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*AgChoice Farm Credit, ACA*  
**THIRD QUARTER 2019**

**TABLE OF CONTENTS**

Report on Internal Control Over Financial Reporting .....	2
Management’s Discussion and Analysis of Financial Condition and Results of Operations .....	3
Consolidated Financial Statements	
Consolidated Balance Sheets .....	7
Consolidated Statements of Income.....	8
Consolidated Statements of Comprehensive Income .....	9
Consolidated Statements of Changes in Members’ Equity .....	10
Notes to the Consolidated Financial Statements.....	11

**CERTIFICATION**

The undersigned certify that we have reviewed the September 30, 2019 quarterly report of **AgChoice** Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Darrell L. Curtis  
Chief Executive Officer

Terry A. Davis  
Chief Financial Officer

Shawn D. Wolfinger  
Chairman of the Board

November 8, 2019

# 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. This process provides 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.

Internal control over financial reporting 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 September 30, 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 September 30, 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 September 30, 2019.

Darrell L. Curtis  
Chief Executive Officer

Terry A. Davis  
Chief Financial Officer

November 8, 2019

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgChoice Farm Credit ACA, (Association) for the period ended September 30, 2019. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2018 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. Information in any part of this Quarterly Report may be incorporated by reference in answer or partial answer to any other item of the Quarterly Report.

## LOAN PORTFOLIO

Loans at September 30, 2019 totaled \$2,087,605 compared to \$1,946,184 at December 31, 2018, increasing \$141,421 (7.3 percent) during the first nine months. Allowance for loan losses of \$15,384 increased \$1,053 (7.4 percent) during the first nine months of 2019 resulting in net loans (loans less allowance for loan losses) of \$2,072,221 and \$1,931,853 at September 30, 2019 and December 31, 2018, respectively. Nonaccrual loans increased \$788 (6.6 percent) from \$11,989 at December 31, 2018 to \$12,777 at September 30, 2019. The increase in nonaccrual loans is primarily related to accounts in the Dairy commodity group. In addition, Other property owned decreased from \$76 at December 31, 2018 (one property) to \$57 at September 30, 2019 (one property).

There is an inherent risk in the extension of any type of credit and, accordingly, the Association maintains an Allowance for loan losses consistent with the risk measured in the portfolio. Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. The Allowance for loan losses represented 0.74 percent of loans, and 120.40 percent and 119.53 percent of nonaccrual loans, at September 30, 2019 and December 31, 2018, respectively. See also Note 2, Loans and Allowance for Loan Losses, in the Notes to the Consolidated Financial Statements.

## RESULTS OF OPERATIONS

*For the three months ended September 30, 2019*

Net income for the three months ended September 30, 2019 totaled \$10,625, an increase of \$957 (9.9 percent) compared to the three months ended September 30, 2018. Major changes in the components of net income are identified as follows:

- Net interest income increased \$789 (5.9 percent) for the quarter ended September 30, 2019 compared to the same period in 2018. The increase in net interest income is primarily attributable to (a) a \$641 increase in accruing loan volume and (b) a \$427 increase in the Associations loanable funds credit, partially offset by (c) a \$279 decrease in net interest recognized attributable to nonaccruing loans.
- The risks identified in the Association's Loan portfolio required a provision for loan losses of \$458 and \$502 to be recorded in the third quarter of 2019 and 2018, respectively. The Association's nonaccrual loans to total loans decreased slightly to 0.61 percent at September 30, 2019, compared to 0.62 percent at December 31, 2018 and 1.09 percent at September 30, 2018. See also Note 2, Loans and Allowance for Loan Losses, in the Notes to the Consolidated Financial Statements.
- Patronage refunds from other Farm Credit institutions of \$3,179 and \$3,119 were accrued during the third quarter of 2019 and 2018, respectively, and management anticipates additional income for the remaining quarter in 2019. Since this income from AgFirst Farm Credit Bank (the Bank) is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The increase in the accrual in 2019 is due to the impact of an increase in loan volume.
- The Noninterest income increase in the third quarter of \$307 (8.1 percent) included (a) an increase of \$103 from Fees for financially related services, (b) a \$60 increase in Patronage refunds from other Farm Credit institutions, (c) an increase of \$27 in Gains on sales of premises and equipment, net, (d) an increase of \$152 from Loan fees, and (e) a \$7 increase in Other noninterest income,

partially offset by (f) a decrease of \$42 in Gains on other transactions,.

- Noninterest expense for the third quarter of 2019 was \$7,129 as compared to \$6,944 for the third quarter of 2018, an increase of \$185 (2.7 percent).

The decrease of \$7 (0.2 percent) for Salaries and employee benefits includes an increase in deferred personnel costs of \$161. Salaries increased \$142 (4.1 percent) due to new hires joining the Association and normal salary increases, as well as an increase of \$12 (0.8 percent) in employee benefits. See also Note 7, Employee Benefit Plans, in the Notes to the Consolidated Financial Statements.

