	47,482	51,202
Accrued interest receivable	111,419	98,197	80,155
Investment in CoBank	392,959	339,519	312,302
Premises and equipment, net	127,454	125,602	129,123
Mission-related investments	1,292	180	–
Other property owned	4,779	–	–
Other assets	146,530	124,196	114,956
Total assets	**$12,663,422**	**$10,928,591**	**$9,975,072**
LIABILITIES			
Notes payable to CoBank	$10,074,698	$8,485,129	$7,658,255
Funds Held accounts	97,211	94,491	86,599
Accrued interest payable	28,462	23,020	20,183
Cash patronage and preferred stock dividends payable	115,413	105,074	74,852
Other liabilities	120,057	104,957	104,180
Total liabilities	**10,435,841**	**8,812,671**	**7,944,069**
Commitments and contingencies (Note 14)			
MEMBERS' EQUITY			
Preferred stock	127,955	125,766	126,910
Common stock and participation certificates	9,545	8,791	8,714
Additional paid-in capital	683,656	656,723	656,723
Unallocated retained surplus	1,420,692	1,336,892	1,254,530
Accumulated other comprehensive loss	(14,267)	(12,252)	(15,874)
Total members' equity	**2,227,581**	**2,115,920**	**2,031,003**
Total liabilities and members' equity	**$12,663,422**	**$10,928,591**	**$9,975,072**

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

CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

For the Year Ended December 31, (In thousands)	2019	2018	2017
Interest Income			
Loans	$557,316	$467,799	$389,722
Total interest income	**557,316**	**467,799**	**389,722**
Interest Expense			
Notes payable to CoBank	247,433	198,468	133,641
Funds Held and other interest	2,400	1,671	998
Total interest expense	**249,833**	**200,139**	**134,639**
Net interest income	**307,483**	**267,660**	**255,083**
Provision for credit losses	(5,312)	(2,477)	(2,634)
Net interest income after provision for credit losses	**302,171**	**265,183**	**252,449**
Non-Interest Income			
Loan origination fees and late charges	8,974	12,466	10,519
Servicing fees	4,740	3,542	3,461
Patronage distributions from Farm Credit institutions	63,275	66,336	52,160
Other gains, net	155	232	718
Miscellaneous	12,137	14,222	8,764
Total non-interest income	**89,281**	**96,798**	**75,622**

For the Year Ended December 31, (In thousands)	2019	2018	2017
Non-Interest Expenses			
Salaries and employee benefits	111,130	105,361	94,319
Occupancy and equipment expense	12,802	11,530	11,905
Insurance fund premiums	7,726	6,654	10,189
Supervisory and examination expense	3,127	2,948	2,992
Purchased services	21,958	12,622	8,212
Technology	15,104	17,323	10,841
Other operating expenses	18,869	17,307	15,433
Total non-interest expenses	**190,716**	**173,745**	**153,891**
Net income before income taxes	**200,736**	**188,236**	**174,180**
Provision for income taxes	(18)	(15)	(4)
Net income	**$200,718**	**$188,221**	**$174,176**
COMPREHENSIVE INCOME			
Actuarial gain/(loss) in retirement obligation	(2,015)	3,622	(8,068)
Total comprehensive income	**$198,703**	**$191,843**	**$166,108**

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(In thousands)	Common Stock and Participation Certificates	Preferred Stock	Additional Paid-in Capital	Unallocated Retained Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2016	**$7,805**	**$128,620**	**$490,564**	**$1,154,462**	**$(7,806)**	**$1,773,645**
Comprehensive income				174,176	(8,068)	166,108
Common stock/participation certificates issued	1,166					1,166
Common stock/participation certificates retired	(1,219)					(1,219)
Preferred stock issued		203,758				203,758
Preferred stock retired		(206,834)				(206,834)
Equity issued or re-characterized upon merger	962		166,159			167,121
Preferred stock dividends paid		1,366				1,366
Preferred stock dividends accrued				(1,370)		(1,370)
Patronage distribution declared				(74,842)		(74,842)
Reversal of prior-period patronage declared but not paid				2,104		2,104
Balance at December 31, 2017	**$8,714**	**$126,910**	**$656,723**	**$1,254,530**	**$(15,874)**	**$2,031,003**
Comprehensive income				188,221	3,622	191,843
Common stock/participation certificates issued	1,239					1,239
Common stock/participation certificates retired	(1,162)					(1,162)
Preferred stock issued		261,760				261,760
Preferred stock retired		(265,564)				(265,564)
Preferred stock dividends paid		2,660				2,660
Preferred stock dividends accrued				(2,657)		(2,657)
Patronage distribution declared				(105,069)		(105,069)
Reversal of prior-period patronage declared but not paid				1,867		1,867
Balance at December 31, 2018	**$8,791**	**$125,766**	**$656,723**	**$1,336,892**	**$(12,252)**	**$2,115,920**
Comprehensive income				200,718	(2,015)	198,703
Common stock/participation certificates issued	1,101					1,101
Common stock/participation certificates retired	(648)					(648)
Preferred stock issued		202,503				202,503
Preferred stock retired		(203,517)				(203,517)
Equity issued in connection with acquisition	301		26,933			27,234
Preferred stock dividends paid		3,203				3,203
Preferred stock dividends accrued				(3,200)		(3,200)
Patronage distribution declared				(115,410)		(115,410)
Reversal of prior-period patronage declared but not paid				1,692		1,692
Balance at December 31, 2019	**$9,545**	**$127,955**	**$683,656**	**$1,420,692**	**$(14,267)**	**$2,227,581**

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

CONSOLIDATED STATEMENTS OF

CASH FLOWS

(In thousands)	2019	For the Year Ended December 31, 2018	2017
Cash flows from operating activities:			
Net income	$200,718	$188,221	$174,176
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	5,312	2,477	2,634
Depreciation and amortization	5,757	6,318	6,592
Amortization/(Accretion) of loans and notes payable acquired in merger	(5,786)	(1,447)	4,312
Other (gains)/losses, net	(375)	(244)	47
Loss on sale of other property owned, net	37	4	3
Loss/(Gain) on sale of other assets	219	12	(765)
Stock patronage from CoBank	(2,477)	(2,629)	(2,647)
Change in operating assets and liabilities:			
Increase in accrued interest receivable	(12,285)	(18,063)	(10,513)
Increase in other assets	(8,806)	(7,607)	(320)
Increase in accrued interest payable	5,442	2,837	9,316
Increase in other liabilities	8,137	3,902	6,582
Net cash provided by operating activities	**$195,893**	**$173,781**	**$189,417**
Cash flows from investing activities:			
Increase in loans, net	$(1,568,962)	$(910,267)	$(620,091)
Recovery of loans charged off	1,876	2,173	814
Acquisition of premises and equipment, net	(4,718)	(3,198)	(3,217)
Purchase of CoBank stock, net	(44,899)	(24,588)	(22,782)
Proceeds from sale of premises and equipment	1,285	645	2,322
Proceeds from sale of other property owned, net of expenses	(37)	(4)	(3)
Net contributions to AgDirect, LLP	(2,201)	(880)	(1,096)
Contributions to mission-related investments	(1,292)	(180)	–
Cash acquired in mergers and acquisitions	363	–	18,339
Net cash used in investing activities	**$(1,618,585)**	**$(936,299)**	**$(625,714)**

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the Year Ended December 31, 2019	2018	2017
Cash flows from financing activities:			
Net draws on note payable to CoBank	$1,538,006	$827,608	$532,557
Increase in Funds Held accounts	1,646	7,892	5,042
Payments on lease liabilities	(499)	–	–
Cash patronage distributions paid	(103,376)	(72,975)	(64,155)
Issuances of common stock and participation certificates	1,101	1,239	1,166
Retirement of common stock and participation certificates	(648)	(1,162)	(1,219)
Issuance of preferred stock	202,503	261,760	203,758
Retirement of preferred stock	(203,517)	(265,564)	(206,834)
Net cash provided by financing activities	**$1,435,216**	**$758,798**	**$470,315**
Net increase/(decrease) in cash	$12,524	$(3,720)	$34,018
Cash at beginning of year	47,482	51,202	17,184
Cash at end of year	**$60,006**	**$47,482**	**$51,202**
Supplemental cash flow information:			
Cash paid for interest	$248,186	$198,036	$126,439
Cash paid for income taxes	$18	$15	$4

Supplemental schedule of non-cash investing and financing activities (In thousands)	For the Year Ended December 31, 2019	2018	2017
Cash patronage and preferred stock dividends currently payable	$115,413	$105,075	$74,852
Loan charge-offs	$3,257	$2,382	$3,686
Other property owned in settlement of loans	$4,779	–	–
Cash patronage accrual adjustment to prior year	$1,692	$1,867	$2,104
Preferred stock dividends paid	$3,203	$2,660	$1,366
Preferred stock dividends declared	$3,200	$2,656	$1,370
Impact of merger and acquisition transactions:			
Assets acquired	$85,187	–	$720,075
Liabilities assumed	$57,953	–	$571,239
Equity issued	$27,234	–	$167,121

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

CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except as noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: American AgCredit, ACA and subsidiaries, American AgCredit, PCA and American AgCredit, FLCA (collectively called "the Association"), is a member-owned cooperative that provides credit and credit-related services to and for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in the state of Nevada and the following California counties: Alameda, Alpine, Amador, Calaveras, Contra Costa, Del Norte, El Dorado, Humboldt, Lake, Lassen, Marin, Mariposa, Mendocino, Merced, Modoc, Mono, Monterey, Napa, Plumas, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Sierra, Siskiyou, Sonoma, Stanislaus, Tuolumne, and portions of Los Angeles, Fresno, and Trinity. In Kansas, the Association serves the counties of Barber, Barton, Butler, Chautauqua, Clark, Cloud, Comanche, Cowley, Edwards, Elk, Ellis, Ellsworth, Finney, Ford, Graham, Grant, Gray, Greeley, Greenwood, Hamilton, Harper, Harvey, Haskell, Jewell, Kearny, Kingman, Kiowa, Lane, Lincoln, McPherson, Meade, Mitchell, Morton, Norton, Osborne, Ottawa, Pawnee, Phillips, Pratt, Reno, Republic, Rice, Rooks, Rush, Russell, Saline, Scott, Sedgwick, Seward, Smith, Stafford, Stanton, Stevens, Sumner, Trego, and Wichita. In Oklahoma, the Association serves the counties of Kay, Noble, and Osage. In Colorado, the Association serves the counties of Adams, Arapahoe, Archuleta, Boulder, Clear Creek, Delta, Denver, Dolores, Douglas, Eagle, part of Elbert, Garfield, Gilpin, Grand, Gunnison, part of Hinsdale, Jackson, Jefferson, La Plata, Larimer, Mesa, Moffat, Montezuma, Montrose, Ouray, Pitkin, Rio Blanco, Routt, San Juan, San Miguel, part of Saquache, Summit, and Weld. In Hawaii, the Association serves the counties of Honolulu, Hawaii, Maui, and Kauai. The Association also serves the counties of San Juan and half of Rio Arriba that lies west of the Continental Divide in the state of New Mexico.

The Association is a lending institution of the Farm Credit System ("the System"), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended ("Farm Credit Act").

At December 31, 2019, the System was comprised of three Farm Credit Banks (FCBs), one Agricultural Credit Bank (ACB), and 68 associations. Each FCB and the ACB serve Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Production Credit Associations (PCAs) that may originate and service short-term and intermediate-term loans. Agricultural Credit Associations (ACAs), FLCAs, and PCAs are collectively referred to as associations.

CoBank, its related associations, and AgVantis, Inc. (AgVantis) are collectively referred to as "the District." CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations.

As of December 31, 2019, the District consisted of CoBank, 21 ACAs, which each have two wholly owned subsidiaries (a FLCA and a PCA), and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes. The Association also has a wholly owned subsidiary, AgCredit Holding Company, LLC, whose sole purpose is to hold, manage, and liquidate foreclosed property.

American AgCredit participates in AgDirect, LLP (AgDirect), a trade credit financing program that includes originations and re-financings of agricultural equipment loans through independent equipment dealers. AgDirect is an entity created by Farm Credit Services of America (FCSA), which is responsible for the marketing, operation, and implementation of the program. FCSA serves as the master servicer for the program assets and provides periodic reporting to investor associations. At December 31, 2019, the Association's investment in AgDirect, which was included in other assets in the Consolidated Statements of Condition, was $14.1 million, representing a 6.4% ownership in the partnership.

Congress has delegated authority to the Farm Credit Administration ("FCA") to regulate the System banks and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund ("Insurance Fund"). The Insurance Fund is required to be used to insure the timely payment of principal and interest on System-wide debt obligations ("insured debt"), ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes. The Insurance Fund is also available for discretionary uses by the FCSIC to provide assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0% 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 FCSIC, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums, as necessary to maintain the Insurance Fund at the 2.0% level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions.

B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow from the Association, and financial services that can be offered by the Association. 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 also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform to 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 amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these notes, as applicable. Actual results may differ from these estimates.

The consolidated financial statements include the accounts of American AgCredit, PCA and American AgCredit, FLCA. All significant inter-company transactions have been eliminated in consolidation.

