AgHeritage® Farm Credit Services

2019 ANNUAL REPORT

Deep Roots in Rural America

Farm Credit is a nationwide network of customer-owned financial institutions that provides loans and related financial services to U.S. farmers and ranchers, farmer-owned cooperatives, rural homebuyers, agribusinesses and rural infrastructure providers.

As customer-owned cooperatives, Farm Credit institutions are governed by the customers they serve and have a specific mission to support rural communities and agriculture – in good times and bad. Farm Credit loans help U.S. agricultural producers feed the world, rural businesses grow and the rural economy thrive. Our infrastructure lending helps bring clean water to rural families, modern telecommunications to help rural businesses compete and reliable energy to rural communities.

Farm Credit's mission remains just as vital today as it was when we made our first loan more than 100 years ago. For more information about Farm Credit and how we support rural communities and agriculture, please visit **www.farmcredit.com.**

Board of Directors

Back (L-R) *Keith Watkins, Jesse Briggs, Clay Schaefer, Scott Young*
Middle (L-R) *Mike Burkett, Chuck Culver, Michael Taylor, Jeff Rutledge, Russell Bonner*
Front (L-R) *Dwain Morris, Sandra Morgan, Jerry Burkett*

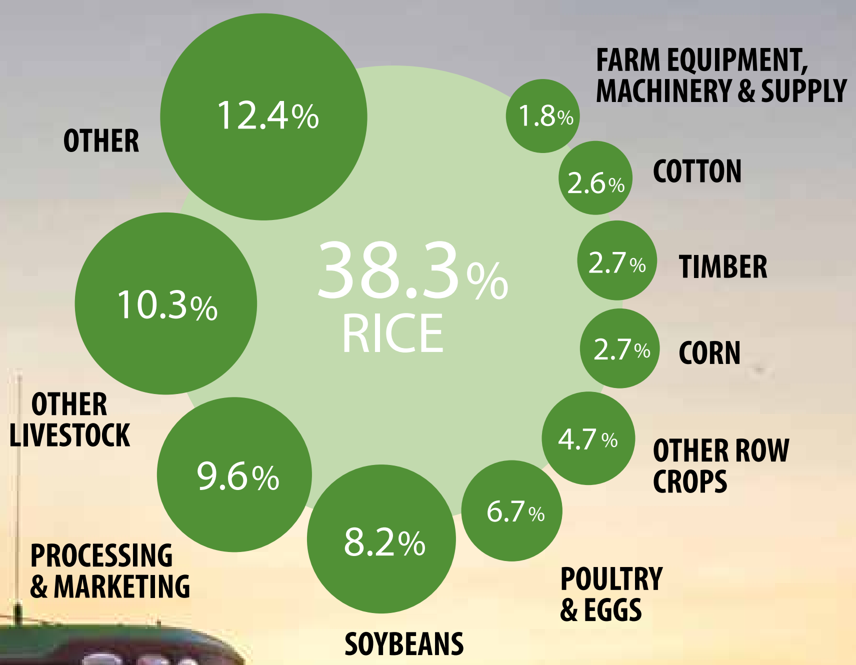
Senior Leadership

Front (L-R) *Drue Ford, SVP & CCO, Greg Cole, President & CEO, Leslie Brown, VP Human Resources*
Back (L-R) *Cole Plafcan, SVP Chief Lending & Marketing Officer, Ken Sumner, SVP & CFO*

AGHERITAGE FARM CREDIT SERVICES

at a glance

OUR PORTFOLIO



ASSETS & GROWTH

$1.53 BILLION
IN TOTAL ASSETS

9 BRANCH LOCATIONS

BATESVILLE BRINKLEY LONOKE MCGEHEE NEWPORT
PINE BLUFF POCAHONTAS SEARCY STUTTGART

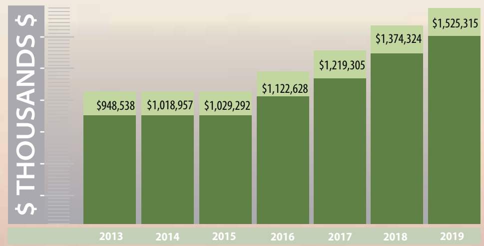
SERVING 3,147 MEMBERS ACROSS 24 COUNTIES

EXCEPTIONALLY STRONG

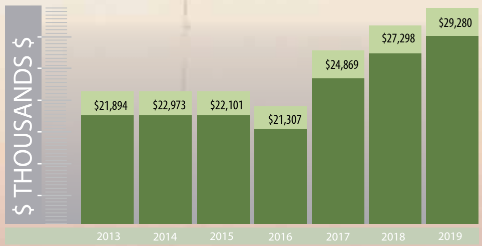
customer satisfaction and employee engagement survey results

financial highlights

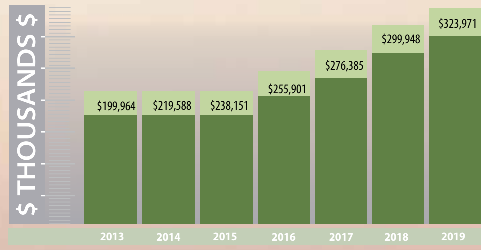
TOTAL ASSETS

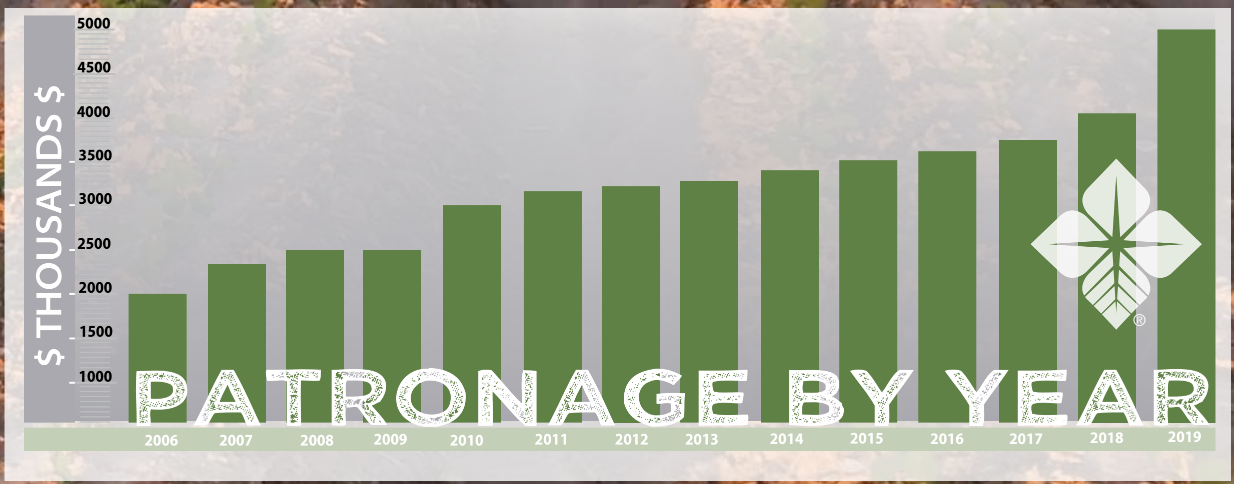


NET INCOME



TOTAL CAPITAL





NORTHEAST ARKANSAS PEANUT SHELLING PLANT GROUNDBREAKING IN MORE WAYS THAN ONE

Delta Peanut held a ceremonial groundbreaking at its 71-acre site in the Craighead Technology Park in Jonesboro on August 27th. Delta Peanut leadership and investors celebrated the event with local business leaders and elected officials including Jonesboro Mayor Harold Perrin and U.S. Senator John Boozman. Financing for the project is jointly provided by AgHeritage Farm Credit Services, Farm Credit Midsouth, Farm Credit Southeast Missouri and Farm Credit of Western Arkansas.

Delta Peanut is a 100% farmer-owned peanut shelling facility that is the first of its kind in Arkansas, representing a $70M investment that will ultimately create 130 new jobs. The state-of-the-art shelling facility is expected to begin shelling in the spring of 2020.

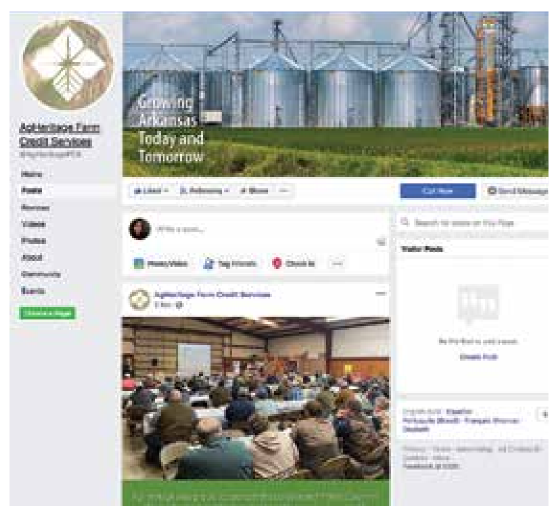
Delta Peanut will shell over 180,000 tons of peanuts annually when running at maximum capacity. Approximately 60,000 tons of those peanuts will be on-site in Jonesboro stored in three warehouses and one "surge" warehouse. The balance of the production will be handled at partner buying points in Pocahontas and Marianna, Arkansas.

Peanuts are currently farmed on nearly 35,000 acres in Arkansas, and that number is expected to double over the next five years. Previously, those peanuts required transport to shelling plants in West Texas or South Georgia. With the addition of Delta Peanut in Jonesboro and a separate buying point in Marianna, regional peanut growers will have the option to cut miles and costs and bring those peanuts to market closer to home. Peanut butter makers Jif in Memphis, Skippy in Little Rock and Kraft-owned Planters Peanut in Fort Smith will also benefit from the new facility.

2019 JEFFERSON COUNTY
Farm Family of the Year

Congratulations to AgHeritage customer-owner Dell-Cam Farms and the Dewayne Goldmon Family of the Altheimer/Pine Bluff area. The farm has hosted the National Black Growers Council Model Farm Series Field Day for several years and has been on the tour of Model Farms showing new technologies and practices.

FOLLOW AGHERITAGE ONLINE!




AgHeritage
Farm Credit Services
5 Million More Reasons to Choose Us as Your Ag Lender
Fulton
Randolph
Pocahontas
Izard
Sharp
Lawrence
Stone
Independence
Batesville
Newport
Cleburne
Jackson
Searcy
White
Woodruff
Little Rock
Brinkley
Pulaski
Lonoke
Prairie
Lonoke
Monroe
Stuttgart
Arkansas
Jefferson
Pine Bluff
Cleveland
Lincoln
Desha
McGehee
Drew
Bradley
Chicot
Ashley

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AgHeritage Farm Credit Services, ACA

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear AgHeritage Farm Credit Services Customer-Owners,

We are pleased to report AgHeritage Farm Credit Services, ACA generated some of the strongest financial ratios in the Farm Credit System in terms of capital, efficiency ratio, asset growth and earnings while maintaining strong credit quality. The Association also continues to achieve exceptional customer satisfaction and employee engagement survey results. Your cooperative has grown to exceed $1.5 billion in assets and enjoys a strong market share position, which confirms we are achieving our vision of being the agricultural lender of choice in our local marketplace.

The Association paid a record $5.0 million in patronage based on 2019 earnings to eligible customer-owners in February 2020. This is part of the Board's commitment to our customer-owners in sharing the success of your cooperative. The $5.0 million represents approximately 17.1 percent of net earnings. This payout allows retention of a portion of earnings to provide for future growth and capital stability. This patronage distribution represents the fourteenth consecutive year your cooperative has distributed a portion of its annual earnings to its customer-owners. To date, AgHeritage has distributed $45.0 million to customer-owners and plans to continue patronage distributions well into the future.

While the U.S. economy continues to perform at a robust level, the agricultural economy continues to be challenged. Last year was the sixth year in a row with net farm income being down approximately 50 percent from the peak in 2013. The crop sector continues to be challenged with excess world stocks, the trade war with China and volatile weather events. The protein sector continues to experience modest profitability with lower feed costs offsetting declining meat prices. Despite the situation, your Association remains a financially strong organization. AgHeritage FCS and the Farm Credit System are well capitalized and are in a strong financial position to meet the needs of our customer-owners during turbulent times.

In 2019, the Association made a significant investment by adding more staff that will help in supporting continued growth, enhanced customer service, risk management and succession. We also made investments in a new technology system, a new office in Pine Bluff and a new location in Batesville.

The Annual Report provides detailed documentation supporting the financial results of the Association. We encourage you to review it carefully, and if you have questions, contact our corporate office or any branch location.

AgHeritage Farm Credit Services, ACA is proud to be your lending cooperative providing both customer and stockholder value to our customer-owners. We want to thank you for allowing us to serve your credit and financial services needs today and tomorrow. We also want to thank our staff for their dedication and hard work. Serving agriculture and Rural America is not just our mission; it's our passion.

