2019 ANNUAL REPORT

PUERTO RICO FARM CREDIT

PUERTO RICO FARM CREDIT, ACA

2019 ANNUAL REPORT

Contents

Management

Ricardo L. Fernández ....President and Chief Executive Officer
Jorge A. Dulzaides ....Chief Credit Officer

Board of Directors

Antonio E. Marichal .... Chairman, External Director and Financial Expert
Michael J. Serrallés ....Vice Chairman
Rafael J. Borges....................Second Vice Chairman
Víctor M. Ayala .... Director
Felipe Ozonas.................... Director
Pablo A Rodríguez.................... Director
Carlos A. Rodríguez.................... Director

Message From the Chief Executive Officer

Dear Members:

The year 2019 was welcomed as a year when we would complete our recovery from the disasters of 2017 but half way through the year we faced an unprecedented event, when the governor of the island resigned in August, slowing investment on the island for the rest of the year. Agriculture was not exempt from this event and we experienced reduced demand for credit the rest of the year. This impacted our loan volume but not our desire to continue promoting agriculture. We have started 2020 on the right track towards growing agricultural production on the island.

In 2019 we focused on helping interested entrepreneurs and beginning farmers start their own farming operations. We provided education on preparing a business plan, establishing a farming operation and financial education through partnerships with several entities. We expect to grow these alliances for the benefit of aspiring farmers in 2020. We also launched Farm Credit Express in June with 5 dealers joining the program. This innovative program allows farmers to apply for equipment financing through the dealership of their preference. We hope to add more dealers and launch new products in 2020, so please stay tuned.

Last year the Association reached $2.2 million in net income for the year. Net Interest Income decreased $184 thousand versus 2018 as rates declined and loan volume decreased. PRFC received non-recurring income totaling almost $568 thousand that mitigated the loss in value of acquired farms by $543 thousand. Total expenses increased $67 thousand year over year or only 1.6%. Our total loans net of allowance decreased $2.0 million in 2019 versus 2018 as some continued to pay-off loans and demand for new loans was stagnant. We expect the loan portfolio to remain stable in 2020 even with such low demand for loans. Regardless, we are proud to announce that we are paying back 90% of the net income or $2.0 million to you, in the form of a cash dividend. We are working hard to achieve strong financial results in 2020. Our challenge in 2020 continues to be growing the loan portfolio amidst difficult economic and political environments globally and on the island.

The earthquakes that hit the southwestern part of the island since late December have caused little damage to our farmers and homeowners in the region. While we are grateful to hear such good news, we solidarize with everyone in the region. We are committed to working closely with members and others to help get them through the impact of these natural events.

Our Board of Directors and Management believes we can play a significant role in shaping the future of agriculture on the island. We will continue to support policies that promote the growth of agriculture, incentivize farmers that are innovating and evolving their business models and, facilitate the generational transition of farmers. We will persevere in our push to support the growth of agriculture.

Respectfully,

Ricardo L. Fernández
Chief Executive Officer

March 12, 2020

Report of Management

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

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

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

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2019 Annual Report of Puerto Rico 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.

Antonio E. Marichal
Chairman of Board of Directors and
Chairman of the Audit Committee

Ricardo L. Fernandez
Chief Executive Officer

March 12, 2020

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. 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 December 31, 2019. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

Ricardo L. Fernández
Chief Executive Officer

March 12, 2020

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2019	2018	December 31, 2017	2016	2015
Balance Sheet Data					
Cash	**$ 158**	$ 662	$ 944	$ 80	$ 754
Loans	**151,028**	149,089	166,228	164,224	164,833
Allowance for loan losses	**(1,645)**	(1,686)	(1,563)	(1,362)	(1,639)
Net loans	**149,383**	147,403	164,665	162,862	163,194
Equity investments in other Farm Credit institutions	**1,481**	1,623	1,678	1,752	1,750
Other property owned	**3,491**	3,894	2,063	1,967	1,326
Other assets	**3,180**	3,556	3,824	3,505	3,470
Total assets	**$ 157,693**	$ 157,138	$ 173,174	$ 170,166	$ 170,494
Notes payable to AgFirst Farm Credit Bank*	**$ 99,911**	$ 97,533	$ 115,233	$ 113,238	$ 116,270
Accrued interest payable and other liabilities with maturities of less than one year	**3,020**	5,040	3,653	2,657	1,900
Total liabilities	**102,931**	102,573	118,886	115,895	118,170
Capital stock and participation certificates	**430**	453	485	499	512
Unallocated retained earnings	**54,332**	54,112	53,803	53,772	51,812
Total members' equity	**54,762**	54,565	54,288	54,271	52,324
Total liabilities and members' equity	**$ 157,693**	$ 157,138	$ 173,174	$ 170,166	$ 170,494
Statement of Income Data					
Net interest income	**$ 5,048**	$ 5,232	$ 3,806	$ 4,804	$ 4,724
Provision for (reversal of allowance for) loan losses	**43**	(270)	233	(357)	(67)
Noninterest income (expense), net	**(2,785)**	(2,193)	(1,842)	(1,601)	(3,556)
Net income	**$ 2,220**	$ 3,309	$ 1,731	$ 3,560	$ 1,235
Key Financial Ratios					
Rate of return on average:					
Total assets	**1.43%**	2.07%	1.05%	2.09%	0.73%
Total members' equity	**3.99%**	5.96%	3.13%	6.62%	2.35%
Net interest income as a percentage of average earning assets	**3.40%**	3.38%	2.38%	2.90%	2.88%
Net (chargeoffs) recoveries to average loans	**(0.056)%**	0.253%	(0.020)%	0.048%	(0.170)%
Total members' equity to total assets	**34.73%**	34.72%	31.35%	31.89%	30.69%
Debt to members' equity (:1)	**1.88**	1.88	2.19	2.14	2.26
Allowance for loan losses to loans	**1.09%**	1.13%	0.94%	0.83%	0.99%
Permanent capital ratio	**37.51%**	40.13%	36.67%	36.46%	35.11%
Total surplus ratio	**	**	**	36.11%	34.76%
Core surplus ratio	**	**	**	36.11%	34.76%
Common equity tier 1 capital ratio	**37.11%**	39.65%	36.36%	**	**
Tier 1 capital ratio	**37.11%**	39.65%	36.36%	**	**
Total regulatory capital ratio	**38.25%**	40.90%	37.23%	**	**
Tier 1 leverage ratio	**34.83%**	35.58%	31.96%	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**35.50%**	36.28%	32.64%	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 2,000**	$ 3,000	$ 1,700	$ 1,600	$ 800

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

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

(dollars in thousands)

GENERAL OVERVIEW

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

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916, and has served agricultural producers for over 100 years. The System's mission is to maintain and improve the income and well-being of farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members served (also referred to throughout this Annual Report as stockholders or shareholders). The territory served by the Association covers the entire island of Puerto Rico (PR). Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses.

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

Copies of the Association's Annual and Quarterly reports are on the Association's website, ***www.prfarmcredit.com***, or may be obtained upon request free of charge by calling 1-800-981-3323, or writing Alice Rivera, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

- political, legal, regulatory and economic conditions and developments in the United States, Puerto Rico and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in the United States and Puerto Rico governments support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES

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

- *Allowance for loan losses — The allowance for loan losses is* management's best estimate of the amount of probable losses existing in and inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio, which generally considers relevant historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors. Management considers the allowance for loan losses to have been determined in accordance with generally accepted accounting principles appropriate to the periodic process utilized.

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

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

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

PUERTO RICO ECONOMIC CONDITIONS

During the last 14 years, Puerto Rico has experienced a severe economic crisis. Fiscal year 2019, which ended on June 30, 2019, was the first year the economy slightly improved and the central government increased its general fund net revenues by 41.2% against the previous year. This improvement was expected due to reconstruction funds being received after the hurricanes of 2017. However, not all the approved funds have been disbursed, causing the recovery to be slower than expected. The approval of the remaining funds is uncertain with new restrictions from the federal government and the Fiscal Planning Board. This may cause a shortfall on the Government's budget, an increase in uncertainty, instability and migration. The favorable outlook the Fiscal Planning Board and Government had for the next couple of years is expected to be adjusted downward.

The Fiscal Planning Board has not been as effective as expected. They have been diligent in overseeing conditions on the island but not in imposing strict economic and austerity measures until this year, any measures may impact negatively the economy. Overall, it is difficult to predict how economic conditions on the island can improve with so much uncertainty in the air.

Puerto Rico's total public debt currently stands at around $67 billion, same as last year, and remains one of the biggest challenges facing the central government. There are other critical problems such as, the reconstruction of the island after hurricane Maria, funding of the pension plan for government retirees and school teachers. The government has to improve its operational efficiency to lower operating costs. It does not seem that there is a clear plan to achieve these efficiencies except that the approved fiscal budget is lower than in the previous year. Lowering government expenditure is a contributing factor to lower economic output.

Puerto Rico's economy will continue to struggle in the near future. The Association expects to continue to improve performance as interest in local agriculture grows. The Board of Directors and Management will continue to work with the government and other entities in moving forward the island's agricultural sector and the ACA.

The earthquakes early in the year have not caused significant disruptions to our farmers and only one borrower has lost their home as a result of damages to their house. Management is assisting the member and does not expect to incur any losses. Management does not expect any deterioration in credit quality as a result of the earthquakes and continued seismic activity. The Association has sufficient capital to withstand considerable deterioration in credit quality as a result of continuing adverse economic conditions or other natural disasters of large magnitude.

Through all this, the agricultural sector's outlook is stable and should remain as such over the next three years as local food production is only 10% of food consumed in Puerto Rico. This should allow farmers to continue managing their operations profitably and maintain the credit quality of the Association's portfolio.

The local dairy industry production increased 1.0% in 2019 compared to 2018, however, farmers received on average $.02 less per quart in 2019 vs. 2018. Our member dairy farmers faired in line with averages in 2019 versus the rest of the industry. The Association continues to monitor events within the industry and their potential impact on the performance of the dairy portfolio. The Association lends almost 29.4% of total loans to this industry and has implemented risk management practices to mitigate concentration risk.

Other agricultural sectors do not represent significant risk for the association. Management monitors all sectors and does not anticipate any adverse impact to the portfolio in 2020.

The Association will continue to find creative ways to fulfill its public mission. Leadership of the ACA believes that agriculture is still viable on the island and has many opportunities ahead. However, the Board of Directors and Management remain cautious of the Association's ability to grow the portfolio under the prevailing economic and political environment.