Insurance Fund Premium expense increased \$40 (12.1 percent) due to the increase in volume during the past twelve months.

Occupancy and equipment and Other operating expenses increased \$147 (6.7 percent) from \$2,337 to \$2,190, which includes expense increases in building improvements and public and member relations expense, partially offset by decreases in advertising and other operating expenses.

- The Association recorded a Provision for income taxes of \$40 and \$42, for the third quarters of 2019 and 2018, respectively.

#### ***For the nine months ended September 30, 2019***

Net income for the nine months ended September 30, 2019 totaled \$32,197, an increase of \$2,444 (8.2 percent) compared to the nine months ended September 30, 2018. Major changes in the components of net income are identified as follows:

- Net interest income for the nine months was up \$2,761 (7.1 percent), and there are several key factors impacting the results. The increase in net interest income is primarily attributable to (a) a \$1,445 increase in accruing loan volume and (b) a \$1,756 increase in the Associations loanable funds credit. These increases were partially offset by (b) a decrease of \$440 in the income recognized from nonaccruing volume.
- Charge-offs and risk identified in the Association's loan portfolio required a provision for loan losses of \$1,102 to be recorded in the first nine months of 2019, as compared to an \$820 provision in the first nine months of 2018.
- For the nine months ended September 30, 2019, the Association accrued an estimated patronage receipt of \$9,474 as compared to \$9,248 for the same period in

2018. The increase of \$226 (2.4 percent) is due to the increase in outstanding loan volume. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income.

- Noninterest income for the nine months was up \$329 (2.5 percent). The increase in Noninterest income is attributable to (a) a \$226 increase in Patronage from other Farm Credit institutions, (b) an increase of \$466 in Gains on sales of premises and equipment, net, and (c) a \$9 increase in Other noninterest income, (d) an increase of \$173 in Gains on other transactions, (e) an increase of \$168 from Loan fees, and (f) an increase of \$147 from Fees for financially related services, partially offset by (g) a decrease of \$854 in Insurance premium refund and (h) a decrease of \$6 in Gains on sales of rural home loans, net.
- During the first quarter of 2019, the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligation, had assets exceeding the secure base amount as defined by the Farm Credit Act. As a result of the excess, FCSIC made certain distributions to the Farm Credit System Banks and certain Associations; AgChoice's share was \$414 and is recorded as Insurance Fund refund within the Noninterest Income section of the Consolidated Statements of Income.
- Noninterest expense increased \$411 (1.9 percent) for the first nine months of 2019 as compared to 2018.

The year-to-date decrease for Salaries and employee benefits of \$56 (0.4 percent) includes a decrease of \$340 (7.3 percent) for retirement related expenses and an increase in deferred personnel costs of \$130. This was partially offset by a \$414 increase (3.8 percent) in salaries for annual compensation increases and new hires.

Insurance fund premium expense increased \$95 (9.6 percent) and resulted from increased loan volume.

Occupancy and equipment and Other operating expenses increased \$372 (6.0 percent) from \$6,155 to \$6,527 which includes expense increases in building improvements, purchased services, data processing, Farm Credit Administration (FCA) fees, advertising and public and member relations expense, partially offset by a decrease in other operating expenses.

- The Association recorded a Provision for income taxes of \$148 and \$195, respectively, for the nine months ended September 30, 2019 and 2018.

funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2019, was \$1,683,181 as compared to \$1,557,913 at December 31, 2018. This increase of \$125,268 (8.0 percent) resulted from an increase in loan volume and patronage payments to stockholders, offset by cash generated from Association 2019 earnings and the receipt of prior year Patronage refunds from other Farm Credit institutions.

## FUNDING SOURCES

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

## CAPITAL RESOURCES

Total members' equity at September 30, 2019 was \$432,009, an increase of \$25,444 (6.3 percent) compared to the December 31, 2018 total of \$406,565. The increase is primarily attributed to year-to-date earnings.

Total capital stock and participation certificates were \$8,372 on September 30, 2019, compared to \$8,223 on December 31, 2018.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain certain minimum regulatory capital ratios.

As of September 30, 2019, the Association was well above the minimum regulatory ratios for all capital adequacy ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2019
Risk-adjusted ratios:				
CET1 Capital	4.5%	1.875%	6.375%	17.71%
Tier 1 Capital	6.0%	1.875%	7.875%	17.71%
Total Capital	8.0%	1.875%	9.875%	18.39%
Permanent Capital Ratio	7.0%	0.0%	7.0%	17.83%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	19.18%
UREE Leverage Ratio	1.5%	0.0%	1.5%	19.18%

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

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

## REGULATORY MATTERS

On April 3, 2019, the Farm Credit Administration issued a proposed rule that would clarify the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule would also revise the criteria by which loans are reinstated to accrual status, and would revise the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The public comment period ended on June 3, 2019.

