

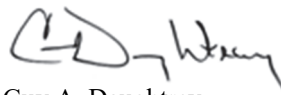
## Report of Management

The accompanying Consolidated Financial Statements and related financial information appearing throughout this annual report have been prepared by management of AgGeorgia 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.

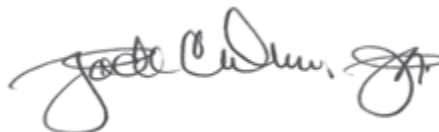
Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the 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.

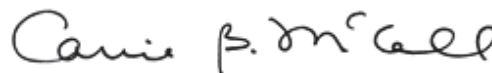
The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2018 Annual Report of AgGeorgia Farm Credit, ACA, that the report has been prepared under the oversight of the audit committee 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.



Guy A. Daughtrey  
Chairman of the Board



Jack C. Drew, Jr.  
Chief Executive Officer



Carrie B. McCall  
Chief Financial Officer

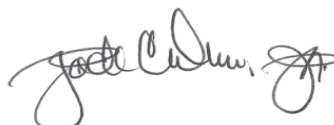
May 10, 2019

## Report on Internal Control Over Financial Reporting

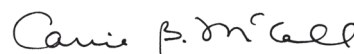
The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2018. 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, 2018, 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, 2018.



Jack C. Drew, Jr.  
Chief Executive Officer



Carrie B. McCall  
Chief Financial Officer

May 10, 2019

# Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	December 31,				
	2018	2017	2016	2015	2014
<b>Balance Sheet Data</b>					
Cash	\$ 133	\$ 168	\$ 1,238	\$ 445	\$ 80
Loans	909,697	858,632	827,611	831,115	830,645
Allowance for loan losses	(7,581)	(6,995)	(7,168)	(5,577)	(5,999)
Net loans	902,116	851,637	820,443	825,538	824,646
Equity investments in other Farm Credit institutions	10,683	10,372	10,297	10,445	10,876
Other property owned	2,673	1,297	4,025	2,342	8,269
Other assets	35,235	33,339	34,638	36,371	40,184
Total assets	<b>\$ 950,840</b>	<b>\$ 896,813</b>	<b>\$ 870,641</b>	<b>\$ 875,141</b>	<b>\$ 884,055</b>
Notes payable to AgFirst Farm Credit Bank*	<b>\$ 695,597</b>	<b>\$ 647,241</b>	<b>\$ 621,886</b>	<b>\$ 623,422</b>	<b>\$ 636,993</b>
Accrued interest payable and other liabilities with maturities of less than one year	17,661	19,513	24,977	20,495	21,746
Total liabilities	<b>713,258</b>	<b>666,754</b>	<b>646,863</b>	<b>643,917</b>	<b>658,739</b>
Protected borrower stock	—	—	—	1	5
Capital stock and participation certificates	4,131	4,017	3,912	3,889	3,796
Retained earnings					
Allocated	70,035	75,567	79,099	93,387	95,454
Unallocated	164,340	151,976	140,914	134,084	126,220
Accumulated other comprehensive income (loss)	(924)	(1,501)	(147)	(137)	(159)
Total members' equity	<b>237,582</b>	<b>230,059</b>	<b>223,778</b>	<b>231,224</b>	<b>225,316</b>
Total liabilities and members' equity	<b>\$ 950,840</b>	<b>\$ 896,813</b>	<b>\$ 870,641</b>	<b>\$ 875,141</b>	<b>\$ 884,055</b>
<b>Statement of Income Data</b>					
Net interest income	\$ 31,361	\$ 30,230	\$ 29,570	\$ 29,600	\$ 30,616
Provision for (reversal of allowance for) loan losses	539	75	(805)	(1,243)	(103)
Noninterest income (expense), net	(9,084)	(5,424)	(12,269)	(11,143)	(8,388)
Net income	<b>\$ 21,738</b>	<b>\$ 24,731</b>	<b>\$ 18,106</b>	<b>\$ 19,700</b>	<b>\$ 22,331</b>
<b>Key Financial Ratios</b>					
Rate of return on average:					
Total assets	2.36%	2.76%	2.08%	2.25%	2.52%
Total members' equity	9.33%	11.02%	7.86%	8.63%	10.11%
Net interest income as a percentage of					
average earning assets	3.52%	3.50%	3.54%	3.53%	3.63%
Net (chargeoffs) recoveries to average loans	0.005%	(0.029)%	0.287%	0.098%	(0.530)%
Total members' equity to total assets	24.99%	25.65%	25.70%	26.42%	25.49%
Debt to members' equity (:1)	3.00	2.90	2.89	2.78	2.92
Allowance for loan losses to loans	0.83%	0.81%	0.87%	0.67%	0.72%
Permanent capital ratio	23.21%	22.57%	25.56%	25.92%	25.02%
Total surplus ratio	**	**	25.10%	25.46%	24.57%
Core surplus ratio	**	**	20.96%	21.40%	20.92%
Common equity tier 1 capital ratio	23.03%	22.38%	**	**	**
Tier 1 capital ratio	23.03%	22.38%	**	**	**
Total regulatory capital ratio	23.84%	23.23%	**	**	**
Tier 1 leverage ratio	23.61%	23.38%	**	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	16.36%	15.64%	**	**	**
<b>Net Income Distribution</b>					
Estimated patronage refunds:					
Cash	\$ 3,978	\$ 4,089	\$ 3,355	\$ 3,520	\$ 4,040
Qualified allocated retained earnings	5,304	9,541	7,829	8,213	9,428

\* General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2019.

\*\* Not applicable due to changes in regulatory capital requirements effective January 1, 2017.

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

(dollars in thousands, except as noted)

## GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of AgGeorgia Farm Credit, ACA, (Association) for the year ended December 31, 2018 with comparisons to the years ended December 31, 2017 and December 31, 2016. 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 American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Georgia. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be 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](http://www.agfirst.com), or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, [www.aggeorgia.com](http://www.aggeorgia.com), or by calling 1-800-868-6404, or writing Carrie B. McCall, AgGeorgia Farm Credit, P.O. Box 1820, Perry, GA 31069. The Association prepares an

electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association. As noted on our Association website, the publication of the 2018 Annual Report was delayed due to Management identified irregularities affecting a small segment of the portfolio which has subsequently been resolved.

## FORWARD LOOKING INFORMATION

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

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

## AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to USDA information in this section refer to the

U.S. agricultural market data and are not limited to information/data in the Association's territory.

Production agriculture is a cyclical business that is heavily influenced by commodity prices, weather, tax and trade policies, interest rates and various other factors. From 2010 through 2014, the U.S. farm sector generally experienced favorable economic conditions driven by high commodity and livestock prices and increasing farmland values. This generally fostered improved financial strength across the farm sector, with farmer working capital peaking in 2012. Working capital is defined as the amount of cash and cash convertible assets minus liabilities due to creditors within 12 months. However, since 2014, the agricultural environment has been more challenging. Currency fluctuations, large inventories and current U.S. trade policies, including the retaliatory action by other countries, have begun to adversely impact demand and prices for agricultural exports, which have reduced net farm income (a broad measure of profits) and eroded farmer working capital. Higher interest rates could exacerbate the reduction in net farm income by increasing interest expense for farmers with floating-rate loans or other liabilities that reprice periodically to current market interest rates. The following table illustrates USDA data on net farm income and farmer working capital:

<i>(dollars in billions)</i>	Year Ended December 31,			
	2018*	2017	2016	2015
Net Farm Income	\$66.295	\$75.381	\$61.542	\$81.053
Farmer Working Capital	\$49.879	\$72.279	\$65.197	\$82.657

\*Forecasted

The substantial risk-bearing capacity, gained prior to 2015, has afforded U.S. crop producers time to transition their operations to the new environment of lower commodity prices, compressed margins and higher interest rates. Optimal input usage, adoption of cost-saving technologies, negotiation of adjustments to various business arrangements, such as rental cost of agriculture real estate, and effective use of hedging and other price risk management strategies are all critical in yielding positive net farm income for producers. Producers who are able to realize cost of production efficiencies and market their farm products effectively are most likely to adapt to the current price environment. However, if these current market conditions persist, farm sector financial strength will continue to weaken, challenging a greater number of producers who may not be able to sufficiently adjust their operations to avoid loan repayment challenges.

The February 2019 USDA forecast estimates 2018 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at \$95.0 billion, down \$9.0 billion from 2017. The forecasted decrease in farmers' net cash income for 2018 is primarily due to an expected increase in cash expenses of \$11.9 billion, led by increases in fuels/oil, interest, feed, and hired labor.

The February 2019 USDA outlook for the farm economy, as a whole, projects 2019 farmers' net cash income to increase to \$97.7 billion, a \$2.7 billion increase from 2018. The forecasted increase in farmers' net cash income for 2019 is primarily due to an expected decrease in cash expenses of \$4.4 billion and increase in cash receipts for crops of \$2.2 billion, partially offset by a decrease in direct government payments of \$2.8 billion.

As estimated by the USDA in November 2018, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) decreased slightly to 40.4 percent at December 31, 2017 (the latest available data), as compared with 40.9 percent at December 31, 2016.

While 2018 net farm income and working capital have declined, a healthy U.S. economy is expected to support domestic demand for most agricultural commodities in the foreseeable future. The primary area of risk will remain the export component of the demand for U.S. agricultural commodities, with a stronger dollar and ongoing uncertainty surrounding the future of U.S. trade policy. Major cash crops in the U.S. are projected to remain at elevated supply levels resulting from a combination of factors, including overall excellent crop conditions, tariffs and strong harvests in recent years. In addition to cash crops, pork and dairy are heavily dependent upon exports and most susceptible to foreign trade-related disruptions. The risk in the export component of the demand for U.S. agricultural commodities has been minimally mitigated by Market Facilitation Program assistance to producers impacted by retaliatory tariffs. Additionally, the revised Dairy Margin Protection Program in the 2018 Farm Bill and the new Dairy Revenue Protection Program will provide some support for dairy farmers. Mid-sized dairies, especially operations that are more highly leveraged or have high relative costs, will continue to face financial challenges at least into mid-2019.

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2015 to December 31, 2018:

Commodity	12/31/18	12/31/17	12/31/16	12/31/15
Hogs	\$43.40	\$48.60	\$43.10	\$42.80
Milk	\$16.40	\$17.20	\$18.90	\$17.30
Broilers	\$0.51	\$0.50	\$0.48	\$0.47
Turkeys	\$0.50	\$0.53	\$0.74	\$0.89
Corn	\$3.54	\$3.23	\$3.32	\$3.65
Soybeans	\$8.57	\$9.30	\$9.64	\$8.76
Wheat	\$5.28	\$4.50	\$3.90	\$4.75
Beef Cattle	\$117.00	\$118.00	\$111.00	\$122.00

In a prolonged period of less favorable conditions in agriculture, the Association's financial performance and credit quality measures would likely be negatively impacted. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

## CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these

policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

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

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

Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

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

significantly different results, which could have material positive or negative effects on the Association's results of operations.

## ECONOMIC CONDITIONS

Georgia is a uniquely diversified agricultural state, with production of the following commodities in order of total Farmgate value: Broilers, Cotton, Peanuts, Eggs, Timber, Beef, Greenhouse, Pecans, Dairy, and Horses.

In 2018, planted crop acreage in Georgia remained stable compared to 2017 though there was some movement within the commodities planted. Due to the elimination of the generic base acres and limited contracts offered on 2018 peanuts as a result of a 2017 surplus, there was a significant increase in cotton acreage planted. There was also a higher cotton price at planting time. Cotton acreage planted increased by 150 thousand acres to a total of 1.43 million acres. The cotton crop in Georgia looked very promising until mid-October when Hurricane Michael hit. The path of the hurricane traveled up from the gulf of Mexico through the panhandle of Florida and into Georgia, and the storm remained a category 1 hurricane as it moved through middle Georgia. Forecasters deemed it the strongest hurricane to hit the state in over 100 years, and the cotton crop sustained substantial losses. Initial estimates indicated a farm gate value loss from Hurricane Michael ranging from \$500 million to \$600 million for the Georgia cotton industry.

Peanut acreage decreased in 2018 by approximately 20.4 percent to a total planted of 665 thousand acres. Record production in 2017 led to a surplus in 2018, resulting in the decline in acreage planted. Even with the reduction in acreage, the peanut crop was strong for 2018. The USDA estimated yield for Georgia was 4,400 pounds per acre in November, which if that estimate comes to fruition, equates to total production of 1.4 million tons in Georgia. Hurricane Michael did not impact the peanut crops negatively as it did other crops in the state, but late rains did likely have an impact on late plantings. Contracted prices were in the \$400 to \$430 range. The expectation for 2019 is possibly a 5 to 10 percent decrease in acreage planted due to the surplus as well as to rotate acreage. Other row crops increased acreage to account for the decrease in peanut acreage. Corn acreage increased by 12.1 percent to 325 thousand acres and wheat increased for the first time in three years to 200 thousand acres. Planted acreage for soybeans declined for the third straight year to 140,000 acres.