On January 1, 2019, the Association voluntarily changed its accounting methodology with respect to patronage earned on participations sold to Farm Credit institutions and patronage paid to borrowers. Previously, the Association's policy was to record a receivable in Other assets for patronage earned and a corresponding payable in Other liabilities in the Consolidated Statements of Condition for the amount due to borrowers. Under the new methodology, the Association recognizes patronage earned in Patronage distributions from Farm Credit institutions in the Consolidated Statements of Comprehensive Income and records patronage distributions declared to borrowers out of Unallocated retained surplus in the Consolidated Statements of Changes in Members' Equity. This change is also reflected in corresponding receipts and payments in the Consolidated Statements of Cash Flows. The Association believes this change is to a preferable method of accounting as it is consistent with the accounting method used by other Farm Credit institutions and therefore, results in improved comparability of its financial statements.

These changes have been applied retrospectively to all prior periods presented within the accompanying financial statements. The following Notes have been impacted by the change in accounting methodology: Note 9–Patronage Distributions from System Institutions and Note 10 – Income Taxes.

As a result of the retrospective application of this change in accounting methodology, the following financial statement line items within the accompanying consolidated financial statements were adjusted, as follows:

As of and for the year ended December 31,	2018		2017	
(In thousands)	As originally reported	As adjusted	As originally reported	As adjusted
Consolidated Statements of Condition				
Other assets	$109,600	$124,196	$104,638	$114,956
Cash patronage and preferred stock dividends payable	$86,222	$105,074	$59,818	$74,852
Other liabilities	$109,213	$104,957	$108,896	$104,180
Consolidated Statements of Comprehensive Income				
Patronage distributions from Farm Credit Institutions	$47,483	$66,336	$37,126	$52,160
Net income	$169,368	$188,221	$159,142	$174,176
Consolidated Statements of Cash Flows				
Net income	$169,368	$188,221	$159,142	$174,176
(Increase)/Decrease in other assets	$(3,328)	$(7,607)	$1,434	$(320)
Increase in other liabilities	$3,442	$3,902	$8,446	$6,582
Cash patronage distributions paid	$(57,941)	$(72,975)	$(52,739)	$(64,155)
Supplemental Schedule of Non-Cash Investing and Financing Activities				
Cash patronage and preferred stock dividends currently payable	$86,222	$105,074	$59,818	$74,852

A. Recently Issued Accounting Pronouncements: In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns 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 this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to amortize the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. Management adopted this guidance on January 1, 2020, and will account for these costs on a prospective basis; therefore, there was no impact to the financial statements.

In August 2018, the FASB issued guidance entitled "Disclosure Framework–Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework–Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying, or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the Association's financial condition or its results of operations, but will impact the fair value measurements disclosures.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. On October 16, 2019, the FASB approved deferral of the effective date for certain entities for this guidance by two years, which will result in the new credit loss standard becoming effective for interim and annual reporting periods beginning after December 15, 2022. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on its financial condition and its results of operations.

B. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have maturities ranging up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Loans acquired in a business combination are initially recognized at fair value based on current interest rates and taking into account the borrowers' credit quality; therefore, no "carryover" of the allowance for loan losses is permitted. The difference between the book value and fair value of these loans at acquisition date is accreted into interest income during the estimated remaining life of the acquired loans. Those loans with evidence of credit quality deterioration at purchase price are required to follow the relevant accounting guidance. This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (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) and/or included in the recorded nonaccrual balance (if accrued in prior years). 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. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest.

When loans are in nonaccrual status, loan payments are generally applied against the recorded investment in the loan asset. Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be transferred to accrual status when contractual 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 as doubtful or loss. Loans are charged off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring 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. In a restructure, the Association may grant certain monetary concessions to the borrower through modifications to the contractual term of the loan. A concession is generally granted in order to minimize the Association's economic loss and avoid foreclosure. Concessions vary by program, are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Loan origination fees and certain direct origination costs for mortgage loans and commercial loans with terms greater than one year are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment of the yield of the related loan.

The Association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Additionally, the Association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. When loans are sold the sale terms comply with requirements under ASC Topic 860, "Transfers and Servicing."

The Association uses a two-dimensional loan rating model based on internally generated combined System risk-rating guidance and actual Association loss history 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 probability of default categories 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 more rapidly as a loan moves from a 9 to other assets especially mentioned, and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

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 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 is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions, and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision, and variability. Changes in the overall global economy, agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations, and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of those circumstances. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture; combined with uncertainties associated with farmland values; commodity prices; exports; government assistance programs; regional economic effects; and weather-related influences.

A specific allowance may be established for impaired loans under GAAP. Impairment of these loans is measured by the present value of expected future cash flows discounted at the loan's

effective interest rate or, as a practical expedient, by the loan's observable market price, or fair value of the collateral, if the loan is collateral dependent.

The reserve for unfunded lending commitments is based on management's best estimate of losses inherent in lending commitments made to customers but not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement were utilized in determining this contingency.

C. Cash: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.

D. Investment in CoBank: The Association's required investment in CoBank is in the form of Class A stock. The minimum required investment is 4.0% of the prior year's average direct loan volume. The investment in CoBank is composed of patronage-based stock and purchased stock. The requirement for capitalizing patronage-based participation loans sold to CoBank is 8.0% of the prior 10-year average of such participations sold to CoBank. The Association has elected the alternative to measure its investment in CoBank at cost, as no readily determinable fair value is available.

E. Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition. 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. On at least an annual basis, revised estimates to the fair value 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 and expenses from operations and carrying value adjustments are included in losses on other property owned, net in the Consolidated Statements of Comprehensive Income.

F. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation and amortization computed by the straight-line method over the estimated useful lives of the assets. Useful lives for buildings are 39 years and range from four to seven years for furniture, equipment, and automobiles. Progress payments for assets under construction or development are held in construction in progress and do not begin depreciation or amortization until the asset is designated as complete and placed in service by the Association. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed, and improvements above certain thresholds are capitalized.

The Association adopted new lease guidance on January 1, 2019, using the optional transition method. Upon adoption, the Association recorded a $3.3 million right of use asset recorded to Premises and Equipment and a $3.6 million lease liability recorded to Other Liabilities.

The balance sheet effect of operating leases for office space, and finance leases for vehicles, are included in premises and equipment and other liabilities on the balance sheet. Right-of-use assets represent the Association's right to use an underlying asset for the lease term and lease liabilities represent the Association's obligation to make lease payments arising from the lease.

G. Other Assets and Other Liabilities: Other assets are composed primarily of patronage receivables from other Farm Credit institutions, investment in the nonqualified deferred compensation plan, and investment in AgDirect.Significant components of other liabilities primarily include accounts payable, employee benefits, and reserve for unfunded commitments.

H. Funds Held Accounts: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such Funds Held is restricted, the Funds Held are netted against the borrower's related loan balance. Unrestricted Funds Held are included in liabilities in the Consolidated Statements of Condition. Restricted Funds Held are primarily associated with mortgage loans, while unrestricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Funds Held are not insured. Interest is generally paid by the Association on Funds Held accounts.

I. Employee Benefit Plans: Certain employees of the Association participate in either the Ninth Farm Credit District Pension Plan ("Pension Plan") or the Eleventh District Defined Benefit Retirement Plan ("Defined Benefit Plan") and/or the Farm Credit Foundations' Defined Contribution/401(k) Plan ("Defined Contribution Plan"). The Pension Plan and Defined Benefit Plan are noncontributory defined benefit plans. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Defined Benefit Plan was closed to employees hired after December 31, 1997. The Pension Plan was closed to employees beginning January 1, 2007.

The Defined Contribution Plan has two components. Employees who do not participate in the Defined Benefit Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employees hired on or after January 1, 1998, are eligible to participate only in the Defined Contribution Plan. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also participates in the Ninth and Eleventh District Nonqualified Defined Benefit Pension Restoration Plans. These plans provide retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the plans are offset by the benefits payable from the Pension Plan and the Defined Benefit Plan.

Certain eligible employees may also participate in a nonqualified deferred compensation plan, which is included in other assets and other liabilities in the Consolidated Statements of Condition, where they are able to defer a portion of their compensation. The Association matches a certain percentage of employee contributions to the plan.

The Association also provides certain health and life insurance benefits to eligible current and retired employees through the Farm Credit Foundation Retiree Medical Plan and Retiree Life

Plan. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the Association. The anticipated costs of these benefits are accrued during the period of the employee's active service. Accounting Standards require the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

J. Income Taxes: As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. The ACA, which is the holding company, and the PCA subsidiary are subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state, or local laws. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation.

The Association elected to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock, or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts reflected in the financial statements and tax bases of assets and liabilities. In addition, a valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50% probability), based on management's estimate, that the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings.

At December 31, 2019, deferred income taxes have not been provided on approximately $78.7 million of patronage refunds received from the Bank before January 1, 1993, the adoption date of accounting guidance on income taxes. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. Management's intent is to permanently invest these undistributed earnings in CoBank, thereby indefinitely postponing their conversion to cash.

The Association has not provided deferred income taxes on amounts allocated to the Association that relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association's borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings. CoBank currently has no plans to distribute unallocated CoBank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

For state tax purposes, the Association can exclude from taxable income all patronage-sourced income. Therefore, the provision for state income taxes is made only on non-patronage-sourced taxable earnings.

K. Patronage Income from Farm Credit Institutions: Patronage income from Farm Credit institutions is accrued by the Association in the year earned.

L. Other Comprehensive Income/Loss: Other comprehensive income/loss refers to revenue, expenses, gains, and losses that under generally accepted accounting principles are recorded as an element of members' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.

M. Fair Value Measurement: Accounting guidance defines fair value, establishes a framework for measuring fair value, and specifies disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds that relate to the Association's deferred compensation plan and supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Level 2: Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current, or principal market information is not released publicly; (c) inputs other than quoted prices that are observable, such as interest rates and yield curves, prepayment speeds, credit risks, and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets include loans acquired in an acquisition or merger, impaired loans, and other property owned.

The fair value disclosures are presented in Note 15.

N. Off-Balance-Sheet Credit Exposures: 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. Commercial letters of credit are conditional 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. The credit risk associated with commitments to extend credit and commercial 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.

O. Acquisition Accounting: On July 1, 2019, the Association acquired the assets and assumed the liabilities of Farm Credit Services of Hawaii, ACA (FCS Hawaii) for consideration of shares of the Association's voting common stock for an equal number of shares of FCS Hawaii's Class C voting common stock issued and outstanding, both of which are par value of $5. The transaction was accounted for as an asset acquisition, as prescribed by Accounting Standards Codification (ASC 805-50, Business Combinations). Assets acquired totaled $85.2 million of which $75.1 million was outstanding loans. Liabilities assumed totaled $58.0 million.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Components of loans in the Consolidated Statements of Condition are as follows:

December 31,	2019	2018	2017
Real estate mortgage	$6,564,171	$5,833,468	$5,280,957
Production and intermediate-term	2,692,055	2,227,848	2,001,070
Agribusiness	2,236,569	1,823,927	1,718,331
Rural infrastructure	308,040	288,646	279,440
Agricultural export finance	41,558	38,078	23,070
Rural residential real estate	2,397	2,807	4,054
Total	**$11,844,790**	**$10,214,774**	**$9,306,922**

The unamortized premium on loans acquired in mergers remaining at December 31, 2019, 2018, and 2017, was $0, $2.0 million, and $1.3 million, respectively. The Association, in the normal course of business, purchases and sells participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. All loans sold to others are sold without recourse. The table on the following page presents information regarding participations purchased and sold as of December 31, 2019.

December 31, 2019	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$339,732	$1,561,203	$–	$–	$339,732	$1,561,203
Production and intermediate-term	422,068	916,697	–	–	422,068	916,697
Agribusiness	1,333,590	1,728,694	780	–	1,334,370	1,728,694
Rural infrastructure	277,004	66,027	–	–	277,004	66,027
Agricultural export finance	41,558	–	–	–	41,558	–
Total	**$2,413,952**	**$4,272,621**	**$780**	**$–**	**$2,414,732**	**$4,272,621**

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

December 31,	2019		2018		2017	
Vineyards and wineries	$2,084,960	18%	$1,728,353	17%	$1,545,939	17%
Field crops	1,736,060	15%	1,598,564	16%	1,504,406	16%
Dairies	1,499,381	13%	1,307,418	13%	1,178,126	13%
Trees fruits and nuts	1,300,043	11%	1,146,315	11%	976,058	10%
Beef	1,253,163	10%	1,078,009	10%	900,676	9%
Forest products	1,055,969	9%	989,393	10%	1,001,539	11%
Vegetables	469,236	4%	363,423	4%	346,806	4%
Other	2,445,978	20%	2,003,299	19%	1,853,372	20%
Total	**$11,844,790**	**100%**	**$10,214,774**	**100%**	**$9,306,922**	**100%**

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 secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85% (97% 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.

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

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 factors, conditions, and values that make collection in full highly questionable; and

Loss: Assets are considered uncollectible.