Sincerely,

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

March 12, 2020

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

AgHeritage Farm Credit Services, ACA

(dollars in thousands)

As of December 31	2019	2018	2017	2016	2015
Statement of Condition Data					
Loans	**$ 1,459,978**	$ 1,314,268	$ 1,166,229	$ 1,073,202	$ 977,289
Allowance for loan losses	**7,693**	4,458	4,404	5,307	1,520
Net loans	**1,452,285**	1,309,810	1,161,825	1,067,895	975,769
Investment in AgriBank, FCB	**32,968**	27,449	25,269	22,219	21,439
Investment securities	**982**	1,663	3,643	6,004	8,610
Other assets	**39,080**	35,402	28,568	26,510	23,474
Total assets	**$ 1,525,315**	$ 1,374,324	$ 1,219,305	$ 1,122,628	$ 1,029,292
Obligations with maturities of one year or less	**$ 19,403**	$ 15,979	$ 13,780	$ 866,727	$ 791,141
Obligations with maturities greater than one year	**1,181,941**	1,058,397	929,140	--	--
Total liabilities	**1,201,344**	1,074,376	942,920	866,727	791,141
Protected members' equity	**1**	1	1	1	1
Capital stock and participation certificates	**2,943**	2,839	2,759	2,875	2,877
Unallocated surplus	**321,852**	297,588	274,207	253,025	235,273
Accumulated other comprehensive loss	**(825)**	(480)	(582)	--	--
Total members' equity	**323,971**	299,948	276,385	255,901	238,151
Total liabilities and members' equity	**$ 1,525,315**	$ 1,374,324	$ 1,219,305	$ 1,122,628	$ 1,029,292
For the year ended December 31	**2019**	2018	2017	2016	2015
Statement of Income Data					
Net interest income	**$ 40,294**	$ 36,952	$ 34,602	$ 32,259	$ 31,965
Provision for credit losses	**3,248**	69	1,834	3,764	1,360
Other expenses, net	**7,766**	9,585	7,899	7,188	8,504
Net income	**$ 29,280**	$ 27,298	$ 24,869	$ 21,307	$ 22,101
Key Financial Ratios					
For the Year					
Return on average assets	**2.0%**	2.1%	2.1%	1.9%	2.1%
Return on average members' equity	**9.4%**	9.5%	9.3%	8.6%	9.7%
Net interest income as a percentage of average earning assets	**2.8%**	2.9%	3.0%	3.0%	3.2%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.0%	0.2%	(0.0%)	0.1%
At Year End					
Members' equity as a percentage of total assets	**21.2%**	21.8%	22.7%	22.8%	23.1%
Allowance for loan losses as a percentage of loans	**0.5%**	0.3%	0.4%	0.5%	0.2%
Capital ratios effective beginning January 1, 2017:					
Common equity tier 1 ratio	**18.0%**	18.5%	19.1%	N/A	N/A
Tier 1 capital ratio	**18.0%**	18.5%	19.1%	N/A	N/A
Total capital ratio	**18.4%**	18.8%	19.4%	N/A	N/A
Permanent capital ratio	**18.1%**	18.6%	19.2%	N/A	N/A
Tier 1 leverage ratio	**19.5%**	19.7%	20.8%	N/A	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	N/A	N/A	20.0%	19.9%
Total surplus ratio	**N/A**	N/A	N/A	19.8%	19.6%
Core surplus ratio	**N/A**	N/A	N/A	19.8%	19.6%
Net Income Distributed					
For the Year					
Patronage distributions:					
Cash	**$ 3,911**	$ 3,717	$ 3,587	$ 3,455	$ 3,376

MANAGEMENT'S DISCUSSION AND ANALYSIS

AgHeritage Farm Credit Services, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgHeritage Farm Credit Services, ACA (the Association) and its subsidiaries, AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, PCA and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2020, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank and 68 customer-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C. and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System Farm Credit Bank and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). We are an association in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par or stated value.

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports, contact us at:

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119 East Third Street, Suite 200
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(800) 299-2290
www.agheritagefcs.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

FORWARD-LOOKING INFORMATION

This Annual Report includes 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 "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook" and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- Political (including trade policies), legal, regulatory, financial markets and economic conditions and developments in the United States (U.S.) and abroad
- Economic fluctuations in the agricultural, international and farm-related business sectors
- Weather-related, disease and other adverse climatic or biological conditions that periodically occur and can impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Credit, interest rate and liquidity risks inherent in our lending activities
- Changes in our assumptions for determining the allowance for loan losses, other-than-temporary impairment, and fair value measurements
- Industry outlooks for agricultural conditions

AGRICULTURAL AND ECONOMIC CONDITIONS

The 2019 crop-planting season was challenging for many growers due to extremely wet weather conditions. Generally, the crop progress during the growing season was behind multi-year averages. Yields were slightly below multi-year averages for most crops. Commodity prices have been weak due to large supplies and weakness in export markets. If current commodity market conditions persist, we expect to experience a modest decline in credit quality in the short-term. Land values in our area are stable.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.5 billion at December 31, 2019, an increase of $145.7 million from December 31, 2018.

Components of Loans

(in thousands) As of December 31	2019	2018	2017
Accrual loans:			
Real estate mortgage	**$ 757,488**	$ 663,691	$ 594,175
Production and intermediate-term	**420,726**	429,853	377,397
Agribusiness	**205,642**	127,456	115,597
Other	**66,067**	82,540	71,904
Nonaccrual loans	**10,055**	10,728	7,156
Total loans	**$ 1,459,978**	$ 1,314,268	$ 1,166,229

The other category is primarily composed of rural infrastructure and rural residential real estate loans.

The increase in total loans from December 31, 2018, was primarily due to growth in the real estate mortgage and agribusiness portfolios.

We have sold to AgriBank participation interests in certain loans as part of a pool program. The total outstanding participation interests in this program were $18.6 million, $21.5 million and $27.6 million at December 31, 2019, 2018 and 2017, respectively.

Our production and intermediate-term loan portfolio exhibits some seasonality relating to patterns of operating loans made to crop producers. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs.

We offer variable, fixed, capped, indexed and adjustable interest rate loan programs to our borrowers**.** We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions and the need to generate sufficient earnings.

Portfolio Distribution

We are chartered to serve certain counties in Arkansas. Approximately 48.0% of our total loan portfolio was in Lonoke, Lawrence, Pulaski, Monroe, Randolph, Arkansas and Jackson counties at December 31, 2019.

Agricultural Concentrations

As of December 31	2019	2018	2017
Rice	**38.3%**	41.9%	39.9%
Other livestock	**10.3%**	10.5%	10.7%
Processing and marketing	**9.6%**	7.4%	8.3%
Soybeans	**8.2%**	8.3%	8.7%
Poultry and eggs	**6.7%**	3.1%	4.2%
Other row crops	**4.7%**	2.7%	3.4%
Timber	**2.7%**	2.7%	4.2%
Corn	**2.7%**	4.0%	4.1%
Cotton	**2.6%**	4.4%	2.1%
Farm equipment, machinery and supply	**1.8%**	3.2%	3.8%
Other	**12.4%**	11.8%	10.6%
Total	**100.0%**	100.0%	100.0%

Commodities are based on the borrower’s primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs and other circumstances.

Portfolio Credit Quality

The credit quality of our portfolio improved slightly from December 31, 2018. Adversely classified loans decreased to 3.2% of the portfolio at December 31, 2019, from 3.6% of the portfolio at December 31, 2018. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At December 31, 2019, $15.6 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	2019	2018	2017
Loans:			
Nonaccrual	**$ 10,055**	$ 10,728	$ 7,156
Accruing restructured	**--**	--	--
Accruing loans 90 days or more past due	**--**	368	--
Total risk loans	**10,055**	11,096	7,156
Other property owned	**--**	--	--
Total risk assets	**$ 10,055**	$ 11,096	$ 7,156
Total risk loans as a percentage of total loans	**0.7%**	0.8%	0.6%
Nonaccrual loans as a percentage of total loans	**0.7%**	0.8%	0.6%
Current nonaccrual loans as a percentage of total nonaccrual loans	**41.1%**	64.4%	62.1%
Total delinquencies as a percentage of total loans	**0.6%**	0.6%	0.7%

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2018, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines. Nonaccrual loans remained at an acceptable level at December 31, 2019, 2018 and 2017.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality and current economic and environmental conditions.

Allowance Coverage Ratios

As of December 31	2019	2018	2017
Allowance as a percentage of:			
Loans	**0.5%**	0.3%	0.4%
Nonaccrual loans	**76.5%**	41.6%	61.5%
Total risk loans	**76.5%**	40.2%	61.5%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.2%
Adverse assets to total regulatory capital	**15.8%**	17.2%	19.1%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2019.

Additional loan information is included in Notes 3, 10, 11 and 12 to the accompanying Consolidated Financial Statements.

INVESTMENT SECURITIES

In addition to loans, we held investment securities. Investment securities totaled $982 thousand, $1.7 million and $3.6 million at December 31, 2019, 2018 and 2017, respectively. Our investment securities consisted of loans guaranteed by the Small Business Administration.

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2019, 2018 and 2017, we have not recognized any impairment on our investment portfolio.

Additional investment securities information is included in Note 5 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	2019	2018	2017
Net income	**$ 29,280**	$ 27,298	$ 24,869
Return on average assets	**2.0%**	2.1%	2.1%
Return on average members' equity	**9.4%**	9.5%	9.3%

Changes in the chart above relate directly to:

- Changes in income discussed below
- Changes in assets discussed in the Loan Portfolio and Investment Securities sections
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

	For the year ended December 31			Increase (decrease) in net income	
(in thousands)	**2019**	2018	2017	**2019 vs 2018**	2018 vs 2017
Net interest income	**$ 40,294**	$ 36,952	$ 34,602	**$ 3,342**	$ 2,350
Provision for credit losses	**3,248**	69	1,834	**(3,179)**	1,765
Non-interest income	**10,131**	9,287	8,070	**844**	1,217
Non-interest expense	**16,913**	17,998	14,204	**1,085**	(3,794)
Provision for income taxes	**984**	874	1,765	**(110)**	891
Net income	**$ 29,280**	$ 27,298	$ 24,869	**$ 1,982**	$ 2,429

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the year ended December 31	**2019 vs 2018**	2018 vs 2017
Changes in volume	**$ 3,770**	$ 3,032
Changes in interest rates	**(166)**	(1,015)
Changes in nonaccrual income and other	**(262)**	333
Net change	**$ 3,342**	$ 2,350

Net interest income included income on nonaccrual loans that totaled $447 thousand, $709 thousand and $376 thousand in 2019, 2018 and 2017, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.8%, 2.9% and 3.0% in 2019, 2018 and 2017, respectively. Our net interest margin is sensitive to interest rate changes and competition.

Provision for Credit Losses

The fluctuation in the provision for credit losses was related to our estimate of losses in our portfolio for the applicable years. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

Non-Interest Income

The change in non-interest income was primarily due to patronage and fee income, offset by decreases in our Allocated Insurance Reserve Accounts (AIRA) distribution.

Patronage Income: We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

Patronage Income

(in thousands)

For the year ended December 31	**2019**	2018	2017
Wholesale patronage	**$ 6,443**	$ 5,503	$ 4,850
Pool program patronage	**543**	711	823
Other Farm Credit Institution patronage	**59**	130	143
Total patronage income	**$ 7,045**	$ 6,344	$ 5,816
Form of patronage distributions:			
Cash	**$ 4,028**	$ 6,344	$ 5,816
Stock	**3,017**	--	--
Total patronage income	**$ 7,045**	$ 6,344	$ 5,816

Wholesale patronage income is based on the average balance of our note payable to AgriBank. The patronage rates were 55.9 basis points, 54.1 basis points and 52.1 basis points in 2019, 2018 and 2017, respectively. AgriBank may distribute patronage in the form of stock or cash as determined by AgriBank's capital plan. A portion of the patronage in 2019 was paid in allocated stock. All patronage was paid in cash during 2018 and 2017. See the Relationship with AgriBank section for further discussion on patronage income.

We have participated in a pool program in which we sell participation interests in certain loans to AgriBank. As part of this program, we received patronage income in an amount that approximated the net earnings of the loans, less certain expenses. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. See the AIRA Distribution section below for a discussion of the AIRA's impact on patronage income.

Fee Income: The change in fee income from prior year is primarily due to an increase in loan origination fees related to new loan volume generated during 2019.

Allocated Insurance Reserve Accounts Distribution: We received distributions from the AIRA of $297 thousand and $686 thousand in 2019 and 2018, respectively. The AIRA was established by the FCSIC when premiums collected increased the level of the Insurance Fund beyond the required secured base amount of 2.0% of insured debt. There were no AIRA distributions in 2017.

As mentioned, the patronage income recorded in 2019 and 2018 was also impacted by AIRA distributions. Patronage income recorded in 2019 and 2018 included $7 thousand and $21 thousand, respectively, of our share of distributions from the AIRA related to the participations sold to AgriBank.

Non-Interest Expense

Components of Non-interest Expense

(dollars in thousands)

For the year ended December 31	2019	2018	2017
Salaries and employee benefits	**$ 9,401**	$ 9,244	$ 8,125
Other operating expense:			
Purchased and vendor services	**1,940**	1,998	1,316
Communications	**278**	251	275
Occupancy and equipment	**995**	829	745
Advertising and promotion	**580**	449	425
Examination	**464**	414	388
Farm Credit System insurance	**1,079**	944	1,431
Other	**1,973**	1,736	1,451
Other non-interest expense	**203**	2,133	48
Total non-interest expense	**$ 16,913**	$ 17,998	$ 14,204
Operating rate	**1.2%**	1.4%	1.2%

Other non-interest expense decreased primarily due to a contingency loss recognized during 2018 related to the settlement of a lawsuit in which the Association was a defendant.

Provision for Income Taxes

The variance in provision for income taxes was related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2019, 2018 and 2017. Additional discussion is included in Note 8 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 6 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2019, we had $410.7 million available under our line of credit. We generally apply excess cash to this line of credit. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

Note Payable Information

(dollars in thousands)

For the year ended December 31	2019	2018	2017
Average balance	**$ 1,151,541**	$ 1,018,740	$ 933,693
Average interest rate	**2.9%**	2.6%	2.1%

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity. However, we maintain some exposure to interest rates, including London Inter-bank Offered Rate (LIBOR), primarily from loans to customers which may not have a component of our line of credit with an exact repricing attribute. Regulators in the U.S. and worldwide have expressed their desire to phase out LIBOR, and other inter-bank offered rates, by the end of 2021. They have indicated that the reliability and stability of LIBOR as a benchmark rate after 2021 cannot be assured. The Farm Credit System has established a LIBOR transition workgroup to provide leadership in addressing the LIBOR phase-out across system entities. While many factors can impact our net interest income, we expect that financial performance will remain relatively consistent under most interest rate environments over the next 12 months.

CAPITAL ADEQUACY

Total members' equity was $324.0 million, $299.9 million and $276.4 million at December 31, 2019, 2018 and 2017, respectively. Total members' equity increased $24.1 million from December 31, 2018, primarily due to net income for the year**,** partially offset by patronage distribution accruals**.** The change in accumulated other comprehensive loss is the amortization impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. Additional Pension Restoration Plan information is included in Note 9 to the accompanying Consolidated Financial Statements.

The FCA Regulations require us to maintain minimums for our common equity tier 1, tier 1 capital, total capital and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage.

Regulatory Capital Requirements and Ratios

As of December 31	**2019**	2018	2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**18.0%**	18.5%	19.1%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**18.0%**	18.5%	19.1%	6.0%	2.5%*	8.5%
Total capital ratio	**18.4%**	18.8%	19.4%	8.0%	2.5%*	10.5%
Permanent capital ratio	**18.1%**	18.6%	19.2%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**19.5%**	19.7%	20.8%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**20.2%**	20.3%	21.4%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums was phased in over three years under the FCA capital requirements. The phase in period ended December 31, 2019.

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

Capital ratios are directly impacted by changes in capital, assets and off-balance sheet commitments. Refer to the Loan Portfolio and the Investment Securities sections for further discussion of the changes in assets. Additional discussion of regulatory ratios and members' equity information is included in Note 7 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total capital target range. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. Our optimum total capital target range is 14% to 20%, as defined in our 2020 capital plan.