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

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure the System’s capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under CECL are eligible for inclusion in a System institution’s regulatory capital. Credit loss allowances related to loans, lessor’s net investments in leases, and held-to-maturity debt securities would be included in a System

institution’s Tier 2 capital up to 1.25% of the System institution’s total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution’s Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution’s regulatory capital ratios. The public comment period ends on November 22, 2019.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Financial Statements, and the 2018 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the following table.

The following Accounting Standards Update (ASU) was issued by the Financial Accounting Standards Board (FASB) but has not yet been adopted:

Summary of Guidance	Adoption and Potential Financial Statement Impact
<b><i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i></b>	
<ul style="list-style-type: none"> <li>• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets.</li> <li>• Changes the present incurred loss impairment guidance for loans to an expected loss model.</li> <li>• The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>• Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation efforts have begun by establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance.</li> <li>• The new guidance is expected to result in an increase in allowance for credit losses due to several factors, including:               <ol style="list-style-type: none"> <li>1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,</li> <li>2. An allowance will be established for estimated credit losses on any debt securities,</li> <li>3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.</li> </ol> </li> <li>• The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date.</li> <li>• The guidance is expected to be adopted in first quarter 2021.</li> </ul>

**Note:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745 ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-800-349-3568, ext. 6008 or writing Terry Davis, AgChoice Farm Credit, ACA, 300 Winding Creek Blvd., Mechanicsburg, PA, 17050, or accessing the website [www.agchoice.com](http://www.agchoice.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# AgChoice Farm Credit, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2019 <i>(unaudited)</i>	December 31, 2018 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 47	\$ 83
Loans	2,087,605	1,946,184
Allowance for loan losses	(15,384)	(14,331)
Net loans	2,072,221	1,931,853
Accrued interest receivable	10,084	8,297
Equity investments in other Farm Credit institutions	21,693	24,141
Premises and equipment, net	15,413	15,766
Other property owned	57	76
Accounts receivable	9,772	25,311
Other assets	1,286	1,210
Total assets	<b>\$ 2,130,573</b>	<b>\$ 2,006,737</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,683,181	\$ 1,557,913
Accrued interest payable	4,648	4,343
Patronage refunds payable	199	25,893
Accounts payable	1,954	4,379
Other liabilities	8,582	7,644
Total liabilities	<b>1,698,564</b>	<b>1,600,172</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Capital stock and participation certificates	8,372	8,223
Retained earnings		
Allocated	161,489	161,489
Unallocated	262,204	236,910
Accumulated other comprehensive income (loss)	(56)	(57)
Total members' equity	<b>432,009</b>	<b>406,565</b>
Total liabilities and members' equity	<b>\$ 2,130,573</b>	<b>\$ 2,006,737</b>

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

# AgChoice Farm Credit, ACA

## Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Interest Income</b>				
Loans	\$ 28,157	\$ 25,291	\$ 82,964	\$ 72,741
Investments	—	34	—	102
Total interest income	<b>28,157</b>	<b>25,325</b>	<b>82,964</b>	<b>72,843</b>
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	<b>14,011</b>	11,968	<b>41,226</b>	33,866
Net interest income	<b>14,146</b>	13,357	<b>41,738</b>	38,977
Provision for loan losses	<b>458</b>	502	<b>1,102</b>	820
Net interest income after provision for loan losses	<b>13,688</b>	12,855	<b>40,636</b>	38,157
<b>Noninterest Income</b>				
Loan fees	<b>400</b>	248	<b>980</b>	812
Fees for financially related services	<b>510</b>	407	<b>1,754</b>	1,607
Patronage refunds from other Farm Credit institutions	<b>3,179</b>	3,119	<b>9,474</b>	9,248
Gains (losses) on sales of rural home loans, net	—	—	—	6
Gains (losses) on sales of premises and equipment, net	<b>36</b>	9	<b>526</b>	60
Gains (losses) on other transactions	<b>(30)</b>	12	<b>132</b>	(41)
Insurance Fund refunds	—	—	<b>414</b>	1,268
Other noninterest income	<b>11</b>	4	<b>37</b>	28
Total noninterest income	<b>4,106</b>	3,799	<b>13,317</b>	12,988
<b>Noninterest Expense</b>				
Salaries and employee benefits	<b>4,420</b>	4,427	<b>13,980</b>	14,036
Occupancy and equipment	<b>471</b>	379	<b>1,207</b>	1,006
Insurance Fund premiums	<b>371</b>	331	<b>1,080</b>	985
(Gains) losses on other property owned, net	<b>1</b>	(4)	<b>21</b>	21
Other operating expenses	<b>1,866</b>	1,811	<b>5,320</b>	5,149
Total noninterest expense	<b>7,129</b>	6,944	<b>21,608</b>	21,197
Income before income taxes	<b>10,665</b>	9,710	<b>32,345</b>	29,948
Provision for income taxes	<b>40</b>	42	<b>148</b>	195
Net income	<b>\$ 10,625</b>	<b>\$ 9,668</b>	<b>\$ 32,197</b>	<b>\$ 29,753</b>

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

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**AgChoice Farm Credit, ACA**  
**Consolidated Statements of**  
**Comprehensive Income**