LOAN PORTFOLIO

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

The loan volume of the Association as of December 31, 2019 was $151,028, an increase of $1,939 or 1.30 percent as compared to $149,089 at December 31, 2018; and a decrease of $15,200 or 9.14 percent compared to $166,228 at December 31, 2017. Net loans outstanding (loans net of the allowance for loan losses) at December 31, 2019 were $149,383 as compared to $147,403 at December 31, 2018 and $164,665 at December 31, 2017. Net loans accounted for 94.73 percent of total assets on December 31, 2019 as compared to 93.80 percent of total assets on December 31, 2018 and 95.09 percent of total assets on December 31, 2017.

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

Loan Type	12/31/19	12/31/18	12/31/17
Real estate mortgage	41.47%	42.55%	46.23%
Production and intermediate term	27.14	25.05	21.93
Agribusiness:			
Loans to cooperatives	0.69	0.61	–
Processing and marketing	16.55	14.70	12.39
Farm related business	0.15	0.17	1.15
Communication	5.81	7.63	9.19
Power and water/waste disposal	0.80	0.97	0.89
Rural residential real estate	6.14	7.17	7.19
International	1.25	1.15	1.03
Total	100.00%	100.00%	100.00%

While the Association makes loans and provides financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association's loan portfolio (gross principal balance, net of sold loans) are shown below. The predominant commodities on the island were dairy, tree fruits and rural housing which constituted 46.06 percent of the entire portfolio at December 31, 2019.

	Percent of Portfolio		
Commodity Group	**2019**	**2018**	**2017**
Participations (net)	32.9%	28.2%	29.0%
Dairy	24.2	28.6	30.8
Tree Fruits	15.6	17.1	13.8
Rural Housing	6.3	7.4	7.2
Processing / Fluid Milk	5.2	2.0	–
Field Crops	5.1	6.0	7.3
Cattle / Livestock	4.3	5.0	4.5
Ornamentals	3.0	3.0	2.9
Misc. Real Estate	1.4	1.5	1.7
Poultry	1.0	0.8	2.4
Horses	0.8	0.3	0.3
Other / Ag Services	0.2	0.1	0.1
Total	100.0%	100.0%	100.0%

Repayment ability is closely related to the commodities produced by the Association's borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of island dairy producers. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's chartered territory. Even though the concentration of participation loans has steadily increased during the past several years, the agricultural enterprise mix of these loans is diversified, as well as the geographic risk. Management and the Board of Directors continue to believe a major factor protecting the balance sheet and income statement is diversification, spreading both geographic and industry concentration risks.

The increase in gross loan volume for the twelve months ended December 31, 2019 was mainly due to an increase in the participation portfolio and a decline in participations sold offset by a decline in the originated portfolio.

Additionally, the Association has sold participations of its chartered territory loan portfolio to the Bank for several years. This action has resulted in reductions of the gross principal chartered territory's loan volume of $9,533, $10,608, and $18,405 at December 31, 2019, 2018, and 2017, respectively. The Association did not have any loans sold with recourse. At December 31, 2019, the Association had no one single borrower that comprised more than 2.95 percent of the loan volume.

During the past several years, the Association has been engaged in the buying and selling of loan participations, both from within and outside of the System. This provides a means for the Association to spread geographic and credit concentration risks and realize non-patronage sourced interest and fee income, which strengthens the Association's capital position.

The following table presents the balances concerning the Association's participations purchased and sold portfolios at December 31:

Loan Participations	2019	2018	2017
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 47,249	$ 38,874	$ 42,968
Participations Purchased – Non-FCS Institutions	2,670	3,458	6,028
Total Participations Purchased	$ 49,919	$ 42,332	$ 48,996
Participations Sold	$ 9,533	$ 10,608	$ 18,405

The unamortized premium on Participations purchased was $146, $206, and $481 as of December 31, 2019, 2018 and 2017, respectively. As part of the non-FCS participation portfolio, the Association has purchased participation interests in loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing geographic risk and managing surplus funds as allowable under FCA regulations. At December 31, 2019, the balance of these loans was $2,670 compared to $3,458 at December 31, 2018 and $6,028 at December 31, 2017.

MISSION RELATED INVESTMENTS

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

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

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Under FCA regulations, appraisals are required for real estate mortgage loans of more than $250,000. The Association requires an appraisal for all real estate mortgage loans, no matter the size. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship. Management reviews the credit quality of the loan portfolio on an ongoing basis as part of the Association's risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

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

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

Credit Quality	2019	2018	2017
Acceptable & OAEM	96.24%	95.98%	94.72%
Substandard	3.76	4.02	5.28
Doubtful	–	–	–
Loss	–	–	–
Total	100.00%	100.00%	100.00%

Since 2017 credit quality improved as the ACA was able to book new loans of acceptable credit quality while working out several troubled loans.

NONPERFORMING ASSETS

The Association's loan portfolio is divided into performing and nonperforming categories. A Special Assets Management Department is responsible for servicing loans classified as nonperforming assets. The nonperforming assets, including accrued interest as of December 31 are detailed in the following table:

	12/31/19	12/31/18	12/31/17
	(dollars in thousands)		
Nonperforming Assets			
Nonaccrual loans	$ 6,445	$ 1,929	$ 5,462
Accruing restructured loans	4,118	9,006	8,079
Accruing loans 90 days past due	–	–	–
Total nonperforming loans	$ 10,563	$ 10,935	$ 13,541
Other property owned	3,491	3,894	2,063
Total nonperforming assets	$ 14,054	$ 14,829	$ 15,604
Ratios			
Nonaccrual loans to total loans	4.27%	1.29%	3.29%
Nonperforming assets to total assets	8.91%	9.44%	9.01%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. Nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $4,516 or 234.11 percent in 2019 primarily due to a large loan relationship transferred into nonaccrual in the tree fruits commodity group. Of the $6,445 in nonaccrual loan volume at December 31, 2019, $262 or 4.07 percent, as compared to $452 or 23.43 percent at December 31, 2018, was considered current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Troubled Debt Restructuring (TDR) of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower. As of December 31, 2019, all TDR loans are current and are paying as agreed.

Other property owned decreased by 10.35 percent resulting from various property write downs due to updated appraisals performed. Also, 2 properties were sold and 3 nonaccrual loans were transferred to other property owned during 2019.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses was $1,645 at December 31, 2019, as compared with $1,686 and $1,563 at December 31, 2018 and 2017, respectively.

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

Allowance for Loan Losses Activity:	2019	2018	2017
	(dollars in thousands)		
Balance at beginning of year	$ 1,686	$ 1,563	$ 1,362
Charge-offs:			
Real estate mortgage	(108)	(1)	(25)
Production and intermediate term	–	–	(11)
Rural residential real estate	–	(8)	(18)
Total charge-offs	$ (108)	$ (9)	$ (54)
Recoveries:			
Real estate mortgage	15	402	7
Production and intermediate term	–	–	13
Rural residential real estate	9	–	–
Power and water/waste disposal	–	–	2
Total recoveries	$ 24	$ 402	$ 22
Net (charge-offs) recoveries	$ (84)	$ 393	$ (32)
Provision for (reversal of allowance for) loan losses	$ 43	$ (270)	$ 233
Balance at end of year	$ 1,645	$ 1,686	$ 1,563
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.056)%	0.253%	(0.020)%

In 2019, charge-offs were primarily associated with the tree fruits commodity group which resulted in the Association recording a provision for loan losses expense in 2019.

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

	December 31,		
Allowance for Loan Losses by Type	2019	2018	2017
	(dollars in thousands)		
Real estate mortgage	$ 682	$ 269	$ 271
Production and intermediate term	446	1,095	991
Agribusiness	287	76	92
Communication	95	44	49
Power and water/waste disposal	13	4	6
Rural residential real estate	101	197	152
International	21	1	2
Total allowance	$ 1,645	$ 1,686	$ 1,563

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

	December 31,		
Allowance for Loan Losses as a Percentage of:	2019	2018	2017
Total loans	1.09%	1.13%	0.94%
Nonperforming loans	15.57%	15.42%	11.54%
Nonaccrual loans	25.52%	87.40%	28.62%

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

RESULTS OF OPERATIONS

For the year ended December 31, 2019, the Association recorded net income which totaled $2,220, a decrease of $1,089 as compared to $3,309 for the same period of 2018 and an increase of $489 as compared to $1,731 for the same period of 2017. The decrease in net income for the year ended 2019 as compared to 2018 is attributed to a decrease in noninterest income and an increase in the provision for loan losses expense. Major components of the change in net income for the past two years are outlined in the following table:

Change in Net Income:	**2019-2018**	**2018-2017**
	(dollars in thousands)	
Net income (loss) (prior year)	$ 3,309	$ 1,731
Increase (decrease) in net income (loss) due to:		
Interest income	1	1,919
Interest expense	(185)	(493)
Net interest income	$ (184)	$ 1,426
Provision for loan losses	(313)	503
Noninterest income	(526)	105
Noninterest expense	(67)	(456)
Provision for income taxes	1	–
Total change in net income	$ (1,089)	$ 1,578
Net income	$ 2,220	$ 3,309

Net Interest Income

Net interest income was $5,048, $5,232 and $3,806 in 2019, 2018 and 2017, respectively. Net interest income from loans was the principal source of earnings for the Association and was impacted by volume, yields on assets and cost of debt. During 2019, net interest income decreased by $184 mainly due to a decrease in average loan volume outstanding during 2019. Net interest income was negatively impacted by the amortization of premiums paid to acquire USDA guaranteed loans in the secondary market place. Premium amortization expense was $60, $275 and $215 in 2019, 2018 and 2017, respectively.