If the capital ratios fall below the total 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. We do not foresee any events that would result in this prohibition in 2020.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 6 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity and bank profit
- A risk premium component, if applicable

In the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily include market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset/Liability Committee.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. During 2019, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. Effective January 1, 2020, the required rate was increased to 2.50% with similar growth rate requirements as 2019.

We are also required to hold additional investment in AgriBank based on a contractual agreement under a pool program.

Patronage

AgriBank's 2019 capital plan is intended to provide for adequate capital at AgriBank under capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings in the form of patronage, either cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

We receive the below types of discretionary patronage from AgriBank. Patronage income earned may be paid in cash and AgriBank stock. Patronage income for 2019 was paid in cash and AgriBank stock. Patronage income in 2018 and 2017 was paid in cash.

- Wholesale patronage which includes:
    - Patronage on our note payable with AgriBank
    - Equalization patronage based on our excess stock in AgriBank
- Pool program patronage based on the net earnings of loan participation interests sold to AgriBank.

Purchased Services

We purchase various services from AgriBank and SunStream Business Services (SunStream), a division of AgriBank. The services include certain financial and retail systems, financial reporting services, tax reporting services, technology services and insurance services. The total cost of services we purchased from AgriBank was $807 thousand, $771 thousand and $599 thousand in 2019, 2018 and 2017, respectively. In January 2020, the FCA provided regulatory approval for the formation of a separate service entity, SunStream. Subsequent to the formation of SunStream, effective April 1, 2020, we will be a partial owner and continue to purchase services from SunStream.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

AgCountry CFG: We participate as a preferred partner in AgCountry CFG, an alliance with certain other associations in the AgriBank District to better meet the financial needs of agricultural producers and agribusiness operations. AgCountry CFG is directed by representatives from participating associations. The income, expense and credit risks are allocated based on each association's participation interest of the AgCountry CFG volume. Each association determines its commitment for new volume opportunities based on its capacity and preferences. We had $171.6 million, $130.2 million and $92.8 million of AgCountry CFG volume at December 31, 2019, 2018 and 2017, respectively. We also had $49.7 million of available commitment on AgCountry CFG loans at December 31, 2019.

CentRic Technology Collaboration: We participate in CentRic Technology Collaboration (CTC) with certain other AgriBank District associations. The CTC facilitates the development and maintenance of certain retail technology systems essential to providing credit and other services to our members. The CTC operations are governed by representatives of each participating association. The expenses of CTC are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating associations.

Farm Credit Leasing Services Corporation: We have an agreement with Farm Credit Leasing Services Corporation (FCL), a System service corporation, which specializes in leasing products and provides industry expertise. Leases are originated and serviced by FCL and we purchase a participation interest in the cash flows of the transaction. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing or selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $370 thousand at December 31, 2019, 2018 and 2017.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource information systems and benefit, payroll and workforce management services. As of December 31, 2019, 2018 and 2017, our investment in Foundations was $13 thousand. The total cost of services we purchased from Foundations was $104 thousand, $95 thousand and $100 thousand in 2019, 2018 and 2017, respectively.

Programs

Farm Cash Management: We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank investment bond to optimize members' use of funds.

REGULATORY MATTERS

Investment Securities Eligibility

On September 19, 2019, the FCA issued a proposed regulation regarding investment eligibility. The proposed regulation amends the regulations that became effective January 1, 2019, and would allow associations to purchase and hold portions of certain loans that non-Farm Credit System institutions originate and sell in the secondary market and that the United States Department of Agriculture unconditionally guarantees as to the timely payment of principal and interest. The comment period for this proposed rulemaking ended on November 18, 2019, and the final regulation has not yet been issued.

REPORT OF MANAGEMENT

AgHeritage Farm Credit Services, ACA

We prepare the Consolidated Financial Statements of AgHeritage Farm Credit Services, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the Consolidated Financial Statements. They also consider internal controls to the extent necessary to design audit procedures that comply with auditing standards generally accepted in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate and complete to the best of our knowledge and belief.

Dwain Morris
Chairperson of the Board
AgHeritage Farm Credit Services, ACA

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

Kenneth L. Sumner
Senior Vice President and Chief Financial Officer
AgHeritage Farm Credit Services, ACA

March 12, 2020

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

AgHeritage Farm Credit Services, ACA

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2019. In making the assessment, management used the 2013 framework in Internal Control — Integrated Framework, 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 concluded that as of December 31, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2019.

Greg Cole

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

Ken Sumner

Kenneth L. Sumner
Senior Vice President and Chief Financial Officer
AgHeritage Farm Credit Services, ACA

March 12, 2020

REPORT OF AUDIT COMMITTEE

AgHeritage Farm Credit Services, ACA

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of AgHeritage Farm Credit Services, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Consolidated Financial Statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2019, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance,* and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Audit Committee recommended that the Board of Directors include the audited Consolidated Financial Statements in the Annual Report for the year ended December 31, 2019.

Sandra Morgan

Sandra Morgan
Chairperson of the Audit Committee
AgHeritage Farm Credit Services, ACA

Additional Audit Committee members:
Russell Bonner
Jerry Burkett
Jeff Rutledge
Michael D. Taylor

March 12, 2020

Report of Independent Auditors

To the Board of Directors of AgHeritage Farm Credit Services, ACA,

We have audited the accompanying Consolidated Financial Statements of AgHeritage Farm Credit Services, ACA and its subsidiaries (the Association), which comprise the consolidated statements of condition as of December 31, 2019, 2018 and 2017 and the related consolidated statements of comprehensive income, 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 AgHeritage Farm Credit Services, ACA and its subsidiaries as of December 31, 2019, 2018 and 2017 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 12, 2020

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
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CONSOLIDATED STATEMENTS OF CONDITION

AgHeritage Farm Credit Services, ACA

(in thousands)

As of December 31	2019	2018	2017
ASSETS			
Loans	**$ 1,459,978**	$ 1,314,268	$ 1,166,229
Allowance for loan losses	**7,693**	4,458	4,404
Net loans	**1,452,285**	1,309,810	1,161,825
Investment in AgriBank, FCB	**32,968**	27,449	25,269
Investment securities	**982**	1,663	3,643
Accrued interest receivable	**26,805**	24,547	20,814
Deferred tax assets, net	**510**	317	228
Other assets	**11,765**	10,538	7,526
Total assets	**$ 1,525,315**	$ 1,374,324	$ 1,219,305
LIABILITIES			
Note payable to AgriBank, FCB	**$ 1,181,941**	$ 1,058,397	$ 929,140
Accrued interest payable	**8,319**	7,659	5,232
Patronage distribution payable	**5,000**	3,900	3,700
Other liabilities	**6,084**	4,420	4,848
Total liabilities	**1,201,344**	1,074,376	942,920
Contingencies and commitments (Note 11)			
MEMBERS' EQUITY			
Protected members' equity	**1**	1	1
Capital stock and participation certificates	**2,943**	2,839	2,759
Unallocated surplus	**321,852**	297,588	274,207
Accumulated other comprehensive loss	**(825)**	(480)	(582)
Total members' equity	**323,971**	299,948	276,385
Total liabilities and members' equity	**$ 1,525,315**	$ 1,374,324	$ 1,219,305

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AgHeritage Farm Credit Services, ACA

(in thousands)

For the year ended December 31		2019		2018		2017
Interest income	**$**	**73,524**	$	63,532	$	54,446
Interest expense		**33,230**		26,580		19,844
Net interest income		**40,294**		36,952		34,602
Provision for credit losses		**3,248**		69		1,834
Net interest income after provision for credit losses		**37,046**		36,883		32,768
Non-interest income						
Patronage income		**7,045**		6,344		5,816
Financially related services income		**291**		277		303
Fee income		**2,253**		1,819		1,822
Allocated Insurance Reserve Accounts distribution		**297**		686		--
Other non-interest income		**245**		161		129
Total non-interest income		**10,131**		9,287		8,070
Non-interest expense						
Salaries and employee benefits		**9,401**		9,244		8,125
Other operating expense		**7,309**		6,621		6,031
Other non-interest expense		**203**		2,133		48
Total non-interest expense		**16,913**		17,998		14,204
Income before income taxes		**30,264**		28,172		26,634
Provision for income taxes		**984**		874		1,765
Net income	**$**	**29,280**	$	27,298	$	24,869
Other comprehensive (loss) income						
Employee benefit plans activity	**$**	**(345)**	$	102	$	--
Total other comprehensive (loss) income		**(345)**		102		--
Comprehensive income	**$**	**28,935**	$	27,400	$	24,869

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgHeritage Farm Credit Services, ACA

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance as of December 31, 2016	$ 1	$ 2,875	$ 253,025	$ --	$ 255,901
Net income	--	--	24,869	--	24,869
Other comprehensive loss and other	--	--	--	(582)	(582)
Unallocated surplus designated for patronage distributions	--	--	(3,687)	--	(3,687)
Capital stock and participation certificates issued	--	246	--	--	246
Capital stock and participation certificates retired	--	(362)	--	--	(362)
Balance as of December 31, 2017	1	2,759	274,207	(582)	276,385
Net income	--	--	27,298	--	27,298
Other comprehensive income	--	--	--	102	102
Unallocated surplus designated for patronage distributions	--	--	(3,917)	--	(3,917)
Capital stock and participation certificates issued	--	252	--	--	252
Capital stock and participation certificates retired	--	(172)	--	--	(172)
Balance as of December 31, 2018	1	2,839	297,588	(480)	299,948
Net income	**--**	**--**	**29,280**	**--**	**29,280**
Other comprehensive loss	**--**	**--**	**--**	**(345)**	**(345)**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(5,011)**	**--**	**(5,011)**
Cumulative effect of change in accounting principle	**--**	**--**	**(5)**	**--**	**(5)**
Capital stock and participation certificates issued	**--**	**297**	**--**	**--**	**297**
Capital stock and participation certificates retired	**--**	**(193)**	**--**	**--**	**(193)**
Balance as of December 31, 2019	**$ 1**	**$ 2,943**	**$ 321,852**	**$ (825)**	**$ 323,971**

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

AgHeritage Farm Credit Services, ACA

(in thousands)

For the year ended December 31	2019	2018	2017
Cash flows from operating activities			
Net income	**$ 29,280**	$ 27,298	$ 24,869
Depreciation on premises and equipment	**441**	366	323
Gain on sale of premises and equipment, net	**(60)**	(60)	(64)
Amortization of (discounts) premiums on loans and investment securities	**(2)**	13	37
Provision for credit losses	**3,248**	69	1,834
Stock patronage received from AgriBank, FCB	**(3,017)**	--	--
(Gain) loss on other property owned, net	**(15)**	--	32
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(2,538)**	(3,759)	(2,181)
Increase in other assets	**(981)**	(1,594)	(269)
Increase in accrued interest payable	**660**	2,427	1,061
Increase (decrease) in other liabilities	**1,319**	(326)	567
Net cash provided by operating activities	**28,335**	24,434	26,209
Cash flows from investing activities			
Increase in loans, net	**(145,470)**	(147,858)	(95,851)
Purchases of investment in AgriBank, FCB, net	**(2,502)**	(2,180)	(3,050)
Decrease in investment securities, net	**681**	1,980	2,355
Proceeds from sales of other property owned	**243**	--	622
Purchases of premises and equipment, net	**(825)**	(1,814)	(304)
Net cash used in investing activities	**(147,873)**	(149,872)	(96,228)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**123,544**	129,257	73,883
Patronage distributions paid	**(3,911)**	(3,717)	(3,587)
Capital stock and participation certificates retired, net	**(95)**	(102)	(277)
Net cash provided by financing activities	**119,538**	125,438	70,019
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$ 280**	$ 239	$ 226
Stock applied against loan principal	**80**	57	65
Stock applied against loan interest	**1**	--	--
Interest transferred to loans	**279**	27	437
Loans transferred to other property owned	**227**	--	654
Patronage distributions payable to members	**5,000**	3,900	3,700
(Decrease) increase in members' equity from employee benefits	**(345)**	102	(582)
Supplemental information			
Interest paid	**$ 32,570**	$ 24,153	$ 18,783
Taxes paid, net	**1,354**	1,041	249

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AgHeritage Farm Credit Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2020, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank and 68 customer-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System Farm Credit Bank and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2020, the District consisted of 14 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Association

AgHeritage Farm Credit Services, ACA (the Association) and its subsidiaries, AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Arkansas, Ashley, Bradley, Chicot, Cleburne, Cleveland, Desha, Drew, Fulton, Independence, Izard, Jackson, Jefferson, Lawrence, Lincoln, Lonoke, Monroe, Prairie, Pulaski, Randolph, Sharp, Stone, White and Woodruff in the state of Arkansas.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries.

We offer credit life, term life, credit disability, crop hail and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer fee appraisals to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of AgHeritage Farm Credit Services, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

Generally we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest (to the first of the year or last payment received) to the extent principal plus accrued interest before the transfer exceeds (appraised value of collateral and set up a specific allowance for the net realizable value difference) the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. 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, the borrower has demonstrated payment performance and the loan is not classified as doubtful or loss.

In situations where, for economic or legal reasons related to the borrower’s financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (as defined below).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

Allowance for Loan Losses: The allowance for loan losses is our best estimate of the amount of losses on loans inherent in our portfolio as of the date of the financial statements. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality and current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in “Provision for credit losses” in the Consolidated Statements of Comprehensive Income, recoveries and charge-offs.

Investment in AgriBank: Our stock investment in AgriBank is on a cost plus allocated equities basis.

Investment Securities: We are authorized to purchase and hold certain types of investments. If we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through Net income in the Consolidated Statements of Comprehensive Income in the period of impairment. The non-credit related component is recognized in other comprehensive income. Purchased premiums and discounts are amortized or accreted using the interest method over the terms of the respective securities. Realized gains and losses are determined using specific identification method and are recognized in current operations.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in “Other assets” in the Consolidated Statements of Condition. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in “Other non-interest income” or “Other non-interest expense” in the Consolidated Statements of Comprehensive Income. Depreciation and maintenance and repair expenses are included in “Other operating expenses” in the Consolidated Statements of Comprehensive Income and improvements are capitalized.

Leases: We are the lessee in operating leases. We evaluate arrangements at inception to determine if it is a lease. Leases with an initial term of 12 months or less are not recorded on the Consolidated Statements of Condition with lease expense recognized on a straight-line basis over the lease term. For operating leases with terms greater than 12 months the right-of-use (ROU) assets are included in “Other assets” in the Consolidated Statements of Condition and the lease liabilities are included in “Other liabilities” in the Consolidated Statements of Condition.