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net income	<b>\$ 10,625</b>	\$ 9,668	<b>\$ 32,197</b>	\$ 29,753
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments	—	1	1	2
Comprehensive income	<b>\$ 10,625</b>	\$ 9,669	<b>\$ 32,198</b>	\$ 29,755

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

**AgChoice Farm Credit, ACA**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2017	\$ 11,020	\$ 161,489	\$ 215,361	\$ (70)	\$ 387,800
Comprehensive income			29,753	2	29,755
Capital stock/participation certificates issued/(retired), net	(2,840)				(2,840)
Dividends declared/paid	9		(9)		—
Patronage distribution Cash			(5,000)		(5,000)
Patronage distribution adjustment			(22)		(22)
Balance at September 30, 2018	\$ 8,189	\$ 161,489	\$ 240,083	\$ (68)	\$ 409,693
<b>Balance at December 31, 2018</b>	<b>\$ 8,223</b>	<b>\$ 161,489</b>	<b>\$ 236,910</b>	<b>\$ (57)</b>	<b>\$ 406,565</b>
<b>Cumulative effect of change in accounting principle</b>			2		2
<b>Comprehensive income</b>			32,197	1	32,198
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>149</b>				<b>149</b>
<b>Patronage distribution Cash</b>			<b>(6,900)</b>		<b>(6,900)</b>
<b>Patronage distribution adjustment</b>			<b>(5)</b>		<b>(5)</b>
<b>Balance at September 30, 2019</b>	<b>\$ 8,372</b>	<b>\$ 161,489</b>	<b>\$ 262,204</b>	<b>\$ (56)</b>	<b>\$ 432,009</b>

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

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## AgChoice Farm Credit, ACA

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)  
(unaudited)

### Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

#### Organization

The accompanying financial statements include the accounts of AgChoice Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2018, are contained in the 2018 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

#### Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

#### Significant Accounting Policies

The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans*

and Allowance for Loan Losses), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

#### Accounting Standards Updates (ASUs) Issued During the Period

The following ASUs were issued by the Financial Accounting Standards Board (FASB) since the most recent year end:

- In May 2019, the FASB issued ASU 2019-05 Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. The amendments in this Update provide entities with an option to irrevocably elect the fair value option applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in that Update. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.
- In April 2019, the FASB issued ASU 2019-04 Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825 Financial Instruments. The amendments in this Update clarify, correct, and improve various aspects of the guidance in the following Updates related to financial instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The items addressed generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition

requirements in ASU 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of the amendments in this Update for determining when accrued interest receivables are deemed uncollectible and written off. For entities that have adopted the amendments in ASU 2017-12 as of the issuance date of this Update, the effective date is as of the beginning of the first annual period beginning after the issuance date of this Update. For those entities, early adoption is permitted, including adoption on any date on or after the issuance of this Update. The amendments in this Update related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of this Update as long as the entity has adopted all of the amendments in ASU 2016-01. The amendments in this Update should be applied on a modified-retrospective transition basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted all of the amendments in ASU 2016-01. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

- In March 2019, the FASB issued ASU 2019-01 Leases (Topic 842): Codification Improvements. The Update addresses potential implementation issues that could arise as organizations implement Topic 842. The amendments in the Update include the following items brought to the Board's attention through interactions with stakeholders: 1. Determining the fair value of the underlying asset by lessors that are not manufacturers or dealers; 2. Presentation on the statement of cash flows—sales-type and direct financing leases; 3. Transition disclosures related to Topic 250, Accounting Changes and Error Corrections. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

#### ***ASUs Pending Effective Date***

For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

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

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

- In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB's disclosure framework project. The project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. The amendments remove, modify or add certain disclosures contained in the financial statement footnotes related to fair value. Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance. Entities are permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The removed disclosures were adopted effective with the 2018 Annual Report. Evaluation of any possible effects the additional and modified disclosures guidance may have on the statements of financial condition and results of operations is in progress.
- In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It

requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2018. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

#### ***Accounting Standards Effective During the Period***

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting. See the most recent Annual Report for a detailed description of each of the standards below:

- In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance was effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Adoption of this guidance had no impact on the statements of financial condition and results of operations.
- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update was effective for interim and annual periods beginning after December 15, 2018 for public business

entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

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

#### **Transition Information**

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
- The package of practical expedients was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- Upon adoption, a cumulative-effect adjustment to equity of approximately \$2 was recorded. In addition, a Right of Use Asset in the amount of \$38 and Lease Liability in the amount of \$36 were recognized.
- Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

#### **Note 2 — Loans and Allowance for Loan Losses**

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

identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit

risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

	September 30, 2019	December 31, 2018
Real estate mortgage	\$ 1,024,411	\$ 941,675
Production and intermediate-term	637,378	628,542
Loans to cooperatives	53,791	41,041
Processing and marketing	157,285	142,471
Farm-related business	41,726	41,486
Communication	109,325	88,462
Power and water/waste disposal	19,524	20,650
Rural residential real estate	21,027	19,923
International	18,455	16,977
Lease receivables	4,683	4,957
<b>Total loans</b>	<b>\$ 2,087,605</b>	<b>\$ 1,946,184</b>