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

Change in Net Interest Income:

	Volume	**Rate**	**Other**	**Total**
12/31/19 – 12/31/18				
Interest income	$ (335)	$ 337	$ –	$ 2
Interest expense	(155)	341	–	186
Change in net interest income	$ (180)	$ (4)	**$** –	**$** (184)
12/31/18 – 12/31/17				
Interest income	$ (201)	$ 2,119	$ –	$ 1,918
Interest expense	(150)	642	–	492
Change in net interest income	$ (51)	$ 1,477	**$** –	**$** 1,426

Please refer to the Consolidated Five-Year Summary of Selected Financial Data in this Annual Report to review key financial ratios pertaining to earnings and net interest income

Noninterest Income

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

	For the Year Ended December 31,			**Percentage Increase/(Decrease)**	
Noninterest Income	**2019**	**2018**	**2017**	**2019/ 2018**	**2018/ 2017**
	(dollars in thousands)				
Loan fees	$ 92	$ 106	$ 84	(13.21)%	26.19
Fees for financially related services	5	7	4	(28.57)	75.00
Patronage refunds from other Farm Credit institutions	1,379	1,715	1,998	(19.59)	(14.16)
Gains(losses) on sales of premises and equipment, net	37	4	–	825.00	100.00
Gains(losses) on other transactions	66	(43)	(63)	(253.49)	(31.75)
Insurance Fund refunds	23	339	–	(93.22)	100.00
Total noninterest income	$ 1,602	$ 2,128	$ 2,023	(24.72)%	5.19%

The decrease in noninterest income of $526 or 24.72 percent in 2019 compared to 2018 is primarily due to a decrease in patronage refunds from other Farm Credit institutions and a decrease in Insurance Fund refunds.

Patronage refunds from other Farm Credit institutions decreased $336 or 19.59 percent mainly due to a decrease in the special patronage dividend from the Bank of $275. The special patronage dividend from the Bank was $568 in 2019 compared to $843 in 2018.

In 2019 and 2018, the Association recorded $23 and $339, respectively, of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2019	2018	2017	Percentage Increase/(Decrease) 2019/2018	2018/2017
	(dollars in thousands)				
Salaries and employee benefits	$ 1,642	$ 1,873	$ 1,371	(12.33)%	36.62%
Occupancy and equipment	193	199	268	(3.02)	(25.75)
Insurance Fund premiums	70	74	129	(5.41)	(42.64)
(Gains) losses on OPO, net	544	192	158	183.33	21.52
Other operating expenses	1,939	1,983	1,939	(2.22)	2.27
Total noninterest expense	$ 4,388	$ 4,321	$ 3,865	1.55%	11.80%

Noninterest expense increased $67 or 1.55 percent for the year ended December 31, 2019, as compared to the same period in 2018, and increased $456 or 11.80 percent in 2018 compared to 2017. The increase in 2019 is primarily due to an increase in losses on OPO offset by a decrease in salaries and employee benefits.
Net losses on OPO increased $352 or 183.33 percent mainly due to writedowns caused by updated appraisals. Salaries and employee benefits decreased $231 or 12.33 percent mainly due to decreases in employee incentive and retirement plan expenses.

Income Taxes

The Association recorded a $1 benefit for federal income taxes for 2019 and no provision for federal income tax for 2018 and 2017. For 2010, the Association incurred a patronage sourced net operating loss which was carried forward to 2013 through 2015, which fully offset patronage sourced taxable income. Therefore, in 2012 and 2013, any eligible patronage sourced income was not distributed. In 2017, 2018, and 2019, $1,700, $3,000, and $2,000, respectively, of eligible patronage source income was distributed to offset patronage source income in each year. As a result, in prior years the Association incurred an immaterial amount of alternative minimum tax due to the alternative minimum tax net operating loss limitation. At December 31, 2019 the Association has Federal loss carryforwards totaling approximately $1.5 million that expire in varying amounts beginning in 2030. The Association also has AMT credit carryforward of $45 thousand that does not expire and will be fully refunded by 2021. The Association is exempt from Puerto Rico income tax under Article 23 of the General Cooperative Act of 2004. Please refer to Note 12, Income Taxes, for more specific information.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/19	For the 12 Months Ended 12/31/18	For the 12 Months Ended 12/31/17
Return on Average Assets	1.43%	2.07%	1.05%
Return on Average Members' Equity	3.99%	5.96%	3.13%
Net Interest Income as a Percentage of Average Earning Assets	3.40%	3.38%	2.38%
Net (Charge-offs) Recoveries to Average Loans	(0.056)%	0.253%	(0.020)%

Return on average assets and return on average members' equity decreased during 2019 compared to 2018 as a result of a decrease in net income in 2019 compared to 2018.

The Association recorded net charge offs of $84 in 2019 which is (0.056) percent of average loans compared to net recoveries of $393 or 0.253 percent of average loans in 2018. For the twelve months of 2019, the Association recognized $43 provision for loan losses, compared to $270 reversal of allowance for loan losses and $233 provision for loan losses for the twelve months of 2018 and 2017, respectively. The provision for loan losses during 2019 was the result of $84 net charge offs recorded mainly due to updated appraisals on nonaccrual loans.

The past years have been favorably impacted by the receipt of a special patronage dividend from AgFirst Farm Credit Bank which totaled $568 in 2019, $843 in 2018 and $1,039 in 2017. The Association does not forecast continued receipt of these distributions.

The Association's financial goals are operating within safe and sound parameters while generating sufficient income to maintain a highly capitalized Association and to declare and pay an attractive patronage dividend to the members/borrowers of the Association. To accomplish this, the Association must achieve its objectives, which include attracting and retaining quality loan volume, which is competitively priced, while effectively managing risk within the balance sheet and income statement.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the

Association. The Association's capital level effectively creates a borrowing margin between the amount of loans outstanding and the direct loans to the Bank. The margin is commonly referred to as "loanable funds."

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The Association's liquidity practice is to maintain cash balances in a local depository bank at a level that maximizes reduction of the direct note by increasing loanable funds. As borrower payments are received, they are immediately applied to the respective notes payable to the Bank. The Association's participation in investments and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in the Association experiencing a liquidity deficiency.

Total notes payable to the Bank at December 31, 2019 were $99,911 as compared to $97,533 at December 31, 2018 and $115,233 at December 31, 2017. The increase of $2,378 or 2.44 percent mainly corresponds to an increase in loan volume. The average volume of notes payable to the Bank was $96,901 and $101,948 for the years ended December 31, 2019 and 2018, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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

The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants. At December 31, 2019, the Association's notes payable were within the specified limitations.
See Note 6, *Notes Payable to AgFirst Farm Credit Bank,* of the Notes to the Consolidated Financial Statements for additional information on the status of compliance with requirements under the General Financing Agreement.

Funds Management

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

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

The Association does not offer or include adjustable rate mortgages (ARMS) in its portfolio of loan products.

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

RELATIONSHIP WITH THE BANK

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

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

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

CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan. There were no material changes to the capital plan for 2019 that affected the minimum stock purchase requirement or would have had an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2019 increased $197 or 0.36 percent to $54,762 from $54,565 at December 31, 2018. The increase in the total members' equity was primarily due to the 2019 net income from operations of $2,220 less the $2,000 patronage distribution declared.

Total capital stock and participation certificates were $430 on December 31, 2019, compared to $453 on December 31, 2018 and $485 on December 31, 2017. The Board of Directors continued its commitment to maintain the cooperative equity investment requirement at the regulatory minimum of 2.0 percent of the original loan or $1,000, whichever is less.

FCA sets minimum regulatory capital requirements for System banks and Associations. Capital adequacy is evaluated using a number of regulatory ratios.

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital	4.5%	1.875%	5.75%	37.11%	39.65%	36.36%
Tier 1 Capital	6.0%	1.875%	7.25%	37.11%	39.65%	36.36%
Total Regulatory Capital	8.0%	1.875%	9.25%	38.25%	40.90%	37.23%
Permanent Capital	7.0%	0.00%	7.00%	37.51%	40.13%	36.67%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	34.83%	35.58%	31.96%
URE and UREE Leverage	1.5%	0.0%	1.5%	35.50%	36.28%	32.64%

** The capital conservation buffers have a 3 year phase-in period and became fully effective January 1, 2020. Risk-adjusted ratio minimums increased 0.625% each year until fully phased in. There 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. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios.

The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	36.46%	35.11%	32.98%	29.41%	20.67%
Total Surplus Ration	7.00%	36.11%	34.76%	32.62%	29.05%	20.29%
Core Surplus Ratio	3.50%	36.11%	34.76%	32.62%	29.05%	20.29%

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

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

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, if necessary, to increase surplus to meet Association capital adequacy standards, to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to the Association's FLCA subsidiary earned on a non-patronage basis, the remaining taxable earnings of the Association are eligible for allocation and distribution to eligible borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distribution. The Association has not declared estimated patronage distributions from 2010 through 2013. However, during the last three years, the Association has declared patronage distributions of $2,000 in 2019, $3,000 in 2018, and $1,700 in 2017.

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

The US Department of Agriculture National Agricultural Statistic Service (NASS) conducted the 2012 Census of Agriculture. They analyzed the data and prepared the 2012 Census of Agriculture for Puerto Rico and its municipalities as of June 27, 2014. The census provides a comprehensive picture of Puerto Rico agriculture in 2012, including Young and Beginning farmer's data. The data indicates that within the Association's chartered territory there were 13,159 reported farmers of which, 507 or 3.85% were Young and 4,549 or 34.57 percent were Beginning Farmers. The Puerto Rico census does not make available data identifying Small farmers. Overall, 2012 total farmers in Puerto Rico decrease by 1,617 (11%) from the 2007 Census. The percentage of Young and Beginning farmers remains similar to the 2007 census data, however, beginning farmers with 9 years or less operating farms reflected a reduction of 236 while Young farmers with 34 years or less reflects a reduction of 213.

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. The Association has established annual marketing goals to increase its market share of loans to YBS farmers because of the unique needs of these individuals and their importance to the future growth of the Association. Specific marketing plans have been developed to target these groups and resources have been designated to help ensure YBS borrowers have access to a stable source of credit.

The following table outlines the Association's YBS 2019 goal and actual number of loans and dollar amount (in thousands) in the loan portfolio as of December 31, 2019:

	Number of Loans		$ Amount of Loans	
	2019 Goal	2019 Actual	2019 Goal	2019 Actual
Young	44	39	$4,271	$3,412
Beginning	172	164	$29,437	$25,318
Small	193	188	$19,213	$17,779

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

The following table outlines the Association YBS goal and the actual results for both number and dollar amount (in thousands) of new loans for the year ended December 31, 2019:

	Number of Loans		$ Amount of New Loans	
	2019 Goal	2019 Actual	2019 Goal	2019 Actual
Young	4	7	$1,046	$924
Beginning	15	18	$3,138	$2,687
Small	15	23	$1,569	$2,488

The following table outlines the Association YBS goal and the actual results as a percentage of number and dollar amount (in thousands) of new loans for the year ended December 31, 2019:

	Number of Loans		$ Amount of New Loans	
	2019 Goal	2019 Actual	2019 Goal	2019 Actual
Young	3%	7%	2%	2%
Beginning	13%	17%	6%	5%
Small	15%	22%	3%	5%

During 2019 the number of new loans to Young, Beginning and Small farmers exceeded the goals for the year, mainly due to the PRFC's efforts to create transition between younger family members already involved in the farming operation as well as the continuing participation in multiple activities in which YBS farmers are present. Goals for YBS new loan volume were slightly below goals for Young and Beginning farmers. While the number of new loans in the YBS category was beyond our goals, the total volume was slightly below goal because the average loan size was smaller than expected. The overall portfolio numbers of loans and volume made to YBS borrowers decreased due to loan payoff and/or refinancing in which the farmer no longer fits the YBS definition.