The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease. The length of the lease term is modified to include the option when it is reasonably certain that we will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans, except for the AgriBank District Pension Restoration Plan, are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income.

Certain employees participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the AgriBank District Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Beginning in 2017, the pension liability attributable to the Pension Restoration Plan at the Association and the related accumulated other comprehensive loss are included in the Consolidated Statements of Condition. The components of net periodic cost other than the service cost component, are included in the line item “Other operating expenses” on the Consolidated Statements of Comprehensive Income. Service costs are included in the line item “Salaries and employee benefits” on the Consolidated Statements of Comprehensive Income.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax or both, with an employer match on a percentage of the employee’s contributions. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the Internal Revenue Service (IRS), are either a Chief Executive Officer or President of a participating employer or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management’s best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve is recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss is recorded in “Provision for credit losses” in the Consolidated Statements of Comprehensive Income.

Cash: For purposes of reporting cash flow, cash includes cash on hand**.**

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current or principal market information that is not released publicly
- Inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates
- Inputs derived principally from or corroborated by observable market data by correlation or other means

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

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

Standard and effective date	Description	Adoption status and financial statement impact
In February 2016, the FASB issued Accounting Standards Updated (ASU) 2016-02 "Leases." In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements." The guidance was effective for public business entities in its first quarter of 2019 and early adoption was permitted.	The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings.	We adopted this guidance on January 1, 2019, using the transition guidance allowing for the application of the transition requirements on the effective date with the effects initially recognized as a cumulative effect adjustment to the opening balance of retained earnings. In addition, we elected the package of practical expedients permitted under the transition guidance, which among other things, allowed us to carry forward the historical lease classification. We also elected the hindsight practical expedient to determine the lease term for existing leases. The adoption of this guidance did not have a material impact on our financial condition, results of operations and financial statement disclosures and had no impact on cash flows. The adoption of this guidance resulted in the recording of a cumulative effect adjustment to unallocated surplus of $5 thousand.
In June 2016, the FASB issued ASU 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We are evaluating the deferral and have not yet determined if we will early adopt the standard. We have reviewed the accounting standard, selected and substantially completed development and testing of our system and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2019**			2018			2017		
As of December 31		Amount	%		Amount	%		Amount	%
Real estate mortgage	**$**	**764,070**	**52.3%**	$	670,347	51.0%	$	599,124	51.4%
Production and intermediate-term		**423,335**	**29.0%**		433,209	33.0%		379,154	32.5%
Agribusiness		**205,642**	**14.1%**		127,456	9.7%		115,597	9.9%
Other		**66,931**	**4.6%**		83,256	6.3%		72,354	6.2%
Total	**$**	**1,459,978**	**100.0%**	$	1,314,268	100.0%	$	1,166,229	100.0%

The other category is primarily composed of rural infrastructure and rural residential real estate loans.

Portfolio Concentrations

Concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, which could cause them to be similarly impacted by economic conditions. We lend primarily within agricultural industries.

As of December 31, 2019, volume plus commitments to our ten largest borrowers totaled an amount equal to 8.4% of total loans and commitments. Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. 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. Long-term real estate loans are secured by the first liens on the underlying real property.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume or comply with the limitations of the FCA Regulations or General Financing Agreement (GFA) with AgriBank.

Participations Purchased and Sold

(in thousands)	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2019	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (18,598)**	**$ 40,731**	**$ (24,026)**	**$ 40,731**	**$ (42,624)**
Production and intermediate-term	**--**	**--**	**44,279**	**(24,007)**	**44,279**	**(24,007)**
Agribusiness	**--**	**(5,276)**	**164,139**	**(41,465)**	**164,139**	**(46,741)**
Other	**--**	**--**	**53,639**	**--**	**53,639**	**--**
Total	**$ --**	**$ (23,874)**	**$ 302,788**	**$ (89,498)**	**$ 302,788**	**$ (113,372)**

	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2018	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (21,242)	$ 47,729	$ (25,177)	$ 47,729	$ (46,419)
Production and intermediate-term	--	--	37,037	(14,255)	37,037	(14,255)
Agribusiness	--	(12,500)	111,615	(44,578)	111,615	(57,078)
Other	--	(256)	43,350	--	43,350	(256)
Total	$ --	$ (33,998)	$ 239,731	$ (84,010)	$ 239,731	$ (118,008)

	AgriBank Participations		Other Farm Credit Institutions Participations		Total Participations	
As of December 31, 2017	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (27,356)	$ 39,956	$ (33,219)	$ 39,956	$ (60,575)
Production and intermediate-term	--	--	32,892	(15,761)	32,892	(15,761)
Agribusiness	--	(8,735)	96,614	(27,792)	96,614	(36,527)
Other	--	(283)	34,710	--	34,710	(283)
Total	$ --	$ (36,374)	$ 204,172	$ (76,772)	$ 204,172	$ (113,146)

Information in the preceding chart excludes loans entered into under our mission related investment authority.

Credit Quality and Delinquency

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – loans are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

We had no loans categorized as loss at December 31, 2019, 2018 or 2017.

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2019	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 737,950**	**94.8%**	**$ 17,314**	**2.2%**	**$ 23,012**	**3.0%**	**$ 778,276**	**100.0%**
Production and intermediate-term	**398,823**	**91.8%**	**19,622**	**4.5%**	**15,899**	**3.7%**	**434,344**	**100.0%**
Agribusiness	**195,414**	**94.3%**	**4,870**	**2.4%**	**6,805**	**3.3%**	**207,089**	**100.0%**
Other	**64,026**	**95.5%**	**1,425**	**2.1%**	**1,584**	**2.4%**	**67,035**	**100.0%**
Total	**$ 1,396,213**	**93.9%**	**$ 43,231**	**2.9%**	**$ 47,300**	**3.2%**	**$ 1,486,744**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2018	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 649,236	95.2%	$ 4,960	0.7%	$ 28,255	4.1%	$ 682,451	100.0%
Production and intermediate-term	413,116	92.9%	14,177	3.2%	17,403	3.9%	444,696	100.0%
Agribusiness	124,553	97.3%	2,696	2.1%	807	0.6%	128,056	100.0%
Other	79,948	95.8%	2,355	2.8%	1,204	1.4%	83,507	100.0%
Total	$ 1,266,853	94.6%	$ 24,188	1.8%	$ 47,669	3.6%	$ 1,338,710	100.0%

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2017	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 559,372	91.8%	$ 19,714	3.2%	$ 30,789	5.0%	$ 609,875	100.0%
Production and intermediate-term	347,960	89.6%	22,826	5.9%	17,437	4.5%	388,223	100.0%
Agribusiness	116,183	100.0%	--	--	--	--	116,183	100.0%
Other	70,641	97.3%	1,155	1.6%	790	1.1%	72,586	100.0%
Total	$ 1,094,156	92.2%	$ 43,695	3.7%	$ 49,016	4.1%	$ 1,186,867	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **As of December 31, 2019**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 1,521**	**$ 3,140**	**$ 4,661**	**$ 773,615**	**$ 778,276**	**$ --**
Production and intermediate-term	**1,037**	**2,444**	**3,481**	**430,863**	**434,344**	**--**
Agribusiness	**--**	**--**	**--**	**207,089**	**207,089**	**--**
Other	**190**	**271**	**461**	**66,574**	**67,035**	**--**
Total	**$ 2,748**	**$ 5,855**	**$ 8,603**	**$ 1,478,141**	**$ 1,486,744**	**$ --**

As of December 31, 2018		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less Than 30 Days Past Due		Total		Accruing Loans 90 Days or More Past Due
Real estate mortgage	$	1,729	$	615	$	2,344	$	680,107	$	682,451	$	--
Production and intermediate-term		1,809		2,602		4,411		440,285		444,696		--
Agribusiness		--		--		--		128,056		128,056		--
Other		802		718		1,520		81,987		83,507		368
Total	$	4,340	$	3,935	$	8,275	$	1,330,435	$	1,338,710	$	368

As of December 31, 2017		30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less Than 30 Days Past Due		Total		Accruing Loans 90 Days or More Past Due
Real estate mortgage	$	3,835	$	599	$	4,434	$	605,441	$	609,875	$	--
Production and intermediate-term		750		1,170		1,920		386,303		388,223		--
Agribusiness		--		--		--		116,183		116,183		--
Other		1,477		73		1,550		71,036		72,586		--
Total	$	6,062	$	1,842	$	7,904	$	1,178,963	$	1,186,867	$	--

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands) As of December 31		**2019**		2018		2017
Nonaccrual loans:						
Current as to principal and interest	**$**	**4,133**	$	6,907	$	4,441
Past due		**5,922**		3,821		2,715
Total nonaccrual loans		**10,055**		10,728		7,156
Accruing loans 90 days or more past due		**--**		368		--
Total risk loans	**$**	**10,055**	$	11,096	$	7,156
Volume with specific allowance	**$**	**2,008**	$	1,638	$	159
Volume without specific allowance		**8,047**		9,458		6,997
Total risk loans	**$**	**10,055**	$	11,096	$	7,156
Total specific allowance	**$**	**738**	$	323	$	110
For the year ended December 31		**2019**		2018		2017
Income on accrual risk loans	**$**	**1**	$	8	$	--
Income on nonaccrual loans		**447**		709		376
Total income on risk loans	**$**	**448**	$	717	$	376
Average risk loans	**$**	**11,253**	$	7,826	$	7,947

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands) As of December 31		**2019**		2018		2017
Real estate mortgage	**$**	**6,581**	$	6,656	$	4,949
Production and intermediate-term		**2,609**		3,356		1,757
Other		**865**		716		450
Total	**$**	**10,055**	$	10,728	$	7,156

Additional Impaired Loan Information by Loan Type

(in thousands)	As of December 31, 2019 Recorded Investment	As of December 31, 2019 Unpaid Principal Balance	As of December 31, 2019 Related Allowance	For the year ended December 31, 2019 Average Impaired Loans	For the year ended December 31, 2019 Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$ 128**	**$ 119**	**$ 8**	**$ 126**	**$ --**
Production and intermediate-term	**1,850**	**1,815**	**710**	**2,840**	**--**
Other	**30**	**30**	**20**	**27**	**--**
Total	**$ 2,008**	**$ 1,964**	**$ 738**	**$ 2,993**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 6,453**	**$ 6,818**	**$ --**	**$ 6,360**	**$ 249**
Production and intermediate-term	**759**	**3,938**	**--**	**1,168**	**179**
Other	**835**	**1,005**	**--**	**732**	**20**
Total	**$ 8,047**	**$ 11,761**	**$ --**	**$ 8,260**	**$ 448**
Total impaired loans:					
Real estate mortgage	**$ 6,581**	**$ 6,937**	**$ 8**	**$ 6,486**	**$ 249**
Production and intermediate-term	**2,609**	**5,753**	**710**	**4,008**	**179**
Other	**865**	**1,035**	**20**	**759**	**20**
Total	**$ 10,055**	**$ 13,725**	**$ 738**	**$ 11,253**	**$ 448**

	As of December 31, 2018 Recorded Investment	As of December 31, 2018 Unpaid Principal Balance	As of December 31, 2018 Related Allowance	For the year ended December 31, 2018 Average Impaired Loans	For the year ended December 31, 2018 Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 254	$ 249	$ 16	$ 199	$ --
Production and intermediate-term	1,384	4,246	307	822	--
Other	--	--	--	--	--
Total	$ 1,638	$ 4,495	$ 323	$ 1,021	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 6,403	$ 6,703	$ --	$ 5,001	$ 276
Production and intermediate-term	1,972	2,383	--	1,172	424
Other	1,083	1,194	--	632	17
Total	$ 9,458	$ 10,280	$ --	$ 6,805	$ 717
Total impaired loans:					
Real estate mortgage	$ 6,657	$ 6,952	$ 16	$ 5,200	$ 276
Production and intermediate-term	3,356	6,629	307	1,994	424
Other	1,083	1,194	--	632	17
Total	$ 11,096	$ 14,775	$ 323	$ 7,826	$ 717

	As of December 31, 2017			For the year ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ --	$ --
Production and intermediate-term	159	2,843	110	238	--
Other	--	--	--	--	--
Total	$ 159	$ 2,843	$ 110	$ 238	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 4,949	$ 5,360	$ --	$ 5,180	$ 146
Production and intermediate-term	1,598	2,172	--	2,390	221
Other	450	540	--	139	9
Total	$ 6,997	$ 8,072	$ --	$ 7,709	$ 376
Total impaired loans:					
Real estate mortgage	$ 4,949	$ 5,360	$ --	$ 5,180	$ 146
Production and intermediate-term	1,757	5,015	110	2,628	221
Other	450	540	--	139	9
Total	$ 7,156	$ 10,915	$ 110	$ 7,947	$ 376

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

Unpaid principal balance represents the contractual principal balance of the loan.

We had $13 thousand of commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2019.

Troubled Debt Restructurings (TDRs)

Included within our loans are TDRs. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

TDR Activity

(in thousands)

For the year ended December 31	**2019**		2018		2017	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Production and intermediate-term	**$ --**	**$ --**	$ --	$ --	$ 109	$ 109
Other	**--**	**--**	283	279	--	--
Total	**$ --**	**$ --**	$ 283	$ 279	$ 109	$ 109

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment in the loan is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs and may also reflect a previous direct charge-off of the investment.

The primary types of modification included deferral of principal and interest rate reduction below market.

There were no TDRs that defaulted during the years ended December 31, 2019, 2018 or 2017 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands)

As of December 31	**2019**	2018	2017
Total TDRs:			
Production and intermediate-term	**$ --**	$ 41	$ 85
Other	**244**	266	9
Total TDRs	**$ 244**	$ 307	$ 94

All TDRs outstanding at December 31, 2019, 2018 and 2017 were in nonaccrual status. Additional commitments to lend to borrowers whose loans have been modified in a TDR were $5 thousand at December 31, 2019.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	**2019**	2018	2017
Balance at beginning of year	**$ 4,458**	$ 4,404	$ 5,307
Provision for loan losses	**3,275**	76	1,722
Loan recoveries	**106**	25	78
Loan charge-offs	**(146)**	(47)	(2,703)
Balance at end of year	**$ 7,693**	$ 4,458	$ 4,404

The “Provision for credit losses” in the Consolidated Statements of Comprehensive Income includes a provision for loan losses as presented in the previous chart, as well as a (reversal of) provision for credit losses on unfunded commitments. The accrued credit losses on unfunded commitments are recorded in “Other liabilities” in the Consolidated Statements of Condition.