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

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. During the first quarter of 2019, the Association canceled its participation in the Capitalized Participation Pool program with the Bank. As a result, the Association repurchased \$26,339 of participations previously sold to AgFirst. The following tables present the principal balance of participation loans at periods ended:

**September 30, 2019**

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 28,305	\$ 6,035	\$ 7,797	\$ -	\$ -	\$ -	\$ 36,102
Production and intermediate-term	27,321	4,336	52,130	8,356	-	-	79,451	12,692
Loans to cooperatives	687	-	53,201	-	-	-	53,888	-
Processing and marketing	42,591	500	37,090	-	-	-	79,681	500
Communication	7,732	-	101,800	-	-	-	109,532	-
Power and water/waste disposal	7,772	-	11,806	-	-	-	19,578	-
International	-	-	18,500	-	-	-	18,500	-
Lease receivables	-	-	4,684	-	-	-	4,684	-
<b>Total</b>	<b>\$ 114,408</b>	<b>\$ 10,871</b>	<b>\$ 287,008</b>	<b>\$ 8,356</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 401,416</b>	<b>\$ 19,227</b>

**December 31, 2018**

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 13,154	\$ 30,744	\$ 6,357	\$ -	\$ -	\$ -	\$ 19,511
Production and intermediate-term	38,665	19,377	35,587	8,948	-	-	74,252	28,325
Loans to cooperatives	-	-	41,139	-	-	-	41,139	-
Processing and marketing	41,624	599	44,410	-	-	-	86,034	599
Farm-related business	-	260	-	-	-	-	-	260
Communication	8,109	-	80,578	-	-	-	88,687	-
Power and water/waste disposal	8,100	-	12,609	-	-	-	20,709	-
Rural residential real estate	-	145	-	-	-	-	-	145
International	-	-	17,000	-	-	-	17,000	-
Lease receivables	-	-	4,956	-	-	-	4,956	-
<b>Total</b>	<b>\$ 109,652</b>	<b>\$ 51,125</b>	<b>\$ 242,636</b>	<b>\$ 8,948</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 352,288</b>	<b>\$ 60,073</b>

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

	September 30, 2019			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	\$ 26,273	\$ 166,129	\$ 832,009	\$ 1,024,411
Production and intermediate-term	132,115	343,384	161,879	637,378
Loans to cooperatives	2,162	36,571	15,058	53,791
Processing and marketing	14,062	79,832	63,391	157,285
Farm-related business	5,886	22,096	13,744	41,726
Communication	11,288	54,626	43,411	109,325
Power and water/waste disposal	-	11,829	7,695	19,524
Rural residential real estate	680	2,159	18,188	21,027
International	-	1,488	16,967	18,455
Lease receivables	14	393	4,276	4,683
Total loans	<u>\$ 192,480</u>	<u>\$ 718,507</u>	<u>\$ 1,176,618</u>	<u>\$ 2,087,605</u>
Percentage	9.22%	34.42%	56.36%	100.00%

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

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	September 30, 2019	December 31, 2018		September 30, 2019	December 31, 2018
<b>Real estate mortgage:</b>			<b>Power and water/waste disposal:</b>		
Acceptable	93.86%	94.98%	Acceptable	53.65%	100.00%
OAEM	2.97	1.89	OAEM	30.35	-
Substandard/doubtful/loss	3.17	3.13	Substandard/doubtful/loss	16.00	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Rural residential real estate:</b>		
Acceptable	93.53%	93.52%	Acceptable	93.10%	93.70%
OAEM	2.94	3.06	OAEM	3.57	2.48
Substandard/doubtful/loss	3.53	3.42	Substandard/doubtful/loss	3.33	3.82
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Loans to cooperatives:</b>			<b>International:</b>		
Acceptable	98.74%	100.00%	Acceptable	100.00%	100.00%
OAEM	1.26	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>Lease receivables:</b>		
Acceptable	94.46%	99.16%	Acceptable	98.90%	100.00%
OAEM	5.54	0.84	OAEM	1.10	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Farm-related business:</b>			<b>Total loans:</b>		
Acceptable	98.17%	97.18%	Acceptable	94.02%	95.19%
OAEM	1.36	1.15	OAEM	3.15	2.12
Substandard/doubtful/loss	0.47	1.67	Substandard/doubtful/loss	2.83	2.69
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Communication:</b>					
Acceptable	100.00%	97.65%			
OAEM	-	2.35			
Substandard/doubtful/loss	-	-			
	<u>100.00%</u>	<u>100.00%</u>			

The following tables provide an aging analysis of the recorded investment of past due loans as of:

September 30, 2019					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest
Real estate mortgage	\$ 1,178	\$ 1,986	\$ 3,164	\$ 1,026,483	\$ 1,029,647
Production and intermediate-term	3,183	1,453	4,636	636,200	640,836
Loans to cooperatives	-	-	-	53,929	53,929
Processing and marketing	-	-	-	158,007	158,007
Farm-related business	209	-	209	41,792	42,001
Communication	-	-	-	109,346	109,346
Power and water/waste disposal	-	-	-	19,587	19,587
Rural residential real estate	124	102	226	20,888	21,114
International	-	-	-	18,521	18,521
Lease receivables	-	-	-	4,701	4,701
Total	\$ 4,694	\$ 3,541	\$ 8,235	\$ 2,089,454	\$ 2,097,689

December 31, 2018					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest
Real estate mortgage	\$ 1,442	\$ 889	\$ 2,331	\$ 943,295	\$ 945,626
Production and intermediate-term	1,632	1,890	3,522	628,106	631,628
Loans to cooperatives	-	-	-	41,134	41,134
Processing and marketing	-	-	-	143,088	143,088
Farm-related business	-	-	-	41,762	41,762
Communication	-	-	-	88,494	88,494
Power and water/waste disposal	-	-	-	20,674	20,674
Rural residential real estate	170	132	302	19,688	19,990
International	-	-	-	17,109	17,109
Lease receivables	-	-	-	4,976	4,976
Total	\$ 3,244	\$ 2,911	\$ 6,155	\$ 1,948,326	\$ 1,954,481

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

	September 30, 2019	December 31, 2018
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 8,481	\$ 7,844
Production and intermediate-term	4,155	3,962
Farm-related business	15	20
Rural residential real estate	126	163
Total	\$ 12,777	\$ 11,989
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 44	\$ 60
Production and intermediate-term	-	19
Total	\$ 44	\$ 79
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ 64	\$ -
Production and intermediate-term	4	-
Total	\$ 68	\$ -
Total nonperforming loans	\$ 12,889	\$ 12,068
Other property owned	57	76
Total nonperforming assets	\$ 12,946	\$ 12,144
Nonaccrual loans as a percentage of total loans	0.61%	0.62%
Nonperforming assets as a percentage of total loans and other property owned	0.62%	0.62%
Nonperforming assets as a percentage of capital	3.00%	2.99%

The following table presents information related to the recorded investment of impaired loans at period end. 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.

	September 30, 2019	December 31, 2018
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 8,334	\$ 8,836
Past due	4,443	3,153
Total	<u>\$ 12,777</u>	<u>\$ 11,989</u>
<b>Impaired accrual loans:</b>		
Restructured	\$ 44	\$ 79
90 days or more past due	68	-
Total	<u>\$ 112</u>	<u>\$ 79</u>
Total impaired loans	<u>\$ 12,889</u>	<u>\$ 12,068</u>
Additional commitments to lend	\$ 400	\$ 401

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

	September 30, 2019			Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans:</b>							
<b>With a related allowance for credit losses:</b>							
Production and intermediate-term	\$ 178	\$ 177	\$ 149	\$ 153	\$ 3	\$ 159	\$ 8
Total	<u>\$ 178</u>	<u>\$ 177</u>	<u>\$ 149</u>	<u>\$ 153</u>	<u>\$ 3</u>	<u>\$ 159</u>	<u>\$ 8</u>
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 8,589	\$ 10,343	\$ -	\$ 7,370	\$ 167	\$ 7,674	\$ 392
Production and intermediate-term	3,981	5,846	-	3,415	78	3,557	182
Farm-related business	15	18	-	13	-	13	1
Rural residential real estate	126	165	-	108	2	113	6
Total	<u>\$ 12,711</u>	<u>\$ 16,372</u>	<u>\$ -</u>	<u>\$ 10,906</u>	<u>\$ 247</u>	<u>\$ 11,357</u>	<u>\$ 581</u>
<b>Total impaired loans:</b>							
Real estate mortgage	\$ 8,589	\$ 10,343	\$ -	\$ 7,370	\$ 167	\$ 7,674	\$ 392
Production and intermediate-term	4,159	6,023	149	3,568	81	3,716	190
Farm-related business	15	18	-	13	-	13	1
Rural residential real estate	126	165	-	108	2	113	6
Total	<u>\$ 12,889</u>	<u>\$ 16,549</u>	<u>\$ 149</u>	<u>\$ 11,059</u>	<u>\$ 250</u>	<u>\$ 11,516</u>	<u>\$ 589</u>

	December 31, 2018			Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans:</b>					
<b>With a related allowance for credit losses:</b>					
Production and intermediate-term	\$ 84	\$ 148	\$ 45	\$ 114	\$ 9
Total	<u>\$ 84</u>	<u>\$ 148</u>	<u>\$ 45</u>	<u>\$ 114</u>	<u>\$ 9</u>
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 7,904	\$ 9,821	\$ -	\$ 10,715	\$ 815
Production and intermediate-term	3,897	5,573	-	5,283	402
Farm-related business	20	353	-	26	2
Rural residential real estate	163	277	-	222	17
Total	<u>\$ 11,984</u>	<u>\$ 16,024</u>	<u>\$ -</u>	<u>\$ 16,246</u>	<u>\$ 1,236</u>
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 7,904	\$ 9,821	\$ -	\$ 10,715	\$ 815
Production and intermediate-term	3,981	5,721	45	5,397	411
Farm-related business	20	353	-	26	2
Rural residential real estate	163	277	-	222	17
Total	<u>\$ 12,068</u>	<u>\$ 16,172</u>	<u>\$ 45</u>	<u>\$ 16,360</u>	<u>\$ 1,245</u>