The determination of the allowance for loan losses is based on estimates that are susceptible to changes in the economic environment and market conditions and is based on the Association's past loss experience, known and inherent risks in the portfolio, the estimated value of the underlying collateral, and current economic conditions. Management believes that as of December 31, 2019, the allowance for loan losses is adequate based on information currently available.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

December 31,	2019	2018	2017
Real estate mortgage			
Acceptable	95.48%	96.49%	96.98%
OAEM	3.04	2.04	1.53
Substandard/Doubtful	1.48	1.47	1.49
	100.00%	100.00%	100.00%
Production and intermediate-term			
Acceptable	93.83%	94.94%	93.73%
OAEM	4.39	3.23	4.30
Substandard/Doubtful	1.78	1.83	1.97
	100.00%	100.00%	100.00%
Agribusiness			
Acceptable	98.48%	98.10%	96.98%
OAEM	0.58	0.02	–
Substandard/Doubtful	0.94	1.88	3.02
	100.00%	100.00%	100.00%
Rural infrastructure			
Acceptable	91.32%	98.69%	100.00%
OAEM	7.53	1.31	–
Substandard/Doubtful	1.15	–	–
	100.00%	100.00%	100.00%
Rural residential real estate			
Acceptable	90.40%	88.77%	92.48%
OAEM	3.52	3.18	4.51
Substandard/Doubtful	6.08	8.05	3.01
	100.00%	100.00%	100.00%
Agricultural export finance			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/Doubtful	–	–	–
	100.00%	100.00%	100.00%
Total loans			
Acceptable	95.58%	96.51%	96.38%
OAEM	2.99	1.92	1.80
Substandard/Doubtful	1.43	1.57	1.82
	100.00%	100.00%	100.00%

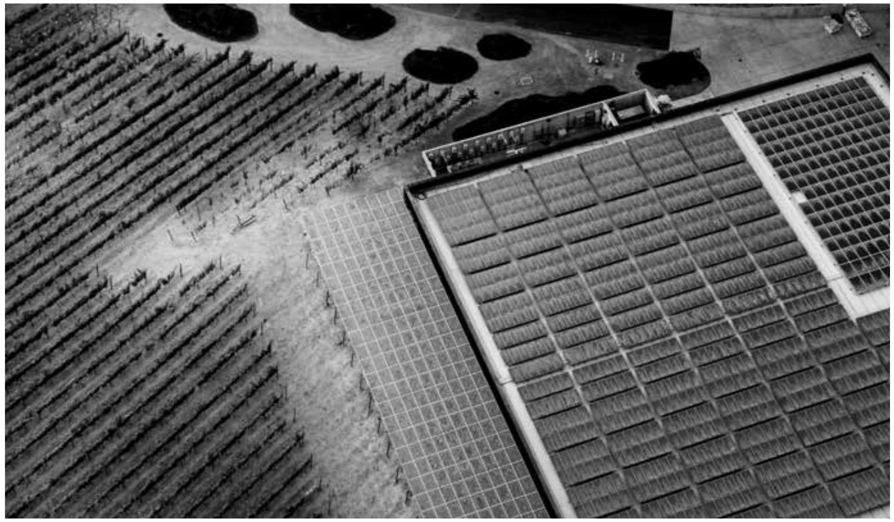
Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following table presents information relating to impaired loans (including accrued interest).

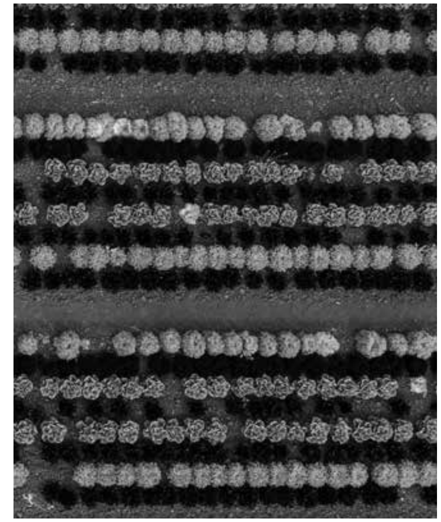
December 31,	2019	2018	2017
Nonaccrual:			
Current as to principal and interest	$20,629	$24,639	$15,823
Past due	21,603	13,905	14,026
Total nonaccrual loans	**42,232**	**38,544**	**29,849**
Accrual:			
Accrual > 90 days past due	–	348	–
Accruing restructured loans	13,408	10,903	11,421
Total impaired accrual loans	13,408	11,251	11,421
Total impaired loans	**$55,640**	**$49,795**	**$41,270**

Commitments to lend additional funds to debtors whose loans were classified as impaired at December 31 was $1.8 million for 2019, $2.9 million for 2018, and $253 thousand for 2017.

High-risk assets consist of impaired loans and other property owned. The following table presents these in a more detailed manner than the previous table. These non-performing assets (including accrued interest) are as follows:

December 31,	2019	2018	2017
Nonaccrual loans:			
Real estate mortgage	$28,849	$16,132	$19,544
Production and intermediate-term	7,579	7,905	10,263
Agribusiness	5,681	14,491	14
Rural residential real estate	123	16	28
Total nonaccrual loans	**42,232**	**38,544**	**29,849**
Accruing restructured loans:			
Real estate mortgage	13,390	10,903	11,421
Production and intermediate-term	18	–	–
Total accruing restructured loans	**13,408**	**10,903**	**11,421**
Accruing loans 90 days or more past due:			
Real estate mortgage	–	348	–
Total accruing loans 90 days or more past due	**–**	**348**	**–**
Total impaired loans	**55,640**	**49,795**	**41,270**
Other property owned	4,779	–	–
Total high-risk assets	**$60,419**	**$49,795**	**$41,270**





Additional impaired loan information follows:

	At December 31, 2019			For the Year Ended December 31, 2019	
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized**
Impaired loans with a related allowance for credit losses:					
Production and intermediate-term	$420	$443	$129	$2,762	$20
Agribusiness	5,062	5,179	1,387	3,403	1
Total	**$5,482**	**$5,622**	**$1,516**	**$6,165**	**$21**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$42,239	$49,483	$–	$40,214	$2,709
Production and intermediate-term	7,177	17,709	–	5,168	616
Agribusiness	619	4,602	–	4,521	47
Rural residential real estate	123	137	–	51	–
Total	**$50,158**	**$71,931**	**$–**	**$49,954**	**$3,372**
Total impaired loans:					
Real estate mortgage	$42,239	$49,483	$–	$40,214	$2,709
Production and intermediate–term	7,597	18,152	129	7,930	636
Agribusiness	5,681	9,781	1,387	7,924	48
Rural residential real estate	123	137	–	51	–
Total	**$55,640**	**$77,553**	**$1,516**	**$56,119**	**$3,393**

Additional impaired loan information, continued.

	At December 31, 2018			For the Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate-term	$4,464	$6,187	$739	$1,801	$1
Agribusiness	5,385	5,570	3,043	3,090	127
Total	**$9,849**	**$11,757**	**$3,782**	**$4,891**	**$128**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$27,383	$35,281	$–	$34,705	$1,725
Production and intermediate-term	3,441	12,294	–	5,309	759
Agribusiness	9,106	12,037	–	6,868	469
Rural residential real estate	16	28	–	18	1
Total	**$39,946**	**$59,640**	**$–**	**$46,900**	**$2,954**
Total impaired loans:					
Real estate mortgage	$27,383	$35,281	$–	$34,705	$1,725
Production and intermediate–term	7,905	18,481	739	7,110	760
Agribusiness	14,491	17,607	3,043	9,958	596
Rural residential real estate	16	28	–	18	1
Total	**$49,795**	**$71,397**	**$3,782**	**$51,791**	**$3,082**

Additional impaired loan information, continued.

	At December 31, 2017			For the Year Ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$–	$–	$–	$146	$–
Production and intermediate-term	2,354	3,216	600	2,147	–
Total	**$2,354**	**$3,216**	**$600**	**$2,293**	**$–**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$30,965	$39,874	$–	$32,305	$1,053
Production and intermediate-term	7,909	16,014	–	3,458	310
Agribusiness	14	1,991	–	12	10
Rural residential real estate	28	38	–	22	–
Total	**$38,916**	**$57,917**	**$–**	**$35,797**	**$1,373**
Total impaired loans:					
Real estate mortgage	$30,965	$39,874	$–	$32,451	$1,053
Production and intermediate–term	10,263	19,230	600	5,605	310
Agribusiness	14	1,991	–	12	10
Rural residential real estate	28	38	–	22	–
Total	**$41,270**	**$61,133**	**$600**	**$38,090**	**$1,373**

Note: The recorded investment in the loan 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 loan receivable. Unpaid principal balance represents the recorded principal balance of the loan.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

For the Year Ended December 31,	2019	2018	2017
Interest income recognized on:			
Nonaccrual loans	$2,826	$2,485	$732
Accruing restructured loans	567	573	641
Accrual loans 90 days or more past due	–	24	–
Interest income recognized on impaired loans	**$3,393**	**$3,082**	**$1,373**

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

For the Year Ended December 31,	2019	2018	2017
Interest income that would have been recognized under the original loan terms	$10,619	$6,763	$6,980
Less: interest income recognized	(3,393)	(3,058)	(1,373)
Foregone interest income	**$7,226**	**$3,705**	**$5,607**

The following table provides an age analysis of past due loans (including accrued interest).

December 31, 2019	30–89 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	$19,324	$11,675	$30,999	$6,611,091	$6,642,090
Production and intermediate-term	4,198	4,837	9,035	2,706,317	2,715,352
Agribusiness	373	–	373	2,245,715	2,246,088
Rural infrastructure	–	–	–	308,406	308,406
Rural residential real estate	23	116	139	2,266	2,405
Agricultural export finance	–	–	–	41,868	41,868
Total	**$23,918**	**$16,628**	**$40,546**	**$11,915,663**	**$11,956,209**

December 31, 2018	30–89 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	$22,002	$13,058	$35,060	$5,868,452	$5,903,512
Production and intermediate-term	9,840	507	10,347	2,236,191	2,246,538
Agribusiness	954	–	954	1,831,708	1,832,662
Rural infrastructure	–	–	–	289,052	289,052
Rural residential real estate	125	–	125	2,693	2,818
Agricultural export finance	–	–	–	38,389	38,389
Total	**$32,921**	**$13,565**	**$46,486**	**$10,266,485**	**$10,312,971**

December 31, 2017	30–89 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	$12,452	$10,237	$22,689	$5,315,211	$5,337,900
Production and intermediate-term	7,282	2,096	9,378	2,006,363	2,015,741
Agribusiness	2,775	–	2,775	1,723,569	1,726,344
Rural infrastructure	–	–	–	279,916	279,916
Rural residential real estate	130	–	130	3,939	4,069
Agricultural export finance	–	–	–	23,107	23,107
Total	**$22,639**	**$12,333**	**$34,972**	**$9,352,105**	**$9,387,077**

A restructuring of debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider.

The following table presents additional information regarding TDRs, whether accrual or nonaccrual, that occurred during the period presented. The Association had $2.0 million in new TDRs in 2019, $5.6 million in 2018, and $5.0 million in 2017.

Year Ended December 31, 2019	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Production and intermediate-term	$1,952	$1,952
Total	**$1,952**	**$1,952**

Year Ended December 31, 2018	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Production and intermediate-term	$50	$50
Agribusiness	5,502	5,502
Total	**$5,552**	**$5,552**

Year Ended December 31, 2017	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$4,133	$4,133
Production and intermediate-term	881	881
Total	**$5,014**	**$5,014**

*Pre-modification represents the recorded investment in the loan receivable just prior to restructuring and post-modification represents the recorded investment in the loan receivable immediately following the restructuring. The recorded investment is the face amount of the loan receivable 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 loan receivable.

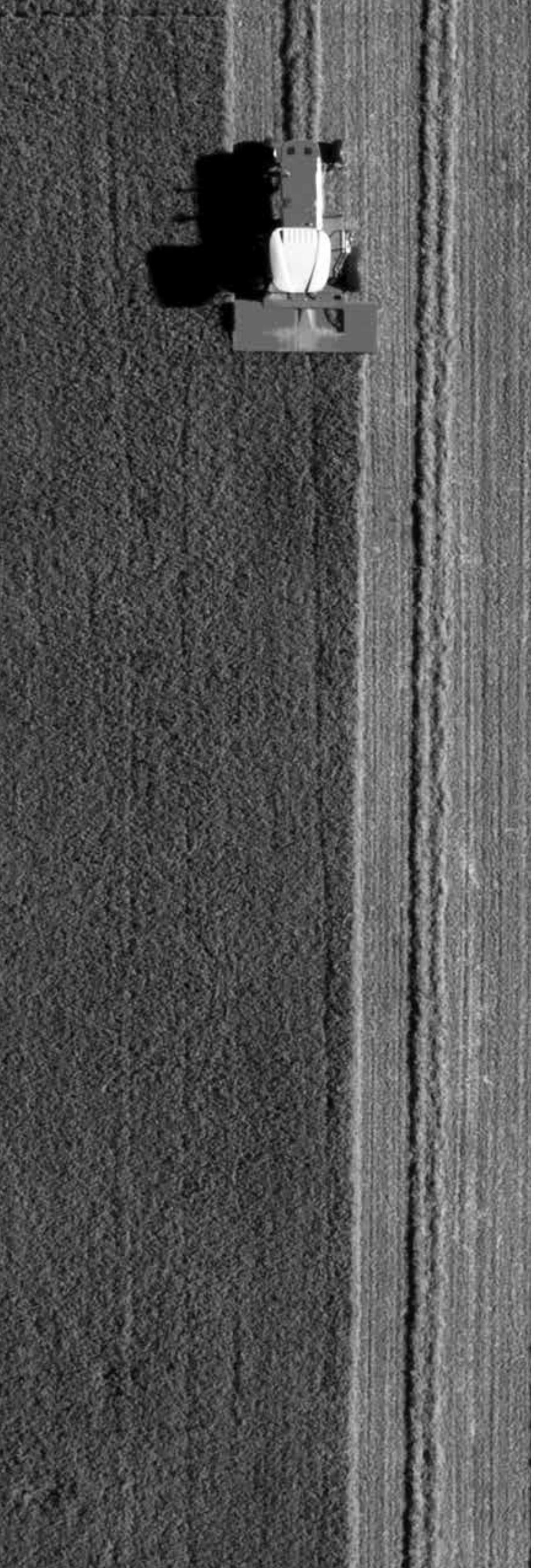
In the allowance for loan loss analysis, TDR loans are individually evaluated and a specific allowance is established based on the likelihood the current events will result in an anticipated loss on the individual loans.