Credit Loss Information on Unfunded Commitments

(in thousands) For the year ended December 31	**2019**	2018	2017
(Reversal of) provision for credit losses	**$ (27)**	$ (7)	$ 112

As of December 31	**2019**	2018	2017
Accrued credit losses	**$ 78**	$ 105	$ 112

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2018	**$ 1,404**	**$ 2,421**	**$ 431**	**$ 202**	**$ 4,458**
Provision for loan losses	**1,332**	**484**	**1,386**	**73**	**3,275**
Loan recoveries	**25**	**76**	**--**	**5**	**106**
Loan charge-offs	**(42)**	**(72)**	**--**	**(32)**	**(146)**
Balance as of December 31, 2019	**$ 2,719**	**$ 2,909**	**$ 1,817**	**$ 248**	**$ 7,693**
Ending balance: individually evaluated for impairment	**$ 8**	**$ 710**	**$ --**	**$ 20**	**$ 738**
Ending balance: collectively evaluated for impairment	**$ 2,711**	**$ 2,199**	**$ 1,817**	**$ 228**	**$ 6,955**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2019	**$ 778,276**	**$ 434,344**	**$ 207,089**	**$ 67,035**	**$ 1,486,744**
Ending balance: individually evaluated for impairment	**$ 6,581**	**$ 2,609**	**$ --**	**$ 865**	**$ 10,055**
Ending balance: collectively evaluated for impairment	**$ 771,695**	**$ 431,735**	**$ 207,089**	**$ 66,170**	**$ 1,476,689**

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2017	$ 1,133	$ 2,821	$ 275	$ 175	$ 4,404
Provision for (reversal of) loan losses	267	(387)	156	40	76
Loan recoveries	7	16	--	2	25
Loan charge-offs	(3)	(29)	--	(15)	(47)
Balance as of December 31, 2018	$ 1,404	$ 2,421	$ 431	$ 202	$ 4,458
Ending balance: individually evaluated for impairment	$ 16	$ 307	$ --	$ --	$ 323
Ending balance: collectively evaluated for impairment	$ 1,388	$ 2,114	$ 431	$ 202	$ 4,135
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2018	$ 682,451	$ 444,696	$ 128,056	$ 83,507	$ 1,338,710
Ending balance: individually evaluated for impairment	$ 6,657	$ 3,356	$ --	$ 1,083	$ 11,096
Ending balance: collectively evaluated for impairment	$ 675,794	$ 441,340	$ 128,056	$ 82,424	$ 1,327,614

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2016	$ 532	$ 4,497	$ 141	$ 137	$ 5,307
Provision for loan losses	615	932	134	41	1,722
Loan recoveries	29	49	--	--	78
Loan charge-offs	(43)	(2,657)	--	(3)	(2,703)
Balance as of December 31, 2017	$ 1,133	$ 2,821	$ 275	$ 175	$ 4,404
Ending balance: individually evaluated for impairment	$ --	$ 110	$ --	$ --	$ 110
Ending balance: collectively evaluated for impairment	$ 1,133	$ 2,711	$ 275	$ 175	$ 4,294
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2017	$ 609,875	$ 388,223	$ 116,183	$ 72,586	$ 1,186,867
Ending balance: individually evaluated for impairment	$ 4,949	$ 1,757	$ --	$ 450	$ 7,156
Ending balance: collectively evaluated for impairment	$ 604,926	$ 386,466	$ 116,183	$ 72,136	$ 1,179,711

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

NOTE 4: INVESTMENT IN AGRIBANK

During 2019, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate. Effective January 1, 2020, the required rate was increased to 2.50% with similar growth rate requirements as 2019.

We are also required to hold AgriBank stock related to our participation in a pool program. The required investment amount varies by pool program and is generally a percentage of the loan balance in the pool.

AgriBank's capital plan provides for annual retirement of AgriBank stock and optimizes capital at the Bank by distributing all available Bank earnings in the form of patronage, either in cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of allocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

NOTE 5: INVESTMENT SECURITIES

We held investment securities of $982 thousand, $1.7 million and $3.6 million at December 31, 2019, 2018 and 2017, respectively. Our investment securities consisted of securities containing loans guaranteed by the Small Business Administration (SBA).

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2019, 2018 and 2017, we have not recognized any impairment on our investment portfolio.

Additional Investment Securities Information

(dollars in thousands)

As of December 31	**2019**	2018	2017
Amortized cost	**$ 982**	$ 1,663	$ 3,643
Unrealized gains	**28**	58	142
Fair value	**$ 1,010**	$ 1,721	$ 3,785
Weighted average yield	**5.8%**	5.2%	4.3%

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $13 thousand, $72 thousand and $178 thousand in 2019, 2018 and 2017, respectively.

NOTE 6: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and substantially all of our assets serve as collateral.

Note Payable Information

(dollars in thousands)

As of December 31	**2019**	2018	2017
Line of credit	**$ 1,600,000**	$ 1,300,000	$ 1,300,000
Outstanding principal under the line of credit	**1,181,941**	1,058,397	929,140
Interest rate	**2.7%**	2.8%	2.3%

Our note payable is scheduled to mature on August 31, 2022. The note payable will be renegotiated no later than the maturity date.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality and financial condition. Additionally, we have requirements to maintain an effective program of internal controls over financial reporting. At December 31, 2019, and throughout the year, we were not declared in default under any GFA covenants or provisions.

NOTE 7: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan or lease is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Protection Mechanisms

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988, as a requirement for obtaining a loan. If we were to be unable to retire protected borrower equity at par value or stated value, the FCSIC would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Regulatory Capital Requirements and Ratios

As of December 31	**2019**	2018	2017	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**18.0%**	18.5%	19.1%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	**18.0%**	18.5%	19.1%	6.0%	2.5%*	8.5%
Total capital ratio	**18.4%**	18.8%	19.4%	8.0%	2.5%*	10.5%
Permanent capital ratio	**18.1%**	18.6%	19.2%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**19.5%**	19.7%	20.8%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**20.2%**	20.3%	21.4%	1.5%	N/A	1.5%

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums was phased in over three years under the FCA capital requirements. The phase in period ended December 31, 2019.

Risk-adjusted assets have been defined by the FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with FCA Regulations and are calculated as follows (not all items below may be applicable to our Association):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities 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 credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- Unallocated retained earnings and equivalents leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

The regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our AgriBank required investment was not included in the common equity tier 1, tier 1 capital, total capital or leverage ratios. We had no allocated excess stock at December 31, 2019, 2018 or 2017.

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value.

	Number of Shares		
As of December 31	**2019**	2018	2017
Class A common stock (protected)	**199**	199	199
Class C common stock (at-risk)	**563,372**	545,205	530,129
Participation certificates (at-risk)	**25,340**	22,578	21,670

Under our bylaws, we are also authorized to issue Class B common stock and Class D common stock. Each of these classes of stock is at-risk and nonvoting. Class B common stock has a $5.00 par value per share and the Class D common stock has a $1,000 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2019, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- first, pro rata to holders of common stock and participation certificates
- second, any remaining assets of the Association after such distribution shall be distributed to present and former patrons on a patronage basis, to the extent practicable

Any impairment of capital stock shall be treated as impairing all shares of common stock and participations certificates pro rata. However, protected stock will be retired at par value regardless of impairment.

All classes of stock are transferable to other customers who are eligible to hold such classes of stock. Transfers of stock are only allowed when we meet minimum regulatory capital requirements.

Patronage Distributions

We accrued patronage distributions of $5.0 million, $3.9 million and $3.7 million at December 31, 2019, 2018 and 2017, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts.

NOTE 8: INCOME TAXES

The Tax Cuts and Jobs Act (the Act) was enacted in December of 2017. This Act contained various tax law changes, including a federal statutory tax rate change to 21% from 34%, effective January 1, 2018. Because deferred tax assets and liabilities are expected to be recognized in the Association's tax return in a future year, when the new statutory tax rate would be applicable, the deferred tax assets and liabilities as of December 31, 2017, were valued using a blended federal/state effective tax rate based on the new federal statutory tax rate. The effect of this revaluation was recognized in our provision for income taxes for the year ended December 31, 2017.

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands)

For the year ended December 31	**2019**	2018	2017
Current:			
Federal	**$ 814**	$ 722	$ 563
State	**363**	241	128
Total current	**$ 1,177**	$ 963	$ 691
Deferred:			
Federal	**$ (145)**	$ (67)	$ 920
State	**(48)**	(22)	154
Total deferred	**(193)**	(89)	1,074
Provision for income taxes	**$ 984**	$ 874	$ 1,765
Effective tax rate	**3.3%**	3.1%	6.6%

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(in thousands)

For the year ended December 31	**2019**	2018	2017
Federal tax at statutory rates	**$ 6,355**	$ 5,916	$ 9,056
State tax, net	**191**	171	178
Patronage distributions	**(1,050)**	(819)	(1,258)
Effect of non-taxable entity	**(4,524)**	(4,398)	(6,385)
Change in statutory tax rates due to the Tax Cuts and Jobs Act	**--**	--	165
Other	**12**	4	9
Provision for income taxes	**$ 984**	$ 874	$ 1,765

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Comprehensive Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred Tax Assets and Liabilities

(in thousands)

As of December 31	**2019**	2018	2017
Allowance for loan losses	**$ 1,024**	$ 695	$ 800
Postretirement benefit accrual	**132**	135	138
Accrued incentive	**272**	156	104
Accrued patronage income not received	**(183)**	--	(217)
AgriBank 2002 allocated stock	**(165)**	(165)	(165)
Accrued pension asset	**(316)**	(249)	(192)
Depreciation	**(96)**	(108)	(96)
Other liabilities	**(158)**	(147)	(144)
Deferred tax assets, net	**$ 510**	$ 317	$ 228
Gross deferred tax assets	**$ 1,428**	$ 986	$ 1,042
Gross deferred tax liabilities	**$ (918)**	$ (669)	$ (814)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2019, 2018 or 2017.

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in

AgriBank is $9.6 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $255.8 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2019. In addition, we believe we are no longer subject to income tax examinations for years prior to 2016.

NOTE 9: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the AgriBank 2019 Annual Report.

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for employer decisions regarding all benefit plans including retirement benefits. These decisions could include plan design changes, vendor changes, determination of employer subsidies (if any) and termination of specific benefit plans. Any action to change or terminate the retirement plan can only occur at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

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

AgriBank District Retirement Plan Information

(in thousands)

As of December 31	2019	2018	2017
Unfunded liability	**$ 220,794**	$ 274,450	$ 352,516
Projected benefit obligation	**1,421,126**	1,272,063	1,371,013
Fair value of plan assets	**1,200,332**	997,613	1,018,497
Accumulated benefit obligation	**1,298,942**	1,125,682	1,184,550

For the year ended December 31	2019	2018	2017
Total plan expense	**$ 36,636**	$ 51,900	$ 44,730
Our allocated share of plan expenses	**552**	697	665
Contributions by participating employers	**90,000**	90,000	90,000
Our allocated share of contributions	**1,276**	1,187	1,273

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these Consolidated Financial Statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income.

Benefits paid to participants in the District were $68.8 million in 2019. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2020 is $90.0 million. Our allocated share of these pension contributions is expected to be $1.3 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

Pension Restoration Plan Information

(in thousands) As of December 31		**2019**		2018		2017
Our unfunded liability	**$**	**1,385**	$	921	$	890
For the year ended December 31		**2019**		2018		2017
Our allocated share of plan expenses	**$**	**120**	$	133	$	113

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The recognition of the unfunded liability includes the impact of prior service cost and unamortized gain/loss. The increase in the liability was offset against accumulated other comprehensive loss and had no impact to net income. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of the components of net periodic benefit cost other than the service cost component, are included in “Other operating expense” in the Consolidated Statements of Comprehensive Income. Service costs related to the plan are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. The Pension Restoration Plan is unfunded. We have a Rabbi Trust to fund our future liability under this plan. The balance in the Rabbi Trust fund was $364 thousand, $199 thousand and $32 thousand at December 31, 2019, 2018 and 2017, respectively. A Rabbi Trust is a trust created for the purpose of supporting the nonqualified benefit obligation of employers to their employees. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee’s active status.

Retiree Medical Plan Information

(in thousands) For the year ended December 31		**2019**		2018		2017
Postretirement benefit expense	**$**	**9**	$	8	$	36
Our cash contributions		**37**		36		34

Postretirement benefit expense is included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. Our cash contributions are equal to the benefits paid.

Defined Contribution Plans

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee’s compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

We also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a Chief Executive Officer or President of a participating employer or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan, included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income, were $389 thousand, $349 thousand and $286 thousand in 2019, 2018 and 2017, respectively. These expenses were equal to our cash contributions for each year.

NOTE 10: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2019, involved more than a normal risk of collectability.

Related Party Loans Information

(in thousands) As of December 31	2019	2018	2017
Total related party loans	**$ 13,879**	$ 15,564	$ 13,982
For the year ended December 31	**2019**	2018	2017
Advances to related parties	**$ 12,523**	$ 13,419	$ 15,539
Repayments by related parties	**19,851**	11,513	19,031

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans in the preceding chart are related to those considered related parties at year end.

As discussed in Note 6, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio. All interest expense as shown on the Consolidated Statements of Comprehensive Income was paid to AgriBank.

Total patronage received from AgriBank was $7.0 million, $6.2 million and $5.7 million in 2019, 2018 and 2017, respectively. Patronage income for 2019 was paid in cash and AgriBank stock. Patronage income for 2018 and 2017 was paid in cash.

In addition, we received compensation from AgriBank for servicing loans of $40 thousand, $49 thousand, and $58 thousand in 2019, 2018, and 2017, respectively.

Refer to Note 3 for information on participations sold to AgriBank and Note 4 for stock investment in AgriBank information.

We purchase various services from AgriBank and SunStream Business Services (SunStream), a division of AgriBank. The services include certain financial and retail systems, financial reporting services, tax reporting services, technology services and insurance services. The total cost of services we purchased from AgriBank was $807 thousand, $771 thousand and $599 thousand in 2019, 2018 and 2017, respectively. In January 2020, the FCA provided regulatory approval for the formation of a separate service entity, SunStream. Subsequent to the formation of SunStream, effective April 1, 2020, we will be a partial owner and continue to purchase services from SunStream.

We also purchase human resource information systems and benefit, payroll and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2019, 2018 and 2017, our investment in Foundations was $13 thousand. The total cost of services purchased from Foundations was $104 thousand, $95 thousand and $100 thousand in 2019, 2018 and 2017, respectively.