The Association supported Young, Beginning and Small farmers through outreach and financial support programs. Education is at the heart of the programs, and includes seminars, speaking opportunities and training sessions, which are conducted throughout the year. These educational opportunities may be both in-house, in the form of events held by the Association, and external, in which case, the Association is a speaker or provider of educational materials.

A second focus area of the program includes activities where the Association sponsors local events or events where the Association is an exhibitor and/or a participant (such as industry or trade shows). Financial support addresses the specific credit programs and partnerships that the Association has developed to help small farmers, young farmers, and farmers just starting out. It comprises programs such as those offered by the Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers.

The following outreach programs were conducted in 2019 as part of the Association's efforts to achieve established goals:

- Sponsored and participated in the Business Plan Building Competition known as EnterPrize, in order to develop global entrepreneurs, including a category of best agricultural business plan.
- Experienced credit staff coordinated/participated in the development and implementation of business financial skills training for YBS farmers and students through presentations, conferences, individual meetings and on-site visits.
- Supported and/or sponsored programs and activities with the University of Puerto Rico.
- Participated in several sector-specific meetings, conferences, and trade fairs, where the YBS program was discussed.
- Sponsored and participated in Agro-hack, a conference, symposium and trade show focused on young and beginning entrepreneurs in the agricultural sector and related industries. PRFC has been a sponsor in this conference since its inception.
- Participated in various educational programs coordinated by the Department of Agriculture, Puerto Rico Farm Bureau and/or the Agronomist Association.

The Chief Credit Officer coordinates the Association's efforts, with the assistance of the Lending Manager, and oversees the YBS program. The Association includes YBS goals in the annual strategic business plan, and reports on those goals and achievements to the board of directors on a quarterly basis. The Association is committed to the future success of Young, Beginning and Small farmers.

* *Young farmers* are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** *Beginning farmers* are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** *Small farmers* are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

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

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

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

Future of LIBOR

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

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

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

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

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

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

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

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

(dollars in thousands)	**Due in 2020**	**Due in 2021**	**Due in 2022 and Thereafter**
Loans	$ 2,253	$ 7,952	$ 37,570
Total Assets	$ 2,253	$ 7,952	$ 37,570
Note Payable to AgFirst Farm Credit Bank	1,446	5,104	24,113
Total Liabilities	$ 1,446	$ 5,104	$ 24,113

OTHER MATTERS

The Association continues its service agreement with Farm Credit of Florida, ACA for a fee. These services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources and, loan on-boarding and servicing. Both parties are in compliance with the terms of the agreement and expect to continue working under the agreement in 2020.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

The Association has an equity investment in a Rural Business Investment Company, Meritus Ventures, L.P, a Delaware Limited Partnership. Meritus Ventures, L.P. is licensed under the Rural Business Investment Program and provides guarantees and grants to promote rural economic development and job opportunities and supplies equity capital investment to small rural enterprises. The Association has a 2.06% ownership in the limited partnership. Additional information may be found in Note 4, *Investments*, of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

The Association holds an equity investment in two (2) LLC's, which are Ethanol Holding Company, LLC (formerly BFE Operating Company, LLC) and CBF Holding, LLC (formerly Clean Burn Fuels, LLC) until the end of 2015.

The Ethanol Holding Company, LLC is a Delaware Limited Liability Company, in which PRFC owns a 0.32900% equity. It was organized for the stated purpose of acquiring holding, managing, preserving and, if appropriate, operating the assets of BFE Operating Company, LLC, Buffalo Lakes Energy, LLC and Pioneer Trail Energy, LLC (the "BFE Entities") and Ethanol Holding Company Minnesota Sub, LLC and Ethanol Holding Company Nebraska Sub, LLC. Such assets have been disposed of pursuant to the terms of the Operating Agreement of Ethanol Holding Company, LLC. However, the entities have not been dissolved until certain legal matters are resolved.

The CBF Holding, LLC is a North Carolina Limited Liability Company, in which PRFC owns 2.89855% equity. Subject to and upon the terms of the Operating Agreement, the stated purpose of the company shall be to acquire, maintain, operate in an idle mode, market, and re-sell the Purchased Assets (an ethanol plant); and to engage in such activities as may be approved by the Majority Interest (collectively, the "Business"), in each case subject to any limitations of the Act or the Applicable Laws of any jurisdiction in which the company transacts business. The company shall be authorized to engage in any and all other activities related to the foregoing. As of the end of 2015, the company had disposed of its assets and is awaiting resolution of certain legal matters to dissolve the company.

Description of Property

The following table sets forth certain information regarding the property of the reporting entity, which is located in San Juan, Puerto Rico:

Location	Description	Form of Ownership
213 Domenech Ave Hato Rey	Administrative/ San Juan Branch	Owned

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

The following represents certain information regarding the senior officers of the Association:

Senior Officer	Position
Ricardo L Fernández	*President & CEO* since February 2011. Member of Farm Credit System's Presidents Planning Committee (PPC) since 2012. Currently Chair of the District's Sales & Marketing Committee. He has 23 years of experience in commercial banking, occupying various positions in strategic planning, finance and, small and middle-market commercial lending.
Jorge A. Dulzaides	*Chief Credit Officer* since January 2019, formerly CLO since July 2013. Has 31 years of experience in the Farm Credit System as credit analyst, lending officer, internal auditor and lending manager.

The total amount of compensation earned by the CEO and the five most highly paid officers as a group, during the years ended December 31, 2019, 2018 and 2017, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value*	Perquisites/ Other**	Total (a)
Ricardo L. Fernández	2019	$ 239,262	$ 66,200	$ –	$ –	$ 24,594	$ 330,056
Ricardo L. Fernández	2018	$ 208,000	$ 76,000	$ –	$ –	$ 24,789	$ 308,789
Ricardo L. Fernández	2017	$ 208,000	$ 96,000	$ –	$ –	$ 21,301	$ 325,301
5	2019	$ 460,011	$ 68,850	$ –	$ 550,213	$ 54,918	$ 1,133,992
5	2018	$ 422,000	$ 5,000	$ –	$ (120,133)	$ 64,266	$ 371,133
5	2017	$ 422,000	$ 5,000	$ –	$ 284,112	$ 9,419	$ 715,531

* *On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders; Pension Benefit Disclosures." The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan.*

** *Includes company contributions to 401 (k) plan (see Note 9, Employee Benefit Plans, to the Financial Statements), excess annual leave paid; and medical and dental insurance premiums.*

(a) *Disclosure of information on the total compensation paid during 2018 to any senior officer, or to any other individual included in the aggregate, is available to shareholders upon request.*

Pension Benefits Table
As of December 31, 2019

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2019
CEO:					
Ricardo L. Fernández	2019	AgFirst Farm Credit Cash Balance Retirement Plan		$ –	$ –
				$ –	$ –
Senior Officers and Highly Compensated Employees:					
3 employees, excluding the CEO	2019	AgFirst Farm Credit Retirement Plan	26.56*	$ 2,498,250	$ –
3 Total Officers				$ 2,498,250	$ –

* *Number of years credited service represents the average years of credited service for the group.*

The Board of Directors approved a new incentive plan for employees of the Association and separately for the CEO, none of the plans have any provisions, in any of the three years, which would allow for or facilitate the deferral of compensation, either salary or bonus.

The Board of Directors approved a three-year bonus plan for Mr. Fernández. Under the plan the Board of Directors is expected to approve a bonus payment to Mr. Fernandez for achievement of results in 2019. It is anticipated that Mr. Fernandez will receive a short-term bonus payment of $55,000.

In 2019, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved in 2019 additional executive compensation based on certain performance measures achieved in 2018. The amount paid was $75,000. The Bonus category also includes the Christmas bonus required by law in Puerto Rico.

In 2018, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved in December 2018 additional executive compensation based on certain performance measures achieved in 2017. The amount paid was $75,000. The Bonus category also includes the Christmas bonus required by law in Puerto Rico.

In 2017, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved on November 2017 additional executive compensation based on certain measures achieved in 2016. The amount paid was $50,000. Additionally, a payment of $45,000 was paid to Mr. Fernández, from previously deferred compensation, for achieving certain long-term metrics. The Bonus category also includes the Christmas bonus required by law in Puerto Rico.

For the other senior officers or highly paid employees, bonus includes a discretionary bonus approved by the Board of Directors for performance achieved in 2018. It also includes the mandatory payment of a Christmas Bonus required by Commonwealth law each year.

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

The present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

The Association provides retirement benefit plans to all employees. Employees' participation in a plan is mostly determined by date of hire. Additional information on the Association's retirement plans can be found in Note 9, *Employee Benefit Plans,* of the Notes to the Consolidated Financial Statements.

Directors

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

The aggregate amount of expense or reimbursement for travel, subsistence and other related expenses for all directors as a group was $103,050 for 2019, $122,978 for 2018 and $93,429 for 2017. It is the practice of the Association not to provide noncash compensation to directors. For 2019, there was no noncash compensation provided.

The Board of Directors reviews and determines adequate director compensation to attract qualified directors. All elected stockholder directors are compensated at a per diem rate of $500 for all official activities. Honorarium for all external directors is paid at a per diem rate of $600 and $1,000 for the financial expert.

Directors are also paid honorarium at the per diem rate for travel to and from conferences and meetings when the distance and schedule requires travel on any portion of the day prior to or following the scheduled activity. In addition, all directors were paid a quarterly retainer fee as compensation for incidental services and review/preparation for meetings and assignments. The chairman's retainer fee is $1,000 per quarter and $750 per quarter for all the other directors, including external directors.