In 2018, the poultry industry has experienced pressure from beef and pork which have become more available and more competitive in price. As a result chicken breast prices fell to near record lows in the third quarter of 2018. In Georgia, broiler placements have increased 3.6 percent in 2018 over 2017 levels. Bird weights were increasing, which coupled with the increased placements will lead to increased production of approximately 2.6 percent. Broiler consumption is expected to increase in 2019, but not as high a rate as pork or beef. The projections from USDA for 2019 are \$0.96 – \$1.04 per pound compared to the \$1.00 per pound average in 2018. Overall, consumption is expected to increase, exports are expected to increase and barring no major issues the industry should be profitable in 2019.

Beef cattle saw an improvement in 2018 of steer and heifer prices in Georgia. Increased cattle slaughter as well as an increase in average carcass weight by 2.3 pounds has contributed to an increase in production of 2.7 percent year over year. Looking ahead to 2019, domestic consumption is expected to increase by 2.3 percent and USDA is projecting a 2.5 percent increase in exports of beef. Cattle prices in Georgia are expected to follow a seasonal price pattern, and prices are expected to be higher in 2019, therefore profitability can be achieved if producers manage and market well.

Georgia continues to be one of the strongest milk-producing states in the Southeast, ranking second behind Florida. State production remained consistent with national production at approximately 1.8 billion pounds. Projections for 2019 are reflective of a 1 percent productivity increase. Georgia dairy farmers can expect to see average farm level milk prices in the \$19.70 to \$20.60 range for 2019.

The timber industry is fueled in large part by the housing industry. Housing starts are forecasted to increase 11.2 percent

in 2019 to work toward ending the shortage of existing homes. Hurricane Michael greatly impacted Georgia's forests, with an estimated two million acres damaged at an approximate loss of \$762 million. It remains to be seen how this will impact the 2019 timber demand, though there is a significant amount of timber standing as a result of delayed harvest due to wet weather and other events.

In summary, the outlook for Georgia in 2019 is mostly positive, despite one of the most catastrophic weather events in Georgia history occurring in late 2018. Georgia is one of the most successful states at landing economic projects, and we will continue to see businesses move to Georgia to cut costs. That is a positive for our overall economy as well as the timber industry as we expect more housing starts in 2019. The outlook for Georgia's largest commodities is mostly strong and if not strong, neutral. Some of Georgia's smaller agriculture industries are seeing growth, one of the largest being agritourism. Provided weather conditions are favorable and farmers capitalize on opportunities to maximize their margins, 2019 should be a mostly good year for most Georgia farmers.

## LOAN PORTFOLIO

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

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

Loan Type	December 31,					
	2018		2017		2016	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 573,691	63.06 %	\$ 517,852	60.31 %	\$ 451,111	54.51 %
Production and intermediate-term	306,432	33.69	314,981	36.68	351,330	42.45
Loans to Cooperatives	1,266	0.14	—	—	—	—
Processing and marketing	17,277	1.90	15,185	1.77	15,238	1.84
Farm-related business	1,372	0.15	1,000	0.12	1,380	0.17
Power and water/waste disposal	965	0.11	988	0.12	—	—
Rural residential real estate	6,807	0.75	5,563	0.65	6,667	0.81
International	1,887	0.21	1,886	0.22	1,885	0.23
Other (including Mission Related)	—	—	1,177	0.14	—	—
Total	\$ 909,697	100.00 %	\$ 858,632	100.00 %	\$ 827,611	100.00 %

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The geographic distribution of the loan volume by branch/city for the past three years is as follows:

Branch	December 31,		
	2018	2017	2016
Cartersville	5.62%	5.66%	5.78%
Chatsworth	6.73	6.23	5.84
Clarksville	3.59	3.78	3.73
Cordele	7.97	7.95	8.21
Dublin	4.42	4.57	4.96
Gainesville	5.60	4.47	4.61
Moultrie	3.97	4.00	3.74
Nashville	2.68	2.54	2.16
Ocilla	3.49	3.52	4.17
Perry	10.11	9.50	9.43
Quitman	3.72	3.39	3.78
Royston	12.32	12.87	12.67
Sandersville	4.34	4.86	5.33
Sylvester	3.58	3.72	3.22
Tifton	5.76	5.77	5.74
Washington	5.21	5.76	5.73
Waynesboro	3.98	4.07	4.59
Participations Purchased	5.17	4.89	4.33
Special Assets	1.74	2.45	1.98
	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial Classification (SIC) system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer. The major commodities in the Association loan portfolio are shown below. The predominant commodities are Poultry, Forestry, Cotton, and Livestock, which constitute approximately 70 percent of the entire portfolio at December 31, 2018.

Commodity Group	December 31,					
	2018		2017		2016	
	<i>(dollars in thousands)</i>					
Poultry	\$ 259,409	28%	\$ 243,097	29%	\$ 242,999	29%
Cotton	160,640	17	139,500	16	140,541	17
Forestry	132,361	14	117,764	14	101,538	12
Livestock	98,197	11	93,596	11	97,666	12
Row Crops	94,628	10	97,877	11	93,604	11
Horticulture	37,517	4	38,372	4	34,642	4
Peanuts	38,971	4	34,730	4	21,821	3
Landlords	31,722	3	31,312	4	30,499	4
Dairy	16,978	2	18,290	2	31,917	4
Rural Home	7,246	1	6,656	1	7,393	1
Other	46,819	5	37,438	4	24,991	3
Total	\$ 924,488	100%	\$ 858,632	100%	\$ 827,611	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the income of borrowers that is not associated with farming. The Association's loan portfolio contains a concentration of poultry producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations have diversified income sources that reduce overall risk exposure. Demand for poultry products, prices of feed, energy, and other inputs, as well as international trade are some of the factors affecting the income producing capacity in the poultry industry. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's

territory. Commodity concentration risk is also mitigated by the use of loan guarantees and standby letters of credit.

The increase in gross loan volume for the twelve months ended December 31, 2018, is primarily attributed to an increase in demand in most all sectors of our portfolio. A change in the Association's business model and reorganization of the staff to allow for specialization of job functions occurred in mid-2016 in order to focus on business development, which is one factor in the increase in volume. Also, the row crop sector experienced an increase in demand due to low commodity prices and high input costs, especially labor costs which contributed to the increase in volume as did an increase in carryover debt that were the result of losses suffered due to Hurricane Michael.

For the past few years, the Association has experienced a fairly balanced portfolio of long-term and short-term loan assets. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and rapidly declines in the fall months as commodities are marketed and proceeds are applied to repay operating type loans.

During 2018, the Association maintained activity in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen capital position.

Loan Participations:	December 31,		
	2018	2017	2016
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 24,309	\$ 18,272	\$ 24,663
Participations Purchased			
– Non-FCS Institutions	–	–	332
Participations Sold	(97,047)	(89,520)	(73,713)
Total	\$ (72,738)	\$ (71,248)	\$ (48,718)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2018.

## CREDIT RISK MANAGEMENT

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

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment



- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower’s credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower’s ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Regulatory limits allow for real estate mortgage loans 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. Appraisals are required for loans of more than \$250,000. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the 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	2018	2017	2016
Acceptable & OAEM	97.08%	97.36%	96.71%
Substandard	2.92%	2.64%	3.29%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

### Nonperforming Assets

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

High-risk Assets	December 31,		
	2018	2017	2016
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 12,560	\$ 17,122	\$ 16,635
Restructured loans	27,252	30,022	24,370
Accruing loans 90 days past due	–	–	–
Total high-risk loans	39,813	47,144	41,005
Other property owned	2,673	1,297	4,025
Total high-risk assets	\$ 42,486	\$ 48,441	\$ 45,030
<b>Ratios</b>			
Nonaccrual loans to total loans	1.39%	1.99%	2.01%
High-risk assets to total assets	4.47%	5.55%	5.17%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased \$4,562 or 26.6 percent in 2018. This decrease is primarily the result of aggressive management of high risk loans and several loans in the portfolio either liquidating in full or returning to the accruing loan portfolio due to sustained performance. Of the \$12,560 in nonaccrual volume at December 31, 2018, \$4,739 or 38 percent, compared to 29 percent and 53 percent at December 31, 2017 and 2016, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Other property owned increased in 2018 from \$1,297 to \$2,673, primarily due to the transfer of properties in late 2018. The Association currently owns or owns equity in 8 properties foreclosed upon in 2018, and 1 foreclosed upon in 2011.

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

### Allowance for Loan Losses

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

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

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2018	2017	2016
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 6,995	\$ 7,168	\$ 5,577
Charge-offs:			
Real estate mortgage	(2)	(83)	(74)
Production and intermediate-term	(791)	(498)	(517)
Agribusiness	(68)	(1)	—
Rural residential real estate	—	—	—
Total charge-offs	(861)	(582)	(591)
Recoveries:			
Real estate mortgage	31	56	1,071
Production and intermediate-term	875	278	1,617
Agribusiness	2	—	299
Total recoveries	908	334	2,987
Net (charge-offs) recoveries	47	(248)	2,396
Provision for (reversal of allowance for) loan losses	539	75	(805)
Balance at end of year	\$ 7,581	\$ 6,995	\$ 7,168
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.005%	(0.029)%	0.287%

The net loan recoveries were primarily associated with real estate and production and intermediate term loans and largely reflected full liquidations of nonaccrual loans that had balances previously charged off that were recovered in the course of liquidation.

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

Allowance for Loan Losses by Type	December 31,		
	2018	2017	2016
	<i>(dollars in thousands)</i>		
Real estate mortgage	\$ 2,987	\$ 2,763	\$ 2,208
Production and intermediate-term	4,521	4,185	4,835
Agribusiness	57	38	103
Power and water/waste disposal	1	1	—
Rural residential real estate	14	7	20
International	1	1	2
Total	\$ 7,581	\$ 6,995	\$ 7,168

### Noninterest Income

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

Noninterest Income	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2018/	2017/
	2018	2017	2016	2017	2016
	<i>(dollars in thousands)</i>				
Loan fees	\$ 691	\$ 650	\$ 568	6.31%	14.44%
Fees for financially related services	107	78	67	37.18	16.42
Patronage refund from other Farm Credit Institutions	11,467	11,930	9,146	(3.88)	30.44
Gains (losses) from sales of premises and equipment, net	127	102	127	24.51	(19.69)
Other noninterest income	7	26	6	(73.08)	333.33
Total noninterest income	\$ 12,399	\$ 12,786	\$ 9,914	(3.03)%	28.97%

Noninterest income decreased 3 percent from 2017 to 2018 and increased 29 percent from 2016 to 2017. The majority of noninterest income is related to Patronage refunds from other Farm Credit Institutions, primarily AgFirst Farm Credit Bank. The Association received general patronage in 2018 of \$5,071

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

Allowance for Loan Losses as a Percentage of:	December 31,		
	2018	2017	2016
Total loans	0.83%	0.81%	0.87%
Nonperforming loans	19.04%	14.84%	17.48%
Nonaccrual loans	60.36%	40.85%	43.09%

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

### RESULTS OF OPERATIONS

#### Net Interest Income

Net interest income was approximately \$31.4 million, \$30.2 million and \$29.5 million in 2018, 2017 and 2016, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income	Volume *	Rate	Total
	<i>(dollars in thousands)</i>		
<b>12/31/18 – 12/31/17</b>			
Interest income	\$ 2,369	\$ 2,186	\$ 4,555
Interest expense	769	2,407	3,176
Change in net interest income	\$ 1,600	\$ (221)	\$ 1,379
<b>12/31/17 – 12/31/16</b>			
Interest income	\$ 2,692	\$ 289	\$ 2,981
Interest expense	1,396	925	2,321
Change in net interest income	\$ 1,296	\$ (636)	\$ 660

\*Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods

compared to \$4,894 in 2017. The special patronage distribution received in 2018 was \$5,591 compared to \$6,277 in 2017. These are one time distributions of excess capital that are not considered to be recurring transactions. The amount of patronage refunds directly correlates to loan volume, as the

largest patronage refund from other institutions is the patronage from AgFirst which is based on the average volume of notes payable to AgFirst. Notes payable to AgFirst directly corresponds to loan volume outstanding. Both the general

patronage received each year from AgFirst and the Special Patronage received from AgFirst this year is based upon the average volume of notes payable to AgFirst.

### Noninterest Expense

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

Noninterest Expense	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2018/	2017/
	2018	2017	2016	2017	2016
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 11,222	\$ 10,493	\$ 10,303	6.95%	1.84%
Postretirement Benefits	3,463	397	5,610	772.29	(92.92)
Occupancy and equipment	975	953	994	2.31	(4.12)
Insurance Fund premiums	599	955	1,032	(37.28)	(7.46)
(Gains)/Losses on OPO, net	60	886	55	(93.23)	1,510.91
Other operating expense	5,663	4,540	4,193	24.74	8.28
Total noninterest expense	\$ 21,982	\$ 18,224	\$ 22,158	20.62%	(17.86)%

Salaries and employee benefits increased in 2018, compared to 2017, as a result of both increased salary expense and increased benefit costs. Postretirement benefits increased by \$3,066 or 772 percent, which is the result of a one time change in accounting methodology in 2017. During 2017, the method of recording expenses for the Association's defined benefit pension plan and other postretirement benefit plan was modified. This change resulted in the reduction of Other Assets by \$5,696 and the reduction of Other Liabilities by \$9,216 on the Association's Balance Sheets, and a corresponding reduction of postretirement benefit costs on the Association's Statements of Income of \$3,520 during 2017. Refer to Note 9, Employee Benefit Plans, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

Insurance Fund premiums decreased 7 percent for the twelve months ended December 31, 2018, compared to the same period of 2017. The Farm Credit System Insurance Corporation (FCSIC) changed the assessed premium rate for 2018. The premiums assessed for 2018 were 9 basis points on average outstanding debt, compared to, 15 basis points in 2017, and 10 basis points on the average principal balance outstanding on nonaccrual loans, which remained unchanged in 2018 compared to 2017.