NOTE 11: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

During the year ended December 31, 2018, we recognized litigation settlement expense for $2.0 million related to the settlement of a lawsuit in which the Association was a defendant. As this lawsuit has been settled, we expect no further losses related to this matter.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be 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 loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2019, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $360.2 million. Additionally, we had $1.1 million of issued standby letters of credit as of December 31, 2019.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 12: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2019, 2018 or 2017.

Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

As of December 31, 2019	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	**$ --**	**$ --**	**$ 1,333**	**$ 1,333**

As of December 31, 2018	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 1,381	$ 1,381

As of December 31, 2017	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 51	$ 51

Valuation Techniques

Impaired loans: Represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

NOTE 13: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 12, 2020, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our 2019 Consolidated Financial Statements or disclosure in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

AgHeritage Farm Credit Services, ACA

(Unaudited)

Description of Business

General information regarding the business is incorporated herein by reference from Note 1 to the Consolidated Financial Statements in this Annual Report.

The description of significant business developments, if any, is incorporated herein by reference from the Management's Discussion and Analysis section of this Annual Report.

Description of Property

Property Information

Location	Description	Usage
Little Rock	Leased	Headquarters
Batesville	Leased	Branch
Brinkley	Owned	Branch
Lonoke	Owned	Branch
McGehee	Owned	Branch
Newport	Owned	Branch
Pine Bluff	Leased	Branch
Pocahontas	Owned	Branch
Searcy	Owned	Branch
Stuttgart	Owned	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Note 11 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2019.

Additional Regulatory Capital Disclosure

Regulatory Capital Ratios Pursuant to FCA Regulation 620.5

As of December 31	2014	2013	2012
Permanent capital ratio	18.9%	18.1%	17.9%
Total surplus ratio	18.6%	17.8%	17.5%
Core surplus ratio	18.6%	17.8%	17.5%

Refer to the Consolidated Five-Year Summary of Selected Financial Data at the beginning of this Annual Report for capital ratio calculations for the past five years.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 7 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 6, 7, 8, 9 and 11 to the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

Selected Financial Data

The Consolidated Five-Year Summary of Selected Financial Data is presented at the beginning of this Annual Report.

Management’s Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition and results of operations are discussed in the Management's Discussion and Analysis section of this Annual Report.

Board of Directors

Our Board of Directors is organized into the following committees to carry out Board responsibilities:

The **Audit Committee** oversees financial reporting, the adequacy of our internal control systems, the scope of the Association's internal audit program, the independence of the outside auditors and the processes for monitoring compliance with laws and regulations. The Audit Committee also oversees the adequacy of management's actions with respect to recommendations arising from auditing activities.

The **Finance Committee** monitors our financial and capital planning, asset/liability management and funding and investment activities. Committee members serve as a resource to the Board by maintaining a more in-depth knowledge of our financial activities.

The **Executive Committee** addresses issues of Board governance and the Board's continuing efforts to strengthen and renew the Board, administers a process for maintaining and periodically reviewing board policies and administers a planning process focused upon achieving our mission and maintaining a viable, competitive institution. The committee is authorized to take action on behalf of the Board on matters requiring board approval between normally scheduled board meetings, when necessary. Such authorization is to be reviewed and acted upon at the next board meeting.

The **Human Resources Committee** oversees and provides overall direction and/or recommendations for compensation, benefits and human resource performance management programs.

The **Member Relations Committee** provides direction on the Association's agriculture public policy position at the local, state and national level. Committee members serve as a resource for maintaining high quality member relations/involvement programs, board involvement of market and customer needs and in developing programs to attract young and beginning and next generation farmers.

Board of Directors as of December 31, 2019, including business experience during the last five years

Name	Term	Principal occupation and other business affiliations
Dwain Morris Chairperson Service Began: 1991	2018-2022	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** President: 4-D Farms Board member of Randolph County Farm Bureau
Jerry Burkett Vice Chairperson Service Began: 2002	2017-2021	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of Museum of the Arkansas Grand Prairie Board member of Arkansas County Farm Bureau
Russell Bonner Service Began: 2006	2018-2022	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of New Peoples Gin Company, cotton ginning
Jesse Briggs Service Began: October 2017	2018-2020	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of Farelly Lake Levee District
Mike Burkett Service Began: 2006	2017-2021	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of Woodruff County Farm Bureau
Ray C. "Chuck" Culver III Outside Director Service Began: 1992	2016-2020	**Principal Occupation:** Institutional Development & External Relations Director, Division of Agriculture at the University of Arkansas System
Sandra Morgan Outside Director Service Began: 2015	2018-2022	**Principal Occupation:** Vice President and Chief Financial Officer at Riceland Foods, Inc.

Name	Term	Principal Occupation and Other Affiliations
Jeff Rutledge	2019-2023	**Principal Occupation:**
		Self-employed grain farmer
		Other Affiliations:
		Vice chairman of USA Rice Council Board
		Board member of Arkansas Rice Research and Promotion Board
		Board member of Arkansas Rice Council Board
Service Began: 2017		Board member of Arkansas Rice Federation Board
Clay Schaefer	2019-2023	**Principal Occupation:**
		Self-employed grain farmer
		Other Affiliations:
		Board member of Riceland Foods, Inc.
Service Began: 2011		Board member of Tri-County Farmers Association
Michael D. Taylor	2016-2020	**Principal Occupation:**
		Self-employed grain farmer and natural gas development
		General Partner: RIO Vista Farms
		Other Affiliations:
		Manager: Wood Family Mineral Development, LLC, involved in natural gas
Service Began: 2001		Board member of White County Farm Bureau
Keith Watkins	2016-2020	**Principal Occupation:**
		Self-employed grain and cattle farmer
		Other Affiliations:
Service Began: 2008		Board member of Riceland Foods, Inc.
Scott Young	2017-2021	**Principal Occupation:**
		Self-employed grain and timber farmer
		Partner in Dogwood Farms
		President and shareholder in Jim Young Farms, Inc.
		Other Affiliations:
Service Began: 2013		Board member of Ashley County Farm Bureau

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. Our Board of Directors has adopted a rate of $600 per day. Board members also receive $100 per conference call. Board members also received a $4,000 annual retainer fee, except for the Board Chairperson and Vice Chairperson, who receive a retainer fee of $7,000 and $5,500, respectively, for their additional duties as Board Chairperson and Vice Chairperson.

Information regarding compensation paid to each director who served during 2019 follows:

	Number of Days Served		Compensation Paid for Service on a Board Committee		Total Compensation Paid in 2019
Name	Board Meetings	Other Official Activities		Name of Committee	
Russell Bonner	8.5	7.5	$ 300	Audit($300)	$ 13,700
Jesse Briggs	7.5	0.5	600	Finance($600)	9,700
Jerry Burkett	9.5	18.5	600	Audit($300), Finance($300)	22,400
Mike Burkett	8.5	4.0	100	HR ($100)	11,600
Ray C. "Chuck" Culver III	9.5	0.0	--		9,700
Sandra Morgan	8.5	8.5	400	Audit($300), HR ($100)	14,300
Dwain Morris	9.5	17.5	700	Audit($300), Finance($300), HR ($100)	23,400
Jeff Rutledge	9.5	5.5	300	Audit($300)	13,000
Clay Schaefer	9.5	7.0	100	HR ($100)	14,100
Michael D. Taylor	9.5	14.0	600	Audit($300), Finance($300)	18,100
Keith Watkins	9.5	4.5	300	Finance($300)	12,400
Scott Young	9.5	4.0	100	HR ($100)	12,200
					$ 174,600

Senior Officers

Senior Officers as of December 31, 2019, including business experience during the last five years

Name and Position	Business experience and other business affiliations
Gregory W. Cole President/Chief Executive Officer	**Business experience:** President/Chief Executive Officer since April 2008 **Other business affiliations:** Board Member of Arkansas Agriculture Foundation, an organization that promotes awareness of agriculture in Arkansas
Kenneth L. Sumner SVP/Chief Financial Officer	**Business experience:** SVP/Chief Financial Officer since August 2009 **Other business affiliations:** Board Treasurer of Wade Knox Child Advocacy Center, a local charity Treasurer of Arkansas Waterfowl Association, a not-for-profit organization that raises funds to support local charities and to provide
Drue Ford SVP/Chief Credit Officer	**Business experience:** SVP/Chief Credit Officer since October 2006
Cole Plafcan SVP/Chief Lending & Marketing Officer	**Business experience:** SVP/Chief Lending and Marketing Officer since March 2017 VP of Lending and Branch Manager from 1999 to March 2017
Leslie J. Brown VP/Human Resources	**Business experience:** VP/Human Resources since February 2015 Administrator of Benefits and Compensation at major insurance company prior to February 2015 **Other business affiliations:** Treasurer of Arkansas Compensation Association, which provides information and leadership to compensation professionals

Effective January 2020, Blake Swindle became a senior officer as the SVP/Chief Commercial Lending Officer.

Senior Officer Compensation

Compensation Risk Management: We believe the design and governance of our senior officer compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to ensure a safe, sound and dependable source of credit and related services for agriculture and Rural America. Our compensation philosophy aims to provide a competitive total rewards package that will enable us to attract and retain highly qualified officers with the requisite expertise and skills while achieving desired business results aligned with the best interests of our members. The design of our senior officer compensation program supports our risk management goals through a set of checks and balances, including (1) a balanced mix of base and variable pay, (2) a balanced use of performance measures that are risk-adjusted where appropriate and (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved.

Elements of Compensation: The CEO, senior officers and highly compensated individuals are compensated with a mix of direct cash and long-term incentives, as well as retirement plans generally available to all employees. Our Board of Directors determines the appropriate balance of short-term and long-term incentives, while keeping in mind their responsibilities to our members. Base salary and short-term incentives are intended to be competitive with annual compensation for comparable positions at peer organizations.

Base Salary: The CEO, senior officers and highly compensated individuals base salaries reflect the employee's experience and level of responsibility. Compensation plans for all employees, except the CEO, are subject to review and approval by the Human Resources Committee of our Board of Directors. Information is accumulated regarding competitive market conditions and used in assessing adequate compensation for all employees. The CEO's salary is reviewed and approved by the Board of Directors.

Short-term Incentives: The short-term incentive plan available only to the CEO and senior officers is paid annually based on performance criteria approved by our Human Resources Committee of the Board of Directors. The criteria related to the overall association performance include return on assets, loan volume, capital ratios, surplus, operating rate, credit quality, credit administration, adverse assets to risk funds, borrower concentration and customer satisfaction. Additional criteria related to personal performance include attainment of personal objectives and overall performance rating. We calculate the incentives after the end of the plan year (the plan year is the calendar year) and pay out the incentives within 60 days of year-end. There were no material amendments to the plan during the last fiscal year. Highly compensated employees' short-term incentive plan is based on an adjusted pre-tax net income and the employee's individual performance. Individual performance includes a variety of objectives, including credit quality, fees, growth and job competencies. There were no material changes to the plan during the last fiscal year.

Other incentives: We have a retention incentive available to all employees, including the CEO, senior officers and highly compensated individuals. The incentive is paid with an annual component and a long-term component, subject to the participant's employment after three years. Eligibility to participate in this incentive program includes the employee's most recent performance as well as specialized knowledge and strategic role of his/her position. Due to the retention nature of this incentive, it is reported in the compensation table, on the following page, in the period paid. In addition, we have a sales incentive plan that is available to all full-time branch employees. The incentives are paid for sales of insurance and leasing products, are paid monthly and are subject to the cap set by FCA.

Retirement Plans: We have various post-employment benefit plans which are generally available to all association employees, including the CEO, senior officers and highly compensated individuals, based on dates of service to the association and are not otherwise differentiated by position, unless specifically stated. Information regarding the post-employment benefit plans is included in Notes 2 and 9 to the accompanying Consolidated Financial Statements.

Other Components of Compensation: Additionally, compensation associated with any company-paid vehicles, group term life insurance premiums, disability insurance premiums or other on-the-spot incentives such as gift cards, may be made available to the CEO, senior officers and highly compensated individuals based on job criteria or similar plans available to all employees.

Compensation to the CEO, Senior Officers, and Highly Compensated Individuals

(in thousands) Name	Year		Salary		Bonus		Deferred/ Perquisites		Other		Total
Gregory W. Cole, CEO	**2019**	**$**	**421**	**$**	**210**	**$**	**5**	**$**	**1,005**	**$**	**1,641**
Gregory W. Cole, CEO	2018		397		198		5		111		711
Gregory W. Cole, CEO	2017		331		165		4		539		1,039
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO											
Five	**2019**	**$**	**778**	**$**	**293**	**$**	**17**	**$**	**208**	**$**	**1,296**
Five	2018		730		280		16		131		1,157
Five	2017		694		256		17		154		1,121

Members may request information on the compensation to the individuals included in the preceding table during 2019.

The amount in the "Other" category in the preceding table primarily includes:

- Employer match on defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan and the Pension Restoration Plan, as disclosed in Note 9 to the Consolidated Financial Statements in this Annual Report. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.

No tax reimbursements are made to the CEO, senior officers or highly compensated individuals.

The value of the pension benefits increased from December 31, 2018, to December 31, 2019, primarily due to the decrease in interest rates year over year. The value of the pension benefits was also impacted to a lesser extent by the accumulation of an additional year of credited service by plan participants and updates to actuarial assumptions.

Pension Benefits Attributable to the CEO, Senior Officers, and Highly Compensated Individuals

(dollars in thousands) **2019** Name	Plan	Years of Credited Service		Present Value of Accumulated Benefits		Payments Made During the Reporting Period
Gregory W. Cole, CEO	AgriBank District Retirement Plan	**36.8**	**$**	**3,005**	**$**	**--**
	AgriBank District Pension Restoration Plan	**36.8**		**832**		**--**
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO						
Three	AgriBank District Retirement Plan	**19.6**	**$**	**777**	**$**	**--**

The change in composition of the aggregate senior officers and highly compensated individuals can have a significant impact on the calculation of the accumulated pension benefits.

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment with the AgriBank District after that date is not eligible to be in the plan.

The AgriBank District Pension Restoration Plan restores retirement benefits to certain highly compensated employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Not all senior officers or highly compensated employees are eligible to participate in this plan.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 10 to the Consolidated Financial Statements in this Annual Report.

Travel, Subsistence and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

119 East Third Street, Suite 200
Little Rock, AR 72201
(800) 299-2290
www.agheritagefcs.com

The total directors' travel, subsistence and other related expenses were $112 thousand, $131 thousand and $111 thousand in 2019, 2018 and 2017, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2020, or at any time during 2019.

Member Privacy

The FCA Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our Association or our members not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2019 were $52 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel.