Additional information for each Director is provided below:

			Term of Office		Number of Days Served		Compensation Expensed on 2019		
Name of Director	**Position**	**Committee Assignments**	**Election Year**	**Current Term Expiration**	**Board Meetings**	**Other Official Activities***	**Compensation Regular Board Meetings & Retainer**	**Compensation for Other Activities**	**Total Compensation During 2019**
Antonio E. Marichal	Chairman, External Director & Financial Expert	Governance, Audit	2018	2021	12	14.5	$15,800	$14,250	$30,050
Michael J. Serrallés	Vice Chairman	Governance, Compensation, Audit	2019	2023	12	13.5	9,200	6,750	15,950
Rafael J. Borges	Second Vice Chairman	Compensation, Audit, Sales & Marketing	2018	2021	12	17.5	9,200	8,750	17,950
Víctor M. Ayala	Director	Governance, Compensation, Risk Management	2017	2020	12	12.5	9,800	6,250	16,050
Felipe Ozonas	External Director	Governance, Compensation, Risk Management	2017	2020	11	13.5	9,800	8,050	17,850
Pablo A. Rodríguez	Director	Governance, Compensation, Risk Management, Sales & Marketing	2017	2022	12	12.5	9,200	6,250	15,450
Carlos A. Rodríguez	Director	Audit, Risk Management, Sales & Marketing	2017	2020	12	8.5	9,200	4,250	13,450
Robert G. Miller	Director	Risk Management, Sales & Marketing	2016	2019	6	4.5	4,600	2,250	6,850
Total							$76,800	$56,800	$133,600

All directors shall make themselves available to serve on the loan committee, upon the scheduling of a meeting. Any four directors along with the CEO or his designee shall constitute a quorum for the loan committee. Committee meetings are normally scheduled and held the same day as monthly board of director's meetings. This scheduling method results in there being no separate and/or additional honorarium paid for the various committee meetings.

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

Mr. Antonio E. Marichal Chairman of the Board since April 2019. Is an attorney with an accounting background. He is one of our two outside directors and serves as the financial expert. He is a retired partner of the firm Marichal, Hernandez, Santiago & Juarbe, LLC. He continues to practice law as an off counsel of the firm. His list of clients includes several association members and directors for whom he may perform work as the need arises. He practices tax, estate and business law. He is a member of the Bar Association and The Association of Public Notaries of Puerto Rico. He is admitted to practice in Puerto Rico, The U.S. District Court for The District of Puerto Rico, The First Circuit of the U.S. Court of

Appeals and The U.S. Tax Court. Originally appointed by the board in 2006.

Mr. Michael J. Serrallés Vice Chairman of the Board since April 2019. Mr. Serrallés was elected to the AgFirst Political Advisory Board in January 2019. He is a manager and director of Sucesión J. Serrallés, Inc. The corporation grows sod, ornamental plants and coconut palms. The corporation also has farmland leased to seed research companies, for pasture, and to grow bananas, plantains and mangoes. He was first elected to the Board in 2013.

Mr. Rafael J. Borges Second Vice Chairman of the Board since April 2019. He is an equine veterinary specialist and dairy farmer. As a veterinarian he may provide his services to members of the Association from time to time. His dairy farm is located in Isabela, PR. Mr. Borges is President of Isagro, Inc and is a member of "La Cooperativa Productores de Leche (COOPLE)", a dairy industry cooperative. He has been a member of the Board since 2018.

Mr. Víctor M. Ayala Is a dairy farmer and cattle rancher with a farm in the neighborhood of Collores, in Humacao. He is the owner of VHE, Inc., who is an association member. Mr. Ayala is a member of "La Cooperativa Productores de Leche (COOPLE)", a dairy industry cooperative. He has been a member of the Board since 2004.

Mr. Felipe Ozonas Is our second outside director. Mr. Ozonas is a coffee, citrus and plantain producer. He is owner of "Hacienda la Balear, Inc." and "Azamar de la Balear, Inc." Originally appointed by the Board in 2017.

Mr. Pablo A. Rodríguez Is a farmer growing plantains on his farm in San Sebastian. He is a member of the Colegio de Agrónomos de Puerto Rico. He has been a Board member since 2010.

Mr. Carlos A. Rodríguez Is a cattle rancher in the neighborhood of Barahona in Morovis. Mr. Rodríguez was re-elected First Vice President of the Puerto Rico Farm Bureau Board in 2019. He has been a PRFC director since 2002.

Mr. Robert G. Miller Is a producer of eggs, laying hens, and pullets who owns farms in the Sabana neighborhood in Orocovis and the Asomante neighborhood in Aibonito. Mr. Miller is President of Empresas Agrícolas, LLC and Asomante Distributors, LLC. He is a member of the Board of "Sistema de Salud Menonita" and had been a member of the Board since 2010. Mr. Miller retired from the Board in 2019.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2019, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2019.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

There were no changes in or material disagreements with our independent auditors on any matter of the generally accepted accounting principles or financial statement disclosures during this period.

Aggregate fees expensed by the Association for services rendered by its independent auditors for the year ended December 31, 2019 were as follows:

	2019
Independent Auditors	
PricewaterhouseCoopers LLP	
Audit services	$ 86,234
Total	$ 86,234

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

Consolidated Financial Statements

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

Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-787-753-5435, or writing Alice Rivera, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936 or accessing the web site, ***www.puertoricofarmcredit.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

Borrower Information Regulations

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

Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

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

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

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

Shareholder Investment

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

Report of the Audit Committee

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

The Committee has adopted a written charter that has been reviewed, amended and approved by the Board of Directors in 2016. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

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

The members of the Committee are not professionally engaged in the practice of auditing or accounting. The members of the Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the Committee's considerations and discussions referred to above do not assure that the audit of the Association's financial statements has been carried out in accordance with auditing standards generally accepted in the United States of America or that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

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

Antonio E. Marichal, External Director
Chairman of the Audit Committee

Members of Audit Committee

Michael J. Serrallés, Director
Rafael J. Borges, Director
Carlos A. Rodriguez, Director

March 12, 2020

Report of Independent Auditors

To the Board of Directors and Management of Puerto Rico Farm Credit, ACA

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 12, 2020

PricewaterhouseCoopers LLP, *1075 Peachtree Street NE Suite 2600 Atlanta, Georgia 30309*
T: 678 419 1000, www.pwc.com/us

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2019	2018	2017
Assets			
Cash	**$ 158**	$ 662	$ 944
Loans	**151,028**	149,089	166,228
Allowance for loan losses	**(1,645)**	(1,686)	(1,563)
Net loans	**149,383**	147,403	164,665
Accrued interest receivable	**548**	652	578
Equity investments in other Farm Credit institutions	**1,481**	1,623	1,678
Premises and equipment, net	**1,131**	1,007	1,110
Other property owned	**3,491**	3,894	2,063
Accounts receivable	**1,391**	1,732	1,996
Other assets	**110**	165	140
Total assets	**$ 157,693**	$ 157,138	$ 173,174
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 99,911**	$ 97,533	$ 115,233
Accrued interest payable	**254**	270	257
Patronage refunds payable	**2,000**	3,001	1,706
Accounts payable	**175**	956	1,139
Other liabilities	**591**	813	551
Total liabilities	**102,931**	102,573	118,886
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**430**	453	485
Unallocated retained earnings	**54,332**	54,112	53,803
Total members' equity	**54,762**	54,565	54,288
Total liabilities and members' equity	**$ 157,693**	$ 157,138	$ 173,174

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Interest Income			
Loans	**$ 8,376**	$ 8,375	$ 6,456
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**3,328**	3,143	2,650
Net interest income	**5,048**	5,232	3,806
Provision for (reversal of allowance for) loan losses	**43**	(270)	233
Net interest income after provision for (reversal of allowance for) loan losses	**5,005**	5,502	3,573
Noninterest Income			
Loan fees	**92**	106	84
Fees for financially related services	**5**	7	4
Patronage refunds from other Farm Credit institutions	**1,379**	1,715	1,998
Gains (losses) on sales of premises and equipment, net	**37**	4	—
Gains (losses) on other transactions	**66**	(43)	(63)
Insurance Fund refunds	**23**	339	—
Total noninterest income	**1,602**	2,128	2,023
Noninterest Expense			
Salaries and employee benefits	**1,642**	1,873	1,371
Occupancy and equipment	**193**	199	268
Insurance Fund premiums	**70**	74	129
(Gains) losses on other property owned, net	**544**	192	158
Other operating expenses	**1,939**	1,983	1,939
Total noninterest expense	**4,388**	4,321	3,865
Income before income taxes	**2,219**	3,309	1,731
Provision (benefit) for income taxes	**(1)**	—	—
Net income	**2,220**	3,309	1,731
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 2,220**	$ 3,309	$ 1,731

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Total Members' Equity
Balance at December 31, 2016	$ 499	$ 53,772	$ 54,271
Comprehensive income		1,731	1,731
Capital stock/participation certificates issued/(retired), net	(14)		(14)
Patronage distribution			
Cash		(1,700)	(1,700)
Balance at December 31, 2017	$ 485	$ 53,803	$ 54,288
Comprehensive income		3,309	3,309
Capital stock/participation certificates issued/(retired), net	(32)		(32)
Patronage distribution			
Cash		(3,000)	(3,000)
Balance at December 31, 2018	$ 453	$ 54,112	$ 54,565
Comprehensive income		**2,220**	**2,220**
Capital stock/participation certificates issued/(retired), net	**(23)**		**(23)**
Patronage distribution			
Cash		**(2,000)**	**(2,000)**
Balance at December 31, 2019	**$ 430**	**$ 54,332**	**$ 54,762**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Cash flows from operating activities:			
Net income	**$ 2,220**	$ 3,309	$ 1,731
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**149**	136	146
Amortization (accretion) of net deferred loan costs (fees)	**278**	464	502
Provision for (reversal of allowance for) loan losses	**43**	(270)	233
(Gains) losses on other property owned	**470**	79	101
(Gains) losses on sales of premises and equipment, net	**(37)**	(4)	—
(Gains) losses on other transactions	**(66)**	43	63
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**104**	(74)	(25)
(Increase) decrease in accounts receivable	**341**	264	(316)
(Increase) decrease in other assets	**55**	(25)	(12)
Increase (decrease) in accrued interest payable	**(16)**	13	71
Increase (decrease) in accounts payable	**(781)**	(183)	760
Increase (decrease) in other liabilities	**(156)**	219	1
Total adjustments	**384**	662	1,524
Net cash provided by (used in) operating activities	**2,604**	3,971	3,255
Cash flows from investing activities:			
Net (increase) decrease in loans	**(2,458)**	15,064	(3,016)
(Increase) decrease in equity investments in other Farm Credit institutions	**142**	55	74
Purchases of premises and equipment	**(273)**	(33)	(112)
Proceeds from sales of premises and equipment	**37**	4	—
Proceeds from sales of other property owned	**90**	94	281
Net cash provided by (used in) investing activities	**(2,462)**	15,184	(2,773)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**2,378**	(17,700)	1,995
Capital stock and participation certificates issued/(retired), net	**(23)**	(32)	(14)
Patronage refunds and dividends paid	**(3,001)**	(1,705)	(1,599)
Net cash provided by (used in) financing activities	**(646)**	(19,437)	382
Net increase (decrease) in cash	**(504)**	(282)	864
Cash, beginning of period	**662**	944	80
Cash, end of period	**$ 158**	$ 662	$ 944
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 37**	$ —	$ —
Receipt of property in settlement of loans	**194**	2,004	478
Estimated cash dividends or patronage distributions declared or payable	**2,000**	3,000	1,700
Supplemental information:			
Interest paid	**$ 3,344**	$ 3,130	$ 2,579
Taxes (refunded) paid, net	**(45)**	—	—