After experiencing several years of significant losses on other property owned, in 2016 we began to see a stabilization of land values, we recorded a net loss for 2017 of \$886, and a net loss of \$55 in 2018. The loss in 2017 is primarily related to one large property due to its specialized nature as well as major expenses the Association incurred while the property was in inventory.

Other operating expense is primarily related to advertising and marketing costs, training and travel costs, communications and data costs, and insurance costs associated with the operation of the Association such as General Liability, Fleet Auto, Blanket Bond, and Director's and Officer's Liability.

### Income Taxes

The Association recorded an income tax provision of \$11 for the year ended December 31, 2018, as compared to a provision of \$(14) for 2017 and a provision of \$25 for 2016. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

### Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended		
	2018	2017	2016
Return on average assets	2.36%	2.76%	2.08%
Return on average members' equity	9.33%	11.02%	7.86%
Net interest income as a percentage of average earning assets	3.52%	3.50%	3.54%
Net (charge-offs) recoveries to average loans	0.005%	(0.029)%	0.287%

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

## LIQUIDITY AND FUNDING SOURCES

### *Liquidity and Funding*

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

Total notes payable to the Bank at December 31, 2018, was \$695,597 as compared to \$647,241 at December 31, 2017 and \$621,886 at December 31, 2016. The increase of 7.5 percent and increase of 4.1 percent compared to December 31, 2017 and December 31, 2016, respectively, directly corresponds to the level of loan volume of the Association. The average volume of outstanding notes payable to the Bank was \$676,191, \$652,576, and \$623,919 for the years ended December 31, 2018, 2017, and 2016, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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

The Association had no lines of credit from third party financial institutions as of December 31, 2018. On March 20, 2019, the Bank approved a waiver of the Association's events of default under the GFA.

### *Funds Management*

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR), though LIBOR is being phased out which is discussed later in this report in the "LIBOR Transition" section. Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity. The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

### *Relationship with the Bank*

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

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

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

## CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2016 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2018, increased 3.3 percent to \$237,582 from the December 31, 2017 total of \$230,059. At December 31, 2017 total members' equity increased 2.8 percent from the December 31, 2016 total of \$223,778. These increases are due to nonrecurring income in 2017 – special patronage from AgFirst and the change in accounting estimate for pension and other post-retirement employee benefits in 2017 – and the amount retained as allocated and unallocated surplus being greater than that revolved and paid out.

Total capital stock and participation certificates were \$4,131 on December 31, 2018, compared to \$4,017 on December 31, 2017 and \$3,912 on December 31, 2016. These increases were attributed to a greater amount of stock issued than retired in the normal course of business.

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

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

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

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

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, 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, 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 assets less regulatory deductions to tier 1 capital.
- The 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 assets less regulatory deductions to tier 1 capital.

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

<b>Ratio</b>	<b>Minimum Requirement</b>	<b>Capital Conservation Buffer*</b>	<b>Minimum Requirement with Capital Conservation Buffer</b>	<b>Capital Ratios as of December 31, 2018</b>
<b>Risk-adjusted ratios:</b>				
CET1 Capital Ratio	4.5%	0.625%	5.125%	23.03%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	23.03%
Total Capital Ratio	8.0%	0.625%	8.625%	23.84%
Permanent Capital Ratio	7.0%	0.0%	7.0%	23.21%
<b>Non-risk-adjusted:</b>				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	23.61%
UREE Leverage Ratio	1.5%	0.0%	1.5%	16.36%

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

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

See Note 7, *Members' Equity*, of 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, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members’ Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions (current estimates) of \$9,284 in 2018, \$13,630 in 2017, and \$11,184 in 2016.

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

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. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. 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 Association exceeded the 3 percent business plan goal for increase in number of YBS loans by 2.1 percent with a 5.1 percent overall increase in number of YBS loans and exceeded the 3 percent goal for increase in volume with an 8.4 percent overall increase in volume of YBS loans in 2018.

The 2012 USDA Ag census data has been used as a benchmark to measure penetration of the Association’s marketing efforts. The census data indicated that within the Association’s chartered territory (counties) there were 23,748 reported farmers of which by definition 1,045 or 4.4 percent were Young, 4,719 or 19.9 percent were Beginning, and 19,994 or 84.2 percent were Small. Comparatively, as of December 31, 2018, the demographics of the Association’s agricultural portfolio contained 4,653 farmers, of which by definition 795 or 17.1 percent were Young, 1,724 or 37.1 percent were Beginning and 3,180 or 68.3 percent were Small. Thus, Young and Beginning farmers are overall much better represented in the Association’s agricultural portfolio than in the chartered territory of the Association, indicative of the Association’s marketing efforts towards these groups. Small farmers, however, were recognized as being represented less in the Association portfolio than in the territory.

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2018	
	Number of Loans	Amount of Loans
Young	1,160	\$122,808
Beginning	2,255	243,940
Small	4,383	310,388

*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 Association focuses on education and financial support in helping YBS farmers finance their operations. Educational programs include seminars, speaking opportunities and training sessions, which are conducted throughout the year. These educational opportunities are both in-house, in the form of events held by the Association, and external, in which case, the Association provides a speaker or provides educational materials. In particular, the Association uses its AgAware courses, started in the AgGeorgia territory in 2015, as a way to train and educate YBS farmers in areas such as financial planning, budgeting, succession planning, risk management and other pertinent topics for YBS farmers. The Association website, [www.aggeorgia.com](http://www.aggeorgia.com), includes an entire section of information and resources for YBS visitors to the site.

Educational programs also include those activities in which the Association participates in local events as a sponsor (such as 4-H and FFA fairs) or as an exhibitor (such as industry or trade shows).

The focus on 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 includes programs such as those offered by the Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers. The Association is a “preferred lender,” the highest status designated by FSA.

A senior executive oversees the YBS program and coordinates the efforts of other staff members. The Association includes YBS goals in the annual strategic 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 thousand in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

## REGULATORY MATTERS

On May 10, 2018, the Farm Credit Administration adopted a final rule that amends the regulations governing investments of System banks and associations. The final rule strengthens eligibility criteria for the investments the banks may purchase and hold. It also implements Section 939A of the Dodd-Frank Act by removing references to and requirements for credit ratings and substitutes the eligibility requirement with other appropriate standards of credit worthiness. In addition, it grants associations greater flexibility regarding the risk management purposes for investments and limits the type and amount of investments that an association may hold. Only securities that are issued by, or are unconditionally guaranteed or insured as to the timely payment of principal and interest by, the U.S. government or its agencies are eligible for association risk management purposes. An association may purchase and hold investments not to exceed 10 percent of its 90-day average daily balance of outstanding loans on the last business day of the quarter. The final rule became effective January 1, 2019.

### *Farm Bill*

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This new Farm Bill will govern an array of federal farm and food programs, including commodity price support payments, farm credit, conservation programs, research, rural development and foreign and domestic food programs for five years through 2023. The new Farm Bill continues to provide support for crop insurance and commodity support programs, strengthen livestock disaster programs, and provides dairy producers with an updated voluntary margin protection program that will provide additional risk management options to dairy operations.

The Farm Bill also clarifies and updates the Insurance Corporation's authorities to act as conservator or receiver of a System institution. The Congressional Conference Committee report states that Congress intends "for the authorities of the Corporation to be functionally equivalent to the parallel authorities of the Federal Deposit Insurance Corporation." In addition, the Farm Bill provides, among other authorities, the Insurance Corporation with the authority to organize, and the Farm Credit Administration to charter, a System bridge bank, which has all the powers of a System bank with a maximum life span of five years.

Many provisions of the Farm Bill will require the United States Department of Agriculture to develop rules and procedures to fully implement these authorities. The timing for the issuance of those rules is uncertain.

## LIBOR TRANSITION

On July 27, 2017, the United Kingdom Financial Conduct Authority (the Conduct Authority) announced that it will no longer persuade or compel such banks to submit rates for the calculation of the LIBOR rates after 2021. The Conduct Authority regulates the panel banks that submit quotes for the purpose of calculating LIBOR to the Intercontinental Exchange (ICE) Benchmark Administration (the entity that is responsible

for calculating LIBOR). Accordingly, it is uncertain whether the ICE Benchmark Administration will continue to quote LIBOR after 2021. Furthermore, in the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR and the Federal Reserve Bank of New York began publishing SOFR in April of 2018. SOFR is based on a broad segment of the overnight Treasury repurchase market and is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

At this time, it is not possible to predict, among other uncertainties, whether (i) LIBOR will be discontinued, (ii) the effect of any changes to the methodology for calculating LIBOR, or (iii) any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom, in the United States or elsewhere. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR based instruments, including certain of the Systemwide Debt Securities, System borrowings, loans, investments, derivatives, other System assets and liabilities and preferred stock that are indexed to LIBOR. Accordingly, reform of, or the replacement or disappearance of, LIBOR and the proposed regulation of LIBOR and other "benchmarks" may adversely affect the rates of interest the System pays on its Systemwide Debt Securities (including changes to their value and liquidity, return, and usefulness for intended purpose), on other borrowings and preferred stock, as well as the value of and return on loans and investments and the value and effectiveness of derivatives. This could adversely affect the System's cash flows. Moreover, if LIBOR is replaced, System institutions will need to take steps to restructure their debt and derivatives, which could adversely affect operations.

The System institutions are currently evaluating the potential impact of the eventual replacement of the LIBOR benchmark interest rate, including the possibility of using SOFR as the alternative to LIBOR. While each system institution is required by the regulator to have a transition plan, the transition from LIBOR to SOFR is expected to be complex and to include the development of term and credit adjustments to minimize, to the extent possible, discrepancies between LIBOR and SOFR. Accordingly, the transition may introduce additional basis risk for market participants, including when an alternative index, e.g., SOFR, exists in conjunction with LIBOR. There can be no guarantee that SOFR will become the dominant alternative to U.S. dollar LIBOR or that SOFR will be widely used. In addition, other alternatives may or may not be developed with additional complications.

Changes in LIBOR may result in interest rates and/or payments that are higher or lower than, or that do not otherwise correlate over time with, the interest rates and/or payments that would have been associated with LIBOR-based Systemwide Debt Securities, or loans or investments that are based on LIBOR, which may increase or decrease the payments to be made on such LIBOR-based Systemwide Debt Securities, or loans or investments that are based on LIBOR.

**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
<b><i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i></b>	
<ul style="list-style-type: none"> <li>• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets.</li> <li>• Changes the present incurred loss impairment guidance for loans to a CECL model.</li> <li>• The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>• Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.</li> </ul>	<ul style="list-style-type: none"> <li>• The Association has begun implementation efforts by establishing a cross-discipline governance structure and will implement a third-party model. The Association is currently identifying key interpretive issues and assessing processes against the new guidance to determine what modifications may be required.</li> <li>• The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including:               <ol style="list-style-type: none"> <li>1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,</li> <li>2. An allowance will be established for estimated credit losses on any debt securities,</li> <li>3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.</li> </ol> </li> <li>• The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association’s portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date.</li> <li>• The Association expects to adopt the guidance in first quarter 2021.</li> </ul>
<b><i>ASU 2016-02 – Leases (Topic 842)</i></b>	
<ul style="list-style-type: none"> <li>• Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments.</li> <li>• Lessor accounting activities are largely unchanged from existing lease accounting.</li> <li>• The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification.</li> <li>• Also, expands qualitative and quantitative disclosures of leasing arrangements.</li> <li>• Requires adoption using a modified cumulative-effect approach wherein the guidance is applied to all periods presented. A recent amendment provides an additional (and optional) transition method to adopt the new leases standard. Under this new 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.</li> <li>• Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>• The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees.</li> <li>• The Association completed its evaluation of leasing contracts and activities and developed its methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments. There will not be a material change to the timing of expense recognition.</li> <li>• Given the limited changes to lessor accounting, there were no material changes to recognition or measurement for the Association.</li> <li>• The Association will need to provide additional disclosure information as a result of adopting the Update.</li> <li>• The Association will adopt the guidance in first quarter 2019 using the optional modified retrospective method and practical expedients for transition.</li> <li>• Upon adoption, the Association will record a cumulative-effect adjustment to equity of approximately \$3. In addition, a Right of Use Asset in the amount of \$153 and Lease Liability in the amount of \$150 will be recorded.</li> </ul>



# *Disclosure Required by Farm Credit Administration Regulations*

## Description of Business

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

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

## Unincorporated Business Entities

The Association has an interest in two Unincorporated Business Entities (UBEs) that were formed for the purpose of acquiring and managing collateral associated with loans in which the Association was a participant. The UBEs in which the Association has an interest in are as follows:

A-1 Ledges Wilder, LLC - A-1 Ledges Wilder, LLC is a Limited Liability Company. It was organized for the stated purpose of acquiring, holding, and preserving the former assets of J. J. Detweiler Enterprises, Inc. until such time as such assets may be sold.