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Lease Receivables	Total
<b>Activity related to the allowance for credit losses:</b>									
Balance at June 30, 2019	\$ 3,362	\$ 5,791	\$ 3,496	\$ 1,018	\$ 727	\$ 87	\$ 184	\$ 262	\$ 14,927
Charge-offs	—	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	(1)	—	—	(1)
Provision for loan losses	334	41	(72)	68	97	(4)	1	(7)	458
Balance at September 30, 2019	\$ 3,696	\$ 5,832	\$ 3,424	\$ 1,086	\$ 824	\$ 82	\$ 185	\$ 255	\$ 15,384
Balance at December 31, 2018	\$ 3,193	\$ 5,325	\$ 3,680	\$ 1,257	\$ 232	\$ 92	\$ 276	\$ 276	\$ 14,331
Charge-offs	—	(80)	—	—	—	—	—	—	(80)
Recoveries	—	23	—	—	—	8	—	—	31
Provision for loan losses	503	564	(256)	(171)	592	(18)	(91)	(21)	1,102
Balance at September 30, 2019	\$ 3,696	\$ 5,832	\$ 3,424	\$ 1,086	\$ 824	\$ 82	\$ 185	\$ 255	\$ 15,384
Balance at June 30, 2018	\$ 2,938	\$ 6,902	\$ 2,244	\$ 793	\$ 142	\$ 81	\$ 20	\$ 372	\$ 13,492
Charge-offs	—	(23)	—	—	12	—	—	(17)	(28)
Recoveries	—	4	—	—	—	—	—	—	4
Provision for loan losses	(198)	(1,095)	1,237	179	56	—	210	113	502
Balance at September 30, 2018	\$ 2,740	\$ 5,788	\$ 3,481	\$ 972	\$ 210	\$ 81	\$ 230	\$ 468	\$ 13,970
Balance at December 31, 2017	\$ 3,298	\$ 5,756	\$ 1,888	\$ 803	\$ 1,618	\$ 95	\$ 27	\$ 7	\$ 13,492
Charge-offs	—	(23)	—	—	(303)	(16)	—	(17)	(359)
Recoveries	1	16	—	—	—	—	—	—	17
Provision for loan losses	(559)	39	1,593	169	(1,105)	2	203	478	820
Balance at September 30, 2018	\$ 2,740	\$ 5,788	\$ 3,481	\$ 972	\$ 210	\$ 81	\$ 230	\$ 468	\$ 13,970
<b>Allowance on loans evaluated for impairment:</b>									
Individually	\$ —	\$ 149	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 149
Collectively	3,696	5,683	3,424	1,086	824	82	185	255	15,235
Balance at September 30, 2019	\$ 3,696	\$ 5,832	\$ 3,424	\$ 1,086	\$ 824	\$ 82	\$ 185	\$ 255	\$ 15,384
Individually	\$ —	\$ 45	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 45
Collectively	3,193	5,280	3,680	1,257	232	92	276	276	14,286
Balance at December 31, 2018	\$ 3,193	\$ 5,325	\$ 3,680	\$ 1,257	\$ 232	\$ 92	\$ 276	\$ 276	\$ 14,331
<b>Recorded investment in loans evaluated for impairment:</b>									
Individually	\$ 5,139	\$ 1,131	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,270
Collectively	1,024,508	639,705	253,937	109,346	19,587	21,114	18,521	4,701	2,091,419
Balance at September 30, 2019	\$ 1,029,647	\$ 640,836	\$ 253,937	\$ 109,346	\$ 19,587	\$ 21,114	\$ 18,521	\$ 4,701	\$ 2,097,689
Individually	\$ 5,707	\$ 1,266	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,973
Collectively	939,919	630,362	225,984	88,494	20,674	19,990	17,109	4,976	1,947,508
Balance at December 31, 2018	\$ 945,626	\$ 631,628	\$ 225,984	\$ 88,494	\$ 20,674	\$ 19,990	\$ 17,109	\$ 4,976	\$ 1,954,481

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following table presents additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs that occurred during the three or nine months ended September 30, 2019 or the three months ended September 30, 2018.