The Association had no TDRs for which there was a payment default during the years presented.

Additional commitments to lend to borrowers whose loans have been modified in TDRs were $1.6 million at December 31, 2019.

The following table provides information on the outstanding principal balance of loans restructured in TDR at period-end. These loans are included as impaired loans in the impaired loan table.

December 31,		2019	2018	2017
Loans Modified as TDRs	Real estate mortgage	$11,423	$12,119	$13,964
	Production and intermediate-term	1,952	801	825
	Agribusiness	–	5,359	–
	Total	**$13,375**	**$18,279**	**$14,789**
TDRs in Nonaccrual Status	Real estate mortgage	$843	$1,238	$2,564
	Production and intermediate-term	–	801	825
	Agribusiness	4,608	5,359	–
	Total	**$5,451**	**$7,398**	**$3,389**



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

	Allowance for Loan Losses		Recorded Investments in Loans Outstanding	
Ending Balance at December 31, 2019	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$–	$6,676	$42,239	$6,599,851
Production and intermediate-term	129	11,537	7,597	2,707,755
Agribusiness	1,387	5,316	5,682	2,240,406
Rural infrastructure	–	564	–	308,406
Rural residential real estate	–	2	122	2,283
Agricultural export finance	–	196	–	41,868
Total	**$1,516**	**$24,291**	**$55,640**	**$11,900,569**

	Allowance for Loan Losses		Recorded Investments in Loans Outstanding	
Ending Balance at December 31, 2018	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$–	$5,294	$27,383	$5,876,129
Production and intermediate-term	739	7,838	7,905	2,238,633
Agribusiness	3,043	3,746	14,491	1,818,171
Rural infrastructure	–	506	–	289,052
Rural residential real estate	–	3	16	2,802
Agricultural export finance	–	190	–	38,389
Total	**$3,782**	**$17,577**	**$49,795**	**$10,263,176**

	Allowance for Loan Losses		Recorded Investments in Loans Outstanding	
Ending Balance at December 31, 2017	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Real estate mortgage	$–	$4,006	$30,965	$5,306,935
Production and intermediate-term	600	8,368	10,263	2,005,477
Agribusiness	–	5,929	14	1,726,330
Rural infrastructure	–	643	–	279,916
Rural residential real estate	–	4	28	4,042
Agricultural export finance	–	38	–	23,107
Total	**$600**	**$18,988**	**$41,270**	**$9,345,807**

	Balance at December 31, 2018	Charge-offs	Recoveries	Allowance from Acquisition Transaction	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2019
Real estate mortgage	$5,294	$–	$745	$918	$(281)	$6,676
Production and intermediate-term	8,577	(3,257)	1,109	482	4,755	11,666
Agribusiness	6,789	–	22	–	(108)	6,703
Rural infrastructure	506	–	–	–	58	564
Rural residential real estate	3	–	–	–	(1)	2
Agricultural export finance	190	–	–	–	6	196
Total	**$21,359**	**$(3,257)**	**$1,876**	**$1,400**	**$4,429**	**$25,807**

	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses /(Loan Loss Reversals)	Balance at December 31, 2018
Real estate mortgage	$4,007	$(12)	$1,253	$46	$5,294
Production and intermediate-term	8,967	(1,822)	912	520	8,577
Agribusiness	5,929	(548)	8	1,400	6,789
Rural infrastructure	643	–	–	(137)	506
Rural residential real estate	4	–	–	(1)	3
Agricultural export finance	38	–	–	152	190
Total	**$19,588**	**$(2,382)**	**$2,173**	**$1,980**	**$21,359**

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses /(Loan Loss Reversals)	Balance at December 31, 2017
Real estate mortgage	$3,855	$–	$92	$60	$4,007
Production and intermediate-term	6,348	(3,686)	722	5,583	8,967
Agribusiness	8,285	–	–	(2,356)	5,929
Rural infrastructure	730	–	–	(87)	643
Rural residential real estate	4	–	–	–	4
Agricultural export finance	19	–	–	19	38
Total	**$19,241**	**$(3,686)**	**$814**	**$3,219**	**$19,588**

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Consolidated Statements of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statements of Comprehensive Income, along with the provision for loan losses.

A summary of the changes in the reserve for unfunded lending commitments follows:

Year Ended December 31,	2019	2018	2017
Balance at the beginning of the year	$2,861	$2,364	$2,949
Provision for /(Reversal of) unfunded lending commitments	883	497	(585)
Balance at end of the year	**$3,744**	**$2,861**	**$2,364**

To mitigate the risk of loan losses, the Association may enter into Long-Term Standby Commitment to Purchase agreements with Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event a delinquency of four months occurs, subject to certain conditions. The balance of the loans under the Long-Term Standby Commitment to Purchase agreements was $66.4 million, $61.9 million, and $8.6 million at December 31, 2019, 2018, and 2017, respectively. Fees paid to Farmer Mac for such commitments totaled $304 thousand, $182 thousand, and $49 thousand for the years ended December 31, 2019, 2018, and 2017, respectively. These amounts are classified as interest expense in the Consolidated Statements of Comprehensive Income. Farmer Mac has not purchased any loans under this agreement.

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2019, the Association's investment in CoBank is in the form of Class A stock with a par value of $100 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4% of the Association's prior-year average direct loan balance. The 2018 requirement for capitalizing its patronage-based participation loans sold to CoBank is 8% of the Association's prior 10-year average balance of such participations sold to CoBank. Under the current CoBank capital plan applicable to such participations sold, patronage from CoBank related to these participations sold is paid 75% cash and 25% Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements or its joint and several liability under the Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

The Association owned approximately 10.92% of the outstanding common stock of CoBank at December 31, 2019.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

December 31,	2019	2018	2017
Buildings and improvements	$122,634	$122,911	$122,295
Furniture and equipment	18,175	29,245	29,158
Land	13,331	13,370	13,395
Construction in progress	935	1,432	557
Vehicles	2,692	2,855	2,767
Premises and equipment at cost	157,767	169,813	168,172
Less: accumulated depreciation	(36,254)	(44,211)	(39,049)
Premises and equipment, net	**$121,513**	**$125,602**	**$129,123**

Future minimum lease payments under non-cancellable leases as of December 31, 2019, were as follows:

	Operating Leases	Finance	Leases Total
2020	$903	$493	$1,396
2021	823	552	1,375
2022	682	351	1,033
2023	582	313	895
2024	557	94	651
Thereafter	2,200	–	2,200
Total lease payments	**5,747**	**1,803**	**7,550**
Less: interest	–	(149)	(149)
Total	**$5,747**	**$1,654**	**$7,401**

Right-of-use assets, net of accumulated amortization, amounted to $5,941 for the year ended December 31, 2019.

NOTE 6 – OTHER PROPERTY OWNED

Gains and losses on other property owned, as reflected on the Consolidated Statements of Income, consisted of the following:

December 31,	2019	2018	2017
(Gains)/Losses on sale, net	$–	$–	$–
Carrying value adjustments	–	–	–
Operating expense, net	37	4	3
Losses on other property owned, net	**$37**	**$4**	**$3**

NOTE 7 – NOTES PAYABLE

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets to CoBank and is governed by a General Financing Agreement (GFA). The GFA is subject to renewal periodically in accordance with normal business practice and requires the Association to comply with certain covenants. The GFA matures on January 1, 2023. Management expects renewal of the GFA at that time. The Association adopted a block-funding methodology for debt issuance in the third quarter of 2017. Effective August 1, 2017, all of the Association's debt is block-funded through a direct note with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 1.98% at December 31, 2019, compared with 2.51% at December 31, 2018, and 1.86% at December 31, 2017.

The fair value adjustment related to notes payable assumed in mergers at December 31, 2019, 2018, and 2017, was $0.0, $3.8 million, and $4.5 million, respectively.

Through the note payable, the Association was liable for the following:

December 31,	2019	2018	2017
Fixed rate debt	$3,851,234	$2,099,835	$1,936,161
Floating rate debt	3,223,173	3,968,326	3,826,093
Discount notes	2,436,160	2,037,301	1,296,886
Daily revolving line of credit	564,131	375,872	594,586
Total	**$10,074,698**	**$8,481,334**	**$7,653,726**

Fixed rate debt typically has original maturities ranging from one to 30 years, and at December 31, 2019, included callable debt of $1,100.4 million, with a range of call dates between January 2020 and October 2024. Floating rate notes generally have maturities ranging from one year to five years. Discount notes have maturities from one day to 365 days. The daily revolving line of credit is renewed annually and is priced at the 30-day discount note rate.

The maturities of debt within the note payable to CoBank as of December 31, 2019, are shown below:

Year of Maturity	Amount	Weighted Average Interest Rate
2020	$5,553,610	1.80%
2021	1,188,777	1.90%
2022	335,765	1.99%
2023	329,606	2.07%
2024	886,568	1.89%
Subsequent years	1,780,372	2.62%
Total	**$10,074,698**	**1.98%**

Under the Farm Credit Act, the Association is obligated to borrow from CoBank, unless CoBank gives approval to borrow elsewhere.

NOTE 8 – MEMBERS' EQUITY

A description of the Association's capitalization requirements, capital protection mechanisms, regulatory capitalization requirements and restrictions, and equities is provided below.

A. Common Stock and Participation Certificates

In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in common stock (for agricultural loans) or participation certificates (for rural home and farm-related business loans) in the Association as a condition of borrowing. In accordance with the Association's capitalization bylaws, the required investment is currently the lesser of $1,000 or 2% of the total borrower's commitment.

The borrower acquires ownership of the common stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is 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. At the discretion of the Board of Directors, retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

B. Additional Paid-In Capital:

The additional paid-in capital represents the excess value received over the par value of capital stock and participation certificates issued, and arose from the issuance of American AgCredit capital stock and participation certificates in connection with mergers.

C. Regulatory Capitalization Requirements and Restrictions

The Farm Credit Administration sets minimum regulatory capital requirements for banks and associations. Effective January 1, 2017, new regulatory capital requirements for banks and associations were adopted. These new requirements replaced the Core surplus and Total surplus requirements with Common Equity Tier 1, Tier 1 capital, and total capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System banks with a Tier 1 leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents leverage ratio that are applicable to both the banks and associations. The Permanent capital ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

The following sets forth the regulatory capital ratio requirements and ratios at December 31:

Ratio	Primary Components of Numerator	Denominator	Ratios as of December 31, 2019	Ratios as of December 31, 2018	Ratios as of December 31, 2017	Minimum with Buffer*	Minimum Requirement
Common Equity Tier 1 (CET1) capital	URE, common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-adjusted assets	13.40%	14.75%	15.37%	7.00%	4.50%
Tier 1 capital	CET1 capital, non-cumulative perpetual preferred stock	Risk-adjusted assets	13.40%	14.75%	15.37%	8.50%	6.00%
Total capital	Tier 1 capital[2], allowance for loan losses, common cooperative equities[3], and term preferred stock and subordinated debt[4]	Risk-adjusted assets	13.60%	14.94%	15.57%	10.50%	8.00%
Tier 1 leverage**	Tier 1 capital	Total assets	15.33%	16.86%	17.61%	5.00%	4.00%
URE and URE equivalents (UREE) leverage	URE and URE equivalents	Total assets	15.67%	17.24%	19.08%	–	1.50%
Permanent capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	14.58%	15.99%	16.65%	–	7.00%

*The New Capital Requirements have a 3-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.

**Must include the regulatory minimum requirement for the URE and UREE leverage ratio.

1. Equities outstanding 7 or more years
2. Capped at 1.25% of risk-adjusted assets
3. Outstanding 5 or more years, but less than 7 years
4. Outstanding 5 or more years

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

D. Description of Equities

Class A Common Stock: (Nonvoting, at-risk, no shares outstanding, $5 par value.) Class A Common Stock may be issued as a patronage distribution or in exchange for a like number of shares of Class C Common Stock when said holder has fully retired their loan or loans with the Association and has not had a borrowing relationship with the Association for two years. Class A Common Stock may be converted to Class C Common Stock if the holder becomes a borrower eligible to own Class C Common Stock, and to Class F Participation Certificates if the holder becomes a borrower eligible to own Class F Participation Certificates.

Class C Common Stock: (Voting, at-risk, 1,873,119 shares outstanding, $5 par value.) Each owner of Class C Common Stock is entitled to a single vote. Other classes of borrower equities do not provide voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock.

Class D Common Stock: (Nonvoting, at-risk, no shares outstanding, $1,000 par value.) Issued to CoBank or to any person through direct sale. Retirement is at the sole discretion of the Board of Directors.

Class F Participation Certificates: (Nonvoting, at-risk, 35,800 shares outstanding, $5 par value.) Class F Participation Certificates may be issued or transferred to rural residents, persons furnishing farm-related services, or to other persons eligible to borrow for the purpose of qualifying for services offered by the Association who are not eligible to hold Class C Common Stock.