A-1 Sequatchie Pointe, LLC - A-1 Sequatchie Pointe, LLC is a Limited Liability Company. It was organized for the stated purpose of acquiring, holding and preserving the former assets of J. J. Detweiler Enterprises, Inc. until such time as such assets may be sold.

## Description of Property

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

Location	Description	Form of Ownership
1300 East Main Street Cartersville 30120	Branch	Owned
102 Blacksnake Road Clarksville/Mt. Airy 30563	Branch	Owned
1207 South Greer Street Cordele 31015	Branch	Owned
19 Woodlake Drive Chatsworth 30705	Branch	Owned
826 Bellevue Avenue Dublin 31021	Branch	Owned
501 Broad Street Gainesville 30501	Branch	Owned
700 East Villanow LaFayette 30728	Outpost of Chatsworth Branch	Owned
317 Walnut Street Montezuma, GA	Outpost of Perry Branch	Leased*
22 5th Avenue, SE Moultrie 31768	Branch	Owned
707 North Davis Street Nashville 31639	Branch	Owned
302 South Cherry Street Ocilla 31774	Branch	Owned
468 Perry Parkway Perry 31069	Corporate Office & Branch	Owned
504 East Screven Street Quitman 31643	Branch	Owned
701 East Second Avenue Rome 30162	Outpost of Cartersville Branch	Leased**
675 Church Street Royston 30662	Branch	Leased***
449 Franklin Springs Street Royston, GA 30662	New Branch Site	Owned
Hobbs Street Royston, GA	2.81 Acres in 1113 <sup>th</sup> G.M. District, Hart Co.	Owned
775 Sparta Road Sandersville 31082	Branch	Owned
102 Dexter Wilson Blvd. Sylvester 31791	Branch	Owned
1807 King Road Tifton 31793	Branch	Owned
U.S. 78, 311 North Bypass Washington 30673	Branch	Owned
176 Highway 80 West Waynesboro 30830	Branch	Owned

\*Lease for 5 years expiring in 2018 (\$1,500/month); cancelable with 90 days notice. Lease was renewed for 1 year to expire at the end of 2019.

\*\*Lease expires 02/28/2022 (\$1,800/month); cancelable with 90 days notice.

\*\*\*Lease expires 02/26/2019 (\$2,000/month); with option to renew for 6 months.

**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 intrasystem financial assistance rights 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 and their business experience for the past five years:

<b>Name and Title</b>	<b>Term of Office</b>	<b>Prior Experience</b>
Jack C. Drew, Jr. President & Chief Executive Officer	1/1/2010-present	
Carrie B. McCall Executive Vice President/Treasurer & Chief Financial Officer	11/16/2006 - present	
Zachary T. Purvis Executive Vice President & Chief Lending Officer	2/1/2016 – present	AgFirst Farm Credit Bank VP/Executive Account Manager and other positions from October 2010 thru January 2016
Stephen G. Connelly Executive Vice President & Director of Information Technology	12/1/2010-present	
Corey W. Cottle Executive Vice President & Director of Marketing	5/1/2013 – present	Branch Manager and Loan Officer since 2005
Timothy H. Dean, Executive Vice President & Chief Appraiser	7/1/2011-present	
T. Lacy Royal Executive Vice President & Retail Lending Manager	4/1/2008-present	
Brandie L. Thompson Executive Vice President & Risk Manager	12/1/2016-present	Controller and other positions since October 2004
Stephen M. Yearta Executive Vice President & Commercial Lending Manager	7/1/2009-present	

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2018, 2017 and 2016, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Change in Pension Value†	Perq/ Other*	Total
Jack C. Drew, Jr.	2018	\$ 395,716	\$ 79,140	\$ (124,802)	\$ 8,332	\$ 356,944
Jack C. Drew, Jr.	2017	\$ 384,189	\$ 76,835	\$ 1,668,669	\$ 9,753	\$ 2,139,446
Jack C. Drew, Jr.	2016	\$ 384,189	\$ 79,473	\$ 220,511	\$ 7,948	\$ 692,121
9	2018	\$ 1,357,552	\$ 366,657	\$ (141,020)	\$ 29,616	\$ 1,612,805
8	2017	\$ 1,215,963	\$ 301,326	\$ 881,814	\$ 27,159	\$ 2,426,262
8	2016	\$ 1,362,770	\$ 265,102	\$ 962,415	\$ 39,936	\$ 2,630,223

\*Primarily comprised of group life insurance premiums, relocation expenses and automobile compensation.

† The increase in 2017 for the CEO is related to the addition to the Supplemental Executive Retirement Plan (SERP) and subsequent funding of that plan.

The disclosure of information on the total compensation paid during 2018 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

**Pension Benefits Table**  
As of December 31, 2018

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2018
<b>CEO:</b>					
Jack C. Drew, Jr.	2018	AgFirst Retirement Plan	38.42	\$ 1,400,382	\$ -
Jack C. Drew, Jr.	2018	Supplemental Executive Retirement Plan	38.42	2,826,311	-
				<u>\$ 4,226,693</u>	<u>\$ -</u>
<b>Senior Officers and Highly Compensated Employees:</b>					
4 Officers, excluding the CEO	2018	AgFirst Retirement Plan	31.67*	\$ 5,411,252	\$ -
				<u>\$ 5,411,252</u>	<u>\$ -</u>

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

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 discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa. Also at December 31, 2017, the life expectancy actuarial assumption was updated to reflect mortality studies indicating longer life spans. This change further increased pension values as the benefit payments are expected to be made for a longer time span.

Section 415 of the Internal Revenue Code (Code) provides for dollar limitations on benefits and contributions under qualified retirement plans. This limitation on annual benefit restricts highly compensated employees from receiving their full pension benefit relative to others under a defined benefit plan.

In order to provide the current CEO with a pension commensurate with his years of service, performance and salary, the board of directors elected to add him to an existing Supplemental Executive Retirement Plan (SERP) to make his total pension calculation equivalent to an employee not subject to the limitation of IRS Section 415. A SERP is a deferred

compensation agreement between the employer and the key executive whereby the employer agrees to provide supplemental retirement income to the executive if certain pre-agreed eligibility and vesting conditions are met by the executive. The board elected to fully fund the SERP in 2017, which resulted in a high change in pension value for in the CEO compensation table.

### CEO and Senior Officer Compensation

The Association strives to award compensation in a manner that is competitive in the market place, encourages retention and rewards employees for quantitative results-based performance metrics. Each year, the Compensation Committee reviews market studies for key positions to determine if the Association's compensation packages for the CEO and Senior Officers are in line with the market for those positions. A grading system ranks positions in pay ranges where the mid-point of the range is considered to be the market salary for that position.

The CEO's compensation package consists of a base salary, benefits and incentive opportunity. Compensation increases are awarded on an annual basis, and are based upon the association's financial performance in the areas of financial and operations, credit, audit, appraisal, marketing and business development and human resources. These metrics are determined by association performance standards set each year by the Board of Directors, and actual performance is measured

against those standards. Financial and operations metrics include net income performance to budget, return on assets, return on equity, capital ratios and efficiency ratios. Metrics include credit quality, nonearning assets as a percentage of total assets, credit administration, delinquency ratio, and appraisal quality. Marketing and Development metrics include loan growth and results of an annual customer satisfaction survey, which are measured against the budget and standard set for those metrics. The human resources metric is budgeted personnel costs, and actual performance is measured against that budget amount. Performance versus metrics is measured annually and discussed each February by the Board Compensation Committee. Any salary increase for the CEO is determined by the Compensation Committee, and any increase awarded is paid retroactively to January 1<sup>st</sup>.

The CEO administers, but does not participate in the Incentive Plan in which all other employees, including the Senior Officers, participate. The CEO's incentive is determined solely at the discretion of the Board of Directors. Factors that may be considered in awarding the CEO an incentive are performance of the Association, and market studies of incentives granted by similar size associations and companies. CEO incentive is typically awarded by the Compensation Committee during the fourth quarter and paid in December. The incentive awarded the CEO in 2018 was paid in December at the same time other Association employees were paid per the stipulations in the Incentive Plan.

The Senior Officers' compensation also consists of base salary, benefits, and incentive. Senior Officer compensation is administered annually, and increases are based on meeting qualitative and quantitative performance standards set forth each year. Senior Officers are measured by essentially the same standards as the CEO. Actual performance against metrics such as return on assets, return on equity, capital ratios, credit quality, delinquency ratios, loan growth, credit administration and nonearning assets to total assets are the basis for determining pay increases for this group. Senior officer compensation is reviewed annually, and any increases are paid beginning February 15th, retroactively to January 1<sup>st</sup>. Senior Officers participate in the same incentive plan as other Association employees, as detailed below.

The Association's CEO and Senior Officers participate in various employee benefit plans that are available to all employees under the same terms and conditions. These include health insurance, life insurance, dental insurance, and pension benefits. Because the CEO and Senior Officers receive these benefits on the same basis as other employees, they are not determined separately by the Compensation Committee for the CEO and Senior Officers.

The Incentive Plan is based on a fiscal year and is designed to motivate employees to exceed performance targets established by the Board of Directors. The Incentive Plan period is January 1, 2018 through December 31, 2018, and all employees eligible for benefits were eligible under this plan except as shown below.

- ❖ The Association CEO will administer all parts of the AgGeorgia Incentive Plan and will, therefore, not be eligible for distributions under any part of the plan. CEO bonus and/or incentive payments will be recommended by

the Compensation Committee and approved by the Board of Directors.

- ❖ The Incentive Plan is divided into three distinct plans – the Administrative Plan which includes all employees, the Individual Plan which includes primarily credit staff and the Discretionary Plan which is at the discretion of the CEO.
- ❖ A combined payment to an individual employee under the plan shall not exceed 40% of regular pay (including any retroactive pay and overtime pay).

The Administrative Plan is based on key performance indicators such as return on assets, efficiency, credit quality and nonearning assets to total assets ratio. It is a tiered plan, with higher earning opportunities for those not included in the Individual plan. The Individual Plan is based on each individual's goals and standards of performance. Once a covered individual reaches their standard, they begin earning incentive for that criteria. There are clawback features in the plan for loans that are made with poor credit administration or that move to nonaccrual status within 24 months after an employee is paid an incentive for that loan.

The board approved 50% of the estimated Administrative Plan benefit to be paid out in December with the remainder of the Administrative Plan and the entirety of the Individual Plan paid during February 2019 when final numbers are calculated.

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

## Directors

The following chart details the year the director began serving on the board and the current term of expiration:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION
Guy A. Daughtrey, <i>Chairman</i>	2001	2020
Richard D. "Dave" Neff, <i>Vice-Chairman, Outside Director</i>	2002	2/2021
Jack W. Bentley, Jr.	1985	2018*
W. Howard Brown	2015	2021
Billy J. Clary	1986	2020
R. Brian Grogan	2018	2019
Ronney S. Ledford	1986	2019
Robert "Bobby" G. Miller,	1991	2021
J. Dan Raines, Jr.	1981	2020
George R. Reeves	1982	2018*
Joe A. "Al" Rowland	2018	2018*
Anne G. Smith	2001	2021
David H. Smith	1991	2019
Glee C. Smith, <i>Outside Director</i>	2013	2/2019
Franklin B. Wright	1991	2020

\*Director re-elected to a four (4) year term expiring 12/31/2022.

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

**Guy A. Daughtrey, Chairman**, is a pecan grower and shipper, and also a pine and softwood timber grower. He is an auditor

employed by Southern Company (regional energy company), and he serves on the South Georgia Regional Commission (an 18 county, 45 city regional intergovernmental coordination and long term planning agency).

**Richard D. “Dave” Neff, Vice-Chairman, Outside Director**, retired as a poultry industry marketing and business development executive in late 2018. He was employed by International Poultry Breeders/Wincorp International, Inc. until his retirement in November 2018.

**Jack W. Bentley, Jr.**, is owner/operator of A & J Dairy. He also serves on the boards of AgFirst Farm Credit Bank (cooperative banking services); the American Dairy Association of Georgia (trade association and milk promotion); the Southeast United Dairy Industry Association (trade association and milk promotion), the Wilkes County Farm Bureau (insurance sales and ag promotion and development), Lonestar Milk Producers (milk production), and the USDA FSA (government farm program).

**W. Howard Brown** is a row crop farmer growing vegetables, soybeans, cotton, peanuts, corn, and silage; he has a pecan and peach operation, works in agritourism, and is owner/operator of Georgia Peas and Produce (crop production and sales). He also serves on the boards of the Macon County Zoning Commission (development, planning and zoning), and the Macon County Farm Bureau (insurance broker, ag promotion and development).

**Billy J. Clary** is a row crop farmer growing cotton and peanuts, and is part owner of Arabi Peanut Company (crop production and sales).

**R. Brian Grogan** is a broiler producer, has an angus/sim-angus operation, and grows feed corn, hay and forage.

**Ronney S. Ledford** is a row crop farmer growing cotton and peanuts.

**Robert “Bobby” G. Miller** has a cow-calf operation and manages rental properties and real estate. He serves as manager on the boards of H. R. Miller, LLC, RGM Foothills Properties, LLC, and Jebeha, LLC (commercial and residential rentals and real estate). Mr. Miller is the Association’s Financial Expert appointed by the board.