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Puerto Rico Farm Credit, ACA (Association) is a stockholder-owned cooperative that provides credit and credit-related services to qualified borrowers within the Commonwealth of Puerto Rico. The Association is also authorized by its charter from the Farm Credit Administration to provide the same credit and credit-related services for qualified purposes within the territory of the U.S. Virgin Islands.

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

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

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

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

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held no cash in excess of insured amounts.

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

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

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full. A formal restructuring may also cure a past due status.

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

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

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

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

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

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

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

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

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

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

C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value.

D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) on Other Property Owned, Net in the Consolidated Statements of Income.

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized. Premises and equipment are evaluated for impairment whenever events or circumstances indicate that the carrying value of the asset may not be recoverable.

From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in Other Assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-down of property held for sale is recorded as a loss in the period identified.

F. **Investments:** The Association may hold investments as described below.

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

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

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

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

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

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

Additional information may be found in Note 9.

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

Since the foregoing plans are multiemployer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Annual Information Statement of the Farm Credit System.

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

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

The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state, and certain other income taxes. However, for Puerto Rico tax purposes, the Association has had a ruling from the Puerto Rico Treasury Department since June 1993 determining that the Association and its subsidiaries will be treated as a domestic cooperative association. Thus, the Association enjoys the exemptions provided by Article 23 of the General Cooperative Association Act of Puerto Rico of 2004, Act No. 239 of September 1, 2004.

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

The Association distributes patronage on the basis of taxable income.

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

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

The Association has adopted a "pro-rata" method to tax effect only the portion of the Association's temporary differences expected to have a future tax consequence to the Association. The Association intends to have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends. This operating scenario results in zero federal taxable income. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences.

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

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

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

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

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

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

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

Additional information may be found in Note 8.

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

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

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

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

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

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

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

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

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

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

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

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

Lease income is recognized on a straight-line basis over the lease term. Lease and nonlease components are accounted for separately in the Consolidated Statements of Comprehensive Income. Any initial direct costs are deferred and recognized as an expense over the lease term on the same basis as lease income. Any taxes assessed by a governmental authority are excluded from consideration as variable payments.

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

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

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

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

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

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

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

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

In May 2019, the FASB issued ASU 2019-05 Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. The amendments in this Update provide entities with an option to irrevocably elect the fair value option applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in that update. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

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

In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The guidance will be adopted on a prospective basis in 2020 and is not expected to have a material impact on the statements of financial condition or results of operations.

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

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

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

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

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

<u>Transition Information</u>

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
- The package of practical expedients related to initial application of the guidance was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- The adoption of this guidance had no impact on the Association.
- Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including

operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.

- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31, 2019	2018	2017
Real estate mortgage	$ 62,625	$ 63,434	$ 76,842
Production and intermediate-term	40,982	37,355	36,456
Loans to cooperatives	1,049	903	–
Processing and marketing	24,998	21,920	20,589
Farm-related business	231	254	1,912
Communication	8,782	11,369	15,280
Power and water/waste disposal	1,204	1,450	1,483
Rural residential real estate	9,270	10,692	11,956
International	1,887	1,712	1,710
Total loans	$ 151,028	$ 149,089	$ 166,228

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

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

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

	December 31, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 6,856	$ 1,060	$ –	$ –	$ 220	$ –	$ 7,076	$ 1,060
Production and intermediate-term	11,031	–	–	–	2,228	–	13,259	–
Loans to cooperatives	1,053	–	–	–	–	–	1,053	–
Processing and marketing	16,402	8,473	–	–	–	–	16,402	8,473
Farm-related business	–	–	–	–	222	–	222	–
Communication	8,804	–	–	–	–	–	8,804	–
Power and water/waste disposal	1,211	–	–	–	–	–	1,211	–
International	1,892	–	–	–	–	–	1,892	–
Total	$ 47,249	$ 9,533	$ –	$ –	$ 2,670	$ –	$ 49,919	$ 9,533

	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	$ 3,939	$ 1,257	$ –	$ –	$ 342	$ –	$ 4,281	$ 1,257
Production and intermediate-term	6,190	2,255	–	–	2,557	–	8,747	2,255
Loans to cooperatives	908	–	–	–	–	–	908	–
Processing and marketing	13,264	7,096	–	–	316	–	13,580	7,096
Farm-related business	–	–	–	–	243	–	243	–
Communication	11,405	–	–	–	–	–	11,405	–
Power and water/waste disposal	1,454	–	–	–	–	–	1,454	–
International	1,714	–	–	–	–	–	1,714	–
Total	$ 38,874	$ 10,608	$ –	$ –	$ 3,458	$ –	$ 42,332	$ 10,608

	December 31, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,239	$ 1,450	$ –	$ –	$ 433	$ –	$ 1,672	$ 1,450
Production and intermediate-term	6,255	3,600	–	–	3,522	–	9,777	3,600
Processing and marketing	16,922	13,355	–	–	333	–	17,255	13,355
Farm-related business	–	–	–	–	1,740	–	1,740	–
Communication	15,347	–	–	–	–	–	15,347	–
Power and water/waste disposal	1,491	–	–	–	–	–	1,491	–
International	1,714	–	–	–	–	–	1,714	–
Total	$ 42,968	$ 18,405	$ –	$ –	$ 6,028	$ –	$ 48,996	$ 18,405

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 last period end:

	December 31, 2019			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	$ 8,250	$ 30,649	$ 23,726	$ 62,625
Production and intermediate-term	4,402	32,089	4,491	40,982
Loans to cooperatives	–	1,049	–	1,049
Processing and marketing	2,377	9,711	12,910	24,998
Farm-related business	–	–	231	231
Communication	–	6,149	2,633	8,782
Power and water/waste disposal	–	1,204	–	1,204
Rural residential real estate	18	619	8,633	9,270
International	–	177	1,710	1,887
Total loans	$ 15,047	$ 81,647	$ 54,334	$ 151,028
Percentage	9.96%	54.06%	35.98%	100.00%

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

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

	December 31, 2019	2018	2017
Real estate mortgage:			
Acceptable	97.69%	95.62%	87.65%
OAEM	0.10	1.85	3.00
Substandard/doubtful/loss	2.21	2.53	9.35
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	87.33%	88.12%	91.92%
OAEM	3.35	1.16	5.18
Substandard/doubtful/loss	9.32	10.72	2.90
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	–%
Processing and marketing:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31, 2019	2018	2017
Communication:			
Acceptable	100.00%	81.83%	100.00%
OAEM	–	18.17	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	–%	100.00%	100.00%
OAEM	100.00	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	93.85%	92.87%	93.17%
OAEM	1.07	3.50	2.42
Substandard/doubtful/loss	5.08	3.63	4.41
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	94.43%	93.27%	92.02%
OAEM	1.81	2.71	2.70
Substandard/doubtful/loss	3.76	4.02	5.28
	100.00%	100.00%	100.00%

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

December 31, 2019	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 265	$ 1,367	$ 1,632	$ 61,232	$ 62,864
Production and intermediate-term	88	4,632	4,720	36,399	41,119
Loans to cooperatives	–	–	–	1,049	1,049
Processing and marketing	–	–	–	25,130	25,130
Farm-related business	–	–	–	231	231
Communication	–	–	–	8,783	8,783
Power and water/waste disposal	–	–	–	1,205	1,205
Rural residential real estate	301	31	332	8,972	9,304
International	–	–	–	1,891	1,891
Total	$ 654	$ 6,030	$ 6,684	$ 144,892	$ 151,576

December 31, 2018	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 396	$ 1,305	$ 1,701	$ 62,054	$ 63,755
Production and intermediate-term	465	64	529	37,031	37,560
Loans to cooperatives	–	–	–	904	904
Processing and marketing	–	–	–	21,996	21,996
Farm-related business	–	–	–	254	254
Communication	–	–	–	11,371	11,371
Power and water/waste disposal	–	–	–	1,452	1,452
Rural residential real estate	485	46	531	10,202	10,733
International	–	–	–	1,716	1,716
Total	$ 1,346	$ 1,415	$ 2,761	$ 146,980	$ 149,741

	December 31, 2017				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 477	$ 3,046	$ 3,523	$ 73,618	$ 77,141
Production and intermediate-term	693	125	818	35,795	36,613
Processing and marketing	–	–	–	20,647	20,647
Farm-related business	–	–	–	1,919	1,919
Communication	–	–	–	15,309	15,309
Power and water/waste disposal	–	–	–	1,477	1,477
Rural residential real estate	223	130	353	11,634	11,987
International	–	–	–	1,713	1,713
Total	$ 1,393	$ 3,301	$ 4,694	$ 162,112	$ 166,806