Class H Preferred Stock: (Limited voting, at-risk, 127,955,305 shares outstanding, $1 par value.) Class H Preferred Stock may be issued to, and may be acquired by, members and equity holders who, at the time of such issuance or acquisition, hold any class of common stock or participation certificates. Class H Preferred Stock is transferable only to another holder of Class H Preferred Stock, and then only after the transferor provides written notice to the Association in a form prescribed by the Association's Board. The holders of the H stock are limited to voting on matters that would affect any preference accorded to the H stock and any amendments that would authorize a new class of preferred stock. Each holder of the H stock is entitled to receive dividends in an amount equal to a specified percentage ("Dividend Rate") as declared by the Board of Directors. The Dividend Rate is a per annum rate that may change monthly at the discretion of the Board, but is limited to 8.0% per annum. Dividends accrue daily and will accumulate until declared and paid in the form of additional shares of H stock. The H stock is redeemable at par plus cumulative unpaid dividends. At December 31, 2019, the Dividend Rate was 1.60%.

H stock is considered "at-risk" as redemption of the H stock is at the discretion of the Board and such redemption is not assured due to future financial operational or regulatory limitations on the Association. In the event of liquidation or dissolution of the Association and after satisfaction of all liabilities, each share of H stock is entitled to a first liquidation preference of any assets remaining, pro rata, to the extent of par value plus any accrued but unpaid dividends.

The Association has the authority to issue other classes of stock, no shares of which are outstanding. The voting rights, duties, and liabilities of such classes of stock are similar to those discussed above.

Losses that result in impairment of capital stock and participation certificates will be allocated to the common classes of equity described above on a pro rata basis and then to preferred stock. Upon liquidation of the Association, any assets remaining after the settlement of all liabilities will be distributed first to redeem the par value of equities, beginning with preferred stock. After the retirement of stock, any remaining assets will be distributed to holders of allocated surplus as evidenced by nonqualified written notices of allocation. Any assets remaining after such distribution will be shared pro rata on a patronage basis by all common stock and certificate holders of record immediately before the liquidation distribution.

E. Patronage Distributions: The Association's bylaws provide for the payment of patronage distributions. All patronage distributions to a borrower shall be on such proportionate patronage basis as may be approved by the Association's Board of Directors, consistent with the requirement of Subchapter T of the Internal Revenue Code.

The Association's Board of Directors adopted a resolution establishing the distribution of 2019 patronage-sourced net earnings. The resolution established the cash patronage in the amount of 1.0% of the Association's borrowers' average daily loan balances. Cash patronage of $115.4 million will be distributed to qualified patrons in 2020. This amount was recognized as a liability on the Association's Consolidated Statements of Condition at December 31, 2019.

In December 2019, the Association's Board of Directors adopted an Obligating Resolution to distribute 2020 patronage-sourced earnings to patrons of the Association, contingent upon the Association maintaining certain capital criteria.

Cash patronage of $105.1 million and $74.8 million were paid on the Association's patronage-sourced earnings for 2018 and 2017, respectively. These amounts were recognized as a liability on the Association's balance sheet at December 31 in the year they were declared and paid in the first quarter of the following year. Cash patronage represented 1.0% and 0.75% of the Association's borrowers' average daily loan balances for 2018 and 2017, respectively.

F. Unallocated Retained Surplus: Net income can be distributed annually in the form of cash or allocated retained earnings; it may also be retained as unallocated retained earnings. Thus, unallocated retained earnings include patronage-sourced net income that is retained each year. The Board of Directors must approve any use of unallocated retained earnings.

G. Accumulated Other Comprehensive Income/(Losses): The Association reports accumulated comprehensive income/(loss) in its Consolidated Statements of Changes in Members' Equity. As more fully described in Note 11, other comprehensive income/(loss) results from the recognition of the Pension Restoration Plan's net unamortized gains and (losses) and prior service costs or credits of $(2.0) million, $3.6 million, and $(8.1) million in 2019, 2018, and 2017, respectively. There were no other items affecting comprehensive income or loss.

NOTE 9 – PATRONAGE DISTRIBUTIONS FROM SYSTEM INSTITUTIONS

Patronage income recognized from Farm Credit institutions to the Association follows:

Year Ended December 31,	2019	2018	2017
CoBank	$47,192	$51,678	$41,248
AgDirect, LLP	1,648	1,582	1,082
Other Farm Credit Institutions	14,255	12,896	9,455
FCS Insurance Exchange	180	180	375
Total	**$63,275**	**$66,336**	**$52,160**

Patronage distributed from CoBank is received in cash and stock.

NOTE 10 – INCOME TAXES

The provision for income taxes follows:

Year Ended December 31,	2019	2018	2017
Current federal tax provision/(benefit)	$1	$13	(1)
Current state tax provision	17	2	5
Total provision for income taxes	**$18**	**$15**	**$4**

The following table quantifies the differences between the provision/(benefit) for income taxes and the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income of the Association.

Year Ended December 31,	2019	2018	2017
Federal tax at statutory rate	$42,154	$39,526	$59,220
State tax, net	17	2	5
Tax-exempt FLCA income	(34,033)	(35,603)	(51,961)
Cash patronage distributions paid	(8,131)	(4,117)	(7,611)
Change in deferred tax valuation allowance	–	191	(572)
Change in tax rate	–	–	918
Other	11	16	5
Provision for income taxes	**$18**	**$15**	**$4**

The Tax Cuts and Jobs Act of 2017 (TCJA) was enacted in late 2017, which, among other things, lowered the federal corporate tax rate from 35% to 21% beginning in 2018. In accordance with GAAP, the change to the lower corporate tax rate led to a revaluation of our deferred tax liabilities and deferred tax assets in the period of enactment (2017). Management's position is that none of the deferred tax benefits will be realized in future periods and accordingly a valuation allowance is provided against net deferred tax assets. Consequently, no net tax benefit was recognized.

Deferred tax assets and liabilities result from the following:

Year Ended December 31,	2019	2018	2017
Gross deferred tax asset:			
Allowance for loan losses	$2,798	$2,149	$2,213
Deferred loan fees	1,546	828	633
Nonaccrual loan interest	874	669	561
Gross deferred tax asset	5,218	3,646	3,407
Gross deferred tax liabilities:			
Mineral depletion	(49)	(49)	(49)
Accrued CoBank patronage	(3,495)	(1,923)	(1,875)
Net deferred tax asset before valuation allowance	1,674	1,674	1,483
Deferred tax asset valuation allowance	(1,674)	(1,674)	(1,483)
Net deferred tax asset	**$–**	**$–**	**$–**

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained. The expected future tax rates are based upon enacted tax laws.

The Association had a valuation allowance of $1.7 million in 2019, $1.7 million in 2018, and $1.5 million in 2017. The Association will continue to evaluate the likely realization of these deferred tax assets and adjust the valuation allowance accordingly.

The Association had no uncertain tax positions to be recognized as of December 31, 2019, 2018, and 2017.

The Association recognizes interest and penalties related to unrecognized tax benefits as an adjustment to income tax expense. There were no interest or penalties recognized in 2019, 2018, or 2017. The tax years that remain open for federal and major state income tax jurisdictions are 2016 and forward.

NOTE 11 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth and Eleventh Retirement Plans, multi-employer defined benefit retirement plans. The Department of Labor has determined the plans to be governmental plans; therefore, the plans are not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plans are not subject to ERISA, the plans' benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plans' termination is contingent on the sufficiency of the plans' net assets to provide benefits at that time. The plans are noncontributory and cover eligible employees. The assets, liabilities, and costs of the plans are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if the Association chooses to stop participating in the plan, it may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of these plans.

The defined benefit pension plans reflect an unfunded liability totaling $81.2 million for the Ninth Plan and $70.9 million for the Eleventh Plan at December 31, 2019. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date, based on assumed future compensation levels.

The projected benefit obligation and fair value of the multi-employer plan assets at December 31 follows:

(In millions)	2019	2018	2017
Projected benefit obligation			
Ninth Plan	$333.7	$274.4	$292.6
Eleventh Plan	$299.3	$253.9	$271.1
Fair value of plan assets			
Ninth Plan	$252.5	$204.9	$208.0
Eleventh Plan	$228.4	$192.0	$200.7

The amount of the pension benefits funding status is subject to many variables, including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding.

Costs and contributions for the multi-employer plans at December 31 follows:

(In millions)	2019	2018	2017
Total plan expenses for all participating employers			
Ninth Plan	$6.8	$10.8	$12.7
Eleventh Plan	$3.6	$1.9	$3.6
The Association's allocated share of plan expenses included in salaries and benefits			
Ninth Plan	$1.8	$3.0	$3.7
Eleventh Plan	$1.3	$0.7	$1.4
Total plan contributions for all participating employers			
Ninth Plan	$20.0	$20.0	$20.0
Eleventh Plan	$16.0	$16.0	$16.0
The Association's allocated share of plan contributions			
Ninth Plan	$5.3	$5.6	$5.8
Eleventh Plan	$9.0	$5.3	$5.7

While the plans are governmental plans and are not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plans with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2020 is $53.0 million. The Association's allocated share of these pension contributions is expected to be $16.7 million. The amount ultimately to be contributed and the amount ultimately recognized as expense, as well as the timing of those contributions and expenses, are subject to many variables, including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were $26 thousand for 2019, $18 thousand for 2018, and $154 thousand for 2017. These expenses are equal to the Association's cash contributions for each year.

The Association participates in two nonqualified defined benefit Pension Restoration Plans that are unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plans are offset by the benefits payable from the Pension Plans. Pension Restoration Plan expenses included in salaries and employee benefits were $4.0 million for 2019, $4.6 million for 2018, and $2.8 million for 2017.

The funded status and the amounts recognized in other liabilities in the Consolidated Statements of Condition for the Association's Pension Restoration Plans follow:

Nonqualified Pension Restoration Benefits	2019	2018	2017
Change in benefit obligation:			
Benefit obligation at the beginning of the period	$25,787	$27,248	$20,274
Benefit obligation acquired in merger	–	–	21
Service cost	696	735	487
Interest cost	931	756	512
Net actuarial loss/(gain)	4,341	(471)	9,854
Benefits paid	(2,113)	(2,481)	(3,900)
Benefit obligation at December 31	**$29,642**	**$25,787**	**$27,248**
Amounts recognized in other liabilities in the Consolidated Statements of Condition consist of:			
Projected benefit obligation	$29,642	$25,787	$27,248

The following table represents the amounts included in accumulated other comprehensive income (AOCI)/loss for the Pension Restoration Plans:

	2019	2018	2017
Net actuarial loss	$14,267	$12,252	$15,874
Prior service costs	–	–	–
Total amount recognized in AOCI/loss	**$14,267**	**$12,252**	**$15,874**

An estimated net actuarial loss of $3.0 million for the Pension Restoration Plans will be amortized into income during 2020.

The projected and accumulated benefit obligation for the Pension Restoration Plans at December 31 was as follows:

	2019	2018	2017
Projected benefit obligation	$29,642	$25,787	$27,248
Accumulated benefit obligation	$23,559	$20,904	$20,577

The net periodic pension expense for the defined benefit Pension Restoration Plans included in salaries and benefits in the Consolidated Statements of Income is composed of the following at December 31.

Pension Benefits	2019	2018	2017
Components of net periodic benefit cost:			
Service cost	$696	$735	$487
Interest cost	931	756	512
Net amortization and deferral	2,326	3,151	1,355
Net periodic cost	**$3,953**	**$4,642**	**$2,354**

Changes in benefit obligation recognized in accumulated other comprehensive income are included in the following table.

	2019	2018	2017
Current year net actuarial loss/(gain)	$4,341	$(471)	$9,854
Amortization of net actuarial loss	(2,326)	(3,151)	(1,355)
Adjustment due to settlement accounting	–	–	(431)
Total recognized in other comprehensive (income)/loss	**$2,015**	**$(3,622)**	**$8,068**

Weighted average discount rate and rate of compensation increase assumptions used to determine benefit obligation at December 31 were as follows:

Nonqualified Pension Restoration Benefits	2019	2018	2017
Discount rate–Ninth Plan	2.59%	4.06%	3.35%
Discount rate–Eleventh Plan	2.35%	3.81%	2.99%
Rate of compensation increase–Ninth Plan	5.00%	5.00%	5.00%
Rate of compensation increase–Eleventh Plan	5.50%	5.50%	5.50%

The Association estimates it will contribute $2.5 million to the Pension Restoration Plans in 2020.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

2020	2021	2022	2023	2024	2025-2029
$2,487	$1,658	$2,395	$2,052	$2,050	$24,250

The Association participates in the Farm Credit Foundations Defined Contribution/401(k) Plan. Under this plan, the Association matches a certain percentage of employee contributions. The plan has two components. Employees who do not participate in the Pension Plans may receive benefits through the Employer Contribution portion of the Contribution Plan. The Association provides a contribution based on a defined percentage of the employee's salary. Also, employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the plan included in salaries and employee benefits were $6.7 million in 2019, $5.3 million in 2018, and $4.9 million for 2017.

NOTE 12 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan transactions with directors or employees of the Association, their immediate families, and other organizations with which such directors or employees of the Association may be associated (related party borrowers). These loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an acceptable or other assets especially mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board or employment.

Loan information to related parties for the years ended December 31 is shown below.

	2019	2018	2017
Beginning balance	$125,977	$93,577	$44,886
New loans	356,636	66,249	43,359
Repayments	(351,347)	(27,478)	(39,950)
Loans no longer related parties	(4,239)	(6,371)	(445)
Loans acquired in merger	–	–	45,727
Ending balance	**$127,027**	**$125,977**	**$93,577**

In the opinion of management, none of these loans outstanding at December 31, 2019, involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid $458 thousand in 2019, $389 thousand in 2018, and $388 thousand in 2017 to Farm Credit Foundations for human resource services. As of December 31, 2019, the Association's investment in AgDirect was $14.1 million, which was included in Other Assets on the Consolidated Statements of Condition. Income recorded related to AgDirect was $1.7 million in 2019, $1.6 million in 2018, and $1.1 million in 2017.