**J. Dan Raines, Jr.**, has a cow-calf operation, and softwood and timber operation. He serves as a director of the Ashburn Housing Authority (public housing oversight).

**George R. Reeves** has a cow/calf operation. He serves on the boards of the McDuffie County Farm Bureau (insurance broker, ag promotion and development), and the McDuffie County Soil and Water Conservation District (conservation of natural resources), and as chairman of the McDuffie, Warren, Columbia and Richmond FSA Committee (government farm programs).

**Joe A. “Al” Rowland** is a row crop farmer growing cotton, peanuts, rye and hay, and operates a small scale trucking company that transports agricultural products. He also serves as a director of the Johnson County Farm Bureau (insurance broker, ag promotion and development).

**Anne G. Smith** is a broiler chicken grower and has a cow-calf operation.

**David H. Smith** is row crop farmer growing cotton, and is an owner/operator of Tri County Gin, LLC (cotton ginning/processing), and Carroll Fertilizer, LLC (commercial and residential fertilizer production and sales).

**Glee C. Smith, Outside Director**, is a private practice attorney, and is owner/president of GCS Enterprises, Inc. (rental property).

**Franklin B. Wright** is a dairy farmer, and works in general dairy products and agritourism. He also serves on the boards of Wright Development, Inc. (land development), and the Gilmer County Farm Bureau (insurance broker, ag promotion and development).

#### **Director Compensation**

Subject to approval by the board, the Association may allow directors honoraria of \$500 for attendance at meetings, committee meetings, or special assignments. They are also paid \$100 for participating in conference calls. Directors are paid a quarterly retainer fee of \$1,250 except for the chairman of the board who receives \$1,500. Total compensation paid to directors as a group was \$377,900 for 2018, compared to \$308,700 for 2017. No director received more than \$5,000 in non-cash compensation during the year.

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

Name of Director	Days Served		Committee Assignments	Comp. Paid for other Activities*	Qtrly Retainer and Regular Meeting Compensation	Total Compensation for 2018
	Regular Board Meetings	Other Official Activities*				
Guy A. Daughtrey, <i>Board Chairman</i>	9	44	Executive, Credit Review, Audit, Compensation, Credit Risk, Governance, Ad Hoc Budget, Ad Hoc Building	\$21,200	\$10,250	\$31,450
Richard D. "Dave" Neff <i>Board Vice-Chairman</i> <i>Outside Director</i>	9	32	Executive, Credit Review, Governance, Ad Hoc Budget, Ad Hoc Building	\$16,000	\$9,500	\$25,500
Jack W. Bentley, Jr.	9	39	Executive, Credit Review, Compensation, Credit Risk, Ad Hoc Building	\$19,500	\$9,500	\$29,000
W. Howard Brown	8	21	Executive, Credit Review, Audit, Compensation	\$8,300	\$8,500	\$16,800
Billy J. Clary	9	16	Executive, Credit Review, Credit Risk, Governance	\$8,000	\$9,500	\$17,500
R. Brian Grogan	9	37	Executive, Credit Review, Audit	\$17,700	\$9,500	\$27,200
Ronney S. Ledford	8	25	Executive, Credit Review, Compensation, Governance	\$12,500	\$9,000	\$21,500
Robert G. Miller	9	36	Executive, Credit Review, Audit (Financial Expert), Ad Hoc Budget, Ad Hoc Building	\$17,200	\$9,750	\$26,950
J. Dan Raines, Jr.	9	34	Executive, Credit Review, Credit Risk, Ad Hoc Budget	\$17,000	\$9,500	\$26,500
George R. Reeves, <i>Audit Committee Chairman</i>	9	30	Executive, Credit Review, Audit, Credit Risk	\$14,200	\$9,500	\$23,700
Joe A. "Al" Rowland	9	35	Executive, Credit Review, Governance	\$17,500	\$9,500	\$27,000
Anne G. Smith	9	34	Executive, Credit Review, Governance, Ad Hoc Budget, Ad Hoc Building	\$17,000	\$9,500	\$26,500
David H. Smith**	7	22	Executive, Credit Review, Ad Hoc Budget, Ad Hoc Building	\$11,000	\$8,500	\$19,500
Glee C. Smith <i>Outside Director</i>	9	41	Executive, Credit Review, Compensation, Credit Risk	\$20,100	\$9,500	\$29,600
Franklin B. Wright	9	41	Executive, Credit Review, Audit, Compensation	\$19,700	\$9,500	\$29,200
						<u>\$377,900</u>

\*Includes board committee meetings and other board activities other than regular board meetings.

\*\* Director, Mr. David H. Smith attended less than 75% of the Committee Meetings to which he was assigned in 2018.

Directors 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 of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the expense policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$226,319 for 2018, \$215,680 for 2017, and \$175,307 for 2016.

#### Transactions with Senior Officers and Directors

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

#### Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal

proceedings during the last five years which require reporting per FCA regulations.

#### Relationship with Independent Auditors

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

Aggregate fees incurred by the Association for services rendered by its independent auditors for the year ended December 31, 2018 were as follows:

	<u>2018</u>
<i>Independent Auditors</i>	
PricewaterhouseCoopers LLP	
Audit services	\$ 49,001
Total	<u>\$ 49,001</u>

Audit fees were for the annual audit of the Consolidated Financial Statements. There were no nonaudit services provided by the Association's independent auditors during 2018. All nonaudit service fees incurred by the Association require approval by the Audit Committee.

#### Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated May 10, 2019 and the report of management, which appear in this Annual Report, are incorporated herein by reference. Copies of

the Association's Annual and Quarterly reports are available upon request free of charge by calling 800-868-6404, Ext. 120 or writing Carrie B. McCall, Chief Financial Officer, P.O. Box 1820, Perry, GA 31069 or accessing the web site, [www.aggeorgia.com](http://www.aggeorgia.com). The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution. As noted on our Association website, the publication of the 2018 Annual Report was delayed due to Management identified irregularities affecting a small segment of the portfolio which has subsequently been resolved.

### **Borrower Information Regulations**

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

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

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

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

### **Shareholder Investment**

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at [www.agfirst.com](http://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 AgGeorgia Farm Credit (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

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

PricewaterhouseCoopers LLP (PwC), the Association's Independent Auditors for 2018, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 (*The Auditor's Communication With Those Charged With Governance*). The Committee discussed with PwC its independence from AgGeorgia 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.

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 2018. The foregoing report is provided by the following independent directors, who constitute the Committee.



George R. Reeves  
Chairman of the Audit Committee

### **Members of Audit Committee**

W. Howard Brown  
R. Brian Grogan  
Robert G. Miller  
Franklin B. Wright

May 10, 2019





## **Report of Independent Auditors**

To the Board of Directors and Management of  
AgGeorgia Farm Credit, ACA

We have audited the accompanying consolidated financial statements of AgGeorgia Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2018, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in members' equity and 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 AgGeorgia Farm Credit, ACA and its subsidiaries as of December 31, 2018, 2017 and 2016, 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*

Miami, Florida

May 10, 2019

# Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31,		
	2018	2017	2016
<b>Assets</b>			
Cash	\$ 133	\$ 168	\$ 1,238
Loans	909,697	858,632	827,611
Allowance for loan losses	(7,581)	(6,995)	(7,168)
Net loans	902,116	851,637	820,443
Loans held for sale	—	—	1,045
Accrued interest receivable	14,791	12,791	11,220
Equity investments in other Farm Credit institutions	10,683	10,372	10,297
Premises and equipment, net	7,242	6,900	7,104
Other property owned	2,673	1,297	4,025
Accounts receivable	11,498	11,883	9,130
Other assets	1,704	1,765	6,139
Total assets	<b>\$ 950,840</b>	<b>\$ 896,813</b>	<b>\$ 870,641</b>
<b>Liabilities</b>			
Notes payable to AgFirst Farm Credit Bank	\$ 695,597	\$ 647,241	\$ 621,886
Accrued interest payable	1,954	1,593	1,338
Patronage refunds payable	5,144	5,221	4,432
Accounts payable	762	1,209	1,545
Other liabilities	9,801	11,490	17,662
Total liabilities	<b>713,258</b>	<b>666,754</b>	<b>646,863</b>
Commitments and contingencies (Note 11)			
<b>Members' Equity</b>			
Capital stock and participation certificates	4,131	4,017	3,912
Retained earnings			
Allocated	70,035	75,567	79,099
Unallocated	164,340	151,976	140,914
Accumulated other comprehensive income (loss)	(924)	(1,501)	(147)
Total members' equity	<b>237,582</b>	<b>230,059</b>	<b>223,778</b>
Total liabilities and members' equity	<b>\$ 950,840</b>	<b>\$ 896,813</b>	<b>\$ 870,641</b>

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

# Consolidated Statements of Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2018	2017	2016
<b>Interest Income</b>			
Loans	\$ 52,421	\$ 48,114	\$ 45,133
<b>Interest Expense</b>			
Notes payable to AgFirst Farm Credit Bank	21,060	17,884	15,563
Net interest income	31,361	30,230	29,570
Provision for (reversal of allowance for) loan losses	539	75	(805)
Net interest income after provision for (reversal of allowance for) loan losses	30,822	30,155	30,375
<b>Noninterest Income</b>			
Loan fees	691	650	568
Fees for financially related services	107	78	67
Patronage refunds from other Farm Credit institutions	11,467	11,930	9,146
Gains (losses) on sales of premises and equipment, net	127	102	127
Gains (losses) on other transactions	(60)	25	6
Insurance Fund refunds	577	—	—
Other noninterest income	—	1	—
Total noninterest income	12,909	12,786	9,914
<b>Noninterest Expense</b>			
Salaries and employee benefits	14,685	14,380	15,884
Occupancy and equipment	975	953	994
Insurance Fund premiums	599	955	1,032
(Gains) losses on other property owned, net	60	886	55
Other operating expenses	5,663	1,050	4,193
Total noninterest expense	21,982	18,224	22,158
Income before income taxes	21,749	24,717	18,131
Provision (benefit) for income taxes	11	(14)	25
Net income	\$ 21,738	\$ 24,731	\$ 18,106

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

# Consolidated Statements of Comprehensive Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2018	2017	2016
Net income	\$ 21,738	\$ 24,731	\$ 18,106
<b>Other comprehensive income net of tax</b>			
Employee benefit plans adjustments	577	(1,354)	(10)
Comprehensive income	<u>\$ 22,315</u>	<u>\$ 23,377</u>	<u>\$ 18,096</u>

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

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# Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2015	\$ 1	\$ 3,889	\$ 93,387	\$ 134,084	\$ (137)	\$ 231,224
Comprehensive income				18,106	(10)	18,096
Protected borrower stock issued/(retired), net	(1)					(1)
Capital stock/participation certificates issued/(retired), net		23				23
Patronage distribution						
Cash				(3,355)		(3,355)
Qualified allocated retained earnings			7,829	(7,829)		—
Retained earnings retired			(22,175)			(22,175)
Patronage distribution adjustment			58	(92)		(34)
<b>Balance at December 31, 2016</b>	<b>\$ —</b>	<b>\$ 3,912</b>	<b>\$ 79,099</b>	<b>\$ 140,914</b>	<b>\$ (147)</b>	<b>\$ 223,778</b>
Comprehensive income				24,731	(1,354)	23,377
Capital stock/participation certificates issued/(retired), net		105				105
Patronage distribution						
Cash				(4,089)		(4,089)
Qualified allocated retained earnings			9,541	(9,541)		—
Retained earnings retired			(13,099)			(13,099)
Patronage distribution adjustment			26	(39)		(13)
<b>Balance at December 31, 2017</b>	<b>\$ —</b>	<b>\$ 4,017</b>	<b>\$ 75,567</b>	<b>\$ 151,976</b>	<b>\$ (1,501)</b>	<b>\$ 230,059</b>
<b>Comprehensive income</b>				<b>21,738</b>	<b>577</b>	<b>22,315</b>
<b>Capital stock/participation certificates issued/(retired), net</b>		<b>114</b>				<b>114</b>
<b>Patronage distribution</b>						
<b>Cash</b>				<b>(3,978)</b>		<b>(3,978)</b>
<b>Qualified allocated retained earnings</b>			<b>5,304</b>	<b>(5,304)</b>		<b>—</b>
<b>Retained earnings retired</b>			<b>(10,893)</b>			<b>(10,893)</b>
<b>Patronage distribution adjustment</b>			<b>57</b>	<b>(92)</b>		<b>(35)</b>
<b>Balance at December 31, 2018</b>	<b>\$ —</b>	<b>\$ 4,131</b>	<b>\$ 70,035</b>	<b>\$ 164,340</b>	<b>\$ (924)</b>	<b>\$ 237,582</b>