Financial Statements

The Report of Management, Report on Internal Control over Financial Reporting, Report of Audit Committee, Report of Independent Auditors, Consolidated Financial Statements and Notes to Consolidated Financial Statements are presented prior to this portion of the Consolidated Financial Statements in this Annual Report.

Young, Beginning and Small Farmers and Ranchers

Information regarding credit and services to young, beginning and small farmers and ranchers and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS

AgHeritage Farm Credit Services, ACA
(Unaudited)

We have specific programs in place to serve the credit and related needs of young, beginning and small farmers and ranchers (YBS) in our territory. The definitions of young, beginning and small farmers and ranchers follow:

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

Demographics

We have compared counts of our YBS borrowers against the 2017 Ag Census data. The census reports at a county level the age, years on farm and gross receipts. Some of the census categories are not perfect comparisons for our YBS reporting methodology. The Ag Census' Small comparison is most similar, as the Ag Census counts the population of farms with sales less than $250 thousand. The Young category is the next best comparison by reporting operations with Principal Producer less than 35 years of age, while YBS parameters include those 35 years of age or less. Finally, the Beginning category is least similar. The Ag Census does not quantify years of experience, but it does report a "New and Beginning" category with Principal Producer with Years on Any Operation into a category of Less than 11 Years. While not an exact comparison for YBS Beginning category, it is used as the best comparison available. Finally, the two disparate populations pose another analysis challenge. The census measures the total population regardless of borrowing characteristics, while we operate within a sub-group of the Ag Census based on farmers who both finance their operation and who finance with AgHeritage Farm Credit Services, ACA.

The following chart compares our 2019 YBS customers to the 2017 Ag Census:

Total Farms	Census < 10 Years	AgHeritage Beginning	% of Census Category
12,122	4,632	1,917	41.4%
	Census < 35 Years	**AgHeritage Young**	**% of Census Category**
	1,299	1,062	81.8%
	Census Sales < 250k	**AgHeritage Young**	**% of Census Category**
	10,523	2,091	19.9%

The 2017 Ag Census total number of farms in the AgHeritage LSA (local service area) is 12,122. This declined from the 12,882 total number of farms in the 2012 Ag Census for the AgHeritage LSA. The 2012 versus 2017 Ag Census for our LSA showed increases in the Ag Census number of Young and Beginning farms and a decrease in the number of Small farms. Small farms in the 1997-2017 trend showed small annual increases over the previous Ag Census for in 2002 and 2007 (7% and 3%) followed by a 13% decline in 2012 and a 4% decline in 2017. Beginning farms had increases over the previous Ag Census in 2002 and 2007 (7% and 8%), a large decline (75%) in 2012 followed by a 44% increase in 2017. For Young (New) farms, there were decreases from the prior Ag Census in 2002,2007, and 2012 (7%,3% and 12%) with an increase in the 2017 Ag Census of 36%.

The AgHeritage trend in Young borrowers for 2003-2019 was steady annual increases of 1-20% through 2012. Starting in 2013 the number of Young borrowers began to decrease between 4-10% per year. From 2016-2018, the number of Young borrowers remained stable. 2019 saw a 7% increase in Young borrowers over 2018. Beginning borrowers also increased in most years from 2003-2014, with increases ranging from 1-19% annually. In 2015 through 2017, Beginning borrowers decreased in a range of 2.2-6.6%. In 2018 and 2019, Beginning borrowers increased 1.6% and 2.9%, respectively. Small borrower numbers have been more volatile, ranging from slight decreases (≤ 3%) in most early years, except for a 13% decrease in 2006 to a 15% increase in 2009. The most recent period, 2013-2017, saw decreases ranging from 1.3% to 9.5% with increases Small borrowers of 6.4% and 11.5% in 2018 and 2019, respectively.

Mission Statement

Management and the Board of Directors feel that it is strategically important to support and develop YBS programs. Our YBS Farmer Program mission is to develop and implement programs to attract Young, Beginning and Small and next generation farmers and to strive to reach numeric goals for YBS customers.

Quantitative Goals

(dollars tousands)

	2020		2021		2022		2023		2024	
	# Loans	Volume	# Loans	Volume	# Loans	Volume	# Loans	Volume	# Loans	Volume
Young	1,050	$ 220,000	1,060	$ 222,000	1,070	$ 224,000	1,080	$ 226,000	1,090	$ 228,000
Beginning	1,900	435,000	1,925	455,000	1,950	460,000	1,975	470,000	2,000	480,000
Small	1,900	225,000	1,910	226,000	1,920	227,000	1,930	228,000	1,940	229,000

Qualitative Goals

The following related services were offered to YBS farmers during 2019:

- crop insurance, both hail and multi-peril
- life insurance
- fee real estate appraisal services
- equipment and facility leasing

We made use of federal loan guarantee programs in providing loans and leases to YBS farmers. We maintain a Preferred Lender Program designation with the Farm Service Agency.

Outreach Programs

In addition to loans made to YBS and Next Generation borrowers, our annual YBS reports have consistently shown active participation in a variety of YBS outreach efforts. These efforts include both staff time and monetary sponsorship through the following:

We encourage the use of Young and Beginning farmer programs like those offered by the Farm Service Agency and the Cooperative Extension Service.

We continue to sponsor an annual scholarship program for college bound or current college students with one winner from each branch office.

We continue to sponsor and participate in the annual Arkansas State University (ASU) Ag Business Conference and the University of Arkansas (UA) – Division of Agriculture's Women in Ag Conference.

We support the Arkansas Farm Family of the Year program. We have enjoyed having members each year who are honored at the local and state level by the Farm Family of the Year program. Implicit in the Farm Family of the Year is the next generation of farming. The honored families are typically multi-generational and include members who frequently fit within our YBS and Next Generation Farmer parameters.

We co-host a biennial Arkansas State-wide FCS Young Beginning Farmer Conference. This is a joint effort among all Arkansas Farm Credit associations. The conference was designed to provide attendees the opportunity to network with their peers and experienced professionals in finance, credit and economics. State and national expert speakers cover topics that impact YBS producers, including the current economic outlook, strategic business planning and financial and risk management.

We sponsor and/or participate in a variety of other Young, Beginning and Small outreach activities including:

- AgHeritage and other Arkansas Farm Credit Associations sponsor, support and participate in various Arkansas Grown activities. Arkansas Grown is an initiative of the Arkansas Department of Agriculture including:
    - Garden Program contest for Arkansas school gardens
    - Local Conversations brings together stakeholders to improve the quality of food reaching consumers
    - Arkansas Grown Magazine
    - Farmers Market Promotion Program
    - Farm2Home
- ASU Student Leadership Conference
- Cooperative Extension Farm Safety Day
- Arkansas Women in Agriculture – sponsorship and attendance of conference and Annie's Project
- University Agriculture Department Scholarship Fundraisers – UA and ASU
- National Black Growers Council – speaker at National Black Growers Council Annual Meeting and sponsorship/participation at the local National Black Growers Council Model Field Day
- Arkansas Farm Family of the Year Program
- Yearly contributions to FFA and 4-H
- AgHeritage Next Generation Farmer Program
- AgHeritage Farm Credit Services Customer Scholarship Program / University Scholarship / Ken Shea Scholarship
- Junior Livestock Auction: State Fair Belt Buckle Sponsorship and Sale of Champions Sponsorship; Local Fair Livestock Sponsorships
- County Extension Meeting Sponsorships: Crop Production, Marketing, Beef, etc.
- Exhibit/Sponsorships/Attendance:
    - Arkansas Farm Bureau Annual Convention
    - Arkansas Foundation for Agriculture

- Agricultural Council of Arkansas
- Midsouth Gin Show
- Arkansas Cattlemen's Conference; Local Conference
- Arkansas Agricultural Aviation Association
- Poultry Festival
- USA Rice Outlook Conference
- Crossett Rodeo Arena Sponsorship
- Black Rock Technical College Foundation Scholarship Golf Tournament
- Arkansas Soybean Association Annual Meeting
- Arkansas Rice Council/Producers Annual Meeting
- Mid-South Chapter of the American Society of Farm Managers and Rural Appraisers
- Various local county fair associations: Belt Buckle Award sponsor
- Various rural community sports league sponsorships
- Farm appreciation lunches

Safety and Soundness of the Program

We will limit the amount of risk classified loans that meet the Next Generation Farmer and/or YBS qualifications. The amount of volume for either will not exceed 25% of the Association's risk funds. This limit is cumulative and not to be exceeded at any point.

The credit quality guidelines and quarterly monitoring ensure that credit offered to the YBS and Next Generation Farmer groups is provided in a safe and sound manner within our risk-bearing capacity.

FUNDS HELD PROGRAM

AgHeritage Farm Credit Services, ACA
(Unaudited)

AgHeritage Farm Credit Services, ACA (the Association), offers a Funds Held Program ("Funds Held") that provides for customers to make advance payments on designated real estate and intermediate-term loans. The following terms and conditions apply to all Funds Held unless the loan agreement or related documents, between the Association and customer, provide for other limitations.

Payment Application: Loan payments received by the Association before the loan has been billed will be placed into Funds Held upon request and applied against the next installment due. Loan payments received after the loan has been billed will be directly applied to the installment due on the loan and related charges, if any.

When a loan installment becomes due, amounts in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied first. If the balance in Funds Held does not fully satisfy the entire installment, the customer must pay the difference by the installment due date.

Account Maximum: The amount in Funds Held may not exceed 50% of each eligible loan. Eligible loans do not include operating lines of credit.

Interest Rate: Interest will accrue on Funds Held at a simple rate of interest that may be changed by the Association from time to time based upon the current interest rate environment. The interest rate may never exceed the interest rate charged on the related loan. Interest rates are currently reported on each customer's loan statement. Subject to change as previously stated, the current rate of interest is equal to the Federal Funds rate of interest as determined by the Federal Open Market Committee. If the Federal Funds rate is stated as a range, the rate of interest will be set at the low end of the range.

Withdrawals: Amounts in Funds Held may be withdrawn under the following conditions, depending on the customer's loan program:

- Customers can withdraw funds without a limit as to the number of withdrawals, however the loan officer must approve the withdrawal after receipt of a written customer request. Withdrawals must be for an eligible purpose under the Funds Held program. The minimum withdrawal amount is $100, unless the customer is withdrawing the full Funds Held balance.

- Customers required to assign income to their loan, such as poultry and dairy assignments, may withdraw amounts in excess of their next installment.

Association Options: In the event of default on any loan or if Funds Held exceeds the maximum limit as established above or if the Association discontinues the Funds Held program, the Association may apply funds in the account to the unpaid loan balance and other amounts due and shall return any excess funds to the customer.

Liquidation: Funds Held account balances are not insured. In the event of Association liquidation, all customers having balances in these uninsured accounts shall be notified according to FCA Regulations in effect at that time. Current applicable regulations state that the notice shall instruct that the funds ceased earing interest when the receivership was instituted and will be applied against the outstanding indebtedness of any loans of the customer unless, within 15 days' notice, the customer provides direction to the Association to apply the funds according to existing loan documents.

Questions: Please direct any questions regarding Funds Held to AgHeritage Farm Credit Services, ACA.

Lephiew Dennington: A Life of Faith, Innovation and Love of the Land

By Ashley Wimberley

Customer Spotlight:

Lephiew Dennington
Dermott, Arkansas

Pulling into Dermott, Arkansas (population 2,889 at the 2010 Census), is much like pulling into most other small towns deep in the Arkansas Delta. It's restful and charming, but its numerous vacant storefronts make clear the statistical shift of population to more metropolitan areas.

The town, in Chicot County, is bordered on the east by the Mississippi River, the west by Drew and Ashley counties, the south by Louisiana and the north by Desha County.

Many things have changed in this small town – but some have not. One is that Lephiew Dennington has pulled up at 117 N. Freeman Street in Dermott for 63 years to work at his family's business, Lephiew Gin Company. Another is the clear contentment of the town's citizens, visiting around the town's gazebo across the street while sharing stories and laughs.

As I enter Lephiew Gin Company, I'm warmly greeted by Dennington, along with his AgHeritage VP of Lending and McGehee Branch Manager Bill Stephens -- and decades of history. The building, built in 1910, is on the National Register of Historic Places in Arkansas, along with several others in the Dermott Commercial Historic District.

As Dennington shows me around the office – desks covered in paper, an old safe, concrete floors and old family photos that hang on the walls – I ask him why this will always be home.

He quickly replies, "I love the land and the people."

He's clearly proud of his family history, pointing to a photo of his grandfather, Elvin Lephiew, and great-grandfather, Henry Lephiew, taken in August 1920 in the exact spot where we are standing.

Dennington recalls hearing about the days when the family business actually began, in 1872, with 200 acres in Baxter, west of Bayou Barthlomew. The Lephiews cleared the land with a crosscut saw, mules and an axe.

He remembers being told his family would cut cypress trees and float them up and down the Bayou to their mills to make cypress shingles.

In 1886, they started the family cotton ginning business which would sustain them for 109 years.

Dennington talks about the early years, when his father and grandfather ran the business.

Pointing across the room at a picture, he laughs, "Do you see that spittoon over there between my grandfather and my great-grandfather?"

He then points to an old picture of a machinery room.

"This was our gin," he said. "Now when you build a gin, you concrete the floor. The only concrete in the machine room was under the machinery. The rest was just dirt. I heard my grandfather's budget for gas for his car was $5 per month. That was during the Great Depression."

Dennington continued to share some history from photos and treasured family stories, but says his own earliest memories on the farm are from when he was five or six years old.

"I remember going to the farm as a child. We had a blacksmith shop and would start the coals and put the plows in there to sharpen the blades. We ran hogs and we would butcher them and put them in the deep freeze."

Dennington began his work in the family business when he was 15 years old. "I would only get off work to play baseball," he laughed.

"When I started, I worked in the warehouse a lot. We were also financing people – making farm loans. We had a guy who went out and checked the crops we made farm loans for, so my dad had me go with him."

"Some of the crops were accessible by only one way, and those were the crops we had to walk to.

"Then we'd come back and tell my dad if there was a stand of cotton, if the cotton was grassy or needed fertilizer or if it needed to be hoed out. We just told him what it looked like."

Dennington enjoyed the family farm as a teen but had yet to solidify his plans for the future.

"When I was a senior in high school, my grandfather was sick and asked me to come by his house and see him. He asked about my plans for college, which were undecided.

"He told me, 'I want you to do something. If you'll go to Hendrix College the first year, I'll send you anywhere you want to go after that.'"

Dennington agreed. He started his first year at Hendrix College before transferring to, and later graduating from, the University of Arkansas.

"Back then you did what your grandfather or your father suggested," he said.

He told of an old Jewish prophet that once said, "If you have a son who neglects the advice of his father, you have a fool for a son."