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

	December 31,		
	2019	2018	2017
Nonaccrual loans:			
Real estate mortgage	$ 1,673	$ 1,740	$ 4,609
Production and intermediate-term	4,741	64	627
Rural residential real estate	31	125	226
Total	$ 6,445	$ 1,929	$ 5,462
Accruing restructured loans:			
Real estate mortgage	$ 1,574	$ 2,411	$ 7,264
Production and intermediate-term	2,434	6,480	695
Rural residential real estate	110	115	120
Total	$ 4,118	$ 9,006	$ 8,079
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 10,563	$ 10,935	$ 13,541
Other property owned	3,491	3,894	2,063
Total nonperforming assets	$ 14,054	$ 14,829	$ 15,604
Nonaccrual loans as a percentage of total loans	4.27%	1.29%	3.29%
Nonperforming assets as a percentage of total loans and other property owned	9.10%	9.69%	9.27%
Nonperforming assets as a percentage of total members' equity	25.66%	27.18%	28.74%

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

	December 31,		
	2019	2018	2017
Impaired nonaccrual loans:			
Current as to principal and interest	$ 262	$ 452	$ 1,867
Past due	6,183	1,477	3,595
Total	$ 6,445	$ 1,929	$ 5,462
Impaired accrual loans:			
Restructured	$ 4,118	$ 9,006	$ 8,079
90 days or more past due	–	–	–
Total	$ 4,118	$ 9,006	$ 8,079
Total impaired loans	$ 10,563	$ 10,935	$ 13,541
Additional commitments to lend	$ –	$ 750	$ 705

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

	December 31, 2019			Year Ended December 31, 2019	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ –	$ –	$ –	$ –	$ –
With no related allowance for credit losses:					
Real estate mortgage	$ 3,247	$ 3,569	$ –	$ 3,312	$ 147
Production and intermediate-term	7,175	7,643	–	7,318	325
Rural residential real estate	141	140	–	144	6
Total	$ 10,563	$ 11,352	$ –	$ 10,774	$ 478
Total impaired loans:					
Real estate mortgage	$ 3,247	$ 3,569	$ –	$ 3,312	$ 147
Production and intermediate-term	7,175	7,643	–	7,318	325
Rural residential real estate	141	140	–	144	6
Total	$ 10,563	$ 11,352	$ –	$ 10,774	$ 478

	December 31, 2018			Year Ended December 31, 2018	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 712	$ 706	$ 6	$ 888	$ 38
Production and intermediate-term	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 712	$ 706	$ 6	$ 888	$ 38
With no related allowance for credit losses:					
Real estate mortgage	$ 3,439	$ 3,745	$ –	$ 4,287	$ 182
Production and intermediate-term	6,544	6,876	–	8,157	347
Rural residential real estate	240	281	–	299	13
Total	$ 10,223	$ 10,902	$ –	$ 12,743	$ 542
Total impaired loans:					
Real estate mortgage	$ 4,151	$ 4,451	$ 6	$ 5,175	$ 220
Production and intermediate-term	6,544	6,876	–	8,157	347
Rural residential real estate	240	281	–	299	13
Total	$ 10,935	$ 11,608	$ 6	$ 13,631	$ 580

	December 31, 2017			Year Ended December 31, 2017	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ –	$ –	$ –	$ –	$ –
With no related allowance for credit losses:					
Real estate mortgage	$ 11,873	$ 15,690	$ –	$ 7,882	$ 270
Production and intermediate-term	1,322	1,488	–	877	30
Rural residential real estate	346	383	–	229	8
Total	$ 13,541	$ 17,561	$ –	$ 8,988	$ 308
Total impaired loans:					
Real estate mortgage	$ 11,873	$ 15,690	$ –	$ 7,882	$ 270
Production and intermediate-term	1,322	1,488	–	877	30
Rural residential real estate	346	383	–	229	8
Total	$ 13,541	$ 17,561	$ –	$ 8,988	$ 308

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2018	$ 269	$ 1,095	$ 76	$ 44	$ 4	$ 197	$ 1	$ 1,686
Charge-offs	(108)	–	–	–	–	–	–	(108)
Recoveries	15	–	–	–	–	9	–	24
Provision for loan losses	506	(649)	211	51	9	(105)	20	43
Balance at December 31, 2019	$ 682	$ 446	$ 287	$ 95	$ 13	$ 101	$ 21	$ 1,645
Balance at December 31, 2017	$ 271	$ 991	$ 92	$ 49	$ 6	$ 152	$ 2	$ 1,563
Charge-offs	(1)	–	–	–	–	(8)	–	(9)
Recoveries	402	–	–	–	–	–	–	402
Provision for loan losses	(403)	104	(16)	(5)	(2)	53	(1)	(270)
Balance at December 31, 2018	$ 269	$ 1,095	$ 76	$ 44	$ 4	$ 197	$ 1	$ 1,686
Balance at December 31, 2016	$ 230	$ 760	$ 182	$ 33	$ 12	$ 143	$ 2	$ 1,362
Charge-offs	(25)	(11)	–	–	–	(18)	–	(54)
Recoveries	7	13	–	–	2	–	–	22
Provision for loan losses	59	229	(90)	16	(8)	27	–	233
Balance at December 31, 2017	$ 271	$ 991	$ 92	$ 49	$ 6	$ 152	$ 2	$ 1,563
Allowance on loans evaluated for impairment:								
Individually	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Collectively	682	446	287	95	13	101	21	1,645
Balance at December 31, 2019	$ 682	$ 446	$ 287	$ 95	$ 13	$ 101	$ 21	$ 1,645
Individually	$ 6	$ –	$ –	$ –	$ –	$ –	$ –	$ 6
Collectively	263	1,095	76	44	4	197	1	1,680
Balance at December 31, 2018	$ 269	$ 1,095	$ 76	$ 44	$ 4	$ 197	$ 1	$ 1,686
Individually	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Collectively	271	991	92	49	6	152	2	1,563
Balance at December 31, 2017	$ 271	$ 991	$ 92	$ 49	$ 6	$ 152	$ 2	$ 1,563
Recorded investment in loans evaluated for impairment:								
Individually	$ 3,135	$ 7,219	$ –	$ –	$ –	$ 110	$ –	$ 10,464
Collectively	59,729	33,900	26,410	8,783	1,205	9,194	1,891	141,112
Balance at December 31, 2019	$ 62,864	$ 41,119	$ 26,410	$ 8,783	$ 1,205	$ 9,304	$ 1,891	$ 151,576
Individually	$ 3,914	$ 6,480	$ –	$ –	$ –	$ 161	$ –	$ 10,555
Collectively	59,841	31,080	23,154	11,371	1,452	10,572	1,716	139,186
Balance at December 31, 2018	$ 63,755	$ 37,560	$ 23,154	$ 11,371	$ 1,452	$ 10,733	$ 1,716	$ 149,741
Individually	$ 12,064	$ 603	$ –	$ –	$ –	$ 242	$ –	$ 12,909
Collectively	65,077	36,010	22,566	15,309	1,477	11,745	1,713	153,897
Balance at December 31, 2017	$ 77,141	$ 36,613	$ 22,566	$ 15,309	$ 1,477	$ 11,987	$ 1,713	$ 166,806

* *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 tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

	Year Ended December 31, 2019				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 324	$ –	$ 324	
Total	$ –	$ 324	$ –	$ 324	
Post-modification:					
Real estate mortgage	$ –	$ 323	$ –	$ 323	$ –
Total	$ –	$ 323	$ –	$ 323	$ –

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
	Year Ended December 31, 2018				
Pre-modification:					
Real estate mortgage	$ –	$ 260	$ –	$ 260	
Total	$ –	$ 260	$ –	$ 260	
Post-modification:					
Real estate mortgage	$ –	$ 266	$ –	$ 266	$ –
Total	$ –	$ 266	$ –	$ 266	$ –

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
	Year Ended December 31, 2017				
Pre-modification:					
Real estate mortgage	$ –	$ 5,114	$ –	$ 5,114	
Production and intermediate-term	–	595	–	595	
Total	$ –	$ 5,709	$ –	$ 5,709	
Post-modification:					
Real estate mortgage	$ –	$ 5,113	$ –	$ 5,113	$ –
Production and intermediate-term	–	595	–	595	–
Total	$ –	$ 5,708	$ –	$ 5,708	$ –

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.

The following table presents outstanding recorded investment for 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.

Defaulted troubled debt restructurings	Year Ended December 31, 2019	2018	2017
Real estate mortgage	$ –	$ –	$ 5,024
Production and intermediate-term	–	–	594
Total	$ –	$ –	$ 5,618

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2019	2018	2017	2019	2018	2017
Real estate mortgage	$ 2,032	$ 2,812	$ 9,560	$ 458	$ 401	$ 2,296
Production and intermediate-term	7,066	6,480	1,197	4,632	–	502
Rural residential real estate	110	161	242	–	46	122
Total loans	$ 9,208	$ 9,453	$ 10,999	$ 5,090	$ 447	$ 2,920
Additional commitments to lend	$ –	$ 750	$ 705			

The following table presents information as of period end:

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

Note 4 — Investments

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. At December 31, 2019, the Association's investment in the Bank was composed of purchased Class C stock and totaled $1,348. At December 31, 2018 and 2017, the Association's investment in the Bank was also composed of purchased Class C stock and totaled $1,484 and $1,533, respectively. In 2019, 2018, and 2017, the Association received refunds of excess stock of $136, $49, and $74, respectively, as part of the Bank's annual capital equalization program. The Association owned 0.48 percent of the issued stock of the Bank as of December 31, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled $34.5 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $272 million for 2019. In addition, the Association held $133 in investments related to other Farm Credit institutions at December 31, 2019.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2019	2018	2017
Land and improvements	$ 131	$ 131	$ 131
Buildings and improvements	1,923	1,895	1,893
Furniture and equipment	1,231	1,104	1,092
	$ 3,285	$ 3,130	$ 3,116
Less: accumulated depreciation	2,154	2,123	2,006
Total	$ 1,131	$ 1,007	$ 1,110

Other Property Owned

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

	December 31,		
	2019	2018	2017
(Gains) losses on sale, net	$ (14)	$ 4	$ –
Carrying value unrealized (gains) losses	484	75	101
Operating (income) expense, net	74	113	57
(Gains) losses on other property owned, net	$ 544	$ 192	$ 158

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

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2019, the Association's notes payable were within the specified limitations.

At December 31, 2016, the Association was operating under a Special Credit Agreement (SCA) due to events of default under the GFA. The SCA expired on April 30, 2017 and was not renewed as a result of compliance with the terms of the GFA.