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

# Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2018	2017	2016
<b>Cash flows from operating activities:</b>			
Net income	\$ 21,738	\$ 24,731	\$ 18,106
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	648	666	641
Amortization (accretion) of net deferred loan costs (fees)	(448)	(398)	(447)
Provision for (reversal of allowance for) loan losses	539	75	(805)
(Gains) losses on other property owned	(38)	634	(191)
(Gains) losses on sales of premises and equipment, net	(127)	(102)	(127)
(Gains) losses on other transactions	60	(25)	(6)
Changes in operating assets and liabilities:			
Origination of loans held for sale	(6,218)	(6,524)	(8,785)
Proceeds from sales of loans held for sale, net	6,218	7,569	8,257
(Increase) decrease in accrued interest receivable	(2,000)	(1,571)	(156)
(Increase) decrease in accounts receivable	385	(2,753)	243
(Increase) decrease in other assets	61	4,374	1,960
Increase (decrease) in accrued interest payable	361	255	28
Increase (decrease) in accounts payable	(447)	(336)	(312)
Increase (decrease) in other liabilities	(1,156)	(7,422)	4,797
Total adjustments	(2,162)	(5,558)	5,097
Net cash provided by (used in) operating activities	19,576	19,173	23,203
<b>Cash flows from investing activities:</b>			
Net (increase) decrease in loans	(52,359)	(29,986)	3,811
(Increase) decrease in equity investments in other Farm Credit institutions	(311)	(75)	148
Purchases of premises and equipment	(1,155)	(464)	(434)
Proceeds from sales of premises and equipment	292	104	134
Proceeds from sales of other property owned	435	1,130	809
Net cash provided by (used in) investing activities	(53,098)	(29,291)	4,468
<b>Cash flows from financing activities:</b>			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	48,356	25,355	(1,536)
Protected borrower stock retired	—	—	(1)
Capital stock and participation certificates issued/(retired), net	114	105	23
Patronage refunds and dividends paid	(4,090)	(3,313)	(3,189)
Retained earnings retired	(10,893)	(13,099)	(22,175)
Net cash provided by (used in) financing activities	33,487	9,048	(26,878)
Net increase (decrease) in cash	(35)	(1,070)	793
Cash, beginning of period	168	1,238	445
Cash, end of period	\$ 133	\$ 168	\$ 1,238
<b>Supplemental schedule of non-cash activities:</b>			
Financed sales of other property owned	\$ —	\$ 1,200	\$ 450
Receipt of property in settlement of loans	1,789	315	2,986
Estimated cash dividends or patronage distributions declared or payable	3,978	4,089	3,355
Employee benefit plans adjustments (Note 9)	(577)	1,354	10
<b>Supplemental information:</b>			
Interest paid	20,699	17,629	15,535
Taxes (refunded) paid, net	—	—	8

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

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

## Note 1 — Organization and Operations

A. **Organization:** AgGeorgia Farm Credit, ACA (Association or AgGeorgia) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Baldwin, Banks, Barrow, Bartow, Ben Hill, Berrien, Bibb, Bleckley, Brooks, Burke, Catoosa, Chattooga, Cherokee, Clarke, Cobb, Colquitt, Columbia, Cook, Crawford, Crisp, Dade, Dawson, Dodge, Dooly, Echols, Elbert, Fannin, Floyd, Forsyth, Franklin, Gilmer, Glascock, Gordon, Habersham, Hall, Hancock, Hart, Houston, Irwin, Jackson, Jefferson, Johnson, Jones, Lanier, Laurens, Lincoln, Lowndes, Lumpkin, Macon, Madison, McDuffie, Murray, Oglethorpe, Paulding, Peach, Pickens, Polk, Pulaski, Rabun, Richmond, Stephens, Taliaferro, Taylor, Telfair, Tift, Towns, Treutlen, Turner, Twiggs, Union, Walker, Warren, Washington, White, Whitfield, Wilcox, Wilkes, Wilkinson and Worth in the state of Georgia.

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

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

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

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

subject to the prior approval of the FCA and the supervising bank.

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

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

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

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

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information

systems, and marketing. The costs of these support services are included in the cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

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

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

## Note 2 — Summary of Significant Accounting Policies

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

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

Certain amounts in the prior year financial statements 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.
- 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 a borrower experiences financial difficulties and 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 14 categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

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) from 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 Investments***

As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within Noninterest Income on the Consolidated Statements of Income and the balance of

these investments, totaling \$1,540, is included in Other Assets on the accompanying Consolidated Balance Sheets as of December 31, 2018.

**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.

***Multi-Employer 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 multi-employer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

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

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

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

***Single Employer Defined Benefit Plans***

The Association also sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements.

Additional information may be found in Note 9.

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

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

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

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

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be

realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the expected patronage program, which reduces taxable earnings.

**J. 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*

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance, which became effective January 1, 2018, changed the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance also included expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB issued several additional Updates that generally provided clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606.

The Association maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. The Association does not generally incur costs to obtain contracts. 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.

#### Transition Information

- The Association identified ancillary revenues affected by this Update and adopted the guidance on January 1, 2018.
- The amendments were applied using the modified retrospective approach.

- The Association elected to only apply the guidance to contracts that were not completed at the date of initial application.
- Subtopics 610-20 on gains and losses from the derecognition of nonfinancial assets, and 340-40 on other assets and deferred costs—contracts with customers were adopted using the same transition options.
- Adoption did not have an impact on the Association's financial condition or results of operations.

**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. **Accounting Standards Updates (ASUs):** 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.

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. Entities may early adopt the provisions in whole upon issuance or may early adopt any removed or modified disclosures upon issuance and delay adoption of the additional disclosures until their effective date. The Association has adopted the removed disclosures effective with the 2018 Annual Report.

In July 2018, the FASB issued ASU 2018-09 Codification Improvements. The amendments affect a wide variety of Topics in the Codification. They apply to all reporting entities within the scope of the affected accounting guidance. The Board has an ongoing project on its agenda about improvements to clarify the Codification or to correct unintended application of guidance. Those items generally are not expected to have a significant effect on current accounting practice. The transition and effective date guidance is based on the facts and circumstances of each amendment.

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 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years.

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 will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

In March 2017, the FASB issued ASU 2017-07 Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments were effective January 1, 2018 for the Association. Adoption in 2018 did not have a material effect on the Association's financial statements, but did require

reclassification of certain periodic pension costs to Other Operating Expenses.

In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also support more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The ASU was effective January 1, 2018 for the Association. The amendments were applied prospectively. Adoption of the guidance in 2018 had no impact on the statements of financial condition and results of operations of the Association.

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 better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update, and subsequent clarifying guidance issued, requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. The Association will implement the guidance in first quarter 2019 using the practical expedients and does not expect a material impact to the financial statements.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Update, and subsequent clarifying guidance issued, was intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP.

#### Transition Information

- The Association identified investment securities affected by this Update and adopted the guidance on January 1, 2018.
- The amendments related to equity securities without readily determinable fair values were applied prospectively to equity investments that existed as of the date of adoption.
- Application of the amendments did not require a cumulative effect adjustment.
- Adoption did not have an impact on the Association's financial condition or results of operations.
- The new standard did result in changes to certain disclosures.

#### 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,		
	2018	2017	2016
Real estate mortgage	\$ 573,691	\$ 517,852	\$ 451,111
Production and intermediate-term	306,432	314,981	351,330
Loans to cooperatives	1,266	-	-
Processing and marketing	17,277	15,185	15,238
Farm-related business	1,372	1,000	1,380
Power and water/waste disposal	965	988	-
Rural residential real estate	6,807	5,563	6,667
International	1,887	1,886	1,885
Other (including Mission Related)	-	1,177	-
Total loans	<u>\$ 909,697</u>	<u>\$ 858,632</u>	<u>\$ 827,611</u>

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

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

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

December 31, 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	\$ 9,510	\$ 7,868	\$ -	\$ -	\$ -	\$ -	\$ 9,510
Production and intermediate-term	5,212	14,514	296	-	-	-	5,508	14,514
Loans to cooperatives	1,273	-	-	-	-	-	1,273	-
Processing and marketing	5,155	74,665	-	-	-	-	5,155	74,665
Power and water/waste disposal	969	-	-	-	-	-	969	-
International	1,894	-	-	-	-	-	1,894	-
Total	\$ 24,013	\$ 97,047	\$ 296	\$ -	\$ -	\$ -	\$ 24,309	\$ 97,047

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	\$ 3,669	\$ 8,373	\$ -	\$ -	\$ -	\$ -	\$ 3,669
Production and intermediate-term	5,781	12,893	188	-	-	-	5,969	12,893
Processing and marketing	5,746	68,254	-	-	-	-	5,746	68,254
Power and water/waste disposal	994	-	-	-	-	-	994	-
International	1,894	-	-	-	-	-	1,894	-
Total	\$ 18,084	\$ 89,520	\$ 188	\$ -	\$ -	\$ -	\$ 18,272	\$ 89,520

December 31, 2016

	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	\$ 7,839	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,839
Production and intermediate-term	4,946	22,254	2,361	-	332	-	7,639	22,254
Processing and marketing	7,623	51,459	-	-	-	-	7,623	51,459
International	1,894	-	-	-	-	-	1,894	-
Total	\$ 22,302	\$ 73,713	\$ 2,361	\$ -	\$ 332	\$ -	\$ 24,995	\$ 73,713

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

December 31, 2018

	Due less than 1 year		Due 1 Through 5 years		Due after 5 years		Total
Real estate mortgage	\$ 6,382	\$ 77,727	\$ 489,582	\$ 573,691			
Production and intermediate term	99,609	131,281	75,542	306,432			
Loans to cooperatives	-	-	1,266	1,266			
Processing and marketing	5,468	6,977	4,832	17,277			
Farm-related business	308	922	142	1,372			
Power and water/waste disposal	-	-	965	965			
Rural residential real estate	26	1,211	5,570	6,807			
International	-	1,512	375	1,887			
Total loans	\$ 111,793	\$ 219,630	\$ 578,274	\$ 909,697			
Percentage	12.29%	24.14%	63.57%	100.00%			

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

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

	December 31,				December 31,		
	2018	2017	2016		2018	2017	2016
<b>Real estate mortgage:</b>				<b>Power and water/waste disposal:</b>			
Acceptable	93.55%	93.80%	93.89%	Acceptable	100.00%	100.00%	–%
OAEM	4.68	5.09	3.74	OAEM	–	–	–
Substandard/doubtful/loss	1.77	1.11	2.37	Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%		100.00%	100.00%	–%
<b>Production and intermediate-term:</b>				<b>Rural residential real estate:</b>			
Acceptable	89.11%	89.17%	88.85%	Acceptable	99.22%	99.20%	99.08%
OAEM	5.55	5.48	6.45	OAEM	0.64	0.67	0.81
Substandard/doubtful/loss	5.34	5.35	4.70	Substandard/doubtful/loss	0.14	0.13	0.11
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
<b>Loans to cooperatives:</b>				<b>International:</b>			
Acceptable	100.00%	–%	–%	Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–	OAEM	–	–	–
Substandard/doubtful/loss	–	–	–	Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%		100.00%	100.00%	100.00%
<b>Processing and marketing:</b>				<b>Other (including Mission Related):</b>			
Acceptable	100.00%	100.00%	100.00%	Acceptable	–%	100.00%	–%
OAEM	–	–	–	OAEM	–	–	–
Substandard/doubtful/loss	–	–	–	Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%		–%	100.00%	–%
<b>Farm-related business:</b>				<b>Total loans:</b>			
Acceptable	100.00%	95.35%	93.16%	Acceptable	92.25%	92.28%	91.91%
OAEM	–	–	6.84	OAEM	4.83	5.08	4.80
Substandard/doubtful/loss	–	4.65	–	Substandard/doubtful/loss	2.92	2.64	3.29
	100.00%	100.00%	100.00%		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, 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	\$ 3,357	\$ 245	\$ 3,602	\$ 578,862	\$ 582,464
Production and intermediate-term	3,469	4,675	8,144	304,068	312,212
Loans to cooperatives	–	–	–	1,266	1,266
Processing and marketing	–	–	–	17,469	17,469
Farm-related business	–	–	–	1,388	1,388
Power and water/waste disposal	–	–	–	966	966
Rural residential real estate	70	4	74	6,758	6,832
International	–	–	–	1,891	1,891
Total	\$ 6,896	\$ 4,924	\$ 11,820	\$ 912,668	\$ 924,488

	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	\$ 2,761	\$ 1,307	\$ 4,068	\$ 521,730	\$ 525,798
Production and intermediate-term	1,621	9,217	10,838	308,839	319,677
Processing and marketing	–	–	–	15,266	15,266
Farm-related business	–	–	–	1,014	1,014
Power and water/waste disposal	–	–	–	989	989
Rural residential real estate	82	–	82	5,508	5,590
International	–	–	–	1,889	1,889
Other (including Mission Related)	–	–	–	1,200	1,200
Total	\$ 4,464	\$ 10,524	\$ 14,988	\$ 856,435	\$ 871,423



	December 31, 2016					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
Real estate mortgage	\$ 1,665	\$ 1,204	\$ 2,869	\$ 454,408	\$ 457,277	
Production and intermediate-term	1,463	5,434	6,897	349,366	356,263	
Processing and marketing	74	—	74	15,249	15,323	
Farm-related business	—	—	—	1,390	1,390	
Rural residential real estate	91	—	91	6,600	6,691	
International	—	—	—	1,887	1,887	
Total	\$ 3,293	\$ 6,638	\$ 9,931	\$ 828,900	\$ 838,831	