Dennington continued taking advice from that old Jewish prophet when his father asked him about his major.

"My dad wanted to talk to me one day," he said. "He asked, 'What are you going to major in son?' I told him I had no idea. He replied, 'I want you to major in accounting.' So I went to college and majored in accounting."

As he completed his studies, he continued to go home in the summers to work in the warehouse and check crops. "In college, I would occasionally get off work for parties since I wasn't playing much baseball," he grinned.

Dennington graduated from college and worked a short time for Ralph McQueen (a Dermott CPA friend of his father's), auditing the city's books. But he eventually continued work with his real love – the land.

While in his 20's, he got his real estate license and did some real estate work for a short time. He, along with his father and a few others, also built a grain elevator on the Mississippi River just east of Dermott, which they later sold. He also had a seed cleaning plant and a crop dusting business at one time.

Reminiscing about the seed cleaning business, he said, "We built a warehouse, then built another warehouse and then built another warehouse. I traveled in Louisiana, Mississippi and Arkansas. I think the biggest year we sold enough seed to plant 200,000 acres. What later transpired was the same thing that happened this past year – we had really bad weather, raining and hot, and couldn't get any good planting seed."

Eventually, between the weather and Monsanto, Dennington got out of the seed business.

Asked about the timeline of these businesses through the decades, he spoke of the struggles in agriculture that makes it a continual "meeting and beating the odds" business – a required pace that makes the specifics hard to recall.

"It was sometime between when I graduated college and now," he laughed.

He was quick to answer when asked about the most influential person in his life, responding without hesitation, "My wife, Anne."

He talked of the years they raised their three kids, Anne Archer, Lephiew, Jr. and Clayton, and put them through college. "And none of them chose cheap ones," he laughed.

Dennington said he worked long hours for many years, sometimes arriving home late at night when his wife was asleep and leaving again early in the morning before she awoke. He spoke of his wife's diligence raising the kids and praised her help in the cotton business through many years.

Her family had a rich history, he said, her grandfather served as the mayor of Greenville, Mississippi for 16 years and her father was a surgeon.

"Let me tell you something," he said. "When you're young and you get married, you don't really know who you're marrying. By stroke of luck, I just married one nice girl."

Dennington and his wife now split their time between Dermott and Monteagle (in Middle Tennessee) at a home left to her by her parents at Monteagle Sunday School Assembly – a place he calls "one of the neatest places I've ever been." It was there that his wife was staying on the day of this interview.

He speaks of regrets, wishing he had given more of his time to others in the early years, but also spoke of his blessings. "I've taught Sunday School at the Methodist church for 35 years," he said, pointing out a window toward the church.

Asked what class, he responded with a grin, "The whole church class. We don't have enough people to have more than one class."

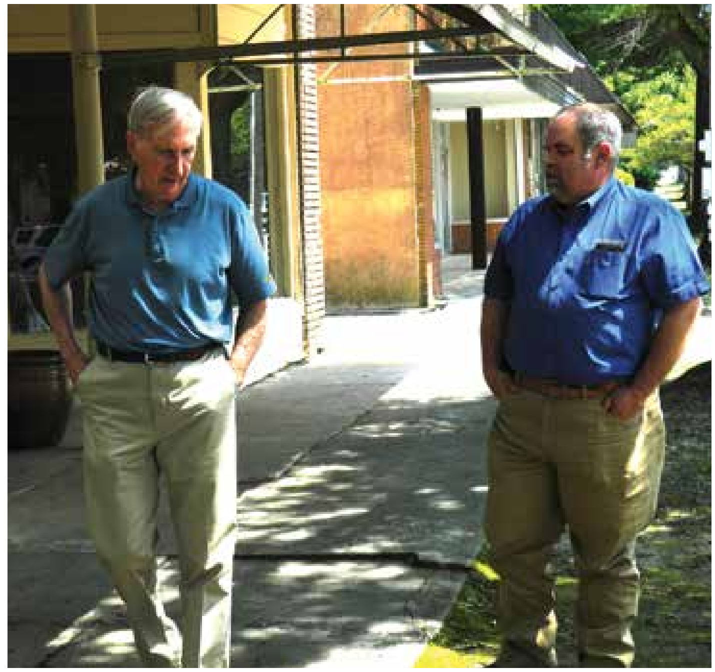
Dennington added it's been his faith that has given him the courage to take risks and press forward in a tough industry all of these years, especially in the 1980's, a decade very tough in agriculture.

"I've just tried to keep a real personal relationship with God through it all," he said.

Today, Dennington keeps the same pace, as a landowner with multiple tenants.

A love of the land and a love for family have always driven his desire to be fair and generous to others – and to always stay busy and innovative.

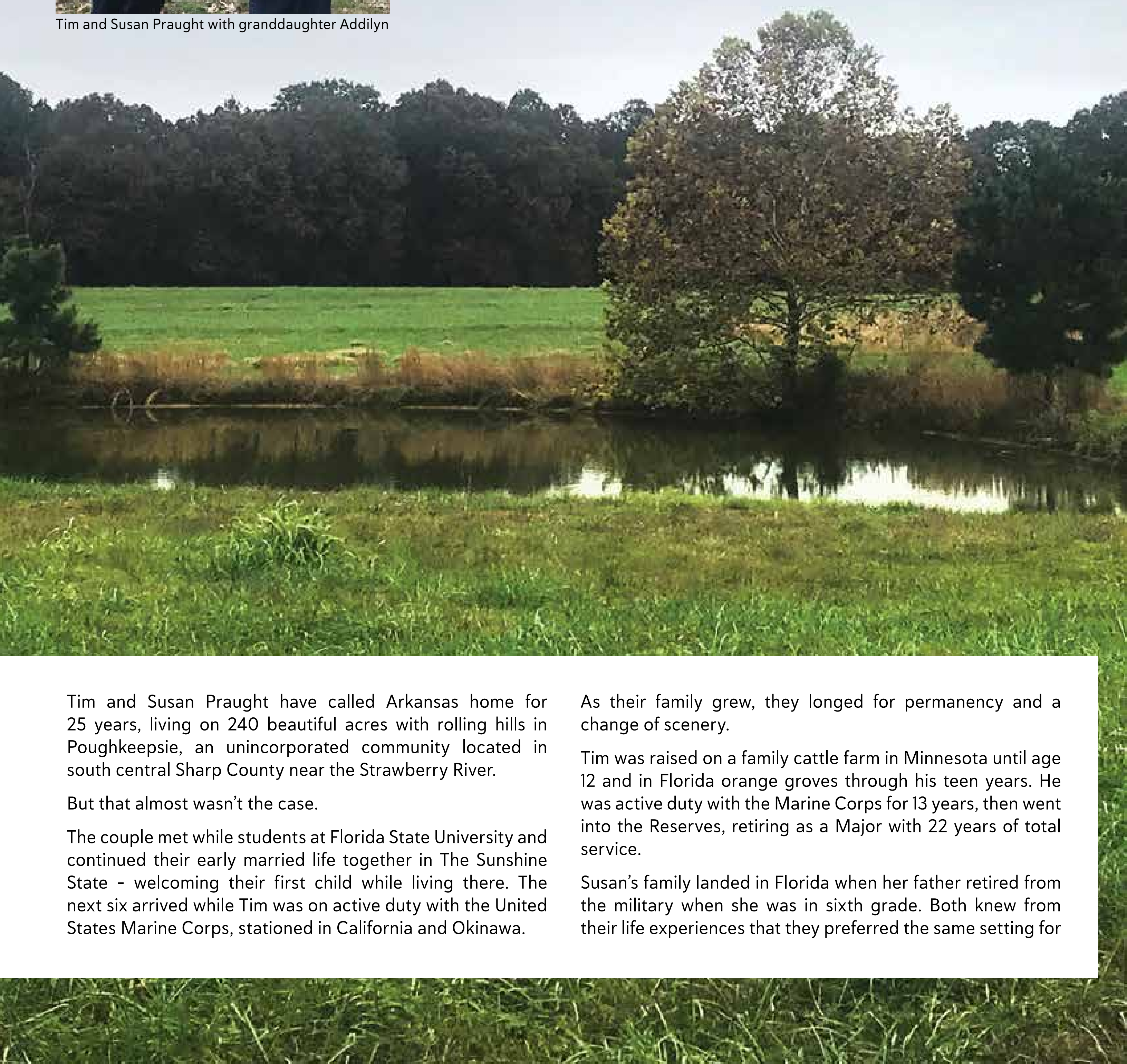
As I drive away, I realize that like his hometown, Dennington has had to adjust to market conditions through the years. But the rich history and happiness with both will always remain steadfast.



Dennington visits with AgHeritage VP of Lending & McGehee Branch Manager Bill Stephens outside Lephiew Gin Co.

The Praught Family: Blessed by Life on the Farm

Tim and Susan Praught with granddaughter Addilyn



Tim and Susan Praught have called Arkansas home for 25 years, living on 240 beautiful acres with rolling hills in Poughkeepsie, an unincorporated community located in south central Sharp County near the Strawberry River.

But that almost wasn't the case.

The couple met while students at Florida State University and continued their early married life together in The Sunshine State - welcoming their first child while living there. The next six arrived while Tim was on active duty with the United States Marine Corps, stationed in California and Okinawa.

As their family grew, they longed for permanency and a change of scenery.

Tim was raised on a family cattle farm in Minnesota until age 12 and in Florida orange groves through his teen years. He was active duty with the Marine Corps for 13 years, then went into the Reserves, retiring as a Major with 22 years of total service.

Susan's family landed in Florida when her father retired from the military when she was in sixth grade. Both knew from their life experiences that they preferred the same setting for themselves and their family - wide open spaces.

In 1994, began traveling to different states with hopes of finding the perfect piece of land. While Arkansas wasn't on their list of possible places to call home, they made a stop in the state to visit a friend living in Batesville.

"I actually told Susan that Arkansas was one of the two states I'm not moving to," Tim laughed. "Not Arkansas and not Kentucky."

"But while visiting Arkansas, we saw this land that was really just exactly what we were looking for," said Susan. And it's been home ever since.

Tim happily ate his words, and the family purchased the land and moved to Arkansas. The first year he worked in Batesville before starting a full-time career in construction in 1996. Susan worked part-time as a registered nurse, taking on night or weekend shifts that would allow her to homeschool their children.

A few years in, the move proved a good one. They loved living in the country, and the couple welcomed three more children. But Tim had growing challenges in the construction business - long hours, a rural market that brought financial inconsistency in his jobs and time away from his family.

He knew he wanted to again find work that he was passionate about - a job that was fun - an example shown to him on the farm by his dad, whom he calls the most influential person in his life.

"My dad was the kind of person that, when it was miserable cold on the farm in Minnesota - sometimes 40 below zero - and we were pulling cattle into pens, he would say, 'This is fun, isn't it?'

"Now sometimes if I'm working with somebody and they aren't smiling, I'm always confused. They are probably doing fine - I just liked how my dad loved life and had fun. He was a hardworking son of a gun."

As Tim pondered a possible career change, he began to make a connection that eventually led him to his new passion.

"I'll tell you how my mind worked," Tim said. "Every time I saw a beautiful house in Arkansas, there were chicken houses on the land. One day I went home and said to Susan that we were going to buy chicken houses.

"She initially said 'no way,'" he laughed.

But after together reconsidering, they purchased two pullet barns in 2006 with a loan originated by AgHeritage Farm Credit Services.

The operation was quickly successful, with cash flow more than double projections, but Tim continued working in construction until the farm grew to a level which allowed him to feel comfortable making it his full-time occupation.

"When we moved to Arkansas, we hoped to live off the land a little more," Tim said. "I came to realize that to really be able to live off the land, you have to have income from the land, which we didn't have. Starting this farm really changed things

The Praughts with four of their 10 children and spouses and 21 of their 33 grandchildren.

Tim with AgHeritage Batesville VP of Lending and Branch Manager Junior Beshears

for us."

With equity gained from the original farm, the Praughts added two more pullet barns and a breeder farm with two houses a year-and-a-half ago. The operation now spans 355 acres.

Of the couple's 10 children, four now own their farms with their families (see feature stories on following pages), two help operate the Praughts' farms and one is in the process of entering farming.

"Our daughter and son-in-law, Brook and Shawn Biggs, run the breeder farm, and in 10 years it will be theirs," said Tim. "Our youngest son, Malachi, is pretty much running the pullet farm and he will purchase it from us someday. We are really flattered that so many of our children want to do the same thing. I think they saw how much it lessened the stress in our family."

The Praughts said there has to be a passion to be a farmer, and they have learned some valuable tips and received some good advice along the way.

"When I say farming has made life easier, it's all relative," said Tim. "I've done some hard things - the Marine Corps life and work in construction was hard."

"It's a very big commitment to get a farm," Susan said. "I think sometimes people think what their farm makes is what they have to spend, and that's not the case. You have to reinvest in the operation."

"But don't be scared to get a loan," Tim said. "If it cash flows, it's just a number. It's an investment. As my dad said, just keep your credit good."

Tim also says the farm's owner needs to be involved in the daily operation for success.

"A lot of people think they can buy farms and then hire someone else to do everything. That doesn't work," he said.

Susan said that in addition to financial stability, the shift to farming has given more time for the three things most important to the couple: God, family and community.

"Our faith in Jesus Christ is the most important thing in our lives," she said.

Tim noted the family read through the entire Bible several times when their kids were growing up.

"We let the kids take turns reading," Susan added.

They both believe some of the best advice ever received was based on faith.

"I was told you can't out give God, and I believe that's true," Tim said. "We have given financially and we have been blessed for it."

"My mother told me if you do right, your choices are easy. If you do wrong, you have multiple choices and none are good choices," Susan said.

The couple is extremely proud of their children and the lives they have made for themselves.

"Susan is my best friend," said Tim. "I think that's true for our kids' marriages, too. I love to see that. They just have fun together."

They say they are transitioning to retirement - or at least a slower pace. They plan to travel frequently with hopes to again visit Israel (they have been twice) and to see the whole United States.

"We will also continue to enjoy our get-togethers with our kids and our grandchildren and help them in any way we can," Tim said.

The Praughts say one key partner has made this life possible for their family - AgHeritage Farm Credit Services.

"Nanette has become like a sister, and Gail is just great, too," he said of the AgHeritage Batesville branch staff. "I've always really appreciated Junior. He's become a good friend. He always has my family's best interest at heart, and that's the mark of a true partner."

"Farming has given our family a common goal," Susan said.

The Praughts agree. Their two hesitations - moving to Arkansas and becoming farmers - have been two of their greatest blessings. Their only regret? Not doing it sooner.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