NOTE 13 – REGULATORY ENFORCEMENT MATTERS

There are no regulatory enforcement actions in effect for the Association.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated 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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2019, $3.4 billion of commitments to extend credit were outstanding.

Since many of these commitments and letters of credit 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 Statements of Condition until funded or drawn upon. The credit risk associated with issuing commitments 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.

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, $58.1 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2020 to 2026. The maximum potential amount of future payments the Association is required to make under the guarantees is $58.1 million.

The Association maintains a contingency reserve for unfunded commitments, which reflects management's best estimate of losses inherent in lending commitments made to customers but not yet disbursed upon. The reserve totaled $3.7 million, $2.9 million, and $2.4 million at December 31, 2019, 2018, and 2017, respectively.

NOTE 15 – FAIR VALUE MEASUREMENTS

Accounting 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. The fair value measurement is not an indication of liquidity. See Note 2 for additional information.

Quoted market prices are generally not available for certain financial instruments, as described 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.

Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized below. During the years presented, there were no assets measured at fair value on a non-recurring basis categorized as Level 1 or Level 2.

	Hierarchy Level 3	Total Fair Value
2019		
Loans	$3,966	$3,966
Other property owned	$6,200	$6,200
2018		
Loans	$6,067	$6,067
2017		
Loans	$1,754	$1,754

Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized below. During the years presented, there were no assets measured at fair value on a recurring basis categorized as Level 2 or Level 3.

Assets Held in Nonqualified Benefits Trusts	Hierarchy Level 1	Total Fair Value
2019	$20,352	$20,352
2018	$20,397	$20,397
2017	$17,373	$17,373

During the three years presented, the Association recorded no transfers in or out of Levels 1, 2, or 3. The Association has no liabilities measured at fair value on a recurring basis for the periods presented.

Valuation Techniques

As more fully discussed in Note 2, accounting guidance 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. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement:

A. Loans: Fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the District's current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the

estimated fair values presented would be indicative of the assumptions and adjustments that a purchaser of the Association's loans would seek in an actual sale.

For purposes of determining the fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated as described above, with appropriately higher interest rates, which reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate, which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of the net realizable value.

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral dependent for which real estate is the collateral. The fair value measurement process uses 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. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

B. Assets Held in Nonqualified Benefits Trusts: Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Assets held in nonqualified benefits trusts are included in other assets in the Consolidated Statements of Condition.

C. Other Property Owned: Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. As a result, these fair value measurements fall within Level 3 of the hierarchy. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 16 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 6, 2020, which is the date the financial statements were available to be issued.

OTHER REGULATORY DISCLOSURE INFORMATION

(UNAUDITED)

Financial Statements

The association will post the annual report and quarterly reports to shareholders on the association's website (www.Agloan.com) approximately 40 days after the end of each calendar quarter for the quarterly reports and 75 days after year-end for the annual report. Copies of these reports may be obtained free of charge by contacting American AgCredit at P.O. Box 1120, Santa Rosa, CA 95402, or by calling (800) 800-4865.

Description of Property

American AgCredit is headquartered in Santa Rosa, California. The association owns and leases various facilities throughout the territory, which are described in this annual report.

Legal Proceedings and Enforcement Actions

Other than ordinary routine litigation incidental to the business, there are no material legal proceedings pending to which the association is a party, of which any of its property is the subject, or which involve claims that the association may be required to satisfy. There are no enforcement actions in effect against the association.

Relationship with Independent External Auditors

There has been no change in independent external auditors and no material disagreements on any matters of accounting principles or financial statement disclosures during the period.

Borrower Privacy

As a member-owner of this institution, your privacy and the security of your personal information are vital to our continued ability to serve your ongoing credit needs. FCA regulations require that borrower information be held in confidence by farm credit institutions, their directors, officers, and employees. FCA regulations specifically restrict farm credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide farm credit institutions clear guidelines for protecting their borrowers' nonpublic information.

Board Oversight

The association is governed by a 20-member board that oversees the management of our association. Of these directors, 16 are elected by the stockholders and four are appointed by the elected directors. The board represents the interests of stockholders and meets regularly to perform the following functions, among others:

- Select, evaluate, and compensate the chief executive officer;
- Establish the strategic plan and approve annual operating plan and budget;
- Oversee the lending operations;
- Advise and counsel management on significant issues; and
- Oversee the financial reporting process, communications with stockholders, and legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in the association's interest. All directors are independent from the perspective that no management or staff serves as board members. However, as a financial service cooperative, the association is required by the farm credit act and FCA regulations to have elected directors that have a loan relationship with the association.

The elected directors, as borrowers, have a vested interest in ensuring the association remains strong and successful. However, the borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the board has established independence criteria to ensure that a loan relationship does not compromise the independence of the board. Annually, in conjunction with the independence analysis and reporting on loans to directors, each director provides financial information and any other documentation and/or assertions needed for the board to determine the independence of each board member.

Audit Committee

The audit committee is composed of six members and is responsible for oversight of financial reporting and examinations. During 2019, eight meetings were held. The audit committee responsibilities include, but are not limited to, the following:

- Oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- Oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- Review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and
- Establishment and maintenance of procedures for the receipt, retention, and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls, and auditing matters.

Compensation Committee

The compensation committee is responsible for the oversight of employee and director compensation. The committee is composed of six members and meets regularly to review and evaluate all aspects of compensation, including benefits programs. Six meetings were held in 2019.

Governance Committee

The Governance Committee is composed of six members. Five meetings were held in 2019. The committee oversees and evaluates matters of corporate governance and structure, including, without limitation: the director nomination and election process; evaluation and development of Board performance and processes; director orientation and continuing education; and the independence of directors.

The governance committee's responsibilities include, but are not limited to, the following:

- Develop and recommend to the board a set of corporate governance guidelines applicable to the association;
- Conduct periodic reviews of the number of board members and composition and make recommendations regarding any changes;
- Determine the qualifications, qualities, skills, and other expertise desired for directors;
- Oversee annual board self-evaluation; and
- Oversee nominating committee process.

Strategy and Risk Committee

The Strategy and Risk Committee (SRC) assists the Board in fulfilling its oversight responsibilities for strategic planning and the enterprise-wide risk management framework of the Association. The SRC is composed of the Board's vice chair and at least two additional Board members. In addition, the Association's CEO and at least two members of senior management shall attend every SRC meeting but shall not serve as members of the committee. Five meetings were held in 2019. The SRC's responsibilities include, but are not limited to, the following:

- Collaborate with management on the development and periodic update of the Association's overall strategy, business objectives, and strategic initiatives;
- Discuss and present recommendations to the Board related to the Association's mission, vision, risk appetite, and major programs;
- Develop Association's merger criteria and evaluate potential merger partners;
- Oversee that management has identified and assessed the risks the Association faces;
- Ensure that risk is appropriately considered in strategy setting;
- Coordinate the risk oversight activities of the various standing committees of the Board;
- Coordinate with the audit committee to understand how the Association's internal audit plan is aligned with its key risks; and
- Recommend to the Board policies governing enterprise risk management.

ASSOCIATION DIRECTORS

It is the Association's policy to reimburse directors and senior officers for mileage as well as documented business expenses while serving in an official capacity. A copy of the Association's reimbursement policies is available to shareholders upon request. There were five regularly scheduled Board meetings in 2019. The committee meetings are called as needed to address Association business.

The following identifies all Board members who served during the year and describes the business activities and principal occupation for the past five years, as well as current committee assignments, for those directors serving on the Board during the year.

George Fontes, Chair
Term Expires: 2024
Committee(s): Executive

Mr. Fontes is a fourth-generation farmer in Salinas Valley, California. His family operation has included beef cattle, grain hay production, and vegetable farming. Currently, he owns and operates Fontes Farms LLC, providing farm management, equipment rental, and repair services. He was president and co-owner of Comgro Incorporated, growing lettuce, broccoli, mix lettuce, and spinach. He also serves on the board of Farm Credit Foundations. He attended five regularly scheduled Board meetings, two special Board meetings, and 21 committee meetings for which he was compensated $69,000

Gary Harshberger, Vice Chair
Term Expires: 2023
Committee(s): Executive, Strategy and Risk

Mr. Harshberger is a farmer with an operation consisting of dryland and irrigated wheat, corn, milo, and soybeans with a summer grass stocker program. He is currently chairman of the Kansas Water Authority. In addition, he operates Harshberger Enterprises and Harshberger Seeds, is president of Double H Farms, Inc., and a member of Harshberger Land, LLC and Hatcher Holdings, LLC, which are all involved in farm commodity production. He is also involved in the ethanol industry as a director of Conestoga Energy. He attended five regularly scheduled Board meetings, two special Board meetings, and 18 committee meetings for which he was compensated $69,500.

Joe Alamo, Director
Term Expires: 2021
Committee(s): Executive, Governance

Mr. Alamo has been a partner in Alamo Dairy and Alamo Farms since 1997. He currently milks 4,000 cows and grows nearly 4,000 acres of corn, winter forage, alfalfa, and almonds. He is also a partner in Mills Orchards LLC, currently developing 700 acres of almonds. He attended five regularly scheduled Board meetings, two special Board meetings, and 12 committee meetings for which he was compensated $52,500.

Berry Bortz, Director
Term Expires: 2022
Committee(s): Governance

Mr. Bortz farms in partnership with his family in eastern Pratt, southwest Reno, and southern Wichita counties in Kansas, producing corn, wheat, soybeans, alfalfa, cotton, sorghum, and bermuda. They also have a commercial and registered cow herd along with a feedlot and recently bought into a cotton gin in Cullison, Kansas. He attended five regularly scheduled Board meetings, one special Board meeting, and six committee meetings for which he was compensated $48,000.

Robert Boynton, Director
Term Expires: 2022
Committee(s): Executive, Compensation

Mr. Boynton has been actively involved in agriculture for his entire professional life, and grew up on a small family dairy farm in Humboldt County, California, which he owns today. He has a PhD in ag economics from Michigan State University. Bob has an extensive agricultural business background, having served as Executive Director of the Dairy Institute of California and as Sr. VP of Marketing & Sales for Leprino Foods. He attended five regularly scheduled Board meetings, two special Board meetings, and 11 committee meetings for which he was compensated $60,500.

John Caldwell, Director
Term Expires: 2020
Committee(s): Audit

Mr. Caldwell resides in Longmont, Colorado. His business experience is in cattle feeding and brokerage, grain merchandising, and farming. He attended five regularly scheduled Board meetings, two special Board meetings, and nine committee meetings for which he was compensated $50,000.

James Cooksey, Director
Term Expired: 2019
Committee(s): Governance

Mr. Cooksey resides in Roggen, Colorado. His business experience is in farming and ranching. He attended two regularly scheduled Board meetings, one special Board meeting, and three committee meetings for which he was compensated $29,022.

Derek Davis, Director
Term Expires: 2020
Committee(s): Audit

Mr. Davis has 29 years of executive management experience, most recently as Executive VP/Chief Operating Officer at Teac America, Inc., and has served on multiple boards. He has a master's degree in business administration from San Diego State University and is a certified public accountant. He owns an avocado ranch property in Valley Center, California. He attended five regularly scheduled Board meetings, two special Board meetings, and 11 committee meetings for which he was compensated $49,500.

Randall Doll, Director
Term Expires: 2024
Committee(s): Compensation

Mr. Doll joined the Board of Directors in July 2014. He is a farmer and rancher in Butler County, Kansas, overseeing production of alfalfa, bluestem prairie hay, brome, milo, and wheat. He also has extended family ranch and farming operations located in Barton, Finney, and Gray counties in Kansas. He attended five regularly scheduled Board meetings, two special Board meetings, and six committee meetings for which he was compensated $48,000.

Marshall Ernst, Director
Term Expires: 2024
Committee(s): Compensation

Mr. Ernst grew up on a family farm in Wisconsin. He and his spouse own and operate Ernst Herefords, a registered cow/calf business focused on producing breeding stock for the commercial industry. Prior to that, Mr. Ernst spent 30 years in the food industry for several nationally branded food companies. He served as Senior Director of Livestock Operations for the National Western Stock Show in Denver through January 31, 2020. He majored in animal science at the University of Wisconsin. He attended three regularly scheduled Board meetings and four committee meetings for which he was compensated $19,478.

Kimberly Clauss Jorritsma, Director
Term Expires: 2020
Committee(s): Governance

Ms. Jorritsma is a third-generation dairy farmer and key member of Clauss Dairy Farms management team in Hilmar, California. Clauss Dairy Farms currently includes two registered Jersey dairies, a farming operation, and employs over 40 people. She is a co-owner of Hilmar Cheese Company, Inc., serving on their board of directors. Kimberly was the first female chairperson of the National Dairy Board and has served on many other agriculture-based boards and groups throughout her professional career. She attended five regularly scheduled Board meetings, two special Board meetings, and six committee meetings for which she was compensated $48,000.

Kirvin Knox, PhD, Appointed Director
Term Expires: 2025
Committee: Compensation

Dr. Knox resides in Fort Collins, Colorado. His business experience is in energy, production agriculture, academic administration, and agriculture research. He attended five regularly scheduled Board meetings, two special Board meetings, and 12 committee meetings for which he was compensated $54,500.