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

The weighted average interest rates on the variable rate advances were 2.78 percent for LIBOR-based loans and 2.91 percent for Prime-based loans, and the weighted average remaining maturities were 4.1 years and 4.4 years, respectively, at December 31, 2019. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.58 percent, and the weighted average remaining maturity was 7.4 years at December 31, 2019. The weighted-average interest rate on all interest-bearing notes payable was 3.07 percent and the weighted-average remaining maturity was 5.2 years at December 31, 2019. Variable rate and fixed rate notes payable represent approximately 51.12 percent and 48.88 percent, respectively, of total notes payable at December 31, 2019. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or Class C participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing.

   The initial borrower investment, through either purchase or transfer, must be in an amount equal to 2.0 percent or $1 thousand, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs.

Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation. At December 31, 2019, the Association had no loans designated for sale, nor were any loans previously sold into the Secondary Market.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers.

Retirement of such equities is at par ($5 per share). Repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates. Retirements of equity investments are subject to approval by the Board, at its sole discretion. Subject to any limitations of the Farm Credit Act, when the debt of a borrower/stockholder is in default, the Association may order retirement of stock or participation certificates owned by the borrower and apply the proceeds to the indebtedness.

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

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

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

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

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

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital	4.5%	1.875%	6.375%	37.11%	39.65%	36.36%
Tier 1 Capital	6.0%	1.875%	7.875%	37.11%	39.65%	36.36%
Total Capital	8.0%	1.875%	9.875%	38.25%	40.90%	37.23%
Permanent Capital	7.0%	0.0%	7.0%	37.51%	40.13%	36.67%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	34.83%	35.58%	31.96%
URE and UREE Leverage	1.5%	0.0%	1.5%	35.50%	36.28%	32.64%

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

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

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

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

		Shares Outstanding	
Class	**Protected**	**Number**	**Aggregate Par Value**
C Common/Voting	No	56,464	$ 283
C Participation Certificates/Nonvoting	No	29,462	147
Total Capital Stock and Participation Certificates		85,926	$ 430

Common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amount, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account. The minimum amount is determined annually by the Board. At the end of any fiscal year, if the retained earnings account would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board.

Equity Dividends

Equity dividends may be declared and paid on stock and participation certificates as determined by the Board's resolution. All equity dividends shall be paid on a per share basis. Dividends on common stock and participation certificates shall be noncumulative without preference between classes.

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

Patronage Dividends

The Board, by adoption of a resolution, may obligate the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net earnings for the fiscal year. By adoption of resolutions in December, the Board may obligate the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net taxable earnings. Patronage distributions declared are authorized to be paid 100 percent in cash, based on the proportion of each eligible borrower's net interest margin as compared to the total net interest margin earned by all eligible borrowers. The Board of Directors reserves the right to change the basis for the payment of patronage dividends.

If the Association meets its capital adequacy standards after accruing the patronage distribution, the dividend distribution may be paid in cash, authorized stock of the Association, allocations of earnings retained in an allocated member's equity account, or any one or more of such forms of distribution.

Transfer

Each owner or joint owners of Class C Common Stock is entitled to a single vote, regardless of the number of shares owned, while Class A Common Stock, Class D Preferred Stock and Class C Participation Certificates provide no voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock. Common stock and participation certificates may be transferred to any person eligible to hold such class of equity under the bylaws. Class D Preferred Stock may be transferred in the manner set forth in the resolution authorizing its issuance.

Impairment

Under the capitalization bylaw of the Association, all stock and participation certificates are considered to be issued "at risk" and are not protected under the Farm Credit Act. Any net losses recorded by the Association shall first be applied against unallocated retained earnings. To the extent that such losses would exceed unallocated retained earnings, resulting in impairment of the Association's capital stock, such losses would be applied pro rata to each share and/or unit outstanding in the class, in the following order:

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

Liquidation

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

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

Note 8 — Fair Value Measurement

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

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

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

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

Level 1
For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2
The Association had no Level 2 assets or liabilities.

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

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

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

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

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

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

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

	December 31, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ –	$ –	$ –	$ –	$ –
Other property owned	3,491	–	–	3,816	3,816
Nonrecurring Assets	$ 3,491	–	$ –	3,816	3,816
Other Financial Instruments					
Assets:					
Cash	$ 158	$ 158	$ –	$ –	$ 158
Loans	149,383	–	–	150,167	150,167
Other Financial Assets	$ 149,541	$ 158	$ –	$ 150,167	$ 150,325
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 99,911	$ –	$ –	$ 100,667	$ 100,667
Other Financial Liabilities	$ 99,911	$ –	$ –	$ 100,667	$ 100,667

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Recurring Assets	$ –	$ –	$ –	$ –	$ –
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 706	$ –	$ –	$ 706	$ 706
Other property owned	3,894	–	–	4,300	4,300
Nonrecurring Assets	$ 4,600	$ –	$ –	$ 5,006	$ 5,006
Other Financial Instruments					
Assets:					
Cash	$ 662	$ 662	$ –	$ –	$ 662
Loans	146,697	–	–	146,301	146,301
Other Financial Assets	$ 147,359	$ 662	$ –	$ 146,301	$ 146,963
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 97,533	$ –	$ –	$ 98,206	$ 98,206
Other Financial Liabilities	$ 97,533	$ –	$ –	$ 98,206	$ 98,206

	December 31, 2017									
	Total Carrying Amount		Level 1		Level 2		Level 3		Total Fair Value	
Recurring Measurements										
Assets:										
Recurring Assets	$	–	$	–	$	–	$	–	$	–
Liabilities:										
Recurring Liabilities	$	–	$	–	$	–	$	–	$	–
Nonrecurring Measurements										
Assets:										
Impaired loans	$	–	$	–	$	–	$	–	$	–
Other property owned		2,063		–		–		2,195		2,195
Nonrecurring Assets	$	2,063	$	–	$	–	$	2,195	$	2,195
Other Financial Instruments										
Assets:										
Cash	$	944	$	944	$	–	$	–	$	944
Loans		164,665		–		–		164,007		164,007
Other Financial Assets	$	165,609	$	944	$	–	$	164,007	$	164,951
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	$	115,233	$	–	$	–	$	115,605	$	115,605
Other Financial Liabilities	$	115,233	$	–	$	–	$	115,605	$	115,605

Uncertainty in Measurements of Fair Value

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value		Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$	3,816	Appraisal	Income and expense	*
				Comparable sales	*
				Replacement costs	*
				Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 9 — Employee Benefit Plans

The Association participates in two District sponsored benefit plans. These plans include a multiemployer defined benefit pension plan, AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan). In addition, the Association participates in a defined contribution 401(k) plan. The risks of participating in these multiemployer plans are different from single employer plans in the following aspects:

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

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

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

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Income were $306 for 2019, $418 for 2018, and $368 for 2017. At December 31, 2019, 2018, and 2017, the total liability balance for the FAP Plan presented in the District Combined Balance Sheets was $129,713, $94,491, and $139,104, respectively. The FAP Plan was 87.55 percent, 89.56 percent, and 86.41 percent funded to the projected benefit obligation as of December 31, 2019, 2018, and 2017, respectively.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by Hacienda. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $95, $94, and $86 for the years ended December 31, 2019, 2018, and 2017, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2019 amounted to $647. During 2019, $225 of new loans and advances were made and repayments totaled $396. In the opinion of management, none of these loans outstanding at December 31, 2019 involved more than the normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2019, $25,652 of commitments to extend credit and no commercial letters of credit were outstanding with a related reserve for unfunded commitments of $105 included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2019, standby letters of credit outstanding totaled $243 with expiration dates ranging from January 1, 2020 to December 28, 2020. The maximum potential amount of future payments that may be required under these guarantees was $243.

Note 12 — Income Taxes

The Association recorded a $1 benefit for federal income tax for 2019 and no provision for federal income tax for 2018 and 2017. For 2010, the Association incurred a patronage sourced net operating loss which was carried forward to 2013 through 2015, which fully offset patronage sourced taxable income. Therefore, since 2012, any eligible patronage sourced income was not distributed, until 2017, 2018, and 2019 when $1,700 in 2017, $3,000 in 2018, and $2,000 in 2019 of eligible patronage source income was distributed to offset patronage source income in each year. As a result, in prior years the Association incurred an immaterial amount of alternative minimum tax due to the alternative minimum tax net operating loss limitation. The Association is exempt from Puerto Rico income tax under Article 23 of the General Cooperative Act of 2004. The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31, 2019	2018	2017
Federal tax at statutory rate	$ 466	$ 695	$ 606
Patronage distributions	(248)	(221)	(595)
Tax-exempt FLCA earnings (losses)	(420)	(630)	(252)
Other	201	156	241
Provision (benefit) for income taxes	$ (1)	$ –	$ –

As discussed in Note 2, Income Taxes, the Board and management intend that the ACA will have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends, resulting in zero federal income tax. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences and has no net deferred tax assets.

There were no potential uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2019 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. At December 31, 2019 the Association has Federal loss carryforwards totaling approximately $1.5 million that expire in varying amounts beginning in 2030. The Association also has AMT credit carryforward of $45 thousand that does not expire and will be fully refunded by 2021.

The tax years that remains open for Federal and Puerto Rico income tax jurisdictions are 2016 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

2019	First	Second	Third	Fourth	Total
Net interest income	$ 1,374	$ 1,278	$ 1,209	$ 1,187	$ 5,048
Provision for (reversal of allowance for) loan losses	(44)	45	(61)	103	43
Noninterest income (expense), net	(741)	(733)	(748)	(563)	(2,785)
Net income (loss)	$ 677	$ 500	$ 522	$ 521	$ 2,220

2018	First	Second	Third	Fourth	Total
Net interest income	$ 1,146	$ 1,263	$ 1,389	$ 1,434	$ 5,232
Provision for (reversal of allowance for) loan losses	(15)	(28)	217	(444)	(270)
Noninterest income (expense), net	(284)	(842)	(738)	(329)	(2,193)
Net income (loss)	$ 877	$ 449	$ 434	$ 1,549	$ 3,309

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,191	$ 1,198	$ 781	$ 636	$ 3,806
Provision for (reversal of allowance for) loan losses	(18)	(94)	16	329	233
Noninterest income (expense), net	(670)	(426)	(747)	1	(1,842)
Net income (loss)	$ 539	$ 866	$ 18	$ 308	$ 1,731

Note 14 — Subsequent Events

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

PUERTO RICO
FARM CREDIT

PO Box 363649
San Juan, PR 00936-3649

2920