Outstanding Recorded Investment	Nine Months Ended September 30, 2018				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ 145	\$ —	\$ —	\$ 145	
Production and intermediate-term	42	—	—	42	
Total	\$ 187	\$ —	\$ —	\$ 187	
<b>Post-modification:</b>					
Real estate mortgage	\$ 145	\$ —	\$ —	\$ 145	\$ —
Production and intermediate-term	42	—	—	42	—
Total	\$ 187	\$ —	\$ —	\$ 187	\$ —

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

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

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
Real estate mortgage	\$ 1,087	\$ 1,161	\$ 1,043	\$ 1,101
Production and intermediate-term	1,111	1,451	1,111	1,432
Total loans	\$ 2,198	\$ 2,612	\$ 2,154	\$ 2,533
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

	September 30, 2019
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 57
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ —

### Note 3 — Investments

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

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

Associations are required to maintain ownership in AgFirst (AgFirst or the Bank) in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 7.62 percent of the issued stock of the Bank as of September 30, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled \$34.6 billion and

shareholders' equity totaled \$2.5 billion. The Bank's earnings were \$192 million for the first nine months of 2019. In addition, the Association held investments of \$1,004 related to other Farm Credit institutions.

### Note 4 — Debt

#### *Notes Payable to AgFirst Farm Credit Bank*

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

### Note 5 — Members' Equity

#### *Accumulated Other Comprehensive Income (AOCI)*

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (56)	\$ (69)	\$ (57)	\$ (70)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	—	1	1	2
Net current period other comprehensive income	—	1	1	2
Balance at end of period	\$ (56)	\$ (68)	\$ (56)	\$ (68)

**Reclassifications Out of Accumulated Other Comprehensive Income (b)**

	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2019	2018	2019	2018	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	\$ -	\$ (1)	\$ (1)	\$ (2)	See Note 7.
Net amounts reclassified	\$ -	\$ (1)	\$ (1)	\$ (2)	

(a) Amounts in parentheses indicate debits to AOCI.

(b) Amounts in parentheses indicate debits to profit/loss.

**Note 6 — Fair Value Measurement**

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

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

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

	September 30, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>					
<b>Assets:</b>					
Assets held in trust funds	\$ 498	\$ 498	\$ -	\$ -	\$ 498
Recurring Assets	\$ 498	\$ 498	\$ -	\$ -	\$ 498
<b>Liabilities:</b>					
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ 29	\$ -	\$ -	\$ 29	\$ 29
Other property owned	57	-	-	60	60
Nonrecurring Assets	\$ 86	\$ -	\$ -	\$ 89	\$ 89
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
Cash	\$ 47	\$ 47	\$ -	\$ -	\$ 47
Loans	2,072,192	-	-	2,074,493	2,074,493
Other Financial Assets	\$ 2,072,239	\$ 47	\$ -	\$ 2,074,493	\$ 2,074,540
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 1,683,181	\$ -	\$ -	\$ 1,688,132	\$ 1,688,132
Other Financial Liabilities	\$ 1,683,181	\$ -	\$ -	\$ 1,688,132	\$ 1,688,132

December 31, 2018

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>					
<b>Assets:</b>					
Assets held in trust funds	\$ 601	\$ 601	\$ -	\$ -	\$ 601
Recurring Assets	\$ 601	\$ 601	\$ -	\$ -	\$ 601
<b>Liabilities:</b>					
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ 39	\$ -	\$ -	\$ 39	\$ 39
Other property owned	76	-	-	86	86
Nonrecurring Assets	\$ 115	\$ -	\$ -	\$ 125	\$ 125
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
Cash	\$ 83	\$ 83	\$ -	\$ -	\$ 83
Loans	1,931,814	-	-	1,904,355	1,904,355
Other Financial Assets	\$ 1,931,897	\$ 83	\$ -	\$ 1,904,355	\$ 1,904,438
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 1,557,913	\$ -	\$ -	\$ 1,541,821	\$ 1,541,821
Other Financial Liabilities	\$ 1,557,913	\$ -	\$ -	\$ 1,541,821	\$ 1,541,821

### SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

#### Inputs to Valuation Techniques

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

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

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

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 89	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

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

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

**Note 7 — Employee Benefit Plans**

The following table summarizes retirement and other postretirement benefit expenses for the Association:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Pension	\$ 455	\$ 615	\$ 1,273	\$ 1,846
401(k)	250	234	763	715
Other postretirement benefits	105	87	318	301
Total	\$ 810	\$ 936	\$ 2,354	\$ 2,862

The following table summarizes retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 9/30/19	Projected Contributions For Remainder of 2019	Projected Total Contributions 2019
	Pension	\$ 15	\$ 1,690
Other postretirement benefits	318	101	419
Total	\$ 333	\$ 1,791	\$ 2,124

Contributions in the table above include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2019.

Further details regarding employee benefit plans are contained in the 2018 Annual Report to Shareholders.

**Note 8 — Commitments and Contingent Liabilities**

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association.

Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

**Note 9 — Subsequent Events**

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2019, which was the date the financial statements were issued.

On October 21, 2019, AgFirst's Board of Directors indicated an intention to declare, in December 2019, a special patronage distribution. The Association will receive between approximately \$6,911 and \$7,832 which will be recorded as patronage refunds from other Farm Credit institutions.