Brian Maloney, Director
Term Expires: 2021
Committee(s): Audit

Mr. Maloney is a fifth-generation farmer/rancher in south-central Kansas. The family-based operation includes wheat, corn, soybeans, sorghum, canola, and beef cattle. Prior to joining the farming operation, Mr. Maloney spent 20 years working in the Farm Credit System, including Farm Credit of Southwest Kansas, CoBank, and the Farm Credit Administration. He attended five regularly scheduled Board meetings, two special Board meetings, and eight committee meetings for which he was compensated $47,500.

Kristin McMenomey, Appointed Director
Term Expires: 2023
Committee(s): Compensation

Mrs. McMenomey resides in Potter Valley, California. She and her husband, John, farm 200 acres of vineyard property in Potter Valley consisting of Chardonnay, Sauvignon Blanc, Merlot, Pinot Noir, and Pinot Gris. She has 21 years of government experience in purchasing, information technology, and risk management. Kristin served 17 years as a board member of the CSAC Excess Insurance Authority Board of Directors, including vice-president. She attended five regularly scheduled Board meetings, two special Board meetings, and five committee meetings for which she was compensated $48,500.

Jason Ochs, Director
Term Expires: 2022
Committee(s): Governance

Mr. Ochs is a member of Plum Creek Farms, LLC in Syracuse, Kansas, an agricultural entity that produces dryland wheat, milo, corn, and provides custom farming including harvesting, tillage, planting, and CRP management. He attended five regularly scheduled Board meetings, two special Board meetings, and six committee meetings for which he was compensated $48,000.

Teresa Reimer, Director
Term Expires: 2023
Committee(s): Governance

Ms. Reimer resides on a ranch near Kalvesta, Kansas, and is a fifth-generation farmer and rancher. Her cattle operation consists of cow/calf, backgrounding, and finishing that is complemented by a dryland farm producing wheat, sorghum, and forages. She attended three regularly scheduled Board meetings, two special Board meetings, and six committee meetings for which she was compensated $50,500.

ASSOCIATION DIRECTORS
(CONTINUED)

David Santos, Director
Term Expires: 2022
Committee(s): Compensation, Strategy and Risk

Mr. Santos is an apricot, cherry, and almond farmer in Stanislaus County, California. He is a partner/owner in Lucich & Santos Farms and Blossom Hill Packing Company, a packing and marketing company. He also has served as a board member and chair of Central Valley Production Credit prior to the merger into American AgCredit. He attended five regularly scheduled Board meetings, two special Board meetings, and six committee meetings for which he was compensated $48,500.

Larry Solari, Appointed Director
Term Expires: 2022
Committee(s): Audit

Mr. Solari is a certified public accountant and partner in BPM LLP located in Stockton, California. He was appointed as an outside director of the Association Board of Directors in January 1994. He also serves on the San Joaquin County Assessment Appeals Board. He attended five regularly scheduled Board meetings, one special Board meeting, and eight committee meetings for which he was compensated $45,500.

Thomas G. Stegman, Appointed Director
Term Expires: 2025
Committee(s): Executive, Audit

Mr. Stegman is retired. Most recently, he served as President and CEO of AgVantis. Prior to that, he served in various information technology management positions at Farm Credit Bank of Wichita, Kansas. Mr. Stegman was raised on a family farm in southwestern Kansas and now resides in Oro Valley, Arizona. He attended five regularly scheduled Board meetings, one special Board meeting, and 14 committee meetings for which he was compensated $56,500.

Charles Talbott, Director
Term Expires: 2020
Committee(s): Governance, Strategy and Risk

Mr. Talbott resides in Palisade, Colorado. His business experience is in tree fruit and wine grape production, packing, processing, and marketing. He attended five regularly scheduled Board meetings, two special Board meetings, and 11 committee meetings for which he was compensated $61,000.

Thomas Teixeira, Director
Term Expires: 2023
Committee(s): Audit, Strategy and Risk

Mr. Teixeira is partner-owner of Teixeira and Sons and grows 6,000 acres of alfalfa, almonds, cantaloupes, corn, cotton, fresh-market tomatoes, processing tomatoes, and wheat. The company operates a tomato transplant greenhouse facility and is part owner in Pacific Ginning LLC, Eagle Valley Ginning LLC, and 360 Agri LLC. Pacific Ginning and Valley Ginning are cotton ginning operations and 360 is a custom cotton harvesting company. He attended five regularly scheduled Board meetings, two special Board meetings, and 13 committee meetings for which he was compensated $59,000.

For 2019, directors were compensated for their services based on annual retainers as follows:

Chair	$57,000
Vice Chair	$54,500
Audit Committee Chair	$49,500
Compensation Committee Chair	$47,000
Governance Committee Chair	$47,000
Director	$42,000

Retainer amounts are adjusted for meeting absences or attendance at meetings in excess of scheduled Board meetings. The total compensation paid to directors for 2019, as described above, amounted to $1,063,000. The aggregate amount of compensation and reimbursements for travel, subsistence, and other related expenses for all directors was $1,823,493 for 2019, $1,908,532 for 2018, and $1,865,680 for 2017.

SENIOR OFFICERS

Byron E. Enix, Chief Executive Officer
Mr. Enix was promoted to Chief Executive Officer on January 1, 2014. He previously served as Chief Operating Officer and Senior Vice President-Credit Heartland Region since 2012 and 2010, respectively. Prior to the Farm Credit Services of the Mountain Plains merger and since 2006, he served as Chief Financial Officer-Mountain Plains. He has 35 years of Farm Credit System experience in credit, operations, and finance.

Greg Somerhalder, Chief Operating Officer
Mr. Somerhalder was promoted to Chief Operating Officer on March 1, 2014. He previously served as Chief Corporate Strategist since 2013. He has over 35 years of experience with Farm Credit in many areas of banking, including lending, credit, risk, and strategy. Mr. Somerhalder serves as a director of Farm Credit System Associations Captive Insurance Company. He also serves on the board of three charity organizations: St. George Christian Orthodox Endowment, The Treehouse, and Laham Family Foundation.

Lynn Scherler, Chief Lending Officer
Mr. Scherler joined American AgCredit as Chief Lending Officer in October 2017. He previously served as President–Strategic Relationship Division for CoBank; as Interim President & CEO of Farm Credit of Southwest Kansas from October 2015 to March 2016; and a number of other relationship and leadership roles at CoBank. Mr. Scherler has more than 20 years of banking experience, 18 of which have been served in the Farm Credit System, with experience in the areas of relationship management, credit, and strategy.

Vern Zander, Chief Financial Officer
Mr. Zander has served as Chief Financial Officer since 2012. He previously served as Vice President-Relationship Manager in the Association's Capital Markets Group. He is a certified public accountant and has been with American AgCredit for the last 17 years, with a total of 32 years of Farm Credit service.

Roger Bastow, Chief Administrative Officer
Mr. Bastow has served as Chief Administrative Officer since 2009. He previously served as Senior Vice President-Finance and Operations from 1999 to 2009 at Farm Credit of the Heartland. He is a certified public accountant and has served in human resources, operations, and finance roles over the past 28 years in the Farm Credit System and is a member of the Farm Credit Foundations Trust Committee.

Michael Jones, Chief Human Resource Officer
Mr. Jones joined American AgCredit as Chief Human Resource Officer in 2019. He previously held human resource leadership roles in the United States and United Kingdom, driving strategic human resource transformation.

Sean O'Day, Chief Banking Officer-Corporate
Mr. O'Day currently serves as the Chief Banking Officer for Corporate Banking. Agribusiness lending and Capital Markets operate under the Corporate Banking umbrella. Prior to assuming the position of Chief Banking Officer, Mr. O'Day served as Senior Vice President- Capital Markets. For the past 29 years, his focus has been in the areas of corporate finance and loan syndications, and he has a total of 40 years of Farm Credit System service.

Jerry Rose, Chief Risk Officer
Mr. Rose has served as Chief Risk Officer since 2013 and previously served as Senior Vice President-Risk Management since 2012. He has held risk and financial management roles for more than 30 years in the Farm Credit System.

REGIONAL AND SENIOR VICE PRESIDENTS

Paul Anderson (through July 2019)
SVP Human Resources

Rachel Angress
SVP General Counsel

Mike Banks
SVP Chief Credit Officer

Marc Busalacchi
Regional Banking Executive

Heather Callens
Underwriting and Credit Delivery Executive

Fred Dixon
Regional Banking Executive

Chase Hafner
Chief Disruption Officer

Matt Keating
Underwriting and Credit Delivery Executive

Vicki Lagorio
Head of Regional Operations

Jason Lawrence
Head of Solutions Delivery

Claudia McGinness
Regional Banking Executive

Paula Olufs
Chief Customer Officer

Erik Person
SVP Chief Audit Executive

Dennis Regli
SVP Underwriting Manager–Corporate

Greg Reno
Regional Banking Executive

Deb Seedorf
SVP Chief Transformation Officer

Kimberly Smith
Chief Accounting Officer

Steve Stephens
SVP Chief Appraiser

Gary Van Schuyver
SVP Banking

SENIOR OFFICERS' COMPENSATION

The Compensation Committee of the Board of Directors ("Compensation Committee") follows a comprehensive compensation philosophy where the objectives of the Compensation Plans ("Plans") are to:

- Provide market-based compensation through base salary and annual and long-term incentive components that will allow the Association to attract, motivate, and retain superior executive talent;
- Place a portion of total compensation for the executive at risk and contingent upon the Association remaining financially sound and meeting established performance goals; and
- Ensure that long-term financial stability of the Association is emphasized over short-term results and decisions.

The Plans are designed to:

- Reward successful business year results through an annual Incentive Compensation Plan (ICP);
- Foster long-term financial stability through the Long-Term Deferral Plan (LTDP); and
- Significantly contribute to the retention of the President/Chief Executive Officer (CEO) and other senior officers.

The Compensation Committee annually reviews market information related to the level and mix of salaries, benefits, and incentive plans for the CEO and other senior officers. The Compensation Committee considers the structure, effectiveness, and risk associated with the Plans on an annual basis. Due to the cooperative business structure of the Association, the Plans do not contain stock-based compensation components.

The Association maintains the ICP for senior officers and employees and rewards performance based on objective criteria. Such criteria include achievement of corporate and individual strategic business goals. The ICP is administered by the Compensation Committee. The ICP was revised in recent years to enhance the alignment of rewards with progress towards the organization's overall strategic initiatives.

Select senior officers may also participate in a supplemental incentive compensation plan. Supplemental incentive compensation plans are administered by the Compensation Committee and include specialized earnings goals. Supplemental incentive compensation plans were revised in 2014 to enhance their alignment with risk associated with the activities the incentives were based on.

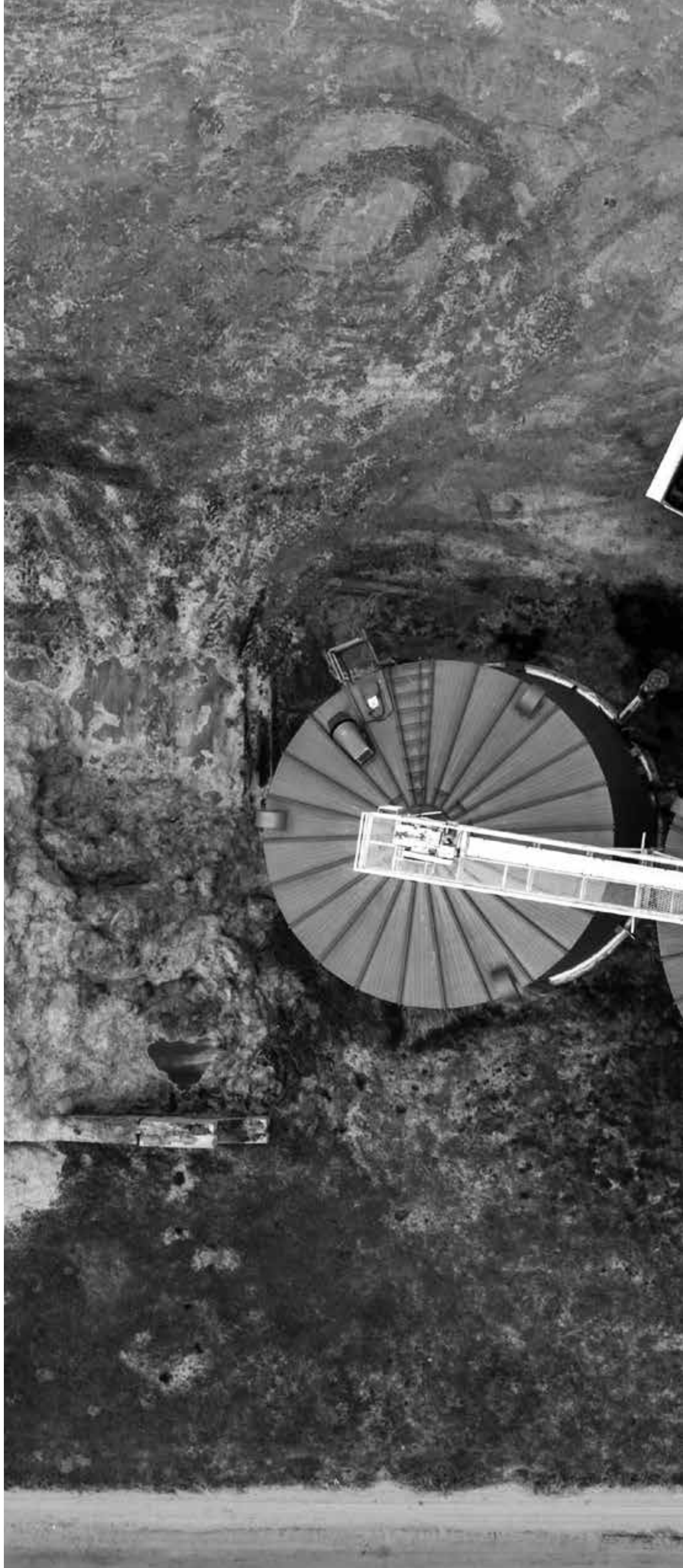
LTDP incentives provide targeted long-term awards for senior officers based on position and responsibilities.