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

	December 31,		
	2018	2017	2016
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 2,222	\$ 2,767	\$ 4,467
Production and intermediate-term	10,330	14,301	12,160
Farm-related business	—	47	—
Rural residential real estate	9	7	8
Total	\$ 12,561	\$ 17,122	\$ 16,635
<b>Accruing restructured loans:</b>			
Real estate mortgage	\$ 13,451	\$ 15,165	\$ 10,242
Production and intermediate-term	13,781	14,834	14,128
Rural residential real estate	20	23	—
Total	\$ 27,252	\$ 30,022	\$ 24,370
<b>Accruing loans 90 days or more past due:</b>			
Total	\$ —	\$ —	\$ —
Total nonperforming loans	\$ 39,813	\$ 47,144	\$ 41,005
Other property owned	2,673	1,297	4,025
Total nonperforming assets	\$ 42,486	\$ 48,441	\$ 45,030
Nonaccrual loans as a percentage of total loans	1.38%	1.99%	2.01%
Nonperforming assets as a percentage of total loans and other property owned	4.66%	5.55%	5.41%
Nonperforming assets as a percentage of capital	17.88%	21.06%	20.12%

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

	December 31,		
	2018	2017	2016
<b>Impaired nonaccrual loans:</b>			
Current as to principal and interest	\$ 4,685	\$ 4,998	\$ 8,886
Past due	7,876	12,124	7,749
Total	\$ 12,561	\$ 17,122	\$ 16,635
<b>Impaired accrual loans:</b>			
Restructured	\$ 27,252	\$ 30,022	\$ 24,370
Total	\$ 27,252	\$ 30,022	\$ 24,370
Total impaired loans	\$ 39,813	\$ 47,144	\$ 41,005
Additional commitments to lend	\$ —	\$ —	\$ —

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

Impaired Loans	December 31, 2018			Year Ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 148	\$ 162	\$ 14	\$ 149	\$ 7
Production and intermediate-term	5,312	5,742	1,337	5,357	242
Rural residential real estate	—	—	—	—	—
Total	\$ 5,460	\$ 5,904	\$ 1,351	\$ 5,506	\$ 249
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 15,525	\$ 15,854	\$ —	\$ 15,655	\$ 708
Production and intermediate-term	18,799	21,166	—	18,953	858
Rural residential real estate	29	30	—	29	1
Total	\$ 34,353	\$ 37,050	\$ —	\$ 34,637	\$ 1,567
<b>Total:</b>					
Real estate mortgage	\$ 15,673	\$ 16,016	\$ 14	\$ 15,804	\$ 715
Production and intermediate-term	24,111	26,908	1,337	24,310	1,100
Rural residential real estate	29	30	—	29	1
Total	\$ 39,813	\$ 42,954	\$ 1,351	\$ 40,143	\$ 1,816

Impaired Loans	December 31, 2017			Year Ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 444	\$ 458	\$ 30	\$ 472	\$ 24
Production and intermediate-term	7,210	7,649	1,155	7,677	391
Farm-related business	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Total	\$ 7,654	\$ 8,107	\$ 1,185	\$ 8,149	\$ 415
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 17,488	\$ 17,932	\$ —	\$ 16,013	\$ 701
Production and intermediate-term	21,925	24,795	—	22,734	1,016
Farm-related business	47	51	—	50	3
Rural residential real estate	30	30	—	32	2
Total	\$ 39,490	\$ 42,808	\$ —	\$ 38,829	\$ 1,722
<b>Total:</b>					
Real estate mortgage	\$ 17,932	\$ 18,390	\$ 30	\$ 16,485	\$ 725
Production and intermediate-term	29,135	32,444	1,155	30,411	1,407
Farm-related business	47	51	—	50	3
Rural residential real estate	30	30	—	32	2
Total	\$ 47,144	\$ 50,915	\$ 1,185	\$ 46,978	\$ 2,137

Impaired Loans	December 31, 2016			Year Ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 932	\$ 967	\$ 175	\$ 926	\$ 44
Production and intermediate-term	7,123	8,089	1,470	7,081	340
Rural residential real estate	—	—	—	—	—
Total	\$ 8,055	\$ 9,056	\$ 1,645	\$ 8,007	\$ 384
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 13,777	\$ 14,843	\$ —	\$ 13,695	\$ 657
Production and intermediate-term	19,165	22,230	—	19,050	913
Rural residential real estate	8	26	—	8	—
Total	\$ 32,950	\$ 37,099	\$ —	\$ 32,753	\$ 1,570
<b>Total:</b>					
Real estate mortgage	\$ 14,709	\$ 15,810	\$ 175	\$ 14,621	\$ 701
Production and intermediate-term	26,288	30,319	1,470	26,131	1,253
Rural residential real estate	8	26	—	8	—
Total	\$ 41,005	\$ 46,155	\$ 1,645	\$ 40,760	\$ 1,954

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*	Power and water/waste disposal	Rural Residential Real Estate	International	Other (including Mission Related)	Total
<b>Activity related to the allowance for credit losses:</b>								
Balance at December 31, 2017	\$ 2,763	\$ 4,185	\$ 38	\$ 1	\$ 7	\$ 1	\$ -	\$ 6,995
Charge-offs	(2)	(791)	(68)	-	-	-	-	(861)
Recoveries	31	875	2	-	-	-	-	908
Provision for loan losses	195	252	85	-	7	-	-	539
Balance at December 31, 2018	\$ 2,987	\$ 4,521	\$ 57	\$ 1	\$ 14	\$ 1	\$ -	\$ 7,581
Balance at December 31, 2016	\$ 2,208	\$ 4,835	\$ 103	\$ -	\$ 20	\$ 2	\$ -	\$ 7,168
Charge-offs	(83)	(498)	(1)	-	-	-	-	(582)
Recoveries	56	278	-	-	-	-	-	334
Provision for loan losses	582	(430)	(64)	1	(13)	(1)	-	75
Balance at December 31, 2017	\$ 2,763	\$ 4,185	\$ 38	\$ 1	\$ 7	\$ 1	\$ -	\$ 6,995
Balance at December 31, 2015	\$ 1,493	\$ 3,988	\$ 74	\$ -	\$ 22	\$ -	\$ -	\$ 5,577
Charge-offs	(74)	(517)	-	-	-	-	-	(591)
Recoveries	1,071	1,617	299	-	-	-	-	2,987
Provision for loan losses	(282)	(253)	(270)	-	(2)	2	-	(805)
Balance at December 31, 2016	\$ 2,208	\$ 4,835	\$ 103	\$ -	\$ 20	\$ 2	\$ -	\$ 7,168
<b>Allowance on loans evaluated for impairment:</b>								
Individually	\$ 14	\$ 1,337	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,351
Collectively	2,973	3,184	57	1	14	1	-	6,230
Balance at December 31, 2018	\$ 2,987	\$ 4,521	\$ 57	\$ 1	\$ 14	\$ 1	\$ -	\$ 7,581
Individually	\$ 30	\$ 1,155	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,185
Collectively	2,733	3,030	38	1	7	1	-	5,810
Balance at December 31, 2017	\$ 2,763	\$ 4,185	\$ 38	\$ 1	\$ 7	\$ 1	\$ -	\$ 6,995
Individually	\$ 175	\$ 1,470	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,645
Collectively	2,033	3,365	103	-	20	2	-	5,523
Balance at December 31, 2016	\$ 2,208	\$ 4,835	\$ 103	\$ -	\$ 20	\$ 2	\$ -	\$ 7,168
<b>Recorded investment in loans evaluated for impairment:</b>								
Individually	\$ 23,507	\$ 32,753	\$ -	\$ -	\$ 29	\$ -	\$ -	\$ 56,289
Collectively	558,957	279,459	20,123	966	6,803	1,891	-	868,199
Balance at December 31, 2018	\$ 582,464	\$ 312,212	\$ 20,123	\$ 966	\$ 6,832	\$ 1,891	\$ -	\$ 924,488
Individually	\$ 17,830	\$ 29,237	\$ 47	\$ -	\$ 30	\$ -	\$ -	\$ 47,144
Collectively	507,968	290,440	16,233	989	5,560	1,889	1,200	824,279
Balance at December 31, 2017	\$ 525,798	\$ 319,677	\$ 16,280	\$ 989	\$ 5,590	\$ 1,889	\$ 1,200	\$ 871,423
Individually	\$ 14,709	\$ 26,288	\$ -	\$ -	\$ 8	\$ -	\$ -	\$ 41,005
Collectively	442,568	329,975	16,713	-	6,683	1,887	-	797,826
Balance at December 31, 2016	\$ 457,277	\$ 356,263	\$ 16,713	\$ -	\$ 6,691	\$ 1,887	\$ -	\$ 838,831

\*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.

Outstanding Recorded Investment	Year Ended December 31, 2018				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 4,467	\$ -	\$ 4,467	
Production and intermediate-term	653	10,134	-	10,787	
Total	\$ 653	\$ 14,601	\$ -	\$ 15,254	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 4,956	\$ -	\$ 4,956	\$ -
Production and intermediate-term	653	9,268	-	9,921	-
Total	\$ 653	\$ 14,224	\$ -	\$ 14,877	\$ -

Outstanding Recorded Investment	Year Ended December 31, 2017				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 4,030	\$ -	\$ 4,030	
Production and intermediate-term	296	9,896	-	10,192	
Total	\$ 296	\$ 13,926	\$ -	\$ 14,222	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 4,268	\$ -	\$ 4,268	\$ -
Production and intermediate-term	296	10,005	-	10,301	(17)
Total	\$ 296	\$ 14,273	\$ -	\$ 14,569	\$ (17)

Outstanding Recorded Investment	Year Ended December 31, 2016				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 3,839	\$ -	\$ 3,839	
Production and intermediate-term	-	3,456	-	3,456	
Total	\$ -	\$ 7,295	\$ -	\$ 7,295	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 3,703	\$ -	\$ 3,703	\$ -
Production and intermediate-term	-	3,451	-	3,451	(1)
Total	\$ -	\$ 7,154	\$ -	\$ 7,154	\$ (1)

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 majority of AgGeorgia's principal concessions are principal deferments. The post-modification balances for principal deferments may include fees that have been financed, which causes the post-modification balances to be higher than the pre-modification balances.

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,		
	2018	2017	2016
Real estate mortgage	\$ -	\$ -	\$ 368
Production and intermediate-term	108	497	-
Total	\$ 108	\$ 497	\$ 368

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2018	2017	2016	2018	2017	2016
Real estate mortgage	\$ 14,677	\$ 11,562	\$ 12,173	\$ 1,226	\$ 933	\$ 1,931
Production and intermediate-term	19,212	17,134	19,520	5,431	5,447	5,392
Rural residential real estate	20	23	8	-	-	8
Total loans	\$ 33,909	\$ 28,719	\$ 31,701	\$ 6,657	\$ 6,380	\$ 7,331
Additional commitments to lend	\$ -	\$ -	\$ -			

The following table presents information as of period end:

	December 31, 2018
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. The Association’s investment in the Bank totaled \$9,340 for 2018, \$8,943 for 2017 and \$8,770 for 2016. The Association owns 3.41 percent of the issued stock of the Bank as of December 31, 2018 net of any reciprocal investment. As of that date, the Bank’s assets totaled \$33.1 billion and shareholders’ equity totaled \$2.2 billion. The Bank’s earnings were \$306 million for 2018. In addition, the Association had an investment of \$1,343 related to other Farm Credit institutions at December 31, 2018.

**Note 5 — Real Estate and Other Property**

**Premises and Equipment**

Premises and equipment consists of the following:

	December 31,		
	2018	2017	2016
Land	\$ 2,279	\$ 2,129	\$ 2,129
Buildings and improvements	7,958	7,942	7,883
Furniture and equipment	4,328	4,130	4,114
	14,565	14,201	14,126
Less: accumulated depreciation	7,323	7,301	7,022
Total	\$ 7,242	\$ 6,900	\$ 7,104

**Other Property Owned**

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

	December 31,		
	2018	2017	2016
(Gains) losses on sale, net	\$ (13)	\$ (25)	\$ (195)
Carrying value unrealized (gains) losses	(25)	659	4
Operating (income) expense, net	98	252	246
(Gains) losses on other property owned, net	\$ 60	\$ 886	\$ 55

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. Deferred gains totaled \$0, \$16, and \$95 at December 31, 2018, 2017, and 2016, respectively.