Starting in 2014, certain executives began participation in an LTDP, which defers payment of a portion of the incentive earned under the ICP or supplemental incentive compensation plans for three years into a Long-Term Incentive, to ensure the long-term performance objectives of the Association are met.

Certain senior officers participate in the Ninth Farm Credit District Pension Plan or the Eleventh Farm Credit District Employee's Retirement Plan ("Pension Plans"). These plans have been closed to new participants for many years.

Compensation earned by the CEO and aggregate compensation of other senior officers and highly compensated employees for the year ended December 31, 2019, amounted to $13.9 million, compared to $9.7 million for 2018 and $12.0 million for 2017. Changes in several key leadership roles and increased vesting in the Pension Plan were the primary contributors to the increase from 2018 to 2019.

Disclosure of fiscal year 2019, 2018, and 2017 compensations for the CEO and senior officers as defined by regulation, or to any other employee whose compensation is among the five highest amounts paid by the Association, is included in the Annual Meeting Information Statement sent to shareholders and is available to the public at the Association's offices upon request.



YOUNG, BEGINNING, AND SMALL

FARMER & RANCHER PROGRAM

American AgCredit offers Young, Beginning, and Small (YBS) farmers and ranchers opportunities to invest in, build, and support their agribusiness. Through specific, tailored programs designed to meet the credit and related needs of YBS customers and potential customers in our chartered territory, we provide various layers of support throughout this market.

Per FCA regulations, qualified YBS programs serve farmers and ranchers by one or more of the following categories:

Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger.

Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience.

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.

Our YBS Mission

Our mission is to provide credit and related services tailored to the specific needs of the YBS market via the following:

- Support of AgYouth Programs: Interest-free financing to young people for 4-H and FFA projects.
- Host the Young Farmer & Rancher Institute: Legacy and business continuity planning for generations of farmers and ranchers. Training provided free of charge for customers in good standing.
- Support of youth programs in the community: Outreach and sponsorship of ag-related educational activities, such as ag training, exhibits, and other outreach.
- Promote YBS program information, including web pages, brochures, and ad slicks: Awareness of programs to support new businesses and encourage young people to get involved in agriculture.
- Provide scholarships to college students interested in working in or studying agriculture.
- Offer paid internships: Professional training and paid work experience provided to young professionals interested in learning about agriculture and ag financing.

To facilitate credit offerings to this specialized customer base, we support financing programs and use government-guaranteed loan programs. We are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers.

Demographics

To ensure that these groups are adequately serviced, demographic research known as AgCensus is completed by the U.S. Department of Agriculture every five years, and those demographics are compared to our borrower base. Part of adequately servicing these segments is understanding how farming is changing within the Association's lending territory.

The latest data available is from the 2017 AgCensus, which was released in April 2019. Compared to the 2012 AgCensus, the 2017 research showed the number of farms overall has decreased. Nationally, the number of young farmers, both primary and co-operators, increased from 2012. In our territory, young farmers comprise about 8% of total farm operators. Beginning farm operators comprise 28% of the market in our territory, while the Small farm operator makes up 85% of the farms in the market. A few significant changes over the last five years include the following:

- The number of young farm operators did increase, but at the same time the average operator age increased. Farmers older than 65 now outnumber farmers less than 35 by a 6:1 ratio.
- The number of beginning farmers increased, but the average age of a beginning farmer in 2017 was just over 46.
- The number of small farms increased from 2012. Many of the small farms reported being involved in commodities such as fruits, vegetables, and small livestock.

Exception Program

The Association's YBS Exception Program is tailored for those ag businesses that do not meet all underwriting criteria and exhibit higher-than-normal risk factors. The Exception Program offers unique financing criteria and additional benefits. This includes additional business support, education, training, and other incentives—allowing them to strengthen and prosper and, in the process, to develop avenues for the Association to fulfill its mission and serve all fields and levels of agriculture.

The following table outlines the percentage of Young and Beginning loans in the loan portfolio (by number) as of December 31, 2019, compared to the total number of loans in the portfolio.

Category (Dollars in thousands)	**Number of Loans**	**Percent of Total Loans**	**Volume Outstanding**	**Percent of Total Volume**
Total loans and commitments outstanding at year-end	17,282	100.0%	$15,347,511	100.0%
Young farmers and ranchers	1,844	10.7%	$645,678	4.2%
Beginning farmers and ranchers	3,352	19.4%	$1,313,135	8.6%

The following table provides a breakdown of Small farmer and rancher loans by size as of December 31, 2019.

Number/Volume Outstanding (Dollars in thousands)	**$0 – $50.0**	**$50.1 – $100.0**	**$100.1 – $250.0**	**$250.1 & Greater**
Total number of loans and commitments outstanding at year-end	3,560	2,488	3,956	7,278
Total number of loans to Small farmers and ranchers	1,845	1,364	1,604	1,126
Percent of loans to Small farmers and ranchers	51.83%	54.82%	40.55%	15.47%
Total loan volume outstanding at year-end	$90,904	$189,624	$673,626	$14,393,356
Total loan volume to Small farmers and ranchers	$50,621	$103,394	$263,282	$617,925
Percent of loan volume to Small farmers and ranchers	55.69%	54.53%	39.08%	4.29%

Funding Outreach

We believe that by supporting the full spectrum of agricultural efforts, all agriculture benefits. American AgCredit, on its own and through alliance partnership with other Farm Credit associations, sponsors many events and activities to promote Farm Credit and the services offered by the System and to inform and educate Young, Beginning, and Small farmers. They include the following:

Young Farmer Leadership Conference: In support of the California Farm Bureau's Young Farm & Ranch Program, American AgCredit joined with CoBank, Farm Credit West, Fresno Madera Farm Credit, and Golden State Farm Credit to sponsor their Annual Leadership Conference. The two-day conference is attended by over 200 from across California and neighboring states. Our 2019 sponsorship totaled $10,000.

Colorado FFA: Through a comprehensive agricultural education program, the Colorado FFA Association teaches FFA members premier leadership skills, personal growth, and career success. American AgCredit is a star partner with Colorado FFA, giving over $31,000 in 2019 to the Colorado FFA Foundation. We are proud to have continued our support in 2019 with Colorado FFA.

Hawaii 4-H and FFA Livestock Program: Grant funds are available to help subsidize qualified 4-H and FFA projects on the islands of Oahu, Kauai, Hawaii, Maui, and Molokai/Lanai. Grant funds totaled $2,500 in 2019. A University of Hawaii extension agent coordinates the distribution of grant funds for the Association.

Nevada Junior Livestock Show: The Nevada Junior Livestock Show provides an opportunity for Nevada youth to exhibit their livestock projects before the public. NJLS encourages the growth of sportsmanship, leadership, citizenship, and responsibility in each of the youth exhibitors competing. In 2019, American AgCredit sponsored the Show and the Champion Banners, gave a $2,000 scholarship, and purchased animals at the livestock sale. Total investment for NJLS in 2019 was just over $9,500.

Kansas Farm Bureau YF&R Leaders Conference: American AgCredit, as a part of the Farm Credit Associations of Kansas, sponsors the Kansas Farm Bureau YF&R Leaders Conference. The event, held annually in February in Manhattan, Kansas, provides a pivotal opportunity to network with approximately 500 Young farmers and ranchers from across the state. This important partnership gives our Alliance the opportunity to present a keynote speaker at the conference.

North American Intercollegiate Dairy Challenge: In partnership with CoBank, Farm Credit West, and Northwest Farm Credit, the Association sponsored this organization, which develops tomorrow's dairy leaders and enhances progress of the dairy industry by providing education, communication, and networking among students, producers, and agribusiness and university personnel. In 2019, $5,000 in sponsorship was provided.

California Ag in the Classroom: American AgCredit partnered with CoBank, Farm Credit West, Fresno Madera Farm Credit, and Yosemite Farm Credit to sponsor this not-for-profit organization dedicated to educating youth throughout California about the importance of agriculture in their daily lives. Contributions in the total amount of $15,000 were made in 2019, and the program is reviewed annually for future contributions.

YBS Program Safety and Soundness

American AgCredit offers diverse and accessible financing options for qualified farmers and ranchers within our territory. The YBS Program provides alternate financing and guarantee options for farmers and ranchers who are just getting started, as well as small or part-time operations. To better serve YBS customers, special lending qualifications and requirements allow Young, Beginning, and Small farmers and ranchers access to financing, leasing, and other services for which they might not otherwise qualify.

Procedures have been established to streamline the delivery of these unique and other small loans utilizing credit scoring through the new Express Loan Program. Loans will continue to be made on a sound basis, with proper emphasis on the fundamentals of sound credit. Loans made under this program meet all our requirements for eligibility and scope of financing, interest rates, and length of term. Co-makers and guarantors (financially responsible family members or other individuals) and secondary collateral are utilized when available and appropriate to minimize risk. Excessively ambitious growth plans are restricted and loans are closely monitored on a regular basis.

OFFICE LOCATIONS

ADMINISTRATIVE OFFICE 400 Aviation Boulevard, Suite 100 · Santa Rosa, CA 95403 · (800) 800-4865 · AgLoan.com

CALIFORNIA

Alturas
403 E. Highway 395
Alturas, CA 96101
(530) 233-4304

Eureka
5560 S. Broadway Street
Eureka, CA 95503
(707) 445-8871

Merced
711 W. 19th Street
Merced, CA 95340
(209) 384-1050

Oakdale
700 N. Yosemite Avenue
Oakdale, CA 95361
(209) 847-0353

Ontario
3633 E. Inland Empire Blvd.
Suite 530
Ontario, CA 91764
(909) 947-2371

Palm Desert
74199 El Paseo Drive
Suite 101
Palm Desert, CA 92260
(760) 340-5671

Petaluma
1345 Redwood Way
Petaluma, CA 94954
(707) 793-9023

Roseville
2140 Professional Drive
Suite 110
Roseville, CA 95661
(916) 784-1060

St. Helena
1101 Vintage Avenue
St. Helena, CA 94574
(707) 963-9437

Salinas
924 E. Blanco Road
Salinas, CA 93901
(831) 424-1756

Santa Rosa
400 Aviation Blvd.
Suite 100
Santa Rosa, CA 95403
(800) 800-4865

Stockton
2345 E. Earhart Avenue
Stockton, CA 95206
(209) 944-7478

Temecula
42429 Winchester Road
Temecula, CA 92590
(951) 296-0175

Turlock
3201 W. Monte Vista Avenue
Turlock, CA 95380
(209) 667-5101

Ukiah
455 E. Gobbi Street
Ukiah, CA 95482
(707) 462-6531

Yreka
809 4th Street
Yreka, CA 96097
(530) 842-1304

COLORADO

Denver
6312 S. Fiddlers Green Circle
Suite 420E
Greenwood Village, CO 80111
(303) 723-8040

Durango
850 E. 2nd Avenue
Durango, CO 81301
(970) 259-1540

Grand Junction
2452 Patterson Road
Suite 101
Grand Junction, CO 81505
(970) 243-1784

Greeley
4505 W. 29th Street
Greeley, CO 80634
(970) 330-4071

Montrose
1404 Hawk Parkway
Suite 101
Montrose, CO 81401
(970) 249-5274

HAWAII

Hilo
988 Kinoole Street
Hilo, HI 96720
(808) 961-3708

Honolulu
99-860 Iwaena Street
Suite A
Aiea, HI 96701
(808) 836-8009

KANSAS

Concordia
102 E. 9th Street
Concordia, KS 66901
(785) 243-4689

Dodge City
1501 Soule Street
Dodge City, KS 67801
(620) 227-8211

Garden City
1606 E. Kansas Avenue
Garden City, KS 67846
(620) 275-4281

Great Bend
5634 10th Street
Great Bend, KS 67530
(620) 792-2211

Hutchinson
1902 E. 23rd Street
Hutchinson, KS 67502
(620) 663-3305

Liberal
2451 N. Kansas Avenue
Liberal, KS 67901
(620) 624-0171

Pratt
706 S. Main Street
Pratt, KS 67124
(620) 672-7406

Salina
925 W. Magnolia Road
Salina, KS 67401
(785) 825-4641

Scott City
1422 S. Main Street
Scott City, KS 67871
(620) 872-5391

Wichita
4105 N. Ridge Road
Wichita, KS 67205
(316) 721-1100

NEVADA

Elko
978 Commercial Street
Elko, NV 89801
(775) 738-8496

Fallon
1440 W. Williams Avenue
Fallon, NV 89406
(775) 423-3136

Reno
255 W. Peckham Lane
Suite 1
Reno, NV 89509
(775) 825-7282

OKLAHOMA

Ponca City
1909 Lake Road
Ponca City, OK 74604
(580) 765-5690

OREGON

Lake Oswego
5000 Meadows Road
Suite 320
Lake Oswego, OR 97035
(503) 639-7563

All owned office buildings and land are pledged to CoBank as collateral for the note payable.

AMERICAN AGCREDIT
MONEY FOR AGRICULTURE