**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. On March 20, 2019, the Bank approved a waiver of the Association’s events of default under the GFA, and the Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association’s ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2018, the Association’s notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 3.46 percent for LIBOR-based loans and 3.53 percent for Prime-based loans, and the weighted average remaining maturities were 4.7 years and 0.8 years, respectively, at December 31, 2018. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.31 percent, and the weighted average remaining maturity was 10.0 years at December 31, 2018. The weighted-average interest rate on all interest-bearing notes payable was 3.34 percent and the weighted-average remaining maturity was 8.8 years at December 31, 2018. Gross notes payable consist of approximately 14.33 percent variable rate and 85.67 percent fixed rate portions, representing a match-funding of the Association’s loan volume at December 31, 2018. Notes Payable to AgFirst Farm Credit Bank, as reflected on the Consolidated Balance Sheets, also include a credit which reduces the notes payable balance and corresponding interest expense. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

**Note 7 — Members’ Equity**

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

- A. **Protected Borrower Stock:** Protection of certain borrower stock is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower stock, to retire such stock at par or stated value regardless of its book value. Protected borrower stock includes capital stock and participation certificates, which were outstanding as of January 6, 1988, or were issued or allocated prior to

October 6, 1988. If an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

**B. Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association’s capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to 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 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

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

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

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

Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new regulations ensure that the System’s capital requirements are comparable to the Basel III

framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based ratios. The new 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, 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, 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 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 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,	
				2018	2017
Risk-adjusted ratios:					
CET1 Capital	4.5%	1.25%	5.75%	23.03%	22.38%
Tier 1 Capital	6.0%	1.25%	7.25%	23.03%	22.38%
Total Capital	8.0%	1.25%	9.25%	23.84%	23.23%
Permanent Capital	7.0%	0.0%	7.0%	23.21%	22.57%
Non-risk-adjusted ratios:					
Tier 1 Leverage	4.0%	1.0%	5.0%	23.61%	23.38%
URE and UREE Leverage	1.5%	0.0%	1.5%	16.36%	15.64%

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

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

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

The Association had the following shares outstanding at December 31, 2018:

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
C Common/Voting	No	797,888	\$ 3,990
C Participation Certificates/Nonvoting	No	28,280	141
Total Capital Stock and Participation Certificates		826,168	\$ 4,131

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

*Retained Earnings*

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

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

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

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met.

At December 31, 2018, allocated members’ equity consisted of \$69,596 of qualified and \$439 of nonqualified distributions. Nonqualified distributions are tax deductible only when redeemed.

*Dividends*

The Association may declare non-cumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 8 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A and D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B, or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B, and C Common Stock and participation certificates shall be at the same rate per share.

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

*Patronage Distributions*

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower’s interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members’ equity account, or any one or more of such forms of distribution. Patronage distributions of the Association’s earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

*Transfer*

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

*Impairment*

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

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

Impairments shall be considered as being applied pro rata to each share and/or unit outstanding in the class.

*Liquidation*

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

- a) **First**, to the holders of Class A Preferred and Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;
- b) **Second**, to the holders of Class A Common, Class B Common and Class B Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
- c) **Third**, pro rata to the holders of Class C Common Stock and Class C Participation Certificates, until an amount equal to the aggregate par value or face amount of all such shares or units then issued and outstanding has been distributed to such holders;
- d) **Fourth**, to the holders of allocated surplus pro rata, on the basis of oldest allocations first, until an amount equal to the total account has been distributed to the holders;
- e) **Fifth**, all unallocated surplus issued after May 4, 1995 (the effective date of this bylaw amendment) shall be distributed to the holders of Class C Stock and Class C Participation Certificates on a patronage basis; and
- f) **Sixth**, any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made pro rata in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

**E. Accumulated Other Comprehensive Income (AOCI):**

<b>Changes in Accumulated Other Comprehensive income by Component (a)</b>			
<b>For the Years Ended December 31,</b>			
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Employee Benefit Plans:</b>			
Balance at beginning of period	\$ (1,501)	\$ (147)	\$ (137)
Other comprehensive income before reclassifications	134	(1,360)	(15)
Amounts reclassified from AOCI	443	6	5
Net current period OCI	577	(1,354)	(10)
Balance at end of period	\$ (924)	\$ (1,501)	\$ (147)

<b>Reclassifications Out of Accumulated Other Comprehensive Income (b)</b>				
<b>Year to Date</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>Income Statement Line Item</b>
<b>Defined Benefit Pension Plans:</b>				
Periodic pension costs	\$ (443)	\$ (6)	\$ (5)	See Note 9.
Amounts reclassified	\$ (443)	\$ (6)	\$ (5)	

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

**Note 8 — Fair Value Measurement**

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

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement



date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

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

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

**Level 1**

Assets held in trust funds, related to deferred compensation plans, and assets held in mutual funds, related to the Association's Corporate Giving Fund, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

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

**Level 2**

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

**Level 3**

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

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, 2018				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$	1,540	\$ 1,540	\$ -	\$ -	\$ 1,540
Recurring Assets	\$	1,540	\$ 1,540	\$ -	\$ -	\$ 1,540
<b>Liabilities:</b>						
Recurring Liabilities	\$	-	\$ -	\$ -	\$ -	\$ -
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$	4,109	-	-	\$ 4,109	\$ 4,109
Other property owned		2,673	-	-	2,902	2,902
Nonrecurring Assets	\$	6,782	-	-	\$ 7,011	\$ 7,011
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$	133	\$ 133	-	-	\$ 133
Loans		898,007	-	-	890,670	890,670
Other Financial Assets	\$	898,140	\$ 133	-	\$ 890,670	\$ 890,803
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$	695,597	-	-	\$ 685,169	\$ 685,169
Other Financial Liabilities	\$	695,597	-	-	\$ 685,169	\$ 685,169
		December 31, 2017				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in trust funds	\$	1,592	\$ 1,592	-	-	\$ 1,592
Recurring Assets	\$	1,592	\$ 1,592	-	-	\$ 1,592
<b>Liabilities:</b>						
Recurring Liabilities	\$	-	-	-	-	-
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$	6,469	-	-	\$ 6,469	\$ 6,469
Other property owned		1,297	-	-	1,439	1,439
Nonrecurring Assets	\$	7,766	-	-	\$ 7,908	\$ 7,908
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$	168	\$ 168	-	-	\$ 168
Loans		845,168	-	-	841,980	841,980
Other Financial Assets	\$	845,336	\$ 168	-	\$ 841,980	\$ 842,148
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$	647,241	-	-	\$ 638,306	\$ 638,306
Other Financial Liabilities	\$	647,241	-	-	\$ 638,306	\$ 638,306

December 31, 2016

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>					
<b>Assets:</b>					
Assets held in trust funds	\$ 213	\$ 213	\$ -	\$ -	\$ 213
Recurring Assets	\$ 213	\$ 213	\$ -	\$ -	\$ 213
<b>Liabilities:</b>					
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Nonrecurring Measurements</b>					
<b>Assets:</b>					
Impaired loans	\$ 6,410	\$ -	\$ -	\$ 6,410	\$ 6,410
Other property owned	4,025	-	-	4,602	4,602
Nonrecurring Assets	\$ 10,435	\$ -	\$ -	\$ 11,012	\$ 11,012
<b>Other Financial Instruments</b>					
<b>Assets:</b>					
Cash	\$ 1,238	\$ 1,238	\$ -	\$ -	\$ 1,238
Loans	815,078	-	-	812,244	812,244
Other Financial Assets	\$ 816,316	\$ 1,238	\$ -	\$ 812,244	\$ 813,482
<b>Liabilities:</b>					
Notes payable to AgFirst Farm Credit Bank	\$ 621,886	\$ -	\$ -	\$ 613,916	\$ 613,916
Other Financial Liabilities	\$ 621,886	\$ -	\$ -	\$ 613,916	\$ 613,916

### SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

#### Inputs to Valuation Techniques

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

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

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

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 7,011	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 three District sponsored benefit plans. These plans include a multi-employer defined benefit pension plan, the AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan). In addition, the Association participates in a multi-employer defined benefit other postretirement benefits plan (OPEB Plan), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan, and a defined contribution 401(k) plan. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

1. Assets contributed to multi-employer 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 multi-employer 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 Employee 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 \$2,794 for 2018, \$2,724 for 2017, and \$4,146 for 2016. At December 31, 2018, 2017, and 2016, the total liability balance for the FAP Plan presented in the District Combined Balance Sheets is \$94,491, \$139,104, and \$119,000, respectively. The FAP Plan is 89.56 percent, 86.41 percent, and 86.96 percent funded to the projected benefit obligation as of December 31, 2018, 2017, and 2016, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service

between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Income were \$631 for 2018, \$589 for 2017, and \$898 for 2016. At December 31, 2018, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition is \$181,820.

During 2017, the method of recording expenses at participating District entities for the FAP and OPEB Plans was modified. Prior to 2017, expense was recorded based on allocations of actuarially-determined costs and any differences between recorded expense and actual contributions were recorded in Other Assets or Other Liabilities on the Consolidated Balance Sheets. For 2017 and future years, participating entities will record employee benefit costs based on the actual contributions to the Plans. This change caused the Association to modify its accounting estimates recorded in Other Assets and Other Liabilities since the assets and liabilities do not impact future contributions to the Plans. The change in estimate resulted in the reduction of Other Assets by \$5,696 and the reduction of Other Liabilities by \$9,216 on the Association's Balance Sheets, and a total reduction of noninterest expenses on the Association's Statements of Income of \$3,520 during 2017.

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 the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were \$557, \$573, and \$534 for the years ended December 31, 2018, 2017, and 2016, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2018, 2017, and 2016, \$576, \$(1,354) and \$(10) has been recognized as a net credit and net debits, respectively, to AOCI to reflect these elements.

In addition to the multi-employer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of \$1,817 and a net underfunded status of \$1,817 at December 31, 2018. Assumptions used to determine the projected benefit obligation as of December 31, 2018 included a discount rate of 4.40 percent and a rate of compensation increase of 3.00 percent. The expenses of these nonqualified plans included in noninterest expenses were \$553, \$31, and \$32 for 2018, 2017, and 2016, respectively.

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, amortized schedule and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2018 amounted to \$15,814. During 2018, \$8,913 of new loans were made and repayments totaled \$6,938. In the opinion of management, none of these loans outstanding at December 31, 2018 to senior officers or directors as defined in FCA regulations involved more than a normal risk of collectability.

#### 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, 2018, \$110,442 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2018, standby letters of credit outstanding totaled \$3,099 with expiration dates ranging from February 3, 2019 to August 14, 2020. The maximum potential amount of future payments that may be required under these guarantees was \$3,099.

#### Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2018	2017	2016
Current:			
Federal	\$ 8	\$ (4)	\$ 7
State	3	(10)	18
	<u>\$ 11</u>	<u>\$ (14)</u>	<u>\$ 25</u>
Deferred:			
Federal	—	—	—
State	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Total provision (benefit) for income taxes	<u>\$ 11</u>	<u>\$ (14)</u>	<u>\$ 25</u>

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

	December 31,		
	2018	2017	2016
Federal tax at statutory rate	\$ 4,659	\$ 8,651	\$ 6,346
State tax, net	1	1	—
Effect of non-taxable FLCA subsidiary	(2,353)	(2,356)	(2,997)
Patronage distributions	(2,251)	(4,770)	(3,914)
Change in valuation allowance	(69)	(2,679)	617
Deferred tax rate change	—	989	—
Other	24	150	(27)
Provision (benefit) for income taxes	<u>\$ 11</u>	<u>\$ (14)</u>	<u>\$ 25</u>

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

	December 31,		
	2018	2017	2016
Deferred income tax assets:			
Allowance for loan losses	\$ 908	\$ 909	\$ 1,716
Other property owned writedown	—	—	—
Annual leave	273	270	394
Nonaccrual loan interest	630	724	1,070
Pensions and other postretirement benefits	16	12	3,597
Depreciation	96	81	—
Gross deferred tax assets	1,923	1,996	6,777
Less: valuation allowance	(1,865)	(1,934)	(4,613)
Gross deferred tax assets, net of valuation allowance	58	62	2,164
Deferred income tax liabilities:			
Pensions and other postretirement benefits	—	—	(2,216)
Depreciation	—	—	87
Loan origination fees	(58)	(62)	(35)
Gross deferred tax liability	(58)	(62)	(2,164)
Net deferred tax asset (liability)	\$ —	\$ —	\$ —

At December 31, 2018, deferred income taxes have not been provided by the Association on approximately \$5.9 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$1,865, \$1,934 and \$4,613 as of December 31, 2018, 2017 and 2016, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2018 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2015 and forward.

### Note 13 — Additional Financial Information

#### Quarterly Financial Information (Unaudited)

	2018				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,424	\$ 7,641	\$ 7,971	\$ 8,325	\$ 31,361
Provision for (reversal of allowance for) loan losses	46	168	221	104	539
Noninterest income (expense), net	(3,028)	(4,149)	(3,452)	1,545	(9,084)
Net income	\$ 4,350	\$ 3,324	\$ 4,298	\$ 9,766	\$ 21,738

	2017				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,172	\$ 7,291	\$ 8,205	\$ 7,562	\$ 30,230
Provision for (reversal of allowance for) loan losses	728	501	(51)	(1,103)	75
Noninterest income (expense), net	(3,351)	(3,761)	(3,510)	5,198	(5,424)
Net income	\$ 3,093	\$ 3,029	\$ 4,746	\$ 13,863	\$ 24,731

	2016				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,134	\$ 7,429	\$ 7,448	\$ 7,559	\$ 29,570
Provision for (reversal of allowance for) loan losses	55	(714)	603	(749)	(805)
Noninterest income (expense), net	(3,820)	(3,861)	(3,761)	(827)	(12,269)
Net income	\$ 3,259	\$ 4,282	\$ 3,084	\$ 7,481	\$ 18,106

### Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through May 10, 2019, which was the date the financial statements were issued.

Subsequent to December 31, 2018, the Board of Directors at the February 2018 board meeting approved a patronage distribution to customers in the amount of \$13,259. This was an increase of 3,977 from the estimated patronage distribution of \$9,282 accrued at December 31, 2018.